



**XIX
2015**

BILLET D'ÉTAT

TUESDAY, 27th OCTOBER, 2015

ANNUAL BUDGET OF THE
STATES FOR 2016

BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I hereby give notice pursuant to Rules 1(3)(a) and 3A of the Rules of Procedure of the States of Deliberation that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **TUESDAY**, the **27th OCTOBER, 2015 at 9.30 a.m.**, to consider the Annual Budget of the States for 2016 which has been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey

29th September 2015

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St. Peter Port
Guernsey
GY1 1FH

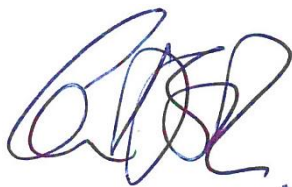
25 September 2015

Dear Sir,

ANNUAL BUDGET OF THE STATES FOR 2016

I enclose a copy of the Annual Budget of the States for 2016 which I should be grateful if you would lay before the States.

Yours faithfully,



Gavin St Pier
Minister, Treasury and Resources Department

J Kuttelwascher
Deputy Minister

A H Adam
R A Perrot
A Spruce

Mr J Hollis
(Non-States Member)

MINISTER'S FOREWORD

This is a budget for health: the health services of the islands; and the future health of public finances.

The health services of the islands

Following the work - jointly commissioned after last year's Budget by the Department and the Health and Social Services Department and undertaken by BDO – the States have a clear base-lined and benchmarked budget for the Health and Social Services Department for the first time. This provides strong evidence to support the recommended additional £8.2m for that Department in 2016, which is needed to deliver the *current* service model. In order to fund this, the Department is recommending some £8.4m of revenue-raising measures. As far as possible, these have been carefully selected to minimise the impact on islanders. For example, by reflating the 'motor tax' component of fuel duty from its 2006 value to today's, the States can raise £2.15m; but given the fall in world oil prices, pump prices will still be considerably below their peak.

The BDO exercise has also confirmed the work of others, namely, that: the health and social services provided are costly on a comparative basis to similar environments; and there is an opportunity to re-model the delivery of health and social services into a *new* service model at a substantially lower cost, with savings of up to £24m per year. On-going commitment, determination and leadership at a political and staff level for an extended period will be required in order to deliver this change. It will also require the investment of resources to enable the release of the 'reform dividend' – with financial savings and service improvements – which reform *must* produce. This justifies the States' decision last year to establish the Transformation and Transition Fund to enable this kind of reform. Following the experience gained from the base-lining and benchmarking exercise with the Health and Social Services Department, the Treasury and Resources Department is also recommending that in 2016 a similar process is embarked on for the next two largest spending Departments: Education and Home.

The future health of public finances

The anticipated 5% (or £20m) shortfall in budgeted revenues for 2015 is sobering and has obviously informed the Department's estimates and recommendations in this Budget Report. Having regard to the available economic indicators and evidence, the Department does not believe that this is systemic; but rather that the causes are principally cyclical due to the inherent time lags in some revenues. The 2016 position therefore can be managed by reducing the appropriation to the Capital Reserve by almost £19m. However, such a reduction is unsustainable in the longer term if the States are to maintain their capital assets and also comply with their fiscal and economic policy objective to invest 3% of GDP in the islands' infrastructure. Therefore, if the shortfall in revenues proves to be more persistent, the States will be required to take longer-term measures.

The estimated deterioration in revenues, compared to previous forecasts, means that:

- First, without the cushion of the Contingency Reserve (Tax Strategy) painlessly to absorb such a shortfall, the Treasury and Resources Department has been required to recommend measures in this Budget Report to balance the budget in order to 'live within our means' - as many islanders expect.
- Second, the 'excess' (i.e. above inflation) investment returns of the Core Investment Reserve are estimated to have provided an additional £8m for the Capital Reserve, which partially offsets the reduction in the appropriation from General Revenue. Following the work undertaken after last year's Budget in relation to the review of the working capital requirements and capital structures of our trading assets (although further analysis is required) the Department is also budgeting for £10m to be received in 2016 as a return of capital from those assets. This will also be transferred to the Capital Reserve.

This vindicates the States' decisions last year to close the Contingency Reserve and establish the Core Investment Reserve.

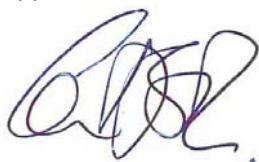
In order to maintain the sustainability and future health of public finances, there is a need not only to grow the economy but also to broaden and diversify the tax base. This was discussed at length by the States during the Personal Tax, Pensions and Benefits Review. Therefore, in addition to the increase in domestic TRP, which the States agreed in principle in April, the Department also proposes extending the scope of corporate income tax to include large retailers, the importation of hydrocarbons and the provision of custody services. These changes will ensure that the island remains competitive and compliant with international standards. The Department will continue to monitor international developments in corporate tax and in due course, if appropriate, will bring to the States further recommendations for change which balance the fiscal requirements of the States with the need to remain competitive and deliver growth in the economy. In order the better to enable this, the Department is taking steps to improve data collection on corporate profitability.

With the agreed objective of greater diversification and sustainability to ensure the long-term good health of public finances, but with the States having rejected the further development of GST, the States will have no choice but to look at the scope of all other existing taxes. For example, in the review of document duty agreed by the States in April, the Department will consider whether there are further anti-avoidance measures required (aside from the use of share transfers, which will be the subject of a separate policy letter early in 2016.) Irrespective of the outcome of the review of environmental taxes to be undertaken as directed by the States, it is the view of the Treasury and Resources Department that the States will also need to consider whether any fuels which are currently exempt ought to be subject to excise duties.

The Department would have liked this year to be able to recommend increases in personal allowances, but realism must prevail. In the absence of GST or VAT, there simply is not the same tax base as other jurisdictions with which personal allowances here are often compared - and to look at *tax allowances* in isolation, rather than the overall *tax burden*, is over simplistic and misleading. Never-the-less, the Department recognises that the discrepancy in personal allowances could create a *perception* that the personal tax system is uncompetitive. This will need to be addressed in the not too distant future. An opportunity to do so may come as a result of the work agreed in the Personal Tax, Pensions and Benefits Review to investigate options for the withdrawal of allowances for high earners. However, as noted at that time, if high marginal tax rates for *middle* income earners are to be avoided, given the interaction with social security contributions, any solution will inevitably increase the complexity of the tax and social security system.

The ill health in Alderney's economy has become increasingly clear during this term. Given the fiscal union between Guernsey and Alderney, this should be of direct concern to all in Guernsey. Whilst Alderney is taking steps to address this through their own economic development plans, the Department believes that introducing a lower 'tax cap' of £50,000 for new residents to the island is worth trying; the Department will also consider what other fiscal incentives might be appropriate to encourage the establishment of new businesses and employment on the island. This work might also have application to Guernsey.

Finally, this is the last Budget of this States' term which, for the Department, was always going to be a challenging period in which to discharge its responsibility for our public finances. However, much has been achieved to strengthen the fiscal foundations of the States, including: key decisions following the Personal Tax, Pensions and Benefits Review; the substantive delivery of the Financial Transformation Programme; the restructuring of the reserves; and the establishment of funds to support economic development and future transformation.



Gavin St Pier
Minister, Treasury and Resources Department

25 September 2015

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2016 BUDGET REPORT

Section 1: 2015 Financial Position

1.1 The following table summarises the States' 2015 financial position:

		2015 Current Estimate £m	2015 Budget Estimate £m	2014 Actual £m
Revenue Income				
Income Tax		291	308	298
Other Taxes		70	75	67
Miscellaneous Income		24	23	18
Revenue Income		385	406	383
Revenue Expenditure	#	(366)	(366)	(350)
Revenue Surplus		19	40	33
Routine Capital Allocations	#	(7)	(7)	(8)
Capital Income		-	-	1
Operating Surplus		12	33	26
Transfer to Capital Reserve (including capital income)	#	(36)	(37)	(36)
Transfer from General Revenue Account Reserve (timing of delivery of FTP benefits)		4	4	-
Deficit		20	-	(10)
Funded by transfer from:				
Contingency Reserve (Tax Strategy)		-	-	10
General Revenue Account Reserve		20	-	-

Integrated On Island Transport Strategy^a

2015 Probable Outturn

1.2 The 2015 projected revenue surplus (i.e. before routine capital allocations and transfer to Capital Reserve) has decreased by £21million from £40million to £19million. Therefore, instead of an anticipated draw-down from the General Revenue Account Reserve of £4million (due to delays in the timing of delivery of FTP benefits), it is anticipated that £24million will be required (after the reduction of £1million in the transfer to the Capital Reserve arising from the removal of the Bus Depot from the Integrated On Island Transport Strategy). This would exhaust the General Revenue Account Reserve and mean that funds are no longer held to manage in-year shortfalls in income, short-term cyclical variations and other timing issues.

1.3 The deterioration of £20million is entirely due to income being lower than anticipated as follows:

- Income Tax – Individuals – Fall of £7million;
- Income Tax – Companies – Fall of £8million;
- Income Tax – Distributions – Fall of £2million;
- Other Taxes – Fall of £5million comprising £4million relating to the Vehicle First Registration Duty and £2.5million lower Document Duty receipts.
- Other Income – increase of £1million.

^a The Integrated On Island Transport Strategy was intended to have a neutral effect on the States' financial position which was reflected in the 2015 Budget (increased revenue income of £3.33million funding increased revenue expenditure of £1.47million, increased routine capital allocations of £750,000 and an increase of £1million in the transfer to the Capital Reserve). As a result of the delays in implementing the Strategy, the only impact in 2015 will be expenditure of £520,000 relating to the scheduled bus service contract.

2016 BUDGET REPORT

- 1.4 As set out in paragraph 3.15, there is an inherent difficulty in forecasting income tax receipts as there is a significant time delay between profits and investment income earned and tax paid for all receipts apart from those through the ETI system. This delay can be up to two years and can lead to significant under or over payments in future years relating to prior taxation years of charge which can distort the statistics and lead to inaccuracies in forecasting. It is also not possible to determine with any certainty until all returns are processed and trends analysed whether this deterioration in income tax receipts is a one-off event, a cyclical issue or evidence of a structural decline.
- 1.5 As evidenced by the recent publication of Guernsey's estimated GDP figures, it is clear that the economy is growing (latest estimates being 4.2% in 2012, 1.2% in 2013 and 0.9% in 2014). In addition, there is also strong business confidence with the annual Chamber of Commerce survey, undertaken earlier this year and published this summer, showing businesses reporting increases in turnover and profitability, whilst the proportion of businesses reporting business costs going up substantially is the lowest on record. Over half of the businesses interviewed expected turnover and profit to increase in 2015, and the number of businesses expecting a decrease in turnover in 2015 was the lowest on record.
- 1.6 Inflation is low (1.5%, June 2015 RPIX) and predicted to remain so (forecast for 2016 of 2.5% RPIX in the Quarter 2 2015 Inflation Forecast Bulletin issued by the Policy Council); unemployment remains low; the number of people working has grown for the first time since 2011 (0.3% in the year to June 2015); and 1% growth in real earnings in 2014 was the fastest rate of growth since 2009.
- 1.7 The States of Guernsey Bond issue was over-subscribed and the AA+ credit rating from Standard and Poors reflects the strength of the economy and the improved health of public finances following the Financial Transformation Programme and the commitment to further reform. As part of the 2015 Budget Report, an Economic Development Fund was established to support initiatives designed to stimulate economic growth and increase revenues.
- 1.8 As noted in the joint States Report from the Treasury and Resources Department and the Social Security Department entitled "Planning a Sustainable Future – The Personal Tax, Pensions and Benefits Review" ("The Joint Report") (Billet d'État IV, 2015), the States are disproportionately reliant on income tax as a source of revenue. Therefore, aside from the challenges of sustaining income from a declining working population, the States' financial position is particularly susceptible to changes in business profits, investment income and company distributions which leads to volatility in income tax receipts. Therefore, there is clearly a need to diversify our tax base, commencing with implementation of the resolutions of The Joint Report.

2016 BUDGET REPORT

1.9 The following table details the anticipated 2015 Probable Outturn for each Department / Committee compared with Budget:

2015	Original Budget £'000s	Authorised Budget ^b £'000s	Probable Outturn £'000s	Anticipated (Over) / Underspend £'000s
Policy Council				
General	9,275	9,605	9,441	164
Formula Led	2,485	2,485	2,490	(5)
Treasury and Resources				
General	18,425	19,187	19,347	(160)
Formula Led	1,930	2,008	2,008	-
Commerce and Employment	11,425	11,289	11,127	162
Culture and Leisure	2,925	2,995	2,995	-
Education	74,875	75,044	75,292	(248)
Environment	9,025	8,133	8,179	(46)
Health and Social Services	113,210	116,805	117,467	(662)
Home	32,425	33,011	32,831	180
Housing	9,975	10,039	9,512	527
Public Services	4,400	4,440	4,256	184
Social Security				
General	3,010	3,119	2,798	321
Formula Led	56,110	56,027	56,490	(463)
Public Accounts Committee	280	283	280	3
Scrutiny Committee	280	283	280	3
States Review Committee	-	20	15	5
Royal Court	2,800	2,843	2,727	116
Law Officers	4,675	4,735	4,836	(101)
States of Alderney	1,875	1,909	1,909	-
	359,405	364,260	364,280	(20)
Budget Reserve	6,195	1,340	1,320	20
	365,600	365,600	365,600	-

1.10 The projected adverse position for the Education Department is in respect of the timing of delivery of FTP benefits. The projected overspends by the Treasury and Resources Department, Environment Department and Law Officers relate to established staff budgets where the assumed 5% level of vacancies has not occurred (a transfer will be made from the Budget Reserve, if required, at the end of 2015).

1.11 In respect of the Health and Social Services Department, the July 2015 Policy Letter entitled "*Maternity Services and Other Key Reviews*" (Billet d'État XIV, 2015) indicated a potential overspend of in the region of £1million (excluding the additional expenditure on the Reviews). The Department is pleased to note that the projected overspend has reduced to £662,000.

^b Authorised Budgets include inter-Department transfers and £4.855million of funding which has been transferred between the Budget Reserve and Departments including £2million in respect of settled pay awards.

2016 BUDGET REPORT

- 1.12 The Social Security Department is forecasting that expenditure on Severe Disability Benefit and Carer's Allowance will be £400,000 in excess of the original estimate. Following a review of Attendance Allowance and Invalid Care Allowance (Billet d'État XVII, 2011), proposals for change were agreed by the States in October 2011 and introduced with effect from May 2014. Although the 2015 budget estimate assumed an increase in demand above the norm as a result of these legislative changes, actual demand and costs are significantly above budget and the Full Year forecast has been revised accordingly.
- 1.13 It is anticipated that there will be sufficient funding in the Budget Reserve and underspends from other Departments to fund the increased expenditure outlined above within the overall total budget for revenue expenditure.
- 1.14 In recent years, Departments have been very prudent in estimating their Probable Outturns. In 2014, the Probable Outturn for revenue expenditure was £353million whereas the actual outturn was some £3million less at just under £350million. Any underspend in 2015 would reduce the amount transferred from the General Revenue Account Reserve.

2016 BUDGET REPORT

Section 2: 2016 Budget Estimate

- 2.1 As set out in the 2015 Budget Report, the Treasury and Resources and Health and Social Services Departments worked together to commission BDO to undertake a review to cost the services undertaken by the Health and Social Services Department, benchmark those services against other relevant comparable organisations, and set a three-year prioritised budget for 2016, 2017 and 2018 based on any achievable efficiencies.
- 2.2 The project team has examined in detail the expenditure in 2014, adjusted for any one-off or cyclical expenditure, cost pressures and service developments since that time and recommended a baseline revenue Cash Limit for the Health and Social Services Department in 2016 of £119.65million, which is £8.2million or 7.6% higher than the indicative Cash Limit which had been set within the States' Fiscal Policy. The review identified a prudent risk-adjusted assessment of potential efficiency gains deliverable within the Health and Social Services Department budget of £7.4million per annum deliverable over a 3 to 5 year period. The Treasury and Resources Department accepts the recommendations of the BDO Review in respect of budgetary allocations to the Health and Social Services Department and these are incorporated within the 2016 Budget proposals.
- 2.3 The Health and Social Services Department has committed to delivering in-year efficiency measures in 2016 that would reduce the funding requirement to £118.5million. However, there are significant risks around the identification and timing of these indicative savings. Therefore, it is proposed that the full £8.2million additional funding be allowed within the Health and Social Services Department's revenue Cash Limit (£7.05million to £118.5million) and as a specific provision within the Budget Reserve (£1.15million).
- 2.4 The Treasury and Resources Department therefore proposes a short term variation to the 'no real terms' growth' target to accommodate the additional temporary requirement in the Health and Social Services Department. This measure, which has the support of the Fiscal and Economic Policy Group, will allow the States to make the necessary expenditure in health and social care without having seriously to impact the services of all other Departments in the short term. Therefore, it is recommended that, **for 2016, the objective within the Fiscal and Economic Plan for a real terms' freeze in aggregate States' revenue expenditure should exclude the additional £8.2million allocated for the Health and Social Services Department**, as explained in the previous paragraph.
- 2.5 It is clear that strong focus needs to be maintained on expenditure restraint and achieving value for money in the delivery of health and social care services and it is essential that the reform agenda delivers benefits that can be used to re-invest in services, re-invest in transformation or reduce overall expenditure. The additional spend of £8.2million (estimated to decrease to £4.7million in 2017 and £3.7million in 2018) is expected, after 3 to 5 years, to deliver gross benefits of £7.4million (net £5.2million) per annum.

2016 BUDGET REPORT

2.6 The following table summarises the States' financial position:

		2016 Budget Estimate £m	2015 Current Estimate £m	2015 Budget Estimate £m	2014 Actual £m
Revenue Income					
Income Tax		305	291	308	298
Other Taxes		76	70	75	67
Miscellaneous Income		19	24	23	18
Revenue Income		400	385	406	383
Revenue Expenditure	#	(372)	(366)	(366)	(350)
Revenue Surplus		28	19	40	33
Routine Capital Allocations	#	(11)	(7)	(7)	(8)
Capital Income		10	-	-	1
Operating Surplus		27	12	33	26
Transfer to Capital Reserve (including capital income)	#	(28)	(36)	(37)	(36)
Transfer from General Revenue Account Reserve (timing of delivery of FTP benefits)		1	4	4	-
Deficit		-	(20)	-	(10)
Funded by transfer from:					
Contingency Reserve (Tax Strategy)		-	-	-	10
General Revenue Account Reserve		-	20	-	-

Integrated On Island Transport Strategy^c

- 2.7 The inflation forecast for 2016 included within this Budget Report is RPIX of 2.5% which is in line with the Quarter 2 2015 Inflation Forecast Bulletin issued by the Policy Council.
- 2.8 The expenditure budget for 2016 has been set on the basis of no real terms' growth in revenue expenditure. As agreed by the Fiscal and Economic Policy Group earlier this year, in determining the limit of all expenditure, the June RPIX figure of 1.5% is applied in the calculation in order to avoid the complications that occur if an estimate is used.
- 2.9 If the 2016 Budget had been prepared on the basis of no changes to taxes and continuing the policy of maintaining the real value of the appropriation to the Capital Reserve, there would have been a deficit of £19million, increasing to £27million with the proposed additional allocation of £8.2million for health and social care services. The States have no reserves available to fund such a deficit as the General Revenue Account Reserve is projected to be exhausted in 2015 and the Core Investment Reserve is only available to be used in the exceptional and specific circumstances of severe and structural decline or major emergencies.

^c The revised Integrated On Island Transport Strategy proposals approved by the States in July 2015 (Billet d'État XIV, 2015), which are planned to be with effect from 2016, mean that the Strategy will have a net expenditure effect of £1.1million (increased revenue expenditure of £1.8million and £450,000 of increased routine capital allocations will be partially offset by £1.15million of additional revenue income).

2016 BUDGET REPORT

2.10 Therefore, the Department is proposing to reduce the transfer to the Capital Reserve (before any return of capital from the trading entities) by £18.5million to £18.3million (paragraph 5.13) and is recommending some considered and limited tax changes in order to raise an additional ongoing amount of £8.4million (to fund the additional spending in health and social care):

Corporate Sector (£3million)

- Extension of 10% Company Intermediate Income Tax rate to custody business (£0.5million) (paragraph 3.5);
- Extension of 20% Company Higher Income Tax rate to the importation and/or supply of hydrocarbon oil or gas (£0.35million) (paragraph 3.6);
- Extension of 20% Company Higher Income Tax rate to retail business carried on in Guernsey where the company has a taxable profit of more than £500,000 in a year from such business (£1.5million) (paragraph 3.7);
- Commercial Tax on Real Property to increase by 5% (apart from 2.5% for the Retail category) (£0.65million bringing the total to £14.55million) (paragraph 3.76).

Personal Taxes and Duties (£3.05million)

- No increase in personal income tax allowances (£2million) (paragraph 3.19) plus pro-rating allowances in the year of arrival or departure (£0.2million) (paragraph 3.25);
- A 2.5% real-terms' increase in the duty on alcohol (£0.55million) (paragraph 3.61);
- Domestic Tax on Real Property and Land rates to increase by 10% (£0.5million bringing the total to £5.7million) (paragraph 3.76).

Other (£2.15million)

- A 6.7p increase in the duty on a litre of fuel (to restore the real value of the 'motor tax' element) (paragraph 3.67).

2016 BUDGET REPORT

2.11 The following table summarises the financial position before and after the proposed budget measures, including the additional allocation of £8.2million for health and social care services:

	2016 'Base' £m	2016 Budget measures £m	2016 Budget Estimate £m
Revenue Income			
Income Tax	301	4	305
Other Taxes:			
Excise Duties	38	3	41
Tax on Real Property	19	1	20
Document Duties	14	-	14
First Registration Duty	1	-	1
Other Income	19	-	19
Revenue Income	392	8	400
Revenue Expenditure	(364)	(8)	(372)
Revenue Surplus	28	-	28
Routine Capital Allocations	(11)	-	(11)
Capital Income	10	-	10
Operating Surplus	27	-	27
Transfer to Capital Reserve	(47)	19	(28)
Transfer from General Revenue Account Reserve (timing of delivery of FTP benefits)	1	-	1
(Deficit)	(19)	19	-

Fiscal Policies

2.12 The Budget has been prepared with due regard to the Fiscal and Economic Plan including compliance with Resolution 6 of The Joint Report 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 Social Security Department's September 2015 Policy Letter entitled *“Benefit and Contribution Rates for 2016”* (Billet d'État XVIII, 2015), that aggregate government income in 2016 will represent approximately 25% of GDP (calculation based on the 2014 GDP estimate).

2.13 The Treasury and Resources Department considers that the current lack of integration and co-ordination between the two key revenue raising functions of the States (income tax and social security contributions) means planning for compliance with this limit will prove challenging in the medium-term. It is also a concern that the States continue to consider, in isolation, changes to non-contributory benefit rates which consequently affect the resources available to allocate to other Departments through the Budget process. Therefore, it is the firm view of the Department that the next States will need to give serious consideration to reforming the current system and presenting a single Policy Letter incorporating all proposals affecting the States' financial position.

2016 BUDGET REPORT

Section 3: Income Proposals

Corporate Income Tax

- 3.1 In April 2015, following consideration of The Joint Report, the States resolved (Resolution number 39), 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.”

- 3.2 The Department is proposing the introduction of three measures that would meet the terms of the above resolution, whilst ensuring that the standard rate of income tax is maintained at 0%, raising an estimated £2.35million of additional revenue (after taking into account, for those businesses that are locally owned, the reduction in tax due on subsequent distributions of profit).
- 3.3 These recommended extensions of the scope of corporate income tax follow changes already approved by this States. In 2013, fiduciary and general insurance businesses were brought into scope as were fund administration businesses in 2015. When the changes are taken, together with previous decisions to increase corporate TRP and employers’ social insurance as well as the taxation of distributions from companies, government is now receiving a broadly comparable amount from the corporate sector as it was before the adoption of the Zero-Ten corporate regime.
- 3.4 The Treasury and Resources Department will, in accordance with the above resolution, continue to monitor the appropriateness of the corporate tax regime and report back to the States as and when it considers any other changes should be made. However, there is not considered to be scope to make any, other than very limited, further extensions to the 10% rate.

Extension of 10% rate to Custody Business

- 3.5 It is proposed that, **notwithstanding that the standard rate of corporate income tax will remain at 0%, with effect from 2016, the company 10% rate is extended to the provision of custody services (as defined in the Protection of Investors (Bailiwick of Guernsey) Law, 1987) to unconnected third parties.** It is considered that this measure, which will align Guernsey with the tax position in Jersey, will meet the five principles that were set out in the 2010 corporate tax review as it would: be competitive; be simple; be internationally acceptable; promote a sustainable economy and tax the provider, not the product, thus retaining the important tax neutral platform that is key to maintaining Guernsey’s international fiscal competitive position. It is estimated that additional income of £500,000 per annum will be raised. There will be consultation with industry during the preparation of such legislation required to give effect to this proposal.

Extension of 20% rate to the importation and/or supply of hydrocarbon oil or gas in Guernsey

- 3.6 It is proposed that, **with effect from 2016, the 20% rate is extended to the importation and/or supply of hydrocarbon oil or gas in Guernsey, except where a company does not import hydrocarbon oil or gas and supplies hydrocarbon oil or gas in Guernsey solely by means of a retail outlet for use in motor vehicles or boats.** This would align Guernsey with the tax position in Jersey and is estimated to raise additional income of £350,000 per annum.

2016 BUDGET REPORT

Extension of 20% rate to retail business carried on in Guernsey where the company has a taxable profit of more than £500,000 in a year from such business

- 3.7 It is proposed that, **with effect from 2016, the 20% rate is extended to retail business carried on in Guernsey, where the company has a taxable profit of more than £500,000 in a year from such business.** This would be similar (albeit at a rate of 20%, rather than 10%) to the tax on large retailers that was introduced in the Isle of Man in April 2013.
- 3.8 The relevant limit of £500,000 per annum would apply to the aggregated profits of associated companies which also carry on retail business in Guernsey. The £500,000 would be reduced proportionately where the accounting period is less than twelve months.
- 3.9 "Retail business" will include, for example, supermarkets and convenience stores, car sales, petrol sales and online sales, but not the provision of a service nor profits from wholesale trade where goods are sold to other businesses. Any retail business which has more than 95% of its customers outside Guernsey would not be considered to be carrying on retail business in Guernsey and therefore would not be subject to the 20% rate. It is prudently estimated to raise additional income of £1.5million per annum.

Gathering of company and business profits data

- 3.10 In order to ensure that the Department can accurately and confidently monitor the appropriateness of the current corporate tax regime, it is important to have sufficient fiscal data available.
- 3.11 At present, information is collected, on a regular basis, of profits of companies which are taxable at the company higher rate (20%), the company intermediate rate (10%), and those which are chargeable at the company standard rate (0%) owned by Guernsey residents or having employees based in Guernsey. Therefore, there are a significant number of Guernsey companies (consisting mostly of those companies owned by non-residents, and which carry on their activities outside of Guernsey) for which no profits information is held.
- 3.12 Whilst it would not be necessary to require such companies to provide their full business accounts, the Department believes that requiring them to simply state, as part of their income tax return, the amount of profits reflected in their financial statements, would substantially assist the Department; for example in clearly demonstrating that 0% remains the standard rate of tax for companies in Guernsey.
- 3.13 The income tax law provides that the form and manner of a tax return is a matter for the Director of Income Tax to determine. Therefore, commencing with the return relating to accounting periods ending in 2015, the company income tax return will require all companies to report their profits.
- 3.14 In addition, each year, a forecast for income tax receipts for the following year is made, based on historical data and the amount of tax paid on account for that and the previous year. These forecasts are subject to many variable factors as income tax returns for the previous year of charge may not have yet been submitted and/or assessed.
- 3.15 The "deadline" for submission of returns for income of the calendar year 2014 will not expire until the end of November 2015. Under the tax system as it currently stands, staff in the Income Tax Office have to process the tax returns received before the final tax due can be known, and any outstanding sums paid or, in the case of overpayments, repaid. It may be, therefore, that final tax liabilities for 2014, for many companies and businesses, will not be known until sometime in 2016.

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- 3.16 The effect of the above, and the impact on the island's economy of global economic conditions, has made forecasting of tax collections for some sectors of taxpayers particularly problematic. This may be assisted if more up to date information was available at an earlier date than is currently the case. If tax returns were simply filed earlier than at present, it may not be possible for staff to process them in time for the information to be of significant use in forecasting. For that reason, the Treasury and Resources Department proposes to investigate the introduction of a self-assessment tax regime, possibly initially relating to specific groups of taxpayers, such as companies and those in business. Such a regime would result in data about tax liabilities, and the associated payment of tax / repayment of overpayments, becoming available earlier than at present, which would improve both the information on which tax forecasts are currently based and result in the tax liabilities for many of those affected being resolved earlier than is presently the case.

Personal Income Tax

Update on Progressing The Joint Report resolutions

- 3.17 In April 2015, following consideration of The Joint Report, the States approved (Resolutions number 27, 27A, 29 and 33A), inter alia:

"To agree between 2015 and 2025, and subject to approval and implementation set out in Propositions 28 to 39 below, to phase in increases in personal tax allowances to no more than £17,500 (at 2015 prices), the level of phasing having regard to other measures introduced as a result of the States of Deliberation's approval of these Propositions, and direct the Treasury and Resources Department to bring forward proposals to effect this in their annual Budget Reports.

To direct the Treasury and Resources Department, in conjunction with any decision to increase personal allowances along the lines set out in Proposition 27, to report to the States with detailed proposals to remove the universality of personal tax allowances and instead to introduce a scheme which provides for personal tax allowances to be withdrawn gradually as a person's income increases up to the point where a person whose income exceeds a certain amount receives no personal tax allowance.

To agree to freeze the personal tax allowance provided to those over the age of 64 until such time as the personal tax allowance for those under the age of 65 reaches the same level and thereafter that the personal tax allowance for all tax payers should be the same, and direct the Treasury and Resources Department to bring forward proposals to effect this in its annual Budget Reports.

To direct the Social Security and Treasury and Resources Departments to investigate options to make the tax and social security system as a whole more progressive, through the withdrawal of personal tax allowances (such investigation to include consideration of the interaction with the upper earnings limit on Social Security contributions in order to avoid high marginal rates of taxation) and to report back to the States with their findings no later than June 2017."

- 3.18 The Treasury and Resources Department has commenced a review of the financial and other implications of withdrawing personal tax allowances for higher earners, and will work with the Social Security Department in 2016 to investigate options for a scheme which provides for personal tax allowances to be withdrawn gradually as an individual's income rises. As noted at the time of The Joint Report, the challenge when considering the interaction with social security contributions is to avoid high marginal rates for middle income earners. The Department will be in a position to report back to the States prior to June 2017.

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2016 Personal Income Tax Allowances

3.19 As envisaged in the 2015 Budget Report, the States' financial position is currently such that the Treasury and Resources Department is not able to recommend any increases in personal allowances for 2016. This should result in an increase in States' revenues of approximately £2million which will be used to fund the required additional spending in the provision of health and social care services.

3.20 In order to maintain Guernsey's personal tax competitiveness with other jurisdictions, such as Jersey, Isle of Man and United Kingdom, it is important that the Single Person's Allowance is raised as soon as is practicable. However, in seeking to do so it must be recognised that Guernsey does not have the same tax base as these other jurisdictions; in particular it does not have a broad based consumption tax such as VAT or GST. The speed and ability to raise personal allowances will therefore be tempered pending further diversification of Guernsey's tax system and, in particular, the completion of the work necessary to enable, should it be so decided, the introduction of the withdrawal of tax allowances for higher earners.

3.21 The personal allowances for 2016 are recommended to be as follows:

Single person's	£9,675
Single person's entitled to age relief	£11,450
Married persons'	£19,350
Married persons', one entitled to age relief	£21,125
Married persons', both entitled to age relief	£22,900

3.22 The supplementary personal income tax allowances for 2016 are recommended to remain as follows^d:

Dependent relative	£3,125
Housekeeper	£3,125
Infirm Persons	£3,125
Charge of Children	£6,550

For 2016, the Wife's Earned Income Allowance will remain in line with the Single Person's Allowance, i.e. £9,675. It should be noted that the Married Persons' Allowance is reduced by the sum of £1 for every £1 of Wife's Earned Income Allowance granted.

For 2016, the income limit of a dependent relative before the Dependent Relative Allowance is reduced will remain at £6,550.

Pro-rating of personal and other allowances

3.23 In the year of arrival, an individual is treated as principally resident in Guernsey if they take up permanent residence in Guernsey, i.e. they spend more than 91 days in Guernsey in that year and are solely or principally resident in the following year. They are liable to tax on their overseas' income from their date of arrival, together with any Guernsey source income for the whole year, and receive the full personal and other allowances.

^d 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. In respect of claims of for Charge of Children Allowance, it is proposed that no new claims will be admitted for Year of Charge 2016 or will be admitted for any subsequent year of charge (paragraph 3.41).

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- 3.24 In the year of permanent departure, an individual who is principally resident is currently taxable on their worldwide income up to the date of departure and in respect of certain sources of Guernsey income received after their departure (for example, Guernsey rental income, Guernsey occupational pensions linked to service in Guernsey, etc) and they would receive the full personal and other allowances to which they are entitled although, such an individual would not be entitled, in total, to more allowances than an individual who was solely or principally resident would be entitled.
- 3.25 It is proposed that **entitlement to personal and other allowances are pro-rated in the year a person arrives in, or permanently departs from, Guernsey, based on a proportion of time spent in Guernsey in the relevant year** but where that person is in receipt of a Guernsey source pension which is liable to be taxed at source under the Employees Tax Instalment Scheme, then the pro-rating provided for under section 51(5) and s.51A(2A) of the Income Tax (Guernsey) Law, 1975 shall be deemed to apply –
- from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival), or
 - from the date of departure until the end of the year of charge (in the case of that individual's permanent departure).
- 3.26 A Statement of Practice will be issued to clarify the position under a number of potential scenarios.
- 3.27 The Housing, Commerce and Employment and Social Security Departments have been consulted on these proposals, and are satisfied that they would not adversely impact the viability of attracting short-term workers to Guernsey or the charging of social security contributions, respectively. The Chamber of Commerce has also been consulted and considers the proposals to be fair and reasonable.
- 3.28 This proposal is expected to raise additional revenues of approximately £600,000 per annum from 2017 (£200,000 in 2016 due to the effect of repayments in respect of previous years of charge).

Mortgage Interest Relief

- 3.29 In April 2015, following consideration The Joint Report, the States, resolved (Resolution 28), inter alia:
- "To agree to phase out the relief provided on mortgage interest in respect of principal private residences by 2025, with the phased withdrawal of Mortgage Interest Relief to be achieved by reducing the cap on interest deductible and that the withdrawal should broadly follow the schedule provided in Appendix 8d, and direct the Treasury and Resources Department to bring forward proposals to effect this in its annual Budget Reports."*
- 3.30 At the present time, homeowners can claim tax relief at 20% on the interest paid on the first £400,000 of a mortgage on their primary residence, subject to a £15,000 cap on the amount of interest claimable (£30,000 for a married couple where both parties are borrowers).

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- 3.31 The schedule in Appendix 8d of The Joint Report referred to in Resolution 28 of that report detailed that the maximum value of mortgage interest relief deductible should be reduced as follows:

Year	Maximum value of Mortgage Interest deductible
2016	£13,000
2017	£11,000
2018	£9,500
2019	£8,000
2020	£6,500
2021	£5,000
2022	£3,500
2023	£2,000
2024	£1,000
2025	Complete withdrawal

- 3.32 Therefore, it is recommended that **the cap on the amount of tax relief on interest paid in respect of a principal private residence is reduced as set out in the above table.**
- 3.33 It is estimated (assuming no change in interest rates) that the change in 2016 would affect eight couples (maximum impact per couple of £800) and 222 unmarried individuals (maximum impact per individual of £400). The estimated impact on States revenues would be a maximum increase of less than £100,000.
- 3.34 In December 2013, following consideration of a States Report from the Treasury and Resources Department entitled “Miscellaneous Amendments to the Income Tax Law” (Billet d’État XXIV, 2013), the States, inter alia, resolved that *“financial institutions carrying on banking business (as defined in the Fourth Schedule of the Income Tax (Guernsey) Law, 1975) may be required to provide to the Director information regarding interest paid to Guernsey residents in respect of bank and savings accounts and interest received from Guernsey residents in respect of mortgage accounts on an annual basis.”* Following the subsequent States’ resolution to phase out the tax relief provided on mortgage interest, and recognising the cost implications for financial institutions in changing their systems to report all mortgage accounts, for the remaining period that mortgage interest relief will apply, the Director of Income Tax will only require institutions to provide mortgage information for those individuals where further clarification is required, as set out in a notice specifically issued for that purpose.

Bank Interest Exemption

- 3.35 Following the introduction in the 2015 Budget of an exemption from income tax for the first £50 of bank interest, the Income Tax Office has identified over 10,000 islanders who will be notified in October that they are no longer required to file a personal income tax return. Instead they will be automatically issued with a notice of assessment on submission by their employer of a return of their earnings. This expands the initiative successfully trialled for the last few years, which by removing the requirement to file a return for over 2,300 individuals whose only source of income was from employment, is enabling the refocussing of resources to improve customer service.

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Personal Pension Provision

3.36 In April 2015, following consideration of The Joint Report, the States resolved (Resolution number 7), inter alia:

“To direct the Social Security Department, in consultation with the Treasury and Resources Department, to present to the States of Deliberation for approval a report or reports outlining policies to ensure adequate personal or workplace pension provision in Guernsey and Alderney covering the following parameters:

- *The enhanced take up of private pension schemes;*
- *The creation of a pension scheme designed to capture those not currently making personal provision (outside of the existing statutory old-age pension scheme);*
- *The enhancement of incentives for contribution to a private pension scheme through the tax system;*
- *The feasibility of devising a scheme whereby pensioners may, if they so wish, invest their pensions in a fund tracking the performance of the capital funds managed on behalf of the States of Guernsey.”*

3.37 The Treasury and Resources Department has consulted with the Guernsey Association of Pension Providers in 2015 and will use feedback from the Social Security Department's consultation on secondary pensions to consider how islanders can be encouraged to make greater private pension provision, through the introduction of greater flexibility in retirement. The Department will work with the Social Security Department to incorporate the outcome of these investigations into future reports.

3.38 Pending completion of this consultation, the Treasury and Resources Department is not proposing any change to the existing £50,000 limit on income tax relief for contributions to approved pensions schemes. However, the Department will be amending the relevant regulations to clarify that £50,000 is an overall aggregate cap on income tax relief on contributions to all such schemes, rather than separate limits applying for contributions to approved occupational schemes and approved retirement annuity trusts / schemes.

Ensuring greater equality in the ability to claim Personal and other Income Tax Allowances

3.39 At present, the Personal and other Income Tax Allowances that individuals may be entitled to claim vary depending on their personal circumstances:

- The husband of a couple is entitled to claim the Married Persons' Allowance, irrespective of whether the couple have children whereas a couple in a civil partnership are not eligible to claim the Married Persons' Allowance;
- A lone parent who is not cohabiting throughout the whole year, and who is in receipt of Family Allowance, may also claim a Charge of Children Allowance;

3.40 Opposite sex co-habitees in receipt of Family Allowance may elect to transfer any unused Personal Allowances between them, when they cohabit throughout the whole of a calendar year, whereas same sex co-habitees with children cannot transfer any unused Personal Allowances between them (although the partner in receipt of Family Allowance will be entitled to claim a Charge of Children Allowance). Opposite sex or same sex co-habitees without children are unable to transfer any unused Personal Allowances.

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3.41 The Department believes that the Income Tax system should treat all individuals equally, irrespective of their personal circumstances. Therefore, to resolve these anomalies, without impacting existing claimants whose financial affairs may be organised in reliance of these allowances, it is proposed that a number of changes are made for *new* claimants only. Accordingly, it is recommended that, **with effect from 1 January 2016:**

- **Two individuals of the same sex who have together entered into a marriage or a civil partnership shall be treated for the purposes of the Income Tax (Guernsey) Law, 1975 in the same way as a husband and wife, and that references to a husband, wife or widow, a spouse, a marriage or a party to a marriage, or an individual who is married or unmarried, shall be construed accordingly^e;**
- **The income of a wife will no longer be treated as the income of the husband for those who marry after 31 December 2015. As a consequence, the entitlement to the Married Persons' Allowance will be closed to those who marry or enter into a civil partnership after 31 December 2015.** This would not impact any current claimants and a couple who marry after 31 December 2015 will, of course, continue to be entitled to a Single Person's Allowance each and their financial position after their marriage will be the same as that before their marriage;
- **Those in a civil partnership as at 31 December 2015 be entitled to claim the Married Persons' Allowance with effect from 1 January 2016 where they otherwise meet the conditions for the Allowance;**
- **The ability to claim Charge of Child Allowance is closed in relation to children born after 31 December 2015 or where the allowance was not claimed in relation to the previous year of charge.** This would not impact any current claimants;
- **Claims to transfer Personal Allowances are closed to co-habitees with children, including same-sex couples, except insofar as the children were born prior to 1 January 2016, and where the couple were co-habiting as at 31 December 2015, and where a claim to transfer personal allowances between themselves had been made in the previous year of charge (regardless of whether or not the couple subsequently marry).** As a transitional measure in the year of charge 2016, personal allowances may be transferred between same-sex co-habitees, where the couple were co-habiting as at 31 December 2015 and are recipients of a Family Allowance (regardless of whether or not the couple subsequently marry in 2016).

3.42 The Treasury and Resources Department intends, during 2016, to give consideration as to the legislative and practical implications of allowing spouses or civil partners, who married or entered into a civil partnership prior to 1 January 2016, to elect who would be responsible for the Income Tax affairs of the couple (unless they have elected for separate assessment). In the interim, it is intended that the responsibility would rest with the older spouse or partner in a same-sex relationship.

3.43 In addition, it is recommended that **the conditions to be satisfied to claim a Charge of Child Allowance (in respect of claims made prior to Year of Charge 2016) be amended to require the claimant to be in receipt of Family Allowance as at 1 January in the relevant year.** This is to prevent parents each claiming Family Allowance for a proportion of time in a year, solely to entitle each parent to claim a Charge of Child Allowance in respect of the same child.

^e The legislation will also provide that, where the Married Persons' Allowance is claimed, the income of the younger civil partner is treated as income of the older civil partner for all of the purposes of assessment and collection of income tax (including the completion of returns, unless an election is made for separate assessment).

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Income Tax Standard Charge

- 3.44 Under the Income Tax Law, a person who is treated as resident, but not solely or principally resident, for income tax purposes can elect to pay a standard charge which means that they have no liability to income tax on non-Guernsey source income or bank interest (such individuals are not entitled to any allowances, reliefs and deductions).
- 3.45 The standard charge was first introduced with effect from 2009 at £25,000 and was increased to £27,500 from 2012. There are approximately forty individuals who pay the standard charge, paying approximately £1.3million in total (including the income tax they pay on Guernsey source income). In order to maintain its real value, it is recommended that **the income tax standard charge is increased to £30,000 with effect from 1 January 2016**. This change would result in an increase in States' revenues of approximately £100,000 per annum.
- 3.46 To provide some certainty for those individuals in this sector, **it is proposed that no further increases be made to the level of the Standard Charge for a period of 5 years** (i.e. the level of £30,000 would apply to 2016 - 2020 inclusive).

Income Tax Cap

- 3.47 Since 2008 there has been a provision in the income tax legislation enabling an individual's income tax liability to be capped ("the Income Tax caps").
- 3.48 With effect from 2009, there are two methods of capping liability:
- a cap applicable to non-Guernsey source income (currently £110,000); and
 - a cap relating to worldwide income (currently £220,000).
- 3.49 The Income Tax caps apply both for single persons and married couples. In addition, the caps are adjusted, in the year of arrival and departure, to accord with the amount of time spent in the island. There are provisions within the income tax legislation to prevent avoidance. In addition, income arising from the ownership of land and buildings (which is taxable at 20%) is excluded from the calculation of an individual's income for the purposes of the Income Tax cap.
- 3.50 As the Locate Guernsey project (funded from the Economic Development Fund) aims to attract high net worth individuals and businesses to Guernsey resulting in the generation of additional economic activity and benefits for the States and wider economy, it is not proposed that the Income Tax caps are generally revised from their existing levels for 2016.
- 3.51 The small geographical size and population demographic of Alderney make it challenging for the island to sustain a vibrant economy in the twenty-first century. It is recognised that addressing this challenge will almost certainly require a number of initiatives, but one that may have an effect in the short-term would be to offer special income tax incentives to encourage high net worth individuals to move to the island bringing with them their personal wealth and also, possibly, entrepreneurial expertise, which would have a beneficial impact on the economy of the island, beyond their individual tax contributions.
- 3.52 Therefore, it is proposed **to introduce with effect from 1 January 2016, an Income Tax cap of £50,000 for residents of Alderney** (applicable to both single and married persons), provided that they have never previously claimed the Income Tax cap. It is intended that this £50,000 cap will be available, initially, for a period of five years and would have the same conditions that currently apply to the Income Tax cap of £220,000.

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- 3.53 In addition, and in conjunction with the Commerce and Employment Department, the Department intends to consult with interested parties during 2016 on the introduction of further incentives to stimulate economic growth in Alderney, including the possible introduction of alternative “tax caps” or “tax holidays” for those who are able to demonstrate that their business, or other, activities in Alderney offer significant fiscal and / or social benefits, or who satisfy other conditions. It is intended that the Department will use the experience gained in conducting this review and formulating proposals, in considering the appropriateness of similar initiatives to further stimulate economic growth in Guernsey.

Other Taxes and Duties

Excise Duty on Tobacco

- 3.54 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;”

- 3.55 Therefore, as the increase in the Guernsey RPIX as at June 2015 is 1.5%, the Treasury and Resources Department is recommending **an increase in excise duty in respect of cigarettes of 6.5% and for all other tobacco products of 9%** as follows:

Description of Goods	Proposed Rate of Duty Per Kilogram	Present Rate of Duty Per Kilogram
Cigarettes	£298.52	£280.30
Cigars	£283.72	£260.29
Hand rolling tobacco	£264.21	£242.39
Other manufactured tobacco	£229.17	£210.25
Tobacco leaf – unstemmed	£254.40	£233.39
Tobacco leaf – stemmed	£256.96	£235.74

- 3.56 The excise duty on an average packet of 20 cigarettes would increase from £4.12 to £4.39^f. 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.
- 3.57 It is estimated that the income from Excise Duty on Tobacco will be £8.1million in 2015 and 2016.

^f Compared to £5.24 (plus 5% GST) in Jersey and £5.02 (plus 20%VAT) in the UK.

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Excise Duty on Alcohol

- 3.58 As part of the 2015 Budget Report, the States noted *“the Treasury and Resources Department's intention to include within the 2016 Budget Report proposals to introduce a system of charging excise duty on alcohol based, as far as reasonably possible, on Alcohol by Volume.”* This followed a wide consultation exercise and will modernise the current system and enable the introduction of higher excise duty rates on very high strength alcohols which may lead to health and / or social problems.
- 3.59 Therefore, it is recommended that excise duty on alcohol is charged on the following basis:
- Beer and Cider – charge in bands, structured into the following four categories:
 - i. Exceeding 1.2% ABV but not exceeding 2.8% ABV;
 - ii. Exceeding 2.8% ABV but not exceeding 4.9% ABV (plus lower rate for small independent breweries);
 - iii. Exceeding 4.9% ABV but not exceeding 7.5% ABV (plus lower rate for small independent breweries);
 - iv. Exceeding 7.5% ABV.
 - Spirits - charge based on % ABV;
 - Wine - continue with the current banding system as the constantly changing strengths of wine depending on vintage would make charging excise duty on wine by ABV an administratively complicated procedure.
- 3.60 During the early part of 2015, detailed statistics were collected on alcohol imports in order that the correct rates be calculated for the new regime raising the same amount of income as the existing regime (the ‘equivalent’ rates).
- 3.61 It is recommended that the **duties levied on alcohol are increased by 5%** - a real-terms’ increase of 2.5% above forecast inflation, raising an additional £600,000 per annum (£300,000 real-terms’ increase).

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3.62 The Department is recommending that duties be changed as follows:

Description of Goods	Proposed Rate of Duty Per Litre	'Equivalent' Rate of Duty Per Litre
Beer or Cider (currently 71p per litre (45p: small independent brewery/producer)):		
Exceeding 1.2% ABV but not exceeding 2.8% ABV	45p	43p
Exceeding 2.8% ABV but not exceeding 4.9% ABV	71p	68p
Exceeding 4.9% ABV but not exceeding 7.5% ABV	89p	85p
Exceeding 7.5% ABV	£1.04	99p
Exceeding 2.8% ABV but not exceeding 4.9% ABV – small independent brewery/producer	45p	43p
Exceeding 4.9% ABV but not exceeding 7.5% ABV – small independent brewery/producer	57p	54p
Spirits (currently £11.71 per litre for 25% to 50% alcohol by volume):		
Spirits (per litre of pure alcohol)	£32.34	£30.80
Description of Goods	Proposed Rate of Duty Per Litre	Current Rate of Duty Per Litre
Wines:		
Not exceeding 5.5% ABV	56p	53p
Exceeding 5.5% ABV but not exceeding 15% ABV	£2.28	£2.17
Exceeding 15% ABV	£3.64	£3.47

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

Description of Goods	Proposed 2016 Duty	Present 2015 Duty	Increase in Duty
Beer / Cider (2.8% - 4.9% ABV) – small independent brewery – 1 pint	25.56p	25.56p	-
Beer / Cider (2.8% - 4.9% ABV) - 1 pint	40.33p	40.33p	-
Beer / Cider (4.9% - 7.5% ABV) - 1 pint	50.55p	40.33p	10.22p
Spirits (37.5% ABV) – 25mls	30.32p	29.28p	1.04p
Light wines (5.5% to 15% volume) – 125mls	28.49p	27.13p	1.36p

3.64 The Guernsey Border Agency staff have consulted with alcohol importers regarding the change in the system of excise duty on alcohol. Having considered the feedback from this consultation, the Department recognises that this change will require some adjustment for all concerned and, therefore, is **recommending that the revised system of excise duty on alcohol and the revised rates are introduced with effect from 1 January 2016**, rather than the usual arrangement of the Department making an Order when the budget is published.

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Excise Duty on Motor Fuel

- 3.65 When motor tax was abolished with effect from 1 January 2008, the income (£6.8million) was replaced by an increase in the motor fuel duty on petrol (previously 13p per litre, raising £3.7million) and the introduction of a motor fuel duty on diesel (previously nil, but compensated for by motor tax rates being higher for diesel vehicles than petrol vehicles).
- 3.66 The 'blended duty' for motor fuel from 2008 (34million litres) was calculated at 29p per litre, of which 20p per litre related to motor tax and 9p to excise duty.
- 3.67 In order to maintain the real value of the £6.8million previously raised from motor tax, £8.6million would now need to be raised. As fuel volumes have fallen to a total of 32.25million litres in 2014, this would equate to a current duty of 26.7p per litre. It is not proposed that any further increase be applied this year to the 'non motor tax' element of the excise duty on motor fuel which, for fiscal reasons, has increased since 2008 to 31.8p in 2015. Therefore, it is recommended that **excise duty on motor fuel is increased by 6.7p per litre to 58.5p per litre** in order to restore the real value of the motor tax element. This would raise an additional £2.15million per annum. 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 remain at 36.6p per litre.
- 3.68 It should be noted that, in order to maintain the real value of the motor tax element, it is likely that above inflation rises will be needed in future years to compensate for anticipated falling volumes of fuel consumed.
- 3.69 Irrespective of the outcome of the wider review of environmental taxes directed by the States following consideration of The Joint Report, and having regard to the recognised need to extend and diversify our tax base to ensure future revenue stability, the Treasury and Resources Department intends to consider, in conjunction with the Home Department, whether any excise duty should be applied to those fuels currently exempt and, if appropriate, include recommendations in the 2017 Budget Report. This review will clearly need to consider the outcome of the review of environmental taxes.
- 3.70 As part of the 2015 Budget Report, the States noted *"the Treasury and Resources Department's intention to include within the 2016 Budget Report proposals to introduce an excise duty at the standard rate on the production and/or importation of biodiesel with conditional concessions."* Therefore, it is recommended that **excise duty is charged at the standard rate (58.5p per litre) on the production and / or importation of biodiesel**. The Home Department will make Orders to allow the annual duty-free importation / production of biodiesel up to a maximum of 125,000 litres per producer and to prohibit the import of biodiesel without an import licence.
- 3.71 The duty-free limit of 125,000 litres per producer will not endanger the current scheme whereby cooking oil is collected free of charge from major outlets by a private company and used to produce biodiesel. If this scheme, which contributes towards the waste strategy, were not in place, there would be a charge to collect and export the waste oil off-island for disposal leading to a risk of environmentally unfriendly disposal through the drainage system or through fly-tipping.
- 3.72 The production of biodiesel is a potentially hazardous process because of the nature of the chemicals involved and their potentially volatile reaction meaning that there are great risks of fire and explosion if they are not properly handled. The licensing system will ensure that biodiesel production is only carried out in controlled conditions by people with the proper training and experience.

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Implementation of Excise Duty Budget Proposals

- 3.73 Under its existing powers, the Treasury and Resources Department will make an Order bringing the recommended changes in the rates of excise duty on tobacco and motor fuel 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 Department accordingly recommends the States to approve by Ordinance that, from that date, the rates of excise duty on tobacco and motor fuel shall be varied as set out in this Report. These arrangements are the same as in previous years.
- 3.74 In respect of Alcohol, as set out in paragraph 3.64, it is recommended that the new arrangements are introduced with effect from 1 January 2016.

Tax on Real Property (TRP)

- 3.75 In April 2015, following consideration of The Joint Report, the States resolved (Resolution number 36), inter alia:

"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."

- 3.76 The 2015 Budget Estimate for income from Tax on Real Property is £19.1million (2014: £17.2million) of which £13.9million relates to commercial TRP (2014: £12.8million) and £5.2million relates to domestic TRP and land (2014: £4.4million) and it is estimated that the outturn in 2015 will be in line with budget. It is recommended that domestic and land tariffs are increased by 10%; and commercial tariffs are increased by 5%, apart from retail tariffs where a 2.5% increase is recommended, recognising that the TRP rate per unit for this sector is already greater than many other sectors. It is estimated that this will raise approximately an additional £1.15million per annum (£650,000 in real-terms) comprising domestic (£500,000), retail sector (£50,000) and other commercial (£600,000).

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3.77 The following table details the 2015 TRP rate per unit, the proposed change and the proposed 2016 TRP rate per unit (commercial rates are rounded to the nearest 5p):

	Proposed 2016 TRP rate per unit	Proposed increase	2015 TRP rate per unit
<i>Buildings (all zero-rated for Herm)</i>			
Domestic (whole unit) Local Market	£1.25	10.0%	£1.14
Domestic (flat) Local Market	£1.25	10.0%	£1.14
Domestic (glasshouse) Local Market	5p	-	5p
Domestic (outbuildings) Local Market	63p	10.0%	57p
Domestic (garaging & parking) (non-owner- occupied) Local Market	£1.25	10.0%	£1.14
Domestic (whole unit) Open Market	£1.25	10.0%	£1.14
Domestic (flat) Open Market	£1.25	10.0%	£1.14
Domestic (glasshouse) Open Market	5p	-	5p
Domestic (outbuildings) Open Market	63p	10.0%	57p
Domestic (garaging & parking) (non-owner- occupied) Open Market	£1.25	10.0%	£1.14
Domestic (whole unit) Social Housing	Zero	-	Zero
Domestic (flat) Social Housing	Zero	-	
Domestic (glasshouse) Social Housing	Zero	-	
Domestic (outbuildings) Social Housing	Zero	-	
Domestic (garaging & parking) (non-owner-occupied) Social Housing	Zero	-	Zero
Hostelry and food outlets	£5.25	5.0%	£5.00
Self-catering accommodation	£3.30	5.0%	£3.15
Motor and marine trade	£4.45	5.0%	£4.25
Retail	£9.05	2.5%	£8.85
Warehousing	£4.80	5.0%	£4.55
Industrial and workshop	£3.85	5.0%	£3.65
Recreational and sporting premises	£2.25	5.0%	£2.15
Garaging and parking (non-domestic)	£4.80	5.0%	£4.55
Utilities providers	£37.55	5.0%	£35.75
Office and ancillary accommodation (regulated finance industries)	£35.05	5.0%	£33.40
Office and ancillary accommodation (other than regulated finance industries)	£11.70	5.0%	£11.15
Horticulture (building other than a glasshouse)	5p	-	5p
Horticulture (glasshouse)	5p	-	5p
Agriculture	5p	-	5p
Publicly owned non-domestic	Zero	-	Zero
Exempt (Buildings)	Zero	-	Zero
Buildings – Penal Rate	Zero	-	Zero
Development buildings (domestic)	63p	10.0%	57p
Development buildings (non-domestic)	£5.00	5.0%	£4.75

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	Proposed 2016 TRP rate per unit	Proposed increase	2015 TRP rate per unit
<i>Land (all zero-rated for Alderney and Herm)</i>			
Communal (flat) Local Market	17p	10.0%	15p
Communal (flat) Open Market	17p	10.0%	15p
Hostelry and food outlets	33p	10.0%	30p
Self-catering accommodation	33p	10.0%	30p
Motor and marine trade	33p	10.0%	30p
Retail	33p	10.0%	30p
Warehousing	33p	10.0%	30p
Industrial	33p	10.0%	30p
Recreational and sporting premises	33p	10.0%	30p
Office and ancillary accommodation (regulated finance industries)	£1.09	10.0%	99p
Office and ancillary accommodation (other than regulated finance industries)	36p	10.0%	33p
Utilities providers	33p	10.0%	30p
Approved development site	£1.09	10.0%	99p
Domestic Local Market	17p	10.0%	15p
Domestic Open Market	17p	10.0%	15p
Horticulture	17p	10.0%	15p
Agriculture	17p	10.0%	15p
Domestic Social Housing	Zero	-	Zero
Publicly owned non-domestic	Zero	-	Zero
Exempt (Land)	Zero	-	Zero
Land – Penal Rate	Zero	-	Zero
Garaging and parking (non-domestic)	33p	10.0%	30p

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

TRP of Property	Proposed TRP Annual	Current TRP Annual	Increase in TRP Annual
75	£94.05	£85.50	£8.55
150	£188.10	£171.00	£17.10
225	£282.15	£256.50	£25.65
300	£376.20	£342.00	£34.20
375	£470.25	£427.50	£42.75

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Document Duty

- 3.79 In April 2015, following consideration of The Joint Report, the States resolved (Resolution number 37), inter alia:

“To direct the Treasury and Resources Department to review the structure of Document Duty as part of the ongoing budgetary process.”

- 3.80 The Treasury and Resources Department also considers that a review should be undertaken of bonds, their cost and impact on the property market and the non-payment of duty on the value of personalty in a property transaction. The Department is also of the view that consideration should be given to if, to what extent and how ‘planning gains’ on development land should be subject to any form of charge or taxation. These reviews will require considerable analysis and consultation and any recommendations to change the existing system will be included in future Budget Reports.
- 3.81 In respect of the introduction of a Share Transfer Duty regime in Guernsey which taxes sales of interest 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 Department has recently consulted with the Guernsey Bar Council on the draft legislation and is intending to submit a Policy Letter for consideration in early 2016.

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Section 4: Expenditure Proposals

- 4.1 The revised organisational structure of the machinery of government, as agreed by the States following consideration of the States' Review Committee proposals, is due to be implemented during early 2016. Therefore, the detailed Budgets included in this Budget Report are based upon the existing Departmental structure. However, once the detailed responsibilities of the Committees are determined, appropriate budgetary adjustments will be made, 2016 Cash Limits restated to reflect the new structure and the Accounts for 2016 onwards will be prepared on this new basis.

Budgeting Constraints

- 4.2 A key constraint in compiling the budget for expenditure on public services is the lack of a formal and agreed method for prioritising services and spending. A single integrated approach to business and financial planning and performance management across the public sector would facilitate the direction of resources towards political priorities to ensure that the right things are delivered and to give a structure through which the States can monitor progress.
- 4.3 The Treasury and Resources Department welcomes the agreement of the States (in July 2015 as part of the States' Review Committee Policy Letter concerning the Organisation of States' Affairs) that *"the Policy & Resources Committee, once constituted in May, 2016, shall establish a policy and resource planning process through a Policy & Resource Plan"*.
- 4.4 The States are facing substantial current and future expenditure pressures: both increases in demand for existing services, including as a result of demographic changes, and the introduction of new services. However, in the current absence of a Policy and Resource Plan, the Treasury and Resources Department, having considered relative priorities, is recommending Cash Limits for 2016 for a number of Departments that include limited additional funding for existing services or service developments.
- 4.5 The Treasury and Resources Department is responsible for compiling the budget for expenditure on public services with due regard to the policies of the States. One of the key strategies within the States' Fiscal and Economic Plan is the fiscal framework strategy which has a macroeconomic and fiscal objective of a *"Real terms' freeze on aggregate States' revenue expenditure."* Therefore, the Treasury and Resources Department has very limited flexibility in formulating its recommended Cash Limits as any real-terms' increases in an individual Department's Cash Limit can only be funded by a real-terms' reduction in the allocation to another Department. The only alternative to this would be to decrease the amount held within the Budget Reserve, which is the instrument used to manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures. The portion of the Budget Reserve which is not earmarked for specific purposes is approximately £2million which is only 0.5% of total Cash Limits.

Health and Social Services Department

- 4.6 The Health and Social Services Department has, in recent years, suffered from significant budgetary challenges which have been compounded by the lack of a robust understanding of the cost base, the cost drivers and therefore the reasons for the cost pressures. As part of the 2015 Budget Report, the Treasury and Resources Department advised that, without a true understanding of the baseline budget which is appropriately benchmarked, it was not possible to say with any certainty whether the Health and Social Services Department was over- or under-funded.

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- 4.7 Therefore, the States approved *“the Treasury and Resources Department commissioning, funded by a transfer from the Budget Reserve, an external assessment of the appropriate baseline budget for the Health and Social Services Department for current service provision and benchmarked to comparable service models in other jurisdictions.”* This review was designed to provide a clear evidence-based picture as to the adequacy or otherwise of the Cash Limit and allow the States to decide how best to fund the Department in the future.
- 4.8 Accordingly, the Treasury and Resources and Health and Social Services Departments worked together to agree the terms of reference for the review and, in March 2015, BDO was commissioned to cost the services undertaken by the Health and Social Services Department, benchmark those services against other relevant peer organisations, and set a three-year prioritised budget for 2016, 2017 and 2018 based on any achievable efficiencies.
- 4.9 The Health and Social Services Department has worked extremely closely with the BDO team in order to undertake a particularly thorough exercise which resulted in a full report being finalised in August 2015. The project team has examined in detail the expenditure in 2014, adjusted for any one-off or cyclical expenditure, cost pressures and service developments since that time and recommended a baseline revenue Cash Limit for the Health and Social Services Department in 2016 of £119.65million which is £8.2million or 7.6% higher than the indicative Cash Limit which had been set within the States’ Fiscal Policy.
- 4.10 The Executive Summary of the Report has been included as Appendix II to this Budget Report since it forms powerful conclusions and recommendations for the Health and Social Services Department, the Treasury and Resources Department and the States overall to consider. The main finding from the work is that *“Health and care services resident within both Health and Social Services Department and Social Security Department budgets are 17% more expensive than peer group. This translates into a potential annual saving of £24million against health and care costs of £139.0million^g deliverable over 7 to 10 years. A prudent risk-adjusted assessment of potential efficiency gains deliverable within the Health and Social Services Department budget alone identified annual savings of £7.4 million deliverable over a 3 to 5 year period against total [baseline] costs of £116.6million^h equating to 6%.”*
- 4.11 It is apparent that, although there is an immediate and significant cost pressure for the States if they are adequately to fund the *existing* service model, that should only be a temporary pressure if a transformation programme is put in place and investment funding given in order to realise the significant efficiency opportunities that exist. The scale of the additional spending required would necessitate a decrease in the Cash Limits of all other Departments and Committees of the States (excluding formula-led expenditure) of some 4% if the Fiscal Policy of no real terms’ growth in aggregate revenue expenditure is to be maintained.
- 4.12 The Treasury and Resources Department therefore proposed to the Fiscal and Economic Policy Group of the Policy Council that a medium term exception to the Fiscal Policy of a real terms’ freeze on aggregate States’ revenue expenditure (which was planned to be in place until such time as the States returns to fiscal balance) be made in order to allow the additional temporary funding requirement in the Health and Social Services Department. This will allow the States to make the necessary investment in health and social care without having seriously to impact the services of all other Departments in the short term. The Treasury and Resources Department therefore proposes that, **for 2016, the objective within the Fiscal and Economic Plan for a real terms’ freeze in aggregate States’ revenue expenditure should exclude the additional budget allocated for the Health and Social Services Department.**

^g This is the total amount spent on health and social care services including those relating to secondary healthcare borne by the Health Service Fund.

^h This excludes any allowance for inflation.

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- 4.13 The Health and Social Services Department has compiled a budget for 2016, excluding any transformational funding, which totals £118.5million (i.e. £7.05million more than the indicative Cash Limit) but incorporates as yet unidentified efficiency savings of £1.9million. The Treasury and Resources Department supports the commitment of the Health and Social Services Department to delivering such efficiencies but considers it even more important that a transformation programme for the services is properly planned and initiated in order to realise the potential savings as identified by BDO ranging between £7.4million (on a prudent risk-adjusted basis) and whole service savings of up to £24million per annum. The Treasury and Resources Department therefore considers it prudent to request that the full £8.2million additional funding be allowed within the revenue Cash Limit (£7.05million) and as a specific provision within the Budget Reserve (£1.15million). If the Health and Social Services Department is indeed able to deliver all of the £1.9million in 2016, this will result in an underspend on the overall budget. The Treasury and Resources Department considers that this is an appropriate, risk-adjusted and fiscally prudent response.
- 4.14 It is clear that strong focus needs to be maintained on expenditure restraint and achieving value for money in the delivery of health and social care services and it is essential that the reform agenda delivers benefits that can be used, depending on circumstances, to re-invest in services, re-invest in transformation or reduce overall expenditure. The additional spend of £8.2million (estimated to decrease to £4.7million in 2017 and £3.7million in 2018) is expected, after 3 to 5 years, to deliver gross benefits of £7.4million (net £5.2million) per annum.

Further Costing, Benchmarking and Priority-Based Budget Setting Reviews

- 4.15 The Treasury and Resources Department supports the plans for Public Service Reform and the political sponsorship provided by the Policy Council. Importantly, the Department notes the plans for delivery of a 'reform dividend', or financial benefits, which will then be available for reinvestment in service delivery, reinvestment in the Transformation and Transition Fund and/or reduction of any persistent deficit. If the reform dividend is to be delivered, it is vital that a robust understanding of the cost of current service delivery models is available as part of the baseline.
- 4.16 The Treasury and Resources Department is striving to ensure that all Departments are given appropriate and evidence-based Cash Limits which allow them effectively and efficiently to deliver their mandated services. The Department is concerned that the Education Department is now forecasting that it will not be able to deliver its FTP target (originally £7.1million or 9.4% of its overall 2012 budget of £75.8million) until some five years after the end of the programme. Furthermore, the Home Department has submitted a budget for 2016 which is in excess of Cash Limit due, in part, to a failure to deliver £263,000 of its outstanding FTP Target (originally £2.6million or 7.9% of its overall 2012 budget of £32.9million).
- 4.17 The thorough costing, benchmarking and prioritisation exercise (paragraphs 4.6 to 4.14) was welcomed by the Health and Social Services Department and has delivered benefits well beyond those of enabling the setting of an appropriate and evidence-based budget. The exercise was designed in such a way as it might be rolled out across other States Departments and the Treasury and Resources Department now considers that it would be of value to undertake similar exercises in the Education and Home Departments in 2016.
- 4.18 Therefore, the Treasury and Resources Department proposes to **commission, funded from the Budget Reserve, external assessments of the appropriate baseline budget for the Education and Home Departments for current service provision and benchmarked to comparable models in other jurisdictions.** This will enable evidence-based decisions to be made on the future allocations to those Departments in a similar way to those proposed in respect of the Health and Social Services Department.

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- 4.19 In respect of the Education Department, this exercise should deliver evidence to support the progression of the Local Management of Schools initiative; may help identify sources of funding for the universal entitlement to pre-school education; and should enable the Education Department to identify whether the allocation of resources is contributing significantly to its priorities as identified in the Education Department's Vision.
- 4.20 Likewise, benefits would be delivered for the Home Department through gaining a detailed understanding of the cost base and a comparison with other similar services in order to assess whether delivery of outstanding FTP targets, efficiency targets or reform dividends will be possible. The Home Department supports the proposed review.
- 4.21 Once these external reviews are complete, over 70% of overall non-Formula Led General Revenue expenditure will have been subject to such an external review and the Treasury and Resources Department would seek to ensure that similar exercises are undertaken internally across all remaining expenditure of the States.

2016 Cash Limits

- 4.22 The Department is recommending that 2016 total Cash Limits are set at £382.6million calculated as follows:

	Note	£m
2015 Cash Limits		373.1
Less allowance for late delivery of FTP Targets	1	(5.3)
		367.8
Reflate 2015 Cash Limits using June 2015 RPIX (1.5%)		5.5
2016 Recommended 'Base' Cash Limits		373.3
Allowance for late delivery of FTP Targets	1	1.1
Additional allocation for health and social care		8.2
2016 Recommended Cash Limits		382.6

Late delivery of FTP Targets (Note 1)

- 4.23 In 2015, allowance of £5.3million was included within individual Cash Limits to recognise that there are cases where Departments will have identified and initiated projects which have certain and ongoing benefits at least equal to the balance of their FTP target by the end of 2014, but a full year's benefit may not be achieved until 2015 or subsequent years.
- 4.24 As set out in the 2015 Budget Report, the Education Department had a 2015 balance outstanding of its FTP Target of £2.23million. It had identified and initiated projects which have certain and ongoing benefits of £1.475million but have longer time periods for full benefit delivery, including Primary Education Transformation and changes to the grants to the Colleges and for Higher and Advanced Education. The profile for delivery of the £1.475million is £886,000 in 2016, £305,000 in 2017, £175,000 in 2018 and the balance of £109,000 in 2019. The Education Department had plans in place for delivery of the £755,000 balance of its FTP Target over the period 2015-2017. The profile of delivery of these benefits was anticipated to be £355,000 in 2015, £375,000 in 2016 and the balance during 2017. Therefore, the Education Department's 2015 Cash Limit included additional funding of £1.875million in respect of the timing of delivery of FTP benefits and it was anticipated that funding of £600,000 would be required in 2016 and £300,000 in 2017.

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- 4.25 However, the Education Department has advised that the profile of delivery of the £755,000 has been delayed to £100,000 in 2015, £200,000 in 2016, £350,000 in 2017 and the balance during 2018 onwards. Therefore, the Education Department's recommended 2016 Cash Limit includes £1.05million in respect of the timing of delivery of FTP benefits.
- 4.26 The Health and Social Services Department had a 2015 balance outstanding of its FTP Target of approximately £3.625million. It anticipated delivering £375,000 of benefits over the course of 2015. Therefore, the 2015 Cash Limit included a non-recurring allowance of £3.25million to recognise the anticipated delay in the delivery of FTP benefits. To date in 2015, £230,000 has been signed off and is in delivery, leaving a balance of £3.4million.
- 4.27 It is suggested that the balance of the FTP Target is now removed as part of the investment in health and social services and that all benefits pertaining to future transformation are treated as a reform dividend rather than artificially accounting for both a new and legacy programme separately. The work undertaken through the BDO exercise has absolutely confirmed that there are significant financial benefits of transforming the service models for health and social care and so the legacy savings plus additional benefits should be available over the medium term.
- 4.28 The Home Department had a 2015 balance outstanding of its FTP Target of £630,000 which it anticipated being able to deliver by the end of 2016. It has signed off and is delivering £317,000 of benefits and anticipates being able to deliver a further £50,000 (£25,000 in each of 2016 and 2017). The Home Department has advised that it is unable to identify any further projects to deliver its remaining FTP Target balance of £263,000 without cutting services and is requesting that this amount is 'written-off' and its ongoing Cash Limit increased accordingly. The Treasury and Resources Department does not support this request (paragraph 4.39).

Departmental Cash Limits

- 4.29 The recommended Cash Limits for 2016 include adjustments in respect of the following:
- A small number of low value Inter-Department transfers where responsibility for a service has transferred between States Departments;
 - The treatment as routine capital expenditure instead of revenue expenditure by the Public Services Department of roads resurfacing and reconstruction and the Alderney Breakwater maintenance contract;
 - Allowance for all settled pay awards (£2.6million);
 - An inflation allowance on Non-Formula Led non-pay costs totalling £1.3million has been applied to all Cash Limits (including £485,000 for the Health and Social Services Department and £335,000 for the Education Department);
 - As included in the assumptions used to calculate the three year indicative Cash Limits included in the 2015 Budget Report, a 1% general savings target totalling £1.05million has been applied to all Departments' Non-Formula Led expenditure, other than the Education Department and Health and Social Services Department;
 - A small number of cyclical, one-off and other low value items.
- 4.30 Within their agreed Cash Limits, Departments have to consider very carefully their own priorities. The Treasury and Resources Department does not 'micro-manage' individual Departments' budgets, as this is the responsibility of the Departments concerned.

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4.31 The recommended Cash Limits for 2016 are detailed in the following table (Full line by line details of the 2016 budgets are included as Appendix V):

	Note	2016 Revenue Cash Limit £'000s	2016 Routine Capital £'000s	2016 Total Cash Limit £'000s	2015 Total Cash Limit £'000s
Policy Council					
General	1	9,490		9,490	9,275
Formula Led		2,580		2,580	2,485
Treasury and Resources:					
General	2	19,015	650	19,665	19,075
Formula Led		2,010		2,010	1,930
Commerce and Employment	3	10,985	100	11,085	11,425
Culture and Leisure		2,970	150	3,120	3,075
Education	4	73,605			
Timing of delivery of FTP Benefits		<u>1,050</u>			
		74,655	975	75,630	75,825
Environment	5	9,465	550	10,015	9,875
Health and Social Services	6	118,500	1,625	120,125	114,460
Home	7	32,705			
Timing of delivery of FTP Benefits		<u>25</u>			
		32,730	400	33,130	32,825
Housing		9,800		9,800	9,975
Public Services		1,900	2,850	4,750	4,750
Social Security					
General		2,885		2,885	3,010
Formula Led	8	58,025		58,025	56,110
Public Accounts Committee		285		285	280
Scrutiny Committee		285		285	280
Royal Court		2,540	200	2,740	2,800
Law Officers		4,700		4,700	4,675
States of Alderney		1,880		1,880	1,875
		364,700	7,500	372,200	364,005
Backlog property maintenance		-	1,500	1,500	1,500
Budget Reserve		7,400	1,500	8,900	7,595
		372,100	10,500	382,600	373,100

4.32 **Note 1** – Policy Council – the recommended Cash Limit includes £230,000 of additional ongoing funding in respect of new posts in the key areas of policy co-ordination and development.

4.33 **Note 2** – Treasury and Resources Department – the recommended Cash Limit includes £235,000 of additional funding in respect of an additional member of staff in the Income Tax Section (£70,000) to implement Inter-Governmental Agreements including FATCA (Foreign Account Tax Compliance Act and Exchange of Information request and increased support costs (£165,000) associated with the provision and maintenance of key corporate ICT hardware and systems.

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- 4.34 **Note 3** – Commerce and Employment Department – 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 2016 recommended Cash Limit takes into account a reduction of £400,000 as two years contribution (the 2015 Cash Limits were set prior to this States Report being approved).
- 4.35 **Note 4** – Education Department – the recommended Cash Limit includes an additional amount of £100,000 to fund new posts with responsibility for Health and Safety.
- 4.36 **Note 5** – Environment Department – the recommended Cash Limit includes £1.8million in respect of the revenue costs associated with the implementation of the Integrated Transport Strategy.
- 4.37 **Note 6** – Health and Social Services Department – As detailed in paragraph 4.13, the recommended 2016 Cash Limit of £118.5million includes £7.05million of additional funding. The recommended Cash Limit includes specific funding of £2,582,000 (2015: £2,645,000) in respect of the contract with St John's Ambulance and Rescue Service, as agreed by the Civil Contingencies Authority.
- 4.38 **Note 7** – Home Department – the recommended Cash Limit includes an additional amount of £158,000 to fund the staff necessary to provide appropriate custodial arrangements for young people which are separate from the main prison building.
- 4.39 The Home Department has submitted a 2016 budget (page 106) that is £622,000 in excess of the recommended Cash Limit. In addition to £263,000 relating to non-delivery of FTP Target, the Home Department has advised that it is unable to deliver the £328,000 General Savings Target it was allocated, plus it requires a further additional £28,000 for unavoidable cost pressures. The Treasury and Resources Department considers that there are only two options for fully meeting the Home Department's budget request, whilst remaining within the overall fiscal constraint of no real-terms' growth in revenue expenditure: the first would be through permanently reducing the Budget Reserve and thereby removing a significant portion of the contingency set aside for the States as a whole; the only other option would be reduce Cash Limits to all other Departments. Until a true understanding of the baseline budget of the Home Department which is appropriately bench-marked is known, the Treasury and Resources Department is unable to recommend an increase in ongoing Cash Limit.
- 4.40 **Note 8** – Social Security Department – The Formula Led estimate of £58.03million is nearly £2million more than the 2015 Budget Estimate. This includes an increase of approximately £1.5million (4.3%) in Non-Contributory benefit payments which, after taking into account the proposed 1.5% increase in rates of Supplementary Benefit and Severe Disability Benefit and Carer's Allowance, is a real terms' increase of nearly 3%. This increase in demand means that approximately £1million has had to be cut in real terms from other Departmental Cash Limits or the Budget Reserve.

Budget Reserve

- 4.41 The Budget Reserve holds the allocation which it is expected will be transferred to individual Departments during the year. It is held centrally instead of being included within Departments' recommended Cash Limits as it is not known, with a sufficient level of detail or certainty, the amount which will be required by each Department. Therefore, each Department'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'. Individual Departments do not routinely hold budget contingencies which invariably would not be fully utilised every year but funding is available from the Budget Reserve, if required.

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4.42 The 2016 Budget Reserve is £8.9million (2015:£7.6million) which includes:

- Provision for pay awards for which budgets will be adjusted when the pay awards are settled. The Budget Reserve includes £1.6million for the 2016 effect of 2015 pay awards which have not yet been settled and £1.4million for the effect of 2016 pay awards (largely only part-year effect – e.g. the Teachers' Pay Award is effective from September). This allowance is lower than in previous years as the established staff pay award has already been agreed at 0% for 2016;
- Provision for increasing established staff budgets in case the assumed 5% level of vacancies does not occur;
- Allowance for variations in formula-led expenditure;
- Specific provision of £1.15million for Health and Social Services Department in recognition of the risk of non-delivery of efficiency savings;
- 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;
- Allowance for transfers to Departments' routine capital allocations, as there are a significant number of capital projects that may be progressed in 2016 but, at this stage, their timing or cost is not known with any degree of certainty.

Routine Capital Allocations

4.43 Overall, Departments brought forward into 2015 £5.5million of routine capital allocations and additional allocations of £3.7million were approved in the 2015 Budget Report. Historically, Departments have tended to overestimate their routine capital requirements and, in most cases, fewer projects are carried out, and at a later time, than was included in the routine capital programme funding requests. Therefore, the recommended Departments' routine capital allocations for 2016 are at a similar level to 2015 (after taking into account the treatment as routine capital expenditure instead of revenue expenditure by the Public Services Department of roads' resurfacing and reconstruction and the Alderney Breakwater maintenance contract) but do not accommodate all funding requests. However, the Budget Reserve includes a provision for transfers to Departments' routine capital allocations. The recommended routine capital allocation for the Environment Department includes £450,000 in respect of implementation of the Integrated Transport Strategy.

4.44 The recommendations for routine capital allocations include a ring-fenced allocation of £1.5million (2015: £1.5million) specifically to fund backlog maintenance of property assets. The Treasury and Resources Department's States Property Services section will, in consultation with Departments, prepare a prioritised plan for carrying out the works. Approval of capital votes for individual projects is subject to the existing procedures (including in respect of the Treasury and Resources Department being able to exercise its delegated authority).

4.45 Since 2012, the Education Department has received a specific amount of £175,000 per annum for funding an ongoing schedule of planned preventative maintenance for elemental refurbishment of Les Beaucamps High School (as set out in the November 2010 States Report [Billet d'État XXIII, 2010]). The Treasury and Resources Department fully supports the Education Department in its plans to ensure that the school is maintained appropriately in order to maximise its useful life and deliver optimum value for money in return for the substantial capital sum expended.

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- 4.46 The Treasury and Resources Department is firmly of the view that the funding mechanism of a sinking fund is not in accordance with existing States' practice, whereby such expenditure is planned and funded at the appropriate time through either routine capital allocation or as a Capital Reserve project. However, an amendment to the 2015 Budget Report directed the Treasury and Resources Department to:

"continue to allocate for this purpose £175,000 per annum in subsequent years in addition to the Education Department's net routine capital expenditure budget; and to direct that in the 2016 Budget Report the Treasury and Resources Department, after consultation with the Education Department, shall set out proposals regarding the appropriate governance of and access to the aforementioned ring-fenced maintenance funds for Les Beaucamps High School."

- 4.47 Therefore, the recommended routine capital allocation for the Education Department includes £175,000 specifically for transfer to the ring-fenced maintenance fund for Les Beaucamps High School. The Treasury and Resources Department has consulted with the Education Department in respect of the appropriate governance and access arrangements for these funds and supports the Education Department's view that they should not be used to fund maintenance in the traditional sense but to replace major items according to planned schedules which are included in a Life Cycle Plan for the school. It is intended that access to these funds will be subject to the same delegated authority approval arrangements as apply to projects funded from other routine capital allocations.
- 4.48 The Education Department has suggested that a similar fund should be established in respect of St Sampson's High School (with back-dated contributions to when the school was opened). As set out above, the Treasury and Resources Department is firmly of a view that sinking funds are not necessary whilst the States continues to fund capital expenditure on a 'cash-flow' basis and such arrangements inevitably by-pass the prioritisation processes which are in place. In addition, it is considered that the establishment of a further sinking fund to accrue budget to meet future expenditure is simply not affordable given the States' financial position and the demands for funding to meet present and high-priority expenditure requirements.

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Three Year Budgets

4.49 The 2015 Budget Report included a three-year estimate of income and a three-year budget for expenditure for the period 2015 to 2017.

4.50 The following assumptions have been made in respect of 2017 and 2018 for compilation of the three-year estimate of income and a three-year budget for expenditure:

- Modest real-terms growth in income tax receipts;
- Personal income tax allowances maintained in real-terms;
- 2.5% per annum real-terms growth in customs duties and TRP (apart from domestic TRP where a real-terms increase of 7.5% per annum is assumed);
- 5% per annum real-terms increases in document duty;
- Departmental Cash Limits adjusted for known cyclical variations;
- No real-terms growth overall in revenue expenditure and short-term additional funding for health and social care reduced in line with the BDO report recommendations (paragraph 4.14);
- Delivery of remaining identified FTP benefits in line with anticipated timeframes;
- Appropriations to the Capital Reserve maintained in line with previous policy.

4.51 The assumptions for real terms income growth, together with no real terms' growth in revenue expenditure and the reduction in the additional funding allocated for health and social care mean that the financial position improves over the period. However, after allowing for the appropriation to the Capital Reserve to return to an amount which is in accordance with the previous policy (i.e. approximately £20million more than that proposed to be transferred in 2016), there is a deficit of £9.8million anticipated in 2017, reducing to £3.5million in 2018.

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4.52 The following table details the indicative income and Cash Limits:

	2016 Budget Estimate £'000	2017 Indicative Estimate £'000	2018 Indicative Estimate £'000
Revenue Income			
Income Tax	305,050	317,500	330,500
Other Taxes	75,300	79,600	84,100
Miscellaneous Income	19,475	18,200	16,500
Capital Income	10,000	-	-
	409,825	415,300	431,100
Revenue Expenditure			
Policy Council			
General	(9,490)	(9,415)	(9,395)
Formula Led	(2,580)	(2,580)	(2,580)
Treasury and Resources			
General	(19,015)	(19,000)	(19,000)
Formula Led	(2,010)	(2,010)	(2,010)
Commerce and Employment	(10,985)	(10,785)	(10,585)
Culture and Leisure	(2,970)	(2,970)	(2,970)
Education	(73,605)	(73,510)	(73,450)
Timing of delivery of FTP benefits	(1,050)	(500)	(200)
Environment	(9,465)	(9,465)	(9,465)
Health and Social Services	(118,500)	(116,055)	(114,920)
Home	(32,705)	(32,540)	(32,540)
Timing of delivery of FTP benefits	(25)	-	-
Housing	(9,800)	(9,800)	(9,800)
Public Services	(1,900)	(1,900)	(1,900)
Social Security			
General	(2,885)	(2,885)	(2,885)
Formula Led	(58,025)	(58,025)	(58,025)
Public Accounts Committee	(285)	(285)	(285)
Scrutiny Committee	(285)	(285)	(285)
Royal Court	(2,540)	(2,625)	(2,625)
Law Officers	(4,700)	(4,700)	(4,700)
States of Alderney	(1,880)	(1,860)	(1,840)
	(364,700)	(361,195)	(359,460)
Budget Reserve – Pay Awards	(3,000)	(6,800)	(12,100)
Budget Reserve – Other	(4,400)	(5,215)	(5,765)
Allowance for inflation on non-pay	-	(3,900)	(7,800)
	(372,100)	(377,110)	(385,125)
Routine Capital Allocations	(10,500)	(10,750)	(11,000)
Operating Surplus	27,225	27,440	34,975
Transfer to Capital Reserve	(28,300)	(37,700)	(38,700)
Transfer from General Revenue Account Reserve	1,075	500	200
(Deficit)	-	(9,760)	(3,525)

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4.53 However, there are a number of risks to the assumptions used in compiling these forecasts including:

- Notwithstanding that the current deterioration in income receipts is considered to be a short-term issue, there is a risk that recovery and growth may not be in line with expectations;
- Demand for existing services and pressure for the introduction of new services (including as a result of implementing recommendations arising from policy initiatives such as the Social Welfare Benefits Investigation Committee, Supported Living and Ageing Well Strategy and the Children and Young People's Plan) may result in the objective of no real terms growth not being met;
- The Health and Social Services Department may not generate the level of savings currently considered achievable and the short-term additional funding allocated becomes longer-term in nature.

4.54 The General Revenue Account Reserve is projected to be substantially exhausted by the end of 2015, resulting in the recommendation for a one-off reduction in the appropriation to the Capital Reserve in 2016 in order to balance the budget. The only means of replenishing the General Revenue Account Reserve is by generating surpluses and, until such time, there is no mechanism to fund any future budget deficits. Therefore, the projected deficits for 2017 and 2018 will have to be eliminated through one or more of the following circumstances / measures:

- Real-terms growth in income above that projected;
- Specific tax measures to raise additional income;
- Real-terms' decrease in expenditure including through reductions in services and / or by delivery of the 'reform dividend';
- Reductions (compared to policy) in appropriations to the Capital Reserve (which could be offset by further capital receipts from trading entities).

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Section 5: Capital Reserve

- 5.1 In September 2013 (Billet d'État XIX 2013), the States approved the development of pipeline projects following consideration of the Treasury and Resources Department's Capital Prioritisation Report. The estimated value of projects at that time was £240million.
- 5.2 In July 2014, the States approved the capital investment portfolio for the period 2014 – 2017 comprising the pipeline projects plus a number of urgent projects and the Environment Department's Bus Depot. The value of the portfolio at that time, as a result of the additional projects, was estimated at £278million.
- 5.3 Since that time, the estimated overall value has been revised to £277million, a net reduction of £1million but with the following material changes in certain projects:
- Belle Greve Wastewater Centre Outfalls replacement – the cost of this project has increased by £1.8million as a result of the requirement to increase the length of the Short Sea Outfall;
 - The cost of the re-capitalisation of Cabernet Limited, which will be considered at the November States' meeting, has increased by £3.7million as a result of larger accumulated and projected losses than were estimated in 2013;
 - The estimates in relation to the Alderney airport runway rehabilitation have increased by £7.5million to £10million as a result of further investigations resulting in a revised project scope including full resurfacing of the asphalt runway;
 - The Bus Depot, estimated at £20million, has now been removed from the portfolio following the decisions of the States in respect of the Integrated On Island Transport Strategy; and
 - The latest indicative cost for the La Mare de Carteret Schools project (including a 600 place secondary school) is £68.2million (including an inflation allowance of £8million) which is some £4million more than the £64.3million estimated in July 2014 (including an inflation allowance of £6.6 million) and compares to the amount of £66.1million (including an inflation allowance of £5.9million) included in the Education Department's May 2015 States Report. This would increase by an estimated £10million (inclusive of inflation) if the option to provide a 960 place secondary school is pursued.
- 5.4 In addition to these increases in approved portfolio projects, the Treasury and Resources Department has been working closely with the Environment Department in respect of the urgent investment required in the island's coastal defences in order to deal with the storm and winter damage of recent years and historic underinvestment (capital votes totalling £640,000 have been approved to date).
- 5.5 An allowance of £2million has already been made within the portfolio to fund urgent repairs to coastal defences. However, the Environment Department has advised that the total cost of the prioritised list repair and preventative work is now estimated to be approximately £5million. The Treasury and Resources Department will continue to work closely with the Environment Department to determine the relative priorities of the works required and will, if necessary, use its delegated authority to make available additional funding for urgent or emergency works. The Environment Department will, if appropriate, submit a proposal for consideration as part of the next round of capital prioritisation to request funding for any other works.

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- 5.6 It has become apparent to the Treasury and Resources Department that there is a requirement to set aside an increased provision within the Capital Reserve to fund unplanned urgent and emergency projects rather than having to delay and/or remove prioritised projects from the portfolio in response. This will mean that the full projected amount of the Capital Reserve will not be available to be prioritised for new projects in the next round.
- 5.7 The Treasury and Resources Department has used its delegated authority to approve funding from the Capital Reserve totalling £1.2million in respect of two separate projects to purchase radiology equipment which was in need of urgent replacement due to failure and obsolescence. These projects form part of the portfolio programme entitled “Replacement Radiology Equipment” and the Health and Social Services Department will, in due course, bring a Policy Letter to the States to seek approval of funding for the remainder of this programme.

Portfolio Funding

- 5.8 In the September 2013 Capital Prioritisation report (Billet d’État XIX), the Treasury and Resources Department said: *“Based on the proposals submitted and scored, it is recommended that £225million of projects are funded from the Capital Reserve during 2014 – 2017. However, this can only be done if the current funding arrangements are amended through additional annual appropriations.”*
- 5.9 As part of the 2014 Budget, the States approved a £10million increase in the appropriation to the Capital Reserve in addition to the continuing policy of maintaining its value in real-terms, meaning that the 2014 appropriation was £35.35million. On 1 January 2015, this additional investment was maintained with £37.25million being transferred to the Capital Reserve (including £1million in respect of Integrated Transport Strategy funding for the Bus Depot plus the 2014 appropriation maintained in real terms). The Treasury and Resources Department is recommending **that £1million is transferred from the Capital Reserve to General Revenue** as a result of the revised Integrated On Island Transport Strategy which includes the removal of the Bus Depot from the portfolio.
- 5.10 In addition to the increase in annual appropriation, the States have approved, following recommendations from the Treasury and Resources Department:
- A transfer of £20million from the Corporate Housing Programme Fund to the Capital Reserve in order to supplement the funding available for the portfolio;
 - That any investment returns on the Core Investment Reserve in excess of the level necessary to maintain its real value are transferred to the Capital Reserve. This resulted in an additional transfer of £4.1million in 2014 and it is expected that similar amounts will be realised in 2015 and future years; and
 - A transfer of £0.75million to the Capital Reserve following the closure of the Strategic Property Purchase Fund.
- 5.11 Therefore, the Capital Reserve has a balance which is almost £45million higher in this period as a result of actions taken by the States on the recommendation of the Treasury and Resources Department.
- 5.12 The Treasury and Resources Department recognises the importance of investment in the island’s capital infrastructure, as evidenced by the substantial increase in appropriations in recent years, and in normal circumstances would be recommending maintaining the value of the baseline appropriation in real terms, which would give a 2016 transfer of £36.8million.

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5.13 However, as a result of the current and forecast fiscal position for 2016, the Department considers that the most prudent and practical response is to temporarily reduce the appropriation from General Revenue to the Capital Reserve in order to achieve a balanced budget. Therefore, the Treasury and Resources Department is recommending **that £18.3million is transferred to the Capital Reserve on 1 January 2016.**

5.14 The following table details the estimated funding in the Capital Reserve up to 31 December 2017, the anticipated Portfolio Value and consequential funding shortfall:

	£m	£m
Balance at 1 January 2016 (allowing for completion of projects in previous programme)		151
General Revenue Appropriations:		
2016	18	
2017	<u>38</u>	
		56
Other income (including investment return / transfers from Core Investment Reserve)		18
Total estimated funding up to 31 December 2017		225
Portfolio Value		277
Funding Shortfall		52

Addressing the Funding Shortfall

5.15 Given the size of the funding gap which is now present in the portfolio, the Treasury and Resources Department considers that two-fold action is required:

Creating other sources of funding

5.16 Following consideration of the 2015 Budget Report the States approved *“the Treasury and Resources Department commissioning, funded by a transfer from the Budget Reserve, an external review of the appropriate level of investment return that should be generated from the States’ Trading assets”*.

5.17 It remains the view of the Treasury and Resources Department that *“these significant investments should generate a return to the States of Guernsey as shareholder, which in turn could be transferred to the Capital Reserve to be reinvested in future capital infrastructure”*.

5.18 During 2015, the external review was commissioned and began by examining the financial structures and engaging with representatives of Guernsey Post Limited, Guernsey Electricity Limited and Guernsey Water. These entities have been chosen as the first phase of work although it remains the intention that the review will be applied to all trading entities including those which are unincorporated (Guernsey Dairy and States Works) and incorporated (Aurigny Group and Jamesco750 Limited).

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- 5.19 The Treasury and Resources Department intends to continue with this work and will prepare a handover document for the Policy and Resources Committee recommending the appropriate level of investment return, suitable trading-entity dividend policies in relation to the States as shareholder and the benefits of alternative models of capital investment to support the delivery of long-term objectives, including funding long-term capital programmes for the entities.
- 5.20 The review will progress throughout the remainder of 2015 / early 2016 so that a comprehensive and informed report may be handed over to the Policy and Resources Committee and could be placed before the States.
- 5.21 On the basis of the work undertaken to date, the Treasury and Resources Department remains firmly of the view that applying a more commercial model and rigour to the trading entities can result in dividends and return of capital / equity to the States as owner with improved focus on efficiency to ensure that this does not detrimentally affect customers by resulting in fees and charges being increased.
- 5.22 The Department considers that a combination of clear financial targets and a rigorous governance model for discharging the duties of the shareholder can ensure these benefits are released and is therefore budgeting for £10million of returns of capital from trading entities in 2016. It is recommended that **returns of capital from trading entities in 2016 be transferred to the Capital Reserve.**

Capital Prioritisation

- 5.23 Although the current capital prioritisation covers the period 2014 – 2017, the Treasury and Resources Department is intending to commence planning for the next period of 2017 – 2020 in January 2016. The Department wishes to avoid the ‘stop-start’ impact of having consecutive portfolios and to develop a rolling portfolio to ensure that there is a well-planned and continuous stream of projects for investment in the island infrastructure and the local economy.
- 5.24 Given that a number of the projects included in the current portfolio have yet to develop in any material sense; that the portfolio remains over-committed with the majority of projects now estimated to cost more than original forecasts; increased uncertainty of funding given the proposed reduction in the appropriation to the Capital Reserve in 2016; and the changes in the economy and strategic plans since approval of the current portfolio; the Treasury and Resources Department is proposing that all projects which have not planned to have completed a fully assurance reviewed outline business case by the end of 2015 are then re-assessed and re-prioritised in 2016 along with all new bids.

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5.25 The Treasury and Resources Department is therefore recommending that **the following projects (which have a total indicative value of approximately £120million) continue to develop, if appropriate, up to the stage of production of a fully assurance reviewed outline business case but requests for capital votes for the substantive project funding are not submitted until after the States have agreed the 2017 - 2020 capital priorities:**

- Replacement Island-wide Public safety CCTV and security systems;
- Strategic Improvement of Coastal Defences;
- Alderney Airport Runway Rehabilitation;
- Deep Water Berth investigations;
- Replacement Cremator and Emissions Equipment;
- Replacement Contributions System;
- College of Further Education;
- PEH Re-profiling;
- Strategic Asset Management Plan (SAMP) – Phase 1;
- SAMP – rationalisation of property (Home Department);
- SAMP – Centralisation of Community Services.

5.26 This approach would mean that there would be sufficient funding within the Capital Reserve (£185-190million) in 2016 to fund all of the other projects and making an allowance for emergency, urgent and unplanned projects (totalling approximately £155million).

5.27 With the anticipated residual balance in the Capital Reserve, together with future appropriations in line with the previously agreed policy and other income, including future returns of capital from trading entities, it is estimated that the 2017 - 2020 capital prioritisation round will have funding of approximately £240million available.

5.28 The Treasury and Resources Department wishes to ensure that it can recommend a portfolio to the States which has strong alignment with government strategy and the delivery of public service reform, as well as replacing operational assets which are reaching the end of their useful lives. Therefore, in the first instance it is proposed that prioritisation will be undertaken in a similar manner as that used for the Transformation and Transition Fund to ensure alignment with the States Strategic Plan and Public Service Reform. A third category will also be added in respect of the capital portfolio, namely service continuity: to provide funding for replacement of major items of routine equipment and vehicles, such as high value medical equipment and fire engines.

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5.29 The proposed **outline timetable for the 2017 – 2020 round of capital prioritisation** is:

- **In December 2015, submissions will be invited and templates published and issued with full guidance notes;**
- **Submissions will be required to be completed by the end of March 2016;**
- **Assessment and moderation will take place in April and May 2016 before being tested and confirmed with new Committees in June / July 2016; and**
- **A recommended capital investment portfolio to be considered by the States as a separate item within the 2017 Budget Report.**

5.30 A key lesson learnt from the previous round is the need for better initial planning of projects to ensure that all the options have been considered before committing to a particular solution or completion date. It is vital that the challenges are properly understood before any solutions are confirmed or timeframes agreed: unrealistic timescales can result in increased pressure to deliver a solution which may not represent best value; and working to notional budgets from the outset can lead to projects fitting the funding rather than delivering the right outcomes and benefits. The Treasury and Resources Department will therefore seek to develop the system to remove these barriers.

5.31 The Treasury and Resources Department will seek to support and discuss potential submissions from now until the end of year in order to help scope ideas and resolve any queries at an early stage. The proposed timetable will then ensure that there is minimum delay to any projects within the existing portfolio which need to be re-assessed; and that there is sufficient planning and development time built in so that such projects will be ready to move into delivery at the appropriate time.

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Section 6: Other Reserves and Funds

Economic Development Fund

- 6.1 The Commerce and Employment Department, in conjunction with the Policy Council, produced an Economic Development Strategy which sets out the following four objectives relating to the creation of a dynamic and diversified economy:
- Develop the Island's existing economic sectors (including the finance industry, retail sector, visitor economy and eGaming);
 - Support emerging economic sectors (such as digital and information communication technologies and creative industries);
 - Enable Guernsey to work for businesses and help businesses get the best from Guernsey; and
 - Track the development of the Island's economy.
- 6.2 The Strategy's framework includes twenty seven strategic aims and some of these may require investment or an element of pump-priming in order to stimulate economic activity to create job opportunities, raise production levels and encourage investment.
- 6.3 Therefore, as part of the 2015 Budget Report, the States approved *"the establishment of an Economic Development Fund with immediate effect by transferring £7,000,000 from the Contingency Reserve (Tax Strategy) and to delegate authority to the Treasury and Resources Department to approve use of this Fund"*.
- 6.4 The Fund is available to provide targeted support, for an initial investment period, for individual initiatives whose objectives include the stimulation and promotion of sustainable growth in the Guernsey economy resulting in new or enhanced revenue streams for the States of Guernsey. Business cases for use of the Fund must demonstrate:
- New or enhanced growth for the economy;
 - Evidenced and measurable benefits;
 - Return on investment by way of revenue for the States of Guernsey.
- 6.5 The success of the Economic Development Strategy is key to Guernsey's future financial position as real-terms' growth in States' revenues through new or enhanced tax receipts will, as long as accompanied by expenditure restraint will result in budget surpluses, which will, inter alia, be available to replenish this Fund.
- 6.6 As part of the 2015 Budget Report, the Strategic Development Fund was closed and the outstanding commitments and accompanying funding on two projects were transferred to the Economic Development Fund.

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6.7 The current uncommitted balance of the Economic Development Fund is £5.3million:

	£'000	£'000
Transfer from Contingency Reserve (Tax Strategy)		7,000
Transfer from Strategic Development Fund		<u>1,800</u>
		8,800
Initiatives approved:		
Guernsey Finance (in addition to £300,000 grant in 2014)	(600)	
Visit Guernsey	(250)	
Innovation Centre (Digital Greenhouse)	(1,460)	
Locate Guernsey	<u>(1,200)</u>	
		(3,510)
Balance		5,290

6.8 The following are brief updates by the Commerce and Employment Department on each of the projects funded from the Economic Development Fund:

Guernsey Finance

6.9 In December 2013 (Billet d'État XXIV, 2013), the States approved an increase in the grant to Guernsey Finance over three years to embark on a new markets development programme with the objectives of:

- Stimulating and further diversifying the economy by developing new markets and revenue streams for the financial services industry;
- Supporting the marketing efforts and facilitating opportunities for financial services firms on the Island to create additional employment and profits by increasing the volume of business carried out by the Island's financial services firms;

6.10 This was designed to generate additional government revenue by increasing ETI receipts and taxation derived from profits of the finance industry.

6.11 The States Report set out that the £900,000 requested would enable Guernsey Finance to do two things:

- "target two new and strategically important markets (where Guernsey Finance has been able to undertake only initial research and development to date) in a meaningful way over a three year period. While Guernsey Finance does already undertake new market development work, there are insufficient funds to undertake the scope and scale of work needed to position the Island positively for the longer term, particularly when current work to develop other markets (such as China, the US, cleantech) is already putting strain on existing resource.*
- Allocate additional funds and resource to "recessionary protection", i.e. increase promotional activities in Guernsey's main markets of the UK and the wider EU to ensure that we maintain market share in those mature markets which are still so important to the Island's economy. This will help maximise the current potential business available in these key markets, protect what we have and limit the negative effect of insufficiently diversified income streams."*

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- 6.12 The funding has enabled Guernsey Finance to intensify activity in mature markets and allowed increased activity to be undertaken in new markets. The focus on new markets has shifted to new areas in light of changing political environments and economic outlook, and now includes Latin America, South Africa, South East Asia, Middle East, North and South America.
- 6.13 An International Business Development Director was appointed in April 2015 on a two year contract, with the specific aim of assessing developing markets in conjunction with existing markets, as part of the overall strategy. A total of £138,000 was spent in 2014 and plans remain for the balance to be expended before the end of 2016.
- 6.14 A number of short term benefits were identified in the States Report based around increasing marketing activity in mature markets. In addition, the medium term benefit was stated as *“Creating a higher number of income streams for the Island by broadening the geographic scope of financial services business, the largest contributor to Guernsey’s economy and lessening the Island’s dependency on key markets, as well as lessening the exposure to economic downturns in mature markets or regional trading blocks.”*
- 6.15 The Commerce and Employment Department will monitor and report on delivery of benefits as part of the 2017 Budget Report.

Visit Guernsey

- 6.16 In January 2015, the Treasury and Resources Department considered a detailed business justification and approved the use of £250,000 from the Economic Development Fund to fund half the cost of a national TV advertising campaign. This was the first national TV advertising campaign undertaken by Visit Guernsey in ten years and comprised the transmission of a 30 second spot advertisement on UK national television during February, March and early April 2015.
- 6.17 The aim of the campaign was to increase awareness of, and interest in, Guernsey as a short break or holiday destination. It was also intended to strengthen the existing online and print media advertising activity undertaken by the Department.
- 6.18 In the first half of 2015, visits to the Visit Guernsey website were up by 25%, leads and referrals to industry partners were up by 111%, and the conversion of web visits to leads was up by 8.5% compared to the same period in the previous year. Although total visitor numbers for the first half of the year were slightly lower than the previous year, there was a 6.4% increase in staying visitor numbers which represents a reversal of the downward trend of the previous four years. Although the full impact of the campaign for the entire summer season will only be evident once the visitor figures from the third quarter become available later this year, the early indications point to a successful initiative. Given that the TV campaign will have contributed significantly to this figure, the campaign’s estimated value to the economy is considerable.

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Innovation Centre (Digital Greenhouse)

- 6.19 In April 2015, the Treasury and Resources Department approved the use of £1.46million from the Economic Development Fund for a Digital Greenhouse pilot project to deliver an innovation centre for the creative and digital sectors in Guernsey and to help Islanders to develop a range of skills including coding, business development and confidence in using online services.
- 6.20 The Digital Greenhouse is expected to open before the end of 2015 and will provide a physical facility equipped with the latest technology designed to:
- Provide a space where creative and digital small business can develop their ideas to enable them to grow in size;
 - Allow businesses to work together and share ideas, resources and knowledge;
 - Contain a skills' zone and community digital centre to contribute towards raising the digital knowledge, capability and confidence of islanders;
 - Provide an interface for business development, providing start-up help and advice for new businesses, and networking and co-working opportunities; and
 - Act as a development centre and test-bed for the roll out of e-government services.
- 6.21 It will also raise both local and off-Island awareness of Guernsey as an ideal place to start or relocate a technology business.
- 6.22 The expected benefits of the investment, as set out in the business case, included:
- The establishment of a "digital ecosystem" resulting in increased knowledge sharing and co-working across the technology sector which should contribute directly to the accelerated growth of the sector. This is forecast as 3% per annum (12% overall by 2018) which should result in an increase in economic output of some £28million and estimated increased revenue of £2.5million by 2018;
 - The Coding / Digital Academy producing a "pipeline of talent" with at least 20 people a year "graduating" from the 12 month coding course. This is expected to result in an increase in their earnings, contributing approximately £0.4million in GDP by 2018;
 - An average of 10 new businesses per annum will relocate to Guernsey and become established in the Information and Communications sector. This represents a total of 40 new businesses by 2018 which is expected to create 30 new jobs each year, generating an additional £1million in GDP per annum.
 - The uptake of digital skills and knowledge will result in a productivity gain to the economy, estimated at 0.5% of GDP by 2018 contributing an estimated £1.4m to States revenues.
- 6.23 Overall, assuming the targeted benefits are reached, revenue from tax receipts will, by 2018, increase by some £1.8million and the Guernsey digitisation score will have increased by 10%. The Commerce and Employment Department will be measuring and monitoring delivery of these benefits on a quarterly basis and will provide annual updates. In the third year of the project, an assessment will be undertaken in order to inform the future of the Digital Greenhouse based on success in delivering against targets and therefore warrants seeking further funding.

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- 6.24 An Interim Director was appointed in March 2015 to oversee the work leading up to the launch of the Digital Greenhouse, with support from a small team of existing Commerce and Employment Department staff. The team has been working on stakeholder engagement; designing the space inside the facility; building a portfolio of digital case studies; developing a brand and communications plan; and organising events.

Locate Guernsey

- 6.25 In April 2015, the Treasury and Resources Department approved the use of £1.2million from the Economic Development Fund to establish a promotional entity dedicated to facilitating an increase in inward investment into Guernsey through the additional relocations of businesses and economically active high net worth individuals (HNWIs) to the Island resulting in economic benefits to the island and the States through increased tax take.
- 6.26 Locate Guernsey is designed to benefit the Island by attracting business and individuals, who in turn will contribute to the economy in a number of ways: by creation of new local jobs; by funding new local business ventures; and by contributing to the States' finances through income tax receipts and Document Duty on house sales. The "medium" case scenario of the project is to deliver a direct financial return of £1.76million over the three-year period through increases in document duty and income tax receipts.
- 6.27 The funding will enable the appointment of a Head of Locate Guernsey (recruitment process currently under way) and will provide for a range of new marketing initiatives such as promotional events (both on- and off-Island), online campaigns and print advertising. The Head of Locate Guernsey will be supported by representatives from industry with relevant expertise and staff from within the Department, as required. In the interim, staff from the economic development units have been proactively delivering a Locate Guernsey service which has facilitated over 35 different enquiries since January 2015. To date, approximately £23,000 has been spent on brand development, marketing materials and representation at various events.
- 6.28 Promotional events will continue in September with more proactive market-based work thereafter. Locate Guernsey branding, associated literature and website are in the advanced stages of production and will be launched before the end of 2015.

Transformation and Transition Fund

- 6.29 As part of the 2015 Budget Report, the Treasury and Resources Department proposed establishing a Transformation and Transition Fund 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 Department undertook, in conjunction with the Policy Council, to develop clear criteria for use of the Fund, how applications should be prioritised and assessed and benefit delivery monitored and reported. 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.

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- 6.30 The States resolved *“to approve the establishment of a Transformation and Transition Fund with immediate effect by transferring £25,000,000 from the Contingency Reserve (Tax Strategy); and to agree that requests to access the Fund shall be presented to and determined by the States of Deliberation, subject to the proviso that the Treasury & Resources Department shall have delegated authority to approve applications up to a maximum of £100,000 each”*.
- 6.31 During 2015 only one application for use of the Fund has been considered and approved by the Treasury and Resources Department in respect of the development of the Framework for Public Service Reform (£100,000). In addition, the States have approved funding of up to £530,000 in respect of the implementation of the proposals of the States Review Committee, although no request for funding has yet been received in this respect.

Prioritising the investment

- 6.32 As set out in the 2015 Budget Report *“the establishment of a Transformation and Transition Fund recognises the significant investment that will be required to deliver the public services of the future and the substantial policy agenda of the States. However, it is important that such investment is undertaken in an orderly, structured and prioritised manner.”*
- 6.33 The Policy Council and Treasury and Resources Department have therefore been concentrating on ensuring that use of the Fund is appropriately prioritised. Applications for policy development and transformational programmes and projects have been invited from States Departments and a total of 24 proposals were received in the first instance with an indicative five-year value in excess of the amount of funding available, which underscores the need for careful planning and prioritisation to ensure that the £25million Fund realises the maximum benefits as a return on investment.
- 6.34 A scoring mechanism was approved by the Policy Council and Treasury and Resources Department which was used to initially score and rank the proposals. In addition, detailed reviews of all proposals were carried out and the results were then moderated by the Chief Executive's Management Team before recommendations were made to the Policy Council and Treasury and Resources Department.
- 6.35 The Policy Council and Treasury and Resources Department consider that, given the level of bids and the uncoordinated nature of the proposals received, investment at this stage should be restricted in order to ensure that plans are properly developed and benefits considered before approval to proceed with individual initiatives is sought. The priority areas for initial investment, informed by the scoring and ranking exercise, have been agreed by the Policy Council and the Treasury and Resources Department as:
- 6.36 **Social Policy Development** – this proposal seeks to ensure that social policy development is appropriately resourced in order to initiate and co-ordinate corporate change. The proposal submitted has a short term focus on the Supported Living and Ageing Well Strategy and the Children and Young People's Plan. However, it is the intention that the resources will also be able to work across a wide range of policy development work.

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- 6.37 **Public Service Reform** – this proposal is based on developing the programme to deliver on the Framework for Public Service Reform. This will involve development of the customer, value for money, people and performance strategies alongside working up the enabling tools of Smart Guernsey, estates' optimisation and innovation and continuous improvement. It is the intention that this will also enable the design and implementation of on-going programme level monitoring, co-ordination and control. Finally, it is proposed that this work will develop and test the overall “reform dividend” to be targeted through Public Service Reform.
- 6.38 **Programmes of Service Transformation** – this proposal will 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. Initially, proposals have been received (which are recommended for prioritisation) in respect of two of the four programmes:
- Transforming Health and Social Care Services**, or “Fit for the Future” is intended to address social, clinical, financial and structural challenges by delivering against four core objectives – effectively managing the increasing demand for services to people with complex, high needs; sustainably managing annual operating costs, increasing efficiency and improving value for money; commissioning services from the right source; and becoming more agile to reflect the changing and uncertain nature of demand.
- Transforming Other Government Services** covers the operational transformation of all States of Guernsey services excluding health and social care, justice and equality and education and training. Work in this area will enable the full scope of the programme to be properly defined, the methodology and sequencing to be agreed and delivery costs and potential benefits to be identified and quantified.
- 6.39 Prioritising these proposals will 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 with detailed proposals for the transformation implementation. Although no proposals have been received to date in relation to Education and Training Services or Justice and Equality Services, the Policy Council and Treasury and Resources Department would also support limited investment in these areas in order to define and develop the required transformation to deliver against agreed visions and objectives.
- 6.40 **Civil Service Reform** – this programme is focused on improving the way in which the civil service supports government and will clarify the future shape and size of the civil service; improve 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. Initial investment will enable detailed plans to be developed for presentation to the States.
- 6.41 The Policy Council and Treasury and Resources Department are recommending that **the programmes outlined above are prioritised by the States as those that will receive funding from the Transformation and Transition Fund**. This will allow these programmes to be developed in more detail before presentation 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.

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Funding the proposals

- 6.42 The Policy Council and Treasury and Resources Department consider it critical that appropriate planning is undertaken and that there should be investment from the Transformation and Transition Fund into developing proposals of sufficient detail that the States are able to make properly informed and evidence based decisions. The proposals brought before the States will need clearly to articulate the problem needing resolution, the options considered, the proposed change(s), the benefits of change (both financial and non-financial) and the quantum of the 'reform dividend', how those benefits will be measured, how much the change will cost (including the cost of transition) and what the risks are to successful delivery. There is therefore a need to balance producing properly planned and thorough proposals by investing in the early stages to enable the States to make decisions with the risk of expending significant sums ahead of firm decisions to proceed.
- 6.43 It is therefore recommended that **delegated authority be given to the Treasury and Resources Department to approve funding of up to £0.75million for any one programme, apart from Transforming Health and Social Care Services where a limit of £1million is proposed.** The Treasury and Resources Department will, following consideration of an appropriately detailed business case or suitable resource request, approve funding to enable the prioritised programmes to develop so that clearly identified and defined proposals can be laid before the States for approval to proceed to detailed service design and delivery.
- 6.44 Although the Policy Council and Treasury and Resources Department do not consider that any of the other projects submitted should be prioritised at this stage, it is possible that they may be at a future stage. The decision not to prioritise the proposals for investment from the Fund does not mean that all work on the initiatives will have to cease as a number of no-cost and low-cost activities will be able to proceed within existing resources. However, there may be other proposals which, following further work to develop the prioritised programmes, prove to be key enablers for or pivotal to wider public sector reform and it is recommended that **the Treasury and Resources Department is also given delegated authority, to a maximum of £250,000, to approve funding for any initiatives not on the prioritised list.**

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Transition Proposals

- 6.45 The 2015 Budget Report stated that *“there may also be a requirement to fund short-term costs associated with the transition from one service delivery model to another although, as far as possible, these will be kept to a short time period and expenditure minimised.”* The transition element of the Fund was therefore included to ensure that short term or low value transition costs in moving from one operating model to another were able to be funded, including any temporary dual running costs.
- 6.46 The transition should arise after the initiatives have been worked up and planned in some detail. No delegated authority is therefore being sought in this respect as such transition should arise based on a decision to implement a policy or initiative made by States’ resolution and a specific resolution can be sought in relation to transition funding as part of the Policy Letter. At that time the States will need to be fully informed of the state of the Fund and other demands upon it and be cognisant of the original overarching criteria, namely:
- Significant long-term transformation in the delivery of services;
 - Evidenced and measurable benefits; and
 - A return on investment.
- 6.47 However, in June 2013 (Billet D’État XI) the States agreed a new system of population management to replace the Housing Control Law. The new system is based on Permits and will enable Government to manage the size and make-up of the Island’s population more effectively. The objectives of the new regime include the introduction of new, transparent policies that will improve customer service, benefit Island businesses, and save staff time.
- 6.48 In July 2015 (Billet d’État XIV) the States approved arrangements for moving from the Housing Control system to the new Population Management regime. In order to effect a smooth transition to the new regime, it will be necessary to ensure that a number of actions are taken ahead of the commencement date, including:
- Revision and development of policies;
 - Amendment and upgrade of existing database (which will be funded through a routine capital vote);
 - Staff training in the application of new policies, including how to deal with those affected by the move to a new regime;
 - Staff training in use of the new database; and
 - Communications with stakeholders.
- 6.49 Alongside these actions, it will be necessary to continue providing Housing Control “business as usual” and it will not be possible to do this and prepare for the new regime using only existing staff resources. Consequently, it is proposed that a number of contract employees be taken on in order to backfill permanent post-holders who will need to be involved in the activities above in preparation for the new regime.
- 6.50 It had originally been anticipated that the resource requirements for the transition period would be included in a Policy Letter on population management. However, the timing of other reports and the need to progress the project in a timely manner has meant that it would now be necessary to submit a stand-alone Policy Letter dealing with this relatively minor resource issue.

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6.51 Therefore, it is proposed that **the Treasury and Resources Department is 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.

Financial Rules

6.52 The Treasury and Resources Department considers it vital that there are clearly defined rules on the use of the Transformation and Transition Fund in order to ensure that the Fund is carefully monitored and controlled and that there is clarity of use for all those seeking funding from it. The need for financial rules from the outset was also a key lesson from the recent Public Accounts Committee commissioned review of the Financial Transformation Programme. Therefore, a set of financial guidelines has been developed, which will be published in early November (following the debate on the Budget Report), which will need to be followed when making funding requests and expending money from the Fund. The rules contain clarification on:

- Delegated limits and requirements for seeking funding approval, including the approach to staged release of funding;
- The types of expenditure that can be charged to the Fund, including limits on capital expenditure, guidance on staff costs and the use of consultancy;
- Design guidance in respect of the need for a 'reform dividend', including that any service re-design should not lead to a permanent increase in the overall cost;
- The approach to charging all expenditure in respect of these initiatives to the Transformation and Transition Fund under separately identifiable accounts which will ensure that there is a clear evidence base and audit trail in respect of all approved funding.

6.53 The Treasury and Resources Department recognises that the next phase of transformation should not be purely financially focussed and that there is value in delivering non-financial benefits. However, the Department considers it vital, in the current fiscal circumstances and with future expectations of increased demand requiring careful management, that a 'reform dividend' is delivered from this investment which can be used to re-invest in service delivery, replenish the Transformation and Transition Fund and / or reduce the overall cost of public services. Further, the Department considers that an overall target for such a dividend from Public Service Reform and its constituent parts needs to be developed and agreed at an early stage.

6.54 It is clear that there is significant potential to use the Transformation and Transition Fund to bring about substantial policy development and deliver on the reform agenda. However, it is equally clear that if activities are not co-ordinated the £25million could be consumed rapidly and without generating best value. It is therefore vital that there is close coordination and monitoring of activities. The Policy Council intends to co-ordinate and oversee all transformational activity and the Treasury and Resources Department will provide regular reports to the States in order to provide assurance that the use of the Fund is being closely monitored, controlled and challenged.

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States of Guernsey Bond

- 6.55 As part of the 2015 Budget Report, 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.”

- 6.56 In November 2014, the Policy Council approved an increase of £80million in the value of the States of Guernsey bond issue.
- 6.57 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.
- 6.58 The costs of £14.6million associated with the issue of the bond have been amortised, classified as a prepayment on the States of Guernsey balance sheet and will be written off over the thirty two year life of the bond. These costs comprise £9.3million for interest rate locks which were entered into in order to protect the coupon payable against market rises between the time the bond issuance was agreed by the Treasury and Resources Department and the actual date of issue; £3.8million due to the actual yield payable being 3.445% (standard practice is that coupons are rounded down to the nearest 1/8th per-cent and an appropriate adjustment made to the proceeds received) and £1.5million of fees (including legal counsel, financial advisers, credit rating agency and banks / book-runners).

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6.59 The Bond Management Sub-Committee of the Treasury and Resources Department has agreed loans totalling £100million 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. whether General Revenue funded entirely; 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.

6.60 The following table updates that included in the 2015 Budget Report (paragraph 7.7) of all of the outstanding or approved loans guaranteed or directly provided by the States which, at that time, it was anticipated could be suitable for funding from the proceeds of the States of Guernsey bond issue:

Recipient	Amount (per 2015 Budget Report) £m	Amount approved £m	Notes
Guernsey Housing Association	80.5	52.9	Refinanced from Bond issue proceeds – to be repaid from rental income. Balance is not cost effective to refinance at this time but additional requirement anticipated in due course
Alderney Housing Association	5.0	-	Not yet required
Guernsey Electricity Limited	20.0	-	Not yet required / financed by short-term private funding
Guernsey Electricity Limited	45.0	-	Not yet required
JamesCo750 Limited	13.8	13.2	Refinanced from Bond issue proceeds – to be repaid from bareboat charter income
Cabernet Ltd	22.0	-	Not cost effective to refinance at this time (£14million) / Proposed to be recapitalised (£8million)
Cabernet Ltd	3.0	-	Proposed to be recapitalised
Cabernet Ltd	26.0	31.8	Refinanced from Bond issue proceeds (plus additional for a new Dornier aircraft) – to be repaid from fare income
Solid Waste Strategy Fund	29.5	-	Not yet required
Ladies' College	4.0	-	Funded by private sector borrowing
HSSD Accommodation Fund	2.2	2.1	Refinanced from Bond issue proceeds – to be repaid from rental income
Total	251.0	100.0	

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- 6.61 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 issue would not, at this time, be cost effective (e.g. due to cost of exiting fixed rate arrangements [Cabernet Ltd], historical borrowings which are at very favourable rates [Guernsey Housing Association], the attractiveness of short-term funding in the current interest rate environment [Guernsey Electricity Limited and Ladies' College]). There are some entities where the timing of the funding requirement has changed including in respect of the Waste Strategy and Guernsey Electricity Limited where there is no longer an immediate requirement to replace a cable.
- 6.62 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 and it is reiterated that there are significant financing requirements in the short to medium term which could be funded from the Bond issue proceeds including:
- Guernsey Water: Belle Greve IV Outfalls replacement project and to bring wastewater infrastructure up to acceptable levels;
 - Guernsey Housing Association: to continue development of affordable housing;
 - Guernsey Electricity Limited: further infrastructure requirements including, potentially, a direct cable to France.
- 6.63 In addition, as set out paragraphs 5.16 to 5.22, the continuing work on reviewing the capital structures of the States trading entities could result in a proposed change to capital structures which would be likely to require funding from the Bond proceeds.
- 6.64 The Bond issue proceeds which have not yet been lent on to entities form part of either the General Investment Portfolio or the Cash Pool which is invested in line with the direction set by the Treasury and Resources Department's Investment Sub-Committee.

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Section 7: Other Matters

Investment Rules

- 7.1 The 2015 Budget Report included *“The Contingency Reserve (General) is currently invested as part of the States General Investment Pool, the investment strategy for which has been short-term in nature, partially driven by the requirement to ensure a significant measure of liquidity in the event of an urgent call on the Reserve. However, the returns on the Superannuation Fund, which has a long-term investment strategy, have been significantly higher than those of the General Investment Pool. For example, for the three year period ended 31 August 2014 the investment return on the Superannuation Fund has averaged 9.1% (6.1% in real terms) compared to 4.8% on the General Investment Pool (a real-terms return of 1.9%). Therefore, the Contingency Reserve (General) could have benefitted by an additional £17million over the last three years had it adopted the same investment approach as the Superannuation Fund. The Treasury and Resources Department will review the investment strategy of the General Investment Pool to reflect the long-term nature of the Core Investment Reserve.”*
- 7.2 In addition, in relation to the States of Guernsey Bond issue the Department said *“The Department’s existing Investment Sub Committee will review the investment strategy of the States General Investment Pool in order to ensure that the Bond Reserve is invested in a careful and prudent manner which maximises the opportunity for returns while minimising risk”*.
- 7.3 These two matters have resulted in a fundamental review of the organisation and investment approach for all Funds under the control of the Treasury and Resources Department in order to ensure that, in all cases, the investment duration is considered amongst the factors in determining the overall investment strategy. The Treasury and Resources Department has consequently adopted a long-term fund, medium-term fund and short term cash pool for managing the various Funds under its control. The Core Investment Reserve, Notes and Coins Reserve and an element of the Bond Reserve are all invested in the long-term fund alongside the Superannuation Fund, while the Capital Reserve, the Transformation and Transition Fund and the majority of the balance of the Bond Reserve are invested in the medium-term fund.
- 7.4 The Treasury and Resources Department has reviewed the Investment Rules to ensure that they remain fit for purpose and determined that it is no longer appropriate to maintain separate identical Rules for the Superannuation Fund and the General Investment Pool and is recommending that **the States approve a single set of Permitted Investment Rules for Funds controlled by the Treasury and Resources Department.**
- 7.5 Over the course of the year, the Investment Sub-Committee has considered the opportunity available from and benefits to the local economy of developing a specific Guernsey focussed fund and increasing its use of Guernsey based and regulated fund management teams within the long-term portfolio of investments. Although this is already permitted within the Rules, the Treasury and Resources Department considers that it is prudent to amend the Rules to make a Guernsey allocation explicit. The Treasury and Resources Department considers that the investment funds can be used to the benefit of the local economy whilst still maintaining that the fiduciary responsibility is met and ensuring the interests of all investors are protected by applying the same investment rigour, control of risk and targeting of appropriate return objectives as all other investments. In the first instance, the Department is establishing a ‘Guernsey Fund’ including a balanced range of Guernsey based investment managers. In the longer-term, other opportunities will be investigated and potentially developed to include a local Innovation Fund.
- 7.6 The Treasury and Resources Department is therefore recommending **amending the Investment Rules specifically to allow for investments where the majority of revenues are derived from Guernsey.** The revised Rules are set out in Appendix III.

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States Trading Companies

7.7 On behalf of the States of Guernsey, the Treasury and Resources Department holds the entire share capital of the following companies:

- Guernsey Electricity Ltd;
- Guernsey Post Ltd;
- Cabernet Ltd (holding company of Aurigny Air Services Ltd and Anglo-Normandy Aero-Engineering Ltd);
- JamesCo750 Ltd (holding company of the two tankships).

7.8 Under the terms of the States Trading Companies Ordinance, 2001 (as amended), the Department is required to publish as an item for debate in a Billet d'État on an annual basis the accounts and annual reports of both Guernsey Electricity Ltd and Guernsey Post Ltd. The companies' accounts and annual reports for both companies for the year ending 31 March 2015 will be included in the December 2015 Billet d'État.

7.9 For reasons of commercial confidentiality, the full Accounts of Cabernet Ltd and JamesCo750 Ltd are not published but summaries and commentary on the financial position of these companies are detailed below.

Cabernet Limited

7.10 In June 2005, the States agreed the Treasury and Resources Department's recommendations that *"the retention of the Aurigny Group is in the overwhelming public interest, and represents the best strategic option for the Island at the present time."* and the Treasury and Resources Department was authorised to *"facilitate (if necessary by providing guarantees) the Aurigny Group's borrowing from third parties"*. In September 2009, the States resolved *"to note the delay in the recapitalisation of Cabernet Limited will lead to a requirement to extend guarantees currently given by the States and authorise the Treasury and Resources Department to enter into such arrangements as necessary."*

7.11 Cabernet Limited (the holding company of Aurigny and Anglo-Normandy Engineering) has an external loan facility from the Royal Bank of Scotland International, guaranteed by the States, to purchase two new ATR72-500 aircraft. As at 31 August 2015, £12.1million (31.8.14: £13.2million) was outstanding. All other aircraft purchases have been refinanced from the proceeds of the States of Guernsey bond issue.

7.12 The Treasury and Resources Department is intending to submit a Policy Letter, for consideration at the November 2015 States meeting, on the recapitalisation of the company and its long-term financial arrangements. This report will also consider the objectives that have been set for the Aurigny Group and the operating model the airline is pursuing. If agreed, the recapitalisation of £25.2million in respect of cumulative losses incurred up to 31 December 2014 and projected for the years 2015 to 2017 would enable the repayment of the £10million loan facility with the Royal Bank of Scotland International and the short-term borrowing facility from the States General Investment Pool.

7.13 Appendix IV details the 2014 financial results of the Cabernet Group and the most recent (unaudited) 2015 position including a forecast of the outturn. In respect of 2014, a loss of £3.5million was incurred which includes £1.4million of exceptional items associated with the introduction of the Embraer 195 jet and start-up costs for the new route to London. The 2015 projection is a loss of £2.2million including exceptional expenditure of £800,000 associated with the withdrawal of the Trislander aircraft and the introduction of the Dornier aircraft.

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JamesCo750 Limited

7.14 On 29 January 2009, after consideration of a States Report from the Policy Council (Billet d'État IV, 2009) entitled "*Security of Fuel Supplies and Purchase of Tankships*", the States of Guernsey resolved:

- *"To approve the decision by the Policy Council to secure the supply of fuel oils to the Bailiwick through the purchase of the tank ships Vedrey Tora [later renamed Sarnia Cherie] and Vedrey Thor [later renamed Sarnia Liberty] in the manner set out in that Report;*
- *To approve the actions of the Treasury and Resources Department on behalf of the States in issuing a loan and to authorise that Department to enter into any commercial guarantees or underwriting arrangements that it may consider appropriate in respect of these vessels."*

7.15 In April 2015, the £13.2million balance of the loan outstanding for the purchase of the two vessels was refinanced from the proceeds of the States of Guernsey Bond issue.

7.16 The Memorandum of Understanding between the Treasury and Resources Department (in its role as shareholder on behalf of the States) and JamesCo750 Limited includes the following strategic guidance to the company:

"The States' intended purpose in forming the company and acquiring the vessels was to secure the fuel supply to the island. This is therefore the primary purpose of the company in the negotiation and management of the contracts. The secondary objective is to secure the best financial return on the company's assets."

7.17 The business case prepared by the States at the time of acquisition demonstrated that over a 20 year period and using a cost of capital of 5%, the purchase of both vessels could result in a positive return for the States. While this was regarded as a bonus, and the basis for a sound commercial venture, nevertheless the principal reason for the purchase of the vessels was of a strategic nature to protect the supply of fuels to the island.

7.18 The principal activity of the company is the bareboat charterⁱ of two vessels for the transport of petroleum products. Both vessels are on contract to James Fisher Everard until February 2019 (Sarnia Cherie) and September 2020 (Sarnia Liberty).

7.19 The company made a profit of £280,000 in 2014 (2013: loss of £60,000), primarily as a result of the States Treasury interest rate being lower than the 5% assumed in the business case.

ⁱ A bareboat charter means the owner delivers the vessel to the charterer with no crew, stores, moveable equipment, etc. The owner charges a daily bareboat rate that covers their capital and gives an appropriate return. All of the operating costs for the vessel are then picked up by the charterer.

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2015

THE STATES, in pursuance of their Resolution of the 27th October 2015 and in exercise of the powers conferred on them by sections 23B(3), 23C(3) and 23K of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972 as amended^a, hereby order:-

Amendment of Fourth Schedule to the Law.

1. The Fourth Schedule to the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended, is amended as follows.
2. In the definitions at the beginning of the Schedule, insert the following definitions in the appropriate alphabetical order:

""**biodiesel**"" means diesel quality liquid fuel –

- (a) that is produced from biomass or waste cooking oil,
- (b) the ester content of which is not less than 96.5% by weight, and
- (c) the sulphur content of which does not exceed 0.005% by weight or is nil, but

excludes any substance that is gaseous at a temperature of 15 degrees Celsius and under a pressure of 1013.25 millibars,

""**biomass**"" means vegetable and animal substances constituting the biodegradable fraction of –

- (a) products, wastes and residues from agriculture, forestry and related activities, or
- (b) industrial and municipal waste, and

""**diesel quality**"" means capable of being used for the same purposes as heavy oil,".

3. For the tables in paragraphs 1 to 7 of the Schedule under "GOODS LIABLE TO EXCISE DUTY; & RATES OF EXCISE DUTY" substitute the following-

"1. Tobacco and tobacco products

(a)	Cigarettes	£298.52 per kilo
(b)	Cigars	£283.72 per kilo
(c)	Hand rolling tobacco	£264.21 per kilo
(d)	Other manufactured tobacco	£229.17 per kilo
(e)	Tobacco leaf – unstemmed	£254.40 per kilo
(f)	Tobacco leaf – stemmed	£256.96 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; and Ordinance No. XLIII of 2013; and No. XL of 2014.

2. Petrol and Gas oil –

- | | | |
|-----|---|---|
| (a) | Petrol other than any fuel used for the purpose of air navigation (and subject to b.) | 58.5p per litre |
| (b) | Petrol used for the purpose of marine navigation | 36.6p per litre where supplied by an approved trader except where supplied to an approved trader in which case 58.5p per litre ^b |
| (c) | Gas oil | 58.5p per litre |

3. Other fuels-

Biodiesel	58.5p per litre
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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 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 | 45p per litre |
| (b) | Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume | 45p 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 | 71p per litre |
| (d) | Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume | 57p 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 | 89p per litre |
| (f) | Beer exceeding 7.5 per cent volume | £1.04 per litre |

5. Spirits

Spirits	£32.34 per litre of alcohol contained in the liquor, calculated in accordance with section 23D
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^b The circumstances in which the different rates may apply shall be specified by the Board by Order.

6. Cider

- | | | |
|-----|---|-----------------|
| (a) | Cider exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume | 45p 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 | 45p 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 | 71p 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 | 57p 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 | 89p per litre |
| (f) | Cider exceeding 7.5 per cent volume | £1.04 per litre |

7. Wines

- | | | |
|-----|--|------------------|
| (a) | Light wines not exceeding 5.5 per cent volume | 56p per litre |
| (b) | Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines) | £2.28 per litre |
| (c) | Other wines | £3.64 per litre" |

Extent

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

Repeals

5. The Excise Duties (Budget) Ordinance, 2014^c is repealed.

Citation

6. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2015.

Commencement

7. (1) Subject to the provisions of subsection (2), this Ordinance shall come into force on the 27th October, 2015.
- (2) Section 3 of this Ordinance, to the extent that it substitutes the tables in paragraphs 3, 4, 5, 6 and 7 of the Fourth Schedule to the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended, shall come into force on the 1st January, 2016.

^c Ordinance No. XL of 2014.

Draft Ordinance Entitled

The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2015

THE STATES, in pursuance of their resolution of the 27th October, 2015 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.

Repeal

2. The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2014^c is repealed.

Extent.

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

Citation and Commencement

4. This Ordinance may be cited as the Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2015.

Commencement

5. This Ordinance shall come into force on the 1st January, 2016.

^a Order in Council No. X of 2006.

^b Recueil d'Ordonnances Tome XXXII, p.504, as amended by Order in Council No. XIII of 2010, Recueil d'Ordonnances Tome XXXIII, pp. 35 and 332; Ordinance No. XIII of 2012; and Ordinance No. XLI of 2014.

^c Ordinance No. XLI of 2014.

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	£1.25
B1.2	Domestic (flat) Local Market	£1.25
B1.3	Domestic (glasshouse) Local Market	5p
B1.4	Domestic (outbuildings) Local Market	63p
B1.5	Domestic (garaging and parking) (non-owner-occupied) Local Market	£1.25
B2.1	Domestic (whole unit) Open Market	£1.25
B2.2	Domestic (flat) Open Market	£1.25
B2.3	Domestic (glasshouse) Open Market	5p
B2.4	Domestic (outbuildings) Open Market	63p
B2.5	Domestic (garaging and parking) (non-owner-occupied) Open Market	£1.25
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	£5.25
B4.2	Self-catering accommodation	£3.30
B4.3	Motor and marine trade	£4.45
B4.4	Retail	£9.05
B4.5	Warehousing	£4.80
B4.6	Industrial and workshop	£3.85
B4.7	Recreational and sporting premises	£2.25
B4.8	Garaging and parking (non-domestic)	£4.80
B5.1	Utilities providers	£37.55
B6.1	Office and ancillary accommodation (regulated finance industries)	£35.05
B6.2	Office and ancillary accommodation (other than regulated finance industries)	£11.70
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)	63p
B13.2	Development buildings (non-domestic)	£5.00

SCHEDULE

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1	Communal (flat) Local Market	17p
L1.2	Communal (flat) Open Market	17p
L1.3	Hostelry and food outlets	33p
L1.4	Self-catering accommodation	33p
L1.5	Motor and marine trade	33p
L1.6	Retail	33p
L1.7	Warehousing	33p
L1.8	Industrial	33p
L1.9	Recreational and sporting premises	33p
L1.10	Office and ancillary accommodation (regulated finance industries)	£1.09
L1.11	Office and ancillary accommodation (other than regulated finance industries)	36p
L1.12	Utilities providers	33p
L2.1	Approved development site	£1.09
L3.1	Domestic Local Market	17p
L3.2	Domestic Open Market	17p
L3.3	Horticulture	17p
L3.4	Agriculture	17p
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)	33p

SCHEDULE

TABLE (B)
ALDERNEY REAL PROPERTY

ALDERNEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1A	Domestic (whole unit)	£1.25
B1.2A	Domestic (flat)	£1.25
B1.3A	Domestic (glasshouse)	5p
B1.4A	Domestic (outbuildings)	63p
B1.5A	Domestic (garaging and parking) (non-owner-occupied)	£1.25
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	£5.25
B4.2A	Self-catering accommodation	£3.30
B4.3A	Motor and marine trade	£4.45
B4.4A	Retail	£9.05
B4.5A	Warehousing	£4.80
B4.6A	Industrial and workshop	£3.85
B4.7A	Recreational and sporting premises	£2.25
B4.8A	Garaging and parking (non-domestic)	£4.80
B5.1A	Utilities providers	£37.55
B6.1A	Office and ancillary accommodation (regulated finance industries)	£35.05
B6.2A	Office and ancillary accommodation (other than regulated finance industries)	£11.70
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)	63p
B13.2A	Development building (non-domestic)	£5.00

SCHEDULE

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)	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

SCHEDULE

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)	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

SCHEDULE

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)	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

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

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

Duty on Fuel

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

2015	No change	
2014	Permanent increase in thresholds and temporary rates reduction for lower bands	
2008-2013	No change	

Tax on Rateable Value / Tax on Real Property

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 and sporting buildings and land Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land

COSTING, BENCHMARKING & PRIORITISATION PROJECT AT THE HEALTH & SOCIAL SERVICES DEPARTMENT

Executive Summary

1.1 Rationale

This Summary Report forms the executive summary to BDO's Main Detailed Report and can be read as a standalone document.

The Treasury and Resources Department (T&R) is responsible for setting the overall budget for the States of Guernsey and for recommending cash limits for all States' departments. The Health and Social Services Department (HSSD) is the largest spending department, with some 32% of the overall expenditure on public services.

As part of the 2015 Budget Report, the Treasury and Resources Department announced its intention to work with HSSD to initiate a project seeking to fully analyse HSSD's cost base and benchmark against similar models of care. HSSD have supported this intention and see it as an opportunity to inform the programme of reform they have recently initiated, to ensure that spend is not only at the right, appropriately benchmarked, level but also based in the right areas (so that early intervention and prevention avoids expensive crises of ill health or family breakdown).

1.2 Introduction

This document sets out the findings and recommendations of the work undertaken by BDO on behalf of T & R to cost, benchmark and prioritise HSSD budgets for 2016, 2017 and 2018. This executive summary is designed to be a standalone document setting out:

- the scope of BDO's work;
- its approach to delivery;
- the background and context for this piece of work;
- the key headline messages based on BDO's findings;
- BDO's summary findings;
- next steps; and
- conclusions.

Further detail on the methodology, evidence, results and analysis on which the findings are based can be found in the detailed report of which this executive summary forms part.

1.3 Scope

T & R commissioned BDO in March 2015 to:

- cost the services undertaken by HSSD;
- benchmark the services against relevant peer organisations; and
- set a three-year prioritised budget for 2016, 2017 and 2018 based on achievable efficiencies.

The scope specifically excludes primary care and focuses on identifying budgets for HSSD costs whilst considering the health and care costs contained within the Social Security Department (SSD) budgets for the purposes of benchmarking.

BDO completed the assignment by July 2015 and issued their final report in August 2015.

1.4 Approach

The overall requirement for BDO's work was to identify efficient, prioritised service line budgets for HSSD for three years from 2016. Peer group benchmarks include costs which also fall into the SSD budget in SoG such as medical and therapist staff. BDO therefore initially benchmarked the overall costs of health and care across both HSSD and SSD at a unit cost level before focusing its analysis on HSSD costs alone and efficiencies against these costs deliverable within a 3-5 year timeframe.

COSTING, BENCHMARKING & PRIORITISATION PROJECT AT THE HEALTH & SOCIAL SERVICES DEPARTMENT

Analysis of HSSD costs alone used a combination of unit cost and operational benchmarks and adjusted potential efficiency gains for risk and assessment of what could be delivered within 3 to 5 years. The output of this work therefore identifies two levels of efficiency gain:

- Potential efficiency gains across relevant health and care costs included in both HSSD and SSD budgets achievable over a longer timeframe after adjustment for cost of living but excluding risk adjustments; and
- Prudent, risk-adjusted efficiency gains achievable within the HSSD budget alone over a 3 to 5 year timescale.

BDO identified the underlying 'normal' cost base for 2015 across both HSSD and SSD budgets by adjusting the 2014 outturn costs for items which would not re-occur and new, planned ongoing expenditure. A forecast budget for 2016 to 2018 for HSSD alone was built and efficiency gains were allocated across the years based on their expected delivery profile. The costs of changes to existing service models required to deliver efficiencies were calculated and also mapped across this timeframe. It is important to note that the forecast budgets excluded both inflation and routine costs of capital.

The resulting service line budgets were prioritised based on a priority framework which was developed.

1.5 Background and Context

The challenges faced by HSSD are not dissimilar to those encountered by health and care systems across the globe:

- Financial: A combination of pressure on funding from tax revenues together with increased cost of delivery due to changing demographics, improved but more expensive medical technologies and rates of medical inflation that exceed the RPI;
- Quality and Outcomes: An increased burden of regulation and standards required by professional bodies together with greater expertise and expectation of service users; and
- System Reform: A requirement to deliver a sustainable model of health and social care based on greater productivity and improved outcomes through integrated services and a move to preventative rather than reactive care.

Historically the financial environment for HSSD has been relatively benign. However, in recent years funding challenges and the requirement to deliver cost efficiencies across all SoG departments have come to the fore. HSSD has made limited progress with regard to financial improvement. In part this lack of progress can be explained through operational and quality challenges and external pressure from regulatory and professional bodies with regard to safe staffing levels. Additionally, HSSD has suffered from historic changes in leadership at both a political and officer level which has prevented a consistent and methodical programme of improvement.

In response, key appointments have been now made and are being made to strengthen leadership and action is being taken with regard to both operational transformation and improving the governance and assurance environment within which these changes are being made.

Additionally, SoG has recognised that transformation across all publicly funded services requires investment and have backed this up with a £25 million transformation fund. Allocations from this fund to HSSD cannot be presumed and will only be forthcoming where there is a strong evidence base that such investment will be used effectively. In seeking transformational funding HSSD will need to demonstrate that it can create sustainable health and social care services that are financially efficient for the long-term and which meet the needs of the population within a clear strategic vision.

The combination of these factors together with the findings in this report present a huge opportunity for HSSD to make an effective case for change and then to implement it.

COSTING, BENCHMARKING & PRIORITISATION PROJECT AT THE HEALTH & SOCIAL SERVICES DEPARTMENT

1.5.1 Key Messages

Health and care services resident within both HSSD and SSD budgets are 17% percent more expensive than peer group. This translates into a potential annual saving of £24 million against health and care costs of £139.0 million deliverable over 7 to 10 years. A prudent risk-adjusted assessment of potential efficiency gains deliverable within the HSSD budget alone identified annual savings of £7.4 million deliverable over a 3 to 5 year period against total costs of £116.6 million equating to 6%.

This information is not new. Previous exercises have identified similar levels of opportunity for efficiency improvement. SoG and HSSD need to consider why this information has not been acted on in the past and what can be done to make effective progress now. Based on observation, it is likely that the answer lies in lack of capacity and capability; poor information and commissioning systems; volatility of senior leadership; complexity of running acute and community health and social care; and powerful vested interests.

Transformation requires investment upfront and on an ongoing basis to support the process of change and to sustain efficient models into the future. BDO have not assessed the costs of delivering a major transformation programme targeted at efficiencies of £24 million across both HSSD and SSD budgets. If SoG has the appetite for this level of change then additional planning and infrastructure capacity is required. It is likely that such a programme would be delivered over a 7 to 10 year timeframe. It is also likely that during this period further cost challenges and opportunities for efficiency will manifest themselves.

BDO have made an assessment of the costs to deliver a 3 to 5 year programme targeted at £7.3 million of efficiency within HSSD budgets alone. One-off costs relating to project implementation and potential double running are estimated at £3.3 million. Ongoing costs associated with operating new service models are estimated at £2.2 million. Therefore the net ongoing saving, once change has been embedded, is likely to be £5.2 million. Indicative, uninflated, priority-based budgets have been set which reflect the transition from current costs to achievement of the net £5.2 million efficiency gain over 5 years.

Health and care costs have to remain affordable within available tax funding allocated. SoG must continually assess the extent to which scarce resources are being invested effectively both to ensure value for money and highest impact with regard to health benefit achievable. A priority framework has been developed which can be used to support decisions at both a service line and strategic level with regard to investment, divestment, and alternative models of provision.

BDO carried out a high-level review of the extent to which legislation places mandatory or discretionary control over what services are made available. It was concluded that while the HSSD constitution requires its leadership to "[Protect and promote] mental, physical and social well-being of the people of Guernsey and Alderney"; it has discretion with regard to how it achieves this at a service line level.

Delivery of significant efficiency gains requires major transformation over a number of years. There are three key challenges which must be addressed in order for a successful programme of change:

- Political, policy and structural barriers must be removed through the development of an overarching strategy for transformation and continuous improvement;
- Accelerated development of leadership and governance to provide momentum, oversight and scrutiny, and to foster cultural and behavioural change; and
- Enhanced management processes and management information to measure and monitor performance and create an accountability framework for improvement.

In the absence of action in these areas the capability and capacity for delivery of efficiency gains becomes more limited.

COSTING, BENCHMARKING & PRIORITISATION PROJECT AT THE HEALTH & SOCIAL SERVICES DEPARTMENT

1.5.2 Summary Findings

1.5.2.1 Current cost of service lines

BDO identified 43 service lines spanning four service areas: acute care, children's social care, adult social care and public health. The total 'normal' cost for 2015 (excluding one-off items and including planned changes) of these services at 2014 prices is £139 million. £116.6 million residing in the HSSD budget and £22.4 million in the SSD budget. Primary care services were not included in the scope of this project and routine costs of capital were also excluded. The total 'normal' cost was allocated and apportioned to service lines in preparation for comparison with benchmarks.

1.5.2.2 Benchmarked HSSD and SSD costs

Service line costs were benchmarked against peer groups. Relevant peer groups were identified through analysis of UK, European and International health and social care organisations which met an agreed set of criteria for comparison. Guernsey's island economy is unique in many ways and therefore identifying peer groups and benchmarks which are locally relevant was a key challenge. Significant engagement took place with staff and management to ensure that peer groups and benchmarks provided a sufficiently reliable evidence base from which to draw conclusions about health and care costs on Guernsey. Service line unit cost benchmarks supported by 130 operational performance measures revealed that health and care costs contained within both HSSD and SSD are £24 million more expensive than peer groups.

Table 1: Unit cost benchmarking analysis

Service Area	2015 Normal Cost £000's	Raw B/mark Cost £000's	Local B/mark Cost £000's	Potential Saving £000's
Acute	£74,754	£59,254	£62,354	£12,400
Children's social care	£22,356	£16,317	£17,827	£4,529
Adult social care	£38,533	£29,099	£31,458	£7,076
Public health services	£3,358	£3,358	£3,358	£0
Totals	£139,001	£108,028	£114,996	£24,005

The raw benchmark cost applies peer group unit cost to HSSD volumes of activity. The local benchmark cost includes adjustments for cost of living differences between peer group and SoG. This adjustment is made on the basis that control of this cost is largely outside the influence of HSSD. The potential saving is not risk-adjusted.

Analysis of the 130 operational benchmarks developed provided insight as to the key reasons for the comparatively high costs of health and social care services within SoG:

- Greater use of residential care as opposed to foster care, much longer lengths of stay within hospital and poor utilisation of expensive assets such as theatres;
- A 'medical' model of social care provision (care delivered by nursing and medical staff, which are more expensive than delivery by non-medical staff). The vast majority of peer group organisations use a non-medical model while still achieving effective outcomes and high quality services); and
- All HSSD services are delivered in-house in contrast with peer group organisations who outsource a significant proportion of their services to private/third sector organisations at

COSTING, BENCHMARKING & PRIORITISATION PROJECT AT THE HEALTH & SOCIAL SERVICES DEPARTMENT

lower cost (progress in this area will be determined by the ability to create similar market conditions within an island economy).

Benchmarking of Public Health Services did not reveal potential for savings based on existing service lines. However, in carrying out its review BDO suggest that consideration should be given to the role of Public Health Services in supporting the development of a clear vision with regard to future potential demand and a strategic approach to the move from a reactive to a more preventative health and social care system.

1.5.2.3 Benchmarked HSSD costs

The scope of BDO's work was to identify a suitably benchmarked baseline budget with regard to the costs borne by the HSSD alone (£116.6 million). Health and care costs residing within the SSD budgets (£22.4 million) relate to the MSG and GPG contracts together with off-island travel costs, costs of visiting consultants and temporary funding of medical locums for obstetrics and gynaecology services. The Secondary Care Services project is addressing these issues, in the first instance specifically with regard to the MSG contract which forms the largest component of the SSD budget (£15 million). It is important that this project supports a more integrated approach to delivery of health and care and does not allow artificial contractual boundaries to get in the way of this. It is anticipated that in line with the overall unit cost savings identified in Table 1 above reductions of expenditure within the SSD budget will be determined.

The remainder of this section focuses on the potential efficiency gains, impact of risk and costs of delivery with regard to acute, adult and children's services expenditure within HSSD alone. No savings were identified for Public Health Services based on its current service model.

Acute Services efficiency gains

For acute services analysis of potential savings was carried out at a detailed service line level using operational and performance benchmarks.

Table 2: Acute Services efficiency gains

Acute Health	Value
Benchmark Length of Stay - reduction from current bed day totals (movement to nearest improved quartile)	10,849
Benchmark Length of Stay - reduction in bed days from increasing Day Case activity (and reducing Elective inpatient activity)	434
Occupancy Rate - improvement from current rates to peer group lower quartile rate	6.32%
Total LoS reduction (bed days) from the above metric calculations	11,284
Number of beds (at lower quartile occupancy rate) bed day reduction equates to	23.02
2014 Direct Costs of typical ward (bedstock = 22 beds) - proxy of potential costs a ward closure could release	£1,288,000
Current Agency spend in Theatres (efficiencies made through better scheduling could remove this level of spend)	£237,000
Total Potential Benchmarked Efficiency Saving	£1,525,000

Adult and Children's Services efficiency gains

For adult and children's services a high-level population based, unit cost approach was taken. Operational and performance benchmarks have been identified and provide strong evidence for the potential to deliver efficiency gains at a service line level within adult and children's services and

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therefore support the unit cost analysis. However, the interdependence between service lines means that savings identified in one area often require investment at a lower level in another. For example the shift between residential and foster care for children.

Table 3: Adult Services efficiency gains

Adult Services	Value
Current cost per adult (total population) of Adult Services in Guernsey	£712.56
Upper quartile peer group cost per adult (total population)	£528.02
Difference	£184.54
Total current adult population in Guernsey (ages 18-65)	51,120
Total Potential Benchmarked Efficiency Saving	£9,434,000

Table 4: Children's Services efficiency gains

Children's Services	Value
Current cost per child (total population) of Children's Services in Guernsey	£1,272.99
Upper quartile peer group cost per child (total population)	£751.95
Difference	£521.04
Total current child population in Guernsey (ages under 18)	11,590
Total Potential Benchmarked Efficiency Saving	£6,039,000

Risk-adjusted efficiency gains

The total savings identified in tables 2, 3 and 4 above are c. £17 million. There are a number of strategic, operational, capability and capacity reasons why the pace of change demanded by such a significant programme is not feasible for HSSD within a 3 to 5 year timeframe. Therefore, a risk rating has been applied to these values to identify a more realistic and achievable level of efficiency savings. The key risks are as follows:

- Poor quality data:** In developing HSSD service line financial and activity information for comparison with benchmark the BDO team needed to account for and make assumptions with regard to inconsistencies and omissions in datasets. There is therefore a risk that benchmarked savings identified may change as a result of more detailed operational planning. This is particularly the case for acute services, specifically geriatric medicine, medical oncology and renal services.
- Ability to replicate peer group service models:** In acute services the HSSD model incorporates a consultant-led delivery, which by necessity excludes the use of junior medical staff and therefore includes enhanced roles for nursing staff. This is an unusual model and presents risks in terms of comparison with the benchmark. In adult and children's social care services peer group costs are dependent upon the ability to develop an outsourcing market. As an island economy there are risks associated with being able to create a market for such services. In addition, the operating model for adult social care services is unclear, the impact of the new Mental Health wing is not documented and potential sites for outsourced services is not identified. This has made comparison difficult and leads to the risk that identified efficiencies may not exist in relation to some aspects of these areas.

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- Complexity of service model change:** Whilst detailed operational benchmarking has been carried out for all service areas there is a risk that by cherry picking individual benchmarks the collateral impact on other service lines is missed. In order to offset this risk within the timescales for this project BDO have used a mixture of operational (for acute services) and unit cost (for adult and children's social care services) benchmarks. There is both an upside and downside risk that savings identified through a detailed and comprehensive integrated transformation programme are different to those calculated through this exercise.
- Cost of Living:** The cost of living in Guernsey is high and there are both unique benefits and challenges to living and working in an island environment. Analysis across major staff groups indicates that this has an impact on pay scales both at a core remuneration level and in relation to additional recruitment and retention packages. On average the difference from the peer group is 25%. Control of this cost is not within the gift of HSSD and certainly not within the timeframes for this project.

Following an assessment of the potential impact of these risks the benchmarked efficiency gain was reduced from £17 million to £7.4 million. Figure 1 below illustrates the impact of risk adjustment by service area.

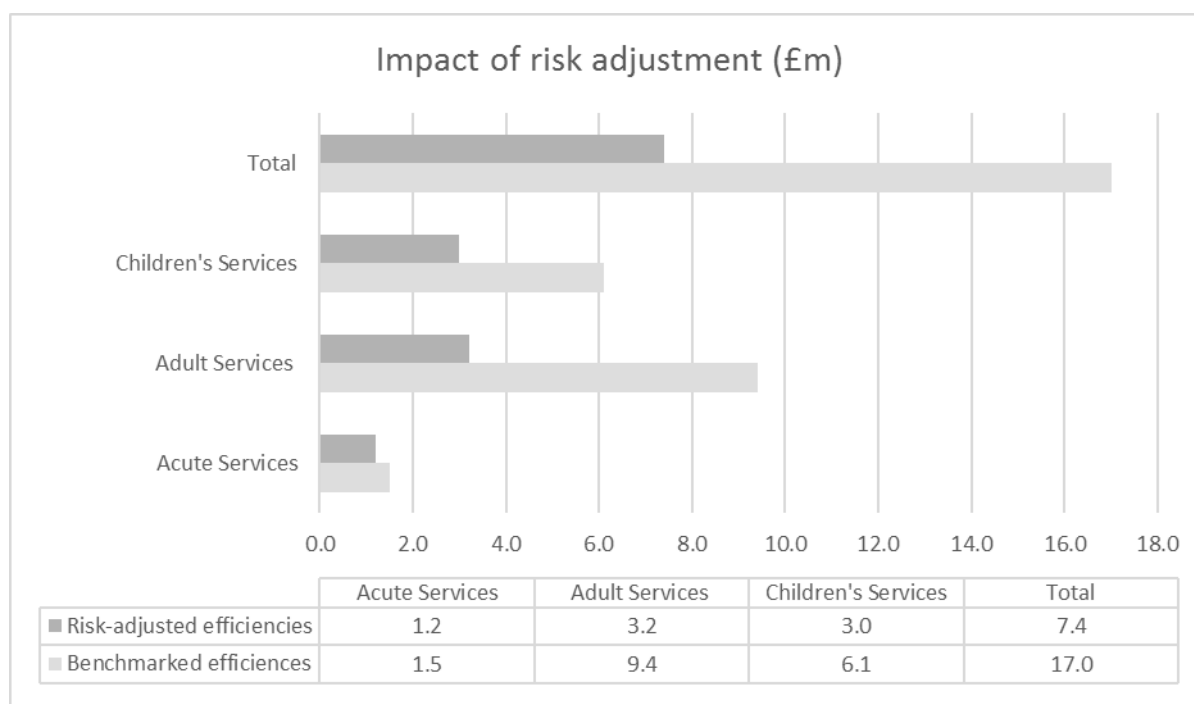


Figure 1: Impact of risk adjustment

1.5.2.4 Costs of delivery

The savings identified require both ongoing investment and one-off costs to support transition.

Ongoing investment

Ongoing investment relates to the cost of the service model changes required to deliver efficiencies. The table below sets out BDO's assessment of these costs.

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Table 5: Ongoing investment for efficiency gains

Service Area	Investment Detail	Value (£000)
Acute	Increased day case capacity	103
Adult Services	Investment in Community Health team (to facilitate discharge – reablement – and provide care alternatives to the acute setting)	834
	Additional staff to provide more regular needs assessment of clients (approx. 4 WTE QSWs)	215
	Establishment of a contracts management office – including commissioning unit – to ensure procurement outsourced services are appropriately performance managed	300
Children's Services	Additional investment in the MASH team to enable further efficiencies to be made	150
	Establishment of a “Strengthening Families” service	100
	Creation of a professional fostering service (also able to “sell” its services with interest already from Jersey)	500
Total Currently Identified Recurrent Investment Requirement		2,202

One-off costs

One-off costs include:

- Procurement costs (to write service specifications, tender documents, support the review of proposals and appointment);
- Interim appointments and external support (transformation support teams may be a short-term expense, such as two to three years)
- Dual running costs (while services transition to a new delivery model, it may be necessary to run both delivery models)

These costs have been estimated at £3.3 million based on evidence drawn from similar programmes.

Potential net savings impact

Giving consideration to the risk adjustments identified above and the costs of delivery, BDO assess the potential for net savings over a 3 to 5 year period of £5.2 million. This is set out in the table below:

Table 6: Achievable savings and costs of delivery

Service Area	Adjusted savings (£m)	Ongoing costs (£m)	Net Efficiency Saving (£m)	One-off costs (£m)
Acute	1.2	0.1	1.1	0.6
Adult Services	3.2	1.3	1.9	1.4
Children's Services	3.0	0.8	2.2	1.3
Totals	7.4	2.2	5.2	3.3

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1.5.2.5 Proposed budgets for 2016, 2017 and 2018

The implications of the savings identified above together with ongoing costs and one-off costs have been mapped across a five-year programme. BDO have carefully analysed each of the areas of savings and considered the speed with which they can be delivered based on the nature of the savings. In order to do this savings were categorised as tactical, productivity and efficiency, service transformation and strategic. Tactical and productivity and efficiency savings can be delivered relatively rapidly with little cost whilst service transformation and strategic savings require more upfront investment and take longer to deliver benefits. The assessment of these profiles of costs and savings has been based on experience and evidence from a number of similar projects. The results of this exercise are set out in the graph below.

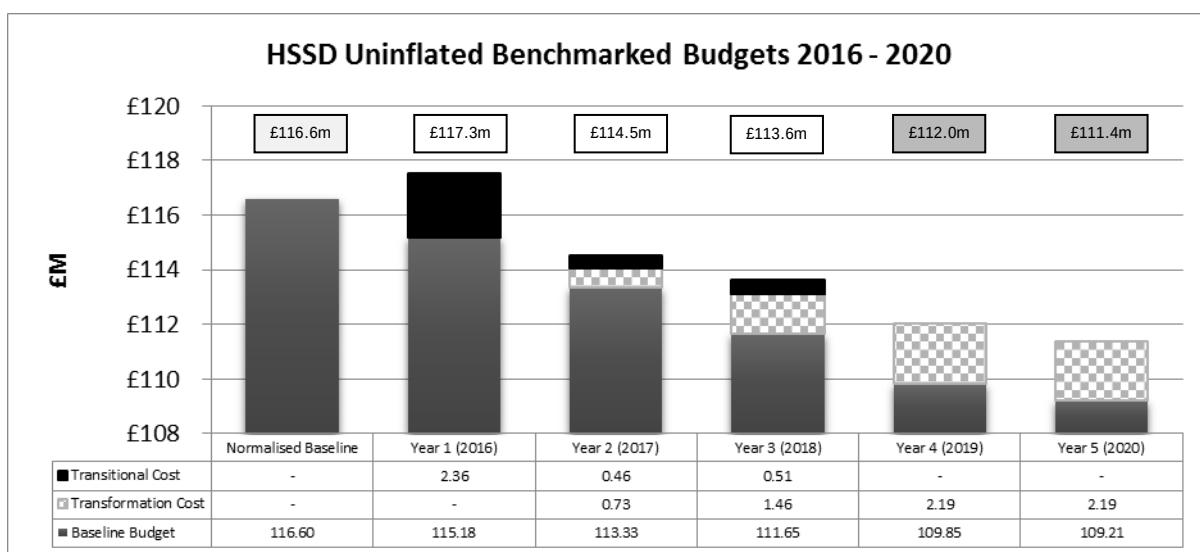


Figure 2: HSSD uninflated benchmarked budgets 2016 - 2020

The items in boxes above each column show the proposed total budget calculated for each year (£116.6m to £111.4m = £5.2m). The 'Transitional Cost' (£3.3m in total) relates to one-off costs and 'Transformation Cost' (£2.2m annually by 2019) to ongoing costs of implementing the efficiency gains. The 'Baseline Budget' shows the impact of efficiency gains on the starting normalised position (£116.6 to £109.2 = £7.4m).

1.5.2.6 Proposed budget for 2016 (including inflation)

BDO have considered the effect of inflation on the HSSD budget propositions, and have estimated additional uplifted budgets. An inflation adjustment has been made to the 2016 budget, by applying an aggregate compound inflation rate of 1.79% to all normalised costs. This 2016 inflated budget reflects a one-off uplift; it becomes the baseline cost position for 2016 onwards and no additional inflation adjustments are made. The figures included in the graph below are therefore at 2016 prices for all years. A detailed description of the approach to cost inflation is provided in Appendix BB and the detailed analysis from which the aggregate inflation is derived may be found in the Prioritisation Workbook.

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The 2016 inflated budget is set out in the graph below:

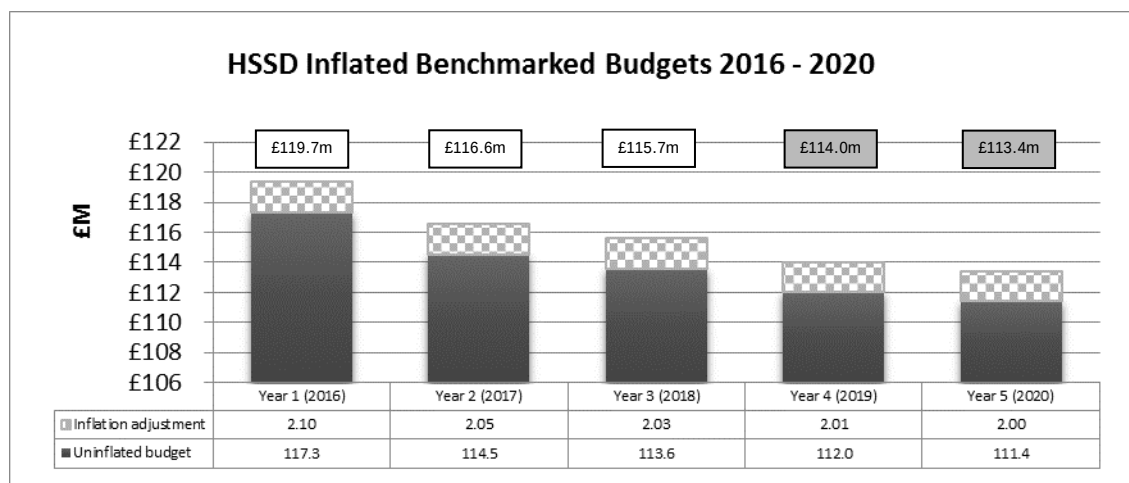


Figure 3: HSSD inflated benchmarked budgets 2016-2020

1.5.2.7 Prioritisation

Key priorities for the development of services into the future have been identified both for the short term and the longer term. The priorities form a set of high-level strategic imperatives, derived from detailed stakeholder input and review of key documentation, focusing on service user needs and desired outcomes. Table 7 sets out the priority criteria agreed by stakeholders together with their high-level descriptions. These priorities may be refined over time but provide an excellent basis for strategic planning, assessing investment/divestments decisions and more local operational decision-making.

Table 7: Priority Criteria.

Criteria	Description
Safeguarding	Services that ensure, promote and enable the safety and protection from harm of children, adults and patients at risk in all settings.
Urgent and Crisis Response	Services which provide an immediate response through provision of appropriate access, facilities, experts and interventions. Often available on a 24 x 7 basis.
Generating Income	Services that generate net income for HSSD and can contribute to the sustainability of HSSD services.
Management of Ongoing Needs	Services which provide support to individuals with ongoing needs or circumstances that require regular intervention to prevent escalation if not managed.
Impact of service - Volume	Services which respond to significant demand (small, medium or large).
Impact of service - Effectiveness	Services which are highly effective in delivering an expected outcome for individuals to the extent possible given their condition (high, medium or low).
Early Intervention	Services which support the identification of individuals at risk and deliver interventions prior to crisis/emergency or significant deterioration of existing needs/conditions.
Prevention	Services which provide blanket protection to known risks for the population as a whole which either eliminate or significantly mitigate the likelihood of need for further intervention.

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Enabling independence	Services which seek to reduce the dependence of individuals upon the system as a whole or institutions, in particular allowing them to work, express choice and take control of their lives and conditions to the greatest extent possible.
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Stakeholders considered the relative importance of these criteria both in the short term and the longer term. In the short term it was assessed that priorities related to urgent and reactive care were more important whilst in the long term the emphasis switched to prevention and early intervention with the aim of reducing the burden on acute services. The following diagrams set out the relative priority weightings.

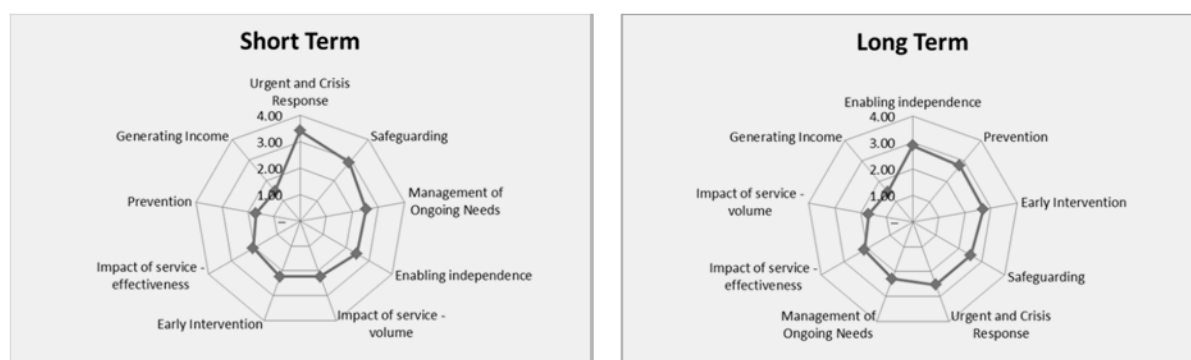


Figure 4: Priority weightings for the short and long term.

The 43 service lines were scored and weighted against each priority criterion for both the long and the short term. The results of this exercise identified the strengths and weaknesses of each service line with regard to its ability to support delivery of the strategic priorities. Analysis of the individual service line scores is reviewed in the BDO's detailed report and the full results of the exercise are contained in the Prioritisation Workbook.

The aggregate service line scores by priority criterion demonstrate key stakeholders' views with regard to the extent that current service line performance as a whole is addressing the strategic needs of HSSD. Table 8 below shows the percentage of total available points which all service lines together scored against each priority criterion.

This shows that stakeholders believe that service lines currently perform better with regard to effectiveness, management of ongoing needs and delivering at scale but more poorly with regard to early intervention, generating income and prevention. This information, supported by the detailed analysis at service line level, will inform decision-making with regard to investment over time.

Table 8: Service line scores by priority criterion.

Priorities	%
Impact of Service - Effectiveness	73
Management of Ongoing Needs	71
Impact of Service - Volume	67
Safeguarding	67
Urgent and Crisis Response	67
Enabling Independence	64

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Early Intervention	62
Generating Income	48
Prevention	48
AVERAGE	63

Taken together with the priority weightings for the longer term this information suggests that investment in enabling independence, early intervention and prevention is required while sustaining performance in regard to effectiveness, management of ongoing needs, delivering at scale, safeguarding and urgent and crisis response.

The Prioritisation Workbook combines service line scores with current and benchmarked costs and the costs associated with achieving efficiency gains. This supports value for money assessments of service lines through comparison of costs per point scored. It also uses net present value analysis combined with service line scores to assess the relative value for money of investment in transformational and transitional costs to deliver efficiency gains.

1.6 Recommendations

The BDO team has made a range of recommendations throughout the project. These are categorised into primary recommendations which relate specifically to the scope of work undertaken and secondary recommendations which are made through observation of areas which will have an impact on HSSD's ability to deliver savings. These recommendations are identified at a high level below and explored in detail within the main report.

1.6.1.1 Primary recommendations

Costing

The one-off costing exercise undertaken by BDO was hampered by the quality of financial and operational source data together with the lack of an existing approach to costing at a service line level. It is recommended that HSSD address the source data issues and consider the value of implementing a costing system which provides cost information at service line and activity level at regular intervals. There are significant benefits to management and leadership from a strong understanding of service line costs as it provides an evidence basis for local, operational and strategic/transformational decision-making.

Benchmarking

Effective benchmarking requires structures and processes to support robust and consistent comparison between service line performance both internally and externally. It is recommended that HSSD consider the extent to which benchmarking becomes a formalised part of their performance management strategy, how and where data is owned within the organisation to ensure its use, and that it is regularly refreshed. Additionally, the extent to which structured relationships are put in place with key peer organisations such as Jersey and the Isle of Man should be progressed. The benefits of a comprehensive approach to benchmarking are to support a programme of continuous improvement through ongoing assessment of comparative best practice with regard to cost, quality and outcomes.

Prioritisation

The information developed within this project with regard to priority criteria, service line scores and value for money analysis can provide important evidence to support decision-making at both a strategic and local level. It is recommended that HSSD engage with this data, review and refine both the scores and costs over time and delve deeper into individual service lines. The combination of costs and strategic prioritisation of service lines should be used to inform evaluation of business cases for both service change and capital investment based on value for money. Additionally, the priority criteria form a strong framework for agendas and discussions at all levels within the

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governance structure and operational management of HSSD. The benefits of adopting the prioritisation recommendations are to improve decision-making, ensure that decision-making is consistent and aligned with strategic imperatives, and to provide an evidence base giving assurance that relevant issues have been considered when making decisions.

1.6.1.2 Secondary recommendations

BDO's secondary recommendations arise through recognition of a number of key issues which must be addressed in order to support major transformation. These issues will have an impact irrespective of whether HSSD address the efficiency gains identified within their own budgets or take a more ambitious approach with regard to opportunities across all health and care costs.

Issues

- **Political, policy and structural barriers:** Political and public support for major change requires agreement and close consultation around the overall strategy and a consistent approach over the medium term. Contractual arrangements with regard to MSG in particular but also relating to GPs and therapists act as a barrier to streamlined working, integrating services and an agile response to operational challenges.
- **Capability and capacity for change:** Significant change requires strong and embedded leadership and governance to provide oversight and scrutiny, drive momentum and provide a context for the cultures and behaviours to be aligned strategically, and operationally. New leadership and the development of transformation programs is starting to have traction but this will need to be accelerated and consolidated for the scale of transformation required.
- **Management processes and information:** Programme and project management of large-scale initiatives requires the existence of robust financial, capacity and activity data together with quality and outcomes measures. The interrelationship between transition and business as usual needs to be managed effectively. Whilst not a specific area of investigation for the BDO project it became evident that there is a lack of local, operational ownership and accountability for performance data. As a consequence poor quality operational data is not challenged and therefore not improved. A balanced scorecard approach to reporting and managing financial and operational performance together at a local service line level would support better decision making which considers both financial and operational implications.

Recommendations

Based on BDO's assessment of the key challenges facing HSSD the key components for a successful programme of change include:

- **The development of a clear overarching strategy which sets out the future vision:** This should include:
 - o a *strategic case* describing the future expectation with regard to demand and exploring the key drivers for change;
 - o followed by an *economic case* which describes the value for money of different options and identifies a preferred course of action. The development of the economic case should include broad consultation with the public and relevant stakeholders;
 - o the preferred course of action should be examined in detail within a *financial case* to identify the interdependencies between different elements of the programme and should be costed robustly to provide clarity with regard to future investment;
 - o a *commercial case* should set out any legal and contractual arrangements that need to be put in place and assess overall risks and benefits associated with regard to delivery of the preferred course of action. Risk mitigation strategies should also be described at this point; and
 - o finally, a *management case* describing the programme with high-level milestones, the governance structure that sits around this and the approach to assessing benefits realisation should be established.

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- **Strengthened leadership and governance:** Governance arrangements should continue to be developed and embedded to provide rigorous oversight and scrutiny and ensure that the strategic plan is led at a senior level. Leadership should seek to ingrain cultural and behavioural change to support and empower operational management and front line staff to deliver consistently against the agreed and communicated strategic direction.
- **Strengthened management processes:** Appropriate infrastructure should be built in order to support delivery. Focus should be given to further development, exploiting of information technology and commissioning skills. The importance of data, both financial and performance-related must be emphasised together with a consistent approach to developing accountability for both the day-to-day management of services and the overall delivery of change programmes.

1.7 Next Steps

This report and its supporting models are complex and address many issues. It therefore makes sense for an initial period of reflection and review of the implications of the report. Following this, BDO's view is that the strategic context for the delivery of financial and operational performance improvement needs to be set. This will then allow an overarching vision to act as a framework for individual decisions and transformation programmes. This is essential, as there is a huge risk associated with running a number of concurrent programmes with interdependencies across different service streams.

Alongside the development of the strategic framework is a requirement to strengthen the leadership, governance and management effectiveness. Crucial to this is establishing stronger financial and performance-related data sets, information, analysis, interpretation and reporting. These should be based upon agreed metrics which relate back to the high-level strategy. Each key metric should be delegated appropriately and departments and individuals should be held to account with regard to performance against these metrics. Establishment of such an accountability framework will provide greater visibility with regard to progress and support more effective intervention when required.

1.8 Conclusions

The headline findings from this report are that health and care services in Guernsey are expensive. There is an opportunity to transform the delivery model and release up to £24 million across HSSD and SSD budgets over a 7 to 10 year period without sacrificing quality or outcomes and which must result in better, more appropriate services. A more cautious approach, addressing the cost base of HSSD only, but over a shorter time period, could deliver net savings of £5.2 million by 2020.

This is not new information. Previous reviews have identified savings at a similar level. The big questions are why those reviews have not been acted upon and what can be done differently now.

Health and care services in Guernsey are exposed to the same challenges experienced elsewhere across the globe with regard to cost, quality and outcomes, and performance. However, there are aspects of its island economy which present unique challenges and opportunities. The challenges lie in the political context, the small scale of operations, need for off-island support and structure of service delivery. At the same time there is a huge opportunity to develop an exemplar integrated health and care system delivering local, preventative care for the population.

Responding to these challenges and exploiting the opportunities requires transformational change. Driving improvements to quality and outcomes through service reconfiguration goes hand-in-hand with achieving efficiency gains. The scale of efficiency gains available, together with the potential for additional transformational funding argue for the planning and implementation of a major programme of change. This may seem a daunting proposition, especially given a history of incremental approaches to performance improvement which have failed to deliver at scale.

In this document BDO have set out its views with regard to the enablers for transformational change. These are not inconsistent with those of senior leadership within HSSD and T & R. A clear vision and strategy needs to be set for the long term which encompasses and makes sense of initiatives currently being undertaken. Governance and leadership needs to be strengthened to ensure the transformation programme is effective and the cultural and behavioural change

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underpinning it is mobilised. This will ensure a cohesive approach from political board through to front-line staff. Stronger management and management practices supported by better information is required to set targets, monitor performance and drive improvement. Progress is already being made; this needs to be capitalised upon and momentum achieved in a considered way that engages service users and staff.

New leadership is creating a sense of optimism across the organisation together with drive and energy. Without exception, the broad range of stakeholders interviewed by BDO throughout this project described ambition in line with these findings.

The States of Guernsey Permitted Investment (Amendment) Rules, 2015

THE STATES, in pursuance of their resolution of the 27th October, 2015 have approved the following Rules:

States of Guernsey (Public Servants) (Pensions and Other Benefits) Rules, 1972 Permitted investments

1. For paragraphs (4) and (5) of Rule 2 of the States of Guernsey (Public Servants) (Pensions and Other Benefits) Rules, 1972 there is substituted:

“(4) The States of Guernsey acting by and through the Treasury and Resources Department (hereinafter referred to as “the Department”) shall arrange for the investment of the Fund in all or any of the following descriptions:

a) Bonds

Debentures, debenture stocks, loan notes, unsecured loan stocks, bonds, structured products, secured loans and short term interest bearing instruments (such as certificates of deposit, bills and commercial paper), issued or guaranteed by, and interest bearing deposits with:

- i) any Government of any country or territory, or
- ii) the States of Guernsey, or
- iii) any local authority or other public body in any of the above countries or territories, or
- iv) any building society in the United Kingdom, or
- v) any supranational institution, or
- vi) any company incorporated in any country or territory.

b) Equities

Equity stocks and shares, whether nil paid, partly paid or fully paid, of companies incorporated in any country, provided that they are traded on or under the rules of a Stock Exchange recognised for this purpose by the Department.

c) Property

Real property or interests in real property including:

- i) commercial property,
- ii) residential property,
- iii) land for residential or commercial use,
- iv) agricultural land,
- v) forestry,
- vi) any form of pooled investments for categories i) to v), including, but not limited to, limited partnerships, property unit trusts, fund of property unitised vehicles, societies d'investissement a capital variable (SICAVs) and real estate investment trusts.

d) Derivatives

Derivative instruments based on financial securities, currencies or financial markets such as options, warrants, futures contracts, swaps, forward foreign exchange contracts, and contracts for differences, whether quoted on a stock market or an exchange or over the counter.

e) Pooled Funds

- i) any form of pooled investment including, but not limited to, as a limited partnership, unit trust, SICAV, fund of fund or exchange traded fund,
- ii) policies issued by a properly constituted insurance or assurance company.

f) Other Assets

The following assets may be held,

- i) Hedge funds of any type including fund of hedge funds,
- ii) Infrastructure assets of any type, including Private Finance Initiative investments,
- iii) Private equity,
- iv) Currency and currency overlays,
- v) Pooled funds where the underlying assets are commodities,
- vi) Investments specifically focused on corporate entities where the majority of their revenue is derived from undertakings in Guernsey.

g) Other Controls

The Department will set detailed controls on position, size and quality of all investments to ensure the fund is properly and fully diversified by individual security and asset type.

Investments in corporate entities where the majority of revenues are derived from undertakings in Guernsey should not exceed 10% of the total assets of the fund.

Additional Powers

The Fund has power to:

- i) sub underwrite or underwrite a new issue,
 - ii) enter into stock lending arrangements with financial institutions,
 - iii) guarantee the obligation of a company owned or partly owned by the Fund,
 - iv) borrow on a temporary basis to a maximum of 5% of the total market value of the Fund.
 - v) enter into arrangements for a common investment fund with other Funds of the States of Guernsey excluding the Guernsey Insurance Fund, the Guernsey Health Services Fund and the Long-term Care Insurance Fund being funds under the control of the Social Security Department of the States.
- (5) The investment functions of the Department under paragraph (4) of this Rule may be delegated by the Department (in whole or in part) to professional fund or investment managers."

States General Investment Pool Permitted Investments

2. The Department shall arrange for the investment of the States General Investment Pool in investments in all or any of the descriptions, and subject to the same other controls and additional powers set out in paragraphs 4 and 5 of Rule 2 of the States of Guernsey (Public Servants) (Pensions and other Benefits) Rules, 1972 as substituted by paragraph 1 of these Rules.

Citation

3. These Rules may be cited as the States of Guernsey Permitted Investments (Amendment) Rules, 2015.

Repeal

4. a) The States of Guernsey (Public Servants)(Pensions and Other Benefits) (Permitted Investments) (Amendment) Rules, 2009 are repealed.
- b) The States General Investment Pool Permitted Investment Rules approved by resolution of the States dated 29th October 2013 are repealed.

Commencement

5. These Rules shall come into force on 27 October 2015.

CABERNET LIMITED (AURIGNY GROUP):
TRADING POSITION (TO AUGUST 2015)

	Projected Outturn 2015 £'000	Year to Date Actual 2015 £'000	Year to Date Budget 2015 £'000	Full Year Actual 2014 £'000
Revenue	44,588	29,729	30,112	40,720
Direct Costs	(36,081)	(24,097)	(23,951)	(34,000)
Operating Result	8,507	5,632	6,161	6,720
Overheads	(7,693)	(5,067)	(5,267)	(7,504)
Other Operating Income	7	5	4	7
Net Interest Payable	(2,223)	(1,445)	(1,346)	(1,309)
Operating Profit (Loss)	(1,402)	(875)	(448)	(2,086)
Extraordinary Items	(792)	(791)	(709)	(1,416)
(Loss)	(2,194)	(1,666)	(1,157)	(3,502)

INCOME AND EXPENDITURE ACCOUNT

APPENDIX V

2014	2015			2016
Actual	Original Budget	<u>Income and Expenditure by Category</u>		Budget
£'000s	£'000s		Note	£'000s
Income				
298,092	307,500	Income Taxes	1	305,050
67,085	75,270	Other Taxes	2	75,300
17,735	23,580	Miscellaneous Income	3	19,475
382,912	406,350	General Revenue Income		399,825
32,257	32,109	Departmental Operating Income (including transfers)		34,826
415,169	438,459	Total Income		434,651
Less Expenditure				
203,128	203,398	Pay	4	211,975
120,419	130,294	Non-Pay	5	127,748
58,596	60,625	Formula-Led	6	62,615
-	-	Efficiency Target		(1,920)
-	(1,553)	Financial Transformation Programme Target		(270)
-	(1,250)	Health and Social Services Department		-
-	-	Budget Submission in Excess of Cash Limit		-
-	-	Home Department		-
-	-	Budget Submission in Excess of Cash Limit		(622)
382,143	391,514	Revenue Expenditure		399,526
-	6,195	Budget Reserve		7,400
33,026	40,750	Revenue Surplus		27,725
1,026	-	Capital Income		10,000
8,156	7,500	Less Routine Capital Expenditure	7	10,500
25,896	33,250	Net Surplus		27,225
Transfers				
(36,308)	(37,250)	To Capital Reserve		(28,300)
10,400	-	From Contingency Reserve (Tax Strategy)		-
(12)	(4,000)	Transfer from General Revenue Account Reserve		(1,075)

INCOME AND EXPENDITURE ACCOUNT

2014	2015		2016
Actual	Original Budget	Income and Expenditure by Service Area	Budget
£'000s	£'000s		£'000s
382,912	406,350	Revenue Income	399,825
1,026	-	Capital Income	10,000
383,938	406,350	Total Income	409,825
		Net Revenue Expenditure	
10,983	11,760	<i>Policy Council</i>	12,070
19,526	20,355	<i>Treasury & Resources Department</i>	21,025
10,527	11,425	<i>Commerce & Employment Department</i>	10,985
2,521	2,925	<i>Culture & Leisure Department</i>	2,970
74,736	74,875	<i>Education Department</i>	74,655
7,778	9,025	<i>Environment Department</i>	9,465
111,144	113,210	<i>Health & Social Services Department</i>	118,500
31,827	32,425	<i>Home Department</i>	32,730
9,422	9,975	<i>Housing Department</i>	9,800
3,932	4,400	<i>Public Services Department</i>	1,900
57,215	59,120	<i>Social Security Department</i>	60,910
323	280	<i>Public Accounts Committee</i>	285
223	280	<i>Scrutiny Committee</i>	285
79	-	<i>States Review Committee</i>	-
2,437	2,800	<i>Royal Court</i>	2,540
4,756	4,675	<i>Law Officers</i>	4,700
2,457	1,875	<i>States of Alderney</i>	1,880
-	6,195	<i>Budget Reserve</i>	7,400
349,886	365,600		372,100
		Routine Capital Expenditure	
196	-	<i>Policy Council</i>	-
1,015	650	<i>Treasury & Resources Department</i>	650
42	-	<i>Commerce & Employment Department</i>	100
521	150	<i>Culture & Leisure Department</i>	150
2,039	250	<i>Education Department</i>	975
274	850	<i>Environment Department</i>	550
2,146	1,250	<i>Health & Social Services Department</i>	1,625
907	400	<i>Home Department</i>	400
1	-	<i>Housing Department</i>	-
949	350	<i>Public Services Department</i>	2,850
55	-	<i>Royal Court</i>	200
11	-	<i>Law Officers</i>	-
-	1,500	<i>Backlog Property Maintenance</i>	1,500
-	2,100	<i>Budget Reserve</i>	1,500
8,156	7,500		10,500
358,042	373,100	Total Cash Limits	382,600
25,896	33,250	Net Surplus	27,225
		Transfers	
(36,308)	(37,250)	<i>To Capital Reserve</i>	(28,300)
10,400	-	<i>From Contingency Reserve (Tax Strategy)</i>	-
(12)	(4,000)	Transfer from General Revenue Account Reserve	(1,075)

NOTES

1. Income Taxes

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
236,817	244,000	Individuals	245,700
51,438	52,500	Companies (including Banks)	50,350
9,837	11,000	Distributed Profits	9,000
298,092	307,500	Income Taxes	305,050

2. Other Taxes

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
		Customs - Excise and Import Duties	
3,162	3,250	<i>Beer</i>	3,400
736	800	<i>Cider</i>	800
16,069	16,300	<i>Motor Fuel</i>	18,850
2,663	3,000	<i>Spirits</i>	3,150
7,908	8,400	<i>Tobacco</i>	8,100
4,751	4,900	<i>Wine</i>	5,000
(300)	(300)	<i>Duties Collected for Sark</i>	(300)
1,821	1,450	<i>Import duties</i>	1,450
36,810	37,800		40,450
13,099	14,500	Document Duty - Conveyancing and Bonds	13,500
17,176	19,050	Tax on Real Property	20,200
-	3,920	Vehicle First Registration Duty	1,150
67,085	75,270	Other Taxes	75,300

NOTES

3. Miscellaneous Income

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
9,554	9,700	Company Fees	10,375
4,880	5,000	Net Housing Rental Income	4,600
929	1,800	Surplus on Notes and Coins Trading Account	1,650
1,296	5,000	Investment Return	2,850
735	1,250	States Trading Companies' Dividends	-
341	830	Other Income	-
17,735	23,580	Miscellaneous Income	19,475

4. Pay Costs by Pay Group

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
79,313	80,240	Established Staff	83,455
42,339	43,004	Nurses and Medical Consultants	46,989
41,429	40,788	Teachers and Teaching Assistants	40,765
16,212	15,523	Public Service Employees	16,108
9,840	10,231	Police Officers	11,011
3,672	3,640	Fire Officers	3,438
3,049	3,337	Guernsey Border Agency Officers	3,433
3,366	3,209	Prison Officers	3,373
1,645	1,627	Crown Officers, Magistrates and Royal Court Judge	1,664
2,263	1,799	Other Pay Groups	1,739
203,128	203,398	Pay Costs by Pay Group	211,975

NOTES

5. Non-Pay Costs by Expenditure Category

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
		Staff Non Pay Costs	
2,243	2,271	<i>Recruitment</i>	2,700
1,872	2,249	<i>Training</i>	2,659
475	591	<i>Other Staff Costs</i>	516
<u>4,590</u>	<u>5,111</u>		<u>5,875</u>
		Support Services	
1,943	2,129	<i>Advertising Marketing and PR</i>	1,894
192	189	<i>Audit Fees</i>	222
96	102	<i>Bank Charges</i>	103
8,461	10,299	<i>Communications and IT</i>	9,753
2,995	2,381	<i>Consultants Fees</i>	2,066
6,157	7,626	<i>Contracted Out Work</i>	8,286
55	10	<i>Incidental and Other costs</i>	8
1,927	1,899	<i>Postage, Stationery and Printing</i>	1,907
2,078	2,076	<i>Risk Management and Insurance</i>	2,189
<u>23,904</u>	<u>26,711</u>		<u>26,428</u>
		Premises	
701	776	<i>Equipment, Fixtures and Fittings</i>	755
2,597	2,598	<i>Rents and Leasing</i>	2,699
13,858	15,426	<i>Repairs, Maintenance and Servicing</i>	15,247
5,571	6,436	<i>Utilities</i>	5,710
<u>22,727</u>	<u>25,236</u>		<u>24,411</u>
		Third Party Payments	
301	313	<i>Benefit Payments</i>	276
27,604	31,160	<i>Grants and Subsidies</i>	29,808
<u>27,905</u>	<u>31,473</u>		<u>30,084</u>
		Transport	
1,559	1,564	<i>Vehicles and Vessels</i>	1,387
		Supplies and Services	
26,921	26,836	<i>Services</i>	25,220
12,813	13,363	<i>Supplies</i>	14,343
<u>39,734</u>	<u>40,199</u>		<u>39,563</u>
<u>120,419</u>	<u>130,294</u>	Non-Pay Costs by Expenditure Category	<u>127,748</u>

NOTES

6. Formula-led Costs by expenditure category

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
1,866	1,930	Payments to States Members	2,010
		Third Party Payments	
54,447	56,210	<i>Benefit Payments</i>	58,025
2,283	2,485	<i>Grants and Subsidies</i>	2,580
58,596	60,625	Formula-led Costs	62,615

7. Routine Capital Expenditure

2014	2015		2016
Actual	Original Budget		Budget
£'000s	£'000s		£'000s
3,172	4,183	Miscellaneous Capital Works	7,023
2,486	2,286	IT Projects and Equipment	1,182
1,991	1,773	Equipment, Machinery and Vehicles	1,921
507	245	Alderney Airport Net Capital Expenditure	54
-	2,100	Budget Reserve	1,500
8,156	10,587		11,680
-	(3,087)	Use of Accumulated Capital Allocation	(1,180)
8,156	7,500	Net Routine Capital Expenditure	10,500

POLICY COUNCIL

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
3	11	Operating Income	11
Non Formula-Led Expenditure			
4,037	4,754	Pay costs	5,065
187	284	Non Pay costs	284
655	732	Staff Non Pay costs	644
39	51	Support Services	50
3,507	3,248	Premises	3,270
2	3	Third Party Payments	3
276	334	Transport	305
		Supplies & Services	
4,666	4,652		4,556
8,700	9,395	Net Non Formula-Led Expenditure by Category	9,610
Formula-Led Expenditure			
2,283	2,485	Third Party Payments	2,580
2,283	2,485	Formula-Led Expenditure by Category	2,580
-	(120)	Financial Transformation Programme Target	(120)
10,983	11,760	Total Net Expenditure by Category	12,070
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure			
715	813	Administration	871
270	274	Archive Services	292
3,122	2,860	Contribution to Aid Overseas	2,885
1,070	1,329	External Relations	1,301
1,880	2,010	Human Resources	2,031
359	378	Internal Audit	388
332	379	Legal Aid Administration	390
841	1,250	Policy and Research	1,350
111	102	Tribunals	102
8,700	9,395		9,610
Formula-Led Expenditure			
1,542	1,600	Civil Legal Aid	1,696
741	885	Criminal Legal Aid	884
2,283	2,485		2,580
-	(120)	Financial Transformation Programme Target	(120)
10,983	11,760	Net Expenditure by Service Area	12,070

POLICY COUNCIL

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Routine Capital Expenditure</u>			
196	100	IT Projects and Equipment	200
-	(100)	Use of Accumulated Capital Allocation	(200)
196	-	Net Routine Capital Expenditure	-

TREASURY AND RESOURCES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
3,880	3,890	Operating Income	3,907
Non Formula-Led Expenditure			
12,073	12,129	Pay costs	12,435
		Non Pay costs	
1,066	1,126	Staff Non Pay costs	1,150
5,573	5,945	Support Services	6,117
1,707	1,948	Premises	1,947
632	654	Third Party Payments	660
17	20	Transport	20
472	569	Supplies & Services	618
9,467	10,262		10,512
17,660	18,501	Net Non Formula-Led Expenditure by Category	19,040
Formula-Led Expenditure			
1,866	1,930	Payments to States Members	2,010
1,866	1,930	Formula-Led Expenditure by Category	2,010
-	(76)	Financial Transformation Programme Target	(25)
19,526	20,355	Net Expenditure by Category	21,025

TREASURY AND RESOURCES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure			
387	430	Administration	421
4,091	4,203	Central Services	4,273
50	55	Commonwealth Parliamentary Association	69
356	367	Corporate Procurement Services	368
775	798	H.E. Lieutenant Governor	804
4,766	4,481	Income Tax	4,602
3,167	3,491	Information and Communications Technology	3,688
1,452	1,798	States Property Services	1,845
2,616	2,878	Treasury	2,970
17,660	18,501	Net Non Formula-Led Expenditure by Service Area	19,040
Formula-Led Expenditure			
1,866	1,930	Payments to States Members	2,010
1,866	1,930	Net Formula-Led Expenditure by Service Area	2,010
-	(76)	Financial Transformation Programme Target	(25)
19,526	20,355	Net Expenditure by Service Area	21,025
2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Routine Capital Expenditure</u>			
755	677	Miscellaneous Capital Works	420
244	387	IT Projects and Equipment	320
16	20	Equipment, Machinery and Vehicles	22
1,015	1,084		762
-	(434)	Use of Accumulated Capital Allocation	(112)
1,015	650	Net Routine Capital Expenditure	650

COMMERCE AND EMPLOYMENT DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
782	809	Operating Income	817
Non Formula-Led Expenditure			
4,069	4,359	Pay costs	4,181
51	95	Non Pay costs	87
2,600	3,020	Staff Non Pay costs	3,053
282	328	Support Services	334
3,969	4,005	Premises	3,594
63	97	Third Party Payments	105
275	338	Transport	448
		Supplies & Services	
7,240	7,883		7,621
10,527	11,433		10,985
-	(8)	Financial Transformation Programme Target	-
10,527	11,425	Net Non Formula-Led Expenditure by Category	10,985

COMMERCE AND EMPLOYMENT DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Service Area</u>			
		Administration and Central Services	
193	246	Facilities	254
16	58	Human Resources	60
103	115	ICT	110
548	525	Management and Administration	552
11	20	Office of Public Trustee	20
871	964		996
		Client Services	
470	445	Agriculture and Rural Environment Service	466
246	317	Employment Relations Service	319
284	269	Farm and Field Services	266
1,976	2,055	Grants and Support Schemes	1,625
409	378	Health and Safety Executive	393
183	168	Management and Administration	176
162	161	Plant Protection and Laboratory Services	54
315	342	Sea Fisheries	368
253	315	Trading Standards Service	293
4,298	4,450		3,960
		Economic Development	
25	3	Civil Aviation Office	2
304	719	Finance Sector Development	684
1,814	1,775	Grants and Support Schemes	1,799
375	383	Management and Administration	371
189	440	Strategic Projects	427
2,707	3,320		3,283
		Marketing and Tourism	
863	945	Consumer Marketing	823
185	175	Grants and Support Schemes	170
449	335	Marketing Communications	450
64	74	Quality Development	79
690	656	Strategic Marketing	673
400	514	Trade and Media Relations	551
2,651	2,699		2,746
10,527	11,433		10,985
-	(8)	Financial Transformation Programme Target	-
10,527	11,425	Net Expenditure by Service Area	10,985
<u>Routine Capital Expenditure</u>			
19	10	Miscellaneous Capital Works	73
23	-	Equipment, Machinery and Vehicles	46
42	10		119
-	(10)	Use of Accumulated Capital Allocation	(19)
42	-	Net Routine Capital Expenditure	100

CULTURE AND LEISURE DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
4,858	4,628	Operating Income	4,635
Non Formula-Led Expenditure			
4,238	4,217	Pay costs	4,356
50	30	Non Pay costs	35
385	452	Staff Non Pay costs	461
1,280	1,400	Support Services	1,345
581	617	Premises	521
14	18	Third Party Payments	12
831	884	Transport	875
		Supplies & Services	
3,141	3,401		3,249
2,521	2,990		2,970
-	(65)	Financial Transformation Programme Target	-
2,521	2,925	Net Non Formula-Led Expenditure by Category	2,970
<u>Net Expenditure by Service Area</u>			
180	177	Arts Commission	178
-	359	Beau Sejour Centre	358
592	719	Central Services	602
65	67	Cultural Activities Inside the Island	75
197	212	Events and Information	207
1,026	1,047	Museums Service	1,116
194	145	Outdoor Sports Facilities	168
267	264	Sports Commission	266
2,521	2,990		2,970
-	(65)	Financial Transformation Programme Target	-
2,521	2,925	Net Expenditure by Service Area	2,970
<u>Routine Capital Expenditure</u>			
289	228	Miscellaneous Capital Works	132
232	60	Equipment, Machinery and Vehicles	115
521	288		247
-	(138)	Use of Accumulated Capital Allocation	(97)
521	150	Net Routine Capital Expenditure	150

EDUCATION DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
1,393	1,205	Operating Income	1,240
Non Formula-Led Expenditure			
52,035	50,799	Pay costs	51,577
949	807	Non Pay costs	1,132
3,851	3,191	Staff Non Pay costs	3,146
3,871	4,218	Support Services	4,288
12,698	14,038	Premises	12,739
240	223	Third Party Payments	120
2,485	3,159	Transport	2,993
		Supplies & Services	
24,094	25,636		24,418
74,736	75,230		74,755
-	(355)	Financial Transformation Programme Target	(100)
74,736	74,875	Net Non Formula-Led Expenditure by Category	74,655
<u>Net Expenditure by Service Area</u>			
4,650	4,861	Education Office	4,935
7,999	7,921	School & Pupil Support Services	7,752
8,103	7,924	College of Further Education	7,914
42,081	41,836	Schools	42,983
5,189	5,969	Higher Education	4,904
4,805	4,710	Grants to Colleges	4,494
1,909	2,009	Grants to Libraries	1,773
74,736	75,230		74,755
-	(355)	Financial Transformation Programme Target	(100)
74,736	74,875	Net Expenditure by Service Area	74,655
<u>Routine Capital Expenditure</u>			
671	549	Miscellaneous Capital Works	1,017
1,319	70	IT Projects and Equipment	-
49	40	Equipment, Machinery and Vehicles	110
2,039	659		1,127
-	(409)	Use of Accumulated Capital Allocation	(152)
2,039	250	Net Routine Capital Expenditure	975

ENVIRONMENT DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
2,627	3,345	Operating Income	3,323
Non Formula-Led Expenditure			
3,880	3,983	Pay costs	4,046
89	108	Non Pay costs	92
1,662	1,689	Staff Non Pay costs	1,645
1,883	1,960	Support Services	1,958
2,759	4,488	Premises	4,896
31	34	Third Party Payments	33
101	108	Transport	118
		Supplies & Services	
6,525	8,387		8,742
7,778	9,025	Net Non Formula-Led Expenditure by Category	9,465
<u>Net Expenditure by Service Area</u>			
1,294	1,442	Planning Services	1,490
363	340	Central Support Services	351
2,281	1,972	Environmental Services	1,972
3,840	5,271	Traffic and Transport Services	5,652
7,778	9,025	Net Expenditure by Service Area	9,465
<u>Routine Capital Expenditure</u>			
274	770	Miscellaneous Capital Works	578
-	190	IT Projects and Equipment	66
-	80	Equipment, Machinery and Vehicles	-
274	1,040		644
-	(190)	Use of Accumulated Capital Allocation	(94)
274	850	Net Routine Capital Expenditure	550

HEALTH AND SOCIAL SERVICES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
10,359	10,735	Operating Income	11,859
Non Formula-Led Expenditure			
77,940	78,861	Pay costs	84,216
		Non Pay costs	
1,351	1,718	Staff Non Pay costs	2,239
4,312	4,602	Support Services	4,445
5,495	6,321	Premises	6,052
2,694	3,287	Third Party Payments	3,402
695	750	Transport	696
29,016	30,031	Supplies & Services	31,209
43,563	46,709		48,043
111,144	114,835		120,400
-	(375)	Financial Transformation Programme Target	-
-	(1,250)	Budget Submission in Excess of Cash Limit	-
-	-	Efficiency Target	(1,900)
111,144	113,210	Net Non Formula-Led Expenditure by Category	118,500

HEALTH AND SOCIAL SERVICES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Service Area</u>			
		Corporate Services Directorate	
11,742	12,676	<i>Estates and Facilities Management</i>	12,586
735	695	<i>Clinical Governance</i>	1,209
1,300	1,486	<i>Human Resources Management</i>	2,488
1,551	1,581	<i>Strategy, Policy and Engagement</i>	1,562
15,328	16,438		17,845
		Finance & Performance Management	
1,077	1,197	<i>Finance</i>	1,243
1,889	2,239	<i>Procurement and Commercial Services</i>	2,001
2,509	2,781	<i>Systems and Performance Management</i>	2,795
2,256	2,647	<i>St John Ambulance & Rescue Service Grant</i>	2,582
7,731	8,864		8,621
		Health & Social Care	
23,221	21,790	<i>Acute Hospital Services</i>	23,925
7,466	7,547	<i>Acute Off Island Treatments</i>	7,888
13,684	13,804	<i>Children and Maternity Services</i>	15,685
10,630	12,187	<i>Community and Disability Services</i>	11,371
8,550	9,165	<i>Complex Placements</i>	8,990
1,385	1,479	<i>Health and Social Care Management</i>	1,304
2,908	3,198	<i>Institute of Health and Social Care Studies</i>	3,216
17,106	16,807	<i>Specialist Services</i>	17,662
84,950	85,977		90,041
		Public Health & Strategy	
1,211	1,382	<i>Community Health & Wellbeing</i>	1,469
926	1,140	<i>Medical Public Health</i>	1,151
396	497	<i>Public Health Management</i>	474
2,533	3,019		3,094
602	537	Office of the Children's Convenor	799
111,144	114,835		120,400
-	(375)	Financial Transformation Programme Target	-
	(1,250)	Budget Submission in Excess of Cash Limit	-
-	-	Efficiency Target	(1,900)
111,144	113,210	Net Expenditure by Service Area	118,500
<u>Routine Capital Expenditure</u>			
435	109	Miscellaneous Capital Works	226
372	875	IT Projects and Equipment	347
1,339	1,041	Equipment, Machinery and Vehicles	1,196
2,146	2,025		1,769
-	(775)	Use of Accumulated Capital Allocation	(144)
2,146	1,250	Net Routine Capital Expenditure	1,625

HOME DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
1,132	1,077	Operating Income	1,475
Non Formula-Led Expenditure			
26,326	26,728	Pay costs	27,458
679	689	Non Pay costs	687
2,666	2,985	Staff Non Pay costs	3,026
1,452	1,616	Support Services	1,631
102	93	Premises	143
257	251	Third Party Payments	241
1,477	1,569	Transport	1,666
		Supplies & Services	
6,633	7,203		7,394
31,827	32,854		33,377
-	(429)	Financial Transformation Programme Target	(25)
-	-	Budget Submission in Excess of Cash Limit	(622)
31,827	32,425	Net Non Formula-Led Expenditure by Category	32,730
<u>Net Expenditure by Service Area</u>			
2,814	2,889	Administration and Central Services	3,107
348	432	Bailiwick Drug and Alcohol Strategy	412
7	(1)	Broadcasting	(2)
89	128	Data Protection	118
143	145	Emergency Planning	147
4,017	4,052	Fire and Rescue Service	3,848
(22)	(25)	Gambling Control	(19)
-	-	Joint Emergency Services Control Centre	680
17,653	18,651	Law Enforcement	18,168
5,234	5,079	Prison Service	5,417
1,544	1,504	Probation Service	1,501
31,827	32,854		33,377
-	(429)	Financial Transformation Programme Target	(25)
-	-	Budget Submission in Excess of Cash Limit	(622)
31,827	32,425	Net Expenditure by Service Area	32,730

HOME DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Routine Capital Expenditure</u>			
328	305	Miscellaneous Capital Works	307
247	340	IT Projects and Equipment	101
332	532	Equipment, Machinery and Vehicles	182
907	1,177		590
-	(777)	Use of Accumulated Capital Allocation	(190)
907	400	Net Routine Capital Expenditure	400

HOUSING DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
1,193	829	Operating Income	754
Non Formula-Led Expenditure			
4,223	3,976	Pay costs	4,064
		Non Pay costs	
19	27	Staff Non Pay costs	24
182	383	Support Services	196
5,741	5,961	Premises	5,789
318	357	Third Party Payments	357
32	28	Transport	27
100	72	Supplies & Services	97
6,392	6,828		6,490
9,422	9,975	Net Non Formula-Led Expenditure by Category	9,800
<u>Net Expenditure by Service Area</u>			
74	33	Housing Control	140
6,043	6,954	Property Management	6,826
545	-	Tenancy Management	-
1,711	1,695	Residential Homes / Domiciliary Care Service	1,784
1,049	1,293	Strategy and Administration	1,050
9,422	9,975	Net Expenditure by Service Area	9,800
<u>Routine Capital Expenditure</u>			
1	-	IT Projects and Equipment	-
1	-		-
1	-	Net Routine Capital Expenditure	-

PUBLIC SERVICES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
2,505	2,374	Operating Income	3,184
Non Formula-Led Expenditure			
1,680	1,566	Pay costs	2,312
		Non Pay costs	
43	40	Staff Non Pay costs	37
368	2,104	Support Services	1,897
207	519	Premises	163
45	20	Transport	30
4,094	2,550	Supplies & Services	645
4,757	5,233		2,772
3,932	4,425		1,900
-	(25)	Financial Transformation Programme Target	-
3,932	4,400	Net Non Formula-Led Expenditure by Category	1,900

Note: The Roads Resurfacing and Reconstruction budget and the Alderney Breakwater maintenance contract are being treated as routine capital expenditure in 2016.

PUBLIC SERVICES DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Service Area</u>			
		Alderney Airport	
(760)	(649)	Income	(684)
376	354	Administration	381
684	638	Aerodrome Fire Service	624
181	114	Airport Infrastructure	149
293	305	Navigational Services	316
<u>774</u>	<u>762</u>		<u>786</u>
71	292	Alderney Breakwater	100
72	72	Emergency Services	75
331	172	Policy and Corporate Services	227
-	340	Meteorological Service	353
		Roads	
1,181	1,208	Road Cleansing	1,223
2,306	2,370	Resurfacing and Reconstruction	-
247	268	Technical Support Services	351
385	376	Minor Repairs and Maintenance	380
<u>4,119</u>	<u>4,222</u>		<u>1,954</u>
(1,435)	(1,435)	Solid Waste	(1,595)
<u>3,932</u>	<u>4,425</u>		<u>1,900</u>
-	(25)	Financial Transformation Programme Target	-
<u>3,932</u>	<u>4,400</u>	Net Expenditure by Service Area	<u>1,900</u>
<u>Routine Capital Expenditure</u>			
401	-	Miscellaneous Capital Works	2,700
41	134	IT Projects and Equipment	-
-	-	Equipment, Machinery and Vehicles	200
507	245	Alderney Airport Net Capital Expenditure	54
<u>949</u>	<u>379</u>		<u>2,954</u>
-	(29)	Use of Accumulated Capital Allocation	(104)
<u>949</u>	<u>350</u>	Net Routine Capital Expenditure	<u>2,850</u>

SOCIAL SECURITY DEPARTMENT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
Non Formula-Led Expenditure			
1,617	1,760	Pay costs	1,722
		Non Pay costs	
2	6	Staff Non Pay costs	7
522	568	Support Services	630
161	163	Premises	162
425	474	Third Party Payments	317
6	7	Transport	6
35	32	Supplies & Services	41
1,151	1,250		1,163
2,768	3,010	Non Formula-Led Expenditure by Category	2,885
Formula-Led Expenditure			
54,447	56,210	Third Party Payments	58,025
54,447	56,210	Formula-Led Expenditure by Category	58,025
-	(100)	Financial Transformation Programme Target	-
57,215	59,120	Total Net Expenditure by Category	60,910
<u>Net Expenditure by Service Area</u>			
Non Formula-Led Expenditure by Service Area			
2,768	3,010	Non-Contributory Services	2,885
2,768	3,010	Non Formula-Led Expenditure by Service Area	2,885
Formula-Led Expenditure			
4,481	4,600	Severe Disability Benefit and Carers' Allowances	5,300
611	620	Concessionary TV Licences for the Elderly	575
9,714	9,800	Family Allowance	9,850
4,516	4,600	Health Service Grant	4,680
14,860	15,050	Social Insurance Grant	15,410
20,265	21,540	Supplementary Benefit	22,210
54,447	56,210	Formula-Led Expenditure by Service Area	58,025
-	(100)	Financial Transformation Programme Target	-
57,215	59,120	Total Net Expenditure by Service Area	60,910

PUBLIC ACCOUNTS COMMITTEE

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
Non Formula-Led Expenditure			
193	210	Pay costs	210
		Non Pay costs	
6	6	Staff Non Pay costs	7
116	52	Support Services	52
1	1	Premises	1
7	11	Supplies & Services	15
130	70		75
323	280	Non Formula-Led Expenditure by Category	285

SCRUTINY COMMITTEE

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
Non Formula-Led Expenditure			
194	210	Pay costs	210
		Non Pay costs	
2	6	Staff Non Pay costs	7
19	53	Support Services	52
1	1	Premises	1
7	10	Supplies & Services	15
29	70		75
223	280	Non Formula-Led Expenditure by Category	285

STATES REVIEW COMMITTEE

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
Non Formula-Led Expenditure			
65	-	Pay costs	-
		Non Pay costs	
9	-	Support Services	-
5	-	Supplies & Services	-
14	-		-
79	-	Net Non Formula-Led Expenditure by Category	-

ROYAL COURT

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
1,793	1,636	Operating Income	1,990
Non Formula-Led Expenditure			
3,594	3,541	Pay costs	3,715
		Non Pay costs	
2	10	Staff Non Pay costs	8
242	326	Support Services	344
176	263	Premises	230
-	10	Third Party Payments	5
6	8	Transport	7
210	278	Supplies & Services	221
636	895		815
2,437	2,800	Net Non Formula-Led Expenditure by Category	2,540
<u>Net Expenditure by Service Area</u>			
848	884	Bailiffs Office	848
536	713	Client Services	706
907	1,038	Court Services	828
146	165	Parliament	158
2,437	2,800	Net Expenditure by Service Area	2,540
<u>Routine Capital Expenditure</u>			
-	-	Miscellaneous Capital Works	50
55	100	IT Projects and Equipment	100
-	-	Equipment, Machinery and Vehicles	50
55	100		200
-	(100)	Use of Accumulated Capital Allocation	-
55	-	Net Routine Capital Expenditure	200

LAW OFFICERS

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
255	200	Operating Income	180
Non Formula-Led Expenditure			
4,639	4,530	Pay costs	4,573
52	60	Non Pay costs	36
190	124	Staff Non Pay costs	112
17	28	Support Services	24
1	3	Premises	2
112	130	Transport	133
		Supplies & Services	
372	345		307
4,756	4,675	Net Non Formula-Led Expenditure by Category	4,700
<u>Routine Capital Expenditure</u>			
-	35	Miscellaneous Capital Works	20
11	90	IT Projects and Equipment	48
11	125		68
-	(125)	Use of Accumulated Capital Allocation	(68)
11	-	Net Routine Capital Expenditure	-

STATES OF ALDERNEY

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>			
1,477	1,370	Operating Income	1,451
Non Formula-Led Expenditure			
2,325	1,775	Pay costs	1,835
		Non Pay costs	
42	99	Staff Non Pay costs	43
552	485	Support Services	608
414	458	Premises	436
220	202	Third Party Payments	180
150	102	Transport	85
231	124	Supplies & Services	164
1,609	1,470		1,516
-	-	Efficiency Target	(20)
2,457	1,875	Net Non Formula-Led Expenditure by Category	1,880
<u>Net Expenditure by Committee</u>			
		Income	
16	15	Building and Development Control Committee	14
303	730	General Services Committee	266
740	633	Policy and Finance Committee	711
1,059	1,378		991
		Expenditure	
77	114	Building and Development Control Committee	14
1,918	1,870	General Services Committee	1,397
1,521	1,269	Policy and Finance Committee	1,480
3,516	3,253		2,891
-	-	Efficiency Target	(20)
2,457	1,875	Net revenue cash allocation from the States of Guernsey	1,880

Note: The Budget for the States of Alderney for 2016 will be considered at the 21 October 2015 meeting of the States of Alderney.

STATES OF ALDERNEY

2014 Actual £'000s	2015 Original Budget £'000s		2016 Budget £'000s
<u>Capital Account</u>			
		Capital Income	
26	10	General Services Committee	10
278	262	Policy and Finance Committee	238
1,783	1,500	Transfers from Alderney Gambling Control Commission	1,485
2,087	1,772		1,733
		Capital Expenditure	
1,125	2,625	General Services Committee	2,161
349	188	Policy and Finance Committee	2,170
1,474	2,813		4,331
613	(1,041)	Decrease in Accumulated Capital Allocation	(2,598)
-	-		-

CORPORATE HOUSING PROGRAMME FUND

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Income and Expenditure by Category</u>				
Income				
290	250	-	Sale of Incompatible Housing Stock	250
290	250	-	Total Income	250
Expenditure				
			Non Pay Costs	
(8)	-	(25)	Support Services	-
(225)	(1,200)	(50)	Premises	(500)
(6,112)	(7,105)	(7,723)	Third Party Payments	(15,650)
(6)	-	(1)	Supplies & Services	-
(6,351)	(8,305)	(7,799)		(16,150)
(6,061)	(8,055)	(7,799)	Net (Deficit) for the year	(15,900)
<u>Net Income / (Expenditure) by Service Area</u>				
290	250	-	Sale of Incompatible Housing Stock	250
-	(1,200)	(76)	Modernisation	(500)
			Corporate Initiatives & Strategies	
(4,952)	(2,110)	(2,110)	Older People Housing & Support	(650)
(1,399)	(4,995)	(5,613)	Social Housing Development Programme	(15,000)
(6,351)	(7,105)	(7,723)		(15,650)
(6,061)	(8,055)	(7,799)	Net (Deficit) for the year	(15,900)
64,190	57,924	58,129	Balance of Fund at 1st January	30,330
-	(20,000)	(20,000)	Transfer to Capital Reserve	-
(6,061)	(8,055)	(7,799)	Net (Deficit) for the year	(15,900)
58,129	29,869	30,330	Balance of Fund at 31st December	14,430

SOLID WASTE TRADING ACCOUNT

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income by Category</u>				
Income				
6,685	6,634	6,504	<i>Operating Income</i>	7,256
81	-	50	<i>Investment Return</i>	30
6,766	6,634	6,554	Total Income	7,286
Expenditure				
(355)	(614)	(460)	<i>Pay Costs</i>	(550)
(54)	-	-	<i>Staff Non-Pay Costs</i>	-
(5,167)	(5,517)	(5,592)	<i>Support Services</i>	(5,612)
(413)	(630)	(538)	<i>Supplies & Services</i>	(477)
(5,989)	(6,761)	(6,590)	Total Expenditure	(6,639)
777	(127)	(36)	Net Surplus / (Deficit) for the Year	647
<u>Capital Expenditure</u>				
-	-	-	Miscellaneous Capital Works	50
-	-	20	IT Projects and Equipment	20
-	-	75	Equipment, Machinery and Vehicles	65
-	-	95	Total Capital Expenditure for the Financial Year	135
4,002	3,344	3,344	<i>Balance at 1 January</i>	1,618
777	(127)	(36)	<i>Net Surplus/(Deficit) for the year</i>	647
-	-	(95)	<i>Capital Expenditure for the year</i>	(135)
(1,435)	(1,435)	(1,595)	<i>Transfer to General Revenue</i>	(1,595)
3,344	1,782	1,618	Balance at 31 December	535

GUERNSEY REGISTRY

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income by Category</u>				
9,708	9,509	9,924	Income	
			Operating Income	10,253
			Expenditure	
(432)	(448)	(458)	Pay costs	(472)
			Non Pay costs	
(7)	(21)	(13)	Staff Non Pay costs	(21)
(173)	(340)	(331)	Support Services	(386)
(119)	(145)	(140)	Premises	(146)
(16)	(35)	(32)	Supplies & Services	(38)
(315)	(541)	(516)		(591)
8,961	8,520	8,950	Surplus transferred to General Revenue	9,190
<u>Net Income / (Expenditure) by Service Area</u>				
9,535	9,395	9,800	Company Registry	
(745)	(923)	(916)	Income	10,121
			Expenditure	(996)
8,790	8,472	8,884		9,125
			Intellectual Property Office	
173	114	123	Income	132
(2)	(66)	(57)	Expenditure	(67)
171	48	66		65
8,961	8,520	8,950	Surplus transferred to General Revenue	9,190
<u>Capital Expenditure</u>				
77	-	-	IT Projects and Equipment	-
77	-	-	Routine Capital Expenditure	-
(77)	-	-	Loans from General Revenue for Capital Expenditure	-
-	-	-	Capital Expenditure	-

GUERNSEY AIRPORT

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>				
11,808	12,529	12,009	Operating Income	12,156
(6,924)	(6,889)	(6,900)	Pay costs	(6,595)
			Non Pay costs	
(134)	(193)	(236)	Staff Non Pay costs	(230)
(1,608)	(817)	(3,668)	Support Services	(1,479)
(1,145)	(1,577)	(1,665)	Premises	(1,186)
(22)	(48)	(17)	Transport	(31)
(1,840)	(1,959)	(2,099)	Supplies & Services	(2,069)
(4,749)	(4,594)	(7,685)		(4,995)
135	1,046	(2,576)	Operating Surplus / (Deficit) before depreciation	566
(1,278)	(1,268)	(1,233)	Depreciation	(1,278)
(1,143)	(222)	(3,809)	Operating (Deficit) after depreciation	(712)
<u>Net Income / (Expenditure) by Service Area</u>				
			Income	
404	569	503	Advertising, picketing etc	440
766	735	735	Airport Development Charge	770
685	700	695	Car Parking Fees	750
2,146	2,460	2,117	Rents	2,225
7,848	7,900	7,964	Traffic Receipts	8,024
11,849	12,364	12,014		12,209
			Operational Expenditure	
(1,133)	(1,117)	(1,264)	Administration	(1,297)
(2,099)	(2,037)	(2,069)	Aerodrome Fire Service	(1,884)
(3,190)	(2,582)	(5,519)	Airport Infrastructure	(2,884)
(1,613)	(1,705)	(1,831)	Airport Security	(1,851)
(3,849)	(4,042)	(4,077)	Navigational Services	(3,905)
(11,884)	(11,483)	(14,760)		(11,821)
170	165	170	Recovery From Alderney Airport	178
135	1,046	(2,576)	Operating Surplus / (Deficit) before depreciation	566
(1,278)	(1,268)	(1,233)	Depreciation	(1,278)
(1,143)	(222)	(3,809)	Operating (Deficit) after depreciation	(712)

GUERNSEY AIRPORT

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Capital Expenditure</u>				
-	(400)	-	Miscellaneous Capital Works	(400)
(70)	(2,115)	(568)	Equipment, Machinery and Vehicles	(1,818)
(70)	(2,515)	(568)	Routine Capital Expenditure	(2,218)
(3,369)	-	(1,008)	Airport Pavements Project	(500)
(374)	-	(149)	Airport Radar	(131)
3,743	-	1,157	Transfer from Capital Reserve	631
(70)	(2,515)	(568)	Net Capital Expenditure	(2,218)

HARBOURS

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>				
9,064	9,008	9,221	Operating Income	9,255
(3,482)	(3,918)	(3,941)	Pay costs	(3,726)
			Non Pay costs	
(142)	(167)	(208)	Staff Non Pay costs	(179)
264	-	-	Peripheral Activities	-
(803)	(623)	(677)	Support Services	(828)
(1,335)	(2,102)	(1,959)	Premises	(2,216)
(96)	(45)	(105)	Transport	(105)
(264)	(373)	(400)	Supplies & Services	(224)
(2,376)	(3,310)	(3,349)		(3,552)
3,206	1,780	1,931	Operating Surplus before depreciation	1,977
(1,032)	(1,027)	(1,264)	Depreciation	(1,270)
2,174	753	667	Operating Surplus after depreciation	707

HARBOURS

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income / (Expenditure)</u>				
<u>by Service Area</u>				
			Commercial Operations	
3,980	4,285	4,285	Shipping Dues - cargo	4,388
1,192	1,218	1,218	Passenger Fees	1,247
(62)	7	7	Pilotage Dues	7
210	(224)	(359)	Premises	(368)
(309)	(437)	(414)	Cranes	(424)
(255)	(1,094)	(621)	Quays	(636)
(18)	(35)	(39)	Beacons and Buoys	(40)
4,738	3,720	4,077		4,174
1,793	1,532	1,459	Leisure and Moorings	1,394
			Other Operations	
(3,307)	(3,444)	(3,579)	Central Administration	(3,564)
(18)	(28)	(26)	Ships Registry	(27)
(3,325)	(3,472)	(3,605)		(3,591)
3,206	1,780	1,931	Operating Surplus before depreciation	1,977
(1,032)	(1,027)	(1,264)	Depreciation	(1,270)
2,174	753	667	Operating Surplus transferred to the Ports Holding Account	707
2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Capital Expenditure</u>				
(196)	(2,025)	(665)	Miscellaneous Capital Works	(1,900)
-	(45)	(20)	IT Projects and Equipment	(450)
-	(1,035)	(120)	Equipment, Machinery, Vehicles and Vessels	(2,040)
(196)	(3,105)	(805)	Routine Capital Expenditure	(4,390)
(3,287)	(682)	(1,480)	Crane Strategy	(190)
-	-	(150)	Deep Water Berth Investigations	(1,150)
3,287	682	1,630	Less transfer from Capital Reserve	1,340
(196)	(3,105)	(805)	Net Capital Expenditure	(4,390)

PORTS HOLDING ACCOUNT

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
135	1,046	(2,576)	Operating Surplus / (Deficit) before depreciation	566
3,206	1,780	1,931	Guernsey Airport	1,977
			Harbours	
3,341	2,826	(645)		2,543
71	-	40	Investment Return	20
(70)	(2,515)	(568)	Capital Expenditure	(2,218)
(196)	(3,105)	(805)	Guernsey Airport	(4,390)
			Harbours	
(266)	(5,620)	(1,373)		(6,608)
3,146	(2,794)	(1,978)	Surplus / (Deficit) before depreciation	(4,045)
(2,310)	(2,295)	(2,497)	Depreciation	(2,548)
836	(5,089)	(4,475)	Surplus / (Deficit) for the year	(6,593)
2,877	2,794	6,023	Balance at 1st January	4,045
3,146	(2,794)	(1,978)	Surplus / (Deficit) for the year before depreciation	(4,045)
6,023	-	4,045	Balance at 31st December	-

GUERNSEY WATER

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income by Service Area</u>				
Income				
			Water Supplies	
6,823	7,068	6,994	<i>Measured</i>	7,286
3,664	3,701	3,667	<i>Unmeasured</i>	3,630
			Waste Water	
2,091	2,168	2,143	<i>Measured</i>	2,220
1,175	1,186	1,216	<i>Unmeasured</i>	1,246
1,115	1,096	1,118	<i>Cesspit Emptying Charges</i>	1,105
289	-	-	<i>Grant from General Revenue</i>	-
318	153	225	Surplus on other trading activities before management expenses and depreciation	250
15,475	15,372	15,363		15,737
Expenditure				
			Operating Expenses	
(346)	(395)	(320)	<i>Asset Management</i>	(442)
(1,224)	(1,181)	(1,222)	<i>Pumping Stations</i>	(1,222)
(3,377)	(3,544)	(3,310)	<i>Sewers</i>	(3,515)
(487)	(688)	(628)	<i>Water distribution</i>	(539)
(2,123)	(2,313)	(2,290)	<i>Water production</i>	(2,110)
			Management Expenses	
(670)	(623)	(624)	<i>Compliance</i>	(835)
(809)	(917)	(678)	<i>Customer services</i>	(559)
(635)	(758)	(756)	<i>Management and general</i>	(1,133)
(1,023)	(1,105)	(1,098)	<i>Support Services</i>	(1,168)
(10,694)	(11,524)	(10,926)		(11,523)
4,781	3,848	4,437	Operating Surplus before depreciation	4,214
(3,499)	(3,200)	(3,917)	Depreciation	(3,970)
(510)	-	-	Loss on disposal of fixed assets	-
772	648	520	Operating Surplus for the year	244
388	175	318	Net Interest receivable	200
44	410	-	Surplus on sale of properties	-
1,204	1,233	838	Surplus for the year	444
9	(800)	(83)	Transfer (to) / from reserve for renewal of assets	(30)
(684)	-	(773)	Transfer to reserve for property renewal	(121)
529	433	(18)	Retained Surplus / (Deficit) for the year transferred to / (from) Revenue Account Reserve	293

GUERNSEY WATER

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Capital Expenditure</u>				
(177)	(18,000)	(18,500)	Belle Greve Wastewater Disposal Facility	(1,000)
(1,596)	(1,400)	(1,308)	Demand Management	(350)
(163)	(495)	(633)	Management and General - Operational	(330)
(292)	(785)	(666)	Pumping Stations	(1,600)
(16)	(265)	(100)	Quality - Environmental Protection	(590)
(1,251)	(1,548)	(1,112)	Sewers	(1,360)
(675)	(330)	(342)	Water distribution	(460)
(687)	(700)	(406)	Water resources	(819)
(903)	(550)	(303)	Water treatment	(750)
(5,760)	(24,073)	(23,370)	Gross Capital Investment	(7,259)
490	490	41	Customer contributions and asset sales	58
-	18,000	18,500	Transfer from General Revenue	1,000
(5,270)	(5,583)	(4,829)	Net Capital Investment	(6,201)

STATES WORKS

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income by Service Area</u>				
Income				
80	81	181	Administration	81
431	160	92	Building Maintenance	109
1,999	1,986	2,030	Cleansing and Refuse	1,963
310	260	285	Drainage	356
1,082	1,040	1,040	Electrical and Mechanical	1,056
153	160	100	Emergency Services	102
795	730	708	Fleet Services	718
2,238	2,200	2,250	Grounds Maintenance	2,284
1,672	1,700	1,750	Highway Repairs	1,794
3,171	3,050	3,090	Landfill and Recycling	3,106
169	213	205	Management Services	208
2,387	2,200	2,390	Sewage Collection	2,432
404	395	400	Signs and Lines	406
452	410	410	Stores	420
15,343	14,585	14,931		15,035
Expenditure				
			Management Expenses	
(335)	(325)	(560)	Administration Expenses	(556)
(148)	(170)	(164)	Building maintenance	(168)
(1,530)	(1,540)	(1,609)	Salaries, wages and superannuation	(1,666)
			Operating Expenses	
(6,904)	(7,138)	(7,157)	Labour	(7,174)
(3,995)	(3,637)	(3,544)	Materials	(3,475)
(423)	(373)	(348)	Transport and plant	(354)
(13,335)	(13,183)	(13,382)		(13,393)
2,008	1,402	1,549	Operating Surplus before depreciation	1,642
(805)	(868)	(989)	Depreciation	(1,134)
1,203	534	560	Operating Surplus for the year	508
73	12	70	Net Interest Receivable	70
1,276	546	630	Surplus for the year	578
<u>Capital Expenditure</u>				
(20)	(117)	(67)	Office Equipment	(112)
-	(320)	(315)	Site Developments	(360)
(499)	(930)	(1,458)	Vehicles, Plant, Tools and Equipment	(1,333)
(519)	(1,367)	(1,840)	Total Capital Expenditure for the Financial year	(1,805)

GUERNSEY DAIRY

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income by Service Area</u>				
			Sales	
1,532	1,390	1,423	<i>Dairy products</i>	1,466
5,664	5,755	5,717	<i>Liquid Milk</i>	5,735
26	25	28	Sundry income	25
57	30	55	Other Income	117
7,279	7,200	7,223	Total Income	7,343
<u>Cost of Sales</u>				
(38)	(38)	(38)	<i>Dairy product ingredients</i>	(36)
(3,406)	(3,410)	(3,603)	<i>Milk</i>	(3,680)
(94)	(119)	(112)	<i>Milk working loss</i>	(110)
(79)	(70)	(70)	<i>Freight</i>	(72)
(534)	(550)	(461)	<i>Packaging materials</i>	(461)
(843)	(872)	(845)	<i>Production wages</i>	(862)
(4,994)	(5,059)	(5,129)		(5,221)
<u>Expenses</u>				
(84)	(127)	(127)	<i>Advertising and promotion</i>	(127)
(65)	(69)	(69)	<i>Cleaning materials</i>	(67)
(229)	(280)	(230)	<i>Depreciation</i>	(256)
(311)	(365)	(285)	<i>Fuel, light, power, water and rates</i>	(309)
(42)	(26)	(38)	<i>General administration costs</i>	(38)
(93)	(100)	(95)	<i>Laboratory expenses</i>	(94)
(30)	(35)	(26)	<i>Motor vehicle expenses</i>	(36)
(34)	(53)	(57)	<i>Other expenses</i>	(57)
(122)	(125)	(138)	<i>Professional fees</i>	(147)
(131)	(162)	(158)	<i>Repairs, maintenance and insurance</i>	(154)
(572)	(596)	(605)	<i>Salaries and wages</i>	(584)
(1,713)	(1,938)	(1,828)		(1,869)
(6,707)	(6,997)	(6,957)	Total Expenditure	(7,090)
572	203	266	Surplus for the Financial Year	253
<u>Capital Expenditure</u>				
(27)	(255)	(108)	Miscellaneous Capital Works	(30)
(23)	-	(8)	IT Projects and Equipment	-
(135)	(657)	(297)	Equipment, Machinery and Vehicles	(1,112)
(185)	(912)	(413)	Total Capital Expenditure for the Financial Year	(1,142)

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

2014	2015	2015		2016
Actual	Original Budget	Probable Outturn		Budget
£'000s	£'000s	£'000s		£'000s
<u>Net Expenditure by Category</u>				
-	694	507	Pay costs	778
			<i>Established Staff</i>	
-	694	507		778
22	84	58	Non Pay costs	57
47	79	58	<i>Staff Non Pay costs</i>	32
4	8	9	<i>Support Services</i>	5
			<i>Supplies & Services</i>	
73	171	125		94
73	865	632	Total Expenditure by Category	872

SUPERANNUATION FUND ADMINISTRATION

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Expenditure by Category</u>				
			Pay costs	
371	361	367	<i>Established Staff</i>	461
371	361	367		461
			Non Pay costs	
379	139	153	<i>Consultants Fees</i>	173
87	73	69	<i>Support Services</i>	69
466	212	222		242
837	573	589	Total Expenditure by Category	703
<u>Capital Expenditure</u>				
-	-	200	ICT System	-
-	-	200	Routine Capital Expenditure	-

SOCIAL SECURITY DEPARTMENT CONTRIBUTORY FUNDS

2014 Actual £'000s	2015 Original Budget £'000s	2015 Probable Outturn £'000s		2016 Budget £'000s
<u>Net Income / (Expenditure)</u>				
<u>by Category</u>				
Income				
155,258	157,850	157,970	Contribution Income	161,040
19,376	19,650	19,700	States Grants	20,090
174,634	177,500	177,670		181,130
Benefit Expenditure				
(125,137)	(130,545)	(129,990)	Social Insurance	(134,590)
(37,141)	(37,193)	(39,536)	Health Insurance	(42,408)
(17,927)	(18,330)	(17,760)	Long-term Care Insurance	(18,325)
(180,205)	(186,068)	(187,286)		(195,323)
Administration				
(3,902)	(4,547)	(4,304)	Pay Costs	(4,673)
(54)	(19)	(16)	Staff Non Pay costs	(20)
(1,656)	(1,738)	(2,112)	Support Services	(2,100)
(55)	(92)	(74)	Premises	(74)
(126)	(110)	(180)	Supplies & Services	(180)
(5,793)	(6,506)	(6,686)		(7,047)
(135)	(156)	(120)	Depreciation	(130)
(11,499)	(15,230)	(16,422)	Operating Deficit Before Investing Activities	(21,370)
<u>Net Income / (Expenditure)</u>				
<u>by Service Area</u>				
(15,605)	(20,031)	(18,873)	Guernsey Insurance Fund	(21,558)
3,774	4,383	1,632	Guernsey Health Service Fund	(379)
332	418	819	Long-term Care Insurance Fund	567
(11,499)	(15,230)	(16,422)	Operating Deficit Before Investing Activities	(21,370)
<u>Routine Capital Expenditure</u>				
-	(50)	(20)	Buildings and Structures	(20)
(31)	(200)	(125)	Plant and Equipment	(125)
(70)	(50)	(50)	ICT Systems - Equipment and Software	(50)
-	(50)	(50)	ICT Systems - Development	(200)
(101)	(350)	(245)	Net Routine Capital Expenditure	(395)

THE LADIES COLLEGE (Senior School)

2013 / 2014	2014 / 2015		2015 / 2016
Actual	Budget		Budget
£'000s	£'000s		£'000s
<u>Net Income by Category</u>			
Income			
1,946	2,139	<i>Fees</i>	2,064
47	28	<i>Miscellaneous Income</i>	28
1,952	1,908	<i>States Grant</i>	1,897
3,945	4,075		3,989
Expenditure			
8	12	<i>Art</i>	12
5	6	<i>Audit Fee</i>	6
102	107	<i>Books and Stationery</i>	112
62	84	<i>Examination Fees</i>	60
78	95	<i>Fixed Asset Acquisition Costs</i>	69
39	37	<i>General Administrative Expenses</i>	42
12	13	<i>Laboratory and Design and Technology Expenses</i>	14
175	180	<i>Maintenance of Buildings, Grounds and Equipment</i>	184
22	27	<i>Marketing and Development Expenses</i>	21
8	29	<i>Rates, Taxes and Insurance</i>	30
99	30	<i>Recruitment and Relocation</i>	31
2,852	3,037	<i>Salaries and Wages</i>	3,157
24	37	<i>Sports, conferences, field trips etc</i>	37
9	15	<i>Staff training</i>	15
76	85	<i>Utilities</i>	87
3,571	3,794		3,877
374	281	REVENUE SURPLUS FOR THE YEAR	112
(321)	-	Transfer to Maintenance and Improvements Reserve	-
366	605	Balance b/f from previous year	700
419	886	Balance c/f to next year	812

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To extend the company intermediate income tax rate (10%) to income from the provision of custody services (as defined in the Protection of Investors (Bailiwick of Guernsey) Law, 1987), to unconnected third parties and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2016.
2. To extend the company higher income tax rate (20%) to income from the importation and / or supply of hydrocarbon oil or gas in Guernsey, except where a company does not import hydrocarbon oil or gas and supplies hydrocarbon oil or gas in Guernsey solely by means of a retail outlet for use in motor vehicles or boats, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2016.
3. To extend the company higher income tax rate (20%) to income from retail business carried on in Guernsey, in the manner outlined in paragraphs 3.7 to 3.9 of this Report, where the company has a taxable profit of more than £500,000 in a year from such business, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2016.
4. With effect from 1 January 2016, to pro-rate the entitlement to personal and other allowances for a person who is solely or principally resident in the years of their arrival in, and permanent departure from, Guernsey, based on the proportion of time spent in Guernsey in the relevant year, 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. Where that person is in receipt of a Guernsey source pension, which is liable to be taxed at source under the Employees Tax Instalment scheme, then the pro-rating provided for under section 51(5) and s.51A(2A) of the Income Tax (Guernsey) Law, 1975 shall be deemed to apply –
 - from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival), or
 - from the date of departure until the end of the year of charge (in the case of that individual's permanent departure),

although, such an individual would not be entitled, in total, to more allowances than an individual who was solely or principally resident would be entitled.
5. To reduce the cap on the amount of tax relief on interest paid in respect of a principal private residence in section 1(2)(b)(ii) of the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 as amended, as follows:

	Amount for an individual borrower	Amount for a married couple
2016	£13,000	£26,000
2017	£11,000	£22,000
2018	£9,500	£19,000
2019	£8,000	£16,000
2020	£6,500	£13,000
2021	£5,000	£10,000
2022	£3,500	£7,000
2023	£2,000	£4,000
2024	£1,000	£2,000
2025 and subsequent years of charge	£0	£0

and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2016.

PROPOSITIONS

6. In order to ensure greater equality between all persons in the ability to claim personal and other tax allowances, to direct that legislation is drafted as may be necessary to give effect to the decisions below, with effect from 1 January 2016:
 - a. to provide that two individuals of the same sex who have together entered into a marriage or a civil partnership shall be treated for the purposes of the Income Tax (Guernsey) Law, 1975 in the same way as a husband and wife, and that references to a husband, wife or widow, a spouse, a marriage or a party to a marriage, or an individual who is married or unmarried, shall be construed accordingly.
 - b. in relation to the Married Persons Allowance –
 - i. the closure of the Allowance to claimants who married or entered into a civil partnership after 31 December 2015, and
 - ii. the extension of the Allowance to those in a civil partnership as at 31 December 2015, where they otherwise meet the conditions for the Allowance; in such cases the income of the younger civil partner shall be treated as income of the older civil partner for all of the purposes of assessment and collection of tax (including the completion of returns, unless an election is made for separate assessment), and all references to husbands and wives shall be deemed to be the older and younger partner, respectively, of the civil partnership, as defined in the new proposed section 47AA of the Income Tax (Guernsey) Law, 1975.
 - c. that the income of a wife will no longer be treated as the income of the husband for those who marry after 31 December 2015.
 - d. the closure of the Charge of Child Allowance –
 - i. in relation to children born after 31 December 2015, or
 - ii. where the allowance was not claimed in relation to the previous year of charge.
 - e. that co-habitees with children will no longer be able to transfer personal allowances between themselves in relation to children born after 31 December 2015.
 - f. in relation to children born before 1 January 2016,
 - i. in order to claim a Charge of Child Allowance, an individual must be in receipt of Family Allowance at 1 January in the relevant year of charge,
 - ii. personal allowances may also be transferred between co-habitees, including same sex couples, where the couple were co-habiting as at 31 December 2015, are recipients of a Family Allowance and made a claim to transfer personal allowances between themselves in the previous year of charge (regardless of whether or not the couple subsequently marry),
 - iii. as a transitional measure in the year of charge 2016, personal allowances may be transferred between same sex co-habitees, where the couple were co-habiting as at 31 December 2015 and are recipients of a Family Allowance (regardless of whether or not the couple subsequently marry in 2016).

PROPOSITIONS

7. To increase the standard charge specified in section 5B(2) of the Income Tax (Guernsey) Law, 1975, as amended, from £27,500 to £30,000 in respect of the Year of Charge 2016 and subsequent years, by regulation under that subsection, and to resolve that the level of the standard charge is not reviewed or increased for at least 5 years.
8. With effect from 1 January 2016 to introduce a limit of tax payable by an individual (a "tax cap") of £50,000 for residents of Alderney, provided that they have never previously claimed the "tax cap", such a cap being available, initially, for a period of 5 years, 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)

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 two 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 -

PROPOSITIONS

(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 the 1st January 2016, in which case that individual may claim 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. 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."

- 9. To approve the introduction of a system of charging excise duty on beer, cider and spirits based on Alcohol by Volume, with effect from 1 January 2016, as set out in paragraph 3.59 of this Report.
- 10. To approve the introduction of an excise duty at the standard rate on the production and / or importation of biodiesel with conditional concessions, with effect from 1 January 2016, as set out in paragraphs 3.70 to 3.72 of this Report.

PROPOSITIONS

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

With immediate effect:

Cigarettes	£298.52 per kilogram
Cigars	£283.72 per kilogram
Hand rolling tobacco	£264.21 per kilogram
Other manufactured tobacco	£229.17 per kilogram
Tobacco leaf – unstemmed	£254.40 per kilogram
Tobacco leaf – stemmed	£256.96 per kilogram

Petrol other than any fuel used for the purpose of air navigation	58.5p per litre
Petrol used for the purpose of marine navigation where supplied by an approved trader	36.6p per litre
Gas oil	58.5p per litre

With effect from 1 January 2016:

Biodiesel	58.5p per litre
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Beer exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	45p per litre
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Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 4.9 per cent volume	45p per litre
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Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	71p per litre
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Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	57p per litre
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Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	89p per litre
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Beer exceeding 7.5 per cent volume	£1.04 per litre
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Spirits	£32.34 per litre of alcohol contained in the liquor.
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Cider exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	45p per litre
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Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	45p per litre
--	---------------

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	71p per litre
---	---------------

Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	57p per litre
--	---------------

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	89p per litre
---	---------------

Cider exceeding 7.5 per cent volume	£1.04 per litre
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Light wines not exceeding 5.5 per cent volume	56p per litre
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Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.28 per litre
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Other wines	£3.64 per litre
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PROPOSITIONS

12. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2015” and to direct that the same shall have effect as an Ordinance of the States.
13. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2016 shall be as set out in paragraph 3.77 of this Report.
14. To approve the draft Ordinance entitled “The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2015” and to direct that the same shall have effect as an Ordinance of the States.
15. That the objective in the Fiscal and Economic Plan which provides for a ‘real terms’ freeze on aggregate States’ revenue expenditure’ should be interpreted for 2016 to exclude the allocation of an additional £8,200,000 specifically for the Health and Social Services Department.
16. To approve the Treasury and Resources Department commissioning, funded by a transfer from the Budget Reserve, external assessments of the appropriate baseline budgets for the Education Department and Home Department for current service provision and benchmarked to comparable service models in other jurisdictions.
17. To approve the cash limits for ordinary revenue and capital expenditure for 2016 for individual Departments and Committees totalling £382,600,000 as set out in paragraph 4.31 of this Report.
18. To note the indicative Three Year Budgets set out in paragraph 4.52 of this Report.
19. To immediately transfer the sum of £1,000,000 to General Revenue from the Capital Reserve.
20. To transfer the sum of £18,300,000 from General Revenue to the Capital Reserve on 1 January 2016.
21. To approve that returns of capital from trading entities in 2016 be transferred to the Capital Reserve.
22. To agree that requests for capital votes for the projects listed in paragraph 5.25 of this Report should not be submitted until after the States have agreed the 2017 - 2020 capital priorities.
23. To note the timetable for the 2017 - 2020 capital prioritisation exercise as set out in paragraph 5.29 of this Report and that a recommended capital investment portfolio will be included as a separate item within the 2017 Budget Report.
24. To approve that the programmes set out in paragraphs 6.36 to 6.40 of this Report are prioritised for funding from the Transformation and Transition Fund and delegate authority to the Treasury and Resources Department to approve funding of up to £1,000,000 for the Transforming Health and Social Care Services programme and up to £750,000 for each of the other programmes.
25. To delegate authority to the Treasury and Resources Department to approve funding from the Transformation and Transition Fund up to a maximum of £250,000 per initiative for any transformational initiatives other than the programmes set out in paragraphs 6.36 to 6.40 of this Report.
26. To delegate authority to the Treasury and Resources Department to approve funding from the Transformation and Transition Fund up to a maximum of £500,000 for the revenue expenditure associated with the transition to the new system of population management.

PROPOSITIONS

27. To approve The States of Guernsey Permitted Investment (Amendment) Rules, 2015 set out in Appendix III of this Report.

28. (a) That, 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 2016 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) That 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) That:

“Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and

“the Income Tax (Guernsey) Law, 1975” means that Law as amended, extended or applied by or under any other enactment.

PROPOSITIONS

FIRST SCHEDULE

Year of Charge 2016

Allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the standard rate.

<u>NATURE OF ALLOWANCE</u>	<u>AMOUNT OF ALLOWANCE</u>
1. Personal Allowance	
(i) for married persons who were married or entered into a civil partnership prior to 1 January 2016	Tax at the standard rate on £19,350. Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce, or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge. For the purposes of this paragraph and paragraphs (ii) to (v) below, "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

PROPOSITIONS

- (ii) for married persons who were married or entered into a civil partnership prior to 1 January 2016, where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.

Tax at the standard rate on £21,125. Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge.

- (iii) for married persons who were married or entered into a civil partnership prior to 1 January 2016, where, at the commencement of the year of charge, both he, and his wife living with him, were of the age of 64 years or over.

Tax at the standard rate on £22,900. Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge.

PROPOSITIONS

(iv) for single persons.

Tax at the standard rate on £9,675, but subject to the second and third provisos relating to divorce, separation or death set out in (i), (ii) or (iii) above.

(v) for single persons aged 64 years or over at the commencement of the year of charge.

Tax at the standard rate on £11,450, but subject to the second and third provisos relating to divorce, separation or death set out in (i), (ii) or (iii) above.

2. Dependent Relative Allowance

In respect of each dependent relative - tax at the standard rate on £3,125 or on the amount of the contributions whichever is less:

Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £6,550 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,125 the sum of £1 for every pound by which the dependent relative's income exceeds £6,550.

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 £3,125, or such lesser sum as remains after deducting from £3,125 the sum of £1 for every pound by which the dependent relative's income exceeds £6,550, the sum of £260 for every month in the year of charge for which such Family Allowances are payable.

3. Infirm Person's Allowance

Tax at the standard rate on £3,125.

4. Housekeeper Allowance

Tax at the standard rate on £3,125.

5. Wife's Earned Income Allowance

Tax at the standard rate on a sum equal to the amount of the claimant's wife's net qualifying income but not exceeding tax at the standard rate on £9,675.

6. Charge of Children Allowance

Tax at the standard rate on £6,550.

7. Retirement Annuity Allowance

Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

PROPOSITIONS

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

1. Personal Allowance

- (1) The conditions to be fulfilled to entitle the claimant to the personal allowance are:
- (a) in respect of the allowance specified in paragraph 1(i), (ii) or (iii) of the First Schedule ("married persons") -
 - (i) that at the commencement of the year of charge the claimant's wife is living with him or is wholly maintained by him; and
 - (ii) that in computing his assessable income for that year the claimant is not entitled to make any reduction on account of any payment made for his wife's maintenance; and (iii) that the person claiming the allowance married or entered into the civil partnership in relation to which the allowance is claimed on or before 31 December 2015,

and all references to husbands and wives shall be deemed to be the older and younger partner, respectively, of the civil partnership, as defined in the new proposed section 47AA of the Income Tax (Guernsey) Law, 1975.

Provided that if any question arises as to whether a wife is or is not wholly maintained by her husband, the question shall be determined by reference to the financial circumstances of the wife.

- (b) in respect of the allowance specified in paragraph 1(iv) or (v) of the First Schedule ("single persons")-
 - (i) that the claimant is not entitled to an allowance specified in paragraph 1(i), (ii) or (iii) of the First Schedule ("married persons"); or
 - (ii) that the claimant is subject to the second or third proviso relating to divorce, separation or death set out in the said paragraph 1(i), (ii) or (iii).

2. 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.
- (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.

PROPOSITIONS

- (3) Where a man and a woman are cohabiting as husband and wife and either has a child in respect of whom a dependent relative allowance is claimable the man or woman as the case may be, and 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 the 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.

3. 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.

PROPOSITIONS

4. 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 for any year if such individual is entitled for that year to a personal allowance for married persons, or to 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.

5. Wife's Earned Income Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a wife's earned income allowance are that the claimant is entitled to the personal allowance for married persons and that there is included in the claimant's assessable income some earned income arising or accruing to the claimant's wife.
- (2) "Earned income" has the meaning assigned to it by section 148 of the Income Tax (Guernsey) Law, 1975.

6. Charge of Children Allowance

- (1) The conditions to be fulfilled to entitle a claimant who is also entitled to the personal allowance for married persons to a charge of children allowance are:
 - (a) that at the commencement of the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children who were born before 1 January 2016, and
 - (b) that the allowance was claimed in the previous year of charge, and
 - (c) that the claimant proves that throughout the year either he or his wife is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by him for the purpose of having the charge and care of the child, and
 - (d) 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 he or any other individual is so entitled, that the claim has been relinquished.

PROPOSITIONS

- (2) The conditions to be fulfilled to entitle a claimant who is entitled to the personal allowance appropriate to persons other than married persons to a charge of children allowance are:
- (a) that at the commencement of the year of charge the claimant is in receipt of Family Allowances in respect of one or more children who were born before 1 January 2016, and
 - (b) that the allowance was claimed in the previous year of charge, and
 - (c) that in the year of charge the claimant is not cohabiting with another person, except where -
 - (i) the claimant proves that throughout the year either he or his cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by him 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 he or any other individual is so entitled that the claim has been relinquished.

Provided that where the recipient of a family allowance in respect of one or more children who were born before 1 January 2016 is not entitled to claim the charge of children allowance because he is cohabiting with another person, he may, in respect of the year of charge, by notice in writing addressed to the Director, elect that the whole, or any unused part of, the personal allowance to which he would otherwise be entitled shall cease to be his and shall become an additional personal allowance of the person with whom he is cohabiting, providing they were co-habiting as at 31 December 2015, and made a claim to transfer personal allowances in the previous year of charge (regardless of whether or not the couple subsequently marry), such election, once made, to be irrevocable in respect of that year of charge. As a transitional measure in the year of charge 2016, personal allowances may be transferred between same sex co-habitees, where the couple were co-habiting as at 31 December 2015 and are recipients of a Family Allowance (regardless of whether or not the couple subsequently marry in 2016).

For the purposes of this paragraph "cohabiting" means living with another person as that person's spouse throughout the year of charge.

- (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 is entitled to claim a dependent relative allowance in the case of 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.

PROPOSITIONS

7. Retirement Annuity Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance 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 he 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 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 Department.
- (4) In the case of a married couple or couple who have entered into a civil partnership:
 - (a) for the avoidance of doubt, the allowances specified in this paragraph apply in respect of each party to the marriage, and each party to the marriage may be considered to be the claimant for the purposes of this paragraph, irrespective of whether the couple are jointly assessed or separately assessed by virtue of an application under section 46 of the Income Tax (Guernsey) Law, 1975, and
 - (b) for the purposes of this paragraph, and notwithstanding subparagraph (1), either party to the marriage may also pay (and an allowance may be granted in respect of) qualifying premiums or contributions to a retirement annuity scheme or retirement annuity trust scheme of which the other party is a beneficiary, provided that the maximum allowance granted in respect of any individual may not exceed the limit prescribed in subparagraph (3).

PROPOSITIONS

29. To approve the following Expenditure Budgets for the year 2016:

- (a) Policy Council
- (b) Treasury and Resources Department
- (c) Commerce and Employment Department
- (d) Culture and Leisure Department
- (e) Education Department
- (f) Environment Department
- (g) Health and Social Services Department
- (h) Home Department
- (i) Housing Department
- (j) Public Services Department
- (k) Social Security Department
- (l) Public Accounts Committee
- (m) Scrutiny Committee
- (n) Royal Court
- (o) Law Officers

30. To approve the following Budgets for the year 2016 and Probable Outturns for 2015:

- (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) Social Security Department – Contributory Funds

31. To note the Budget for the States of Alderney for 2016.

(NB. The Policy Council accepts that due to the sizeable reduction in forecasted income in 2015, it has been necessary for the Treasury and Resources Department to recommend measures in the 2016 Budget that would not otherwise have been contemplated. These include recommendations to reduce significantly the allocation to the Capital Reserve in 2016 and not to increase personal tax allowances. While, in other circumstances, these recommendations would be undesirable, the Policy Council concurs that the present state of public finances makes them both appropriate and necessary short-term measures, notwithstanding that they run counter to policies agreed as part of the Fiscal Framework and the Personal Tax, Pensions and Benefits Review.

The Policy Council warns, however, against conflating the current state of public finances with the state of the economy. Due to the lag effect in the collection of income taxes, the shortfall in revenues in 2015 is not a reflection of the real economy today; and while revenue income has reduced there are clear indications and evidence that the Island's economy is continuing to grow.

Nonetheless, there can be no room for complacency, and the States should be under no illusion that a more sustainable solution – and some very difficult decisions – will be needed if, for whatever reason, the lack of revenue growth proves to be structural and long-term, rather than cyclical and short-lived. Indeed, the need to transform the manner in which public services are provided is brought into even sharper focus, making the importance of decisions on where and how to invest monies from the Transformation and Transition Fund critical to the achievement of the appropriate 'reform dividends' from delivering public services which are sustainable in the medium- to long-term).