



XX
2017

BILLET D'ÉTAT

TUESDAY, 7th NOVEMBER, 2017

BUSINESS OF THE MEETING

1. The States of Guernsey Annual Budget for 2018, P. 2017/90

BILLET D'ÉTAT

TO
**THE MEMBERS OF THE STATES
OF THE ISLAND OF GUERNSEY**

I hereby give notice that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **TUESDAY**, the **7th November, 2017** at **9.30 a.m.**, to consider the item listed in this Billet d'État which has been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey

9th October, 2017

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ANNUAL BUDGET FOR 2018

The States are asked to decide:-

Whether, after consideration of the States of Guernsey Annual Budget for 2018, they are of the opinion:-

1. To immediately transfer the sum of £8.1million from General Revenue to the Capital Reserve.
2. To immediately transfer the sum of £5million from the General Revenue Account Reserve to the Core Investment Reserve.
3. To delegate authority to the Policy & Resources Committee to create pooled budgets, by re-allocating Committee budgets, where a need to do so is identified in any prioritised policy workstream.
4. That the twenty three policies set out in paragraphs 4.17 to 4.39 of this Report are prioritised in order to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey.
5. To extend the company intermediate income tax rate (10%) to income from the provision of investment management activities to individual clients (as defined in paragraph 5.7 of this Report, with the Policy & Resources Committee authorised to prescribe any matter relating to this definition including any limitations, conditions, restrictions and qualifications thereon by regulation) and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2018.
6. To amend the conditions for entitlement to the Charge of Children Allowance, such that a single person may continue to claim Charge of Children Allowances whilst the child is in higher education.
7. To allow on death of a spouse in a marriage or civil partnership, either spouse to have the right to transfer the full unused allowance in the year of death to the surviving spouse.

8. To endorse the intention of the Policy & Resources Committee to:

Reduce the contribution limit in regulation 1A(3) of the Income Tax (Pensions) (Contribution Limits and Tax-free Lump Sums) Regulations, 2010, as amended, from £50,000 to £35,000 in respect of year of charge 2018 and any succeeding year of charge by resolution of the States.

9. To further limit the entitlement to personal and other tax allowances and withdrawable deductions, through extending the phased withdrawal of personal tax allowances and withdrawable deductions at a ratio of £1 for every £3 a person's calculated income increases above the social security upper earnings limit, in the manner prescribed in the First Schedule to proposition 13, to the other tax allowances and deductions listed below:

- Dependent Relative Allowance
- Infirm Person's Allowance
- Housekeeper Allowance
- Charge of Children Allowance
- Pension contributions, namely –
 - Retirement Annuity Allowance
 - Contributions to an approved occupational or personal pension scheme over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deduction')
- Mortgage Interest Relief

with the Policy & Resources Committee authorised to prescribe any limitations, conditions, restrictions and qualifications relating to this matter by regulation and to direct the preparation of such legislation as may be necessary to give effect to this decision in respect of year of charge 2018 and any succeeding year of charge. In all cases, such withdrawable deductions shall be treated as if they were allowances for the purposes of calculating an individual's assessable income.

For the purpose of this paragraph –

- (i) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and
- (ii) the withdrawable deductions are the following deductions
 - (a) Pension contributions, namely –
 - i. Retirement Annuity Allowance, and
 - ii. contributions to an approved occupational or personal pension scheme over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')
 - (b) Mortgage Interest Relief

10. With effect from 1 January 2018 to introduce a limit of tax payable by an individual principally resident (for tax purposes) in Guernsey of £50,000 in respect of a year of charge (the “open market tax cap”), where that individual–
- (a) has paid £50,000 or more in document duty in respect of the purchase of a property on Part A of the open market register on or after 1 January 2018 (“the relevant purchase”), and
 - (b) has made the relevant purchase on a date either up to six months prior to, or up to six months after, the date on which the individual takes up permanent residence in Guernsey (“the permitted period”), and
 - (c) has not been resident in Guernsey at any time in the previous three years prior to the relevant purchase save for the permitted period.

This open market tax cap shall only be available for the year of charge in which the individual takes up permanent residence and for each of the three consecutive years of charge immediately thereafter, and that accordingly the sixth schedule to the Income Tax (Guernsey) Law, 1975 shall be replaced by the following –

SIXTH SCHEDULE

Section 39B

LIMIT ON TAX PAYABLE BY AN INDIVIDUAL

1. Individuals resident in Guernsey (but not in Alderney)

Subject to paragraph 3 below, an individual resident in Guernsey shall pay a maximum of £110,000 (£100,000 for Years of Charge 2008-2011) in tax in a year of charge, in respect of income from the following sources–

Qualifying income

- (1) Any income derived from non-Guernsey sources, including:
 - (a) income from businesses,
 - (b) income from offices and employments,
 - (c) income from the ownership of lands and buildings, and
 - (d) income from other sources.
- (2) Income derived from a body which has been granted an exemption from tax for that year of charge under an Ordinance made under section 40A, other than income arising or accruing from an office or employment held or exercised in Guernsey.

- (3) Any interest arising in Guernsey upon money deposited with a licensed institution or other person exempted from the requirement to be licensed under the provisions of the Banking Supervision (Bailiwick of Guernsey) Law, 1994.

Income tax on income from any other sources (referred to in this Law as "**non-qualifying income**") shall not be subject to this limit.

However, notwithstanding the preceding provisions of this Schedule, an individual resident in Guernsey in receipt of non-qualifying income may, within a period of six years immediately after the end of any year of charge commencing after 2008, elect to pay in respect of both qualifying and non-qualifying income (other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is, for the avoidance of doubt, payable in addition to the amount of the limits on tax specified in this Schedule) in that year a maximum of £220,000 (£200,000 for Years of Charge 2008-2011) in tax, and in that case –

- (i) the maximum figure specified above of £110,000 (£100,000 for Years of Charge 2008-2011) in tax in the year of charge in respect of qualifying income does not apply, and
- (ii) the individual shall pay in respect of both qualifying and non-qualifying income (other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is, for the avoidance of doubt, payable in addition to the amount of the limits on tax specified in this Schedule) in that year a maximum of £220,000 (£200,000 for Years of Charge 2008-2011) in tax.

Income from non-Guernsey sources does not include any income arising or accruing from –

- (a) businesses carried on in Guernsey,
- (b) offices or employments held or exercised in Guernsey,
- (c) the ownership of lands and buildings situate in Guernsey, and
- (d) any other source in Guernsey.

2. Individuals resident in Alderney

An individual resident in Alderney shall pay a maximum of £50,000 in tax in any year of charge from 2016 to 2020 in respect of Alderney qualifying income save where that individual has in any previous year of charge by virtue of section 39B claimed the limit on tax payable under this schedule as it had effect prior to 1 January 2016, in which case that individual may claim the limit on tax payable available under paragraph 1 of this schedule as if he were instead resident in Guernsey.

"Alderney qualifying income" means from any sources except Alderney non-qualifying income.

"Alderney non-qualifying income" means income arising or accruing from the ownership of lands and buildings situate in Guernsey (including, for the avoidance of doubt, Alderney), which shall not be subject to the limit.

3. Individuals principally resident in Guernsey who have purchased a Part A open market property

Where an individual principally resident in Guernsey

- (i) has paid £50,000 or more in document duty in respect of the purchase of a property on Part A of the Open Market Register on or after 1 January 2018 ("the relevant purchase"), and
- (ii) has made the relevant purchase on a date either up to six months prior to, or up to six months after, the date on which the individual takes up permanent residence in Guernsey ("the permitted period"), and
- (iii) has not been resident in Guernsey at any time in the previous three years prior to the relevant purchase save for the permitted period,

such individual may, instead of claiming the tax cap in paragraph 1 above, pay an annual maximum of £50,000 in tax (the "open market tax cap") in respect of each of the years of charge specified hereafter. The open market tax cap may only be applied to the year of charge in which the individual takes up permanent residence and to each of the three consecutive years immediately thereafter. The open market tax cap shall apply in respect of both qualifying and non-qualifying income as defined in paragraph 1, other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is payable in addition to the amount of the limits on tax specified in this Schedule.

4. Determination of where income arises

In determining for the purposes of this Schedule whether any income does arise in, or from the ownership of lands and buildings situate in, Guernsey (including, for the avoidance of doubt, Alderney) the income may be traced through any number of companies, partnerships, trusts, agreements or other arrangements of any description and, for that purpose, section 62D(2) shall apply (subject to the necessary modifications) in determining whether a person has an interest in, or income arises from, any company, partnership, trust, agreement or arrangement through which the interest or income is traced."

11. To amend the Income Tax Law to include an additional provision, so that someone is only treated as principally resident in Guernsey under section 3(3)(c) where they are resident only in that year and principally resident in the following year, but were not resident in the previous year, and to direct the preparation of such legislation as may be necessary to give effect to this decision.

12. To amend section 65 of the Income Tax Law such that a settlor is only liable to tax on distributions from a company or other entity held or under the control of trustees of a revocable settlement, without prejudice to the application by the Director of Income Tax of the anti-avoidance provisions of section 67 of the Law in the manner indicated in paragraph 5.46 of this Report, and to direct the preparation of such legislation as may be necessary to give effect to this decision.
13. To endorse the intention of the Policy & Resources Committee to introduce a system of independent taxation as follows:
 - (a) Phase 1 – with effect from 1 January 2018, each individual’s income and entitlement to allowances are considered separately, with full transferability of unused personal and other tax allowances mirroring the current position (the transfer will be automatic for married couples and those in civil partnerships). Joint assessment for married couples/civil partnerships will continue; and
 - (b) Phase 2 – introduction of independent taxation, including individual assessments, albeit retaining full transferability of unused allowances mirroring the current position.

and to direct the preparation of such legislation as may be necessary to give effect to this decision.

14. That,
 - (a) Subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2018 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition.
 - (b) The allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975 and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.
 - (c) “Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and
 - (d) “the income Tax (Guernsey) Law, 1975” means that Law as amended, extended or applied by or under any other enactment.

FIRST SCHEDULE

Year of Charge 2018

Allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the standard rate. In order to calculate the amount of the allowance, where the taxpayers are married or in a civil partnership, each spouse's income shall be considered separately, in accordance with the table below. All allowances are subject to the following conditions –

- (i) the allowances shall be pro-rated for a person who is solely or principally resident in the years of that person's, arrival in, or permanent departure from, Guernsey, based on the proportion of time spent in Guernsey in the relevant year of charge in the same manner in which income is pro-rated by virtue of sections 5(3) and 5(4) of the Income Tax (Guernsey) Law, 1975,
- (ii) where a person is in receipt of a Guernsey source pension, which is liable to be taxed at source under the Employees Tax Instalment scheme, or a Guernsey old age pension arising under section 33 of the Social Insurance (Guernsey) Law 1978, then the pro-rating under section 51(5) and 51A(2A) of the Income Tax (Guernsey) Law, 1975 shall apply –
 - (i) from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival), or
 - (ii) from the date of departure until the end of the year of charge (in the case of that individual's permanent departure), and
 - (iii) the totality of each person's allowances and withdrawable deductions are reduced at a ratio of £1 of allowances and withdrawable deductions for every £3 that that person's calculated income is above the upper annual earnings limit as determined by the Committee *for* Employment & Social Security in respect of the relevant tax year.

For the purpose of this schedule –

- (a) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and
- (b) the withdrawable deductions are the following deductions
 - Pension contributions, namely
 - Retirement Annuity Allowance
 - contributions to an approved occupational or personal pension schemeover £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')
 - Mortgage interest relief

<u>NATURE OF ALLOWANCE</u>	<u>AMOUNT OF ALLOWANCE</u>
1. Personal Allowance *^	Tax at the standard rate on £10,500.
2. Age-related allowance *^	Tax at the standard rate on £950 for persons aged 64 years or over at the commencement of the year of charge.
3. Dependent Relative Allowance *	In respect of each dependent relative - tax at the standard rate on £3,375 or on the amount of the contributions whichever is less: Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £7,125 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,375 the sum of £1 for every pound by which the dependent relative's income exceeds £7,125. Provided further that if any Family Allowances are payable in respect of the dependent relative, the allowance shall be further reduced to tax at the standard rate on such sum as remains after subtracting from £3,375, or such lesser sum as remains after deducting from £3,375 the sum of £1 for every pound by which the dependent relative's income exceeds £7,125 the sum of £282 for every month in the year of charge for which such Family Allowances are payable.
4. Infirm Person's Allowance *	Tax at the standard rate on £3,375
5. Housekeeper Allowance	Tax at the standard rate on £3,375
6. Charge of Children Allowance *	Tax at the standard rate on £7,125
7. Retirement Annuity Allowance *	Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

Dependent Relative Allowance

- A. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in the case of a child receiving higher education are:
- (a) that the child in respect of whom an allowance is claimed -
 - (i) is the child of the claimant, or
 - (ii) is the illegitimate child of the claimant and in the year of charge is maintained by the claimant;
 - (b) that on the first day of August in the year of charge, the child is over the age of nineteen years and is, in that year of charge, receiving full-time instruction at any university, college, school or other educational establishment.
 - (c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2018.
- (2) The expression "child" shall include a stepchild, and a child who has been lawfully adopted shall be treated as the child of the individual by whom he has been so adopted and not as the child of the natural parent.
- (3) Where a couple are cohabiting as if they were married and either has a child in respect of whom a dependent relative allowance is claimable, either individual by a notice in writing addressed to the Director, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of that cohabitee.
- (4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.
- (5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

- B. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:
- (a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and
 - (b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself; and
 - (c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

Infirm Person's Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:
- (a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;
- Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity.*
- (b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished;
 - (c) that the claim relates to an infirm person in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Not more than one allowance shall be allowed to any claimant for any year.

Housekeeper Allowance

- (1) The conditions to be fulfilled to entitle the claimant to a housekeeper allowance are:
 - (a) that the claimant is a widow or widower.
 - (b) that in the year of charge a person is employed or maintained by the claimant solely for the purpose of acting in the capacity of a housekeeper for the claimant;
 - (c) if such person is a relative of the claimant or of the claimant's deceased spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that person, that the claim has been relinquished;
 - (d) that the claim relates to a housekeeper in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) A housekeeper allowance shall not be granted to any individual for any year in respect of more than one person.
- (3) A housekeeper allowance shall not be granted to any individual in any year in which another person's unused allowance has been transferred to that individual or if that individual is in receipt of an infirm person's allowance.
- (4) "Housekeeper" means a person who is responsible by delegation for the management of the household, including arrangements for food, housekeeping expenditure and the care of linen and laundry.

Charge of Children Allowance

- (1) The conditions to be fulfilled to entitle a claimant who is married or in a civil partnership to a charge of children allowance are:
 - (a) that in the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children
 - (i) on 1 January, or
 - (ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,whichever date is first relevant, and
 - (b) that the claimant proves that throughout the year either the claimant or the claimant's spouse is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and
 - (c) that neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained, or

if the claimant or any other individual is so entitled, that the claim has been relinquished.

- (2) The conditions to be fulfilled to entitle a claimant who is not married or in a civil partnership to a charge of children allowance that in the year of charge:
 - (a) the claimant is in receipt of Family Allowances in respect of one or more children
 - (i) on 1 January, or
 - (ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

- (b) the claimant is not cohabiting with another person, except where -
 - (i) the claimant proves that throughout the year either the claimant or the claimant's cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and
 - (ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if the claimant or any other individual is so entitled that the claim has been relinquished.
- (3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.
- (4) Where an individual has a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

Provided that if there are two such individuals the charge of children allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that child

- (5) Not more than one allowance shall be granted to any claimant for any year.

Retirement Annuity Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance or deduction under section 8(3)(bb) are that the claimant pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and of which the claimant or the claimant's spouse is a beneficiary.
- (2) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant during the year of computation of the income of the claimant assessable for the year of charge.
- (3) Notwithstanding the provisions of the preceding paragraph no allowance or deduction shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed:
 - (a) 100% of the income of the claimant during the year of computation referred to in the preceding subparagraph, or
 - (b) any retirement annuity contribution limit for the time being prescribed by Regulations made by the Committee.

Transferability of unused allowances

- *the allowances marked with an * in the first schedule are transferable between taxpayers in the circumstances described in paragraph (i) below*
- *the allowances with an ^ in the first schedule are transferable between taxpayers in the circumstances described in paragraph (ii) below,*

and in all cases transfer is subject to the conditions detailed below.

(i) transfers between married couples or couples in a civil partnership

Any allowances due to an individual which are greater than the individual's own income may only be transferred to the spouse, if at the commencement of the year of charge the claimant's spouse is living with the claimant as a married couple.

Provided that, should the marriage or a civil partnership end in the year of charge, by reason of divorce or separation, the allowance is proportioned on the basis of the number of days in the year of charge which precede that event, with the relevant proportion of any unused allowances prior to that event being automatically transferred.

For the purposes of this paragraph –

“divorce” means that the Court for Matrimonial Causes has made a Final Order on a decree of divorce or of nullity of marriage in respect of the marriage in question or that the courts of another jurisdiction have made a corresponding order in respect thereof, and includes an order for the dissolution of a civil partnership, and

"separation" means that the couple are living separately as fully and as completely as though they had never been married or in a civil partnership, as the case may be.

Provided that, should the marriage or a civil partnership end in the year of charge, by reason of death, the full unused allowance is transferrable.

Where there is an entitlement to transfer of an allowance under this paragraph, that allowance will be automatically transferred.

(ii) transfers between co-habiting couples in receipt of Family Allowance, but not eligible for the charge of children allowance

Where the recipient of a Family Allowance in respect of one or more children is not entitled to claim the charge of children allowance because the claimant is cohabiting with another person, the claimant may, in respect of the year of charge, by notice in writing addressed to the Director, elect that any unused part of, the personal allowance to which the claimant would otherwise be entitled shall cease to be the claimant's and shall become part of the personal allowance of the person with whom he is cohabiting, such election, once made, to be irrevocable in respect of that year of charge.

For the purposes of this paragraph "cohabiting" means living with another person as if they were married throughout the year of charge.

15. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

With immediate effect:

a	Cigarettes	£339.83 per kilogram
b	Cigars	£338.29 per kilogram
c	Hand rolling tobacco	£315.03 per kilogram
d	Other manufactured tobacco	£273.25 per kilogram
e	Tobacco leaf – unstemmed	£303.34 per kilogram
f	Tobacco leaf – stemmed	£306.38 per kilogram
g	Petrol other than any fuel used for the purpose of air navigation	67p per litre
h	Petrol used for the purpose of marine navigation where supplied by an approved trader	43.9p per litre
i	Gas oil	67p per litre
j	Biodiesel	67p per litre
k	Beer exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	49p per litre
l	Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 4.9 per cent volume	49p per litre
m	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	79p per litre
n	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	63p per litre
o	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	99p per litre
p	Beer exceeding 7.5 per cent volume	£1.14 per litre
q	Spirits	£35.66 per litre of alcohol contained in the liquor.

r	Cider exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	49p per litre
s	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	49p per litre
t	Cider, other than cider produced by an independent small cider-maker, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	79p per litre
u	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	63p per litre
v	Cider, other than cider produced by an independent small cider-maker, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	99p per litre
w	Cider exceeding 7.5 per cent volume	£1.14 per litre
x	Light wines not exceeding 5.5 per cent volume	62p per litre
y	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.51 per litre
z	Other wines	£4.01 per litre

16. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2017” and to direct that the same shall have effect as an Ordinance of the States.
17. To approve the draft Ordinance entitled “The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2017” and to direct that the same shall have effect as an Ordinance of the States.
18. To direct the Committee *for* Education, Sport & Culture and the Committee *for* Home Affairs to report back in the June 2018 Policy & Resource Plan update policy letter with a detailed assessment of each opportunity identified in the PwC Report entitled “Costing, benchmarking and prioritisation” together with an implementation plan including anticipated costs, benefits and timeline for delivery.
19. To approve the cash limits for ordinary revenue expenditure for 2018 totalling £377.8million as set out in paragraph 6.21 of this Report.
20. To direct that an oversight group comprising political representatives from both the Committee *for* Education, Sport & Culture and the Policy & Resources Committee is formed as a priority to oversee the development of initiatives and the delivery of budget reductions.

21. To authorise the Policy & Resources Committee, on the recommendation of the oversight group, to increase the 2018 revenue expenditure budget of the Committee *for* Education, Sport & Culture by the value of savings from projects initiated in 2018 but due to deliver benefits between 2019 and 2021.
22. To direct the Policy & Resources Committee and the Committee *for* Employment & Social Security to investigate options for enabling the integrated compilation and presentation and consideration by the States of all general revenue income and expenditure, including non-contributory benefits, and that the Policy & Resources Committee reports back, with appropriate proposals, in the 2019 Budget Report.
23. That the objective in the Fiscal Policy Framework which limits expenditure growth in real terms should be interpreted for 2018 to exclude £1.8million of the additional amount of £2.5million allocated to the Committee *for* Employment & Social Security to fund the introduction of the income support scheme.
24. To endorse the intention of the Policy & Resources Committee to use its existing delegated authority to approve partial-funding from the Capital Reserve for projects that are being initiated by non-States bodies that would support delivery of the objectives of the Policy & Resource Plan; where there is a business case that demonstrates the project represents value for money; and where the value does not exceed £250,000.
25. To set the States' Trading Supervisory Board a target minimum contribution to General Revenue of £5.5million of capital returns (in addition to any dividend paid in accordance with existing policy) from the States' trading assets in 2018.
26. To approve that returns of capital from the States' trading assets and capital income in 2018 be transferred to the Capital Reserve.
27. To transfer the sum of £53.2million from General Revenue to the Capital Reserve on 1 January 2018.
28. To agree that Resolution I. 20 on Billet d'État No. XXII of 2014 shall cease to have effect at the end of 2017 and that with effect from 1 January 2018 the investment return on the Core Investment Reserve should be credited to that Reserve up to the level necessary to maintain its real value as at 1 January 2018 and delegate authority to the Policy & Resources Committee to transfer some or all of any returns exceeding that level to the Capital Reserve.
29. To direct the Policy & Resources Committee to establish a social investment commission during 2018, to begin operation from 1 January 2019.

30. To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Public Service Reform by £750,000 to £1.5million.
31. To delegate authority to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund of up to £750,000 to fund the development of the People Plan.
32. To delegate authority to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund of up to £375,000 to fund the development of an energy policy.
33. To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for the transition to the new system of population management by £500,000 to £1million.
34. To delegate authority to the Policy & Resources Committee to lend on capital raised by the States of Guernsey bond issue to Alderney Electricity Limited or provide a guarantee to facilitate Alderney Electricity Limited's external borrowings to fund upgrading the Alderney power station on such terms as the Committee may approve.
35. To endorse the decision of the Policy & Resources Committee to make available a temporary overdraft facility for 2018 of £11.8million to Aurigny Limited.
36. To approve the transfer of up to £435,000 in 2017 and up to £105,000 in 2018 from the States of Alderney capital allocation to the States of Alderney revenue budget.
37. To approve the revised Rules for Payments to States Members, Non-States Members and Former States Members attached as Appendix II to this Report.
38. To approve the following Expenditure Budgets for the year 2018:
 - (a) Policy & Resources Committee
 - (b) Committee *for* Economic Development
 - (c) Committee *for* Education, Sport & Culture
 - (d) Committee *for* Employment & Social Security
 - (e) Committee *for the* Environment & Infrastructure
 - (f) Committee *for* Health & Social Care
 - (g) Committee *for* Home Affairs
 - (h) Scrutiny Management Committee
 - (i) Development & Planning Authority
 - (j) Overseas Aid & Development Commission
 - (k) States' Trading Supervisory Board
 - (l) Royal Court
 - (m) Law Officers

39. To approve the following Budgets for the year 2018:
- (a) Corporate Housing Programme
 - (b) Solid Waste Trading Account
 - (c) Guernsey Registry
 - (d) Ports
 - (e) Guernsey Water
 - (f) States Works
 - (g) Guernsey Dairy
 - (h) States Capital Investment Portfolio – Operating Costs
 - (i) Superannuation Fund Administration
 - (j) Committee *for* Employment & Social Security – Contributory Funds
40. To note the Budget for the States of Alderney for 2018.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

PRESIDENT'S FOREWORD

The Policy & Resources Committee is pleased to be presenting a budget for 2018 that balances the need to invest in our community's future with the discipline needed to maintain financial stability. The Committee believes the 2018 Budget is fair, innovative, and confident; it offers no surprises, other than pleasant ones.

It is particularly pleasing that we can propose a transfer of £5million to the Core Investment Reserve. This is the first since such transfer since 2007. It is a small but important step in restoring the value of our core reserve; and a significant change in direction, having drawn down on our reserves for a number of years. We are able to reap this success because of discipline over an extended period, which shows the real advantages of planning.

We have also been able to include proposals that will restore the previously planned reduction in the 2017 appropriation to the Capital Reserve to its full value. For 2018, we also propose to transfer £53.2million, which meets the Fiscal Policy Framework target of 3% of GDP. This achieves our stated aim of enabling the delivery of the States' strategic objectives through investment in infrastructure and systems.

In line with the direction set out in the Medium Term Financial Plan, the core objective of the Policy & Resources Committee is to eliminate the deficit in the short-term and return to surplus in the medium-term. This is being achieved through a combination of ongoing, agreed reductions in States' expenditure and targeted income raising measures, focussing predominantly on those most able to bear the burden.

We are recommending further changes that make the tax system more progressive, through the second phase of the withdrawal of income tax allowances for higher earners. This has enabled an above inflation increase in personal allowances of £500, or 5%, to be proposed, which will particularly benefit those on low and middle incomes. This will mean a tax cut for the average taxpayer of £100 a year or £200 for a couple.

This Budget also includes several proposals which will increase the contribution from the business sector by £1.25million, including: through an extension of the 10% intermediate corporate income tax band; a new higher-rate TRP band, increasing the rate for legal services by 200%; and a real terms' increase in commercial TRP rates.

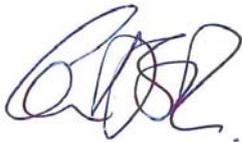
Following further work across all Committees, this Report contains twenty three policies which we recommend be prioritised to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey. In supporting the objectives of the Policy & Resource Plan, proposals are contained in this Report which:

- Recognise the need for economic growth to generate real-terms' increases in income. Therefore, in order to stimulate the open market and attract new residents to Guernsey, a lower tax cap is proposed for new residents in Guernsey for a three year period, subject to the purchase of an open market property paying document duty of at least £50,000;

PRESIDENT'S FOREWORD

- Allocate or identify funding in order to progress work on key policies, including the energy and economic development policies;
- Support a new Bailiwick Health and Wellbeing Trust, through an innovative matched funding model;
- Recognise the benefits of working in partnership with third sector organisations by recommending the establishment of a social investment commission from January 2019. As part of the work to establish the commission and source additional funding, the Policy & Resources Committee intends to work to unlock funds that might currently be out of reach, but which could be used for public benefit by the commission including, for example, balances held in dormant bank accounts and by HM Receiver-General.

The Policy & Resources Committee believe that this Budget builds on last year's themes of being responsible, fair, realistic and progressive, and adds a further emphasis on forward-planning to underpin delivery of the States' Policy & Resource Plan.



Deputy Gavin St Pier
President, Policy & Resources Committee

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Section 1: Overview

Fiscal Policy

1.1 The updated Fiscal Policy Framework was approved by the States in 2016 (Billet d'État XXVIII 2016) and is a set of parameters that guides how much money the States can collect from the public; sets out the size and duration of any deficit; and states the maximum amount of borrowing permitted.

1.2 The Policy & Resources Committee has prepared this Budget to comply with the parameters set out in that Framework, two of which are of particular importance in this Budget:

- *“During any period of deficit, expenditure on public services must be limited so as not to grow in real terms at the aggregate level unless an appropriate combination of measures to remedy the deficit has been agreed and is being implemented.”*

As set out in paragraph 6.65 of this report, it has been necessary to seek a further short-term variation to this restriction in order to ensure that the new income support scheme arising from the recommendations made by the Social Welfare Benefits Investigation Committee ('SWBIC') can be implemented from 1 July 2018.

Introduction of this new scheme will deliver on one of the commitments set out in the Policy & Resource Plan about delivering one community which is inclusive and committed to social justice.

- *“Actual capital expenditure averaging 3% of GDP per annum in the medium-term.”*

The Policy & Resources Committee feels strongly that if we are to deliver the vision of Future Guernsey – great today, better tomorrow – it is vital that we invest in the island's infrastructure. That is why the Committee is determined to ensure that sufficient is transferred to the Capital Reserve to meet the commitment of being able to spend an average of 3% of GDP^a on capital.

In order to avoid a deficit in 2018, the projections within the Medium Term Financial Plan ('MTFP') (Billet d'État XII, 2017) included that the transfer to the Capital Reserve would be £5.8million below the level necessary to achieve total transfers of 3% of GDP. However, due to a combination of budgeted income being £4million higher; and a net reduction of £2million in expenditure, it has been possible to recommend appropriation of the full amount of £53.2million to the Capital Reserve.

^a The method for calculating GDP is currently being updated and externally validated, which means the 2016 estimates will be published later than normal and include a restatement of the currently published values. This means that an estimate for GDP in 2016 was not available at the time of compilation of this Budget Report and therefore any calculations based on GDP are using the latest published data (for 2015 as published in September 2016).

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However, making the funding available is only one part of the equation. The Policy & Resources Committee has also, as part of the medium term capital plan, streamlined the processes for capital expenditure, in particular ensuring that relatively low value projects can progress swiftly.

Many of the policy priorities set out in section 4 of this report have capital projects which underpin their achievement and it will therefore be necessary to ensure these are planned and delivered in order to achieve the Policy & Resource Plan objectives. Funding is available to progress all prioritised projects and the Policy & Resources Committee will use its delegated authority to approve any requirements.

As set out in paragraphs 6.81 of this report, there is now estimated to be £340million available in the Capital Reserve over this prioritisation period with £282million allocated to the approved portfolio. However, it is estimated that any unallocated balance will be required to contribute towards the funding of the next capital portfolio.

It is of particular concern that the “grow” category contains projects estimated to cost only £6million in this period, although there are several larger projects in the longer term pipeline. The Policy & Resources Committee would welcome further projects in this category as they should help stimulate the economy and underpin deliver of the policy objectives of the Committee *for* Economic Development.

- 1.3 The Budget has also been prepared with due regard to the Framework requirement that the *“upper limit on aggregate government income, incorporating General Revenue, Social Security contributions and fees and charges, such that total government income should not exceed 28% of Gross Domestic Product.”* It is estimated that, taking into account the measures proposed in this Budget Report and in the Committee *for* Employment & Social Security’s November 2017 policy letter entitled “Benefit and Contribution Rates for 2018”, that aggregate government income in 2018 will represent approximately 26% of GDP.

Medium Term Financial Plan

- 1.4 As set out in the Policy & Resource Plan, the return to a balanced position is the highest priority for the Policy & Resources Committee since sustainable finances are critical to both Guernsey’s economic success and the States’ ability to provide public services in the long-term, delivering on the requirement for long-run permanent balance.
- 1.5 As part of phase one of the Policy & Resource Plan (Billet d’État XXVIII 2016) the States committed to achieving the outcome of sustainable public finances and, during this political term, to:
- Adhere to the fiscal rules contained within the Fiscal Policy Framework;
 - Present a credible fiscal strategy as part of phase two of the Policy & Resource Plan in June 2017 which will reflect the commitment of the States to encourage economic growth; restrain public expenditure by requiring further efficiency savings and the prudent management of financial resources, people and physical

2018 BUDGET REPORT

infrastructure; and raise additional revenue as far as possible from individuals and entities most able to bear the burden;

- Achieve and maintain a balanced budget in the short-term and surplus in the medium-term without contravening any part of the States' Fiscal Policy Framework;
- Continue expenditure restraint and ensure no real terms' growth in expenditure while the budget remains in deficit;
- Provide leadership of the transformation agenda and support the Public Service Reform agenda in order to manage both short and long term spending pressures;
- Ensure that the States' commercial and semi-commercial entities and other States' assets are maximised, making an appropriate return to the States but without placing a disproportionate burden on customers, many of whom are inevitably on low incomes;
- Prioritise capital investment aligned with the Policy & Resource Plan; and
- Ensure competitive recruitment and retention of quality, skilled professionals, balanced with appropriate scrutiny including control and review of staffing costs, grading and pay awards, and effective performance management, within the public sector.

1.6 As part of phase two of the Policy & Resource Plan (Billet d'État XII, 2017), the States approved the MTFP which is a strategy covering the medium term designed to ensure the finances of the States can support delivery of the outcomes set out in the Policy & Resource Plan.

1.7 The MTFP was designed to ensure that the States are able to achieve and maintain a balanced budget before moving into a sustainable surplus over the next four year period. This will enable the re-building of reserves which have been depleted in the last decade thus enhancing our ability to be resilient in the face of future economic changes.

1.8 The improved outturn in 2016 compared to that budgeted has resulted in the projection for the General Revenue Account Reserve having £15million more than necessary to be in line with the target balance of 5% of revenue income (£22million). This has enabled two proposals to be made within this Budget Report:

- Firstly, to transfer £8.1million to the Capital Reserve which is the shortfall in value of the 2017 appropriation compared to the policy in place at that time. The Policy & Resources Committee recognises the importance of investment in our island infrastructure; the value that strategic digital investment will make to our economy; and the planned transformation initiatives.
- In addition, it is proposed to transfer £5million to the Core Investment Reserve. This is the first time in over a decade that an appropriation has been made to this Reserve and the Policy & Resources Committee is pleased to be in a position to recommend such a transfer which adds further resilience to our overall financial strength.

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1.9 The MTFP detailed that the burden of returning to fiscal surplus would be shared between taxpayers, particularly those most able to pay, through targeted increases in revenue (35%); and a reduction in the cost base through the reform of public services – which will lead to working differently, changing and improving the way services are delivered to enable savings to be made (65%).

1.10 The MTFP envisaged that, for 2018, revenue raising measures would total £3.5million and that expenditure would be reduced by £5.5million before allowing for inflation, cost pressures and service developments.

2018 Measures

1.11 This budget contains a combination of revenue raising measures which have been designed to *“raise additional revenues as far as possible from individuals and entities most able to bear the burden”*.

1.12 In total, an increased business contribution of £1.25million is being raised from:

- A further extension of the 10% intermediate income tax rate to investment managers providing services to individual clients;
- The introduction of a new commercial TRP higher-rate category for legal services; and
- An above inflation increase in commercial TRP rates.

1.13 In addition, the second phase of the withdrawal of income tax allowances for higher earners is being implemented which raises a further £1.4million from those earning above the Social Security Upper Earnings Limit ('UEL' (recommended to be £142,896 in 2018). This second phase expands the allowances covered by this initiative to include the supplementary personal allowances, mortgage interest relief and tax relief on pension contributions.

1.14 These measures, and other real-terms' increases to taxes and duties, will raise a further £3.5million, in line with the objective set in the MTFP.

1.15 As a result of the further withdrawal of income tax allowances for higher earners, the Policy & Resources Committee has been able to recommend an increase in personal income tax allowances of 5% to £10,500 for a single person. Along with the withdrawal of allowances for higher earners, this is having a significant impact on how progressive the personal income tax system has become.

1.16 The first two phases of the withdrawal of personal allowances for higher earners is expected to raise £3.8million per annum on an ongoing basis and the real-terms' increases in personal income tax allowances have redistributed £3.3million, which will be of greatest benefit to those on lower and middle incomes.

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1.17 The MTFP estimated that ongoing reductions in States' revenue expenditure of £5.5million would be achieved in 2018 and this has been delivered through a series of budget adjustments for each Committee. The table below shows the net change in each Committee's Cash Limit which also takes into account any other adjustments to Cash Limits including funding for pay awards; cost pressures or service developments:

	2018 Cash Limit £'000s	Net Change %
Policy & Resources		
Corporate Services	26,164	1.7
Core and Other Services	<u>9,345</u>	<u>6.3</u>
	35,510	2.9
Economic Development	6,235	(1.0)
Education, Sport & Culture	73,925	(1.1)
Employment & Social Security	11,090	1.0
Environment & Infrastructure	11,975	(0.7)
Health & Social Care	115,450	(2.5)
Home Affairs	29,825	0.2
Scrutiny Management	547	(1.0)
Development & Planning	1,340	(1.0)
Overseas Aid & Development	2,960	1.5
States' Trading Supervisory	1,490	-
Royal Court	2,535	4.3
Law Officers	4,475	(0.3)
States of Alderney	1,840	0.6
Total Non-Formula Led	299,197	(0.9)

1.18 The MTFP set out a series of organisational themes for the delivery of savings over the medium term. The themes that are being developed relate to service design, managing sickness absence, managing overtime and allowances, property rationalisation, and procurement^b. The Civil Service Leadership Team is working to ensure that these programmes are properly established and resourced with detailed project plans. A significant amount of work has already taken place and it is planned that these themes should generate savings during 2018, increasing in 2019.

1.19 There is not a 2018 budget reduction in respect of these corporate initiatives (paragraph 6.15), albeit there are projects ongoing in the areas of property rationalisation and procurement which have already delivered savings in 2017 and will continue to do so in 2018. For example, the procurement workstream has, through tactical work with suppliers to seek to lower the cost of the goods and services already under contract saved £125,000 in 2017, rising to £225,000 in 2018. In addition, the property rationalisation project which has resulted in the exit of services from both Grange Road House and Cornet Street will deliver £200,000 of recurring savings from early 2018 as well as enabling the disposal of the vacated properties.

^b As set out in the MTFP paragraphs 6.19 to 6.25

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- 1.20 The savings realised from corporate initiatives in 2018 will result in an improved financial position for the year and contribute towards achievement of the expenditure reductions to be applied in 2019 and subsequent years.
- 1.21 In finalising the Cash Limits a series of cost pressures have had to be absorbed, and these are set out in paragraphs 6.22 to 6.55. The most material of these cost pressures relates to the introduction of the new income support scheme from July 2018 at a net additional cost of £2.5million^c.

Future Years

- 1.22 The MTFP forecast additional income accumulating to £10.5million on an ongoing basis over the period of the plan (£3.5million for each of 2019, 2020 and 2021). The impact of expenditure savings (before provision of any additional budget to meet cost pressures or to fund service developments) was estimated to total £20.6million on an ongoing basis (£6.2million in 2019; a further £7.1million in 2020; and a further £7.3million in 2021). For the avoidance of doubt, the measures set out in the MTFP supersede any other savings frameworks such as the so called '3%, 5%, 5%' target.
- 1.23 The Policy & Resources Committee's tax proposals over the MTFP period will seek to "raise additional revenues as far as possible from individuals and entities most able to bear the burden" in line with the agreed objective of the States. The Policy & Resources Committee is intending to submit a policy letter later this year proposing a change to the current system of probate which has the potential to generate a significant income stream for the States of Guernsey.
- 1.24 However, unless economic growth outstrips the assumptions used in the MTFP, resulting in higher tax receipts, there will be a need to consider wider increases in taxes and/or duties or new taxes in accordance with the following States' resolution:

"To direct the Policy & Resources Committee, in developing its proposals for income measures from 2018 onwards, to consider the merits and disadvantages of any new forms of taxation, with the exception of taxes on capital; this recognises that there will be a clear presumption that over this period (in light of the island's changing demographics) the tax base will broaden and diversify consistent with the principles of seeking a greater contribution from those individuals and entities most able to bear the burden."

- 1.25 In terms of delivering the savings required to deliver on the MTFP targets, the Policy & Resources Committee expects that, for the 2019 Budget, the emphasis on savings must be able to shift from Committee specific measures to the majority of savings arising from delivery of the shared initiatives.

^c As approved by the States in March 2016 following consideration of the SWBIC policy letter entitled "Comprehensive Social Welfare Benefits Model" (Billet d'État VII, 2016).

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1.26 However, in order for this to happen, and ensure that lessons learned from the failure of the Financial Transformation Programme to deliver fully what were termed as 'corporate' savings, these initiatives will need to be supported and co-ordinated by the Civil Service Leadership Team; oversight will be required by the Policy & Resources Committee; but their successful delivery will require the full support of all Principal Committees and active participation and delivery by all service areas.

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Section 2: 2017 Financial Position

2.1 The following table summarises the States' 2017 financial position:

	2017 Probable Outturn £m	2017 MTFP Estimate £m	2017 Budget Estimate £m	2016 Actual £m
Revenue Income				
Income Tax	315	310	303	303
Other Taxes	79	76	79	74
Miscellaneous Income	23	22	21	30
Revenue Income	417	408	403	407
Revenue Expenditure	(359)	(362)	(362)	(363)
Revenue Surplus	58	46	41	44
Routine Capital Allocations	(11)	(11)	(11)	(7)
Capital Income	3	5	5	10
Operating Surplus	50	40	35	47
Transfer to Capital Reserve (including capital income)	(41)	(35)	(35)	(23)
Transfer from General Revenue Account Reserve (timing of delivery of FTP benefits)	-	-	-	1
Surplus	9	5	-	25
Transfer to: General Revenue Account Reserve	9	5	-	25

2.2 Compared to budget, the 2017 projected revenue surplus (i.e. before routine capital allocations and transfer to the Capital Reserve) has increased by £17million to £58million. This is primarily due to income tax receipts being £12million higher than budgeted^d which is sustaining the improvement recorded in 2016.

2.3 The 2017 budget for income tax receipts was compiled in mid-2016 based on the best information, indicators and forecasts available at that time. There is an inherent difficulty in forecasting income tax receipts as there is a significant time delay between profits and investment income earned and assessed tax paid for all receipts apart from those relating to employment. Although income tax is collected based on interim assessments, the submission of returns and issue of final assessments can be up to two years later than the year of charge and can lead to significant under- or over-payments in the intervening period. This can distort the statistics and lead to inaccuracies in forecasting.

^d This includes £2.6million in respect of a specific settlement; further amounts will be received in 2018 and 2019 of £4million and £5.3million respectively.

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2.4 However, as reported in the 2017 Budget Report, the Policy & Resources Committee has recognised the importance of being able to forecast revenues with some degree of accuracy since so many other budget decisions rest on the core income. Therefore, an internal working group was established which seeks to better analyse the revenue income position both in-year and forecasting for the future. This detailed work is then discussed and validated with external stakeholders.

2.5 The following table details the anticipated 2017 Probable Outturn for each Committee^e compared with budget:

2017	Original (Restated) Budget £'000s	Authorised Budget ^f £'000s	Probable Outturn £'000s	Anticipated (Over) / Underspend £'000s
Policy & Resources				
Corporate Services	25,734	26,461	25,576	885
Core and Other Services	<u>8,787</u>	<u>9,018</u>	<u>9,387</u>	<u>(369)</u>
	34,521	35,479	34,963	516
Economic Development	6,295	6,296	6,116	180
Education, Sport & Culture	74,674	74,767	76,850	(2,083)
Employment & Social Security	11,000	11,091	10,830	262
Environment & Infrastructure	11,797	11,797	11,680	116
Health & Social Care	118,528	117,792	113,117	4,675
Home Affairs	29,773	30,547	30,547	-
Scrutiny Management	553	553	553	-
Development & Planning	1,355	1,355	1,355	-
Overseas Aid & Development	2,915	2,915	2,915	-
States' Trading Supervisory	1,469	1,469	1,327	142
Royal Court	2,414	2,431	2,431	-
Law Officers	4,489	4,489	4,489	-
States of Alderney	1,830	1,840	1,840	-
TOTAL NON-FORMULA LED	301,613	302,821	299,012	3,809
FORMULA LED	55,940	55,940	56,131	(191)
BUDGET RESERVE	4,947	3,739	3,739	-
	362,500	362,500	358,882	3,618

^e For the purposes of this Report, the term 'Committee' includes the seven Principal Committees plus the following who are also allocated General Revenue Cash Limits: Development and Planning Authority, Overseas Aid & Development Commission, States' Trading Supervisory Board, Scrutiny Management Committee, Royal Court, Law Officers and States of Alderney.

^f Authorised Budgets include inter-Committee transfers and £900,000 of funding which has been transferred between the Budget Reserve and Committees including £400,000 in respect of settled pay awards.

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- 2.6 The Committee *for* Education, Sport & Culture was allocated a budget reduction of £2.4million in 2017 and it is anticipating that it will only achieve £1.3million comprising £400,000 of recurring items and £900,000 of in-year savings; an in-year shortfall of £1.1million. In addition, the Committee had anticipated being able to reprioritise approximately £200,000 of its existing budget to part-fund the introduction of pre-school education but has not done so. It is also experiencing ‘business as usual’ budget pressures at a net value of £900,000, predominantly in pay costs. Therefore, the Committee *for* Education, Sport & Culture is currently forecasting an overspend against its authorised budget of £2.1million.
- 2.7 It is anticipated that there will be sufficient funding in the Budget Reserve and underspends from other Committees to fund the increased expenditure by the Committee *for* Education, Sport & Culture within the overall total budget for revenue expenditure.
- 2.8 As set out in paragraphs 7.70 to 7.72, the States of Alderney are projecting an overspend of £435,000 in 2017 and it is proposed that this met by transferring funding from the States of Alderney routine capital allocation (to which the surpluses of the Alderney Gambling Control Commission are credited).
- 2.9 In recent years, significant prudence has been exercised by service leads/budget holders in estimating probable outturns. This continued in 2016, when the probable outturn for revenue expenditure projected in the 2017 Budget Report was £371.8million whereas the actual outturn was just over £8.7million less at £363.1million. There were significant improvements by the Committee *for* Health & Social Care where a £3.8million forecast overspend turned into a £600,000 underspend. In addition, the Committee *for* Home Affairs underspent by £1.5million compared to a forecast underspend of £200,000. All other Committees underspent by a net amount of £3million.
- 2.10 Compared to the MTFP, the 2017 projected revenue surplus is £12million higher. The main components of this improvement are: net £4.7million increase in income tax including a non-recurring tax settlement of £2.6million; expenditure reductions of £3.6million; and an exceptional Document Duty receipt of £1.9million.
- 2.11 As agreed as part of the 2017 Budget Report, the States resolved “*To set the States’ Trading Supervisory Board a target minimum contribution to General Revenue of £5million of capital returns (in addition to any dividend paid in accordance with existing policy) from the States’ trading assets in 2017*” and “*that returns of capital from States’ trading assets in 2017 be transferred to the Capital Reserve*”. The latest forecast from the States’ Trading Supervisory Board is that it will be able to make £3million of capital returns in 2017, a shortfall on the target of £2million meaning that £2million less than anticipated will be transferred into the Capital Reserve in 2017. For the time being, and until a detailed plan is put together by the States’ Trading Supervisory Board for the overall return of capital over the medium term, it has been assumed that this £2million shortfall is merely a timing issue and that the full £30million[§] will still be received.

[§] The MTFP assumed a target for 2017 – 2021 for return of capital from the States’ trading entities (both incorporated and un-incorporated) of £30million. (paragraphs 5.28 – 5.32)

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- 2.12 In order to deliver a balanced budget in 2017, the States approved a reduction of £8.1million in the transfer from General Revenue to the Capital Reserve, calculated in accordance with the policy in place at the time of maintaining the value of the transfer in real-terms.
- 2.13 However, as set out in paragraph 1.8, due to the improved overall position in 2016 and 2017, there is funding available for appropriation and, therefore, **it is recommended that £8.1million is immediately transferred from the General Revenue Account to the Capital Reserve.**

General Revenue Account Reserve

- 2.14 The General Revenue Account Reserve is used for managing any in-year shortfalls in income, short-term cyclical variations and other timing issues. As agreed as part of the MTFP the policy for the average balance in the General Revenue Account Reserve is 5% of revenue income and the Reserve should be replenished as soon as possible after any draw-down.
- 2.15 Due to the surplus recorded in 2016, the General Revenue Account Reserve commenced 2017 with a balance of £31million, including provision for £1million of accumulated losses of the Aurigny Group. An operating surplus of £17million is projected for 2017 but provision is required for a further £11million of losses by the Aurigny Group by the end of 2018. Therefore, the anticipated balance on the General Revenue Account Reserve is £37million which is approximately £15million in excess of the target of £22million (5% of revenue income of £432million).
- 2.16 As set out in paragraph 2.13, this Budget Report includes a recommendation for transfer from General Revenue to the Capital Reserve of £8.1million which reduces the balance on the Reserve to approximately £29million.
- 2.17 As agreed as part of the MTFP, the States have a policy for the target balance of the Core Investment Reserve of 100% of General Revenue Income and the Policy & Resources Committee makes proposals for any appropriations when the overall financial position is in surplus. It is projected that the Core Investment Reserve will have a balance of £152million at the end of 2017 – 35.7% of the 2017 revenue income budget. Therefore, **it is recommended that £5million is immediately transferred from the General Revenue Account Reserve to the Core Investment Reserve** which would increase the balance to £157million at the end of 2017.
- 2.18 The projected balance of the General Revenue Account Reserve, after these transfers, would be £24million, which is in line with the policy. Should the financial position improve, compared to current forecasts, in 2017 / 2018 then there would be additional funding to appropriate and recommendations would be included in future Budget Reports. Conversely, a deterioration in the financial position would require measures to be taken to replenish the balance as soon as possible.

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2.19 The table below summarises the balances and proposed movements on all of the States' principal reserves and funds other than the Capital Reserve which is set out in paragraph 6.81:

	Effect of Budget Proposals £m	Uncommitted Balance £m
General Revenue Account Reserve	(13)	24
Core Investment Reserve	5	157
Transformation & Transition Fund	(2)	15
Future Guernsey Economic Fund	-	4

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Section 3: 2018 Budget Estimate

Economic Context and Assumptions

- 3.1 Overall, particularly given the uncertainty created by the UK's decision to begin the process of exit from the EU, the economy has performed well since the last budget. Conditions in Guernsey have stabilised and strengthened over the past year and throughout 2016 government statistics reported consistent growth in both employment and earnings and this was reflected in strong growth in Employees Tax Instalment Scheme ('ETI') receipts over the latter half of the year in particular. This contributed to the better than anticipated revenue outturn for 2016 and the improved position in 2017.
- 3.2 Employment growth has continued up to the end of the first quarter of 2017 which is the most recently available data point. However, the growth has slowed somewhat, consistent with an apparent softening of growth conditions in the UK economy. More current ETI data shows strong real growth up to the end of the second quarter of 2017 and unemployment data, available up to July 2017, show rates of unemployment below 1% for the first time since 2011. Again, the strength of the labour market is a significant contributing factor to the better than budgeted revenues in the year to date and the improved forecast out turn for the end of 2017.
- 3.3 The lagged effect of the depreciation of sterling since the UK's referendum on EU membership in June 2016 has begun to be evident in domestic inflation levels. The headline RPIX measure, following inflation trends in the UK, increased to 2.9% in the first quarter of 2017 subsiding slightly in the second quarter to 2.8% as a result of a fall in oil prices. Central forecasts predict that inflation will continue at approximately its current level for the remainder of 2017. Further out, forecasts are dependent on whether and when the UK Monetary Policy Committee choose to begin the gradual and limited increase in interest rates it has highlighted might necessary to restore UK CPI inflation to its target rate.
- 3.4 While the current levels of inflation in Guernsey are more typical of historic rates than the exceptionally low levels experienced since the end of 2014, the increase has subdued real earnings' growth in the first quarter of 2017 and may continue to do so for some time.
- 3.5 Looking forward, budget forecasts have been made in the cautious expectation that 2018 will show continuing growth, while recognising that in both the short and medium term Guernsey faces external pressures as a result of the UK's decision to commence the process of exiting the EU and the increased global scrutiny on matters of international tax transparency.

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- 3.6 In the short to medium term, Brexit produces a variety of challenges for Guernsey. In the fifteen months since the referendum, Guernsey has been actively engaged with the UK government, the City of London and other EU member states on all issues related to Brexit and in particular on key issues relating to citizens' rights and access to trading markets. To date this engagement has been very constructive. The UK has provided formal assurances that it will consider the best interests of the Devolved Administrations, Crown Dependencies and Overseas Territories in all its negotiations and try to seek the widest possible consensus. However, as long as the outcome of negotiations remains unclear, the exit will continue to contribute to a general feeling of uncertainty which may subdue investment and confidence.
- 3.7 Looking at longer term pressure, the latest population data (available up to the third quarter of 2016) show continuing pressure on the size of the available workforce. Net emigration, recorded through 2012, 2013 and 2014 had largely stopped by the end of 2015. However, the net immigration experienced up to the second quarter of 2016 has been minimal and not sufficient to offset the progression of the baby boom generation beyond the State pension age. The lower than forecast levels of net immigration continue to place downward pressure on the working age population and this accelerates and brings greater focus to the long term issues we face regarding the ageing of the population and the long term upward trend of dependency ratios in Guernsey.
- 3.8 The Policy & Resources Committee takes this issue very seriously. Our workforce drive our economy, and ensuring we have the right number of people with the right skills to support commercial business is important to our growth prospects and to adequately staff the care and support service for which demand will increase.
- 3.9 While the expected peak in dependency ratio is still some way in the future, managing the implications of this early is essential. If we are to meet the challenge successfully and limit the transfer of an unsustainable cost burden to the next generation while still providing the services which will be needed by those who are currently reaching the end of their working lives, effective policy development and the transformation of service provision are absolutely necessary.

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2018 Overall Position

3.10 The following table summarises the General Revenue financial position:

	2018 Budget Estimate £m	2018 MTFP (inflated*) Estimate £m	2017 Probable Outturn £m
Revenue Income			
Income Tax	325	322	315
Other Taxes	80	80	79
Miscellaneous Income	27	28	23
Revenue Income	432	430	417
Revenue Expenditure	(378)	(382)	(359)
Revenue Surplus	54	48	58
Capital Income	7	7	3
Operating Surplus	61	55	61
Transfer to Capital Reserve^h (including capital income)	(60)	(55)	(52)
Surplus	1	-	9
Transfer to: General Revenue Account Reserve	1	-	9

* Under the rent rebate scheme, the value of rental income received in respect of States Houses is net of rebates granted. Under the income support scheme, rent rebates will no longer be granted and tenants will be required to pay the full gross assessed rent. Therefore, both income and expenditure will increase by £6.7million in 2018 to account for this change. The miscellaneous income and revenue expenditure figures in this table have been adjusted to reflect this.

3.11 The assumptions used in the MTFP included *“real-terms budget measures totalling in the order of £3.5million per annum. However, should economic growth outstrip the assumptions used in this Plan, resulting in higher tax revenues, this may reduce the need for such measures over the period.”* This is in addition to measures already agreed in previous Budget Reports and being implemented including the withdrawal of mortgage interest relief and real-terms’ increase in domestic TRP rates. The Policy & Resources Committee gave a commitment that it would *“seek to raise additional revenues as far as possible from individuals and entities most able to bear the burden”*.

^h With effect from 2018, routine capital allocations are included within the appropriation to the Capital Reserve. For comparative purposes, 2017 has been restated.

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3.12 The real-terms’ revenue raising measures proposed in the 2018 Budget total £3.5million comprising:

- Extension of the 10% income tax rates to regulated investment management services to individual clients (£500,000) (paragraph 5.5);
- Reduction in the limit for tax relief on pension contributions (£250,000) (paragraph 5.24);
- The second phase of the withdrawal of Personal Income Tax Allowances for higher earners (£1.4million) (paragraph 5.28);
- A 2.3% real-terms’ increase in the duty on alcohol (£300,000) (paragraph 5.77);
- Introduction of a new Commercial Tax on Real Property category for office and ancillary accommodation (legal services) (£400,000) (paragraph 5.89)
- Commercial Tax on Real Property to increase by 2.3% in real-terms (£350,000) (paragraph 5.91); and
- Reduction in the personalty element of conveyances (£300,000) (paragraph 5.97)

3.13 As set out in paragraph 5.13, it is proposed that personal income tax allowances (excluding the Age Related Allowances) are increased by 5% (2.3% in real-terms) which has a real-terms’ cost of £1.65million.

3.14 Whilst it is undoubtedly pleasing that the income budgeted for 2018 is more than that projected in the MTFP, this is partly due to a non-recurring income tax settlement receipt of £4million.

3.15 The MTFP included the following projection of revenue expenditure (adjusted for the income support scheme) for 2018 of £371.8million as follows:

	£m
2017 Cash Limits	362.5
Health Service Fund Grant – reinstatement	4.7
Estimated Cost Pressures – income support scheme	8.6
Estimated Cost Pressures – Other	1.5
Impact of Expenditure Savings	(5.5)
2018 Cash Limits (2017 values) – as per the MTFP	371.8

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- 3.16 The MTFP was put together without the inclusion of inflation for future years, i.e. in 2017 prices throughout. In order to enable comparison with the 2018 Budget, an allowance of £10.3million for inflation has been applied to maintain the real value of Cash Limits. This uplifts the overall Cash Limit to £382.1million.
- 3.17 The 2018 Cash Limits proposed in this Budget Report are £4.3million lower than the indicative value in the MTFP. This is due to the grant to the Health Service Fund which would otherwise have been £4.9million, being suspended again in 2018 (paragraph 6.9). This is offset by the one-off project cost for the introduction of the income support scheme increasing by £600,000.
- 3.18 The MTFP projected that the 2018 appropriation to the Capital Reserve would be £5.8million lower than the amount necessary to achieve an investment of 3% of GDP. However, due to the improvement in income of £2million (albeit that £4million is non-recurring) and Cash Limits being lower by £4.3million, it has been possible to recommend an appropriation to the Capital Reserve of the full amount of £53.2million (paragraph 6.78). In addition, a small budget surplus of £500,000 is projected.

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Section 4: Policy & Resource Plan

- 4.1 The Policy & Resource Plan is the strategic policy document for the States of Guernsey that determines which policy work should be given priority by government and how such work will be resourced. It is centred on the States' agreed outcomes for the communities of the Bailiwick of:

"We will be among the happiest and healthiest places in the world, where everyone has equal opportunity to achieve their potential. We will be a safe and inclusive community, which nurtures its unique heritage and environment and is underpinned by a diverse and successful economy."

- 4.2 Given the joint focus on both policy and resources, it incorporates the MTFP, which includes the capital portfolio of major projects, for the period 2017-2021.
- 4.3 No discussion of government priorities can be complete without reference to Public Service Reform, an ongoing 10-year programme of operational transformation led by the Chief Executive and endorsed by the States in September 2015 (Billet d'État XVI, 2015). The successful implementation of transformation will bring a return on investment known as the reform dividend, where cost savings can be used to eradicate the deficit; fund demand in services like health and social care; be invested in new or improved services; generate funding to invest in capital assets; or replenish depleted reserves.
- 4.4 Policy and operational priorities must be suitably aligned with and supportive of the Policy & Resource Plan, the MTFP and Public Service Reform.
- 4.5 In June this year (Billet d'État XII, 2017) the States approved phase two of the Policy & Resource Plan, which included the policy plans of the Principal Committees and the Policy & Resources Committee, each of which set out their respective policy priorities.
- 4.6 In considering the resources needed to deliver the policy priorities identified, the Policy & Resources Committee was concerned that some policy plans were over-ambitious and that, as a result, the identified priorities could not all be resourced. The States agreed and directed the Policy & Resources Committee to *"work with Principal Committees to refine their policy plans to the extent needed to enable the prioritisation of resources to take place and report back to the States of Deliberation as part of the 2017 Budget Report; having used, as a basis for prioritisation, the eight strategic outcomes of the Policy and Resource Plan; and having given no lesser status to policies and initiatives identified by Committee as currently unfunded or underfunded, it terms of evaluating their potential contribution to the strategic objectives, and thus their relative priority and need for resources."*

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4.7 Consequently the Policy & Resources Committee sought further information from the Principal Committees concerning the following aspects of their policy proposals:

- Alignment with strategic outcomes, as set out in phase one of the Policy & Resource Plan;
- Benefits – the extent to which any improvements will be felt by the community;
- Impact – what proportion of the community will benefit;
- Risks – the risks of not taking action;
- Achievability – the extent to which we have the right number of people with the right skills to do the work; and
- Costs.

4.8 This work has helped the Policy & Resources Committee to take a strategic view and identify those policy initiatives that should be prioritised in order to deliver as effectively as possible against the States' agreed outcomes.

4.9 This has resulted in the prioritisation of twenty three policies drawn from the Committees' policy plans. Committees are required to report to the States annually on progress against their policy plans and at these times the Policy & Resources Committee will place particular emphasis on the need to hold to account progress against the twenty three policy priorities, once they have been approved by the States. Among other things it will become very clear if Committees are pursuing other policies at the expense of those prioritised by the States and thereby not contributing sufficiently to the agenda for government agreed by the whole Assembly.

Prioritised policies

4.10 Phase one of the Policy & Resource Plan – *Future Guernsey* – identified the following strategic outcomes:

- *Sustainable strong and growing economy;*
- *Sustainable public finances;*
- *Safe and secure place to live;*
- *Healthy community;*
- *Inclusive and social justice;*
- *Lifelong learning;*
- *Centre of excellence and innovation; and*
- *Mature international identity.*

4.11 It is considered that the work streams that make the greatest contribution to these outcomes should be prioritised and resourced ahead of those that do not make such a significant contribution. The policy work streams in question are set out below (a detailed description of each work stream is not included, as these are contained within the individual Committee policy plans).

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- 4.12 Unless specified, it is understood that each of these work streams can be progressed without any additional revenue resources. Any capital resources necessary to deliver the work stream were prioritised within the MTFP for funding from the Capital Reserve and resources are available to progress all of these projects.
- 4.13 Given that so many of these priorities will require cross-Committee working, the Policy & Resources Committee is of the view that there is likely to be the need for Committees to pool budgets in order to deliver the desired policy outcomes. Therefore, **it is recommended that the Policy & Resources Committee is given delegated authority to create pooled budgets, by re-allocating existing Committee budgets, where a need to do so is identified in any prioritised policy workstream.**
- 4.14 If any further additional resources are identified as being required to implement projects to deliver on these policy priorities, their availability will be dependent on the delivery of reform dividends that can be reinvested in new or improved services. The MTFP envisaged that such funding would be available from 2020 onwards when the surplus is estimated to grow to a more significant level. As set out in the MTFP, it has been assumed that the policy work being undertaken by the Committees will ultimately lead to new or improved services therefore an allowance of £3.5million per annum has been made in both 2020 and 2021.
- 4.15 However, the Committee would like to reiterate that financial sustainability should be central to the thinking on policy development. It is not sustainable for every new strategy or plan to come with a significant price tag for implementation. Policy is a critical element in the design and delivery of the reform of public services and it is vital that financial considerations are central to the thinking in such work.
- 4.16 The Policy & Resources Committee **recommends that the following twenty three policies are prioritised in order to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey**, which are not in any order of priority:

4.17 Economic development policy

This comprises inter-connected initiatives led by the Committee *for* Economic Development designed to improve business development and diversification through the skills strategy and sector strategies; and promote and attract (the third theme is connectivity, comprising transport connectivity and digital connectivity – paragraph 4.19).

This policy will be supported by the Policy & Resources Committee's commitment to invest in the establishment, by a private sector partner, of the Guernsey Investment Fund.

The Committee *for* Economic Development has requested additional funding of £1.35million to complete this work and, as set out in paragraph 7.31, it is intended that this is made available from the Future Guernsey Economic Fund once the States have approved the Guernsey Economic Vision which the Committee *for* Economic Development is planning to present to the States in December 2017.

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4.18 Air and sea links and infrastructure policy

This is led by the Committee *for* Economic Development, as part of the economic development policy's connectivity initiative, supported by the Policy & Resources Committee, Committee *for the* Environment & Infrastructure and the States' Trading Supervisory Board.

4.19 Digital connectivity policy

This is a joint approach led by the Committee *for* Economic Development (as part of the economic development policy's connectivity initiative), and the Committee *for* Education, Sport & Culture.

4.20 Brexit policy

This is co-ordinated by the Policy & Resources Committee with leadership on specific issues by the Committee *for* Home Affairs and the Committee *for* Economic Development.

Additional temporary funding has been made available from the Budget Reserve to provide additional resources to manage the implications for Guernsey because of the UK's changing relationship with the EU and provision made for further funding, if required.

4.21 Harbour area redevelopment policy

The redevelopment of the harbour area and the eastern seaboard will be taken forward jointly by the Policy & Resources Committee, the Committee *for the* Environment & Infrastructure, the Committee *for* Economic Development and the States' Trading Supervisory Board, supported by the Development & Planning Authority.

4.22 Medium term financial policy

The Policy & Resources Committee will lead and co-ordinate on the delivery of the MTFP which sets out the fiscal policy for the next 4-5 years.

4.23 Justice policy

This is being led by the Committee *for* Home Affairs.

4.24 Security and cyber-security policy

This is led by the Committee *for* Home Affairs, supported by the Committee *for* Economic Development and the Policy & Resources Committee.

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4.25 Future provision of health and social care

This work is ongoing, led by the Committee *for* Health & Social Care, and supported by the Health and Social Care Target Operating Model transformation work. This will set out the target operating model for health and social care, including reablement; and will also be supported by work on the recruitment and retention of nurses.

Funding has been prioritised and made available from the Transformation and Transition Fund to progress this work.

4.26 Health and social care regulatory and support policy

This is led by the Committee *for* Health & Social Care, incorporating work on a new regulatory regime, adult safeguarding and capacity legislation.

4.27 Health and wellbeing policy

This is a joint approach led by the Committee *for* Health & Social Care, supported by the Committee *for* Education, Sport & Culture; the Committee *for* the Environment & Infrastructure; the Policy & Resources Committee; and potentially through a public-private company limited by guarantee (the Bailiwick Health and Wellbeing Trust). It is initially focused on the healthy weight strategy and the drug and alcohol strategy, and over time, will also integrate the breastfeeding strategy and the tobacco strategy, and support the implementation of the mental health and wellbeing strategy.

As set out in paragraph 6.48, the proposed funding model for The Bailiwick Health and Wellbeing Trust includes funding from existing budgets, provision of resources and a commitment to match funding secured from external sources of a maximum of £250,000 per annum for 2018 and 2019.

4.28 Improving education outcomes policy

This is being led by the Committee *for* Education, Sport & Culture.

4.29 Secondary and post-16 education policy

This is being led by the Committee *for* Education, Sport & Culture.

4.30 Supported living and ageing well policy

This is being delivered through the implementation of the supported living and ageing well strategy ('SLAWS') by the Committee *for* Employment & Social Security, the Committee *for* Health & Social Care and the Policy & Resources Committee, and co-ordinated through the SLAWS Supervisory Group. The policy will be supported through the establishment of a carers' strategy through the SLAWS Supervisory Group, and will also include the progression of the ongoing review of healthcare and long-term care funding.

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This work has been partially resourced from the Transformation and Transition Fund. Implementation of the policy is funded through Committee budgets.

4.31 Children and young people's policy

This is being delivered through the implementation of the children and young people's plan ('CYPP') which is being led by the Committee *for* Health & Social Care and supported by the Committee *for* Education, Sport & Culture, the Committee *for* Home Affairs and the Policy & Resources Committee through the CYPP Supervisory Group. The Committee *for* Education, Sport & Culture's planned work on reforming safeguarding; developing an inclusion strategy; and developing an early years strategy (with the Committee *for* Health & Social Care) should be included within this work stream and in the case of the latter – where appropriate – be integrated into the disability and inclusion strategy.

This work has been partially resourced from the Transformation and Transition Fund.

4.32 Disability and inclusion policy

This is being delivered through the implementation of the disability and inclusion strategy ('DIS') which is being led by the Committee *for* Employment & Social Security and supported through the DIS Project Board. This is also supported by the Policy & Resources Committee's commitment to reform matrimonial law.

4.33 Social welfare policy

The welfare reform measures being led by the Committee *for* Employment & Social Security comprise: implementation of the recommendations of the SWBIC; the introduction of secondary pensions; and work on family allowances and medical cover for supplementary benefit recipients.

The 2018 recommended Cash Limit for the Committee *for* Employment & Social Security includes funding to introduce the new income support scheme, as recommended by the SWBIC, from July 2018.

4.34 Social and affordable housing policy

The Committee *for* Employment & Social Security is leading on a social housing strategy, and the Committee *for* the Environment & Infrastructure on an affordable housing strategy. It is intended that both strategies work together and seek to combine funding, resources and expertise, as well as working in partnership with the private and non-governmental sector, with support from the Policy & Resources Committee in the implementation of measures to support first time buyers.

4.35 Strategic population policy

This is being co-ordinated by the Policy & Resources Committee, with support from the Committee *for* Home Affairs and the Committee *for* Economic Development.

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4.36 Lifelong learning policy

The Committee *for* Education, Sport & Culture is leading on lifelong learning.

4.37 Long-term infrastructure investment plan

The Policy & Resources Committee is of the view that the Committee *for the* Environment & Infrastructure's emerging infrastructure investment plan is a very important programme of ongoing maintenance, operational efficiency and long-term investment. This work is being led by the Committee *for the* Environment & Infrastructure, supported by the States' Trading Supervisory Board and the Policy & Resources Committee.

4.38 Energy policy

The Committee *for the* Environment & Infrastructure is leading on an over-arching energy policy, which will also inform future work in relation to hydrocarbons policy and which will also incorporate the renewable energy strategy. As set out in paragraphs 5.56 to 5.62, this will be supported by work to assess the potential for green taxes and energy taxes pursuant to States' Resolutions.

As set out in paragraph 7.23, it is recommended that the development of this work is supported by the provision of up to £375,000 from the Transformation and Transition Fund.

4.39 International standards policy

This is ongoing work to meet appropriate global standards of transparency, co-operation, financial stability, risk and equivalence, co-ordinated by the Policy & Resources Committee. This also includes: the work on data protection – meeting the EU General Data Protection Regulation ('GDPR') provisions, a joint approach led by the Committee *for* Home Affairs, supported by the Committee *for* Economic Development and the Policy & Resources Committee; on UN Conventions that support the social policy priorities such as the Elimination of All Forms of Discrimination against Women (CEDAW), the Rights of Persons with Disabilities (CRPD) and the Rights of the Child (UNCRC); and on international maritime standards as well as on securing Guernsey's territorial seas.

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Section 5: Income Proposals

Corporate Income Tax –

Extension of 10% rate to regulated investment management services to individual clients

5.1 Since 2012, the Treasury & Resources Department and now the Policy & Resources Committee have embarked on seeking to widen the coverage of the intermediate - 10% - income tax rate which was originally introduced only for banking activities. Over the last five years, the following changes have been made:

- rate extended to regulated activities of fiduciary business, insurance managers, insurance intermediary business and domestic insurers - £5million;
- rate extended to regulated activities of fund administrators - £3million; and
- rate extended to provision of custody services by a company carrying on banking business - £500,000.

5.2 This widening has resulted in the generation of an additional £8.5million per annum for the Guernsey exchequer.

5.3 In addition, from January 2016, the 20% rate was extended to the importation and/or supply of hydrocarbon oil or gas in Guernsey and to large retail business carried on in Guernsey where the company has a taxable profit of more than £500,000. These two measures are raising an additional £1.5million per annum.

5.4 In April 2015, following consideration of the Personal Tax, Pensions & Benefits Review ('the Joint Report')(Billet d'État IV, 2015), the States resolved, inter alia:

"To direct the Treasury and Resources Department, having due regard for the need to provide a stable platform, maintain business confidence, support and encourage financial services and to retain an internationally acceptable and competitive tax environment for the islands' businesses, to continue to closely monitor the appropriateness of the corporate tax regime, and to report back to the States should it consider any changes are necessary."

5.5 The Policy & Resources Committee, in accordance with the above resolution, continues to monitor the appropriateness of the corporate tax regime and following consultation with industry representatives, **recommends that, with effect from 2018, the provision of regulated investment management services to individual clients (i.e. those services provided by the local private clients investment management community) is brought within the scope of the company intermediate income tax rate (10%).**

5.6 The activities of managing the open and closed ended collective investment schemes and associated vehicles that enable management, acquisition and funding would **not** be within the scope of the proposed extension. This proposal is anticipated to raise net additional revenues of £500,000 per annum, after allowing for the fact that several of the entities are Guernsey owned companies whose beneficial owners would already be paying income tax on any distributions.

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5.7 It is proposed that investment management services are as defined below, with the Policy & Resources Committee authorised to prescribe any matter relating to this definition, including any limitations, conditions, restrictions and qualifications thereon by regulation:

“Investment management individual client services are those services provided by persons licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended (“the POI Law”) for the restricted activity of management, but specifically excluding investment management services provided by the aforementioned licensed persons in connection with collective investment schemes and any entity associated with a collective investment scheme including the financing thereof and any managed account.”

5.8 The Policy & Resources Committee will continue to monitor the appropriateness of the corporate tax regime and will report back to the States as and when it considers any other changes should be made, taking into account international obligations and developments; and the need to maintain Guernsey’s competitive position.

Personal Income Tax

5.9 In April 2015, following consideration of the Joint Report, the States approved a series of measures designed to, *inter alia*, make the income tax and social security system as a whole more progressive.

5.10 In respect of Guernsey’s current personal income tax system:

- There are almost 3,000 low income households in Guernsey who pay no income tax – more than 10% of all households.
- Households identified as below 60% of median income (27% of all households) pay a total of approximately £15million (6%) of personal income taxes.
- Households identified as being in the top 10% pay approximately £80million (32%) of personal income taxes.

5.11 The continued increases in personal income tax allowances and withdrawal of personal allowances for higher earners will target those most able to pay and ensure that the income tax system becomes more progressive.

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5.12 This Budget Report includes proposals for the following measures to further progress the Joint Report resolutions and Policy & Resource Plan objectives:

- A 5% increase in the personal allowance (from £10,000 to £10,500) and the supplementary allowances (paragraph 5.13);
- No increase in the higher personal allowances available to those aged sixty four or over at the commencement of the Year of Charge (“Age Related Allowances”) (paragraph 5.15); and
- Extension of the gradual withdrawal of personal allowances if a person’s income exceeds the annual UEL for Social Security contributions to include other allowances and deductions including mortgage interest relief and pension scheme contributions (paragraphs 5.28 to 5.29).

2017 Personal Income Tax Allowances

5.13 In order to maintain Guernsey’s personal tax competitiveness with other jurisdictions, such as Jersey, the Isle of Man and the UK, **a 5% increase in the personal allowances for those aged under sixty five (to £10,500) and the supplementary allowances is proposed.**

5.14 It is estimated that each 1% increase in personal allowances above the forecast growth in employment tax income results in a decrease in States’ revenues of approximately £850,000. Therefore, as the employment tax income is forecast to grow by 2.7%, the further 2.3% increase will result in a reduction in States’ revenues of approximately £2million.

5.15 However, this will be offset by a real-terms’ reduction of £350,000 in the cost of providing an Age Related Allowance for people aged over sixty five, in accordance with the direction set in the Joint Report, as this allowance is frozen. The provision of an extended allowance for people aged over sixty five is estimated to cost the States £1.5million in 2018. Therefore, the net real-terms cost of the increase in personal allowances is £1.65million per annum.

5.16 The personal allowances for 2018 are recommended to be as follows:

Personal Allowance	£10,500
Age Related Allowance	£950

Married couples or couples within a civil partnership may automatically transfer any unused personal or age related allowance between spouses.

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5.17 The supplementary personal income tax allowances for 2018 are recommended to be as follows^{ij}

Dependent relative	£3,375
Housekeeper	£3,375
Infirm Persons	£3,375
Charge of Children	£7,125

5.18 For a single person to be entitled to Charge of Children Allowance ('COC'), they must be in receipt of Family Allowances. Historically, a single person entitled to claim the dependent relative allowance for a child in higher education ('DRA') was also entitled to COC, however DRA has been closed to new claimants with effect from 1 January 2018.

5.19 Therefore, **it is recommended that the conditions for entitlement to COC are amended such that a single person may continue to claim COC whilst the child is in higher education.**

5.20 Currently, in the year of death, there is some inequity in the right to transfer full unused allowances when one spouse dies. Therefore, to ensure equal treatment, **it is recommended that, on death of either spouse, there is the right to transfer the full unused allowance in the year of death to the surviving spouse.**

Pension Contributions

5.21 An individual may currently make unlimited contributions to pension schemes, with a limit for tax relief set at £50,000 per annum. This was introduced in 2011 in order to encourage greater private pension provision.

5.22 By comparison, the maximum annual limit for tax relief in the UK is £40,000 (reduced from £50,000 in April 2014) with a lifetime allowance of £1million. The Isle of Man has a lifetime limit of £300,000 and Jersey has a maximum annual limit of £50,000.

5.23 Whilst initially the limit was set to align with both Jersey and the UK, it is relevant to note that Guernsey has a different tax base to those jurisdictions, raising 73% of the States' total income from income tax and social insurance contributions (at least 10% more than any comparable island jurisdiction), due to the absence of consumption taxes.

5.24 The Policy & Resources Committee is therefore **recommending that the limit for tax relief on pension contributions is lowered from £50,000 to £35,000** with effect from 1 January 2018. This measure will raise £250,000 per annum of revenues.

ⁱ In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, as approved as part of the 2008 Budget, no new claims have been admitted for the Year of Charge 2009 or will be admitted for any subsequent year of charge. Existing claims, however, will continue to be allowed, so long as they continue to meet the conditions.

^j No new claims will be admitted for Dependent Relative allowance in respect of children in higher education from Year of Charge 2018 onwards.

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5.25 Tax relief on pension contributions is claimed by 9,800 individuals at a total cost of £6.2million per annum. Of those claimants, 87% of individuals contribute between £1-5,000 per annum into their pension. There are currently some 130 individuals that contribute more than £35,000 to their pension, 87% of whom have income greater than £100,000.

Withdrawal of Personal Allowances for Higher Earners

5.26 As directed in the resolutions of the Joint Report and reaffirmed in phase one of the Policy & Resource Plan and the MTFP, the Policy & Resources Committee proposed measures in the 2017 Budget Report as the first phase of the removal of the universality of personal tax allowances.

5.27 The States agreed the recommendation, with effect from 1 January 2017, to gradually withdraw personal allowances at a rate of £1 for every £3 that a person's income exceeds the UEL on Social Security contributions (£138,684 in 2017) which will be prorated in the year of arrival or permanent departure. This measure affected less than 3% of taxpayers (approximately 1,150 individuals) and raises an estimated £2.4million per annum.

5.28 The Policy & Resources Committee **is recommending that, as the second phase of the removal of the universality of personal and other tax allowances, with effect from 1 January 2018, in addition to withdrawing personal allowances, the following allowances and deductions are also withdrawn gradually at a rate of £1 for every £3 that a person's income exceeds the UEL on Social Security contributions (recommended to be £142,896 in 2018):**

- **Dependent Relative Allowance;**
- **Infirm Person's Allowance;**
- **Housekeeper Allowance;**
- **Charge of Children Allowance;**
- **Mortgage Interest Relief.**

5.29 Whilst the Policy & Resources Committee is keen to promote financial independence and encourage greater private pension provision, it wishes to ensure Guernsey's tax system is more progressive in accordance with the resolutions of the States following consideration of the Joint Report and the MTFP. Therefore **it is proposed that the withdrawal of allowances for higher earners is also extended to tax relief on pension contributions with effect from 1 January 2018, albeit each individual may continue to claim a maximum of £1,000 in tax relief.**

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5.30 The following table illustrates the effect of this proposal on a single individual under the age of sixty who is currently entitled to receive only the personal allowance (£10,500 in 2018), and also contributes £10,000 to their personal pension and has a mortgage on which they pay interest of £10,000:

Income	Personal Allowance withdrawn	Mortgage Interest Relief Withdrawn	Retirement Annuity Allowance Withdrawn	Total Allowances / Reliefs Withdrawn	Total Allowances / Reliefs received
£142,896	-	-	-	-	30,500
£160,000	5,701	-	-	5,701	24,799
£180,000	10,500	1,868	-	12,368	18,132
£200,000	10,500	8,534	-	19,034	11,466
£220,000	10,500	10,000	5,201	25,701	4,799
£234,396	10,500	10,000	9,000	29,500	1,000

5.31 It is estimated that this progressive measure will raise an additional £1.4million per annum.

5.32 The third phase of the removal of the universality of personal tax allowances will consider the threshold at which withdrawal commences and whether this should be lowered. The lowering of the threshold to below the UEL would increase the maximum marginal rate (the percentage paid on each additional £1 earned) capturing both income tax and social security contributions, which for self-employed individuals could exceed 37.2%. This is because an individual must pay tax both on the additional money they earn and the allowance they have lost as a result of the increase in their income. The effect of marginal rates on those individuals and any possible impact on Guernsey's competitive position, particularly when compared to other jurisdictions, and the effect they have on the ability to recruit and retain staff, will be considered in the development of the proposals.

5.33 It will be important that the Policy & Resources Committee works closely with the Committee *for* Employment & Social Security on this next phase in order that the interplay between the withdrawal of allowances and the UEL is properly considered and that both Committees can make suitable recommendations to the States as required. This work relates to the review directed following consideration of the Joint Report into ensuring that the treatment of social security contributors in different classes is equitable, paying particular regard to the UEL on contributions, the rates charged for self-employed and non-employed contributions and the definition of income used for assessment.

Income Tax Cap / Stimulation of the Open Market

5.34 The Policy & Resources Committee is aware that crucial to Guernsey's economic success is the need to maintain a tax environment which is both acceptable to the international community and competitive in a global market. During the engagement process for the Personal Tax, Pensions and Benefits Review and subsequently at numerous forums for engaging with industry, it has been cited that not enough is being done to facilitate business activity in Guernsey and that further measures are required to attract high net worth individuals.

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- 5.35 The Policy & Resources Committee has a strong desire to stimulate the open market where the volume and value of sales have fallen in recent years. In particular, there would be benefit to attracting new residents to the island who would pay both direct (income tax) and indirect (document duty, TRP, etc) taxes as well as benefit the economy thorough the money they spend. In addition, the move of high net worth individuals to Guernsey, bringing with them their personal wealth and entrepreneurial expertise, would have a beneficial impact on the economy of the island, beyond their individual tax contributions.
- 5.36 Therefore, in order to attract high net worth individuals and also stimulate the open market, and in line with the lower income tax cap already in place in Alderney, the Committee is now **recommending, from 1 January 2018, the introduction of a lower tax cap of £50,000 for new residents of Guernsey who have paid a minimum of £50,000 in document duty on the purchase of a property on Part A of the open market register.** On current Document Duty rates, this would require the purchase of a property with a minimum value of approximately £1.5million.
- 5.37 It is intended that an individual will be able to claim this cap, for the year they take up permanent residence and then three consecutive years, where their open market property purchase has taken place either within six months prior to, or six months after, their first arrival in Guernsey. This cap would have the same conditions as currently apply to the Income Tax Cap of £220,000. In order to qualify for this lower tax cap, an individual cannot have been resident in Guernsey at any time in the previous three years.
- 5.38 Locate Guernsey is supportive of this proposal as it believes it enhances the attractiveness of Guernsey as a relocation destination, especially when compared to the minimum tax contributions applicable in other jurisdictions; and has the capacity to be very positive for the open market and for the parts of the Guernsey economy which have a stake in this market.

Residential status for tax purposes

- 5.39 An individual can be classed as non-resident, resident only, or solely or principally resident for tax purposes based on the number of days the individual is in the island, and this status determines the income on which they are chargeable to tax, and the allowances they are entitled to.
- 5.40 Currently, an individual shall be treated as principally resident (and so liable to tax on worldwide income) if he takes up permanent residence in Guernsey, or if he is resident in Guernsey, and he is solely or principally resident in the following year of charge. This was done to ensure that new residents who were moving to Guernsey on a permanent basis, were treated as principally resident in the year of their arrival (so long as they were resident in that year), in acknowledgement of their permanent move to the island.

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- 5.41 A resident only^k taxpayer spends less time in Guernsey and generally would have a home elsewhere. If they then become principally resident for a year of charge due to, for example health reasons, they would currently be regarded as principally resident for the previous year (even though they had not taken up permanent residence in that year), thus changing the income they are chargeable on.
- 5.42 The Guernsey Society of Chartered and Certified Accountants ('GSCCA') has advised that this has led to some high net worth individuals, who have been long term resident only individuals, deciding not to become permanently resident in Guernsey (and consequently pay more tax in subsequent years) because of the loss of their resident only status, and the ability to pay the standard charge, for the preceding year.
- 5.43 The Policy & Resources Committee therefore **recommends that the Income Tax Law is amended such that a resident only individual, who has been resident only for more than one year, shall not be regarded as principally resident, if they subsequently become principally resident in the following year.** This is considered to be a technical change which will ensure that Guernsey's tax regime is competitive with other jurisdictions in order to attract and retain high net worth individuals. This amendment will have a positive effect on income tax collected (and the wider economy), as it is expected to encourage resident only individuals to spend more days in Guernsey.

Revocable settlements

- 5.44 Where an individual puts income or property into a settlement, of which they may benefit, it is considered a revocable settlement to which anti-avoidance provisions apply. The consequence of this is that the income of the settlement is deemed to be the income of the settlor, including income of any companies or other entities that are held or under the control of the trustees of the settlement (whether those funds are distributed by the company/entity or not).
- 5.45 Following the repeal of the deemed distribution provisions with effect from 1 January 2013, there is now a difference in tax treatment of the income in a company held directly by a Guernsey resident and where a company is held or under the control of the trustees of a revocable settlement.

^k A resident only individual can elect to restrict his annual Guernsey tax liability on overseas income to £30,000, by electing to pay the Standard Charge.

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- 5.46 As it is understood that this may be dissuading some high net worth individuals from relocating to Guernsey, which is a policy workstream prioritised by the Committee *for Economic Development*, **it is recommended that the Income Tax Law is amended such that a settlor is only liable to tax on distributions from a company or other entity held or under the control of the trustees of a revocable settlement, rather than the income which arises to such a company or entity**¹. The Director of Income Tax would, however, retain discretionary powers to invoke avoidance provisions where necessary^m. Further clarification will be set out in a Statement of Practice, which will be prepared in conjunction with the GSCCA.
- 5.47 This is considered to be a technical change to ensure taxation of revocable settlements reflects the current taxation of companies, which will ensure that Guernsey's regime is consistent with other jurisdictions in order to be attractive to high net worth individuals who are considering relocating to Guernsey. This amendment will have a minimal effect on income tax collected, as the same tax position could be achieved through dissolution of the trust.

Independent Taxation

- 5.48 The Policy & Resources Committee identified progressing a move to independent taxation as a policy priority in the MTFP (Billet d'État XII, 2017, p106), considering the current system is outdated and inequitable and that people should be treated independently for tax purposes and assessed in their own right.
- 5.49 Under the current tax system a married couple are assessed jointly, with the husband (eldest spouse in a same sex marriage/civil partnership) responsible for submitting the tax return, disclosing income for themselves and their spouse, and receive a married person's allowance irrespective of whether one or both spouses receive income. Co-habitees who are in receipt of family allowance can elect to transfer unused personal allowances between partners.
- 5.50 This system discriminates against women and the youngest spouse in a same sex marriage or civil partnership who are not treated as individuals under the tax system unless they make a separate election to be able to have their income assessed separately. It also treats those unmarried co-habiting couples who do not have children differently, as they have no entitlement to transfer any unused personal allowance. There is also a difference in treatment between opposite sex and same sex marriages/civil partnerships, as for the latter it is the eldest spouse who assumes responsibility for the couple's tax affairs.

¹ Deputy St Pier, having declared an interest, withdrew from the meeting at which this matter was discussed and did not participate in the discussion or the decision. Deputy St Pier believes that he may benefit from the recommendation which, consequentially, he is unable to support.

^m The Director of Income Tax would retain discretionary powers to invoke avoidance provisions that would deem the settlor taxable on the income arising to a company or other entity held or under the control of the trustees of a revocable settlement, where the effect of a transaction or series of transactions involving a revocable settlement is the avoidance, reduction or deferral of the liability of any person (as might be the case, for example, where a transaction between the trustees and an underlying company would have triggered an income tax liability if the transaction had occurred between the company and the settlor and if the trust had not existed).

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5.51 The Policy & Resources Committee is firmly of the view that this approach is no longer appropriate and the income tax regime should be updated to remove this unfairness. This is very much in line with the desired outcomes of inclusion and equality of opportunity set out in this Assembly's Policy & Resource Plan.

5.52 The Policy & Resources Committee recognises that the States considered and rejected measures in the last term which would have introduced independent taxation with the removal of the transferability of allowances. There was concern expressed at the impact that such a change would have on the financial position of married persons should transferability of allowances cease, particularly where one spouse is looking after dependents. Having regard to these concerns, **the Committee is therefore proposing the introduction of independent taxation which will mirror the current position on the ability to transfer unused allowances and, therefore, overall entitlement to allowances will not change.**

5.53 Such a change would also align income tax with social security contributions which already have gender neutrality in their legislation, aligning treatment of those who are married or in a civil partnership. This will also be an enabler for progressing and realising greater benefits through the Contributions and Tax Services programme ('CATS'). The change will also assist with the administration of the withdrawal of allowances for higher earners.

5.54 For practical reasons, including the timing of the planned replacement of the existing IT system, this would be introduced in two phases:

- **Phase 1 – with effect from 1 January 2018, each individual's income and entitlement to allowances are considered separately, with full transferability of unused allowances mirroring the current position and continued joint assessment for married couples/civil partnerships.** To achieve this the Budget Schedules introduce the concept of a "personal allowance" for each individual (replacing the current married person's allowance and spouse's earned income allowance), with a separate "age related allowance" for those over 65. *There will be no financial impact of this proposal, as the ability to transfer unused allowances will mirror the current position, therefore overall entitlement to allowances will not change.*
- **Phase 2 – introduction of independent taxation, albeit retaining full transferability of unused allowances mirroring the current position.** This would remove joint taxation for married couples, so each spouse would be responsible for their own tax affairs and required to submit their own return. *Again, there will be no financial impact of this proposal, as the ability to transfer unused allowances will mirror the current position, therefore overall entitlement to allowances will not change.*

It is intended that the timing for phase 2 will be in line with the introduction of a new IT system through CATS, for which the detailed design will shortly commence, hence certainty over the direction of travel is required. This will also ensure that there is sufficient time for the income tax service to make the necessary administrative and legislative amendments, identifying and communicating the changes to those impacted, enabling time for islanders to adjust to the changes.

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5.55 It is inevitable that the implementation of phase 2 would increase the number of individuals in the tax system by approximately 13,000. However, the removal of the need to alter people's tax affairs on marriage and separation, and the receipt of interest information directly from banks, should mean that a substantial proportion of taxpayers may be relieved from the need to complete tax returns each year. In addition, it is expected that many of those who are still required to complete tax returns will be automatically assessed.

Other Taxes and Duties

Environmental Taxes

5.56 In April 2015, following consideration of The Joint Report, the States resolved, inter alia:

"To direct the Treasury and Resources Department, after consultation with the Environment Department, Social Security Department, Commerce and Employment Department and Policy Council as appropriate, to lay before the States no later than March 2016 proposals to diversify the tax base by introducing or increasing environmental taxes, and to agree that a comprehensive energy efficiency programme to assist in mitigating any possible regressive effects of such taxes on low income households should form an integral part of such diversification."

5.57 During 2016, an initial piece of work was undertaken that considered different forms of environmental taxation, including references to the approaches taken in Jersey, the UK, the EU and other jurisdictions. The report, which identifies four categories of environmental taxation: energy; transport; pollution and resources, identifies the key benefits and significant challenges of each option and how they could be applied in Guernsey.

5.58 There are also a number of environmental taxes that are already charged in Guernsey including excise duty on motor fuel and First Registration Duty (which is based on a motor vehicle's carbon dioxide emission levels). The imminent introduction of volume-based waste disposal charges are another major development in environmental taxes. However, there are still further areas to investigate with regards to environmental taxes and the related areas of sustainable energy and energy efficiency.

5.59 As part of the Policy & Resource Plan, the development of an Energy Plan by the Committee *for the Environment & Infrastructure* was prioritised and it will *'afford the opportunity to promote energy efficiency and, by identifying the best way to ensure resilience and security of supply, will support the social, environmental and economic priorities of the States'*. The Policy & Resources Committee has recognised the importance of this work, which is one of the 23 prioritised policies (paragraph 4.38) in the finalised Policy & Resource Plan and the need to appropriately resource the workstream by allocating specific funding to it (paragraph 7.23).

5.60 Environmental and energy related taxes will be considered as part of the development of the Energy Plan so as to explore ways to help ensure that we have a sustainable tax base that is supportive of the Island's approach to energy.

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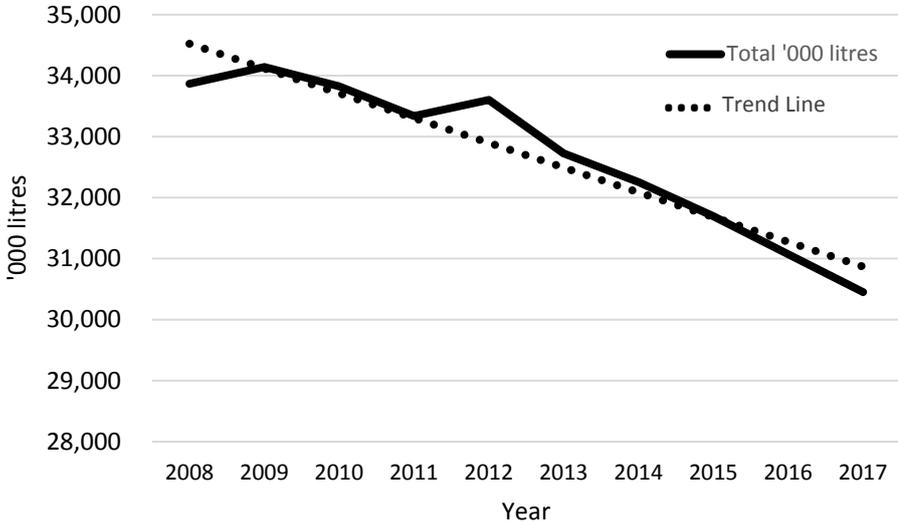
5.61 During the course of the June 2017 States' debate on the MTFP, the following amendment (number 3) was approved;

- “a) To instruct the Policy & Resources Committee, in consultation with the Committee for the Environment & Infrastructure, to consider and review the best way of raising revenues from motoring in future, taking into account the ongoing reduction in fuel sales.*
- b) To agree that the focus of the review shall be on how to achieve the maximum sustainability of this source of States’ revenue rather than on increasing the total amount of taxation levied on motoring in Guernsey.*
- c) To instruct the Policy & Resources Committee to report back with its conclusions in sufficient time for any proposals flowing from the review to be included in the budget for 2019.”*

5.62 The Policy & Resources Committee intends to work in partnership with the Committee for the Environment & Infrastructure to give these motoring-related matters the required investigation, analysis and consideration ahead of reporting back as part of the 2019 Budget Report.

Excise Duty on Motor Fuel

5.63 As shown in the graph below, the volume of motor fuel used is declining from nearly 34million litres in 2008 by 10% to an expected 30.5million litres in 2017:



5.64 This is having an adverse effect on excise duty income meaning that percentage increases in duty rates are not resulting in similar percentage increases in income. It is understood that the reasons for this fall in volume are increased efficiency of engines and changes in driving habits. Duty income was budgeted to be £19.4million in 2017 and the expected outturn is slightly lower at £19.3million. An increase in line with inflation would raise an additional £525,000 per annum. An annual 2% fall in volumes reduces income by £400,000 per annum in real terms.

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5.65 Based on the inflation forecast of 2.7%, **it is recommendedⁿ that excise duty on motor fuel is increased by 3.5p per litre to 67p per litre** in order to compensate for the fall in volumes of motor fuel being consumed and maintain the real value of total income from excise duty on motor fuel.

5.66 The following table compares the estimated cost of taxes, duties and fees charged in respect of motoring in Guernsey, Jersey and the United Kingdom (to ensure a like for like comparison, they are based on the same average car and the estimated average usage of a car in Guernsey):

	Guernsey £	Jersey £	United Kingdom £
Annual:			
Fuel Duty	584	419	533
Registration	-	-	140
Consumption tax on fuel and insurance	-	46	178
Parking and MOT	-	208	102
TOTAL ANNUAL COSTS	584	673	953
One off costs:			
First registration	150	153	160
Consumption tax on purchase	-	810	2,833
TOTAL ONE OFF COSTS	150	963	2,993

5.67 This shows that whilst fuel duty in Guernsey is higher, this is more than offset by the absence of other taxes on annual costs; and the one-off tax costs incurred on purchase are a small fraction of those incurred in Jersey or the United Kingdom.

5.68 Diesel for marine (and other non-road) use would remain exempt from duty and the concessionary rate of duty on petrol for marine use would be 43.9p per litre.

5.69 In the 2017 Budget Report, the Policy & Resources Committee highlighted the shrinking tax base from motor fuel and that, in order to provide revenue stability, consideration should be given to whether the scope of fuel oils subject to excise duty should be extended. The Committee prepared a consultation on this matter in early 2017, but decided against proceeding with it at this time. Having considered the matter carefully, the Committee is of the opinion that it would not be appropriate to look at the excise duty chargeable in isolation from the environmental and energy policies of the States.

5.70 Therefore, it is the desire of the Policy & Resources Committee that the question of scope of duty on all fuel oils should be looked at as part of the work on the energy plan being led by the Committee *for the* Environment & Infrastructure to ensure that not only is the tax base sustainable but that it also supports the States' energy policy.

ⁿ Deputy Trott does not support this recommendation in respect of the duty on gas oil (diesel).

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Excise Duty on Tobacco

5.71 In April 2015, the States considered a States Report from the Health and Social Services Department entitled “*Guernsey and Alderney Tobacco Control Strategy 2015 – 2020*” (Billet d’État VII, 2015) and resolved, inter alia:

“To increase the rate of excise duty on cigarettes at a minimum of the Retail Price Index(X) plus 5% annually for the five years 2016 to 2020; and

To increase the rate of excise duty on other tobacco products at a minimum of Retail Price Index (X) plus 7.5% annually for the five years 2016 – 2020, subject to the rate of excise duty on each tobacco product not exceeding the rate of excise duty on cigarettes;”

5.72 Therefore, as the increase in the Guernsey RPIX as at June 2017 is 2.8%, the Policy & Resources Committee is recommending **an increase in excise duty in respect of cigarettes of 7.8% and for all other tobacco products of 10.3%** as set out in The Excise Duties (Budget) Ordinance, 2017 (starting on page 79).

5.73 The excise duty on an average packet of 20 cigarettes would increase from £4.63 to £4.99^o There is strong world-wide evidence that the demand for tobacco products is price-sensitive. Furthermore, the continuing real-terms’ increases in the duty on tobacco are considered to be a powerful motivator for smokers to quit and to deter young people from starting smoking. It should be noted, though, that although decreasing import volumes indicate that less tobacco is being consumed, such indication may be countered by an increase in the amount of tobacco products being consumed on which no duty has been paid.

5.74 It is estimated that the income from Excise Duty on Tobacco will be £7.65million in 2017 and £7.85million in 2018 which includes allowance for a 5% volume decrease in addition to the rate rises. Therefore, it is anticipated that the budget measure will raise an additional £200,000 which maintains the income in real-terms.

Excise Duty on Alcohol

5.75 The “Drug & Alcohol Strategy Action Plan 2015-2020” which was considered by the States in January 2015 (Billet d’État I, 2015) included the aim “*To reduce the availability of cheap and heavily discounted alcohol and irresponsible promotions*” which would be addressed, inter alia, through “*increases [in] duty on alcohol products year or year*”.

5.76 The Policy & Resources Committee has written to the Committee for Health & Social Care to advise it would welcome clear direction on the approach to be taken in setting rates of excise duty on alcohol in order to achieve specific policy objectives, along the lines of that currently within the Tobacco Control Strategy. In the absence of such specific guidance, the Committee is, in addition to maintaining the real value of these duties, recommending, for fiscal reasons, a real terms’ increase of 2.3%.

5.77 Therefore, it is recommended that the **increase in the duties levied on alcohol is 5%** as set out in The Excise Duties (Budget) Ordinance, 2017 (starting on page 79). This is estimated to raise an additional £650,000 per annum (£300,000 real-terms’ increase). The 2018 budgeted income from excise duty on alcohol is £13.5million.

^o Compared to £5.75 (plus 5% GST) in Jersey and a minimum of £5.37 (plus 20% VAT) in the UK.

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5.78 The effect of these changes on the most popular products is detailed below:

Description of Goods	Present 2017 Duty	Increase in Duty	Proposed 2018 Duty
Beer / Cider (2.8% - 4.9% ABV) – small independent brewery – 1 pint	26.70p	1.13p	27.83p
Beer / Cider (2.8% - 4.9% ABV) - 1 pint	42.60p	2.27p	44.87p
Beer / Cider (4.9% - 7.5% ABV) - 1 pint	53.39p	2.84p	56.23p
Spirits (37.5% ABV) – 25mls	31.84p	1.59p	33.43p
Spirits (37.5% ABV) – bottle (1 litre)	£12.74	63p	£13.37
Light wine (5.5% to 15% volume) – 125mls	29.88p	1.50p	31.38p
Light wine (5.5% to 15% volume) – bottle (750mls)	£1.79	9p	£1.88

Implementation of Excise Duty Budget Proposals

5.79 Under its existing powers, the Policy & Resources Committee will make an Order bringing the recommended changes in the rates of excise duty into effect on the date of publication of the Billet d’État containing this Report. The Order will cease to have effect at the conclusion of the States’ Budget meeting and the Committee accordingly **recommends the States to approve by Ordinance that, from that date, the rates of excise duty shall be varied as set out in this Report.** These arrangements are the same as in previous years.

Sugar Tax

5.80 In March 2016 (Billet d’État VI, 2016) the States considered a Policy Letter from the Health and Social Services Department entitled “Guernsey and Alderney Healthy Weight Strategy 2016-2023” and, inter alia, resolved “*To direct the Health and Social Services Department (and its successor Committee) to work with the Home Department (the Guernsey Border Agency) and Treasury and Resources Department (and their successor Committees), to investigate the potential for implementation and administration of a tax on sugar sweetened beverages.*”

5.81 The main body of the Policy Letter included: “*This is not likely to be a policy that is implemented early, but may be something that is required if sufficient progress is not being made through the other strands of the Strategy. Government should, and will, prioritise educational and behavioural initiatives first, and only look to fiscal measures as a last stop option.*”

5.82 In May 2016, a working group at officer level was formed with representatives from Public Health, Guernsey Border Agency and Treasury. Subsequently, the group expanded its membership to include relevant officers from the States of Jersey to enable consistency of approach and achieve the benefits of joint-working. This group has agreed to hold discussions with the UK Government concerning the potential implications for the Channel Islands of the UK’s “*Sugar Tax Levy*” which is scheduled to be introduced from April and will directly target UK based producers and importers of soft drinks.

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5.83 The working group will continue to monitor the developments in the UK, including assessing the impact of the introduction of the UK’s “Sugar Tax Levy”, and research the practicalities and effectiveness of the introduction of a similar tax on sugar sweetened beverages in Guernsey and Alderney should it be required if other educational and behavioural initiatives have not been sufficient to achieve the Strategy’s objectives. An update on the progress of the working group will be included in the 2019 Budget Report.

Tax on Real Property (TRP)

5.84 In April 2015, following consideration of the Joint Report, the States resolved:

“To direct that, as part of the annual Budget Report, the Treasury and Resources Department increases the rates of domestic Tax on Real Property by no more than 7.5% per annum in real-terms between 2016 and 2025.”

5.85 The 2017 estimate for income from Tax on Real Property is £21.2million (2016: £20million) of which £14.8million relates to commercial TRP (2016: £14.2million) and £6.4million relates to domestic TRP and land (2016: £5.8million).

5.86 It is **recommended that domestic and land tariffs are increased by 10.2%** (being the inflation projection of 2.7% plus 7.5% in line with the April 2015 States’ resolution) as set out in The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2017 (starting on page 84). This would raise an additional £650,000 per annum (£500,000 in real terms).

5.87 The following table illustrates the effect of the increase in TRP rates on different domestic properties:

TRP of Property	Current TRP Annual	Increase in TRP Annual	Proposed TRP Annual
75	£103.50	£10.50	£114.00
150	£207.00	£21.00	£228.00
225	£310.50	£31.50	£342.00
300	£414.00	£42.00	£456.00
375	£517.50	£53.50	£570.00

Increased business contribution

5.88 Following consideration of the 2017 Budget Report (Billet d’État XXVI, 2016), the States resolved: *“To endorse the intention of the Policy & Resources Committee to investigate options for the States of Guernsey to receive greater revenue from those businesses that might benefit from public investment including, but not limited to, consideration of the appropriate level and scope of General Revenue income generated from telecommunications and un-regulated professional services businesses and partnerships, such as accountants and advocates, and report back in the Budget Report for 2018.”*

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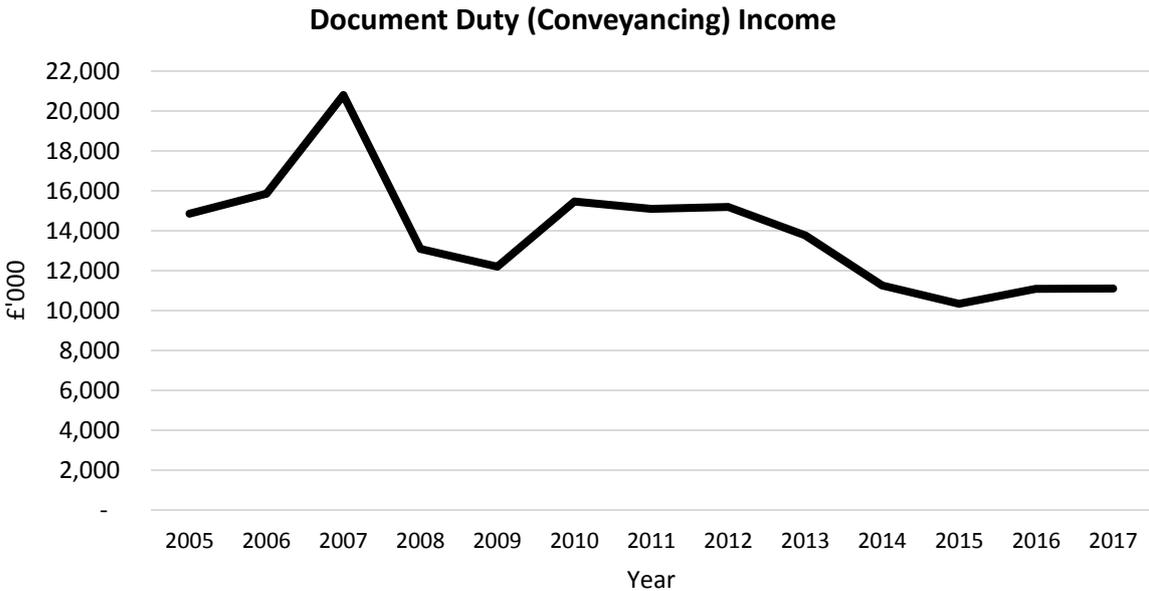
- 5.89 Therefore, the Policy & Resources Committee is **recommending the introduction of a new TRP commercial property category entitled “Office and ancillary accommodation (legal services)”** with legal services being defined as *“real property owned or occupied for the purpose of carrying on the business of a lawyer, notary or other independent legal professional but not including legal professionals employed by public authorities or undertakings which do not by way of business provide legal services to third parties.”* It is proposed that the 2018 TRP rate is set at the same level as that for Office and ancillary accommodation (regulated finance industries). As these properties are currently classified as Office and ancillary accommodation (other than regulated finance industries), this will result in rates charged to these businesses increasing by 200% and there will be an ongoing increase in income of approximately £400,000 per annum.
- 5.90 In line with the resolution, the Policy & Resources Committee will consider extending the scope of this new TRP category to other professional services businesses and will report back in the 2019 Budget Report.
- 5.91 **It is recommended that commercial tariffs are increased by 5%** (being the inflation projection of 2.7% and a real terms’ increase of 2.3%) as set out in The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2017 (starting on page 84). It is estimated that this will raise approximately a further additional £750,000 per annum (£350,000 in real terms).

Document Duty

- 5.92 In April 2015, following consideration of the Joint Report, the States resolved:
- “To direct the Treasury and Resources Department to review the structure of Document Duty as part of the ongoing budgetary process.”*
- 5.93 As part of the 2017 Budget Report, the States approved the replacement of the existing ‘slab’ system of Document Duty whereby as the property value increases a larger percentage of duty is charged on its entire value. From 1 January 2017, this was replaced with a graduated system of Document Duty whereby progressively higher rates only apply to the proportion of the property value which falls in each band.
- 5.94 The revised Document Duty rates were calculated to be revenue neutral and, therefore, assuming no change to the number and value of transactions, would raise the same amount of Document Duty income as under the previous ‘slab’ system. Those benefitting most from the revision are conveyances at or around the value of average house prices - a transaction at the mid-2016 median value of £435,000 would pay £1,950 less in Document Duty (£11,100 compared to £13,050). The ‘break-even point’ where the same amount of Document Duty is paid under the graduated system as under the previous ‘slab’ system is £800,000. All transactions below this value pay less Document Duty and the Policy & Resources Committee was of the view that reducing the transactions costs for low and middle value properties would provide a stimulus to the housing market and further encourage the recovery.

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- 5.95 There has been a significant increase in the volume of transactions in 2017 compared to 2016, however these have been predominantly in the lower value bandings resulting in an expected shortfall of some £1.7million on the 2017 budget. However, there has recently been a single very high value conveyance which has generated Document Duty of £1.9million resulting in the Probable Outturn being in line with the original budget estimate in 2017.
- 5.96 Modelling was performed to calculate the effect on Document Duty receipts as a result of the move to the new regime which indicated that, if the previous regime had still been in place, receipts for the first half of 2017 would have been £200,000 higher.
- 5.97 In respect of 2018, the budget estimate has been set at £13.3million which is maintaining the anticipated 2017 level (excluding the exceptional receipt). The estimate includes additional anticipated receipts of £300,000 for a revision to the standard percentage of a conveyance which is classified as personalty and hence does not attract Document Duty.
- 5.98 The following graph details the amount of Document Duty received over the last 12 years and highlights the volatility of this income source which is very sensitive to the health of the property market:



- 5.99 The Committee will continue to monitor the effect of the revision to the Document Duty regime and, if appropriate, will recommend further changes to Document Duty rates and thresholds in future Budget Reports. Furthermore, the Committee will continue to review whether the current structure of Document Duty is appropriate and will monitor changes in other jurisdictions and consider whether they might be appropriate for further investigation for possible introduction in Guernsey.
- 5.100 In respect of the introduction of a Share Transfer Duty regime in Guernsey which taxes sales of interests in entities that own either commercial or domestic real property in Guernsey at the same rate as applied under the Document Duty Law for standard conveyances, the Committee is pleased to report that it is awaiting Privy Council approval of the legislation and anticipates that the new regime will be in place shortly.

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Section 6: Expenditure Proposals

Costing, Benchmarking and Priority-Based Budget Setting Reviews

- 6.1 As agreed in the 2016 Budget Report, the Policy & Resources Committee commissioned, funded from the Budget Reserve, projects to undertake detailed costing analysis of the current services provided by the Committees *for* Education, Sport & Culture and Home Affairs, benchmarked to comparable models in other jurisdictions and then used to inform efficient priority based budgets. The contract for these assessments was awarded to PricewaterhouseCoopers (“PwC”) who worked in a collaborative manner with those responsible for service provision through the project. The final reports were received in June 2017 which contained a series of short term ‘method change’ efficiencies and longer term transformation opportunities to be progressed and delivered.
- 6.2 Method changes are where an assessment is made of how a service is delivered; followed by the identification of productivity or efficiency savings which will not impact on the level of service or risk currently accepted, for example, changes to the structure of a team; accommodation changes; or technology enablement. These allow the service to be delivered at a lower cost but with no impact on the outcome or deliverables. The PwC report identified method changes with ongoing savings of £530,000 for the Committee *for* Education, Sport & Culture and £970,000 for the Committee *for* Home Affairs (of which some £156,000 has already been or is planned to be delivered).
- 6.3 These reports also identified a number of specific opportunities for further consideration by the Committees, many of which rely on breaking down structures currently in place in order to do things differently to achieve longer term objectives. These include opportunities such as the merger of the Fire and Ambulance Services; the scope for closer working or merger between the Guernsey Training Agency (‘GTA’), College of Further Education and the Institute of Health and Social Care Studies; the efficiency of our secondary schools; possible improvements to the apprenticeship scheme run at the College of Further Education; and different ways of managing offenders that may reduce overall cost and provide wider benefits.
- 6.4 As these opportunities have potential to generate longer term service efficiencies and significant expenditure reductions, it is important that they are comprehensively investigated, including the examination of costs and benefits, as soon as possible. Therefore, **it is recommended that the Committees *for* Education, Sport & Culture and Home Affairs are directed to report back in the June 2018 Policy & Resource Plan update policy letter with a detailed assessment of each opportunity identified in the PwC Report along with an implementation plan including anticipated costs, benefits and timeline for delivery.**

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Cash Limits

6.5 The Committee is recommending that total Cash Limits for 2018 are set at £377.8million calculated as follows:

	Note	£m
2017 Cash Limits		362.5
Less allowance for late delivery of FTP ^p Targets	1	(0.5)
Reinstatement of grant from to the Health Service Fund	2	<u>4.7</u>
		366.7
Reflate 2017 Cash Limits using June 2017 RPIX (2.8%)		10.3
2018 'Base' Cash Limits		377.0
Allowance for late delivery of FTP Targets	1	0.2
No grant to the Health Service Fund	2	(4.9)
Less expenditure reductions	3	(5.5)
Implementation of income support scheme (£6.7million transferred from income ^q plus £2.5million additional expenditure)	4	9.2
Allowance for expenditure pressures	5	1.5
Add transfer from routine capital	6	0.3
2018 Recommended Cash Limits		377.8

6.6 **Note 1** - The Committee *for* Education, Sport & Culture's recommended 2018 Cash Limit includes £225,000 (2017: £500,000) whereby FTP benefits will not be received until 2019 including in respect of the final year of implementation of changes to the grants to the Colleges agreed in 2011.

6.7 **Note 2** – In 2016, additional budget, in excess of the Fiscal Policy Framework target, of £8.2million was made available to the Health and Social Services Department on a temporary basis. This was in order to fund the existing service model while whole system transformation was being designed and tactical, productivity and efficiency savings being planned and delivered. Due to significant political and civil service changes experienced in 2016 and a consequent delay in initiating the transformation programme, a similar amount was required in 2017. In 2016, the States agreed that no grant be made from General Revenue to the Health Service Fund in 2017 in recognition of the funding challenges being faced in the respect of health and social care services and while work was underway to examine the future funding of health and social care.

^p Targets set under the Financial Transformation Programme ('FTP') between 2010 and 2014

^q Under the rent rebate scheme, the value of rent rebates granted is offset against the income from gross rental receipts in respect of States Houses. Under the income support scheme, income and expenditure will both increase by £6.7million in 2018 and £13.5million from 2019 on an ongoing basis.

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- 6.8 As set out in paragraph 6.43, the Committee *for* Health & Social Care has reduced its 2018 budget requirement by £3.6million, meaning that the additional funding allocated has decreased to £4.6million.
- 6.9 Therefore, since work remains ongoing between the Committees to consider the future model for funding the services currently provided from the Health Service Fund (as set out in paragraphs 7.36 to 7.41), no grant will be made from General Revenue to the Health Service Fund in 2018. The grant is calculated at 12% of the contributions collected for that Fund and would have totalled £4.9million in 2018.
- 6.10 This recommendation is being made given that, according to the most recent actuarial valuation of the Fund, the Health Service Fund contributions are above the break-even level with the balance of the Fund expected to grow from 2.6 times cover in 2014 to 3.3 times cover at the end of the projection period in 2030. This is in contrast to the Guernsey Insurance Fund and the Long Term Care Fund which expected to spend in excess of the contributions collected under those schemes over the valuation period.
- 6.11 The investment return achieved by the Health Service Fund in 2016 was 12.1% (£12million) which is 7.1% (£7million) in excess of the target rate of return which offsets the lack of grant funding.
- 6.12 **Note 3** – As set in the MTFP, expenditure reductions of £5.5million have been applied to 2018 Cash Limits comprising:
- £3.1million arising from a 1% budget reduction applied to all Non-Formula Led Cash Limits before allowing for any inflationary/general cost pressures or service developments. No reduction has been applied to Formula Led budgets as, once the rates have been set, there is no scope to influence expenditure levels; and
 - £2.4million as a further budget reduction by the Committee *for* Health & Social Care.
- 6.13 Of the 1% budget reductions of £3.1million before allowing for any cost pressures, £1.6million has been identified and removed from budgets and £1.5million is yet to be specifically identified. Committees are actively working to develop initiatives for delivery of these balances and finalise plans for their implementation. In addition, Committees are yet to deliver £2.4million of the budget reductions applied in 2017. Further, the Committee *for* Education, Sport & Culture committed to meeting the costs of pre-school education partly through the reprioritisation of existing resources to the value of £560,000 and this has yet to be delivered although the pre-school service has been in place since January 2017.
- 6.14 The MTFP recognised that setting a Committee based savings target, calculated as a fixed percentage of each cash limit, is a crude way of applying targets and perpetuates the ‘siloes’ approach to delivering savings and that therefore, only a small universal savings target of between 0.5% and 1% per annum would be included. Such a universal target recognises the need for all service areas to continue to deliver incremental improvements in efficiency and value for money in areas which might be outside the scope of any wider shared initiatives.

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6.15 There is not a 2018 budget reduction in respect of those wider initiatives, as explained in paragraph 1.19, albeit there are projects ongoing in the areas of property rationalisation and procurement which will realise savings in 2018. Any savings realised from such initiatives in 2018 will result in an improved financial position for that year and contribute towards achievement of the expenditure reductions to be applied in 2019 and subsequent years.

6.16 **Note 4** – Allowance has been made for the implementation of benefit reform with effect from July 2018 (it is understood that the Committee *for* Employment & Social Security will be presenting a policy letter in early 2018 to request formal approval for the introduction of the income support scheme and to set rates, etc in line with the direction previously approved by the States).

The net additional cost in 2018 is anticipated to be £2.5million with an increase in social housing rental income received of £6.7million (due to the ending of the rent rebate scheme) being offset by additional expenditure of £9.2million. This amount is made up of the expected ongoing cost of the new income support benefits of £8.6million, transitional benefit costs of £400,000 and £200,000 of administration costs. This is £500,000 more than included in the MTFP due to the model being updated to include proposed benefit rates and limitations and refined to ensure it incorporates updated estimates for all households potentially impacted by the introduction of the scheme.

6.17 **Note 5** – As set out in the MTFP, allowance of £1.5million has been included for general expenditure pressures – this has been allocated within individual Committees' recommended Cash Limits or held within the Budget Reserve.

6.18 **Note 6** – The funding agreed by the States in July 2015 (Billet d'État XIV, 2015) to implement the Integrated On Island Transport Strategy covers both revenue and routine capital expenditure; and, depending on which initiatives are planned to be progressed, the specific amounts allocated to these budgetary headings will vary between years.

Committee Cash Limits

6.19 The recommended Cash Limits for 2018 include adjustments in respect of the following:

- Information Systems & Services - £7.3million to the corporate services element of the Policy & Resources Committee's budget through the consolidation of budgets from all other Committees;
- The transfer of responsibility for the Drug & Alcohol Strategy expenditure budget (£642,000) from the Committee *for* Home Affairs to the Committee *for* Health & Social Care;
- A small number of other low value inter-Committee transfers where responsibility for a service has transferred between States' Committees;
- Allowance for all settled pay awards (£450,000);
- An inflation allowance on Non-Formula Led non-pay costs for certain specific contracts and utilities' costs (£1.1million);
- A small number of cyclical, one-off and other low value items.

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6.20 Within their agreed Cash Limits, Committees have to consider very carefully their own priorities within their mandated responsibilities. The Policy & Resources Committee does not suggest cash limits for particular services and does not seek to 'micro-manage' individual Committees' budgets, as this is the responsibility of the Committees concerned. Whilst there is a limited amount of funding available within the Budget Reserve for unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures; it is the expectation that Committees should first have comprehensively reviewed their existing budgets in order to reprioritise and accommodate any additional expenditure.

6.21 The recommended Cash Limits for 2018 are detailed in the following table. (Full line by line details of the 2018 budgets are included as Appendix III):

	Note	2018 Revenue Cash Limit £'000s	2017 Restated Cash Limit £'000
Policy & Resources:	1		
Corporate Services		26,165	25,734
Core and Other Services		<u>9,345</u>	<u>8,787</u>
		35,510	34,5211
Economic Development		6,235	6,295
Education, Sport & Culture	2	73,700	74,174
Timing of delivery of FTP Benefits		<u>225</u>	<u>500</u>
		73,925	74,674
Employment & Social Security	3	11,090	11,000
Environment & Infrastructure	4	11,975	11,797
Health & Social Care	5	115,450	118,528
Home Affairs	6	29,825	29,773
Scrutiny Management	7	547	553
Development & Planning		1,340	1,355
Overseas Aid & Development	8	2,960	2,915
States' Trading Supervisory		1,490	1,469
Royal Court	9	2,535	2,414
Law Officers		4,475	4,489
States of Alderney		1,840	1,830
TOTAL NON-FORMULA LED		299,197	301,613
Policy & Resources – Formula Led		1,900	1,900
Employment & Social Security			
Formula Led	3	65,020	54,040
TOTAL FORMULA LED		66,920	55,940
BUDGET RESERVE		11,683	4,947
		377,800	362,500

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- 6.22 **Note 1** – Policy & Resources Committee - In respect of the Corporate Services which are provided to and on behalf of the entire organisation provided (Assurance and Risk; Communications; Finance; Human Resources; Information Systems & Services; Insurance; Procurement, Shared Services Centre and Tribunals), the recommended Cash Limit includes an inflation allowance of £130,000 for IT contracts. In addition, ongoing funding of £400,000 has been included in order for the States of Guernsey to meet their obligations under the GDPR and £300,000 for increased software licence charges in respect of the electronic healthcare record system.
- 6.23 In respect of the Committee's Core Services (External Affairs; Policy; Treasury; and Income Tax) and other responsibilities, the recommended cash limit includes one-off funding of £220,000 for managing BREXIT; £80,000 to host the British-Irish Council Summit meeting; and £180,000 for the cyclical Household Expenditure Survey.
- 6.24 Overall, the Committee has been allocated a 1% budget reduction of £345,000.
- 6.25 **Note 2** – Committee *for* Education, Sport & Culture – The recommended Cash Limit of £73.9million includes an inflation allowance of £165,000 for specific contracts and utilities expenditure and £225,000 to recognise of the timing of delivery of FTP benefits. The Committee has been allocated a 1% budget reduction of £745,000.
- 6.26 The Committee for Education, Sport & Culture has submitted a budget request of £77.8million which is £3.9million in excess of the recommended Cash Limit comprising:
- Balance of £2.1million of the £2.3million 3% budget reduction allocated to the Committee's 2017 Cash Limit;
 - 1% reduction of £745,000 applied to the Committee's 2018 Cash Limit;
 - Pre-School funding of £516,000 which the Committee committed to provide by reprioritisation of its existing budget; and
 - 'Business as usual' expenditure pressures of £500,000.

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6.27 The PwC review identified costed opportunities for short term expenditure reduction of £310,000 in 2018 and a further £222,000 in 2019. In addition, a number of areas which the Committee *for* Education, Sport & Culture could progress in order to potentially generate substantial budget reductions in the medium to long term were identified including:

- Adjusting to operate with pupil teacher ratios in accordance with existing policy (15:1);
- Reviewing future pupil teacher ratios;
- Moving the GTA to a profit making business model;
- Merging post 16 and adult education provision;
- Reviewing grant arrangements to libraries; and
- Reviewing facilities and estates management.

6.28 In addition, it is understood that the introduction of local management of schools and increasing the accountability of the headteachers should result in efficiencies including the opportunity to remove some of the oversight resource currently provided by the Office's central services function.

6.29 There is also the opportunity, dependent on the decisions taken in respect of the Transforming Secondary Education proposals, that the number of secondary schools reduces which should generate efficiency savings as larger and fewer schools are provided.

6.30 Although this list is not exhaustive, the Policy & Resources Committee is of the opinion that delivery against such opportunities could save in the region £3-5million per annum once all changes are delivered, but recognises that this would take time and not insubstantial resources to achieve. Importantly, none of the suggested initiatives would lead to service reductions or cuts. In fact, PwC was of the opinion in its report that these changes could improve outcomes at the same time as reducing cost.

6.31 In addition, the change in the funding arrangements for the Grant-Aided Colleges approved in September 2017 (Billet d'État XVIII, 2017) will result in a reduction of approximately £2.2million in the financial support provided to the Colleges by the end of the 2025/2026 academic year, although the profile of these savings has not yet been defined.

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- 6.32 The Policy & Resources Committee is disappointed that the Committee *for* Education, Sport & Culture has not put in place plans for achieving the necessary budget reductions, including the residual balance of its FTP Target. This is despite repeated assurances from the current Committee and its predecessors that there are savings available but they are longer-term in nature and will take some time to plan and implement. The Policy & Resources Committee is sympathetic to the principle of extending the period of time over which savings are realised but is firmly of the view that immediate action is needed to initiate the measures which realise these longer-term savings.
- 6.33 Therefore, to put in place a clear plan and timescale for delivery of the measures necessary for the Committee to remain within its budget, **it is recommended that an oversight group comprising political representatives from both the Committee *for* Education, Sport & Culture and the Policy & Resources Committee is formed as a priority to oversee the development of initiatives and the delivery of budget reductions.** This oversight group would evaluate all opportunities for consideration by the full Committee *for* Education, Sport & Culture and facilitate the provision of appropriate resources to enable implementation of approved measures in a timely manner. The Policy & Resources Committee believes that a clear, time-lined plan should be put in place and resources allocated to ensure this is achieved within the period of the MTFP (2018-2021). Should funding be required in order to implement the measures then an application can be made for funding from the Transformation and Transition Fund, where £750,000 has been set aside for Transforming Education & Training Services.
- 6.34 It is recognised that there will inevitably be delays in the delivery of savings for some projects and the Policy & Resources Committee considers that due recognition should be given for this by way of temporary budget adjustments. Therefore, **it is recommended that the Policy & Resources Committee be given delegated authority, on the recommendation of the oversight group, to increase the 2018 revenue expenditure budget of the Committee *for* Education, Sport & Culture by the value of savings from projects initiated in 2018 but due to deliver benefits between 2019 and 2021.**
- 6.35 **Note 3** – Committee *for* Employment & Social Security – the Non-Formula Led Cash Limit includes specific funding of £220,000 for the administration costs associated with the implementation and administration of the new income support scheme. However, the allocation of a 1% budget reduction of £110,000 means that the Committee’s budget has increased by a net £90,000.
- 6.36 Total Formula Led expenditure, excluding the effect of the new benefits system, is estimated to be approximately £500,000 above the 2017 budget (inflated to maintain its real value). This is due mainly to real terms’ growth in Supplementary Benefit expenditure particularly in respect of claims from those classified as “*Jobseeker or low earner*”. This increase directly reduces the amount allocated to the Budget Reserve and available to fund cost pressures elsewhere.

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- 6.37 As set out in paragraph 6.16, the additional Formula Led costs from the introduction of the new income support benefits system are anticipated to be £9million in 2018, in addition to the demand led increase in costs of £500,000.
- 6.38 The Policy & Resources Committee continues to be uncomfortable that the rates of Formula Led benefits (which, following full introduction of the income support scheme, will be in the region of £55million per annum of ongoing expenditure – approximately 14.5% of total expenditure) are resolved separately by the States following consideration of an uprating report submitted by the Committee *for* Employment & Social Security. The Policy & Resources Committee is of the view that it is not sustainable for the States to be making decisions on non-contributory benefit rates in isolation from the remainder of the Budget of the States, as decisions made on these benefit rates inevitably impact on the resources available to allocate to all other Committees during the Budget process. To put this into context, each real-terms' increase of 1% in the cost of benefits would mean that there would be £550,000 less available for allocation to other Committees. This represents a 0.5% reduction in the budget allocated to the Committee *for* Health & Social Care or a 1.8% reduction in the budget allocated to the Committee *for* Home Affairs.
- 6.39 The categorisation of Non-Contributory benefits as 'formula led' suggests that they are not subject to control. The Committee *for* Employment & Social Security is already undertaking significant work that seeks to influence the demand for these benefits, most notably through assisting people to return to work after sickness or unemployment, and placing work requirements on people receiving supplementary benefit where personal and family circumstances allow. However, there are wider measures that need to be considered, spanning the responsibility of several Committees (for example Stronger Families or 1001 Days) that could have a significant impact on the cost of these benefits in the medium to long term.
- 6.40 The integrated compilation, presentation and consideration of all proposals affecting the States' general revenue financial position would result in the relative merits of all measures being considered at the same time. Therefore, **it is recommended that, the Policy & Resources Committee and the Committee *for* Employment & Social Security investigate options for integrating the consideration of all general revenue income and expenditure, including non-contributory benefits, and that the Policy & Resources Committee reports back, with appropriate proposals, in the 2019 Budget Report.**
- 6.41 **Note 4** – Committee *for the* Environment & Infrastructure – In September 2014, the States agreed that the General Revenue funding for dairy farm management payments should be reduced by £1million in five equal steps over a five year period commencing on 1 January 2015. Therefore, the 2018 recommended Cash Limit takes into account a reduction of £200,000 as the fourth year's reduction.
- 6.42 The recommended Cash Limit includes additional funding of £110,000 comprising £230,000 in respect of inflation increases for contracts (primarily the scheduled bus service contract), less a 1% reduction of £120,000.

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6.43 **Note 5** – Committee *for* Health & Social Care – The suggested Cash Limit is £115.5million which includes an inflation allowance of £540,000 (predominantly in respect of Off Island care and medical supplies) and the following reductions totalling £3.6million:

- £2million returned in 2017 as set out in the resolution from the MTFP, which acknowledged the Committee for Health & Social Care’s Commitment to endeavour to return £2million of its 2017 Authorised Budget to General Revenue^r;
- A 1% reduction of £1.2million; and
- £390,000 of inflationary pressures which are estimated to be absorbed in 2018.

6.44 The Policy & Resources Committee welcomes the fact that the Committee for Health & Social Care has been able to reduce its budget by £3.6million (3%), following the substantial temporary increase in budget given by the States in 2016. This is in line with the BDO Costing, Benchmarking & Prioritisation Report (contained as Appendix II to the Annual Budget for the States for 2016 [Billet d’État No. XIX of 2015]) which identified that net savings of £5.2million could be achieved through tactical, productivity and efficiency measures over a five year period, with some £3.2million in the first two years. The Committee *for* Health & Social Care is to be congratulated for delivering an effective programme of system grip, and efficiency savings from projects such as the reform of the Emergency Department and of social and mental health care services which has reduced the need for off-island referrals. This has enabled the reduction in its budget without the need for the one-off project implementation costs that were identified in the BDO report.

6.45 One of the reasons for the anticipated underspend of £4.7million by the Committee *for* Health & Social Care in 2017 is the number of managed vacancies being temporarily carried. It is the intention of the Committee to commence a project to assess all vacant positions during the remainder of 2017 and the early part of 2018 with a view to rebasing the overall establishment.

6.46 The Committee *for* Health & Social Care is concerned that, in applying the 1% reduction in 2018, it leaves a risk surrounding the uncertainty as to whether the existing considerable number of vacancies in its establishment could and should be filled. Therefore, the Policy & Resources Committee will use its delegated authority to transfer from the Budget Reserve to the 2018 budget of the Committee *for* Health & Social Care, the maximum sum of £1.19million should a cost pressure arise as a consequence of the Committee *for* Health & Social Care recruiting to a significant number of its vacant posts. During 2018, and once the project to review vacant positions is concluded, it will be possible to take a better informed view of the budget necessary for 2019.

^r “To acknowledge the Committee for Health & Social Care’s commitment to endeavour to return £2 million of its 2017 Authorised Budget to General Revenue and to direct the Policy & Resources Committee to take account of these expected recurring savings when recommending Cash Limits and any target expenditure reductions for the Committee for Health & Social Care for future years.”

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- 6.47 In addition, one of the highest priorities of the Committee *for* Health & Social Care relates to the initiation of The Bailiwick Health and Wellbeing Trust, which will initially be used as the vehicle for the development and implementation of the Healthy Weight Strategy, which is a clear and high priority in delivering on the objectives of the Policy & Resource Plan. A wider vision for the potential role of the Trust has been developed which will result in it having a pivotal role to drive a change in community behaviour and wellbeing that will be central to the future model for health and care and for achieving the Policy & Resource Plan outcome of a healthy community through focusing on the promotion of health and wellbeing, and the prevention of, early intervention in, and protection from negative health outcomes.
- 6.48 The proposed funding model includes £310,000 from the existing budget of the Committee *for* Health & Social Care; provision of office accommodation; potential secondment of staff; transfer of part of the existing Drug and Alcohol Strategy budget; and an additional amount of up to £250,000 per annum for two years from the States of Guernsey to match funding secured from external sources. The Policy & Resources Committee recognises the importance of such projects in helping to deliver the transformation of health services to provide sustainable long-term services. Therefore, the Policy & Resources Committee intends to use its delegated authority to transfer from the Budget Reserve to the 2018 and 2019 budgets of the Committee *for* Health & Social Care, the maximum sum of £250,000 in each year to match funding raised from external sources by The Bailiwick Health and Wellbeing Trust.
- 6.49 **Note 6** – Committee *for* Home Affairs – The recommended Cash Limit includes a net specific reduction of £125,000, comprising the application of a 1% reduction (£300,000) offset by additional funding of £175,000 in respect of: extra costs for holding prisoners in UK institutions (£80,000); managing BREXIT (£65,000); and an external review of the Probation Service (£30,000).
- 6.50 The Committee *for* Home Affairs is presently reviewing an assessment of the current status and action plan for the operation of the Joint Emergency Services Control Centre and it is anticipated that a request for funding (a combination of one-off and ongoing) will shortly be made in order to provide a sustainable basis for operation of the service. If the Policy & Resources Committee approves the funding request (in full or part), an appropriate transfer would be made from the Budget Reserve to the 2018 revenue budget of the Committee *for* Home Affairs and allowance included in the recommended Cash Limit for 2019.

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- 6.51 **Note 7** – Scrutiny Management Committee – In February 2016 (Billet d’État IV, 2016), the States considered a Policy Letter from the Scrutiny and Public Accounts Committee entitled “The Scrutiny Management Committee – Powers, Resources and Impartiality” and, inter alia, resolved *“To agree that the Scrutiny Managements Committee will annually submit to the Policy & Resources Committee a budget request (not exceeding a Cash Limit of £936,000 for 2017), which will be considered in conjunction with all other committees’ budget requests. If the Policy & Resources Committee is unable to recommend within the Annual Budget of the States a Cash Limit for the Scrutiny Management Committee at the level requested by that Committee, then the Policy & Resources Committee will reproduce in full in the Annual Budget the Scrutiny Management Committee’s budget request and include the reasons why it is not recommending a Cash Limit at the level requested and the financial implications of approving a Cash Limit at the level requested.”*
- 6.52 The Scrutiny Management Committee has advised that *“In light of the current financial position of the States, the Scrutiny Management Committee does not seek an increase in its Cash Limit for 2018 and has agreed to incorporate a 1% real-terms’ reduction from its 2017 Cash Limit. Therefore, its 2018 budget submission of £547,000 is £389,000 lower than the maximum amount agreed by the States in February 2016. The Scrutiny Management Committee will, during 2018, consider its resource requirements for 2019 and future years in light of its planned programme of reviews and the financial position of the States and submit budget requests accordingly.”*
- 6.53 The Policy & Resources Committee commends the continued responsible financial approach being taken by the Scrutiny Management Committee. If the Scrutiny Management Committee is required / considers it beneficial to carry out an unplanned review for which it does not have sufficient budget, it is able to apply for funding from the Budget Reserve.
- 6.54 **Note 8** – Overseas Aid & Development Commission – the recommended Cash Limit includes additional funding of £75,000 in order to maintain the real value of contribution to aid overseas (in accordance with the States’ resolution of January 2012 [Billet d’État III, 2012]) and a 1% reduction (£30,000). The Overseas Aid & Development Commission has recently submitted a Policy Letter in which it details the steps being taken to investigate the possibility and feasibility of establishing a Guernsey Development Impact Fund. This innovative approach should build on the government investment by seeking to attract philanthropic funds and private capital, and through making loans to schemes that will be able to pay back to the Fund thereby increasing the amounts available for future investment. This innovative approach is commended as it should multiply up the impact of the investment made from the Commission’s budget.
- 6.55 **Note 9** – Royal Court – As directed by the States in June 2017 (Billet d’État XIV, 2017), the recommended 2018 Cash Limit for the Royal Court includes a specific additional allowance of £128,000 including a contingency sum of £5,000 to fund the costs associated with holding a referendum on the method of electing People’s Deputies.

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Budget Reserve

6.56 The Budget Reserve is the instrument used to manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures. Individual Committees do not routinely hold budget contingencies as this is considered inefficient as they would invariably not be fully utilised every year. However, funding is available to Committees from the Budget Reserve, if required. This enables the States to manage inevitable contingencies in an efficient manner.

6.57 The Budget Reserve holds the allocation which is expected will be transferred to individual Committees during the year. It is held centrally instead of being included within recommended Cash Limits as it is not known, with a sufficient level of detail or certainty, the amount which will be required by each Committee. Therefore, each Committee's 'Original Budget' will increase during the year as this funding is released, for example, in respect of settled pay awards thus increasing 'Original Budgets' to become 'Authorised Budgets'.

6.58 The 2018 Budget Reserve is £11.7million (2017:£4.9million) and includes:

- Provision for increasing budgets in respect of pay awards (both in respect of 2017 where settlements have not been finalised for the majority of staff; and in respect of 2018 for all pay groups);
- Provision for increasing established staff budgets in case the assumed 5% level of underspend arising from staff turnover does not occur;
- Allowance for variations in formula-led expenditure;
- Allowance for increasing the Committee *for* Education, Sport & Culture (paragraph 6.34) and Committee *for* Health & Social Care's (paragraphs 6.46 to 6.48) budget; and
- Allowance for unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures that cannot be met by reprioritising existing budgets including further costs in responding to 'Brexit' including the provision of temporary legal resources and the continuing court case regarding States' employees' pension arrangements.

6.59 In addition, there are a number of financial risks which the Policy & Resources Committee is aware of including: changing the operating model of the Joint Emergency Services Control Centre; increase in corporate insurance premiums; and the introduction of a public service agreement in respect of air services to Alderney. These would have ongoing budgetary implications and any required funding would be provided from the Budget Reserve in 2018 and by adjustment to Cash Limits from 2019 onwards. The forecasts in the MTFP included a recurring allowance of an additional £1.5million each year for funding expenditure pressures.

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6.60 Although there is a large balance on the Budget Reserve in 2018, there are also a significant number of risks and pressures. If the Budget Reserve proves insufficient to manage all of these contingencies, then this could lead to an overspend on the overall budget. If this was not balanced by a similar increase in revenues above budget, then it would result in a draw on the General Revenue Account Reserve which would subsequently need to be replenished in accordance with the agreed policy.

Fiscal Framework Target

6.61 The updated Fiscal Framework states that:

“During any period of deficit, expenditure on public services must be limited so as not to grow in real terms at the aggregate level unless an appropriate combination of measures to remedy the deficit has been agreed and is being implemented.”

6.62 The 2018 budget being presented by the Policy & Resources Committee is showing a net surplus after all appropriations of £500,000. However, this balance has only been achieved through the suspension of the grant to the Health Service Fund again in 2018 to balance the £4.6million allocated to the Committee for Health & Social Care above the baseline.

6.63 Therefore, the Policy & Resources Committee is of the opinion that it is still necessary to not grow expenditure in real-terms in order to comply with the framework target.

6.64 In order to comply with this target, 2018 Cash Limits would be £376million⁵. However, recommended Cash Limits are £1.8million higher at £377.8million. This difference is entirely due to the increased costs associated with the introduction of the new income support benefits system, which have a net impact of £2.5million in 2018. Of this amount, £700,000 has been absorbed within the allowable Cash Limit of £376million, with only £1.8million required to re-base the expenditure of the States as a result of this significant change.

6.65 **It is recommended that for 2018 the objective within the Fiscal Policy Framework which limits expenditure growth in real terms should exclude £1.8million of the budget allocated for the Committee for Employment & Social Security in respect of the introduction of the income support scheme.** This is as an interim measure, until the expenditure reductions projected for future years are realised.

Capital Expenditure

6.66 As part of the MTFP, revised arrangements were approved which groups projects to maintain the operation of existing services and routine replacement projects (previously funded through routine capital allocations with a maximum value of £500,000) with other Capital Reserve projects of a value of below £2million into categories based on the nature of spend.

⁵ the £377million 'Base Cash Limits' in the table in paragraph 6.5, less the £8.2million of funding allocated to the Committee for Health & Social Care, plus £6.7million in respect of the introduction of the income support scheme; and £500,000 of adjustment in respect of timing of delivery of FTP Targets and the categorisation of Integrated Transport Strategy expenditure

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- 6.67 The annual appropriation from General Revenue to the Capital Reserve will incorporate all capital expenditure and not distinguish between routine capital allocation and that for strategic investment.
- 6.68 The annual amount allocated for routine capital expenditure is £10.5million and, based on historic spend and planned projects, it is proposed that it is allocated to categories in 2018 as follows:
- Property maintenance and minor works - £6million including £2.35million for the roads resurfacing programme and £400,000 for implementation of the Integrated Transport Strategy;
 - Information Technology - £2million;
 - Medical equipment - £1.5million; and
 - Vehicles and other equipment - £1million.
- 6.69 These categories will also include those projects with values of £500,000 - £2million which were approved as non-routine small projects as detailed in the MTFP (Coastal Flood Defences Phase 1; Coastal Repairs Schemes; Longue Hougue Breakwater repairs; CCTV replacement; Footes Lane refurbishment; St Sampsons Firemain replacement; Town Fire Appliances replacement; cyber information; Digital Court; Health & Social Services Local Area Network; and office rationalisation Phase 1).
- 6.70 At the end of 2017 all existing Committee routine capital allocations and open capital votes will be transferred to the Capital Reserve and allocated to the appropriate category. At the end of June 2017, this totalled approximately £18million: Property maintenance and minor works: £10million, Information Technology: £2.6million; Medical equipment: £1.8million; Vehicles and other equipment: £700,000; and Budget Reserve: £2.7million. It is estimated that this will total in the region of £10-12million by the end of 2017.
- 6.71 During 2018, the Heads of Profession or service leads responsible for each of these categories will produce a list of prioritised projects and develop a rolling programme which will inform allocations in future years. The Policy & Resources Committee has delegated authority to approve capital votes up to a maximum of £2million and intends to exercise this authority once it has approved a prioritised list for each category followed by the presentation of proportionate business cases for each project. There is flexibility within the Capital Reserve to enable additional funding to be allocated to a category should there be an unanticipated or emergency project.
- 6.72 The Policy & Resources Committee is aware that there could be a number of projects being developed by non-States' bodies that would provide significant public benefit and support delivery of the objectives within the Policy & Resource Plan. Often, such projects would span the mandates of several Committees who may not individually consider it a priority. However, in its co-ordinating role, the Policy & Resources Committee recognises the wider benefits that working in partnership with the third sector on such projects could deliver.

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6.73 Therefore, the Policy & Resources Committee requests that the States endorses its intention to use its delegated authority to approve funding for projects that are being initiated by non-States' bodies that would support delivery of the objectives of the Policy & Resource Plan; where there is a business case that demonstrates the project represents value for money; and where the value does not exceed £250,000.

6.74 The MTFP stated that:

“The target returns to be generated from the States' trading entities, both incorporated and unincorporated, are assumed to total £30million over the period, growing from the 2017 budgeted position of £5million to £7million by the end of the period. However, although the returns are shown on an annual basis, there is no requirement for them to be ‘smooth’ or regular since they are assumed to be appropriated to the Capital Reserve, as part of the overall target investment of 3% of GDP per annum.”

And

“The Policy & Resources Committee appreciates that there is a risk that these returns will not prove affordable or realistic. Should the total assumption of £30million not materialise over the period then there will be a knock-on impact to General Revenue and a requirement to increase the appropriations to the Capital Reserve commensurately which would could delay the removal of the deficit; reduce the funding available for new or improved services; and delay the replenishment of reserves.”

6.75 The Policy & Resources Committee understands that the States' Trading Supervisory Board is undertaking significant work to identify the possibilities for such return of capital and their implications. Until such time as this work is finalised, **it is recommended that the States' Trading Supervisory Board is set a target minimum contribution to General Revenue of £5.5million of capital returns (in addition to any dividend paid in accordance with the existing policy) from the States' trading assets^t in 2018.**

6.76 In addition, there is budgeted capital income of £1million arising from the sale of General Revenue properties. **It is recommended that the return of capital from the States' trading assets and capital income in 2018 is transferred to the Capital Reserve.**

6.77 As a starting point, the Policy & Resources Committee would encourage consideration of the introduction of a policy which would require each of the unincorporated trading assets to make an annual contribution to General Revenue equivalent to the amount of income tax they would pay if they were assessed at the standard rate of 20%. This would put the unincorporated trading assets on a similar footing as the incorporated trading assets.

^t This comprises the incorporated companies (Guernsey Electricity Limited, Guernsey Post Limited, Aurigny Limited and JamesCo750 Limited [which owns the fuel tankships]) and the unincorporated assets (Guernsey Water, States Works, Guernsey Harbours, Guernsey Airport and Guernsey Dairy).

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- 6.78 In order to achieve the Fiscal Framework Target of “*actual capital expenditure averaging 3% of GDP per annum in the medium-term*” an appropriation from General Revenue to the Capital Reserve of £53.2million in 2018 would be needed comprising £70.7million (3% of GDP of £2,355million) less £6.5million of capital income / capital return from the States’ trading assets and £11million anticipated investment return and other transfers into the Reserve. As set out in paragraph 3.18, the States’ financial position allows the full value of this transfer to be made to the Capital Reserve. Therefore, **it is recommended that £53.2million is transferred to the Capital Reserve on 1 January 2018.**
- 6.79 As part of the 2015 Budget Report, the States agreed that “*with effect from 1 January 2014, the investment return on the Core Investment Reserve should be credited to that Reserve up to the level necessary to maintain its real value as at 1 January 2014 and any returns exceeding that level to be credited to the Capital Reserve*”. This has resulted in additional funding of £24.9million being transferred to the Capital Reserve. However, now that the financial position has improved such that it is projected that annual appropriations / transfers will be made to the Capital Reserve to the level of 3% of GDP, it is considered that this policy should be amended.
- 6.80 Therefore, **it is recommended that the Policy & Resources Committee is given the authority to decide to not make this transfer, in full or in part, once the value of 3% of GDP appropriations / transfers to the Capital Reserve has been met through other sources.** In considering whether to exercise this authority, the Policy & Resources Committee will take into account the projected amount available in the Capital Reserve to fund the anticipated value of the current and pipeline projects.

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6.81 The following table details the estimated funding in the Capital Reserve up to 31 December 2020:

	£m	£m
Balance of the Capital Reserve at 1 January 2017	159	
Less 2017 forecast expenditure	(9)	
Less unspent balances on open 2014 – 2017 projects	(32)	
Less unspent balances on other open project votes	<u>(12)</u>	106
General Revenue Appropriations:		
2017 – appropriation in 2017 Budget	30	
2017 – appropriation in 2018 Budget	8	
2018	53	
2019	54	
2020	<u>56</u>	201
Other sources of income:		
Refinancing of Belle Greve Outfall project	19	
Balances on routine capital allocations and open capital votes	10	
Returns of Capital from the States' trading assets (2017 – 2020) ^u	23	
Other capital income (2017 – 2020)	4	
Other net income (2017 – 2020) ^v	<u>46</u>	102
Less allowance for routine capital projects (2017 – 2020)	(44)	
Less allowance for urgent and emergency projects (2017 – 2020)	<u>(25)</u>	(69)
Total estimated funding available		340

6.82 The funding is £40million in excess of the £300million forecast in the MTFP due to increases in appropriations from General Revenue; increased investment return and reductions in expenditure estimates on previous portfolio projects.

6.83 As set out in the MTFP, funding of £282million was allocated to deliver the approved capital portfolio (£85million in the maintain category; £141million in the transform category; and £56million in the grow category). However, in the grow category, only £6million of projects were identified as likely to be required in this period.

^u The MTFP assumes returns of capital from the States trading entities of £30million over the period 2017 – 2021, with £7million in 2021. This assumes that the shortfall in return expected in 2017 is made up over subsequent years.

^v including investment return and transfers from the Core Investment Reserve less portfolio costs

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- 6.84 Projects within the grow category should strongly contribute towards the delivery of the outcomes set out in the Policy & Resource Plan and also underpin the Committee for Economic Development's objectives of improving business development and diversification, promoting and attracting, and connectivity. Although the majority of initiatives in the grow category are pipeline projects expected to commence in the next prioritisation period, the Policy & Resources Committee would encourage the development of proposals in this period that would support economic growth and reiterates that funding of £56million is available for such projects.
- 6.85 It is estimated that there will be an unallocated balance of £58million in the Capital Reserve which will be required to contribute to the funding of the next capital portfolio. As set out in the MTFP there is a pipeline of large projects identified for which planning is commencing and are likely to require funding in the next capital portfolio, for example, Hydrocarbon Supply and PEH re-profiling, with an estimated value in the region of £250million. In addition, the next capital portfolio will also include small and medium projects which will also require funding from the Capital Reserve.
- 6.86 As part of the 2017 Budget Report, the States resolved *"To delegate authority until 30 June 2017 to the Policy & Resources Committee to open capital votes for projects categorised as pipeline projects, not exceeding a total of £10million, charged to the Capital Reserve and direct the Policy & Resources Committee to report to the States on the use of this delegated authority by no later than the Budget Report for 2018."* The Policy & Resources Committee has used this delegated authority to approve funding of £1.37million for office rationalisation.

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Section 7: Other Matters

Charitable Giving / Social Investment Commission

- 7.1 The overall objective of the States of Guernsey's social compact with the Association of Guernsey Charities is the long-term sustainability of Guernsey's charitable sector. Supporting that objective was the aim of the proposal from the Association of Guernsey Charities to introduce payroll giving and increase the range of donations subject to gift aid. In the 2017 budget, the Policy & Resources Committee resolved to explore in detail the potential benefits of doing that. It has done so working through a panel with the Association of Guernsey Charities and the Guernsey Community Foundation, and has received representations from Guernsey's charitable community.
- 7.2 The panel's recommendations have been presented to and considered by the Policy & Resources Committee. Whilst supportive of the overall aims of growing and strengthening the sector by stimulating funding for new and existing services, the Committee's view is that the potential benefits to the charitable sector and the cost to the exchequer of an expanded gift aid scheme remain difficult to quantify, and that there may be a better way to meet the shared objective of greater sustainability for the charitable sector.
- 7.3 In early 2017, the Association of Guernsey Charities proposed the establishment of a social investment commission to use public and private funds to invest in the charitable and third sector – primarily through providing financial support to deliver community services with clear service level agreements in place to protect the charities. In the MTFP the Policy & Resources Committee set out its commitment to the idea of the social investment commission:
- "In order to support this, the Committee wishes to exploit all available sources of finance which might support the commissioning of services and enable investment in longer-term preventative strategies that could significantly reduce the pressure on the future public service.*
- The second phase of this work would involve ensuring that funding which is currently paid by way of grants and subsidies to the third sector is used to help deliver on desired outcomes.*
- Therefore, the Committee is working with the Association of Guernsey Charities to explore the establishment of a social investment commission as a vehicle to act as an enabler of social investment projects and funder of the same."*
- 7.4 The Committee is of the view that if such a commission is also given a role of administering a revised gift aid scheme, it might offer a more effective way of providing long-term sustainability to the charitable sector than the recommendations in relation to the current gift aid system.

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- 7.5 It is envisaged that the current gift aid scheme will continue unchanged in 2018 but that a revised scheme will be developed, following engagement with the Association of Guernsey Charities and its members, for approval in the 2019 Budget Report. The revised scheme is likely to operate along the following lines:
- Qualifying criteria will be published following engagement with the charitable sector for the new gift aid scheme. These criteria will include supporting the outcomes of the Policy & Resource Plan;
 - Charities will be invited to register with the social investment commission, to explain how they meet these criteria and to demonstrate that their governance meets acceptable standards;
 - Qualifying charities will submit claims based on their total donations; and
 - The social investment commission will distribute gift aid grants.
- 7.6 Therefore, **it is recommended that the Policy & Resources Committee is directed to establish a social investment commission during 2018, to begin operation from 1 January 2019.** This would include establishing a governance framework and setting out clear conditions for investment and the detailed criteria for the gift aid scheme. With that in mind, the Policy & Resources Committee intends to use its delegated authority to use up to £150,000, from the allocation to social policy development in the Transformation & Transition Fund,
- 7.7 During the establishment phase in 2018, the Policy & Resources Committee will work to unlock funds that might currently be out of reach but could be used for the public good. For instance, the Committee intends to ensure that legislation is put in place to enable the commission to use the funds in dormant bank accounts as a source of investment funding.
- 7.8 The Committee also wishes to work with Her Majesty's Receiver General ('HMRG') to investigate the possibility of, and put in place any necessary agreements to enable the social investment commission to be able to use amounts held in HMRG Funds to projects for the public good, with appropriate indemnities provided by the States of Guernsey.
- 7.9 The Policy & Resources Committee will report back in the 2019 Budget Report with progress on unlocking such funds.

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Transformation and Transition Fund

7.10 As part of the 2015 Budget Report (paras 5.19-5.31 – Billet d’État XXII, 2014), the States resolved to establish a Transformation and Transition Fund, with an initial balance of £26.68million^w, in order to recognise “*the significant investment required to deliver the public services of the future and the substantial policy agenda for the States.*” The overarching criteria to be demonstrated in any business cases for use of the Fund were set out as:

- Significant long-term transformation in the delivery of services;
- Evidenced and measurable benefits; and
- A return on investment.

7.11 In the 2016 Budget Report (paras 6.29-6.54 – Billet d’État XIX, 2015) , the Policy Council and Treasury and Resources Department recommended that a number of initiatives and programmes be prioritised by the States to allow the planning work to develop and define these important programmes to progress to the point where they are ready to be presented to the States for approval of policy or transformation proposals including projects of work and programme benefits (both financial and non-financial) prior to moving to project delivery. These prioritised initiatives and programmes are:

- **Social Policy Development** – to ensure that social policy development is appropriately resourced in order to initiate and co-ordinate corporate change with a short term focus on the Supported Living and Ageing Well Strategy and the Children and Young People’s Plan.
- **Public Service Reform** – establishment of an over-arching programme to co-ordinate the delivery of benefits through the Framework for Public Sector Reform.
- **Programmes of Service Transformation** – to enable the development of the principles to use in each of the four planned programmes of service transformation – Education and Training Services, Health and Social Care Services, Justice and Equality Services and Other Government Services. It will determine the scope and design principles to be used within each programme and co-ordinate the effort across the programmes to avoid duplication.
- **Civil Service Reform** – focussing on improving the way in which the civil service supports government and clarifying the future shape and size of the civil service; improving the capability and capacity within the civil service to support policy development; sharpen accountability for the implementation of policy; and enable the recommendations of the States’ Review Committee to be implemented in full.

^w As set out in the 2015 Budget Report, in addition to the £25million transferred from the Contingency Reserve (Tax Strategy), the outstanding commitments of the Fundamental Spending Review Fund and the balance of the Fund were transferred to the Transformation and Transition Fund at the end of 2014. In addition, a transfer was made from the Strategic Development Fund of £862,000 representing the £800,000 balance of that Fund together with the balance (£62,000) of the maximum funding of £100,000 allocated to developing the Children and Young People’s Plan.

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7.12 Delegated authority was given to the Policy & Resources Committee (formerly the Treasury & Resources Department) to approve funding of up to £750,000 for any one programme, apart from Transforming Health and Social Care Services where a limit of £1.5million has been agreed. In addition, delegated authority, to a maximum of £250,000, was given to approve funding for any initiatives not on the prioritised list.

7.13 The table below sets out the prioritised and approved use of the Fund by the States and the Policy & Resources Committee under its delegated authority^x and shows that the current uncommitted balance of the Fund is £16.9million:

	Prioritised £'000	Approved £'000
Opening balance	25,000	
Transfer from Fundamental Spending Review Fund	817	
Transfer from Strategic Development Fund	<u>862</u>	
	26,679	
Initiatives:		
Social Policy Development	750	-
Public Service Reform	850	845
Transforming Education & Training Services	750	23
Transforming Health & Social Care Services	1,500	872
Transforming Justice & Equality Services	750	67
Transforming Other Government Services	750	582
Civil Service Reform	750	536
Population Management	500	500
Corporate Performance Reporting	236	236
Implementation of States Review Committee proposals	550	265
Fundamental Spending Review Fund commitments	817	817
Introduction of resource accounting and budgeting	1,300	300
Children and Young People's Plan	62	37
Supporting Living and Ageing Well Strategy	<u>175</u>	<u>175</u>
	9,740	5,255
Balance	16,939	

^x As part of the 2016 Budget Report, the Treasury and Resources Department was given delegated authority to approve funding of a maximum of £500,000 in respect of the revenue expenditure associated with the change in the system of population management as previously approved by the States.

Following consideration of the States Review Committee – The Organisation of States' Affairs (Billet d'État XII 2015) proposals, the States agreed to delegate authority to the Treasury and Resources Department to approve up to £550,000 to provide for the implementation of the improved committee system.

Treasury & Resources Department used its delegated authority to authorise expenditure of £236,000 from the Fund to enable the delivery of a corporate performance management framework across the States of Guernsey which will help drive continuous performance improvement and support evidence-based decision-making.

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- 7.14 The funding prioritised for Public Service Reform has been largely exhausted as it is being used to ensure the large and complex programme which covers all elements of the public service is being properly managed and co-ordinated. Resources have been deployed to develop the appropriate governance for the various elements of the overarching programme; ensure there is consistent and appropriate reporting of progress; help ensure benefits are identified, monitored and delivered; deliver a comprehensive communications plan to ensure that all areas of the public sector are aware of developments and initiatives; ensure resources are appropriately allocated to other programmes to ensure their successful delivery; and numerous other activities.
- 7.15 This is a necessary ‘overhead’ in ensuring that the ambitious 10 year programme of reform is properly planned, delivered and monitored. **The Policy & Resources Committee is therefore recommending an increase of £750,000 in its delegated authority to approve funding from the Transformation and Transition Fund for Public Service Reform.**
- 7.16 The Framework for Public Service Reform set out the plans for a comprehensive package of service transformation and reform of the civil service underpinned by technology, estate optimisation and innovation and continuous improvement. At the heart of the public service are its people and the framework set out a roadmap for ensuring that plans are in place to ensure that we have the right people with the right skills for the future as well as the present.
- 7.17 The commitments in the framework in respect of the ‘People Plan’ were to:
- Strengthen individual and organisational leadership;
 - Proactively manage staff for performance;
 - Increase flexibility and mobility within the public sector workforce;
 - Develop the skills, capability and culture required to deliver large scale organisational change; and
 - Engage more effectively with people in the public service.
- 7.18 One of the objectives within the ‘sustainable public finances’ element of the Policy & Resource Plan is to *“ensure competitive recruitment and retention of quality, skilled professionals, balanced with appropriate scrutiny including control and review of staffing costs, grading and pay awards, and effective performance management, within the public sector.”* This work fits within the ‘People Plan’ and the intention to review and modernise terms and conditions across the public service to make them fit for the future.
- 7.19 Since then, the MTFP set out the themes for generating savings which included service design, managing sickness absence and managing overtime and allowances all of which demand significant workstreams within the ‘People Plan’. It was also recognised in the MTFP that we must be prepared to invest in the changes required through the Transformation & Transition Fund.

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- 7.20 Given the importance of the People Plan in delivering the reform of the public service, the **Policy & Resources Committee is recommending it is given delegated authority to approve funding from the Transformation and Transition Fund of a maximum of £750,000 for the People Plan** in order that the detailed proposals for the various initiatives within the programme including organisation re-design, HR transformation, and the terms and conditions review can be finalised before being presented to the States, if necessary, for approval to proceed. In addition, the funding would be used to invest in the generation of medium term savings through this workstream.
- 7.21 In 2016, when the States undertook the initial prioritisation exercise for use of the Fund they recognised the need to invest in social policy development to ensure it was appropriately resourced in order to initiate and co-ordinate States-wide service change. To date this funding has been used to provide resources to support the co-ordination of the Supported Living and Ageing Well Strategy workstreams and, as set out in paragraph 7.6, the Policy & Resources Committee is intending to allocate up to £150,000 of the funding prioritised for social policy development to the establishment of a social investment commission.
- 7.22 In addition to the need to invest in the development of social policy, the prioritisation of the initiatives that will be progressed and supported within the Policy & Resource Plan has revealed the need to invest in an over-arching energy policy (paragraph 4.38), which will also inform future work in relation to hydrocarbons policy and which will also incorporate the renewable energy strategy and assess the potential for green taxes and energy taxes.
- 7.23 The Committee for the Environment & Infrastructure has requested additional funding of up to £375,000 over the next three years to enable the development of this work. The Policy & Resources Committee supports this request and therefore **recommends that it is given delegated authority to approve funding from the Transformation and Transition Fund of a maximum of £375,000 to develop an energy policy.**
- 7.24 As part of the 2016 Budget Report (paras 6.47-6.51 – Billet d'État XIX, 2015), the Treasury and Resources Department was given delegated authority to approve funding of a maximum of £500,000 from the Transformation and Transition Fund in respect of the revenue expenditure associated with the change in the system of population management as previously approved by the States.
- 7.25 The Committee *for* Home Affairs has advised that there have been change management and operational difficulties encountered with the introduction of the new Population Management Law and the Population Management office and a significant backlog has arisen which cannot be cleared without significant intervention. In addition to the use of the full £500,000 approved in 2015, the Committee *for* Home Affairs estimates that additional funding of up to a further £500,000 is required up to the end of 2018 in order to implement and administer the new population management system, including additional staff, business process redesign and IT systems development. Therefore, **the Policy & Resources Committee is recommending an increase of £500,000 in its delegated authority to approve funding from the Transformation and Transition Fund for the expenditure associated with the change in the system of population management as previously approved by the States.**

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Future Guernsey Economic Fund

7.26 The Future Guernsey Economic Fund (previously the Economic Development Fund) was established as part of the 2015 Budget Report (paras 5.5-5.18 – Billet d’État XXII, 2014) by transferring £7million from the Contingency Reserve (Tax Strategy). In addition to this £7million, balances in respect of projects approved through the Strategic Development Fund totalling £2.1million were also transferred into the Fund.

7.27 The States delegated authority to the Policy & Resources Committee (previously to the Treasury and Resources Department) to approve use of this Fund. The Committee has discharged this responsibility by considering and challenging appropriately detailed business cases which set out how the initiative complies with the objectives of the Fund, the costs, risks, deliverability and benefits.

7.28 The table below lists the initiatives approved from the Fund to date and the remaining uncommitted balance:

	£'000	£'000
Opening Balance	7,000	
Transfer from Strategic Development Fund	<u>2,100</u>	9,100
Initiatives approved:		
Guernsey Finance	1,200	
Visit Guernsey	500	
Innovation Centre (Digital Greenhouse)	1,456	
Locate Guernsey	1,200	
Marketing – GLAPPPS ^y Film	338	
Guernsey University Investigations	50	
Air Route Support - Cardiff	<u>44</u>	(4,788)
Balance		4,312

^y Guernsey Literary and Potato Peel Pie Society

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7.29 As part of the 2017 Budget Report, the States approved that the Fund be renamed as the Future Guernsey Economic Fund and noted that the Policy & Resources Committee intended to use its existing delegated authority to approve funding for initiatives which deliver on the policy objectives within the Future Guernsey Programme for Government (in phase one of the Policy & Resource Plan) (paras 9.1 - 9.10 of the 2017 Budget Report – Billet d’État XXVI, 2016):

- Ensure conditions that encourage and foster enterprise and remove barriers to business, keeping regulation appropriate and proportionate;
- Ensure the provision of reliable, sustainable and affordable sea and air links;
- Focus on maintaining an appropriately-sized working population;
- Look to remove barriers that are discouraging or preventing some people from pursuing or remaining in paid employment and provide additional support to those who need it to find and sustain employment;
- Promote Guernsey as an attractive place to work and live in order to encourage the retention of our current workforce, the return of those who have chosen to gain life experience in other jurisdictions, and to attract those who may bring valuable skills to the island; and
- Encourage the growth of digital and information businesses through the Economic Development Fund.

And which:

- Ensure we have the right conditions for business to set up, grow and operate;
- Improve or protect economic growth; and
- Have measurable economic and fiscal benefits.

7.30 As set out in paragraph 4.17 of this Report, the Policy & Resources Committee has prioritised, as part of the Policy & Resource Plan, a number of inter-connected initiatives led by the Committee *for* Economic Development which will be presented to the States by that Committee in a ‘Guernsey Economic Vision’ Policy Letter in December 2017. The economic themes are ‘improve’, ‘promote and attract’ and ‘connectivity’ and all are designed to deliver on economic development policy.

7.31 The Committee *for* Economic Development has advised that completing this work will require additional funding totalling £1.35million over a three year period. The Policy & Resources Committee supports in principle the need for this additional investment in the progression and implementation of our economic development policy. Therefore, if the States approves the Guernsey Economic Vision Policy Letter, it would use its delegated authority to make this funding available from the Future Guernsey Economic Fund following consideration of an appropriately detailed funding request.

7.32 The mandate of the Committee *for* Economic Development includes that its purpose is *“To secure prosperity through the generation of wealth and the creation of the greatest number and widest range of employment opportunities possible by promoting and developing business, commerce and industry in all sectors of the economy.”*

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- 7.33 It is understood that the Committee *for* Economic Development considers that, to better discharge its mandate, there would be benefits in the delegated authority for approving use of the Future Guernsey Economic Fund to be transferred to that Committee and making it accountable to the States for using the Fund to deliver a sustainable, strong and growing economy.
- 7.34 As set out in the Policy & Resource Plan, the continued strength of our economy is a critical foundation to supporting our quality of life and community. A strong, growing and sustainable economy is also a vital element in delivering sustainable public finances and real-terms' growth in States' revenues through new or enhanced tax receipts will help ensure that the targets set by the States when approving the MTFP can be delivered.
- 7.35 Given the importance of this policy workstream in underpinning the delivery of the other elements of the Policy & Resource Plan, the Policy & Resources Committee considers that the matter of control and governance of the Future Guernsey Economic Fund should be considered by the States as part of the 'Guernsey Economic Vision' to be presented by the Committee *for* Economic Development in December 2017.

Funding Health and Long Term Care

- 7.36 As part of the 2017 Budget Report (Billet d'État XXVI 2016, paragraphs 5.25 – 5.30), the Policy & Resources Committee set out its intention to work with the Committee *for* Employment & Social Security during 2017 to examine options for reforming health service funding before reporting back with proposals in this report.
- 7.37 When the two Committees met initially to discuss this matter consideration was given to the fact that the same issues regarding 'distributional equity' which had been identified in respect of the current health service contributions collected through the social security system applied to the contributions collected in respect of long term care. Therefore the Committees decided to incorporate long term care contributions within the scope of the review.
- 7.38 A significant amount of detailed work has since been undertaken to model what a new system might look like and the distributional impact given that the Committees are aiming to deliver a more progressive system in line with the States' fiscal policies. This matter is complex and involved and is taking longer to work through than had originally been anticipated. Therefore the Joint Committees have agreed to extend the timescale to allow for more extensive, detailed analysis and engagement on any structural changes in the way in which the States raise revenue, and to allow for greater integration between this project and the Contributions and Tax Services Programme. A further update will be provided in the 2019 Budget Report.
- 7.39 The original driver for consideration of this project was that the public funding of health and social care services (including those that are directly commissioned by the States, and those, such as prescriptions or primary care, that are subsidised) currently has multiple sources. In effect, this means that multiple bodies make decisions about the allocation of funding to health services, and shape health policy making by doing so.

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- 7.40 The multiple sources of funding and decision making present barriers and disincentives to the full transformation of health and social care which both the Committee *for* Health & Social Care and the Policy & Resources Committee consider should be removed. This is particularly important given the level of priority given to the Health & Social Care transformation initiatives as part of the Policy & Resource Plan.
- 7.41 The project outlined above may take some time to finalise given its complexities and impact on the whole tax system. While this project remains under consideration, it remains appropriate for responsibility for the collection of contributions to the Health Service Fund to stay with the Committee *for* Employment & Social Security. However, the Policy & Resources Committee considers that, given its mandate to protect, promote and improve the health and well-being of individuals in the community, responsibility for all of the expenditure from the Fund should move to the Committee *for* Health & Social Care. Therefore, the Policy & Resources Committee intends to work with the Committees *for* Employment & Social Security and Health & Social Care to develop an interim mechanism to allow this to happen and will make appropriate proposals to the States in the 2019 Budget Report.

Reporting to the States on Performance

- 7.42 Following consideration of the States of Guernsey Accounts 2016 (Billet d'État XIII, 2017), the States resolved

"To direct the Policy & Resources Committee, following consultation with all committees of the States, to consider the most appropriate structure and mechanism for annual reporting of financial performance; service outcomes; and progress on delivery of the priorities set out in the Policy & Resource Plan and report back in the 2018 Budget Report including with appropriate proposals."

- 7.43 The Civil Service Leadership Team has considered this matter and will be developing proposals for Committees to consider regarding the content of the annual Committee performance reports, due to be considered by the States in June 2018. It is proposed that, as well as progress with delivery of policy priorities, these reports should include the financial performance of the Committee against its budget in the preceding year and commentary on the same.
- 7.44 The States of Guernsey Annual Accounts would then no longer contain detailed Committee level expenditure reports but would primarily focus on the high-level financial performance at the overall States level.
- 7.45 Following consideration of the Public Service Reform policy letter (Billet d'État XVI, 2015) the Policy & Resources Committee is currently required to report to the States annually on progress with that long-term reform agenda. In 2016, this requirement was discharged through a statement to the Assembly along with an update sent to States Members (in December 2016). The Policy & Resources Committee considers that, given the importance of the reform agenda in the delivery of the Policy & Resource Plan, it would make sense to bring together all performance reporting within a single report in future. Therefore, the Committee intends to report on progress with Public Service Reform as part of the annual Policy & Resource Plan update.

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- 7.46 In addition, the Policy & Resources Committee wishes to ensure that the States continue to be kept up to date with developments on transformation and the States' financial position on a regular basis by way of statements to the Assembly.

States of Guernsey Bond

- 7.47 As part of the 2015 Budget Report (Billet d'État XXII, 2014), the States authorised the Treasury and Resources Department to:

"Issue a States of Guernsey Bond of £250million with a minimum term of 20 years and a maximum term of 40 years at such a time and on such terms as that Department considers to be in the best interests of the States; and to lend on the capital thereby raised to States owned entities, trading accounts and funds, the Guernsey Housing Association, the Alderney Housing Association and/or the Ladies' College on such terms that the Department may approve, subject to each recipient repaying such borrowing in full from a secure income stream and without direct recourse to General Revenue and, in accordance with policies of the States affirmed in 2004, 2006, 2009 and 2014, to direct the Treasury & Resources Department to report to the States as expeditiously as possible, but in any event by no later than the 2016 Budget Report, to demonstrate how all such borrowing has been or soon will be allocated clearly to individual recipients and how each recipient will be repaying such borrowing in full from a secure income stream and without recourse in any way to general revenue"

and to delegate authority to the Policy Council to:

"Approve an increase in the value of the States of Guernsey Bond issue by a maximum of a further £80million, following consideration of a justification from the Treasury and Resources Department; and, in accordance with policies of the States affirmed in 2004, 2006, 2009 and 2014, to direct the Treasury & Resources Department to report to the States as expeditiously as possible, but in any event by no later than the 2016 Budget Report, to demonstrate how all such additional borrowing has been or soon will be allocated clearly to individual recipients and how each recipient will be repaying such borrowing in full from a secure income stream and without recourse in any way to general revenue."

- 7.48 In November 2014, the Policy Council approved an increase of £80million in the value of the States of Guernsey bond issue.
- 7.49 The bond issue, which took place in December 2014 and has a final maturity date of 2046, was over-subscribed with a strong level of investor interest which enabled the States of Guernsey to secure an issue of the full £330million at a fixed rate of interest of 3.375% which represented the lowest ever coupon for a long-term fixed rate sterling bond from any issuer without a UK Government guarantee. The minimum interest rate charged on any lending is 3.625%; the calculation of which recovers the yield adjustment and all of the costs associated with issuing the bond.

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- 7.50 The Bond Management Sub-Committee of the Treasury and Resources Department and the Investment and Bond Management Sub-Committee of the Policy & Resources Committee have agreed loans totalling £186million from the proceeds of the States of Guernsey Bond issue. The interest rate charged on loans is calculated by application of a formula which incorporates:
- a 'credit risk score' calculated on the basis of a simple scorecard approach which incorporates key financial ratios including profitability, interest cover and gearing and considers the 'proximity to General Revenue' – i.e. through a General Revenue service with the loan repayments being funded entirely by charges made to service users; a General Revenue trading entity; an incorporated States Trading Company / wholly owned arrangement or any other entity; and
 - an adjustment for prevailing interest rates which relates to the difference between current swap rates for the loan term being requested compared to the swap rate for that loan term applicable on the date the Bond was issued.
- 7.51 The average interest rate charged on the loans made to date is 3.8% which is slightly in excess of the minimum interest rate of 3.625%.
- 7.52 The bond issue proceeds which have not yet been lent on to entities form part of the General Revenue investment assets which are invested in line with the direction set by the Committee's Investment and Bond Management Sub-Committee. At the end of 2016, the Bond Reserve had a balance of £5.9million which will mitigate against the potential for investment returns being lower than the coupon rate in future years. In addition, the investment returns in 2017 to date have been £6million higher than the coupon payment.
- 7.53 Notwithstanding that it would inevitably take a period of time to lend on the proceeds of the States of Guernsey bond issue, the amount currently approved is lower than was anticipated at the time of issue. However, the reasons are largely considered to be short-term timing issues as there are some entities which currently have external borrowings, guaranteed by the States of Guernsey, where breaking the existing arrangements and replacing with a loan from the bond proceeds is not considered to be cost effective (e.g. due to cost of exiting fixed rate arrangements or the attractiveness of short-term funding in the current interest rate environment). In addition, there are some entities where the timing of the funding requirement has changed including Guernsey Electricity Limited where there is no longer an immediate requirement to replace a cable.
- 7.54 Alderney Electricity Limited which is largely owned by the States of Alderney (78.2% of the ordinary shares and 55.8% of the preference shares) and the States of Guernsey (17.1% of the ordinary shares) has a requirement to upgrade the power station at a capital cost of in the region of £1.4million. Alderney Electricity Limited is currently investigating the funding options for this capital investment including private sector borrowing or a loan from the proceeds of the States of Guernsey bond issue. The upgraded power station would be more efficient and reduce the costs of operation (both fuel and labour) meaning that a loan to fund the capital investment could be repaid without any increase to prices charged being necessary.

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- 7.55 If this project is funded through private sector borrowing, the States of Alderney would have 'step-in' rights in the event that Alderney Electricity Limited was unable to meet its obligations and would take ownership of both the liabilities (bank loan) and assets. It is likely that the lender would require a guarantee from the States of Guernsey that they would 'step-in' if the States of Alderney were unable to service or repay the borrowing. If a loan is provided from the proceeds of the States of Guernsey bond issue, the States of Alderney would be required to 'step-in' should Alderney Electricity Limited not be able to make the payments and either service or repay the borrowing from its existing resources.
- 7.56 Therefore, **it is recommended that the Policy & Resources Committee is given delegated authority to make a loan from the capital raised by the States of Guernsey bond issue to Alderney Electricity Limited or to provide a guarantee to facilitate Alderney Electricity Limited's borrowing from third parties in order to fund the upgrade to the power station.** These delegated authorities would not obligate the Policy & Resources Committee to provide a loan or a guarantee; this decision and applicable terms would be considered by the Committee following a formal approach from the States of Alderney including confirmation that the financial forecasts within the business case support Alderney Electricity Limited being able to make the interest and capital repayments.

Aurigny

- 7.57 In November 2015 (Billet d'État XX, 2015), following consideration of a Policy Letter from the Treasury and Resources Department, the States resolved, *inter alia*, to approve the recapitalisation of Cabernet Ltd (Aurigny Group) in respect of its cumulative losses of £19.9million up to 31 December 2014 and its forecast losses of £5.3million for the years 2015 to 2017.
- 7.58 The States also agreed *"To authorise the Treasury and Resources Department to provide short-term borrowing facilities to the Aurigny Group"* and *"To direct the Treasury and Resources Department to report to the States of Deliberation with details of any short-term borrowing facilities provided to the Aurigny Group within six months of their provision, explaining the need for the facility."*
- 7.59 The following profile of losses for 2015 to 2017 were forecast in the Policy Letter:
- 2015 - £2.3million
 - 2016 - £1.5million
 - 2017 - £1.5million
- 7.60 The 2015 and 2016 results were losses of £2.6million and £5million respectively (excluding any adjustment arising from the application of Accounting Standard FRS102 which will 'reverse out' in future years). This means that all of the recapitalisation funds were used by the end of 2016 and Aurigny was in a negative balance sheet position of £2.3million. Due to the timings of the Company's cash-flows (primarily the large amount of money it receives from the advance sale of flight tickets), it did not need to request a borrowing facility in 2016.

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- 7.61 In respect of 2017, Aurigny is forecasting a loss of £6.8million which will put the company in a negative balance sheet position of £9.1million. As reported to the States in May 2017, the Policy & Resources Committee has agreed the Company's request for a temporary overdraft facility up to the end of 2017 (which is now estimated to be £6.3million).
- 7.62 The Policy & Resources Committee has recently led a strategic review of the role and objectives of Aurigny which resulted in a series of recommendations designed to ensure services are provided in a sustainable manner. The States' Trading Supervisory Board, in its role as shareholder, has considered the recommendations and Aurigny has recently started to respond. It has introduced measures to improve its financial performance including: the withdrawal of its London City service; plans to sub-lease the aircraft used to operate the London City route; and the introduction of a new fare structure designed to increase passenger numbers and revenues.
- 7.63 For 2018, a loss of £3.9million is anticipated (£3.6million ongoing), which includes an expected loss of £3.2million in respect of the Alderney routes (based on current services levels; demand and pricing). The company has an estimated cash requirement of £11.8million in 2018 and **it is recommended that the States endorses the decision of the Policy & Resources Committee to make available a temporary overdraft facility to Aurigny of £11.8million in 2018.**
- 7.64 The strategic review highlighted the need for a Public Service Agreement to be put in place in respect of the Alderney lifeline services and it is understood that a policy letter on air route licensing will be submitted by the Committee *for* Economic Development for consideration by the end of this year which will address the this matter. Therefore, the level and source of funding for such an agreement will need to be determined as it could be considered that it would not be appropriate for General Revenue to fund it on an ongoing basis at the same level as the losses currently being incurred.
- 7.65 Until such time as alternative arrangements are put in place for funding the operation of the Alderney services, the expected loss of £3.2million per annum will need to be funded by General Revenue (either through annual subsidy or periodic recapitalisation). In respect of the relatively small ongoing residual losses on Aurigny's remaining operations (estimated to be £400,000 per annum), it is hoped that, in accordance with the proposed shareholder objectives recommended in the Strategic Review, the company will be able to move to a sustainable operating surplus year on year.
- 7.66 The anticipated accumulated losses of £13million up to the end of 2018 are being provided for within the General Revenue Account Reserve. Clearly, this is not a sustainable position and, unless there is a reasonable prospect of Aurigny returning to profit and being able to reduce / eliminate these accumulated losses, there will be a need for the States to again recapitalise the company, either from the General Revenue Account Reserve or from the Capital Reserve.

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Alderney

7.67 In February 2016 (Billet d'État II, 2016), the States considered a Policy Letter from the Policy Council titled *"The Review of the Financial Relationship between Guernsey and Alderney"* and, agreed in principle, that the financial arrangements be modified such that:

- Guernsey retains responsibility to fund all Transferred Services, and the Social Security Funds, through the pooled income sources of Income Tax and Social Security Contributions;
- The States of Alderney is responsible for funding all other public services in Alderney (including the harbour, drainage (foul and surface water), roads, coastal defences and water), from all other levies, rates, taxes, permit fees, rents, duties and other income collected from sources based in Alderney (such as tax on real property, occupiers' rates, import duties and excise duties, fees in lieu of Congé, document duty, numismatic and philatelic profits, and company registration fees.

7.68 In order to enable the revised arrangements to be introduced, the States of Alderney needs to amend their existing Occupier's Rates system (which uses the existing Cadastre register) in order to levy one property tax. This requires primary legislation and it is anticipated that this will be initiated during 2018 with the intention that phase 1 of the modified financial arrangements will, subject to the formal approval of the States of Alderney, be proposed in the 2019 Budget Report as follows:

- The Tax on Real Property (TRP) rates in respect of Alderney buildings will be set at £zero. The 2018 budget for this income is £870,000;
- The excise duty on Motor Fuel imports into Alderney will be set at £zero. The 2018 budget for this income is £350,000;
- The document duty on conveyances of Alderney property which is paid to General Revenue is paid to the States of Alderney. The 2018 budget for this income is £300,000;
- A commensurate reduction is made to the recommended 2019 Cash Limit for the States of Alderney. The estimated reduction is £1.52million which would reduce the Cash Limit to £300,000 per annum.

7.69 The future treatment of the Alderney Gambling Control Commission surpluses and funding arrangements for the States of Alderney capital requirements, Alderney Airport and air routes are key elements of future phases of the Review and work is ongoing to consider these and proposals will be included in future Budget Reports.

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7.70 The States of Alderney have recently advised that they have either incurred expenditure; entered into expenditure commitments; or anticipate expenditure pressures for which an appropriate funding source has not been identified and approved totalling £435,000 in 2017 and £105,000 on 2018:

	2017 £'000	2018 £'000
FAB (France-Alderney-Britain) Link – expert advice and negotiation support	185	75
Land Use Plan – largely associated with FAB link	130	-
Brexit advice	30	30
UK Overseas Territories & Crown Dependencies visit	30	-
Chief Executive – overlap and appointment ^z	60	-
Balance	435	105

7.71 The Policy & Resources Committee considers that the most appropriate source of funding for these non-recurring items is from the Alderney Gambling Control Commission surpluses which, as approved in the 2017 Budget Report, are transferred to the States of Alderney capital allocation up to 31 December 2019.

7.72 Therefore, it is **recommended that the transfer of a maximum of £435,000 in 2017 and £105,000 from the States of Alderney capital allocation to the States of Alderney revenue budget is approved.** The Committee is naturally concerned that the level of oversight and governance being exercised by the States of Alderney may be weak and inadequate. Therefore, it will work closely at officer level to ensure that revised control measures over authorisation of expenditure and budgetary control are implemented, appropriate and effective.

7.73 In addition, this additional expenditure highlights a risk which needs to be considered and mitigated as to how the States of Alderney will be able to manage such un-anticipated material increases in expenditure or decreases in income under the revised financial relationship. These kinds of shocks will be difficult for the States of Alderney to manage within such a limited overall budget and the Policy & Resources Committee intends to work with the States of Alderney further on this matter to ensure the sustainability of any future arrangements.

^z The recommended 2018 Cash Limit for the States of Alderney includes specific one-off provision of £20,000 in respect of the anticipated costs for the relocation and overlap period for the permanent Chief Executive postholder.

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Payments to States Members

- 7.74 In January 2016, following consideration of the Policy Council's policy letter on the Review of States Members and Non-States Members Pay (Billet d'État I, 2016), the States approved revised arrangements for States Members and Non-States Members pay and directed *"The Policy and Resources Committee to present to the States of Deliberation for approval the necessary amendments to the Rules for Payments to States Members, Former States Members and Non-States Members of States Departments and Committees....."*.
- 7.75 As the pay arrangements for States Members and Non-States Members were substantially changed those sections of the Rules have been rewritten. The revised Rules which have been amended in line with the decisions made by the States in January 2016 are attached in full as Appendix II.
- 7.76 In administering the new system, one issue has come to light; namely whether the non-voting members on the Legislation Review Panel (which is appointed as a statutory sub-committee by the Scrutiny Management Committee) should be able to claim the Non-States Member Allowance. Given the responsibilities of the Panel and its statutory functions, the Committee believes that it is appropriate that persons elected to the Panel should be able to claim the Non-States Member Allowance and Section II, paragraph 1 of the revised Rules reflects that.
- 7.77 It is **recommended that the States approve the revised Rules for Payments to States Members, Non- States Members and Former States Members attached as Appendix II.**

The Excise Duties (Budget) Ordinance, 2017

THE STATES, in pursuance of their Resolution of the 7th November 2017 and in exercise of the powers conferred on them by sections 23C(3) and 23K of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended^a, and all other powers enabling them in that behalf, hereby order:-

Amendment of Fourth Schedule to the Law.

1. In the Fourth Schedule to the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended, for the tables in paragraphs 1 to 7 under "GOODS LIABLE TO EXCISE DUTY; & RATES OF EXCISE DUTY" substitute the following-

"1. Tobacco and tobacco products -

(a)	Cigarettes	£339.83 per kilo
(b)	Cigars	£338.29 per kilo
(c)	Hand rolling tobacco	£315.03 per kilo
(d)	Other manufactured tobacco	£273.25 per kilo
(e)	Tobacco leaf – unstemmed	£303.34 per kilo
(f)	Tobacco leaf – stemmed	£306.38 per kilo

^a Ordres en Conseil Vol. XXIII, p.573; as amended by Vol. XXIV, p.87; Vol. XXXI, p. 278; Vol. XXXIII, p. 217; Order in Council No. X of 2004; No. XIV of 2007; No. II of 2010; No. XV of 2012; Recueil d'Ordonnances Tome XXIX, p. 406; Tome XXXII, pp. 607 and 668; Tome XXXIII, p. 38; Ordinance No. XLIII of 2013; No. IX of 2016; and No. XXXI of 2016.

2. Petrol and gas oil -

- (a) Petrol other than any fuel used for the purpose of air navigation (and subject to (b)) 67p per litre
- (b) Petrol used for the purpose of marine navigation 43.9p per litre where supplied by an approved trader except where supplied to an approved trader in which case 67p per litre^b
- (c) Gas oil 67p per litre

3. Other fuels -

Biodiesel 67p per litre

For the purposes of calculating the excise duty applicable to any biodiesel -

- (a) any computation of the volume of biodiesel shall be made in litres as at 15 degrees Celsius, and
- (b) where any colouring matter or substance commonly added for the purpose of improving or modifying the quality or characteristics of biodiesel as a fuel is added

^b The circumstances in which the different rates may apply shall be specified by the Committee by Order.

to biodiesel prior to its delivery, then the volume of that biodiesel shall be determined by reference to the total volume including such additives.

4. Beer -

- (a) Beer exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume 49p per litre
- (b) Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume 49p per litre
- (c) Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume 79p per litre
- (d) Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume 63p per litre
- (e) Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume 99p per litre
- (f) Beer exceeding 7.5 per cent volume £1.14 per litre

5. Spirits -

Spirits	£35.66 per litre of alcohol contained in the liquor, calculated in accordance with section 23D
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6. Cider -

- | | |
|---|-----------------|
| (a) Cider exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume | 49p per litre |
| (b) Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume | 49p per litre |
| (c) Cider, other than cider produced by an independent small cider-maker, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume | 79p per litre |
| (d) Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume | 63p per litre |
| (e) Cider, other than cider produced by an independent small cider-maker, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume | 99p per litre |
| (f) Cider exceeding 7.5 per cent volume | £1.14 per litre |

7. Wines -

- (a) Light wines not exceeding 5.5 per cent 62p per litre volume
- (b) Light wines exceeding 5.5 per cent volume £2.51 per litre but not exceeding 15 per cent volume (including sparkling wines)
- (c) Other wines £4.01 per litre".

Extent.

2. This Ordinance shall have effect in the Islands of Guernsey, Alderney, Herm and Jethou.

Repeals.

3. The Excise Duties (Budget) Ordinance, 2016^c is repealed.

Citation.

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2017.

Commencement.

5. This Ordinance shall come into force on the 7th November, 2017.

^c Ordinance No. XXXI of 2016.

The Taxation of Real Property

(Guernsey and Alderney)

(Amendment) Ordinance, 2017

THE STATES, in pursuance of their resolution of the 7th November, 2017 and in exercise of the powers conferred upon them by sections 1 and 2 of the Taxation of Real Property (Enabling Provisions) (Guernsey and Alderney) Law, 2005^a, hereby order:-

Rates of property tax.

1. For the tables in Part I of Schedule 1 to the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007^b substitute the tables in the Schedule to this Ordinance.

Definition of "legal services".

2. In Part III of Schedule 1 to the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007, after the definition of "industrial" insert the following definition -

""**legal services**"" property means real property owned or occupied for the purpose of carrying on the business of a lawyer, notary or other independent legal professional (and for the purposes of this Ordinance an

^a Order in Council No. X of 2006.

^b Recueil d'Ordonnances Tome XXXII, p. 504, as amended by Ordinance No. XXXII of 2016; there are other amendments not material to this Ordinance.

"independent legal professional" does not include legal professionals employed by -

- (a) public authorities, or
- (b) undertakings which do not by way of business provide legal services to third parties),”.

Repeal.

3. The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2016^a is repealed.

Extent.

4. This Ordinance shall have effect in the Islands of Guernsey, Alderney and Herm.

Citation and commencement.

5. This Ordinance may be cited as the Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2017.

Commencement.

6. This Ordinance shall come into force on the 1st January, 2018.

^a Ordinance No. XXXII of 2016.

SCHEDULE

Section 1

TABLE (A)
GUERNSEY REAL PROPERTY
GUERNSEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1	Domestic (whole unit) Local Market	£1.52
B1.2	Domestic (flat) Local Market	£1.52
B1.3	Domestic (glasshouse) Local Market	5p
B1.4	Domestic (outbuildings) Local Market	76p
B1.5	Domestic (garaging and parking) (non-owner-occupied) Local Market	£1.52
B2.1	Domestic (whole unit) Open Market	£1.52
B2.2	Domestic (flat) Open Market	£1.52
B2.3	Domestic (glasshouse) Open Market	5p
B2.4	Domestic (outbuildings) Open Market	76p
B2.5	Domestic (garaging and parking) (non-owner-occupied) Open Market	£1.52
B3.1	Domestic (whole unit) Social Housing	Zero
B3.2	Domestic (flat) Social Housing	Zero
B3.3	Domestic (glasshouse) Social Housing	Zero
B3.4	Domestic (outbuildings) Social Housing	Zero
B3.5	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1	Hostelry and food outlets	£5.80
B4.2	Self-catering accommodation	£3.60
B4.3	Motor and marine trade	£4.90
B4.4	Retail	£10.00
B4.5	Warehousing	£5.30
B4.6	Industrial and workshop	£4.25
B4.7	Recreational and sporting premises	£2.45
B4.8	Garaging and parking (non-domestic)	£5.30
B5.1	Utilities providers	£41.40
B6.1	Office and ancillary accommodation (regulated finance industries)	£38.65
B6.2	Office and ancillary accommodation (other than regulated finance industries and legal services)	£12.90
B6.3	Office and ancillary accommodation (legal services)	£38.65
B7.1	Horticulture (building other than a glasshouse)	5p
B8.1	Horticulture (glasshouse)	5p
B9.1	Agriculture	5p
B10.1	Publicly owned non-domestic	Zero
B11.1	Exempt (Buildings)	Zero
B12.1	Buildings – Penal Rate	Zero
B13.1	Development buildings (domestic)	76p
B13.2	Development buildings (non-domestic)	£5.50

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1	Communal (flat) Local Market	20p
L1.2	Communal (flat) Open Market	20p
L1.3	Hostelry and food outlets	40p
L1.4	Self-catering accommodation	40p
L1.5	Motor and marine trade	40p
L1.6	Retail	40p
L1.7	Warehousing	40p
L1.8	Industrial	40p
L1.9	Recreational and sporting premises	40p
L1.10	Office and ancillary accommodation (regulated finance industries)	£1.32
L1.11	Office and ancillary accommodation (other than regulated finance industries and legal services)	44p
L1.11.2	Office and ancillary accommodation (legal services)	
L1.12	Utilities providers	40p
L2.1	Approved development site	£1.32
L3.1	Domestic Local Market	20p
L3.2	Domestic Open Market	20p
L3.3	Horticulture	20p
L3.4	Agriculture	20p
L3.5	Domestic Social Housing	Zero
L3.6	Publicly owned non-domestic	Zero
L4.1	Exempt (Land)	Zero
L5.1	Land – Penal Rate	Zero
L6.1	Garaging and parking (non-domestic)	40p

TABLE (B)
ALDERNEY REAL PROPERTY
ALDERNEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1A	Domestic (whole unit)	£1.52
B1.2A	Domestic (flat)	£1.52
B1.3A	Domestic (glasshouse)	5p
B1.4A	Domestic (outbuildings)	76p
B1.5A	Domestic (garaging and parking) (non-owner-occupied)	£1.52
B3.1A	Domestic (whole unit) Social Housing	Zero
B3.2A	Domestic (flat) Social Housing	Zero
B3.3A	Domestic (glasshouse) Social Housing	Zero
B3.4A	Domestic (outbuildings) Social Housing	Zero
B3.5A	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1A	Hostelry and food outlets	£5.80
B4.2A	Self-catering accommodation	£3.60
B4.3A	Motor and marine trade	£4.90
B4.4A	Retail	£10.00
B4.5A	Warehousing	£5.30
B4.6A	Industrial and workshop	£4.25
B4.7A	Recreational and sporting premises	£2.45
B4.8A	Garaging and parking (non-domestic)	£5.30
B5.1A	Utilities providers	£41.40
B6.1A	Office and ancillary accommodation (regulated finance industries)	£38.65
B6.2A	Office and ancillary accommodation (other than regulated finance industries and legal services)	£12.90
B6.3A	Office and ancillary accommodation (legal services)	£38.65
B7.1A	Horticulture (building other than a glasshouse)	5p
B8.1A	Horticulture (glasshouse)	5p
B9.1A	Agriculture	5p
B10.1A	Publicly owned non-domestic	Zero
B11.1A	Exempt (Buildings)	Zero
B12.1A	Buildings – Penal Rate	Zero
B13.1A	Development building (domestic)	76p
B13.2A	Development building (non-domestic)	£5.50

ALDERNEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1A	Communal (flat)	Zero
L1.3A	Hostelry and food outlets	Zero
L1.4A	Self-catering accommodation	Zero
L1.5A	Motor and marine trade	Zero
L1.6A	Retail	Zero
L1.7A	Warehousing	Zero
L1.8A	Industrial	Zero
L1.9A	Recreational and sporting premises	Zero
L1.10A	Office and ancillary accommodation (regulated finance industries)	Zero
L1.11A	Office and ancillary accommodation (other than regulated finance industries and legal services)	Zero
L1.11.2A	Office and ancillary accommodation (legal services)	Zero
L1.12A	Utilities providers	Zero
L2.1A	Approved development site	Zero
L3.1A	Domestic	Zero
L3.3A	Horticulture	Zero
L3.4A	Agriculture	Zero
L3.5A	Domestic Social Housing	Zero
L3.6A	Publicly owned non-domestic	Zero
L4.1A	Exempt (Land)	Zero
L5.1A	Land – Penal Rate	Zero
L6.1A	Garaging and parking (non-domestic)	Zero

TABLE (C)
HERM REAL PROPERTY
HERM BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1H	Domestic (whole unit)	Zero
B1.2H	Domestic (flat)	Zero
B1.3H	Domestic (glasshouse)	Zero
B1.4H	Domestic (outbuildings)	Zero
B1.5H	Domestic (garaging and parking) (non-owner-occupied)	Zero
B3.1H	Domestic (whole unit) Social Housing	Zero
B3.2H	Domestic (flat) Social Housing	Zero
B3.3H	Domestic (glasshouse) Social Housing	Zero
B3.4H	Domestic (outbuildings) Social Housing	Zero
B3.5H	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1H	Hostelry and food outlets	Zero
B4.2H	Self-catering accommodation	Zero
B4.3H	Motor and marine trade	Zero
B4.4H	Retail	Zero
B4.5H	Warehousing	Zero
B4.6H	Industrial and workshop	Zero
B4.7H	Recreational and sporting premises	Zero
B4.8H	Garaging and parking (non-domestic)	Zero
B5.1H	Utilities providers	Zero
B6.1H	Office and ancillary accommodation (regulated finance industries)	Zero
B6.2H	Office and ancillary accommodation (other than regulated finance industries and legal services)	Zero
B6.3H	Office and ancillary accommodation (legal services)	Zero
B7.1H	Horticulture (building other than a glasshouse)	Zero
B8.1H	Horticulture (glasshouse)	Zero
B9.1H	Agriculture	Zero
B10.1H	Publicly owned non-domestic	Zero
B11.1H	Exempt (Buildings)	Zero
B12.1H	Buildings – Penal Rate	Zero
B13.1H	Development buildings (domestic)	Zero
B13.2H	Development buildings (non-domestic)	Zero

HERM LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1H	Communal (flat)	Zero
L1.3H	Hostelry and food outlets	Zero
L1.4H	Self-catering accommodation	Zero
L1.5H	Motor and marine trade	Zero
L1.6H	Retail	Zero
L1.7H	Warehousing	Zero
L1.8H	Industrial	Zero
L1.9H	Recreational and sporting premises	Zero
L1.10H	Office and ancillary accommodation (regulated finance industries)	Zero
L1.11H	Office and ancillary accommodation (other than regulated finance industries and legal services)	Zero
L1.11.2H	Office and ancillary accommodation (legal services)	Zero
L1.12H	Utilities providers	Zero
L2.1H	Approved development site	Zero
L3.1H	Domestic	Zero
L3.3H	Horticulture	Zero
L3.4H	Agriculture	Zero
L3.5H	Domestic Social Housing	Zero
L3.6H	Publicly owned non-domestic	Zero
L4.1H	Exempt (Land)	Zero
L5.1H	Land – Penal Rate	Zero
L6.1H	Garaging and parking (non-domestic)	Zero

SUMMARY OF BUDGET PROPOSALS - INDIRECT TAXATION**Duty on Tobacco**

2018	7.8% increase 10.3% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2017	5.6% increase 8.1% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2016	6.5% increase 9% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2015	5.5% increase	(RPI plus 3%)	2011	4.6% increase	(RPI plus 3%)
2014	5.7% increase	(RPI plus 3%)	2010	15% increase	
2013	6% increase	(RPI plus 3%)	2009	8.5% increase	(RPI plus 3%)
2012	6.5% increase	(RPI plus 3%)	2008	7.7% increase	(RPI plus 3%)

Duty on Alcohol

2018	5% increase	2012	3% increase
2017	5% increase	2011	3.5% increase
2016	5% increase	2010	15% increase on spirits only
2015	5% increase	2009	5.5% increase
2014	5% increase	2008	20% increase
2013	3% increase		

Duty on Fuel

2018	5.5% (to maintain the real value of income received)		
2017	8.5% increase		
2016	12.9% increase (to restore the real value of the motor tax element)		
2015	6.1% increase	2011	10.8% increase
2014	5% increase	2010	15% increase
2013	3.3% increase	2009	6.9% increase
2012	9.8% increase	2008	7.4% increase

Document Duty

2018	No change
2017	Change to a graduated based system of calculating duty
2015-2016	No change
2014	Increase in thresholds and temporary rate reductions for lower bands
2008-2013	No change

Tax on Rateable Value / Tax on Real Property

2018	10.2% increase 5% increase	Domestic Commercial
2017	10.5% increase 5% increase	Domestic Commercial
2016	10% increase 2.5% increase 5% increase	Domestic Retail Commercial (other than retail)
2015	15% increase 5% increase 10% increase	Domestic Retail Commercial (other than retail)
2014	5% increase	
2013	3% increase	
2012	20% increase 3% increase	Domestic Commercial
2011	20% increase 3.5% increase	Domestic Commercial
2010	10% increase	
2009	5.5% increase 25% increase 50% increase	Domestic and Commercial Office and ancillary accommodation (other than regulated finance industries) Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land
2008	100% increase 400% increase	Commercial, utilities and recreational / sporting buildings and land Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land

**RULES FOR PAYMENTS TO STATES MEMBERS, NON-STATES MEMBERS
AND FORMER STATES MEMBERS**

INDEX

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SECTION I**RULES FOR PAYMENTS TO STATES MEMBERS*****Definition of States Members***

1. For the purpose of this section of the Rules a States Member means any People's Deputy or Alderney Representative in the States of Deliberation (but not an alternative Representative elected or appointed under the States of Guernsey (Representation) Law, 1978).

Remuneration

2. Subject to the conditions set out in paragraph 3 below the following remuneration, which shall be subject to tax, is available to States Members:

People's Deputies

	Basic Remuneration	* Uplift for Social Security	Total
President of the Policy and Resources Committee	£63,315	£2,849	£66,164
Presidents of the Principal Committees, President of the Scrutiny Management Committee and members of the Policy and Resources Committee	£48,648	£2,189	£50,837
All other Deputies	£36,009	£1,620	£37,629
* The uplift for Social Security (i.e. the difference between the contribution rates of employed and self-employed persons) is not payable to Members aged 65 and over			

Alderney Representatives

	Basic Remuneration	* Uplift for Social Security	Total
President of the Policy and Resources Committee	£41,523	£1,869	£43,392
Presidents of the Principal Committees, President of the Scrutiny Management Committee and members of the Policy and Resources Committee	£26,857	£1,209	£28,066
With a seat on a Committee, the Transport Licensing Authority, the Development & Planning Authority or the States' Trading Supervisory Board	£19,875	£894	£20,769
All other Alderney Representatives	£11,759	£529	£12,288
* The uplift for Social Security (i.e. the difference between the contribution rates of employed and self-employed persons) is not payable to Members aged 65 and over			

Conditions

3. (i) The Remuneration and Allowances specified in paragraph 2 above shall be payable by monthly instalments in arrears.
- (ii) For the avoidance of doubt, following a General Election, Members elected to the position of President of the Policy & Resources Committee; President of the Principal Committees, Scrutiny Management Committee and States Assembly & Constitution Committee; Members of the Policy & Resources Committee or an Alderney Representative elected to a seat on a Committee / Authority / Board shall be entitled to claim the additional allowance for that position with effect from the first day of the month following the General Election.
- (iii) The Remuneration shall terminate on the last day of the month in which a Member ceases to hold a seat in the States of Deliberation.

- (iv) The higher level of remuneration payable to the President of the Policy & Resources Committee; President of the Principal Committees, Scrutiny Management Committee and States Assembly & Constitution Committee; Members of the Policy & Resources Committee and Alderney Representative who holds a seat on a Committee / Authority / Board shall terminate on the last day of the month in which a member ceases to hold the position in respect of which the higher level of remuneration is payable.
- (v) In the event that a President of a Principal Committee, the Scrutiny Management Committee or the States Assembly & Constitution Committee is unable to fulfil his or her duties for a period in excess of four weeks and the Vice-President takes on the full responsibilities of the post, his or her remuneration will temporarily increase to the level of a President.

SECTION II**RULES FOR PAYMENTS TO NON-STATES MEMBERS and to ALTERNATIVE ALDERNEY REPRESENTATIVES*****Definition of Non-States Members***

1. For the purpose of this section of the Rules a Non-States Member means any Member of the six Principal Committees, the Scrutiny Management Committee (including the Legislation Review Panel), the Transport Licensing Authority, the Development & Planning Authority and the States' Trading Supervisory Board.

Remuneration

2. Subject to the conditions set out in paragraph 3 below the following remuneration, which shall be subject to tax, is available to Non-States Members:

Non-States Member with a seat on the States' Trading Supervisory Board: £8,000

Any Other Non-States Member: £2,000

Alternative Alderney Representative

3. Any Alternative Alderney Representative shall be entitled upon application to the President of the Policy & Resources Committee to be awarded in respect of his attendance at a properly convened meeting of the States of Deliberation which he has been appointed to attend, pursuant to section 4 of the States of Guernsey (Representation of Alderney) Law, 1978 an attendance allowance not exceeding £70 per half-day or part thereof (rate applicable from 1 May 2017), which sum shall be subject to tax.
4. Applications for an allowance payable under the provisions of paragraph 3 above should be made to the President of the Policy & Resources Committee in respect of meetings attended in the three month periods ending on the last day of March, the last day of June, the last day of September and the last day of December. Applications should be received by the President not later than the last day of the month next following the period in respect of which the application is made. Alternatively, claims may be made in respect of meetings attended in each calendar month, in which case applications should be received not later than the last day of the month next following the above three month period in which the month falls. Applications received after the time limits specified above shall not be granted.

SECTION III

RULES FOR PAYMENT OF PENSIONS TO FORMER STATES MEMBERS, THEIR SURVIVING SPOUSES AND DEPENDANT CHILDREN

Definition of Former States Members

1. For the purpose of this Scheme a Former States Member means any Conseiller, any Deputy (excluding representatives of the States of Alderney) and any Douzaine Representative in the States of Deliberation, who:
 - (i) no longer has a seat in the States of Deliberation, and
 - (ii) has in the aggregate held a seat in the States of Deliberation for a period of four years or more, and
 - (iii) (a) has attained the age of 65 years, or
 - (b) has died before attaining the age of 65 years.

Pension

2. Subject to the conditions set out in rule 5 and in accordance with the rates of payment set out in Schedule 1 to these Rules:
 - (A) **Former States Members who ceased to hold office on or before 31st December, 1989 (Non-contributory Scheme)**
 - (a) Former States Members who ceased to be Members of the States on or before the 31st December, 1989, shall be entitled to claim a pension of up to Rate D per week for each year of service in the States of Deliberation;
 - (b) where sub-paragraph 1 (iii) (a) applies, the surviving spouse of a Former States Member shall be entitled to claim a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent remarriage;
 - (c) where sub-paragraph 1 (iii) (b) applies, the surviving spouse of a Former States Member shall be entitled to claim a pension amounting to Rate E per week for each year of service of the Former States Member, subject to such pension ceasing in the event of a subsequent remarriage;
 - (d) where there is no surviving spouse but there is a dependant child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Committee may determine on behalf of that dependant child (and, if more than one, in equal shares).

(B) Former States Members who ceased to hold office on or before 30th April, 2004 (1st January, 1990 up to and including 30th April, 2004 Contributory Scheme)

- (a) Former States Members who ceased to be Members of the States on or before 30th April, 2004, shall be entitled:
- (i) in respect of service up to and including the 31st December, 1989, to a pension of Rate D per week for each year of service in the States of Deliberation; and
 - (ii) in respect of service from 1st January, 1990, unless they opt out in accordance with the rules of the Scheme, to a pension of Rate B per week for each year of service in the States of Deliberation;
- (b) where sub-paragraph 1(iii)(a) applies, the surviving spouse of a Former States Member shall be entitled to a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent re-marriage;
- (c) where sub-paragraph 1 (iii)(b) applies, the surviving spouse of a Former States Member shall be entitled to a pension amounting to Rate E per week for each year of service of the Former States Member prior to 31st December, 1989, and Rate D per week for each year of service of the Former States Member after 1st January, 1990, subject to such pension ceasing in the event of a subsequent re-marriage;
- (d) where there is no surviving spouse but there is a dependant child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Committee may determine on behalf of that dependant child (and, if more than one, in equal shares).

(C) Other Members (1st May 2004 up to and including 30th April, 2012 Contributory Scheme)

- (a) Members of the States who become Former States Members on or after 1st May, 2004, shall be entitled
 - (i) in respect of service up to and including the 31st December, 1989, to a pension of Rate D per week for each year of service in the States of Deliberation;
 - (ii) in respect of service from 1st January, 1990 up to and including 30th April, 2004, unless they opt out in accordance with the rules of the Scheme, to a pension of Rate B per week for each year of service in the States of Deliberation; and
 - (iii) in respect of service from 1st May, 2004 up to and including 30th April 2012, unless they opted out in accordance with the rules of the Scheme, to a pension of Rate A per week for each year of service in the States of Deliberation;
- (b) where sub-paragraph 1(iii)(a) applies, the surviving spouse of a Former States Member shall be entitled to a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent re-marriage;
- (c) where sub-paragraph 1 (iii)(b) applies, the surviving spouse of a Former States Member shall be entitled to a pension amounting to Rate E per week for each year of service of the Former States Member prior to 31st December, 1989, Rate D per week for each year of service of the Former States Member from 1st January, 1990 up to and including 30th April, 2004 and Rate C per week for each year of service of the Former States Member from 1st May, 2004 up to and including 30th April 2012, subject to such pension ceasing in the event of a subsequent re-marriage;
- (d) where there is no surviving spouse but there is a dependant child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Committee may determine on behalf of that dependant child (and, if more than one, in equal shares).

Pension Fund

3. There shall be a fund entitled the "States Members Pension Fund".
 - (a) There shall be paid into the Fund -
 - (i) contributions from the States Members up to and including 30th April 2012;
 - (ii) contributions from the States of Guernsey, of such amounts as the Committee may from time to time resolve.
 - (b) There shall be paid out of the Fund -
 - (i) pensions in accordance with these Rules;
 - (ii) refunds of contributions in accordance with these Rules;
 - (iii) transfers of accrued benefits in accordance with these Rules;
 - (iv) investment and professional fees and other expenses of investment.
 - (c) The Fund shall be invested by the Committee in a similar manner to the assets of the fund authorised under the States of Guernsey (Public Servants) (Pensions and other Benefits) Rules, 1972 as amended.
 - (d) The Committee shall appoint an actuary and arrange for actuarial reviews to be effected from time to time.

Repayments and transfers of benefits

4.
 - (a) Any Member who has contributed to the Fund but who does not qualify for a Pension in accordance with these rules or who opts out in accordance with the rules of the Scheme shall be entitled to repayment of the aforementioned contributions together with compound interest thereon at the rate of three per centum per annum with yearly rests at the 31st December in each year.
 - (b) Any Member who has contributed to the Fund shall be entitled to transfer accrued benefits in respect of all service into alternative pension arrangements, on terms to be advised by the States Actuary.

Conditions

- 5 (a) Pensions to Former States Members who ceased to be Members of the States on or before the 31st December, 1989, shall be payable following application in writing to the President of the Committee and claims will be back-dated only to the first day of the month in which the application is made. No retrospective payments shall otherwise be made.
- (b) Pensions to Members of the States who become Former States Members on or after the 1st January, 1990, shall be paid without application.
- (c) The pension specified in paragraph 2 above shall be payable by monthly instalments in arrears.
- (d) Any amount specified in rule 2 may be varied by resolution of the Committee in accordance with section IV.
- (e) A Member of the States may opt out of the 1st January, 1990 to 30th April, 2004 Contributory Scheme by notifying the Committee in writing accordingly, and if he does so then:
- (i) no pension shall be payable under rule 2(B) in respect of his service from 1st January 1990 up to and including 30th April, 2004; and
 - (ii) rule 4(a) shall cease to apply in his case; and
 - (iii) he shall be entitled to repayment of his contributions together with compound interest at three per centum per annum with yearly rests at each 31st December; and
 - (iv) it is declared for the avoidance of doubt that he may not thereafter seek to gain entitlement to such a pension by paying contributions.
- (f) A Member of the States may opt out of the 1st May, 2004 to 30th April, 2012 Contributory Scheme by notifying the Committee in writing accordingly, and if he does so then:
- (i) No pension shall be payable under rule 2(C) in respect of his service from 1st May, 2004; and
 - (ii) rule 4(a) shall cease to apply in his case; and

- (iii) he shall be entitled to repayment of his contributions together with compound interest at three per centum per annum with yearly rests at each 31st December; and
- (iv) it is declared for the avoidance of doubt that he may not thereafter seek to gain entitlement to such a pension by paying contributions.

General Interpretation

6 In these rules:

- (a) the masculine includes the feminine, the singular includes the plural, and vice versa;
- (b) a child is "dependant" if -
 - (i) he is under eighteen or is in full time education; and
 - (ii) he was, in the opinion of the Committee, wholly or mainly dependant on the former States Member concerned at the date of the latter's death;
- (c) "the Committee" means the States of Guernsey Policy & Resources Committee;
- (d) "Compensation Payment" means the payment available to States Members prior to 1st May, 2004;
- (e) "Basic Allowance" means the payment available to States Members from 1st May 2004 to 30th April 2012;
- (f) "the Fund" means the States Members pension fund created pursuant to rule 3 of these rules.

SECTION IV**GENERAL RULES**

1. The remuneration of States Members, Non-States Members and attendance allowance for Alternative Alderney Representatives shall be automatically adjusted annually on 1st May, based on any percentage change in median earnings for the previous year. In the event of a negative change, no adjustment shall be made. Should a percentage increase occur in the year following a negative change, the adjustment shall reflect the percentage change from the year preceding the negative change.
2. At the beginning of a political term, any States Member or Non-States Member who chose to accept remuneration would be required to decide either to accept or reject any changes in such remuneration that might result from any changes in median earnings during the relevant political term.
3. The Policy & Resources Committee shall publish as soon as practicable in an Appendix to a Billet d'État the total remuneration received during the previous calendar year by each States Member in respect of his or her performance of States business.
4. In each year prior to 1st May, the Policy & Resources Committee shall review the amounts payable under Section III hereof, having regard to the change in the Guernsey Index of Retail Prices (RPIX) since those amounts were last determined and shall amend the said amounts accordingly.

COMMENCEMENT

These Rules shall take effect on 1st May 2016.

SCHEDULE 1

The Rates of Payment specified in Section III paragraph 2 of these Rules shall, with effect from the 1st May 2016, be as follows:

Rate A	£11.68
Rate B	£8.53
Rate C	£5.84
Rate D	£4.26
Rate E	£2.14

POLICY & RESOURCES COMMITTEE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
2,337	3,609	Operating Income	3,880
Non Formula-Led Expenditure			
20,650	21,544	Pay costs	22,346
Non Pay costs			
2,900	2,625	<i>Staff Non Pay costs</i>	2,522
11,850	12,812	<i>Support Services</i>	12,991
340	420	<i>Premises</i>	407
1,000	1,014	<i>Third Party Payments</i>	947
9	10	<i>Transport</i>	11
440	655	<i>Supplies & Services</i>	691
-	(950)	<i>Balance of Budget Reduction</i>	(525)
16,539	16,586		17,044
34,852	34,521	Net Non Formula-Led Expenditure by Category	35,510
Formula-Led Expenditure			
1,893	1,900	Third Party Payments	1,900
1,893	1,900	Formula-Led Expenditure by Category	1,900
36,745	36,421	Total Net Expenditure by Category	37,410

POLICY & RESOURCES COMMITTEE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure			
Core Services			
866	733	<i>Central Services</i>	586
1,351	1,182	<i>External Affairs</i>	1,397
4,391	4,180	<i>Income Tax</i>	4,197
1,123	1,313	<i>Policy</i>	1,644
716	756	<i>Treasury</i>	823
8,447	8,164		8,647
Corporate Functions			
482	491	<i>Assurance and Risk</i>	483
250	268	<i>Communications</i>	274
2,548	2,411	<i>Finance</i>	2,245
-	-	<i>General Data Protection Regulation</i>	377
6,290	5,835	<i>Human Resources</i>	5,742
10,181	11,337	<i>Information Systems & Services</i>	11,405
1,875	1,875	<i>Insurance</i>	1,925
284	379	<i>Procurement</i>	374
3,680	3,872	<i>Shared Services Centre</i>	3,721
3	14	<i>Tribunals</i>	19
25,593	26,482		26,565
63	52	Commonwealth Parliamentary Association	52
749	773	HE Lieutenant Governor	771
-	(950)	Balance of Budget Reduction	(525)
34,852	34,521		35,510
Formula-Led Expenditure			
1,893	1,900	Payments to States Members	1,900
1,893	1,900		1,900
36,745	36,421	Net Expenditure by Service Area	37,410

COMMITTEE *for* ECONOMIC DEVELOPMENT

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
714	663	Operating Income	608
Non Formula-Led Expenditure			
2,690	2,725	Pay costs	2,881
		Non Pay costs	
43	31	<i>Staff Non Pay costs</i>	35
2,397	2,515	<i>Support Services</i>	2,374
78	88	<i>Premises</i>	83
1,218	1,252	<i>Third Party Payments</i>	1,112
59	67	<i>Transport</i>	77
320	280	<i>Supplies & Services</i>	281
4,115	4,233		3,962
6,091	6,295	Net Non Formula-Led Expenditure by Category	6,235

COMMITTEE *for* ECONOMIC DEVELOPMENT

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure			
604	612	Central Services	592
5	4	Civil Aviation Office	11
Finance and Economic Development			
619	665	<i>Finance Sector Development</i>	791
375	458	<i>Business Innovation and Skills</i>	542
994	1,123		1,333
1,216	1,250	Grant and Support Schemes	1,110
Marketing & Tourism			
1,288	1,299	<i>Consumer and Communications</i>	1,287
70	76	<i>Guernsey Information Centre</i>	74
65	70	<i>Quality Development</i>	70
610	637	<i>Strategic Marketing</i>	616
508	503	<i>Trade and Media Relations</i>	503
2,541	2,585		2,550
26	20	Office of the Public Trustee	20
483	389	Sea Fisheries	372
222	312	Strategic Projects	247
6,091	6,295	Net Expenditure by Service Area	6,235
6,091	6,295		6,235

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
6,177	6,033	Operating Income	5,900
Non Formula-Led Expenditure			
58,065	56,220	Pay costs	57,815
		Non Pay costs	
861	907	<i>Staff Non Pay costs</i>	744
1,880	1,126	<i>Support Services</i>	1,109
5,116	5,578	<i>Premises</i>	5,193
13,221	15,026	<i>Third Party Payments</i>	14,607
226	158	<i>Transport</i>	145
3,504	4,031	<i>Supplies & Services</i>	4,064
-	(2,339)	<i>Balance of Budget Reduction</i>	-
24,808	24,487		25,862
76,696	74,674		77,777
-	-	Budget Submission in Excess of Cash Limit	(3,852)
76,696	74,674	Net Non Formula-Led Expenditure by Category	73,925

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
		Beau Sejour	
651	625	<i>Net expenditure</i>	625
		<i>Less transfer from Channel Islands Lottery (Guernsey)</i>	
(651)	(625)	<i>Fund</i>	(625)
<hr/>	<hr/>		<hr/>
-	-		-
4,666	4,893	Central Services	5,120
353	415	Cultural Activities and Events	400
		Further Education	
8,212	7,708	<i>College of Further Education</i>	7,995
740	740	<i>Guernsey Training Agency</i>	703
1,210	1,106	<i>Institute of Health and Social Care Studies</i>	1,221
<hr/>	<hr/>		<hr/>
10,162	9,554		9,919
4,484	4,755	Higher Education	4,310
		Museums and Libraries	
1,599	1,598	<i>Grants to Libraries</i>	1,518
300	301	<i>Island Archive Service</i>	292
1,148	1,093	<i>Museums Service</i>	1,065
<hr/>	<hr/>		<hr/>
3,047	2,992		2,875
4,755	4,859	School and Pupil Support Services	4,705
		Schools	
4,497	4,389	<i>Grants to Colleges</i>	4,351
196	1,723	<i>Pre-School</i>	1,920
15,302	15,075	<i>Primary Schools</i>	15,529
737	678	<i>School Music Service</i>	722
20,038	19,582	<i>Secondary Schools</i>	19,307
6,093	5,850	<i>Special Schools</i>	6,182
1,894	1,813	<i>Voluntary Schools</i>	1,990
<hr/>	<hr/>		<hr/>
48,757	49,110		50,001
472	435	Sports	447
-	(2,339)	Balance of Budget Reduction	-
<hr/>	<hr/>		<hr/>
76,696	74,674		77,777
<hr/>	<hr/>		<hr/>
-	-	Budget Submission in Excess of Cash Limit	(3,852)
<hr/>	<hr/>		<hr/>
76,696	74,674	Net Expenditure by Service Area	73,925

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		<u>Net Expenditure by Category</u>	
21	20	Operating Income	13
		Non Formula-Led Expenditure	
3,678	3,812	Pay costs	4,020
		Non Pay costs	
14	35	<i>Staff Non Pay costs</i>	42
481	507	<i>Support Services</i>	438
6,358	5,764	<i>Premises</i>	5,705
678	727	<i>Third Party Payments</i>	750
31	37	<i>Transport</i>	31
108	138	<i>Supplies & Services</i>	117
7,670	7,208		7,083
11,327	11,000	Non Formula-Led Expenditure by Category	11,090
		Formula-Led Expenditure	
56,574	51,515	<i>Third Party Payments</i>	62,630
1,985	2,525	<i>Supplies & Services</i>	2,390
58,559	54,040	Formula-Led Expenditure by Category	65,020
69,886	65,040	Total Net Expenditure by Category	76,110

Note:

The 2018 Budget Estimate includes additional funding of £9.2million (£220,000: Non Formula-Led and £9million: Formula led) in respect of the introduction, from July 2018, of the new income support scheme which was approved by the States in March 2016 following consideration of a policy letter from the Social Welfare Benefits Investigation Committee entitled "Comprehensive Social Welfare Benefits Model" (Billet d'État VII, 2016). This additional expenditure will be offset by a £6.7million increase in Net Housing Rental Income as a result of the closure of the existing rent rebate scheme.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure by Service Area			
1,666	1,730	Administration of Social Security and Legal Aid	2,325
380	411	Benefits and Allowances	435
763	785	Central Services	430
79	51	Disability and Inclusion	53
264	301	Employment Relations Service	291
333	385	Health and Safety Executive	368
623	689	Housing Strategy and Planning	712
6,651	6,027	Social Housing Buildings Maintenance	5,957
568	621	Social Housing Tenancy Management	519
<u>11,327</u>	<u>11,000</u>	Net Non Formula-Led Expenditure by Service Area	<u>11,090</u>
Formula-Led Expenditure			
		Legal Aid	
1,173	1,655	<i>Civil Legal Aid</i>	1,570
812	870	<i>Criminal Legal Aid</i>	820
<u>1,985</u>	<u>2,525</u>		<u>2,390</u>
626	585	Concessionary TV Licences for the Elderly	540
9,639	8,230	Family Allowance	8,415
4,659	-	Health Service Grant	-
5,411	5,510	Severe Disability Benefit and Carers' Allowances	5,820
15,256	15,555	Social Insurance Grant	16,165
20,983	21,635	Supplementary Benefit	31,690
<u>58,559</u>	<u>54,040</u>	Formula-Led Expenditure by Service Area	<u>65,020</u>
<u>69,886</u>	<u>65,040</u>	Total Net Expenditure by Service Area	<u>76,110</u>

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		<u>Net Expenditure by Category</u>	
1,790	1,818	Operating Income	1,812
		Non Formula-Led Expenditure	
2,652	2,650	Pay costs	2,659
		Non Pay costs	
16	41	<i>Staff Non Pay costs</i>	29
2,834	3,059	<i>Support Services</i>	3,138
2,083	2,250	<i>Premises</i>	2,263
5,248	5,291	<i>Third Party Payments</i>	5,163
45	35	<i>Transport</i>	33
639	659	<i>Supplies & Services</i>	707
-	(370)	<i>Balance of Budget Reduction</i>	(205)
10,865	10,965		11,128
11,727	11,797	Net Non Formula-Led Expenditure by Category	11,975

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
308	329	Central Services	336
75	82	Alderney Breakwater	80
Agriculture, Countryside and Land Management Services			
2,339	2,222	<i>Agriculture and Veterinary Services</i>	2,010
777	872	<i>Coastal Services</i>	865
886	912	<i>Parks, Gardens and Nature Trails</i>	916
358	452	<i>Other Environmental Services</i>	431
<hr/> 4,360	<hr/> 4,458		<hr/> 4,222
Traffic And Highway Services			
2,582	2,534	<i>Highway Services</i>	2,480
291	475	<i>Integrated Transport Strategy</i>	733
(349)	(273)	<i>Licensing and Traffic Services</i>	(297)
4,460	4,562	<i>Passenger Transport</i>	4,626
<hr/> 6,984	<hr/> 7,298		<hr/> 7,542
-	(370)	Balance of Budget Reduction	(205)
<hr/> 11,727	<hr/> 11,797	Net Expenditure by Service Area	<hr/> 11,975

COMMITTEE *for* HEALTH & SOCIAL CARE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
12,594	14,788	Operating Income	14,320
Non Formula-Led Expenditure			
84,216	88,096	Pay costs	84,875
		Non Pay costs	
644	767	<i>Staff Non Pay costs</i>	717
4,173	3,659	<i>Support Services</i>	2,821
6,115	5,743	<i>Premises</i>	6,329
3,489	3,301	<i>Third Party Payments</i>	3,221
608	601	<i>Transport</i>	589
30,727	31,149	<i>Supplies & Services</i>	31,218
45,756	45,220		44,895
117,378	118,528	Net Non Formula-Led Expenditure by Category	115,450

COMMITTEE *for* HEALTH & SOCIAL CARE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
Central Services			
1,152	1,369	<i>Clinical Governance</i>	1,360
1,482	1,411	<i>Contract Management & Procurement</i>	1,142
1,708	1,686	<i>Corporate & Strategy</i>	1,606
12,880	12,853	<i>Estates & Facilities</i>	12,980
1,207	1,097	<i>Systems & Performance</i>	963
<hr/>	<hr/>		<hr/>
18,429	18,416		18,051
Acute Services			
31,236	30,386	<i>Acute Hospital Services</i>	29,799
8,930	8,924	<i>Acute Off Islands Treatment</i>	8,511
1,048	1,040	<i>Health Care Management</i>	1,038
673	782	<i>Institute of Health and Social Care Studies</i>	762
2,582	2,486	<i>St John Ambulance & Rescue</i>	2,315
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44,469	43,618		42,425
Community Services			
12,741	13,094	<i>Adult Services</i>	12,853
10,881	11,494	<i>Childrens Services</i>	11,813
7,900	7,891	<i>Complex Placements</i>	7,984
323	405	<i>Social Care Management</i>	344
18,441	19,148	<i>Specialist Services</i>	17,537
<hr/>	<hr/>		<hr/>
50,286	52,032		50,531
Public Health & Strategy			
1,385	1,508	<i>Community Health & Wellbeing</i>	1,528
568	642	<i>Drug and Alcohol Strategy</i>	641
934	963	<i>Medical Public Health</i>	1,202
582	542	<i>Public Health Management</i>	271
<hr/>	<hr/>		<hr/>
3,469	3,655		3,642
725	807	Office of the Children's Convenor	801
<hr/>	<hr/>		<hr/>
117,378	118,528	Net Expenditure by Service Area	115,450

COMMITTEE *for* HOME AFFAIRS

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
2,721	2,316	Operating Income	2,479
Non Formula-Led Expenditure			
27,265	27,301	Pay costs	27,107
		Non Pay costs	
680	660	<i>Staff Non Pay costs</i>	743
1,229	1,296	<i>Support Services</i>	1,335
1,509	1,419	<i>Premises</i>	1,416
144	99	<i>Third Party Payments</i>	99
206	232	<i>Transport</i>	226
1,517	1,602	<i>Supplies & Services</i>	1,728
-	(520)	<i>Balance of Budget Reduction</i>	(350)
5,285	4,788		5,197
29,829	29,773	Net Non Formula-Led Expenditure by Category	29,825

COMMITTEE *for* HOME AFFAIRS

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Service Area</u>			
358	508	Administration and Central Services	471
108	116	Data Protection	132
414	427	Domestic Abuse Strategy	428
138	141	Emergency Planning	153
(35)	(22)	Gambling Control	(26)
3,739	3,734	Guernsey Fire and Rescue Service	3,709
(135)	43	Housing Control	(3)
1,110	711	Joint Emergency Services Control Centre	856
17,469	18,023	Law Enforcement	17,810
(251)	(260)	Liquor Licence Fees	(261)
5,401	5,439	Prison Service	5,457
1,513	1,433	Probation Service	1,449
-	(520)	Balance of Budget Reduction	(350)
29,829	29,773	Net Expenditure by Service Area	29,825

SCRUTINY MANAGEMENT COMMITTEE

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
Non Formula-Led Expenditure			
419	415	Pay costs	440
		Non Pay costs	
5	10	<i>Staff Non Pay costs</i>	8
96	102	<i>Support Services</i>	79
2	1	<i>Premises</i>	1
7	25	<i>Supplies & Services</i>	19
110	138		107
529	553	Net Non Formula-Led Expenditure by Category	547

DEVELOPMENT & PLANNING AUTHORITY

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
1,277	1,075	Operating Income	1,075
Non Formula-Led Expenditure			
2,255	2,307	Pay costs	2,258
		Non Pay costs	
54	86	<i>Staff Non Pay costs</i>	75
22	44	<i>Support Services</i>	42
2	1	<i>Premises</i>	2
19	22	<i>Transport</i>	21
11	15	<i>Supplies & Services</i>	17
-	(45)	<i>Balance of Budget Reduction</i>	-
108	123		157
1,086	1,355	Net Non Formula-Led Expenditure by Category	1,340
<u>Net Expenditure by Service Area</u>			
136	133	Central Services	132
115	148	Building Control	122
(16)	178	Planning Control	161
347	353	Planning Support	341
504	588	Policy & Conservation	584
-	(45)	Balance of Budget Reduction	-
1,086	1,355	Net Expenditure by Service Area	1,340

STATES' TRADING SUPERVISORY BOARD

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
6,137	6,171	Operating Income	6,924
Non Formula-Led Expenditure			
3,982	4,011	Pay costs	4,189
		Non Pay costs	
30	47	<i>Staff Non Pay costs</i>	67
908	1,000	<i>Support Services</i>	1,061
1,983	1,853	<i>Premises</i>	2,452
30	34	<i>Transport</i>	38
527	695	<i>Supplies & Services</i>	607
3,478	3,629		4,225
1,323	1,469	Net Non Formula-Led Expenditure by Category	1,490
<u>Net Expenditure by Service Area</u>			
814	798	Alderney Airport	806
472	451	Central Services	479
97	64	Shareholder Executive	39
(1,595)	(1,595)	Solid Waste	(1,574)
1,535	1,751	States Property Services	1,740
1,323	1,469	Net Expenditure by Service Area	1,490

ROYAL COURT

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
2,057	2,026	Operating Income	2,016
Non Formula-Led Expenditure			
3,912	3,675	Pay costs	3,720
		Non Pay costs	
11	9	<i>Staff Non Pay costs</i>	12
181	296	<i>Support Services</i>	360
197	228	<i>Premises</i>	215
-	5	<i>Third Party Payments</i>	-
5	8	<i>Transport</i>	8
230	219	<i>Supplies & Services</i>	236
624	765		831
2,479	2,414	Net Non Formula-Led Expenditure by Category	2,535
<u>Net Expenditure by Service Area</u>			
814	826	Bailiffs Office	861
568	624	Client Services	539
946	807	Court Services	780
151	157	Parliament	355
2,479	2,414	Net Expenditure by Service Area	2,535

LAW OFFICERS

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		<u>Net Expenditure by Category</u>	
197	180	Operating Income	180
		Non Formula-Led Expenditure	
4,584	4,373	Pay costs	4,370
		Non Pay costs	
22	37	<i>Staff Non Pay costs</i>	34
45	82	<i>Support Services</i>	82
19	44	<i>Premises</i>	25
-	-	<i>Transport</i>	1
121	133	<i>Supplies & Services</i>	143
207	296		285
4,594	4,489	Net Non Formula-Led Expenditure by Category	4,475

STATES OF ALDERNEY

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>			
1,365	1,477	Operating Income	1,822
Non Formula-Led Expenditure			
1,762	1,799	Pay costs	1,955
		Non Pay costs	
26	16	<i>Staff Non Pay costs</i>	21
530	473	<i>Support Services</i>	661
432	523	<i>Premises</i>	577
237	216	<i>Third Party Payments</i>	234
151	90	<i>Transport</i>	86
112	190	<i>Supplies & Services</i>	148
-	-	<i>Balance of Budget Reduction</i>	(20)
1,488	1,508		1,707
1,885	1,830	Net Non Formula-Led Expenditure by Category	1,840

Note: The Budget for the States of Alderney for 2018 will be considered at the 18 October 2017 meeting of the States of Alderney.

INCOME AND EXPENDITURE ACCOUNT

2016 Actual £'000s	2017 Original Budget £'000s	<u>Income and Expenditure by Category</u>		2018 Budget £'000s
			Note	
		Income		
302,735	302,500	<i>Income Taxes</i>	1	324,500
74,440	79,150	<i>Other Taxes</i>	2	80,300
29,789	21,150	<i>Miscellaneous Income</i>	3	26,700
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406,964	402,800	General Revenue Income		431,500
37,387	40,176	Committee Operating Income (including transfers)		41,029
<hr/>	<hr/>			<hr/>
444,351	442,976	Total Income		472,529
		Less Expenditure		
216,130	218,928	<i>Pay</i>	4	218,635
123,938	127,085	<i>Non-Pay</i>	5	126,543
60,452	55,940	<i>Formula-Led</i>	6	66,920
-	(4,224)	<i>Balance of Budget Reduction</i>		(1,100)
-	-	<i>Budget Submission in Excess of Cash Limit</i>		(3,852)
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400,520	397,729	Revenue Expenditure		407,146
-	4,947	Budget Reserve		11,683
<hr/>	<hr/>			<hr/>
43,831	40,300	Revenue Surplus		53,700
10,541	5,000	Capital Income		6,500
7,696	10,500	Less Routine Capital Expenditure *		-
<hr/>	<hr/>			<hr/>
46,676	34,800	Net Surplus		60,200
(22,900)	(34,800)	<i>Transfer to Capital Reserve</i>		(59,700)
<hr/>	<hr/>			<hr/>
23,776	-	Transfer to General Revenue Account Reserve		500
<hr/>	<hr/>			<hr/>

* With effect from 2018, routine capital allocations are included within the appropriation to the Capital Reserve.

INCOME AND EXPENDITURE ACCOUNT

2016	2017	Income and Expenditure by Service Area		2018
Actual	Original Budget			Budget
£'000s	£'000s			£'000s
406,964	402,800	Revenue Income		431,500
10,541	5,000	Capital Income		6,500
417,505	407,800	Total Income		438,000
		Net Revenue Expenditure	<i>Page</i>	
36,745	36,421	<i>Policy & Resources Committee</i>	106	37,410
6,091	6,295	<i>Committee for Economic Development</i>	108	6,235
76,696	74,674	<i>Committee for Education, Sport & Culture</i>	110	73,925
69,886	65,040	<i>Committee for Employment & Social Security</i>	112	76,110
11,727	11,797	<i>Committee for the Environment & Infrastructure</i>	114	11,975
117,378	118,528	<i>Committee for Health & Social Care</i>	116	115,450
29,829	29,773	<i>Committee for Home Affairs</i>	118	29,825
529	553	<i>Scrutiny Management Committee</i>	120	547
1,086	1,355	<i>Development & Planning Authority</i>	121	1,340
2,885	2,915	<i>Overseas Aid & Development Commission</i>		2,960
1,323	1,469	<i>States' Trading Supervisory Board</i>	122	1,490
2,479	2,414	<i>Royal Court</i>	123	2,535
4,594	4,489	<i>Law Officers</i>	124	4,475
1,885	1,830	<i>States of Alderney</i>	125	1,840
-	4,947	<i>Budget Reserve</i>		11,683
363,133	362,500			377,800
7,696	10,500	Routine Capital Expenditure		-
370,829	373,000	Total Cash Limits		377,800
46,676	34,800	Net Surplus		60,200
(22,900)	(34,800)	<i>Transfer to Capital Reserve</i>		(59,700)
23,776	-	Transfer to General Revenue Account Reserve		500

NOTES

1. Income Taxes

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
245,836	247,900	Individuals	257,200
47,185	45,600	Companies (including Banks)	56,600
9,714	9,000	Distributed Profits	10,700
302,735	302,500	Income Taxes	324,500

2. Other Taxes

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		Customs - Excise and Import Duties	
3,249	3,500	<i>Beer</i>	3,600
749	800	<i>Cider</i>	850
18,740	19,400	<i>Motor Fuel</i>	19,800
2,986	2,950	<i>Spirits</i>	3,350
8,448	8,600	<i>Tobacco</i>	7,850
5,150	5,350	<i>Wine</i>	5,600
1,797	1,300	<i>Import duties</i>	1,800
41,119	41,900		42,850
19,969	21,400	Tax on Real Property	23,000
12,718	14,700	Document Duty - Conveyancing and Bonds	13,300
634	1,150	Vehicle First Registration Duty	1,150
74,440	79,150	Other Taxes	80,300

NOTES

3. Miscellaneous Income

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
4,878	4,850	Net Housing Rental Income **	11,950
10,439	10,200	Company Fees	9,750
5,629	1,550	Surplus on Notes and Coins Account	2,100
4,111	2,850	Investment Return	2,100
3,244	1,600	States' Trading Companies' and Entities' Dividends	400
-	-	Royalties	175
1,488	100	Other Income	225
29,789	21,150	Miscellaneous Income	26,700

** In March 2016 following consideration of a policy letter from the Social Welfare Benefits Investigation Committee entitled "Comprehensive Social Welfare Benefits Model" (Billet d'État VII, 2016), the States approved the introduction of the new income support scheme. Under the existing rent rebate scheme, the value of rental income received in respect of States Houses is net of rebates granted. Under the income support scheme, which is planned to be introduced from July 2018, rent rebates will no longer be granted and tenants will be required to pay the full gross assessed rent. Therefore, both income and expenditure will increase by £6.7million in 2018 to account for this change.

4. Pay Costs by Pay Group

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
83,141	85,327	Established Staff	85,287
48,889	51,422	Nurses and Clinical Consultants	49,767
42,743	41,601	Teachers, Lecturers and Learning Support Assistants	42,509
16,278	16,119	Public Service Employees	16,300
9,021	8,887	Police Officers	8,986
3,446	3,429	Fire Officers	3,405
3,374	3,442	Prison Officers	3,358
3,283	3,440	Border Agency Officers	3,155
1,987	1,820	Home Support Staff	2,116
2,379	1,777	Other Pay Groups	2,116
1,589	1,664	Crown Officers and Judges	1,636
216,130	218,928	Pay Costs by Pay Group	218,635

NOTES

5. Non-Pay Costs by Expenditure Category

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		Staff Non Pay Costs	
2,518	2,257	<i>Recruitment</i>	2,209
2,242	2,495	<i>Training</i>	2,225
546	519	<i>Other Staff Costs</i>	615
<hr/> 5,306	<hr/> 5,271		<hr/> 5,049
		Support Services	
1,786	1,920	<i>Advertising Marketing and PR</i>	1,982
177	225	<i>Audit Fees</i>	215
196	199	<i>Bank Charges</i>	196
9,381	10,468	<i>Communications and IT</i>	10,875
2,683	1,658	<i>Consultants Fees</i>	2,059
8,435	8,417	<i>Contracted Out Work</i>	7,606
1,705	1,693	<i>Postage, Stationery and Printing</i>	1,302
2,263	2,391	<i>Risk Management and Insurance</i>	2,256
<hr/> 26,626	<hr/> 26,971		<hr/> 26,491
		Premises	
936	823	<i>Equipment, Fixtures and Fittings</i>	755
2,603	2,626	<i>Rents and Leasing</i>	2,620
15,817	15,084	<i>Repairs, Maintenance and Servicing</i>	15,832
4,878	5,379	<i>Utilities</i>	5,461
<hr/> 24,234	<hr/> 23,912		<hr/> 24,668
		Third Party Payments	
272	328	<i>Benefit Payments</i>	303
27,848	29,518	<i>Grants and Subsidies</i>	28,790
<hr/> 28,120	<hr/> 29,846		<hr/> 29,093
		Transport	
1,389	1,294	<i>Vehicles and Vessels</i>	1,266
		Supplies and Services	
24,411	25,252	<i>Services</i>	25,093
13,852	14,539	<i>Supplies</i>	14,883
<hr/> 38,263	<hr/> 39,791		<hr/> 39,976
<hr/> 123,938	<hr/> 127,085	Non-Pay Costs by Expenditure Category	<hr/> 126,543

NOTES

6. Formula-Led Costs by Expenditure Category

2016 Actual £'000s	2017 Original Budget £'000s		2018 Budget £'000s
		Policy & Resources Committee	
1,893	1,900	<i>Payments to States Members</i>	1,900
		Committee for Employment & Social Security	
20,983	21,635	<i>Supplementary Benefit</i>	31,690
15,256	15,555	<i>Social Insurance Grant</i>	16,165
9,639	8,230	<i>Family Allowance</i>	8,415
5,411	5,510	<i>Severe Disability Benefit and Carers' Allowances</i>	5,820
1,985	2,525	<i>Legal Aid</i>	2,390
4,659	-	<i>Health Service Grant</i>	-
626	585	<i>Concessionary TV Licences for the Elderly</i>	540
60,452	55,940	Formula-Led Costs	66,920

CORPORATE HOUSING PROGRAMME FUND

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Income and Expenditure by Category</u>				
Income				
384	-	160	Sale of Incompatible Housing Stock	-
384	-	160	Total Income	-
Expenditure				
Non Pay Costs				
(29)	-	(71)	Support Services	-
(1,193)	(885)	(800)	Premises	(885)
(2,853)	(3,279)	(2,875)	Third Party Payments	(2,121)
(4,075)	(4,164)	(3,746)		(3,006)
(3,691)	(4,164)	(3,586)	Net (Deficit) for the year	(3,006)
<u>Net Income / (Expenditure) by Service Area</u>				
384	-	160	Sale of Incompatible Housing Stock	-
(642)	(885)	(800)	Modernisation	(885)
(258)	(885)	(640)		(885)
Corporate Initiatives & Strategies				
(650)	-	-	Older People Housing & Support	-
(2,233)	(1,841)	(2,946)	Social Housing Development Programme	(1,031)
(550)	(1,438)	-	Supported Living	(1,090)
(3,433)	(3,279)	(2,946)		(2,121)
(3,691)	(4,164)	(3,586)	Net (Deficit) for the year	(3,006)
33,783	28,987	30,092	Balance of Fund at 1st January	26,506
(3,691)	(4,164)	(3,586)	Net (Deficit) for the year	(3,006)
30,092	24,823	26,506	Balance of Fund at 31st December	23,500

SOLID WASTE TRADING ACCOUNT

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income by Category</u>				
Income				
6,547	6,519	6,758	<i>Operating Income</i>	6,917
233	-	-	<i>Investment Return</i>	-
6,780	6,519	6,758	Total Income	6,917
Expenditure				
(314)	(333)	(363)	<i>Pay Costs</i>	(523)
(3)	(6)	(4)	<i>Staff Non-Pay Costs</i>	(5)
(4,566)	(4,985)	(5,115)	<i>Support Services</i>	(5,445)
(31)	(127)	(28)	<i>Premises</i>	(92)
-	(1)	(1)	<i>Transport</i>	(1)
(371)	(425)	(478)	<i>Supplies & Services</i>	(524)
(5,285)	(5,877)	(5,989)	Total Expenditure	(6,590)
1,495	642	769	Net Surplus for the Year	327
3,711	2,619	3,611	<i>Balance at 1 January</i>	2,785
1,495	642	769	<i>Net Surplus for the year</i>	327
(1,595)	(1,595)	(1,595)	<i>Transfer to General Revenue</i>	(1,574)
3,611	1,666	2,785	Balance at 31 December	1,538

GUERNSEY REGISTRY

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income by Category</u>				
Income				
10,205	10,093	10,293	Operating Income	10,101
Expenditure				
(388)	(401)	(412)	Pay costs	(412)
Non Pay costs				
(6)	(15)	(9)	<i>Staff Non Pay costs</i>	(12)
(244)	(439)	(350)	<i>Support Services</i>	(422)
(125)	(147)	(147)	<i>Premises</i>	(151)
(13)	(41)	(26)	<i>Supplies & Services</i>	(34)
(388)	(642)	(532)		(619)
9,429	9,050	9,349	Surplus transferred to General Revenue	9,070
<u>Net Income / (Expenditure) by Service Area</u>				
Company Registry				
10,048	9,946	10,132	Income	9,948
(757)	(966)	(931)	Expenditure	(984)
9,291	8,980	9,201		8,964
Intellectual Property Office				
157	147	160	Income	153
(19)	(77)	(13)	Expenditure	(47)
138	70	147		106
9,429	9,050	9,348	Surplus transferred to General Revenue	9,070

GUERNSEY AIRPORT

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>				
12,365	12,451	11,677	Operating Income	12,272
(7,211)	(6,993)	(7,024)	Pay costs	(7,086)
			Non Pay costs	
(198)	(247)	(281)	<i>Staff Non Pay costs</i>	(277)
(3,341)	(1,131)	(1,228)	<i>Support Services</i>	(1,270)
(1,361)	(1,270)	(1,302)	<i>Premises</i>	(1,376)
(117)	(38)	(47)	<i>Transport</i>	(56)
(1,992)	(2,192)	(2,124)	<i>Supplies & Services</i>	(2,244)
(7,009)	(4,878)	(4,982)		(5,223)
(1,855)	580	(329)	Operating Surplus / (Deficit) before depreciation	(37)
(1,217)	(1,234)	(1,262)	Depreciation	(1,258)
(3,072)	(654)	(1,591)	Operating (Deficit) after depreciation	(1,295)
<u>Net Income / (Expenditure) by Service Area</u>				
			Income	
365	388	372	<i>Advertising, picketing etc</i>	371
752	782	698	<i>Airport Development Charge</i>	726
720	790	713	<i>Car Parking Fees</i>	727
2,080	1,954	2,073	<i>Rents</i>	2,149
8,426	8,357	7,823	<i>Traffic Receipts</i>	8,292
12,343	12,271	11,679		12,265
			Operational Expenditure	
(1,310)	(1,030)	(1,322)	<i>Administration</i>	(1,515)
(2,227)	(2,098)	(2,143)	<i>Aerodrome Fire Service</i>	(2,130)
(4,959)	(2,627)	(2,720)	<i>Airport Infrastructure</i>	(2,747)
(1,816)	(2,015)	(1,891)	<i>Airport Security</i>	(2,057)
(4,064)	(4,101)	(4,112)	<i>Navigational Services</i>	(4,036)
(14,376)	(11,871)	(12,188)		(12,485)
178	180	180	Recovery From Alderney Airport	183
(1,855)	580	(329)	Operating Surplus / (Deficit) before depreciation	(37)
(1,217)	(1,234)	(1,262)	Depreciation	(1,258)
(3,072)	(654)	(1,591)	Operating (Deficit) after depreciation	(1,295)

GUERNSEY AIRPORT

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Capital Expenditure</u>				
-	(1,770)	(387)	Miscellaneous Capital Works	(1,183)
-	-	-	IT Projects and Equipment	(750)
(250)	(925)	(180)	Equipment, Machinery and Vehicles	(1,250)
(250)	(2,695)	(567)	Routine Capital Expenditure	(3,183)
(208)	-	-	Airport Pavements Project	-
(113)	-	-	Airport Radar	-
321	-	-	Transfer from Capital Reserve	-
(250)	(2,695)	(567)	Net Capital Expenditure	(3,183)

GUERNSEY HARBOURS

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>				
8,780	8,914	8,964	Operating Income	9,245
(3,396)	(3,435)	(3,218)	Pay costs	(3,553)
			Non Pay costs	
(58)	(189)	(120)	<i>Staff Non Pay costs</i>	(173)
(17)	-	(7)	<i>Peripheral Activities</i>	(64)
(868)	(883)	(820)	<i>Support Services</i>	(826)
(969)	(1,549)	(1,482)	<i>Premises</i>	(1,383)
(69)	(139)	(143)	<i>Transport</i>	(124)
(311)	(358)	(363)	<i>Supplies & Services</i>	(363)
(2,292)	(3,118)	(2,935)		(2,933)
3,092	2,361	2,811	Operating Surplus before depreciation	2,759
(1,096)	(1,321)	(1,267)	Depreciation	(1,269)
1,996	1,040	1,544	Operating Surplus after depreciation	1,490

GUERNSEY HARBOURS

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income / (Expenditure)</u>				
<u>by Service Area</u>				
3,510	3,006	3,217	Commercial Port Operations	2,946
(153)	(111)	(37)	Property	(21)
772	851	871	Leisure	1,147
(1,014)	(1,358)	(1,214)	Non-Commercial Port Operations	(1,277)
(23)	(27)	(26)	Ships Registry	(36)
3,092	2,361	2,811	Operating Surplus before Depreciation	2,759
(1,096)	(1,321)	(1,267)	Depreciation	(1,269)
1,996	1,040	1,544	Operating Surplus after Depreciation	1,490
<u>Capital Expenditure</u>				
(88)	(2,650)	(110)	Miscellaneous Capital Works	(3,075)
-	(250)	(50)	IT Projects and Equipment	(250)
(26)	(1,100)	(9)	Equipment, Machinery, Vehicles and Vessels	(1,100)
(114)	(4,000)	(169)	Routine Capital Expenditure	(4,425)
(50)	-	-	Crane Strategy	-
-	-	-	Deep Water Berth Investigations	-
50	-	-	Less transfer from Capital Reserve	-
(114)	(4,000)	(169)	Net Capital Expenditure	(4,425)

PORTS HOLDING ACCOUNT

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
			Operating Surplus before depreciation	
(1,855)	580	(329)	Guernsey Airport	(37)
3,092	2,361	2,811	Guernsey Harbours	2,759
<u>1,237</u>	<u>2,941</u>	<u>2,482</u>		<u>2,722</u>
37	-	40	Investment Return	-
			Capital Expenditure	
(250)	(2,695)	(567)	Guernsey Airport	(3,183)
(114)	(4,000)	(169)	Guernsey Harbours	(4,425)
<u>(364)</u>	<u>(6,695)</u>	<u>(736)</u>		<u>(7,608)</u>
<u>910</u>	<u>(3,754)</u>	<u>1,786</u>	Surplus / (Deficit) before depreciation	<u>(4,886)</u>
(2,313)	(2,555)	(2,529)	Depreciation	(2,527)
<u>(1,403)</u>	<u>(6,309)</u>	<u>(743)</u>	(Deficit) for the year	<u>(7,413)</u>
2,666	2,944	3,576	Balance at 1st January	5,362
910	(3,754)	1,786	Surplus / (Deficit) for the year before depreciation	(4,886)
<u>3,576</u>	<u>(810)</u>	<u>5,362</u>	Balance at 31st December	<u>476</u>

GUERNSEY WATER

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income by Service Area</u>				
Income				
			Water Supplies	
7,041	7,271	7,197	<i>Measured</i>	7,453
3,587	3,569	3,542	<i>Unmeasured</i>	3,660
			Waste Water	
2,161	2,202	2,237	<i>Measured</i>	2,325
1,239	1,273	1,262	<i>Unmeasured</i>	1,303
1,083	1,137	1,089	<i>Cesspit Emptying Charges</i>	1,171
203	549	202	<i>Grant from General Revenue</i>	268
393	333	330	Surplus on other trading activities	312
15,707	16,334	15,859		16,492
Expenditure				
			Operating Expenses	
(434)	(432)	(384)	<i>Asset Management</i>	(482)
(1,294)	(1,314)	(1,253)	<i>Pumping Stations</i>	(1,317)
(3,352)	(3,440)	(3,253)	<i>Sewers</i>	(3,527)
(515)	(579)	(510)	<i>Water distribution</i>	(540)
(1,765)	(2,019)	(1,746)	<i>Water production</i>	(1,919)
			Management Expenses	
(651)	(611)	(573)	<i>Compliance</i>	(583)
(861)	(694)	(696)	<i>Customer services</i>	(724)
(969)	(1,198)	(1,154)	<i>Management and general</i>	(1,331)
(1,007)	(912)	(966)	<i>Support Services</i>	(1,011)
(10,848)	(11,199)	(10,535)		(11,434)
4,859	5,135	5,324	Operating Surplus before depreciation	5,058
(4,999)	(4,412)	(5,200)	Depreciation/impairment of assets	(5,229)
(37)	(75)	(75)	Loss on disposal of fixed assets	-
(177)	648	49	Operating Surplus / (Deficit) for the year	(171)
884	40	(125)	Net Interest receivable/(Payable)	(394)
707	688	(76)	Retained Surplus / (Deficit) for the year transferred to / (from) Revenue Account Reserve	(565)

GUERNSEY WATER

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Capital Expenditure</u>				
(285)	-	(5)	Belle Greve Wastewater Disposal Facility	-
(50)	(300)	(41)	Demand Management	-
(288)	(360)	(372)	Management and General - Operational	(537)
(1,592)	(1,600)	(1,071)	Pumping Stations	(600)
(1)	(365)	(214)	Quality - Environmental Protection	(290)
(1,414)	(1,338)	(1,312)	Sewers	(2,170)
(450)	(479)	(334)	Water distribution	(520)
(432)	(749)	(948)	Water resources	(685)
(275)	(1,015)	(1,202)	Water treatment	(860)
<u>(4,787)</u>	<u>(6,206)</u>	<u>(5,499)</u>	Capital Investment	<u>(5,662)</u>

STATES WORKS

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income by Service Area</u>				
Income				
89	44	113	Administration	88
96	-	-	Building Maintenance	-
1,404	1,400	1,380	Cleansing	1,358
792	839	830	Waste Collection	901
335	311	339	Drainage	332
1,337	1,155	1,010	Electrical and Mechanical	1,060
118	105	90	Emergency Services	92
706	694	664	Fleet Services	731
1,393	1,558	1,200	Highway Repairs	1,224
2,103	2,090	2,120	Land Management	2,020
3,270	3,390	3,310	Landfill and Recycling	3,458
214	205	206	Management Services	210
2,352	2,380	2,374	Sewage Collection	2,514
444	408	420	Signs and Lines	425
518	422	422	Stores	430
15,171	15,001	14,478		14,843
Expenditure				
Management Expenses				
(611)	(556)	(574)	<i>Administration Expenses</i>	(718)
(304)	(203)	(267)	<i>Building maintenance</i>	(314)
(1,543)	(1,595)	(1,711)	<i>Salaries, wages and superannuation</i>	(1,799)
Operating Expenses				
(6,802)	(7,008)	(6,452)	<i>Labour</i>	(6,513)
(3,846)	(3,721)	(3,516)	<i>Materials</i>	(3,528)
(389)	(322)	(374)	<i>Transport and plant</i>	(385)
(13,495)	(13,405)	(12,894)		(13,257)
1,676	1,596	1,584	Operating Surplus before depreciation	1,586
(960)	(1,246)	(1,056)	Depreciation	(1,360)
716	350	528	Operating Surplus for the year	226
184	12	18	Net Interest Receivable	18
900	362	546	Surplus for the year	244
<u>Capital Expenditure</u>				
(4)	(161)	(11)	Office Equipment	(186)
(34)	(200)	(436)	Site Developments	(100)
(1,011)	(1,402)	(2,095)	Vehicles, Plant, Tools and Equipment	(2,132)
(1,049)	(1,763)	(2,542)	Total Capital Expenditure for the Financial year	(2,418)

GUERNSEY DAIRY

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income by Service Area</u>				
			Sales	
1,549	1,696	1,643	<i>Dairy products</i>	1,773
5,886	5,926	6,123	<i>Liquid Milk</i>	6,543
19	24	18	Sundry income	24
7,454	7,646	7,784	Total Income	8,340
Cost of Sales				
(37)	(50)	(45)	<i>Dairy product ingredients</i>	(52)
(3,964)	(3,975)	(4,186)	<i>Milk</i>	(4,573)
(152)	(120)	(100)	<i>Milk working loss</i>	(120)
(84)	(72)	(77)	<i>Freight</i>	(74)
(577)	(500)	(555)	<i>Packaging materials</i>	(530)
(951)	(885)	(885)	<i>Production wages</i>	(912)
(5,765)	(5,602)	(5,848)		(6,261)
Expenses				
(58)	(90)	(60)	Advertising and promotion	(70)
(59)	(65)	(65)	Cleaning materials	(67)
(309)	(290)	(270)	Fuel, light, power, water and rates	(299)
(72)	(40)	(53)	General administration costs	(50)
(93)	(100)	(80)	Laboratory expenses	(82)
(15)	(30)	(45)	Motor vehicle expenses	(41)
(46)	(50)	(93)	Other expenses	(80)
(317)	(340)	(340)	Professional fees	(322)
(187)	(165)	(253)	Repairs, maintenance and insurance	(170)
(520)	(585)	(520)	Salaries and wages	(608)
(1,676)	(1,755)	(1,779)		(1,789)
(7,441)	(7,357)	(7,627)	Total Expenditure	(8,050)
13	289	157	Operating Surplus before depreciation, interest and exceptional item	290
(750)	-	-	Exceptional items	-
(221)	(258)	(249)	Depreciation/impairment of assets	(275)
(958)	31	(92)	Operating Surplus/(Deficit) for the year	15
167	10	10	Net Interest receivable	10
(791)	41	(82)	Surplus/(Deficit) for the year	25
<u>Capital Expenditure</u>				
-	(250)	(167)	Miscellaneous Capital Works	(125)
(1)	-	(21)	IT Projects and Equipment	(18)
(549)	(250)	(74)	Equipment, Machinery and Vehicles	(610)
(550)	(500)	(262)	Total Capital Expenditure for the Financial Year	(753)

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>				
			Pay costs	
465	775	775	<i>Established Staff</i>	644
<hr/>	<hr/>	<hr/>		<hr/>
465	775	775		644
			Non Pay costs	
2	65	65	<i>Staff Non Pay costs</i>	45
25	32	32	<i>Support Services</i>	61
2	5	5	<i>Supplies & Services</i>	15
<hr/>	<hr/>	<hr/>		<hr/>
29	102	102		121
<hr/>	<hr/>	<hr/>		<hr/>
494	877	877	Total Expenditure by Category	765
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>		<hr/> <hr/>

SUPERANNUATION FUND ADMINISTRATION

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Expenditure by Category</u>				
			Pay costs	
482	457	443	<i>Established Staff</i>	476
<hr/>	<hr/>	<hr/>		<hr/>
482	457	443		476
			Non Pay costs	
292	291	409	<i>Consultants Fees</i>	234
52	74	85	<i>Support Services</i>	107
<hr/>	<hr/>	<hr/>		<hr/>
344	365	494		341
<hr/>	<hr/>	<hr/>		<hr/>
826	822	937	Total Expenditure by Category	817
<hr/>	<hr/>	<hr/>		<hr/>
<u>Capital Expenditure</u>				
-	70	70	ICT System	-
<hr/>	<hr/>	<hr/>		<hr/>
-	70	70	Routine Capital Expenditure	-
<hr/>	<hr/>	<hr/>		<hr/>

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY FUNDS

2016 Actual £'000s	2017 Original Budget £'000s	2017 Probable Outturn £'000s		2018 Budget £'000s
<u>Net Income / (Expenditure)</u>				
<u>by Category</u>				
Income				
160,432	172,081	173,908	<i>Contribution Income</i>	179,227
19,981	15,557	15,675	<i>States Grants</i>	16,165
180,413	187,638	189,583		195,392
Benefit Expenditure				
(134,649)	(140,602)	(136,945)	<i>Social Insurance</i>	(142,579)
(40,804)	(41,973)	(40,879)	<i>Health Insurance</i>	(41,190)
(18,450)	(19,510)	(19,730)	<i>Long-term Care Insurance</i>	(20,740)
(193,903)	(202,085)	(197,554)		(204,509)
Administration				
(4,190)	(4,592)	(3,748)	<i>Pay Costs</i>	(3,879)
(36)	(23)	(17)	<i>Staff Non Pay costs</i>	(17)
(2,188)	(1,935)	(2,397)	<i>Support Services</i>	(2,461)
(52)	(65)	(73)	<i>Premises</i>	(37)
-	-	-	<i>Transport</i>	(1)
(150)	(193)	(191)	<i>Supplies & Services</i>	(177)
(6,616)	(6,808)	(6,426)		(6,572)
(116)	(114)	(120)	Depreciation	(150)
(20,222)	(21,369)	(14,517)	Operating Deficit Before Investing Activities	(15,839)
<u>Net Income / (Expenditure)</u>				
<u>by Service Area</u>				
(22,169)	(24,139)	(19,341)	Guernsey Insurance Fund	(21,344)
1,289	(4,260)	(2,571)	Guernsey Health Service Fund	(1,669)
658	7,030	7,395	Long-term Care Insurance Fund	7,174
(20,222)	(21,369)	(14,517)	Operating Deficit Before Investing Activities	(15,839)
<u>Routine Capital Expenditure</u>				
-	(20)	(50)	Miscellaneous Capital Works	(220)
-	(225)	(150)	Equipment, Machinery and Vehicles	(470)
-	(200)	(465)	IT Projects and Equipment	(545)
-	(445)	(665)	Net Routine Capital Expenditure	(1,235)

THE LADIES COLLEGE (Senior School)

2015/2016		2016/2017		2017/2018
Actual	Budget			Budget
£'000s	£'000s			£'000s
<u>Net Income by Category</u>				
Income				
2,078	2,155	Fees		2,550
41	27	Miscellaneous Income		24
1,869	1,818	States Grant		1,868
3,988	4,000			4,442
Expenditure				
10	8	Art		8
7	8	Audit Fee		8
106	113	Books and Stationery		121
13	167	Depreciation		221
44	60	Examination Fees		50
54	44	Fixed Asset Acquisition Costs		52
47	52	General Administrative Expenses		68
12	14	Laboratory and Design and Technology Expenses		17
167	184	Maintenance of Buildings, Grounds and Equipment		184
16	22	Marketing and Development Expenses		22
21	25	Rates, Taxes and Insurance		25
30	36	Recruitment and Relocation		36
3,132	3,220	Salaries and Wages		3,289
43	40	Sports, conferences, field trips etc.		43
15	15	Staff training		20
70	87	Utilities		87
3,787	4,095			4,251
201	(95)	Revenue Surplus / (Deficit) for the year		191
552	200	Fundraising donations received		200
(2)	(42)	Bank Interest payable		(42)
2,386	2,998	Balance b/f from previous year		3,200
3,137	3,061	Balance c/f to next year		3,549

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ANNUAL BUDGET FOR 2018

The States are asked to decide:-

Whether, after consideration of the States of Guernsey Annual Budget for 2018, they are of the opinion:-

1. (Paragraph 2.13) To immediately transfer the sum of £8.1million from General Revenue to the Capital Reserve.
2. (Paragraph 2.17) To immediately transfer the sum of £5million from the General Revenue Account Reserve to the Core Investment Reserve.
3. (Paragraph 4.13) To delegate authority to the Policy & Resources Committee to create pooled budgets, by re-allocating Committee budgets, where a need to do so is identified in any prioritised policy workstream.
4. (Paragraph 4.16) That the twenty three policies set out in paragraphs 4.17 to 4.39 of this Report are prioritised in order to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey.
5. (Paragraph 5.5) To extend the company intermediate income tax rate (10%) to income from the provision of investment management activities to individual clients (as defined in paragraph 5.7 of this Report, with the Policy & Resources Committee authorised to prescribe any matter relating to this definition including any limitations, conditions, restrictions and qualifications thereon by regulation) and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2018.
6. (Paragraph 5.19) To amend the conditions for entitlement to the Charge of Children Allowance, such that a single person may continue to claim Charge of Children Allowances whilst the child is in higher education.
7. (Paragraph 5.20) To allow on death of a spouse in a marriage or civil partnership, either spouse to have the right to transfer the full unused allowance in the year of death to the surviving spouse.

8. (Paragraph 5.24) To endorse the intention of the Policy & Resources Committee to:

Reduce the contribution limit in regulation 1A(3) of the Income Tax (Pensions) (Contribution Limits and Tax-free Lump Sums) Regulations, 2010, as amended, from £50,000 to £35,000 in respect of year of charge 2018 and any succeeding year of charge by resolution of the States.

9. (Paragraphs 5.28 and 5.29) To further limit the entitlement to personal and other tax allowances and withdrawable deductions, through extending the phased withdrawal of personal tax allowances and withdrawable deductions at a ratio of £1 for every £3 a person's calculated income increases above the social security upper earnings limit, in the manner prescribed in the First Schedule to proposition 13, to the other tax allowances and deductions listed below:

- Dependent Relative Allowance
- Infirm Person's Allowance
- Housekeeper Allowance
- Charge of Children Allowance
- Pension contributions, namely –
 - Retirement Annuity Allowance
 - Contributions to an approved occupational or personal pension scheme over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deduction')
- Mortgage Interest Relief

with the Policy & Resources Committee authorised to prescribe any limitations, conditions, restrictions and qualifications relating to this matter by regulation and to direct the preparation of such legislation as may be necessary to give effect to this decision in respect of year of charge 2018 and any succeeding year of charge. In all cases, such withdrawable deductions shall be treated as if they were allowances for the purposes of calculating an individual's assessable income.

For the purpose of this paragraph –

- (i) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and
- (ii) the withdrawable deductions are the following deductions
 - (a) Pension contributions, namely –
 - i. Retirement Annuity Allowance, and
 - ii. contributions to an approved occupational or personal pension scheme over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')
 - (b) Mortgage Interest Relief

10. (Paragraph 5.36) With effect from 1 January 2018 to introduce a limit of tax payable by an individual principally resident (for tax purposes) in Guernsey of £50,000 in respect of a year of charge (the “open market tax cap”), where that individual–
- (a) has paid £50,000 or more in document duty in respect of the purchase of a property on Part A of the open market register on or after 1 January 2018 (“the relevant purchase”), and
 - (b) has made the relevant purchase on a date either up to six months prior to, or up to six months after, the date on which the individual takes up permanent residence in Guernsey (“the permitted period”), and
 - (c) has not been resident in Guernsey at any time in the previous three years prior to the relevant purchase save for the permitted period.

This open market tax cap shall only be available for the year of charge in which the individual takes up permanent residence and for each of the three consecutive years of charge immediately thereafter, and that accordingly the sixth schedule to the Income Tax (Guernsey) Law, 1975 shall be replaced by the following –

SIXTH SCHEDULE

Section 39B

LIMIT ON TAX PAYABLE BY AN INDIVIDUAL

1. Individuals resident in Guernsey (but not in Alderney)

Subject to paragraph 3 below, an individual resident in Guernsey shall pay a maximum of £110,000 (£100,000 for Years of Charge 2008-2011) in tax in a year of charge, in respect of income from the following sources–

Qualifying income

- (1) Any income derived from non-Guernsey sources, including:
 - (a) income from businesses,
 - (b) income from offices and employments,
 - (c) income from the ownership of lands and buildings, and
 - (d) income from other sources.
- (2) Income derived from a body which has been granted an exemption from tax for that year of charge under an Ordinance made under section 40A, other than income arising or accruing from an office or employment held or exercised in Guernsey.

- (3) Any interest arising in Guernsey upon money deposited with a licensed institution or other person exempted from the requirement to be licensed under the provisions of the Banking Supervision (Bailiwick of Guernsey) Law, 1994.

Income tax on income from any other sources (referred to in this Law as "**non-qualifying income**") shall not be subject to this limit.

However, notwithstanding the preceding provisions of this Schedule, an individual resident in Guernsey in receipt of non-qualifying income may, within a period of six years immediately after the end of any year of charge commencing after 2008, elect to pay in respect of both qualifying and non-qualifying income (other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is, for the avoidance of doubt, payable in addition to the amount of the limits on tax specified in this Schedule) in that year a maximum of £220,000 (£200,000 for Years of Charge 2008-2011) in tax, and in that case –

- (i) the maximum figure specified above of £110,000 (£100,000 for Years of Charge 2008-2011) in tax in the year of charge in respect of qualifying income does not apply, and
- (ii) the individual shall pay in respect of both qualifying and non-qualifying income (other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is, for the avoidance of doubt, payable in addition to the amount of the limits on tax specified in this Schedule) in that year a maximum of £220,000 (£200,000 for Years of Charge 2008-2011) in tax.

Income from non-Guernsey sources does not include any income arising or accruing from –

- (a) businesses carried on in Guernsey,
- (b) offices or employments held or exercised in Guernsey,
- (c) the ownership of lands and buildings situate in Guernsey, and
- (d) any other source in Guernsey.

2. Individuals resident in Alderney

An individual resident in Alderney shall pay a maximum of £50,000 in tax in any year of charge from 2016 to 2020 in respect of Alderney qualifying income save where that individual has in any previous year of charge by virtue of section 39B claimed the limit on tax payable under this schedule as it had effect prior to 1 January 2016, in which case that individual may claim the limit on tax payable available under paragraph 1 of this schedule as if he were instead resident in Guernsey.

"Alderney qualifying income" means from any sources except Alderney non-qualifying income.

"Alderney non-qualifying income" means income arising or accruing from the ownership of lands and buildings situate in Guernsey (including, for the avoidance of doubt, Alderney), which shall not be subject to the limit.

3. Individuals principally resident in Guernsey who have purchased a Part A open market property

Where an individual principally resident in Guernsey

- (i) has paid £50,000 or more in document duty in respect of the purchase of a property on Part A of the Open Market Register on or after 1 January 2018 ("the relevant purchase"), and
- (ii) has made the relevant purchase on a date either up to six months prior to, or up to six months after, the date on which the individual takes up permanent residence in Guernsey ("the permitted period"), and
- (iii) has not been resident in Guernsey at any time in the previous three years prior to the relevant purchase save for the permitted period,

such individual may, instead of claiming the tax cap in paragraph 1 above, pay an annual maximum of £50,000 in tax (the "open market tax cap") in respect of each of the years of charge specified hereafter. The open market tax cap may only be applied to the year of charge in which the individual takes up permanent residence and to each of the three consecutive years immediately thereafter. The open market tax cap shall apply in respect of both qualifying and non-qualifying income as defined in paragraph 1, other than non-qualifying income arising or accruing from the ownership of lands and buildings situate in Guernsey, the tax on which is payable in addition to the amount of the limits on tax specified in this Schedule.

4. Determination of where income arises

In determining for the purposes of this Schedule whether any income does arise in, or from the ownership of lands and buildings situate in, Guernsey (including, for the avoidance of doubt, Alderney) the income may be traced through any number of companies, partnerships, trusts, agreements or other arrangements of any description and, for that purpose, section 62D(2) shall apply (subject to the necessary modifications) in determining whether a person has an interest in, or income arises from, any company, partnership, trust, agreement or arrangement through which the interest or income is traced."

11. (Paragraph 5.43) To amend the Income Tax Law to include an additional provision, so that someone is only treated as principally resident in Guernsey under section 3(3)(c) where they are resident only in that year and principally resident in the following year, but were not resident in the previous year, and to direct the preparation of such legislation as may be necessary to give effect to this decision.

12. (Paragraph 5.46) To amend section 65 of the Income Tax Law such that a settlor is only liable to tax on distributions from a company or other entity held or under the control of trustees of a revocable settlement, without prejudice to the application by the Director of Income Tax of the anti-avoidance provisions of section 67 of the Law in the manner indicated in paragraph 5.46 of this Report, and to direct the preparation of such legislation as may be necessary to give effect to this decision.
13. (Paragraph 5.52 to 5.55) To endorse the intention of the Policy & Resources Committee to introduce a system of independent taxation as follows:
 - (a) Phase 1 – with effect from 1 January 2018, each individual’s income and entitlement to allowances are considered separately, with full transferability of unused personal and other tax allowances mirroring the current position (the transfer will be automatic for married couples and those in civil partnerships). Joint assessment for married couples/civil partnerships will continue; and
 - (b) Phase 2 – introduction of independent taxation, including individual assessments, albeit retaining full transferability of unused allowances mirroring the current position.

and to direct the preparation of such legislation as may be necessary to give effect to this decision.

14. That,
 - (a) Subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2018 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition.
 - (b) The allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975 and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.
 - (c) “Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and
 - (d) “the income Tax (Guernsey) Law, 1975” means that Law as amended, extended or applied by or under any other enactment.

FIRST SCHEDULE

Year of Charge 2018

Allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the standard rate. In order to calculate the amount of the allowance, where the taxpayers are married or in a civil partnership, each spouse's income shall be considered separately, in accordance with the table below. All allowances are subject to the following conditions –

- (i) the allowances shall be pro-rated for a person who is solely or principally resident in the years of that person's, arrival in, or permanent departure from, Guernsey, based on the proportion of time spent in Guernsey in the relevant year of charge in the same manner in which income is pro-rated by virtue of sections 5(3) and 5(4) of the Income Tax (Guernsey) Law, 1975,
- (ii) where a person is in receipt of a Guernsey source pension, which is liable to be taxed at source under the Employees Tax Instalment scheme, or a Guernsey old age pension arising under section 33 of the Social Insurance (Guernsey) Law 1978, then the pro-rating under section 51(5) and 51A(2A) of the Income Tax (Guernsey) Law, 1975 shall apply –
 - (i) from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival), or
 - (ii) from the date of departure until the end of the year of charge (in the case of that individual's permanent departure), and
 - (iii) the totality of each person's allowances and withdrawable deductions are reduced at a ratio of £1 of allowances and withdrawable deductions for every £3 that that person's calculated income is above the upper annual earnings limit as determined by the Committee *for* Employment & Social Security in respect of the relevant tax year.

For the purpose of this schedule –

- (a) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and
- (b) the withdrawable deductions are the following deductions
 - Pension contributions, namely
 - Retirement Annuity Allowance
 - contributions to an approved occupational or personal pension schemeover £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')
 - Mortgage interest relief

<u>NATURE OF ALLOWANCE</u>	<u>AMOUNT OF ALLOWANCE</u>
1. Personal Allowance *^	Tax at the standard rate on £10,500.
2. Age-related allowance *^	Tax at the standard rate on £950 for persons aged 64 years or over at the commencement of the year of charge.
3. Dependent Relative Allowance *	In respect of each dependent relative - tax at the standard rate on £3,375 or on the amount of the contributions whichever is less: Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £7,125 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,375 the sum of £1 for every pound by which the dependent relative's income exceeds £7,125. Provided further that if any Family Allowances are payable in respect of the dependent relative, the allowance shall be further reduced to tax at the standard rate on such sum as remains after subtracting from £3,375, or such lesser sum as remains after deducting from £3,375 the sum of £1 for every pound by which the dependent relative's income exceeds £7,125 the sum of £282 for every month in the year of charge for which such Family Allowances are payable.
4. Infirm Person's Allowance *	Tax at the standard rate on £3,375
5. Housekeeper Allowance	Tax at the standard rate on £3,375
6. Charge of Children Allowance *	Tax at the standard rate on £7,125
7. Retirement Annuity Allowance *	Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

Dependent Relative Allowance

- A. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in the case of a child receiving higher education are:
- (a) that the child in respect of whom an allowance is claimed -
 - (i) is the child of the claimant, or
 - (ii) is the illegitimate child of the claimant and in the year of charge is maintained by the claimant;
 - (b) that on the first day of August in the year of charge, the child is over the age of nineteen years and is, in that year of charge, receiving full-time instruction at any university, college, school or other educational establishment.
 - (c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2018.
- (2) The expression "child" shall include a stepchild, and a child who has been lawfully adopted shall be treated as the child of the individual by whom he has been so adopted and not as the child of the natural parent.
- (3) Where a couple are cohabiting as if they were married and either has a child in respect of whom a dependent relative allowance is claimable, either individual by a notice in writing addressed to the Director, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of that cohabitee.
- (4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.
- (5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

- B. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:
- (a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and
 - (b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself; and
 - (c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

Infirm Person's Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:
- (a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;
- Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity.*
- (b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished;
 - (c) that the claim relates to an infirm person in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Not more than one allowance shall be allowed to any claimant for any year.

Housekeeper Allowance

- (1) The conditions to be fulfilled to entitle the claimant to a housekeeper allowance are:
 - (a) that the claimant is a widow or widower.
 - (b) that in the year of charge a person is employed or maintained by the claimant solely for the purpose of acting in the capacity of a housekeeper for the claimant;
 - (c) if such person is a relative of the claimant or of the claimant's deceased spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that person, that the claim has been relinquished;
 - (d) that the claim relates to a housekeeper in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) A housekeeper allowance shall not be granted to any individual for any year in respect of more than one person.
- (3) A housekeeper allowance shall not be granted to any individual in any year in which another person's unused allowance has been transferred to that individual or if that individual is in receipt of an infirm person's allowance.
- (4) "Housekeeper" means a person who is responsible by delegation for the management of the household, including arrangements for food, housekeeping expenditure and the care of linen and laundry.

Charge of Children Allowance

- (1) The conditions to be fulfilled to entitle a claimant who is married or in a civil partnership to a charge of children allowance are:
 - (a) that in the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children
 - (i) on 1 January, or
 - (ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,whichever date is first relevant, and
 - (b) that the claimant proves that throughout the year either the claimant or the claimant's spouse is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and
 - (c) that neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained, or

if the claimant or any other individual is so entitled, that the claim has been relinquished.

- (2) The conditions to be fulfilled to entitle a claimant who is not married or in a civil partnership to a charge of children allowance that in the year of charge:
 - (a) the claimant is in receipt of Family Allowances in respect of one or more children
 - (i) on 1 January, or
 - (ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

- (b) the claimant is not cohabiting with another person, except where -
 - (i) the claimant proves that throughout the year either the claimant or the claimant's cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and
 - (ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if the claimant or any other individual is so entitled that the claim has been relinquished.
- (3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.
- (4) Where an individual has a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

Provided that if there are two such individuals the charge of children allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that child

- (5) Not more than one allowance shall be granted to any claimant for any year.

Retirement Annuity Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance or deduction under section 8(3)(bb) are that the claimant pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and of which the claimant or the claimant's spouse is a beneficiary.
- (2) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant during the year of computation of the income of the claimant assessable for the year of charge.
- (3) Notwithstanding the provisions of the preceding paragraph no allowance or deduction shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed:
 - (a) 100% of the income of the claimant during the year of computation referred to in the preceding subparagraph, or
 - (b) any retirement annuity contribution limit for the time being prescribed by Regulations made by the Committee.

Transferability of unused allowances

- *the allowances marked with an * in the first schedule are transferable between taxpayers in the circumstances described in paragraph (i) below*
- *the allowances with an ^ in the first schedule are transferable between taxpayers in the circumstances described in paragraph (ii) below,*

and in all cases transfer is subject to the conditions detailed below.

(i) transfers between married couples or couples in a civil partnership

Any allowances due to an individual which are greater than the individual's own income may only be transferred to the spouse, if at the commencement of the year of charge the claimant's spouse is living with the claimant as a married couple.

Provided that, should the marriage or a civil partnership end in the year of charge, by reason of divorce or separation, the allowance is proportioned on the basis of the number of days in the year of charge which precede that event, with the relevant proportion of any unused allowances prior to that event being automatically transferred.

For the purposes of this paragraph –

“divorce” means that the Court for Matrimonial Causes has made a Final Order on a decree of divorce or of nullity of marriage in respect of the marriage in question or that the courts of another jurisdiction have made a corresponding order in respect thereof, and includes an order for the dissolution of a civil partnership, and

"separation" means that the couple are living separately as fully and as completely as though they had never been married or in a civil partnership, as the case may be.

Provided that, should the marriage or a civil partnership end in the year of charge, by reason of death, the full unused allowance is transferrable.

Where there is an entitlement to transfer of an allowance under this paragraph, that allowance will be automatically transferred.

(ii) transfers between co-habiting couples in receipt of Family Allowance, but not eligible for the charge of children allowance

Where the recipient of a Family Allowance in respect of one or more children is not entitled to claim the charge of children allowance because the claimant is cohabiting with another person, the claimant may, in respect of the year of charge, by notice in writing addressed to the Director, elect that any unused part of, the personal allowance to which the claimant would otherwise be entitled shall cease to be the claimant's and shall become part of the personal allowance of the person with whom he is cohabiting, such election, once made, to be irrevocable in respect of that year of charge.

For the purposes of this paragraph "cohabiting" means living with another person as if they were married throughout the year of charge.

15. (Paragraphs 5.65; 5.72; and 5.77) That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

With immediate effect:

a	Cigarettes	£339.83 per kilogram
b	Cigars	£338.29 per kilogram
c	Hand rolling tobacco	£315.03 per kilogram
d	Other manufactured tobacco	£273.25 per kilogram
e	Tobacco leaf – unstemmed	£303.34 per kilogram
f	Tobacco leaf – stemmed	£306.38 per kilogram
g	Petrol other than any fuel used for the purpose of air navigation	67p per litre
h	Petrol used for the purpose of marine navigation where supplied by an approved trader	43.9p per litre
i	Gas oil	67p per litre
j	Biodiesel	67p per litre
k	Beer exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	49p per litre
l	Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 4.9 per cent volume	49p per litre
m	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	79p per litre
n	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	63p per litre
o	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	99p per litre
p	Beer exceeding 7.5 per cent volume	£1.14 per litre
q	Spirits	£35.66 per litre of alcohol contained in the liquor.

r	Cider exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	49p per litre
s	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	49p per litre
t	Cider, other than cider produced by an independent small cider-maker, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	79p per litre
u	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	63p per litre
v	Cider, other than cider produced by an independent small cider-maker, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	99p per litre
w	Cider exceeding 7.5 per cent volume	£1.14 per litre
x	Light wines not exceeding 5.5 per cent volume	62p per litre
y	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.51 per litre
z	Other wines	£4.01 per litre

16. (Paragraph 5.79) To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2017” and to direct that the same shall have effect as an Ordinance of the States.
17. (Paragraphs 5.86; 5.89; and 5.91) To approve the draft Ordinance entitled “The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2017” and to direct that the same shall have effect as an Ordinance of the States.
18. (Paragraph 6.4) To direct the Committee *for* Education, Sport & Culture and the Committee *for* Home Affairs to report back in the June 2018 Policy & Resource Plan update policy letter with a detailed assessment of each opportunity identified in the PwC Report entitled “Costing, benchmarking and prioritisation” together with an implementation plan including anticipated costs, benefits and timeline for delivery.
19. (Paragraph 6.21) To approve the cash limits for ordinary revenue expenditure for 2018 totalling £377.8million as set out in paragraph 6.21 of this Report.
20. (Paragraph 6.33) To direct that an oversight group comprising political representatives from both the Committee *for* Education, Sport & Culture and the Policy & Resources Committee is formed as a priority to oversee the development of initiatives and the delivery of budget reductions.

21. (Paragraph 6.34) To authorise the Policy & Resources Committee, on the recommendation of the oversight group, to increase the 2018 revenue expenditure budget of the Committee *for* Education, Sport & Culture by the value of savings from projects initiated in 2018 but due to deliver benefits between 2019 and 2021.
22. (Paragraph 6.40) To direct the Policy & Resources Committee and the Committee *for* Employment & Social Security to investigate options for enabling the integrated compilation and presentation and consideration by the States of all general revenue income and expenditure, including non-contributory benefits, and that the Policy & Resources Committee reports back, with appropriate proposals, in the 2019 Budget Report.
23. (Paragraph 6.65) That the objective in the Fiscal Policy Framework which limits expenditure growth in real terms should be interpreted for 2018 to exclude £1.8million of the additional amount of £2.5million allocated to the Committee *for* Employment & Social Security to fund the introduction of the income support scheme.
24. (Paragraph 6.73) To endorse the intention of the Policy & Resources Committee to use its existing delegated authority to approve partial-funding from the Capital Reserve for projects that are being initiated by non-States bodies that would support delivery of the objectives of the Policy & Resource Plan; where there is a business case that demonstrates the project represents value for money; and where the value does not exceed £250,000.
25. (Paragraph 6.75) To set the States' Trading Supervisory Board a target minimum contribution to General Revenue of £5.5million of capital returns (in addition to any dividend paid in accordance with existing policy) from the States' trading assets in 2018.
26. (Paragraph 6.76) To approve that returns of capital from the States' trading assets and capital income in 2018 be transferred to the Capital Reserve.
27. (Paragraph 6.78) To transfer the sum of £53.2million from General Revenue to the Capital Reserve on 1 January 2018.
28. (Paragraph 6.80) To agree that Resolution I. 20 on Billet d'État No. XXII of 2014 shall cease to have effect at the end of 2017 and that with effect from 1 January 2018 the investment return on the Core Investment Reserve should be credited to that Reserve up to the level necessary to maintain its real value as at 1 January 2018 and delegate authority to the Policy & Resources Committee to transfer some or all of any returns exceeding that level to the Capital Reserve.
29. (Paragraph 7.6) To direct the Policy & Resources Committee to establish a social investment commission during 2018, to begin operation from 1 January 2019.

30. (Paragraph 7.15) To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Public Service Reform by £750,000 to £1.5million.
31. (Paragraph 7.20) To delegate authority to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund of up to £750,000 to fund the development of the People Plan.
32. (Paragraph 7.23) To delegate authority to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund of up to £375,000 to fund the development of an energy policy.
33. (Paragraph 7.25) To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for the transition to the new system of population management by £500,000 to £1million.
34. (Paragraph 7.56) To delegate authority to the Policy & Resources Committee to lend on capital raised by the States of Guernsey bond issue to Alderney Electricity Limited or provide a guarantee to facilitate Alderney Electricity Limited's external borrowings to fund upgrading the Alderney power station on such terms as the Committee may approve.
35. (Paragraph 7.63) To endorse the decision of the Policy & Resources Committee to make available a temporary overdraft facility for 2018 of £11.8million to Aurigny Limited.
36. (Paragraph 7.72) To approve the transfer of up to £435,000 in 2017 and up to £105,000 in 2018 from the States of Alderney capital allocation to the States of Alderney revenue budget.
37. (Paragraph 7.77) To approve the revised Rules for Payments to States Members, Non-States Members and Former States Members attached as Appendix II to this Report.
38. To approve the following Expenditure Budgets for the year 2018:
 - (a) Policy & Resources Committee
 - (b) Committee *for* Economic Development
 - (c) Committee *for* Education, Sport & Culture
 - (d) Committee *for* Employment & Social Security
 - (e) Committee *for the* Environment & Infrastructure
 - (f) Committee *for* Health & Social Care
 - (g) Committee *for* Home Affairs
 - (h) Scrutiny Management Committee
 - (i) Development & Planning Authority
 - (j) Overseas Aid & Development Commission
 - (k) States' Trading Supervisory Board
 - (l) Royal Court

(m) Law Officers

39. To approve the following Budgets for the year 2018:

- (a) Corporate Housing Programme
- (b) Solid Waste Trading Account
- (c) Guernsey Registry
- (d) Ports
- (e) Guernsey Water
- (f) States Works
- (g) Guernsey Dairy
- (h) States Capital Investment Portfolio – Operating Costs
- (i) Superannuation Fund Administration
- (j) Committee *for* Employment & Social Security – Contributory Funds

40. To note the Budget for the States of Alderney for 2018.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

Committee Support for Propositions

In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that Deputy St Pier does not support Proposition 12 and Deputy Trott does not support the increase in excise duty on gas oil proposed in Propositions 15 and 16; all other propositions have the unanimous support of the Policy & Resources Committee.

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens