PRESIDENT'S FOREWORD

The Policy & Resources Committee is delighted, for the second successive year, to be presenting a fully balanced budget for 2019. This is the reward for the difficult but firm discipline over the last decade in controlling expenditure and increasing income so returning stability to the island's public finances.

This budget is delivered within the boundaries set by the Fiscal Policy Framework and the direction set in the Medium Term Financial Plan ("MTFP"). It recognises the need for increased expenditure to deliver certain critical service areas whilst also delivering on the commitment made to control public sector expenditure.

The over-arching requirement within the MTFP remains: to achieve significant expenditure reductions with modest increases in revenues. This allows investment in public services to support delivery of the Policy & Resource Plan and enable the re-building of the Core Investment Reserve which was drawn-down to fund eight successive years of budget deficits.

In line with the States' direction set out in the Personal Tax, Pensions and Benefits Review, the Policy & Resource Plan and the MTFP, the income raising measures proposed in this budget are targeted predominantly at those considered better able to bear the burden.

It is recommended that further changes are made to make the tax system more progressive, through the third phase of the withdrawal of income tax allowances for higher earners. There are also recommendations for: an increase in the Income Tax caps; the introduction of a banded system of TRP for larger properties; and a higher-rate Document duty band for the element of a property conveyance above £2million. These measures are expected to raise £2.4million additional income per annum.

This Budget also includes proposals which will increase the contribution from the business sector by £830,000 including through: an extension of the 10% intermediate corporate income tax band; a new higher-rate TRP band which increases the rate for accountancy services and Non-Regulated Financial Services Businesses to the same level applicable to regulated financial services businesses; and a 2.5% real-terms' increase in commercial TRP rates.

For the third consecutive year, it is recommended that personal allowances are raised by £500, an above inflation increase of 5%, which will particularly benefit those on low and middle incomes. The cumulative impact of these increases now equates to annual income tax cuts of £600 for couples and £300 for single persons. Along with the withdrawal of allowances for higher earners, this has significantly improved the progressive nature of the personal income tax system.

PRESIDENT’S FOREWORD

Whilst not a revenue raising measure, this Budget proposes that document duty is no longer charged on the registration of bonds typically taken by banks as security for loans, with the income forgone compensated for by increases in the document duty charged on conveyances, weighted towards higher value properties.

This will disproportionately benefit first time buyers who typically have the highest loan to value ratios. It will also remove a significant barrier to individuals changing mortgage provider and so by increasing competitiveness between mortgage providers will improve credit terms, benefiting borrowers.

Requests from Committees for additional funding for 2019 significantly exceeded the allowance made within the Medium Term Financial Plan of £3.2million. The Policy & Resources Committee has had to balance the requests from those responsible for service delivery with the commitments made to control public sector expenditure and the need to balance the budget. Having carried out a rigorous review and prioritisation exercise, declined some requests, identified others as being more appropriately funded from another source, and following extensive dialogue with Committees, an increased real-terms’ allocation for 2019 of £6.1million is recommended to fund expenditure pressures and service developments.

An important element of achieving and maintaining a balanced budget is through the delivery of savings as a result of the reform of public services. This Budget Report outlines the intention to pick up the pace and ambition for reform with a major redesign of the organisational structure of the civil service, estimated to deliver recurring financial benefits of in excess of £10million per annum. The delivery of savings remains imperative: we will be facing significant expenditure pressures over coming years, particularly arising from the anticipated demographic changes and increase in the dependency ratio.

A transfer of £54.5million to the Capital Reserve is proposed for 2019, which meets the Fiscal Policy Framework target of 3% of GDP. This achieves our stated aim of enabling the delivery of the States’ strategic objectives through investment in infrastructure and systems. However, the Policy & Resources Committee remains concerned that there are delays in the progression of the capital portfolio: it is not being delivered at a speed sufficient to ensure that our public services have the infrastructure they need; to enable the transformation of our services; and to facilitate and drive growth in our economy. We are committed to facilitating acceleration of capital projects where it is reasonable and practicable to do so, whilst still ensuring we have the discipline to deliver the right projects at the right time and at the right price. In addition to making funds available for project planning and management, we will be establishing a small team of capital business partners to work with service areas and support delivery of the portfolio.

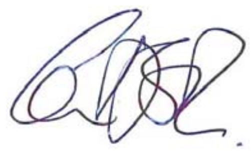
PRESIDENT'S FOREWORD

As previously reported, 2017 was a very good fiscal year and we benefitted from some one-off receipts. Therefore, we have £23.3million of uncommitted funds to appropriate. It is proposed that the largest element of this surplus, £12.9million, is transferred to the Core Investment Reserve, which will increase its balance to 41% of the target balance and represents a significant and pleasing increase compared to the funding position of 36% at the end of 2017.

The 2017 surplus has also enabled proposals for two innovative schemes, previously floated, to now be launched: firstly £1million has been set aside for a pilot participatory budgeting programme whereby the local community will be invited to prioritise projects for one-off funding that they assess will address the greatest community needs; and the same amount is proposed for the establishment of an Overseas Aid Impact Investment Fund which, as a responsible member of the international community, will provide an alternative to simple grant funding in order to benefit the poorest non-local communities.

The Policy & Resources Committee believes that this Budget builds on recent years' themes of being responsible, fair, realistic and progressive, and continues to emphasise the discipline of forward-planning to underpin delivery of the Policy & Resource Plan.

This Budget is positive: it reflects the renewed strength in our economy and public finances; and it is the reward for planning and fiscal discipline enabling focused investment in priority service areas and initiatives.



Deputy Gavin St Pier
President, Policy & Resources Committee

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2019 BUDGET REPORT

Section 1: Overview

1.1 This Budget has been prepared in the context of:

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

- the Policy & Resource Plan (Billet d'État XXVIII, 2016) which is the strategic policy document for the States of Guernsey that determines which policy work will be given priority by government and how such work will be resourced. It is centred on the States' twenty year vision for the community of:

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

- the Medium Term Financial Plan ("MTFP") (Billet d'État XII, 2017) which is a strategy covering the medium term designed to ensure the finances of the States can support delivery of the outcomes set out in the Policy & Resource Plan. It was designed to ensure that the States are able to achieve and maintain a balanced budget before moving into a sustainable surplus over the four year period 2018-2021. The Policy & Resources Committee was directed to *"take account of the Medium Term Financial Plan when formulating proposals for inclusion in annual Budget Reports."*

1.2 Section 3 sets out further detail on these strategic frameworks.

1.3 The over-riding requirement for the Policy & Resources Committee is to prepare a budget that raises the necessary level of income to fund the appropriate level of public services. The financial position detailed in the MTFP will not necessarily be matched in each year and there will inevitably be variances, in both timing and value. The MTFP set out an overall expectation of the position that will be attained over the four year period of the Plan as a result of complying with the financial strategies set out therein.

1.4 The Policy & Resources Committee is proposing a budget for 2019 which delivers a modest surplus of £1million and complies with the important commitment set out in the MTFP that "*the Policy & Resources Committee believes that the burden of eliminating the structural deficit must be shared between taxpayers, particularly those most able to pay* [35%]*, and a reduction in the cost base* [65%] *through the reform of public services – which will lead to working differently, changing and improving the way services are delivered to enable savings to be made.*"

1.5 The MTFP envisaged that, for 2019, revenue raising measures would total £3.5million in addition to measures already agreed in previous Budget Reports, including the withdrawal of mortgage interest relief and real-terms' increases in domestic TRP rates. The impact of expenditure savings was estimated to be £6.2million before allowing for inflation, cost pressures and service developments.

1.6 This budget contains a combination of revenue raising measures which have been designed in line with the approach detailed in the MTFP to *"raise additional revenues as far as possible from individuals and entities most able to bear the burden. This will involve initiatives such as further phases of the withdrawal of income tax allowances for higher earners; ongoing corporate tax reform within international constraints; and seeking an increased contribution from those businesses who receive the most commercial benefit from the island and its infrastructure, subject to the need to ensure we remain competitive."* The revenue raising measures proposed within this Budget Report total £3.5million and are:

Increased business contribution

1.7 This will raise an additional £830,000 per annum through:

- a further extension of the 10% intermediate income tax rate to the activity of operating an investment exchange and certain compliance activities (£130,000) (para 6.5);

- the introduction of a new higher-rate commercial TRP for accountancy services and Non-Regulated Financial Services Businesses (£300,000) (para 6.87); and

- an above inflation increase in commercial TRP rates (£400,000) (para 6.85).

Progressive measures

1.8 It is proposed that an additional £2.39million is raised from those considered to be most able to pay through:

- the third phase of the withdrawal of personal allowances for higher earners by lowering the withdrawal threshold to £100,000 (£1million) (para 6.21). This will affect an additional 1,050 tax payers, increasing the number of individuals who are subject to the withdrawal of personal allowances to 2,200 (approximately 5.5% of taxpayers);

- an increase in the Income Tax caps to restore their real value (£640,000) (para 6.29). There are approximately 30 individuals who currently take advantage of a tax cap;

- the introduction of a banded system of domestic TRP rates for larger properties with phase 1 being in respect of very high rated properties (£500,000) (para 6.80). This will affect approximately 750 properties; and

- the introduction of a higher-rate Document duty band for the element of a property conveyance which is over £2million (£250,000) (para 6.93).

1.9 The MTFP recognised that the burden of raising additional revenue cannot rest exclusively on the shoulders of a few and there would be a need for proportionate and measured increases in taxes and duties across the board. This Budget recommends a real-terms' increase in the excise duty on alcohol which will raise an additional £280,000 per annum. A real-terms' increase in the excise duty on motor fuel is recommended but only in order to maintain the real value of income and compensate for the falling volumes being used.

1.10 The MTFP also included *"In addition, in line with the intention to seek to make the income tax system more progressive, the Committee will seek to balance this ambition to assist those on lower and modest incomes through increasing personal allowances where affordable and implementing the welfare reform approved following the work of the Social Welfare Benefits Investigation Committee."*

1.11 The Policy & Resources Committee is recommending an increase in personal income tax allowances of £500 (4.8%) to £11,000 for a single person. This is the third consecutive year in which an increase of this size has been recommended. The cumulative impact over this period equates to annual income tax cuts of £600 for couples and £300 for single persons. Along with the withdrawal of allowances for higher earners, this has significantly improved the progressive nature of the personal income tax system. The first three phases of the withdrawal of personal allowances for higher earners is expected to raise £4.8million per annum on an ongoing basis and the real-terms increases in personal income tax allowances have redistributed £4.6million which will be of greatest benefit to those on lower and middle incomes.

1.12 The Income Support scheme was successfully introduced in July 2018 and has resulted in a net ongoing increase in expenditure of some £4.25million (compared to the Supplementary Benefit and Rent Rebate schemes it replaced[a]). This is a significant investment in improving the welfare system and will undoubtedly have benefited many low-income households. Furthermore, the Policy & Resources Committee has supported the Committee *for* Employment & Social Security's proposal in its Non-Contributory Benefit Rates for 2019 Policy Letter for a substantial real-terms' increase in the benefit limitation, costing a further £330,000.

<u>Reduction in the cost base</u>

1.13 An important component of achieving a balanced budget is through savings delivered as a result of the reform of public services. The MTFP estimated that this reform dividend would generate ongoing and sustainable savings of £26million per annum by the end of 2021.

1.14 The MTFP estimated that ongoing reductions in States' revenue expenditure of £6.2million would be achieved in 2019. As set out in paragraph 7.28, although a lower amount of £4.6million is forecast, this will be compensated for by higher reductions in future years with total forecast savings over the period remaining in line with the £26million originally modelled.

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[a] The Income Support Scheme is forecast to cost £41.3million in 2019, this compares to the total comparable costs of the previous system of £36.8million - comprising Supplementary Benefit (£23.4million) and Rent Rebates (£13.4million).

1.15 The 2019 savings are not derived from a universal savings target applied to each Committee on a 'salami-slice' basis but from delivery of the shared initiatives set out in the MTFP and the longer-term service transformation programmes initiated through Public Sector Reform (para 7.14).

1.16 It is anticipated that the majority of the savings delivered over the remaining three year period of the MTFP will be from the major redesign of the organisational structure of the public service, with a new operating model implemented during 2019 and 2020. This is in line with the original intentions of the framework for Public Service Reform ("PSR") (Billet d'État XVI, 2015) which recognised that "*traditionally, services and the resources, systems and processes that support them have been structured within the sometimes arbitrary lines created by departmental boundaries. In many cases these boundaries have acted as unintended barriers to what is needed to transform public service.*"

1.17 Overall, this redesign will result in the targeted removal of at least two hundred civil service posts at all levels. The estimated recurring financial benefits are expected to be in excess of £10million per annum once all changes have been implemented and this could increase as the redesign project progresses.

1.18 The redesign of the structure of the public service will enable the States to:

- meet the targets for delivery of a reform dividend set out in the MTFP;
- deliver and capitalise on the Future Digital Services work which will change the way services are delivered;
- deliver the three prioritised transformation programmes of: Education and Training; Health and Social Care (the Partnership of Purpose); and Justice and Equality;
- implement a leaner structure with revised terms and conditions across the public service; and
- build an organisation structure that supports government – ensuring the flexibility to support the current and any future structure of government.

1.19 The investment required to implement the organisation redesign is estimated at £8million initially (for which there is an estimated payback period of two years), which the Policy & Resources Committee is proposing be ring-fenced from the Transformation and Transition Fund (para 7.45).

Expenditure measures

1.20 The MTFP made allowance of £1.5million per annum before inflation to fund expenditure pressures, including as a result of running existing services (either due to increased demand or complexity); regulatory requirements (for example, the General Data Protection Regulation); or minor service developments. In addition, specific provision of £1.6million was included in 2019 in respect of the ending of the transfer from the Solid Waste Trading Account to General Revenue as a result of the full implementation of the Solid Waste Strategy and the operation of Guernsey Waste as a separate trading asset.

1.21 However, Committees made detailed submissions requesting additional funding of in excess of £13million for 2019 which significantly exceeds the funding allowance made in the MTFP.

1.22 The Policy & Resources Committee has had to balance the requests from those responsible for service delivery with the commitments made to control public sector expenditure and balance the budget.

1.23 The Policy & Resources Committee is of the view that, in light of the overall financial position of the States, an increased real-terms allocation for 2019 to fund expenditure pressures and service developments is appropriate. Therefore, having undertaken a rigorous review and prioritisation exercise; declined some requests; identified other as being more appropriately funded from another source; and following extensive dialogue with Committees, the 2019 Cash Limits recommend the allocation of additional funding of £6.1million.

2019 BUDGET REPORT

2019 Overall Position

1.24 The following table summarises the General Revenue financial position:

	2019 Budget Estimate £m	2019 MTFP (inflated) Estimate £m	2018 Probable Outturn £m
Revenue Income			
Income Tax	339	334	330
Other Taxes	85	83	81
Miscellaneous Income	36	38	29
Revenue Income	460	455	440
Revenue Expenditure			
Cash Limits	(405)	(399)[b]	(383)
Savings to be delivered	5	-	-
Allowance for delayed delivery of savings[c]	(4)	-	-
Revenue Expenditure	(404)	(399)	(383)
Revenue Surplus	**56**	**56**	**57**
Capital Income	7	7	8
Operating Surplus	**63**	**63**	**65**
Transfer to Capital Reserve[d]	(62)	(62)	(61)
Transfer from General Reserve	4	-	-
Provision for Aurigny loss	(4)	-	-
Surplus	**1**	**1**	**4**

1.25 The MTFP estimates have been adjusted to reflect the ceasing of the Rent Rebate scheme as a result of the introduction of the Income Support scheme, resulting in compensatory increases of £6.7million in miscellaneous income and revenue expenditure.

1.26 With effect from 2019, rental income from properties managed by the Property Services section is treated as General Revenue income instead of operating income (para 8.1). For comparative purposes, 2018 has been restated.

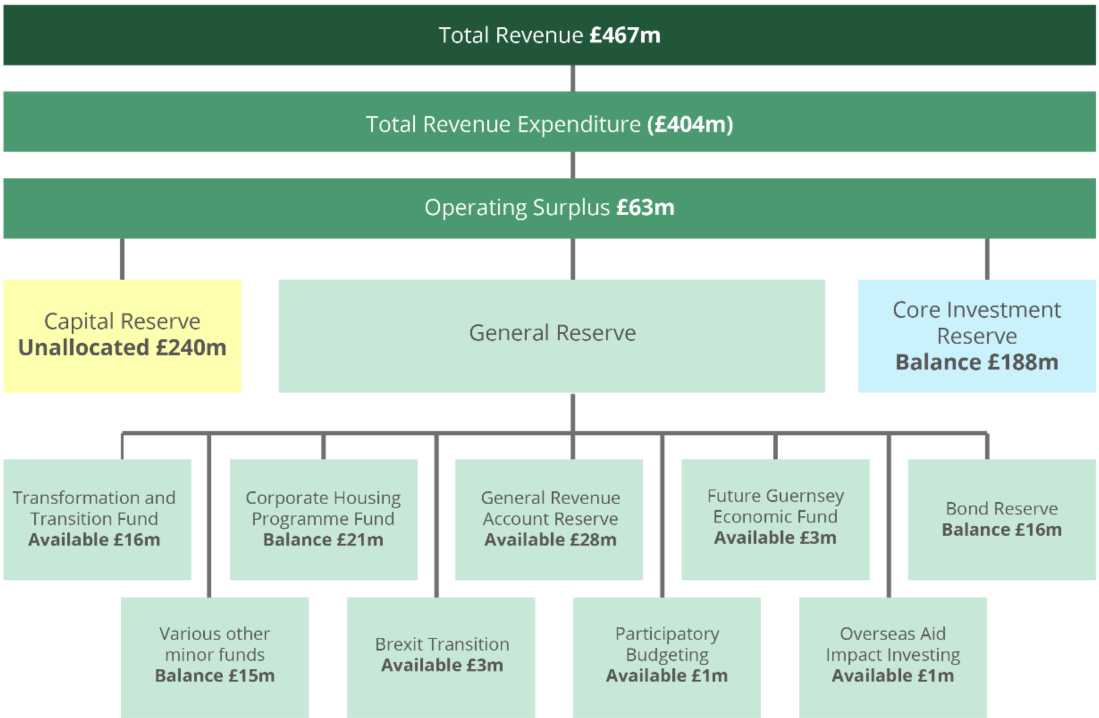
1.27 In respect of 2018, provision was made within the General Revenue Account Reserve for the forecast Aurigny loss of £3.9million. However, it is considered more prudent and transparent for the projected 2019 loss of £4.4million to be provided for within the budget. Paragraphs 9.62 to 9.69 include detailed commentary of the Aurigny forecasts.

[b] This is net of £6.2million of expenditure savings.

[c] As set out in paragraphs 2.22 and 2.23, it is proposed that a transfer of £3.92million is made from the General Reserve in 2019 to fund the anticipated yet to be delivered balance of budget reductions for the Committees *for* Education, Sport & Culture and Home Affairs.

[d] This includes capital income.

1.28 The 2019 operating surplus will be used to fund an appropriation to the Capital Reserve in line with the Fiscal Framework policy (£61.5million) and an unallocated surplus of £1million which will transfer to the General Reserve. The following diagram illustrates the expected balances and funds available to the States:



2019 BUDGET REPORT

Section 2: States reserves and use of the 2017 surplus

2.1 The Statement of Financial Position (formerly Balance Sheet) comprises the following Reserves:

- Capital Reserve – an earmarked long-term reserve created to provide funding for the States' programme of capital investment. The States have a policy of making sufficient transfers into this reserve to achieve actual capital expenditure averaging 3% of Gross Domestic Product ("GDP") per annum in the medium-term;

- Core Investment Reserve – an earmarked long-term reserve, the capital value of which is only available to be used in the exceptional and specific circumstances of severe and structural decline in public sector finances or major emergencies. As agreed as part of the MTFP, the States have a policy for the target balance of the Core Investment Reserve of 100% of General Revenue Income;

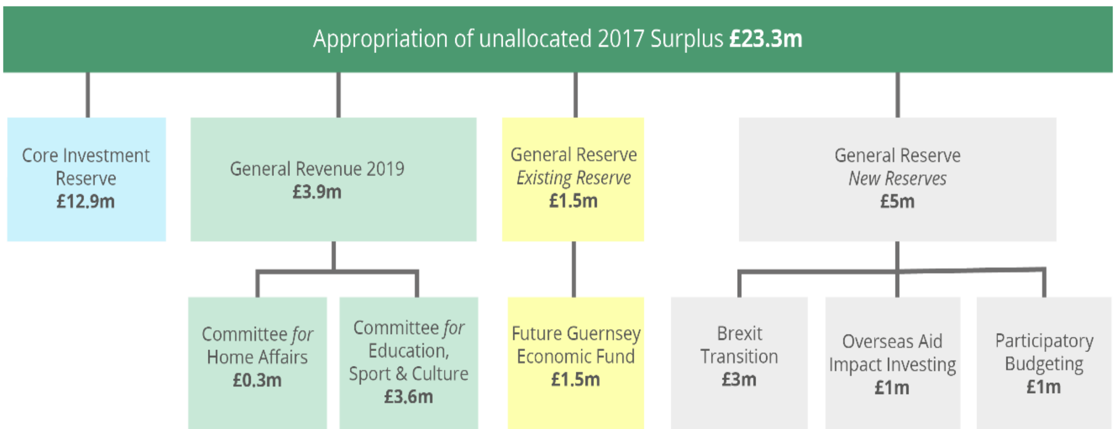
- States' Trading Entities Reserve – a long-term non-distributable reserve representing the book value of the shares held in commercial trading entities;

- General Reserve – retains the net balance of surpluses and deficits arising from the operational activities of the States.

2.2 The value of the Capital Reserve and Core Investment Reserve will increase as a result of investment returns and inward transfers approved by the States.

2.3 The General Reserve includes a number of Funds which are simply amounts which the States have earmarked for specific purposes. In addition, it contains the General Revenue Account Reserve which is used for managing any in-year shortfalls in income, short-term cyclical variations and other timing issues. As agreed as part of the MTFP, the policy for the average balance in the General Revenue Account Reserve is 5% of annual revenue income and the Reserve should be replenished as soon as possible after any draw-down.

2.4 The following diagram illustrates the structure of these various Reserves and Funds:



2.5 The General Reserve currently contains the unallocated surplus from 2017. The 2017 Accounts (Billet d'État XVII, 2018) included *"The balance of the General Reserve at the end of 2017 was £50m. Therefore, after allowing for £24m as the General Revenue Account Reserve and £3.9m provision for Cabernet Limited's 2018 projected losses, there is £22.1m of surplus available for appropriation. The 2019 Budget Report will include proposals for use of this surplus, taking into account the projected financial position for 2018 and 2019."*

2.6 The revised 2018 projected loss for Aurigny is £3.7million and, based on the 2019 revenue income budget of £460million, £23million needs to be retained as the General Revenue Account Reserve.

2.7 Therefore, the revised amount unallocated within the General Reserve is £23.3million and the Policy & Resources Committee is recommending that it is appropriated as follows:

Future Guernsey Economic Fund

2.8 As part of the 2017 Budget Report (Billet d'État XXVI, 2016), the States agreed that, in order to encourage and incentivise initiatives which deliver tangible fiscal returns, that 50% of any evidenced fiscal receipts to the States of Guernsey arising from measures funded from the Future Guernsey Economic Fund are re-invested in the Fund. The Committee *for* Economic Development has advised that, at this time, the only initiative on which it has been able to measure the return on investment is Locate Guernsey which, up to the end of June 2018, totals approximately £3million. Therefore, **it is recommended that £1.5million is immediately transferred to the Future Guernsey Economic Fund.**

2.9 The Committee *for* Economic Development is undertaking an exercise to assess, measure and report the return on investment in relation to the funding allocated from this Fund to the Digital Finance and Guernsey Finance LBG.

Brexit Transition Fund

2.10 The United Kingdom ("UK") is leaving the European Union ("EU") on 29 March 2019; this will end the Protocol 3 relationship that Guernsey has with the EU (including the UK). The detail of the relationship that follows is still subject to negotiation between the UK and the EU as well as between Guernsey and the UK. As a result, Guernsey needs to be ready and resourced to respond to the outcome of the UK's own negotiations. In light of the ongoing uncertainty, it has not been possible or feasible to budget for all outcomes.

2.11 The Policy & Resources Committee is undertaking extensive work to ensure that any necessary governance structures are in place as we move from the engagement phase of the Brexit work to the implementation of the outcome of the negotiations. These will have accompanying resource and cost implications which, at this stage, cannot be definitively estimated but are likely to be substantial and not able to be managed within Committees' Cash Limits.

2.12 Therefore, it is **recommended that a Brexit Transition Fund is immediately established within the General Reserve with an allocation of £3million and to delegate authority to the Policy & Resources Committee to approve use of this Fund.** This Fund would be used to support urgent and necessary measures to manage Brexit in a controlled and timely manner and mitigate against any risks that may arise, without adversely impacting on funding for existing States' priorities. This will be used to implement projects, *inter alia*, concerning: amendments to the customs and immigration systems; extension of the UK's membership of the World Trade Organization to Guernsey; and participating in any new economic partnership agreed by the UK, such as Free Trade Agreements. It could also be used to: manage any contingency risk including in relation to supply chains; implement measures to minimise risk to transport links; and maintain critical infrastructure.

2.13 The allocation of £3million is not a definitive estimate of the funding required; but bearing in mind the immense uncertainty associated with Brexit, it is simply a reasonable and prudent recommendation based on the information available to date. The level of and requirement for this Fund would be reviewed as part of the preparation of the 2020 Budget.

2.14 Any capital costs required as a result of Brexit would be funded through the Capital Reserve where there is an allowance for urgent and emergency projects which would be utilised for this purpose.

<u>Overseas Aid & Development Impact Investment Fund</u>

2.15 In November 2017, the States considered a Policy letter from the Overseas Aid & Development Commission ("OADC") (Billet d'État XXIII, 2017) and resolved, inter alia:

"2. to note the Overseas Aid & Development Commission's decision to progress, in close consultation with the Policy & Resources Committee (as "lead partner"), the initial exploratory discussion it has had regarding the possibility and feasibility of establishing a Guernsey Development Impact Fund;

3. to delegate authority to the Policy & Resources Committee to approve the investment of between £200,000 and £250,000 of the Overseas Aid & Development Commission's budgets for 2018-2020 in the proposed Guernsey Development Impact Fund; and to direct the Policy & Resources Committee to transfer a commensurate amount from the Budget Reserve to the revenue expenditure budget of the Overseas Aid & Development Commission in 2018 and make appropriate allowance when recommending to the States Cash Limits for 2019 and 2020 for the Overseas Aid & Development Commission."

2.16 The original proposal was that the Impact Fund investment would be from the OADC's existing Cash Limit but this was amended as detailed above (resolution 3). Whilst the Policy & Resources Committee supports the innovative approach offered by impact investing, as it should build on the government investment by seeking to attract philanthropic funds and private capital, it did not exercise its delegated authority as it did not consider this to be an appropriate use of the Budget Reserve which was under considerable pressure.

2.17 However, the 2017 surplus presents an opportunity to make available an amount to be used for investments designed in a manner to have the ability to make a different, more lasting impact in the world's least developed countries and with sustainable objectives in mind. Therefore, it is **recommended that resolution 3 above is rescinded and that an Overseas Aid & Development Impact Investment Fund is immediately established within the General Reserve with an allocation of £1million and to delegate authority to the Policy & Resources Committee to approve investment of this Fund.** The Policy & Resources Committee would work closely with the OADC in making investment decisions for this Fund.

2.18 The returns generated from this Impact Investment Fund would be available for reinvestment by the OADC, either through further Impact Investing or grant-funding. In recognition that the £1million is a substantial investment in excess of the £200-250,000 per annum for three years included in the November 2017 States resolution, the OADC has agreed that its 2019 Cash Limit shall remain at the 2018 level.

Participatory Budgeting Fund

2.19 Participatory (or community) budgeting is a means of the community engaging with government and deciding where to spend part of a public budget. This is an increasingly popular initiative in other communities which should deliver social and economic dividends including through community building by participants prioritising projects requiring one-off funding that they assess will address the greatest community need. For example, in Guernsey, this could have been used for projects such as the restoration works at La Vallette; replacement of the Town Christmas lights; provision of new playground equipment at the public parks; or providing one-off support for sporting, cultural or arts events.

2.20 It is considered that there is an opportunity for a pilot participatory budgeting programme to be undertaken and it is **recommended that a Participatory Budgeting Fund is immediately established within the General Reserve with an allocation of £1million and to delegate authority to the Policy & Resources Committee to approve use of this Fund.** It could be considered as a 'dividend' to the local community arising from the exceptional financial results recorded in 2017 and is the same value as the amount recommended for the Overseas Aid Impact Investment Fund.

2.21 The Policy & Resources Committee considers that the process would work best when it is not directly administered by government so will seek to partner with a third-sector organisation to undertake the prioritisation exercise. The Policy & Resources Committee will develop detailed criteria for use of the Fund.

Delayed delivery of budget reductions

2.22 As set out in paragraphs 7.8 to 7.13, the Committees *for* Education, Sport & Culture and Home Affairs have yet to fully deliver on the balance of their budget reductions and anticipate that delays in the delivery of savings for some projects mean that they will have undelivered balances of £3.62million and £300,000 respectively by the end of 2019.

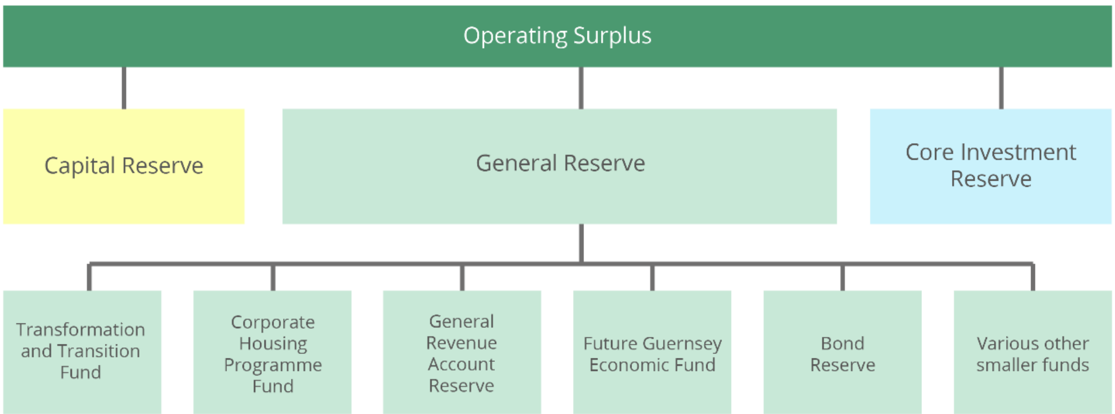
2.23 The Policy & Resources Committee recognises that the Committees have to balance the need for shorter term tactical, productivity and method changes with the longer term planning for transformation of services and the day to day delivery of those services. Both Committees have now set out their medium term plans for the delivery of savings and are working up more detailed plans for the delivery of these opportunities as part of their transformation programmes. The Policy & Resources Committee is therefore **recommending that the States notes that £3,920,000 of the General Reserve is being used to increase the 2019 budgets of the Committee *for* Education, Sport & Culture (£3,620,000) and the Committee *for* Home Affairs (£300,000).**

Core Investment Reserve

2.24 As agreed as part of the MTFP, the States have a policy for the target balance of the Core Investment Reserve of 100% of General Revenue Income. The States also agreed that the Policy & Resources Committee should make proposals for appropriations to this Reserve when the overall financial position is in surplus. The Core Investment Reserve had a balance of £168.4million at the end of 2017 which represented 39% of the 2018 General Revenue income budget.

2.25 Therefore, it is **recommended that £12.9million is immediately transferred from the General Reserve to the Core Investment Reserve.** It is projected that the Core Investment Reserve will have a balance of approximately £188million at the end of 2018 – 41% of the 2019 revenue income budget.

2.26 The following diagram summarises these appropriations:



2.27 At this stage, small surpluses are forecast for 2018 and 2019, of £4million and £1million respectively. It is not proposed that these anticipated surpluses are appropriated now but future Budget Reports would include recommendations for any surpluses that are realised. Conversely, a deterioration in the financial position to an overall deficit would require measures to be taken to replenish the balance of the General Revenue Account Reserve as soon as possible.

Section 3: Strategic Context

Fiscal Policy

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

3.2 As a result of the update to the method of calculating GDP to align Guernsey's calculation methodology with international standards, it has become necessary to review the Fiscal Policy Framework. The resulting material upward revision of GDP, including the restatement of previously published values, has meant a substantial increase in the monetary value of the criteria within the framework. As a consequence, the link between Guernsey's historical fiscal performance, on which the original framework criteria were based, and levels of published GDP has been lost.

3.3 The 2017 Annual Independent Fiscal Policy Review[e] included:

"The changes to the island's GDP and the corresponding effect on the Fiscal Framework's rules … represent an opportunity for the island to re-evaluate its fiscal position, spending levels and core strategies."

and "This restatement of GDP may necessitate a root-and-branch review of the Fiscal Policy Framework and is in general an opportunity for the island to debate its fiscal position, spending levels and core strategies … as rules that are very easily met (or in the case of capital spending, easily ignored) may not provide the assurance or guidance intended when first implemented."

3.4 Therefore, as previously reported, instead of simply "resetting" the relative values within the Framework to the new GDP level, the Policy & Resources Committee has commenced a more comprehensive review which will align with current practice and ensure that the criteria remain consistent with the Framework's intention of promotion of good fiscal discipline and long-run permanent balance.

3.5 The intention is that the Policy & Resources Committee will engage with States Members and other stakeholders before returning to the States with formal proposals for a revised framework during 2019.

3.6 Whilst the review of the Fiscal Policy Framework is in progress, and for the purposes of this Budget Report only, comparisons to the Framework have used a GDP of £2,550million. This has been calculated based on the latest GDP figure published (in August 2016) under the previous calculation methodology of £2,355million plus two years of growth based on changes in the revised GDP calculation.

[e] available at www.gov.gg/annualindependentfiscalreview

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

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

  The budgeted position for 2019 is a surplus of £5.4million before provision is made for Aurigny's forecast deficit of £4.4million. This improvement compared to the position outlined in the MTFP is primarily due to a non-recurring income tax settlement receipt.

  Overall expenditure is projected to grow in real-terms at the aggregate level between 2018 and 2019 as an increased portion of the forecast savings has been allocated to Cash Limits to fund expenditure pressures and service developments than was set out in the MTFP. In addition, it has not been possible to recommend reinstatement of the grant to the Health Service Fund (which has been suspended since 2017) due to the ongoing additional funding requirement to address pressures being faced in respect of health and social care services;

- *"actual capital expenditure averaging 3% of GDP per annum in the medium-term."*

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

  In line with the projections within the MTFP the proposed 2019 transfer to the Capital Reserve of £54.5million is the level necessary to achieve total transfers (including other sources of income to the Reserve) of 3% of GDP.

  As set out in the table in paragraph 8.64 of this report, there is now estimated to be £66million available in the Capital Reserve over this prioritisation period in excess of the amount required for projects in the approved portfolio. Therefore, this unallocated balance will be available to contribute towards the funding of the next capital portfolio.

3.8 The Budget has also been prepared with due regard to the Framework requirement that the *"upper limit on aggregate government income, incorporating General Revenue, Social Security contributions and fees and charges, such that total government income should not exceed 28% of Gross Domestic Product."* It is estimated that, taking into account the measures proposed in this Budget Report and in the Committee *for* Employment & Social Security's policy letter entitled *"Contributory Benefit and Contribution Rates for 2019*", aggregate government income in 2019 will represent approximately 26.5% of GDP (2018: 26%). This has increased in recent years in line with additional tax and other revenue raising measures; increased social security contributions; and the ending of the Rent Rebate scheme (which resulted in an increase in income as gross rents are now received).

Public Service Reform

3.9 Public Service Reform is an ongoing 10-year programme for transforming the organisation, management and delivery of public services in Guernsey led by the Chief Executive and endorsed by the States in September 2015.

3.10 The aim of PSR is to build a **single** public service organisation that works in partnership with outside expertise, organising and delivering services centred on those who use them, and using money wisely.

3.11 The Policy Council's Policy Letter on this subject stated that:

"A system of government designing and approving 21 Century policies and laws needs a public service suitably skilled and equipped to deliver them; equally a public service facing the challenges of service delivery in a fast-paced digital world, where customer expectations have never been higher, requires a government structure that will be supportive of changing the ways in which public services are organised, managed and delivered. At best government and the public service need to work conjointly and in partnership, respecting each other's particular role in ensuring all 'customers' – individual and corporate, profit-making and non-profit making - are provided for and served as effectively and efficiently as possible.

"The reform document identifies that achieving these objectives and delivering against these commitments will require the development of both the capabilities and capacity to design, deliver and sustain organisational change across the public service. It also identifies that this will require leadership at every level and support for a sustainable culture of change across the public service, in order for the public service to adapt and be responsive to the needs of all its customers. "

3.12 The successful implementation of transformation will bring a return on investment known as the reform dividend, where cost savings can be used to eradicate the deficit; fund demand in services like health and social care; be invested in new or improved services; generate funding to invest in capital assets; or replenish depleted reserves.

Policy & Resource Plan

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

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

3.14 Policy and operational priorities must be suitably aligned with and supportive of the Policy & Resource Plan, the MTFP and Public Service Reform.

3.15 In June 2017 (Billet d'État XII, 2017) the States approved phase two of the Policy & Resource Plan, which included the policy plans of the Principal Committees and the Policy & Resources Committee, each of which set out their respective priorities. In November 2017, as part of the 2018 Budget Report (Billet d'État XX, 2017), the States prioritised twenty three policies to deliver as effectively as possible, and within existing resources, the outcomes detailed in the Policy & Resource Plan.

3.16 In June 2018, the States considered the first Review and Update on the Policy & Resource Plan (Billet d'État XV, 2018) in which it was noted that the approach was beginning to achieve the objective of fostering more cross-Committee working. The Committee also reported its concerns with the overall deliverability of the significant number of priorities, although deciding on balance that it was premature to recommend reprioritisation.

3.17 In the 2018 Budget Report, additional resources were made available to progress policies where there was an identified need. At that time, it was understood that all other work streams could be progressed without the requirement for any additional revenue resources. The availability of further additional resources to fund policy development will be dependent on the delivery of reform dividends that can be reinvested in new or improved services. It is not sustainable for every new strategy or plan to come with a significant price tag for implementation. Policy is a critical element in the design and delivery of the reform of public services and it is vital that financial considerations are central to the thinking in such work.

Medium Term Financial Plan

3.18 As set out in the Policy & Resource Plan, the return to a balanced position is the highest priority for the Policy & Resources Committee since sustainable finances are critical to both Guernsey's economic success and the States' ability to provide public services in the long-term, delivering on the requirement for long-run permanent balance.

3.19 As part of phase one of the Policy & Resource Plan the States committed to achieving the outcome of sustainable public finances and, during this political term, to:

- adhere to the fiscal rules contained within the Fiscal Policy Framework;
- present a credible fiscal strategy as part of phase two of the Policy & Resource Plan in June 2017 which will reflect the commitment of the States to encourage economic growth; restrain public expenditure by requiring further efficiency savings and the prudent management of financial resources, people and physical infrastructure; and raise additional revenue as far as possible from individuals and entities most able to bear the burden;
- achieve and maintain a balanced budget in the short-term and surplus in the medium-term without contravening any part of the States' Fiscal Policy Framework;

- continue expenditure restraint and ensure no real-terms' growth in expenditure while the budget remains in deficit;

- provide leadership of the transformation agenda and support the Public Service Reform agenda in order to manage both short and long term spending pressures;

- ensure that the States' commercial and semi-commercial entities and other States' assets are maximised, making an appropriate return to the States but without placing a disproportionate burden on customers, many of whom are inevitably on low incomes;

- prioritise capital investment aligned with the Policy & Resource Plan; and

- ensure competitive recruitment and retention of quality, skilled professionals, balanced with appropriate scrutiny including control and review of staffing costs, grading and pay awards, and effective performance management, within the public sector.

3.20 As part of phase two of the Policy & Resource Plan, and given the joint focus on both policy and resources, the States approved the MTFP which is a strategy covering the medium term designed to ensure the finances of the States can support delivery of the outcomes set out in the Policy & Resource Plan.

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

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

Economic Context

3.23 Externally, the world economy is buoyant. Brexit appears to have had less impact on UK growth rates than was anticipated – an outcome that Guernsey will have benefited from.

3.24 However, with the March 2019 deadline for the completion of Brexit negotiations just a few months away, the current lack of clarity about the future economic partnership presents economic risks. Guernsey continues to engage constructively with the UK government to ensure our interests are properly represented and to develop and implement plans to mitigate these risks.

3.25 The recently published estimates of GDP for 2017 have confirmed the healthy economic conditions already observed in the real growth in government revenues; the good investment return on government reserves; and the expansion of the labour market during the year. It is estimated that the economy grew by 2.0% in 2017 reaching a milestone value of £3billion.

3.26 While growth for 2018 may prove to be a little slower, the current indications are that 2018 will prove to be another year of solid growth. ETI receipts for the first half of the year grew faster than price inflation, the total workforce continued to grow, and unemployment has remained below 1%. Budget forecasts have been compiled on the assumption that real growth in revenues will continue through the remainder of 2018. However, the rate of growth is expected to soften to a more modest level of 0.25% in 2019.

3.27 Inflation over the past year has increased to a rate closer to the long term average of 2.8%. The expectation is that RPIX will increase a little further to about 3% during the remainder of 2018, pushed upward by rising oil prices, before softening slightly in 2019. This budget is compiled using an assumed RPIX of 2.5% for 2019.

3.28 The housing market has shown signs of recovery in terms of the number of local and open market transactions taking place, but property prices continue to lag inflation. While this trend over the past five years has made the market more accessible for first time buyers, the loss of real value continues to be difficult for those whose house represents their largest asset. The emergence of new mortgage lenders in the market and a resurgence of activity among those lenders whose activity has been limited over the last two years suggest that lenders have a growing confidence in market conditions.

3.29 The growth of the workforce has been achieved through increases in the participation rate. The proportion of the population between 16 and 64 who are in work or full-time education has increased by about 6% in three years. However, like the United States of America and the UK, this expansion of the workforce has not lead to real growth in earnings. More people are in work, but their income growth seems to be lagging slightly behind inflation. It was also not until the third quarter of 2017 (the latest data available) that the expansion of the workforce has been matched by a net immigration of people into the Island.

3.30 The long-term issues of an ageing population and upward trend of dependency ratios in Guernsey are taken very seriously by the Policy & Resources Committee. Our workforce drives our economy, and ensuring we have the right number of people with the right skills to support commercial business is important to our growth prospects and to adequately staff the care and support service for which demand will increase.

3.31 While the expected peak in dependency ratio is still some way in the future, managing the implications of this early is essential. If we are to meet the challenge successfully and limit the transfer of an unsustainable cost burden to the next generation while still providing the services which will be needed by those who are currently reaching the end of their working lives, effective policy development and the transformation of service provision are absolutely necessary.

Section 4: 2018 Financial Position

4.1 The following table summarises the States' 2018 financial position:

	2018 Probable Outturn £m	2018 Budget Estimate £m	2018 MTFP (inflated) Estimate £m	2017 Actual £m
Revenue Income				
Income Tax	330	325	322	324
Other Taxes[f]	81	80	80	80
Miscellaneous Income	26	27	28	27
Revenue Income	437	432	430	431
Revenue Expenditure	(380)	(378)	(382)	(357)
Revenue Surplus	**57**	**54**	**48**	**74**
Capital Income	8	7	7	5
Operating Surplus	**65**	**61**	**55**	**79**
Transfer to Capital Reserve	(61)	(60)	(55)	(50)
Surplus	**4**	**1**	**-**	**29**
Transfer to General Reserve	4	1	-	29

4.2 Under the Rent Rebate scheme, rent rebates were netted off against rental income resulting in a lower rent charged to tenants, whereas under the Income Support scheme, which was introduced in July 2018, all tenants are now charged gross rents and all benefits paid, whether for rental or other living expenses, is recorded as expenditure. Therefore, both income and expenditure have increased by £6.7million in 2018 and £13.4million in 2019 to account for this change. The miscellaneous income and revenue expenditure figures in this table have been adjusted to reflect this.

4.3 Compared to the MTFP, the income budgeted for 2018 was £2million higher primarily due to a non-recurring income tax settlement of £4million and expenditure was £4.3million lower due to the suspension of the grant to the Health Service Fund. These two positive variances enabled the transfer to the Capital Reserve to be increased by £5.8million to the full level necessary to achieve an investment of 3% of GDP and deliver a small budget surplus.

4.4 Compared to budget, the 2018 projected revenue surplus (i.e. **before** transfer to the Capital Reserve) has increased by £3million to £57million. This is primarily due to income tax receipts being £5million higher than budgeted which is sustaining the improvement and solid real-terms' growth recorded in 2016 and 2017, offset by expenditure being £2million higher than budgeted.

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[f] This includes receipts from a specific settlement of £2.6million in 2017 and £4million in 2018. A final amount of £5.3million will be received in 2019.

4.5 The 2018 budget for income tax receipts was compiled in mid-2017 based on the best information, indicators and forecasts available at that time. There is an inherent difficulty in forecasting income tax receipts as there is a significant time delay between profits and investment income earned and assessed tax paid for all receipts apart from those relating to employment. Although income tax is collected based on interim assessments, the submission of returns and issue of final assessments can be up to two years later than the year of charge and can lead to significant under- or over-payments in the intervening period. This can distort the statistics and lead to inaccuracies in forecasting.

4.6 The following table details the anticipated 2018 Probable Outturn for each Committee[g] compared with budget, based on the position at the end of August:

2018	Original (Restated) Budget £'000s	Authorised Budget[h] £'000s	Probable Outturn £'000s	Anticipated (Over) / Underspend £'000s
Corporate Services (Policy & Resources)	27,110	28,695	28,401	294
Economic Development	6,235	6,822	6,749	73
Education, Sport & Culture	73,925	74,628	77,884	(3,256)
Employment & Social Security	11,919	12,099	11,792	307
Environment & Infrastructure	11,975	12,429	12,309	120
Health & Social Care	114,621	117,960	117,960	-
Home Affairs	29,825	31,283	31,708	(425)
Policy & Resources	8,400	8,801	8,801	-
Scrutiny Management	547	560	547	13
Development & Planning	1,340	1,408	1,358	50
Overseas Aid & Development	2,960	2,960	2,960	-
States' Trading Supervisory	1,490	1,628	1,596	32
Transport Licensing	-	24	24	-
Royal Court	2,535	2,660	2,657	3
Law Officers	4,475	4,779	4,779	-
States of Alderney	1,840	1,891	1,891	-
TOTAL NON-FORMULA LED	**299,197**	**308,627**	**311,416**	**(2,789)**
FORMULA LED	**66,920**	**66,920**	**66,771**	**149**
BUDGET RESERVE	**11,683**	**2,253**	**1,765**	**488**
	377,800	**377,800**	**379,952**	**(2,152)**

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

[h] Authorised Budgets include inter-Committee transfers and £9million of funding which has been transferred between the Budget Reserve and Committees including £5.2million in respect of settled pay awards.

4.7 The Committee *for* Education, Sport & Culture submitted its 2018 budget £3.9million in excess of the Cash Limit comprising:

a. balance of £2.1million of the £2.3million 3% budget reduction allocated to the Committee's 2017 Cash Limit;

b. 1% reduction of £745,000 applied to the Committee's 2018 Cash Limit;

c. pre-School funding of £516,000 which the Committee committed to provide by reprioritisation of its existing budget; and

d. 'business as usual' expenditure pressures of £500,000.

4.8 The Committee has been able to realise £300,000 of budget reductions (with a recurring value of £430,000) in 2018 and expects to underspend on various budget headings in-year by £300,000. Therefore, it is forecasting an overall net budget overspend of £3.26million in 2018. The table in paragraph 7.11 sets out the Committee's planned timing to deliver the balance of its budget reduction.

4.9 The Committee *for* Home Affairs is forecasting an overspend in 2018 of £425,000 comprising £350,000 in respect of non-delivery of the budget reduction together with an unbudgeted HMIC Inspection of Law Enforcement.

4.10 Based on current forecasts, the underspends forecast by the majority of Committees and the remaining balance in the Budget Reserve are not anticipated to be sufficient to counter-balance the overspends set out above. Therefore, an overall revenue expenditure overspend of £2million is anticipated. This may decrease or be eliminated if service leads/budget holders have exercised natural prudence in estimating probable outturns as has been the case in previous years. The overall adverse expenditure position is compensated for by revenue income forecasts being higher than budgeted.

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Section 5: Introduction of substance requirements for companies resident in Guernsey

Background

5.1 In 2017 the Code of Conduct Group on Business Taxation ("COCG") investigated the tax policies of third countries to the European Union ("EU"). As part of the screening process jurisdictions were assessed against standards of:

i) tax transparency;

ii) fair taxation; and

iii) compliance with anti–Base Erosion and Profit Shifting ("BEPS") measures.

5.2 No concerns were raised against Guernsey's standards of tax transparency and anti-BEPS compliance. Guernsey was also compliant with the general principles of "fair taxation" as it had been assessed against the Code of Conduct criteria and deemed non-harmful in 2012.

5.3 Jurisdictions with low or zero rates of corporation tax were also assessed against a new criteria *"that jurisdictions should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic substance"*. During this screening process the COCG expressed concern that Guernsey did not have a *"legal substance requirement for entities doing business in or through the jurisdiction"*. The COCG were concerned that this *"increases the risk that profits registered in a jurisdiction are not commensurate with economic activities and substantial economic presence"*. The report prepared by the COCG[i] was agreed by the Economic and Financial Affairs Council ("ECOFIN"), which is the council of EU Finance Ministers, on 5 December 2017.

5.4 These concerns were articulated in a letter to the States of Guernsey in November 2017. In response Guernsey made a commitment[j] to address these concerns by the end of December 2018. Failure to meet this commitment by the end of the year could lead to Guernsey being placed on an EU blacklist with any sanctions from that process being damaging to industry, whether that is financial or other sanctions imposed, or the perceived negative impact on Guernsey's reputation preventing inward investment.

5.5 Guernsey was placed in Annex II in a report produced by the COCG for ECOFIN. Annex II provides an overview of jurisdictions that were identified to have issues but had made commitments to address and resolve them. Within Annex II Guernsey is referred to as a jurisdiction committed to address concerns relating to the economic substance of companies tax resident in Guernsey.

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[i] http://data.consilium.europa.eu/doc/document/ST-15429-2017-INIT/en/pdf,
updated version: http://www.consilium.europa.eu/media/35567/st_6236_2018_rev_3_en.pdf

[j] https://www.gov.gg/article/162949/Statement-from-the-President-of-the-Policy--Resources-Committee

5.6 Identical concerns were raised in respect of Jersey and the Isle of Man and so the Crown Dependencies have been working closely together to develop proposals which aim to meet the commitment. The British Overseas Territories are amongst other jurisdictions who are also present on Annex II, however, owing to the different methods of taxation in these jurisdictions it has not been possible to engage with them to the same extent.

Engagement

5.7 States of Guernsey officials have been working closely with counterparts in the Isle of Man and Jersey to collectively develop proposals to address the concerns raised by the COCG.

5.8 This work has included technical dialogue with the European Commission (Taxation and Customs Union - TAX UD) and the COCG, both in plenary sessions with other jurisdictions and bilateral meetings. This engagement led to the COCG publishing a Scoping Paper[k] endorsed by ECOFIN on 22 June 2018, as to the specific measures and conceptual definitions they are expecting Guernsey to meet.

5.9 Discussions have also taken place with individual EU Member States, with this work coordinated by the Channel Islands Brussels Office. This has ensured meaningful feedback on the proposals put forward to meet the commitment made, within an extremely tight and challenging timeframe.

5.10 An industry working group was set up with representatives from the main industry bodies, including Guernsey International Business Association, Guernsey Association of Trustees, STEP Guernsey (the professional association for practitioners who specialise in family inheritance and succession planning) and the Guernsey Society of Chartered and Certified Accountants, as it is necessary to ensure that the proposals meet both the needs of local industry and our commitment to the EU.

5.11 A number of specific industry sector meetings were also held in the lead up to the launch of the public consultation on 6th August regarding the proposals (which was aligned with the consultation in Jersey) to which there were over 200 responses with 15 industry/professional bodies providing responses.

5.12 The majority of respondents acknowledged the necessity of compliance with COCG requirements and following the global anti-BEPS agenda. They also generally viewed the burden of requirements as relatively low. There was a clear desire for comprehensive guidance and continuing engagement with business throughout the drafting processes.

5.13 The feedback from that consultation has informed drafting of the proposals, relevant legislation and will allow government to ensure a smooth transition for companies carrying on relevant activities.

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[k] http://www.consilium.europa.eu/register/en/content/out?DOC_TITLE=code+of+conduct+guidance&DOC_SUBJECT=FISC&i=COCGGD&ROWSPP=25&DOC_LANCD=EN&ORDERBY=DOC_DATE+DESC&typ=SET&NRROWS=500&RESULTSET=1&TARGET_YEAR=2018.

5.14 The draft legislation was provided to the COCG, in order for the content to be considered at its meeting on 21 September 2018. The feedback received from that meeting has informed further development of the proposals.

Proposed introduction of substance requirements

5.15 This area of work is important to demonstrate our continued commitment to maintaining Guernsey's reputation as a well-regulated, transparent and co-operative jurisdiction. The proposals are a reasonable and proportionate response to the concerns that were raised by the COCG. The reasonable expectation is that following adoption of these proposals, the recommendation of the COCG to ECOFIN will be that Guernsey has satisfactorily implemented its commitments and should accordingly be removed from Annex II by February 2019 ECOFIN.

5.16 **It is proposed that the Income Tax (Guernsey) Law, 1975 is amended to provide the ability for the Policy & Resources Committee to make Regulations requiring companies carrying on or undertaking relevant and other specified activities to have a substantive presence in Guernsey by meeting 'substance requirements'.** This will give the Committee authority to (by regulation) make such provision considered necessary to implement the proposals outlined including:

- the relevant and other activities subject to substance requirements;
- the detailed substance requirements applicable;
- sanctions and enforcement measures;
- the obtaining and exchange of information in relation to substance; and
- supervision, monitoring and verification of compliance.

5.17 These proposals will require companies that are tax resident in Guernsey and engaged in key activities identified by the EU to demonstrate as part of their annual tax return for accounting periods commencing after 31 December 2018 that they meet minimum substance requirements.

5.18 The key activities identified by the COCG are as follows, although it is proposed that the Policy & Resources Committee may update the relevant activities by regulation:

- banking;
- insurance;
- fund management;
- financing and leasing;
- headquarters;
- shipping;
- intellectual property; and
- holding companies that generate income from any of these key activities and pure equity holding companies.

5.19 The substance requirements will vary for each key activity to reflect the different needs of the companies involved and the risk exposure, and will be aligned to international standards identified by the FHTP. The Revenue Service will provide public guidance on the gov.gg website that will, where appropriate, build on any existing regulatory requirements relating to local substance.

5.20 The requirements are designed to be fair and proportionate while ensuring that a company undertaking relevant activities can demonstrate that:

- it is directed and managed in Guernsey;
- the core income generating activities (“CIGA”) are undertaken in Guernsey;
- there are adequate and appropriately skilled employees in Guernsey; and
- it has adequate annual expenditure and physical presence in Guernsey to reflect the amount of profits accounted here.

5.21 Outsourcing of CIGA to another entity within Guernsey will be permitted in line with the approach agreed by the FHTP. However companies will need to ensure that they are able to demonstrate adequate supervision of the outsourced activity. An anti-avoidance provision will be introduced to ensure that outsourcing cannot undermine the principles and purpose of the regime, to ensure that Guernsey does not facilitate structures or arrangements aimed at attracting profits which do not reflect real economic activity within the jurisdiction. This will ensure that outsourcing could not be used to circumvent the substance requirement.

Intellectual Property (“IP”)

5.22 In respect of companies with income from IP, which are classified as ‘high risk’ IP companies, in order to meet our commitment the legislation will include a rebuttable presumption that the core income generating activity test is not satisfied. The onus will therefore be on the company to demonstrate to the Revenue Service that they have sufficient substance in Guernsey.

5.23 Irrespective of whether the company is able to rebut the presumption that it does not meet the substance test, the proposals will provide for the Revenue Service to spontaneously exchange information about the company with the competent authority of the EU Member State where either the immediate or ultimate parent companies are tax resident.

5.24 High-risk IP companies will have the following characteristics:

(a) the company holds intellectual property assets but did not create the intellectual property in the intellectual property assets which it holds;

(b) the company acquired the intellectual property assets either from an intra group person, or through funding research and development by another person situated in a territory other than Guernsey;

(c) the company licences the intellectual property asset to one or more non-resident intra group persons or otherwise generates income from the asset in consequence of activities (such as facilitating sale agreements) performed by non-resident intra group persons; or

(d) the company holds intellectual property assets but does not carry on either of the CIGA of research and development or marketing, branding and distribution.

5.25 The periodic decisions of non-resident board members meeting in Guernsey would not be sufficient to demonstrate that a company with income from IP is directed and managed in Guernsey.

Sanctions

5.26 The starting point for ensuring compliance with the new requirements will be the filing of a tax return, for which the Revenue Service already has systems in place to ensure that tax returns are filed and that returns are complete including sanctions for filing failures. The information provided in the return will be monitored on a risk (of profit shifting) basis as well as by random selection of companies for audit each year in line with the existing practice for the monitoring of domestic tax compliance.

5.27 It is proposed that the Revenue Service is given the appropriate powers to enable them to make further enquiries as may be necessary in order to determine if the company is subject to, and satisfies, the legislative substance requirements.

5.28 It is also proposed that the legislative amendments provide for rigorous, effective and dissuasive sanctions that can be applied progressively including:

- financial penalties for substance failure;
- the Revenue Service spontaneously exchanging information concerning the company with any EU Member States where the immediate and ultimate parent entities are tax resident; and
- ultimately that a company incorporated in Guernsey can be struck off the relevant companies register for failure to comply.

Disclosure gateway

5.29 There is an increasing need for the Revenue Service and the Guernsey Financial Services Commission ("GFSC") to be able to work more collaboratively, particularly with an increased linking of taxation to regulatory activities. To facilitate this, there is a need to have better lines of communication and ability to exchange information.

5.30 The Disclosure (Bailiwick of Guernsey) Law, 2007 currently enables the Director of Income Tax to make disclosure of information to the GFSC, however this is not a reciprocal framework (unlike that which was contained in the Disclosure Law between the Revenue Service and Law Enforcement). **The Policy & Resources Committee therefore recommends amendment to the Disclosure Law to introduce a reciprocal framework.**

5.31 This recommendation has been discussed with the GFSC who are in support of this proposal, particularly as it will help demonstrate Guernsey's effectiveness in facilitating investigations of tax evasion and money laundering both in Guernsey and abroad.

Resource Implications

5.32 As a consequence of these proposals, there will need to be changes to the company tax return to ensure that those companies carrying on the relevant categories of activity can be identified. It is also anticipated that there will be an ongoing monitoring process by the COCG to ensure that the legislative and enforcement provisions are being adequately administered. Guernsey has committed to providing the necessary input to such an annual monitoring process.

5.33 The Policy & Resources Committee has also given a commitment to the COCG that appropriate resources will be deployed to ensure the ongoing compliance and enforcement of sanctions for non-compliance and that the Revenue Service has in principle approval for budgets to both enhance their systems and increase their resources (i.e. additional appropriately skilled employees) to ensure that these provisions are implemented and enforced. These budget requests have been incorporated within the recommended cash limit for 2019 (para 8.33).

Further Transparency Measures

5.34 As part of this process, the EU has raised some further transparency measures that it is asking Guernsey to commit to as part of this process. It is intended to give political commitment to these measures, as indicated in the public consultation, with the measures summarised below.

Beneficial Ownership

5.35 It is **proposed that a commitment is given to, introducing legislation for the purpose of enabling real-time or close to real-time access to beneficial ownership information by EU tax and law enforcement authorities, on a reciprocal basis, subject to ensuring appropriate data and safeguarding measures are in place.** This would not be a public register. It is understood that EU Member States are currently working towards the establishment of central registries, and the interconnection of these registries by 2021. This commitment would be in line with the political commitment given in 2016 to help shape an international standard in automatic exchange of beneficial ownership information, an initiative led by the "G5".

5.36 This commitment recognises the need for accurate and accessible beneficial ownership information as part of the international tax and anti-money laundering standards, on which Guernsey already has existing high standards in place including:

- a long track record as an effective partner, regularly providing data to tax authorities and law enforcement agencies, to assist global efforts of combatting financial crime, including tax evasion. The effectiveness of these arrangements was recently confirmed by the UK Home Office;

- existing legislation which ensures that all legal entities must maintain adequate, accurate and current beneficial ownership information and that this information is held in a central registry;

- comprehensive regulation of Trust and Corporate Service Providers, including the requirement for them to hold adequate, accurate and current beneficial ownership information on their clients. The ongoing verification and supervision that this information is being held correctly means that Guernsey has a standard of beneficial ownership information available found in few other jurisdictions around the world;

- under the Common Reporting Standard ("CRS") information about beneficial ownership is already being automatically exchanged with all EU Member States that have satisfied the requirements of the CRS; and

- Guernsey was among those jurisdictions that committed in 2016 to join the international initiative, led by the "G5" and subsequently by the EU as a whole, to develop a new international standard on beneficial ownership. The jurisdictions are playing an active role in the relevant fora (the Financial Action Task Force and the Global Forum) in the work underway to take forward this initiative.

Mandatory Disclosure Rules

5.37 It is also **proposed that a commitment is given to introduce legislation for mandatory disclosure rules by 31 December 2019 (the timescale that countries within the EU are working towards) aligned to the OECD work on mandatory disclosure rules for CRS Avoidance Arrangement and Opaque Offshore Structures.** These rules would require promoters of avoidance arrangements and service providers to disclose information on the arrangement or structure to the Revenue Service. Such information would include the identity of any user or beneficial owner and would then be exchanged with the tax authorities of the jurisdiction in which the users and/or beneficial owners are resident where there is a relevant information exchange agreement. Whilst not currently one of the BEPS Minimum Standards, the rules effectively set out "best practice" on countering CRS avoidance, therefore their introduction is an inevitable part of the compliance strategy of the Revenue Service.

Power to implement future international tax measures by regulation

5.38 Currently the Policy & Resources Committee may, by regulation under section 75CC of the Income Tax (Guernsey) Law, 1975, implement any international agreement providing for the obtaining, delivery, making available, furnishing and/or exchanging of documents and information in relation to tax. The agreement must have been specified for the purposes of the Law by Ordinance of the States. This power has been invaluable in enabling the States to meet its international standards and obligations in relation to taxation quickly and in accordance with what are invariably stringent timelines. Examples are the Foreign Account Tax Compliance Agreement and those relating to the CRS and Country by Country reporting.

5.39 Although the amendments to the Income Tax (Guernsey) Law, 1975 conferring regulation making powers proposed at paragraph 5.16 above will, if approved, enable the Committee to implement substance requirements by regulation, it is apparent that future tax initiatives and standards will continue to be promulgated by the international community and it is important that Guernsey has the legislative mechanism to deal with the new obligations promptly to avoid any risk of international criticism or opprobrium.

5.40 It is therefore proposed that the Income Tax (Guernsey) Law, 1975 be amended to provide the Policy & Resources Committee with regulation-making powers for the purposes of implementing other international tax measures. The provisions would be similar to section 115A of the Isle of Man Income Tax Act 1970 which enables the Isle of Man Treasury to make orders for the implementation within the island, or compliance with, international tax measures. This ensures that the Isle of Man is able to respond rapidly to developing international demands.

5.41 To ensure that the States of Deliberation are able to maintain oversight of the regulation making process, it is also proposed that the regulation-making power would only be exercisable by the Committee in the case of an international tax measure specified by the States by Resolution, thus mirroring the process for the implementation of double tax agreements which may be given effect by Resolution of the States under section 172 of the Law.

5.42 It is proposed that the expression "international tax measure", again based on the provisions of section 115A of the Isle of Man Income Tax Act 1970, would encompass any agreement or arrangement in respect of tax or taxation made between the States of Guernsey and the government of another territory or otherwise binding on Guernsey and governed by international law; and any regulation, obligation, standard, code or other measure in respect of tax or taxation promulgated by or by any institution of the European Union or any international organisation or multilateral body or governed by international law.

5.43 In summary, it is **recommended that the Income Tax (Guernsey) Law, 1975 is amended by Ordinance to provide the ability for the Policy & Resources Committee to make Regulations implementing in Guernsey international tax measures specified by Resolution of the States of Deliberation.**

Section 6: Income Proposals

Corporate Income Tax –
Extension of 10% rate to operating an investment exchange and certain compliance activities

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

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

6.2 This widening has resulted in the generation of an additional £9million per annum for the Guernsey exchequer.

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

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

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

6.5 In light of the above resolution and the changing scene as a result of a number of international initiatives, the Policy & Resources Committee is not proposing any significant changes at this time to the present regime, but does **recommend a number of minor changes that, with effect from 2019, bring the following within the scope of the company intermediate income tax rate (10%):**

- **income from the regulated activity of operating an investment exchange; and**

- **income from compliance and other related activities provided to regulated financial services businesses (such as advising on corporate governance, risk management and compliance with the regulatory framework).**

6.6 In line with the direction set in the MTFP, this will increase the contribution from those businesses who receive the most commercial benefit from the island. These proposals are anticipated to raise net additional revenues of £130,000 (after allowing for the fact that beneficial owners of Guernsey owned companies would already be paying income tax on any distributions).

6.7 As part of the continued monitoring of the corporate tax regime, the Policy & Resources Committee has considered domestic developments in relation to the growing of cannabis plants for the production of industrial hemp; food supplements or medicinal products, etc. Should this become a licensed activity, it would be the intention of the Policy & Resources Committee to recommend that it be brought within the scope of the company higher income tax rate (20%).

Preventing dual residence of companies

6.8 A company may be dual tax resident, for example it may be tax resident in both the jurisdiction where it is incorporated and also the jurisdiction where it is managed and controlled. The consequence of an investment company being considered dual resident by Her Majesty's Revenue & Customs ("HMRC") in the UK is that it will no longer be eligible to claim group tax loss relief. Whilst the UK-Guernsey Double Tax Arrangement has a 'tie breaker' clause which means that a Guernsey incorporated company managed and controlled in the UK is only subject to tax in the UK, some anti-avoidance provisions within the income tax law in Guernsey (for example loans to participators) may still apply to that company. This has left some tax advisors concerned that HMRC may consider that the company is still dual resident, despite the 'tie breaker'.

6.9 Ensuring clarity within domestic tax legislation will ensure that Guernsey attracts investment structures (and minimise the need for restructuring when high net worth individuals move to Guernsey), as at present tax advisors say that Jersey is viewed as a more attractive location.

6.10 Consideration will need to be given, however, to adapting current anti-avoidance provisions (such as loans to participators), to ensure protection of domestic tax revenues. There is a need to ensure that such a change does not present an opportunity for Guernsey residents to extract funds from corporate structures without liability to Guernsey tax. The Revenue Service will discuss any amendments required with tax professionals, including issues of practical implementation to 'safeguard' this measure, for example requiring a certificate of tax residence in the other jurisdiction or automatically exchanging information on companies that notify they are resident elsewhere.

6.11 The Policy & Resources Committee therefore **recommends that the Income Tax Law is amended to make it explicit that with effect from 1 January 2019, a company which is treated as non-resident under the terms of a double taxation arrangement with a country or territory where the highest rate at which any company may be charged to tax is 10% or higher will not be considered tax resident in Guernsey for domestic tax purposes. It also recommends any consequential amendments to the anti-avoidance provisions of the Income Tax Law are made.**

6.12 As part of the consultation in August on the substance proposals (set out in Section 5), the Policy & Resources Committee also consulted on changing the definition of corporate residence from being determined by, broadly, shareholder control, to management and control in Guernsey (which generally considers where the directors meet and exert control). There were sixty responses to this particular question, with overwhelmingly positive feedback with regard to those changes, citing the need for clear guidance on any change. The Policy & Resources Committee therefore intends to bring forward proposals next year to recommend a change to the definition of corporate residence, once detailed consideration and analysis of the feedback received has been undertaken.

2019 Personal Income Tax

6.13 In recent years, including following consideration of the Joint Report, the States have set policy direction to make the income tax and social security system as a whole more progressive.

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

6.15 This Budget Report includes proposals for the following progressive measures:

- a 4.8% increase in the personal allowance (from £10,500 to £11,000) and the supplementary allowances (paragraph 6.16); and

- extension of the gradual withdrawal of income tax allowances (including mortgage interest relief and pension scheme contributions) if an individual's income exceeds £100,000 and decelerating the withdrawal ratio to a rate of 1:5 to alleviate the impact of marginal tax rates (paragraph 6.21).

2019 Personal Income Tax Allowances

6.16 In order to maintain Guernsey's personal tax competitiveness with other jurisdictions, such as Jersey, the Isle of Man and the UK, **a 4.8% increase in the personal allowances for those aged under sixty five (to £11,000) and the supplementary allowances is proposed**.

6.17 It is estimated that each 1% increase in personal allowances above the forecast growth in employment tax income results in a decrease in States' revenues of approximately £800,000. Therefore, as the employment tax income is forecast to grow by 2.7%, the 2.1% increase in personal allowances over that rate will result in a reduction in States' revenues of approximately £1.7million.

6.18 However, this will be offset by a real-terms' reduction of £400,000 in the cost of providing an Age Related Allowance for people aged over sixty five, as this allowance is frozen in accordance with the direction agreed in the resolutions of the Joint Report. Therefore, the net real-terms' cost of the increase in personal allowances is £1.3million per annum.

6.19 The personal allowances are recommended to be as follows:

	2019	2018
Personal Allowance	£11,000	£10,500
Age Related Allowance	£450	£950

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

6.20 The supplementary personal income tax allowances are recommended to be as follows[l][m]

	2019	2018
Dependent relative	£3,550	£3,375
Housekeeper	£3,550	£3,375
Infirm Persons	£3,550	£3,375
Charge of Children	£7,475	£7,125

Withdrawal of Personal Allowances for Higher Earners

6.21 As directed in the resolutions of the Joint Report and reaffirmed in phase one of the Policy & Resource Plan and the MTFP, the Policy & Resources Committee proposed measures in the 2017 and 2018 Budget Reports as the first two phases of the removal of the universality of personal tax allowances.

6.22 The States agreed that personal allowances; other allowances and deductions are withdrawn at a rate of £1 for every £3 that a person's income exceeds the Upper Earnings Limit ("UEL") on Social Security contributions (£142,896 in 2018). This affects in the region of 3% of taxpayers (approximately 1,150 individuals) and raises an estimated £3.8million per annum

6.23 In the 2018 Budget Report, it was set out that the third phase of the removal of the universality of personal tax allowances would consider the threshold at which withdrawal commences and whether this should be lowered. The Policy & Resources

[l] In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, no new claims have been admitted from Year of Charge 2009 onwards.

[m] No new claims have been admitted for Dependent Relative allowance in respect of children in higher education from Year of Charge 2018 onwards.

Committee considers decreasing the threshold to £100,000 at this time contributes towards the States approved direction to raise additional revenues from those most able to pay. However, in recognition of the marginal rates (the total amount of income tax and social insurance contributions payable on each additional £1 earned), being incurred by those individuals who are below the UEL, it is proposed that the withdrawal ratio is lowered to 1 in 5 to reduce this impact.

6.24 The Policy & Resources Committee is **recommending that, with effect from 1 January 2019, the withdrawal threshold is lowered to £100,000, and the withdrawal ratio is decelerated to a rate of £1 for every £5 that a person's income exceeds the withdrawal threshold.**

6.25 This recognises the effect of marginal rates on those individuals and any possible impact on Guernsey's competitive position and the effect they have on the ability to recruit and retain staff.

6.26 The following table illustrates the effect of this proposal on an employed individual under the age of sixty who currently receives £29,000 of allowances / reliefs comprising: the personal allowance (£11,000 in 2019); £10,000 in respect of their personal pension contribution[n]; and maximum mortgage interest relief of £8,000:

Income	Personal Allowance Withdrawn	Mortgage Interest Relief Withdrawn	Retirement Annuity Allowance Withdrawn	Total Allowances / Reliefs Withdrawn	Total Allowances / Reliefs Received
£100,000	-	-	-	-	29,000
£125,000	5,000	-	-	5,000	24,000
£175,000	11,000	4,000	-	15,000	14,000
£200,000	11,000	8,000	1,000	20,000	9,000
£250,000	11,000	8,000	9,000	28,000	1,000

6.27 It is estimated that this progressive measure will affect a further 1,050 individuals and raise a net additional £1million per annum. There will be a small number of individuals (estimated to be approximately 150) who will benefit from the change in the threshold and withdrawal rate by having less allowances withdrawn in 2019.

6.28 The Policy & Resources Committee and the Committee *for* Employment & Social Security have set up a working party in order to ensure that resolutions from the Personal Tax, Pensions and Benefits Review continue to be progressed in a co-ordinated manner, in particular the resolutions related to investigating options to make the tax and social security system as a whole more progressive.

[n] As agreed in the 2018 Budget, the withdrawal of allowance for higher earners includes tax relief on pension contributions, albeit each individual may continue to claim a maximum of £1,000 in tax relief.

Income Tax Cap

6.29 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").

6.30 With effect from 2009, there are two methods of capping liability:

- a cap applicable to non-Guernsey source income[o] (introduced at £100,000 and increased to £110,000 from 2012); and
- a cap relating to worldwide income[p] (introduced at £200,000 and increased to £220,000 from 2012).

6.31 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. 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.

6.32 In order to retain the real value of these caps, **it is proposed that they are increased with effect from 1 January 2019 to £130,000 (non-Guernsey source income) and £260,000 (relating to worldwide income).** This is estimated to raise an additional £640,000. This means that an individual with a combination of foreign and Guernsey source annual income totalling more than £1.3million can restrict their tax liability to £260,000 per annum plus income tax at 20% on Guernsey property income. From 1 January 2018, Jersey increased the amount payable under their high value residency regime to tax at 20% the first £725,000 of worldwide earned income (equivalent to £145,000) plus an additional 1% on all other worldwide income, with 20% payable on revenue from Jersey property.

6.33 **It is also proposed that income from land and buildings in Guernsey will not be excluded from the tax cap, when the income is derived from an exempt body.** This is to relieve the administrative burden on such exempt bodies which are pooling vehicles for investment by members of the public. This will not have an impact on revenues.

6.34 As part of the 2018 Budget, the States agreed the introduction of a lower tax cap of £50,000 for new residents of Guernsey who have paid a minimum of £50,000 in document duty on the purchase of a property on Part A of the open market register. An individual is able to claim this cap, for the year they take up permanent residence and then three consecutive years, where their open market property purchase has taken place either within six months prior to, or six months after, their first arrival in Guernsey. In order to qualify for this lower tax cap, an individual cannot have been resident in Guernsey at any time in the previous three years.

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[o] Non-Guernsey source income is any income derived from non-Guernsey sources (including income from an exempt fund) and Guernsey bank interest.

[p] Worldwide income refers to all income (therefore includes non-Guernsey source income).

6.35 Following feedback that open market transactions can take some time to complete, it is **recommended that the condition requiring that the open market property purchase has to take place within six months prior to, or six months after, an individual's first arrival in Guernsey is extended to twelve months.**

6.36 Although only two individuals have taken advantage of this tax cap, Locate Guernsey has advised that *"Guernsey's offer as a competitive jurisdiction to individuals and businesses is based on a number of factors, including fiscal factors of which the 'open market tax cap' is a useful and positive component."*

6.37 There are no changes proposed to this tax cap or to the £50,000 tax cap introduced from 1 January 2016 for residents of Alderney, provided that they have never previously claimed the Income Tax cap, and available for an initial period of ten years.

Miscellaneous Income Tax Matters

6.38 There are a number of miscellaneous amendments proposed to the income tax law that predominantly focus on aspects of pension provision that either simplify / clarify existing arrangements; remove inequalities; or are necessary to protect income tax revenues and sustain Guernsey's competitive position.

<u>Tax-free element of lump sums from pension schemes</u>

6.39 A member of a pension scheme may take a tax-free lump sum of up to 30% of the fund value up to a specific limit. Such limit is linked to Civil Service pay scales and is currently £194,000. As the Civil Service pay award in any given year may not be agreed at the start of the year, **it is recommended that, in order to give certainty to pension providers, the limit is in future set annually as part of the Budget process with the 2019 limit being set at £198,000.**

Definition of acceptable contributions to pension schemes

6.40 Following discussions with the Guernsey Association of Pension Providers ("GAPP") and representatives from the fiduciary sector of the GFSC, with whom the Revenue Service is working closely to ensure guidance/rules for pension schemes are aligned, **it is proposed that guidance is issued on what is an acceptable contribution to a pension scheme eligible for tax relief as follows which will apply from 2019:**

- *"for the purposes of section 36 of the law, money placed into the member's pension, must be of a monetary amount (i.e. cash, cheque, debit/credit card, standing order, direct debit or bank transfer). The payment must actually be paid to the scheme by the member;*

- *for the purposes of sections 157(A)(10) and 151(1) of the law, a transfer of funds from another pension scheme is not treated as a contribution or premium paid by or on behalf of the member and cannot be utilised for the carry forward provisions;*

- *if a member pays a contribution into the scheme and all or part of the contribution consists of funds withdrawn from any approved pension scheme, then tax relief will not apply to the amount of the contribution that has been withdrawn from an approved scheme.*

  In-specie contributions (i.e. transferring the ownership of an asset) are not allowable for the purposes of claiming tax relief or utilising the carry forward provisions."

Triviality provisions

6.41 Where a pension scheme fund value is small in amount, the entire fund value may be paid to the member as a lump sum. There is currently a triviality limit for members aged 50 or over of aggregate scheme values of £30,000 (taxable at 10%). It has been suggested that this limit is set at too low a level, particularly in comparison to the Isle of Man. In order to increase flexibility and prevent small pension pots being significantly eroded by administration charges, whilst also continuing to recognise the need for individuals to plan for their future, **it is proposed that**:

- **triviality is increased for members aged fifty or over to £50,000 per scheme taxable at 20% in the year of charge in which it is paid; and**

- **triviality is introduced for schemes in drawdown where either the aggregate value of the fund attributable to the member at the time of the request is no greater than:**

  a. **£50,000; or**

  b. **£100,000 and the individual member has a guaranteed minimum retirement income of £20,000 per annum.**

6.42 Responsibility for reporting payment and deducting relevant tax will be on the relevant person that has made the payment, with encashment taxable at 20% in the year of charge in which the encashment is made. Such amounts should be excluded from the income tax cap.

Transfers to UK Schemes

6.43 Currently, transfers of funds to certain schemes approved in the UK are exempt from the 10% tax charge on transfer. This was originally intended to allow people to move between Guernsey and the UK, taking their pension with them, recognising the need for migrant workers in Guernsey. Transfers of funds to other overseas schemes are subject to a 10% tax charge on the value of the funds.

6.44 However, some individuals, that are no longer resident in Guernsey nor resident in the UK, are transferring their funds to UK schemes (either to commute or for onward transfer), in order to avoid a tax charge in Guernsey. Therefore, in order to protect existing revenues, **it is proposed that unless the transfer to a UK scheme is made in respect of a UK resident, there is a 10% charge on transfer, unless the individual has not at any time been resident in Guernsey**. This will put such transfers in the same tax position, as if the funds had been transferred to an overseas pension scheme.

End of Service and Gratuity Schemes

6.45 In 2017, the States approved the introduction of regulation for pensions and "end of service/gratuity" schemes (typically established by an employer providing for the payment of a lump sum or other benefit, typically at the expiration of an employee's term of service, generally offered to ex-pats in the Middle East), although at that time no amendments were made to the income tax law for the latter.

6.46 Following discussions with GAPP, it is **proposed that section 40 of the Income Tax Law is amended to introduce an exemption for such regulated products where the beneficiaries are non-resident and all income of the trust is non Guernsey source (apart from Guernsey bank interest).** This would enable those marketing such schemes to have confirmation of the tax treatment and advise that such schemes are subject to regulation. It is intended to align the definition of such schemes with the regulatory position.

Mortgage Interest Relief

6.47 An individual may claim Mortgage Interest Relief on their principal private residence if the loan is from a retirement annuity trust scheme ("RATS"), due to the interpretation that the money has been borrowed from an individual resident in Guernsey.

6.48 It is **recommended that the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 is amended to make it explicit that Mortgage Interest Relief is not available if the loan is from a trust, with effect from 1 January 2019.**

Dividends and Double Tax Relief

6.49 The new Double Taxation Arrangement (“DTA”) with the UK proposes significant changes from the current DTA in respect of taxation of dividends. Under the existing DTA, where a Guernsey resident receives UK dividends the DTA specifically provides that Guernsey will tax the net amount and give no credit for underlying UK tax.

6.50 However, under the existing DTA, until November 2015, a UK company which was controlled by a Guernsey resident was considered as resident in both the UK and Guernsey (in Guernsey it would then be taxable, albeit most likely at 0%). In such a case, if the company paying the dividend was taxable at 0% or 10%, notwithstanding the provisions of the DTA, Guernsey’s domestic legislation entitled the recipient of the dividend to a credit for the tax underlying the dividend.

6.51 In November 2015, the UK took the view that the current DTAs that it had with the Crown Dependencies contained a “tiebreaker” clause which determined the place in which a company was to be considered as resident if it was otherwise resident in both jurisdictions. Up until that time, the UK had taken the stance that there was no such “tiebreaker”. As a consequence, if a UK company which was controlled by a Guernsey resident was considered as resident only in the UK under the DTA, and ceased to be taxable at 0% or 10% in Guernsey, the credit previously due was no longer available to the recipient.

6.52 Representations have been received from industry that this is unfair, as it changed what was otherwise a longstanding practice, and if not rectified, may prove to be a disincentive for persons holding interests in UK companies from relocating to Guernsey. The proposed new DTA also contains, in Article 4 (Residence) a “tiebreaker” clause, such that where the UK is held to be the place of residence the perceived unfairness/ disincentive would continue.

6.53 The Policy & Resources Committee therefore **recommends amending the Income Tax Law such that relief for the underlying tax suffered by a company flows through to the beneficial member on distribution, if the company is either incorporated or controlled in Guernsey.**

Excise Duty on Tobacco

6.54 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;”

6.55 Therefore, as the increase in the Guernsey RPIX as at June 2018 was 2.4%, the Policy & Resources Committee is recommending **an increase in excise duty in respect of cigarettes of 7.4%; for cigars of 7.9%[q]; and for all other tobacco products of 9.9%** as set out in The Excise Duties (Budget) Ordinance, 2018 (starting on page 95).

6.56 The excise duty on an average packet of twenty cigarettes would increase from £4.99 to £5.36. 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.

6.57 It is estimated that the income from Excise Duty on Tobacco will be £7.4million in 2018 and £7.6million in 2019 which includes allowance for a 5% volume decrease in addition to the rate rises. Therefore, it is anticipated that the budget measure will raise an additional £200,000 which maintains the income in real-terms.

Excise Duty on Alcohol

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

6.59 Although there is no clear direction on the approach to be taken in setting rates of excise duty on alcohol in order to achieve specific policy objectives, along the lines of that currently within the Tobacco Control Strategy, the Committee *for* Health & Social Care has advised that it considers, as a minimum, rates should be increased by 2% in real-terms, with a headline increase of at least 5%. This is in line with the approach taken in annual Budgets since 2014 where the annual increase has been 5%.

6.60 Therefore, it is recommended that the **increase in the duties levied on alcohol is 5%** as set out in The Excise Duties (Budget) Ordinance, 2018 (starting on page 95). This is estimated to raise an additional £700,000 per annum (£350,000 real-terms' increase). The 2018 anticipated income from excise duty on alcohol is £13.7million which is £300,000 higher than the budget estimate due to an increase in the volume of spirts imports.

6.61 There are currently concessionary rates of duties applicable to beer and cider of a strength between 2.8% and 7.5% made by small independent breweries and cider-makers. The concessionary rate is currently approximately two-thirds of the full duty rate for these products.

6.62 The Committee *for* Economic Development has advised that the introduction of a concessionary rate of duty for beer and cider made by small independent breweries and cider-makers which is considered to be low-strength (between 1.2% and 2.8%) and a decrease in the concessionary rate to one half of the full duty rate would particularly

[q] The increase in excise duty for cigars has been limited to 7.9% so that it does not exceed the rate of excise duty on cigarettes.

support the growth of small businesses based in Guernsey and enable them to compete successfully, with consequential benefits to the wider local economy and income tax revenues. Although the concessionary rates will be available to all producers meeting the criteria, they currently predominantly benefit businesses based in Guernsey.

6.63 It is calculated that the proposal would result in a decrease in duty of approximately 14p per pint for low strength beer / cider; 5p per pint for 2.8% - 4.9% ABV beer / cider and 7p per pint for 4.9% - 7.5% ABV beer / cider and reduce revenues from excise duty on alcohol by approximately £70,000.

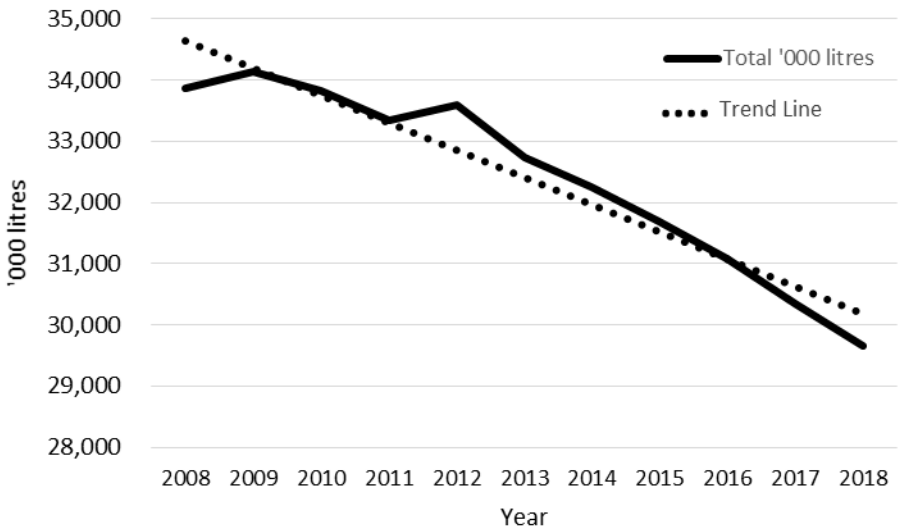
6.64 The Policy & Resources Committee supports the proposal from the Committee *for* Economic Development and is therefore recommending the introduction of concessionary rates of duty for lower strength beer and cider, and a decrease in the concessionary rate to one half of the full duty rate. The Policy & Resources Committee is not recommending the introduction of a concessionary rate for higher strength beer and cider as this could be considered to be contrary to the aims of the Drug & Alcohol Strategy Action Plan.

6.65 The effect of the changes proposed in the Budget on the most popular products is detailed below:

Description of Goods	**Present 2018 Duty**	**Increase / (decrease) in Duty**	**Proposed 2019 Duty**
Beer / Cider (2.8% - 4.9% ABV) – small independent brewery – 1 pint	27.83p	**(4.54p)**	23.29p
Beer / Cider (2.8% - 4.9% ABV) - 1 pint	44.87p	**2.27p**	47.14p
Beer / Cider (4.9% - 7.5% ABV) - 1 pint	56.23p	**2.84p**	59.07p
Spirits (37.5% ABV) – 25mls	33.43p	**1.67p**	35.10p
Spirits (37.5% ABV) – bottle (1 litre)	£13.37	**67p**	£14.04
Light wine (5.5% to 15% volume) – 125mls	31.38p	**1.62p**	33.00p
Light wine (5.5% to 15% volume) – bottle (750mls)	£1.88	**10p**	£1.98

Excise Duty on Motor Fuel

6.66 As shown in the graph below, the volume of motor fuel used is declining from nearly 34million litres in 2008 to less than 30million litres in 2018:



6.67 This is having an adverse effect on income from excise duty meaning that percentage increases in duty rates are not resulting in similar percentage increases in income. It is understood that the reasons for this fall in volume are increased efficiency of engines; changes in driving habits; and a minimal effect of the small number of vehicles that do not use fossil fuels. Income from this duty is budgeted to be £19.8million in 2018 and an increase in line with inflation would raise an additional £500,000 per annum. An annual 2% fall in volumes reduces income by £400,000 per annum in real-terms.

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

"a) To instruct the Policy & Resources Committee, in consultation with the Committee for the Environment & Infrastructure, to consider and review the best way of raising revenues from motoring in future, taking into account the ongoing reduction in fuel sales.

b) To agree that the focus of the review shall be on how to achieve the maximum sustainability of this source of States' revenue rather than on increasing the total amount of taxation levied on motoring in Guernsey.

c) To instruct the Policy & Resources Committee to report back with its conclusions in sufficient time for any proposals flowing from the review to be included in the budget for 2019."

6.69 During 2018, as the first stage of taking forward the direction of the amendment, a working group was formed consisting of politicians from the Policy & Resources Committee; the Committee *for the* Environment & Infrastructure and Deputy Roffey (the proposer of the amendment).

6.70 The working group reached a consensus position to recommend to the Policy & Resources Committee that an alternative method for collecting income from motoring should be proposed in the 2019 Budget Report with the introduction of an annual fee per vehicle. It was suggested that this be introduced from 2020, with a starting position of collecting 20% of the total annual revenue from excise duty on motor fuel with a commensurate reduction in the rate of excise duty on motor fuel. As the volumes of motor fuel consumed decline over time, including as a result of the increased use of vehicles which do not use fossil fuels, the proportion of income from motoring collected through the annual fee would increase. The annual budget would also provide an opportunity to accelerate the phasing out of excise duty on motor fuel by proposing decreases in the duty rate offset by increases in the annual fee.

6.71 However, by a majority, the Policy & Resources Committee did not support the recommendation from the working group and is not prepared to propose the introduction of an annual fee for vehicles which use fossil fuels as it is considered to be akin to the reintroduction of the previous motor tax regime. However, Members do accept that the current system is not sustainable, particularly over the longer-term and recognise that an alternative method is required that will ensure that a contribution is received from all vehicle users irrespective of the fuel source.

6.72 One of the twenty-three policies prioritised by the States to deliver the outcomes detailed in the Policy & Resource Plan – Future Guernsey is the development of an over-arching energy policy which includes consideration of environmental and energy related taxes so as to explore ways to help ensure that we have a sustainable tax base that is supportive of the Island’s approach to energy. Therefore, the Policy & Resources Committee intends to work closely with the Committee *for the* Environment & Infrastructure which is leading on the energy policy development to consider alternative and innovative ways for generating sustainable revenues relating to motoring, with particular emphasis on the early introduction of a means of deriving income from vehicles that do not use fossil fuels.

6.73 In advance of the introduction of an alternative system of raising income from motoring, there will need to be real-terms’ increases in the duty per litre in order to compensate for the fall in volumes of motor fuel being consumed and maintain the real value of total income from excise duty on motor fuel. However, the average total amount paid in duty per individual will not increase in real-terms due to a lower volume of fuel consumed as a result of increased efficiency of engines and changes in driving habits.

6.74 Based on the inflation forecast of 2.5%, **it is recommended that excise duty on motor fuel is increased by 3.1p per litre to 70.1p per litre**[r].

6.75 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 47p per litre.

[r] Deputy Trott does not support this recommendation.

Implementation of Excise Duty Budget Proposals

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

Tax on Real Property - Domestic

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

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

6.78 The 2018 estimate for income from domestic TRP and land is £7.0million (2017: £6.4million).

6.79 It is **recommended that domestic and land tariffs are increased by 10%** (being the inflation projection of 2.5% plus 7.5% in line with the April 2015 States' resolution) as set out in The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2018 (starting on page 101). This would raise an additional £700,000 per annum (£525,000 in real-terms).

6.80 In line with the States direction to raise additional revenues from those most able to bear the burden, the Committee is also **recommending the introduction of increased TRP tariffs for domestic properties with a TRP rating of 200 and above as follows:**

- **properties of a TRP of 200 – 299: a premium of 15%;**
- **properties of a TRP of 300 – 399: a premium of 30%;**
- **properties of a TRP of 400 – 499: a premium of 45%; and**
- **properties with a TRP of over 500: a premium of 60%.**

6.81 This would affect approximately 30% of domestic properties and would raise an additional £1.3million per annum.

6.82 There will be a considerable amount of surveying and administrative work to re-categorise domestic properties which is estimated to take up to one year to complete and require a modest level of additional temporary funding which will be made available from the Budget Reserve. Therefore, as the first stage, it is proposed that the revised categories with increased tariffs are introduced only for domestic properties with a TRP rating of 500 and above in 2019. This is estimated to affect 750 properties and will raise an additional £500,000 per annum. The second phase for properties with a TRP rating of 200 to 499 will be introduced from 2020 and will affect approximately a further 6,500 properties and raise an additional £800,000 per annum.

6.83 The following table illustrates the effect of the increase in TRP rates on different domestic properties for 2019:

TRP of Property	Current (2018) TRP Annual	Increase in TRP Annual	Proposed (2019) TRP Annual
75	£114.00	£11.25	£125.25
150	£228.00	£22.50	£250.50
300	£456.00	£45.00	£501.00
500	£760.00	£575.00	£1,335.00
750	£1,140.00	£862.50	£2,002.50
1,000	£1,520.00	£1,150.00	£2,670.00

Tax on Real Property - Commercial

6.84 The 2018 estimate for Commercial TRP is £15.8million (2017: £14.3million).

6.85 **It is recommended that commercial tariffs are increased by 5%** (being the inflation projection of 2.5% and a real-terms' increase of 2.5%) as set out in The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2018 (starting on page 101). It is estimated that this will raise approximately a further additional £800,000 per annum (£400,000 in real-terms).

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

6.87 As part of the 2018 Budget Report, the States agreed the introduction of a new commercial TRP category entitled "Office and ancillary accommodation (legal services)" with the 2018 TRP rate set at the same level as that for "Office and ancillary accommodation (regulated finance industries)". This resulted in rates charged to these businesses increasing by 200% and an ongoing increase in income of approximately £450,000 per annum. The Policy & Resources Committee advised the States that, *"the Policy & Resources Committee will consider extending the scope of this new TRP category to other professional services businesses and will report back in the 2019 Budget Report."* Therefore, the Policy & Resources Committee is **recommending the introduction of new TRP commercial property categories entitled:**

i. **"Office and ancillary accommodation (accountancy services)"** with accountancy services being defined as *"real property owned or occupied for the purpose of carrying on the business of an accountant but not including accountants or undertakings which do not by way of business provide accountancy services to third parties."; and*

ii. "**Office and ancillary accommodation (Non Regulated Financial Services Businesses**" *property means real property owned or occupied for the purpose of carrying on the business of a financial services business within the meaning of the Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008".*

6.88 It is proposed that the 2019 TRP rate is set at the same level as that for "Office and ancillary accommodation (regulated finance industries)". As these properties are currently classified as "Office and ancillary accommodation (other than regulated finance industries)", this will result in rates charged to these businesses increasing by 200% and it is estimated that there will be an ongoing increase in income of approximately £300,000 per annum but this will be dependent on detailed analysis of the use of properties that could fall within these categories.

Document Duty and Anti-Avoidance Duty

6.89 A bond is a registered security charge against any real property owned by an individual; individuals; or company. In order for a bond to establish a charge over the real property of the debtor, the debtor must appear before a Lieutenant Bailiff and two Jurats of the Royal Court and agree to be bound by the provisions of the bond. The bond will then be registered with the Greffe and document duty is charged at 0.5% of the value of the bond. A bond cannot be transferred between creditors. Document duty from the registration of bonds raises approximately £1.6-1.9million per annum.

6.90 The most common reason for a bond is to support a mortgage. There have been concerns expressed that the bond fee discourages changing mortgage provider and thus 'trapping' people into paying higher interest rates than might be available elsewhere. It is claimed that the document duty charged on the registration of bonds is a significant impediment to borrowers re-financing, consequently limiting competition and driving up borrower costs. There are, of course, other frictional costs which may be incurred in changing lender including early repayment penalties / exit charges; arrangements fees; survey / valuation costs; and court / legal fees.

6.91 In recognition of this, the Policy & Resources Committee is **recommending that, with effect from 1 January 2019, document duty on the registration of bonds is reduced to 0%.** In order to replace the income forgone, it is recommended that document duty rates for conveyances are increased by 0.25% on the bandings covering up to £400,000 and 0.5% thereafter. This should be of particular benefit for first time buyers who typically purchase the lower value properties and have the highest loan to value ratios.

6.92 As part of the 2017 Budget Report, a graduated system of Document Duty on conveyances was introduced whereby progressively higher rates apply to the proportion of the property value which falls in each band.

6.93 The highest rate applies to the portion of the property value which exceeds £1million. It is now **recommended that a new rate of 5.5% is introduced for the proportion of the property value which exceeds £2million.** It is estimated that this will raise an additional £250,000 per annum.

6.94 **The revised conveyancing document duty rates would be (current rates in brackets):**

- **2.25% (2%) on up to £250,000 of the transaction value;**
- **3.5% (3.25%) on the next £150,000 (i.e. the portion from £250,000 to £400,000);**
- **4% (3.5%) on the next £350,000 (i.e. the portion from £400,000 to £750,000);**
- **4.25% (3.75%) on the next £250,000 (i.e. the portion from £750,000 to £1,000,000);**
- **4.5% (4%) on the next £1,000,000 (i.e. the portion from £1,000,000 to £2,000,000);**
- **5.5% (4%) on any amount above £2,000,000.**

6.95 There will be a corresponding increase in the rates of duty, charged under the Document Duty (Anti-Avoidance) (Guernsey) Law, 2017, on transactions other than conveyances which effectively transfer real property but do not attract document duty. There will be provisions to enable refunds of the additional Document Duty or Anti-Avoidance Duty paid if, prior to the date of publication of the Budget Report, a legally binding agreement was entered into for a conveyance to be executed and registered on or after 1 January 2019.

6.96 The following table shows examples of the change in Duty payable for a range of transaction values and assumes all have borrowing with a registered bond of 90% of the transaction value:

Transaction Value £	Current Document Duty Payable £	Proposed Document Duty Payable £	Change in Document Duty Payable £
250,000	6,125	5,625	(500)
300,000	7,975	7,375	(600)
400,000	11,675	10,875	(800)
500,000	15,625	14,875	(750)
600,000	19,575	18,875	(700)
700,000	23,525	22,875	(650)
800,000	27,600	27,000	(600)
900,000	31,800	31,250	(550)
1,000,000	36,000	35,500	(500)
1,500,000	58,250	58,000	(250)
2,000,000	80,500	80,500	-
3,000,000	125,000	135,500	10,500
4,000,000	169,500	190,500	21,000
5,000,000	214,000	245,500	31,500

2019 BUDGET REPORT

<u>Section 7: Transformation of Public Services</u>

Background

7.1 PSR was designed to ensure the release of a ‘reform dividend’ with the aim being to free up resources by redesigning existing services and processes to make them more cost effective and efficient enabling demand to be managed. The dividend would be available to be reinvested to meet the future demands on public services as a result of changing service needs. It recognised that visible improvements in the short term would most likely come from smaller, incremental changes and be delivered by individual service units and teams as large scale transformational change takes longer to design and deliver.

7.2 In support of this change agenda, as part of the 2015 Budget Report (paras 5.19 – 5.31 – Billet d’État XXII, 2014), the Treasury and Resources Department proposed establishing the Transformation and Transition Fund in order to recognise the significant investment required to deliver public services of the future and the substantial policy agenda for the States.

7.3 As part of the MTFP, the Policy & Resources Committee reinforced the commitment to change the way that services are delivered as well as where they are delivered from: *“Through thinking differently about how public services meet the community’s needs, there is an opportunity to improve those services and, at the same time, make savings and improve value for money.”* The Plan set out a strategy for delivering such savings *“which could, if opportunities are seized and internal barriers dismantled, deliver a £26million improvement to the financial position over the period.”*

7.4 The MTFP also stated that:

“The Framework for Public Service Reform introduced the concept of a reform dividend, achieved when a strong underlying financial position allows savings to be re-invested in the services where they are needed most. However, Public Service Reform was established as a ten-year initiative, with many of its larger, more complex programmes of transformation anticipated to deliver the majority of their benefits in the second half of this period. Given the anticipated scale of the funding gap highlighted in this Plan it is now necessary to identify opportunities to accelerate the delivery of this ‘reform dividend’ wherever possible and to use the savings to close the underlying deficit in the first instance.

“The challenges we face in preparing for the future mean that any measures that are taken to meet them must be consistent, co-ordinated and occur across every aspect of public service provision. It will not be enough for Committees to continue to work in isolation to simply do some things better or for a little less money and then seek to reinvest any resulting savings in local priorities. It will be necessary to adopt a fundamentally different, ‘whole system’ approach to changing and improving if Public Service Reform is actually to succeed.

“The Policy & Resources Committee believes, that reform dividends in the region of £26million per annum by 2021, generated through recurring savings in revenue

expenditure across all service areas (including Health & Social Care), is required. Once a sustainable surplus has been achieved, the reform dividends should be made available for re-investment in priority policy or service delivery areas."

7.5 The range of initiatives that are planned to deliver the savings over the period were agreed as:

Category	High £m	Low £m
0.5%-1% Universal Efficiency Total	**12.0**	**6.0**
Procurement	12.6	5.4
Property Rationalisation	2.2	1.0
Non-Pay Total	**14.8**	**6.4**
Service Design	7.5	2.5
Overtime	1.9	0.3
Sickness	0.9	0.1
Pay Total	**10.3**	**2.9**
Overall Total	**37.1**	**15.3**

Savings Targets

7.6 The Financial Transformation Programme ended in 2014 and, since then, savings targets have routinely been incorporated into States' budgets in order to control public sector expenditure and contribute to balancing the books at a time when the States had been **running a deficit. In 2017, Committees (except the Committee for Health & Social Care) w**ere asked to find savings equalling 3% of their overall budget which fitted with the stated need in the Framework for PSR for smaller, incremental changes to be delivered locally. These targets were successfully achieved by the majority of Committees. The notable exception being the Committee *for* Education, Sport & Culture which carried over £2.1million of its £2.3million target into the following year.

7.7 In 2018, the first year of the MTFP period, a 1% 'universal efficiency target' was allocated to all Committees, and the Committee *for* Health & Social Care also agreed a further budget reduction of £2.4million. Therefore, the total target for the delivery of savings was £5.5million, in line with the profile originally set out in the MTFP. Of this total, £4.3million has been signed off to date with the majority coming from the Committee *for* Health & Social Care via initiatives such as the re-negotiation of agency staff rates and improved management of off-island patients. Further examples of initiatives delivered include property rationalisation savings and staff restructuring leading to lower pay costs.

7.8 Several Committees have yet to deliver on the entirety of their 2018 savings targets. These are the Committees *for* Education, Sport & Culture and Home Affairs and the Policy & Resources Committee. The Policy & Resources Committee expects to be able to deliver against its residual target in 2019 through commencing the implementation of the Revenue Service and the initiation of the Future Digital Services contract.

7.9 During 2016, the Policy & Resources Committee commissioned projects to undertake detailed costing analysis of the services provided by the Committees *for* Education, Sport & Culture and Home Affairs, benchmarked to comparable models in other jurisdictions and then used to inform efficient priority based budgets.

7.10 The work undertaken on behalf of the Policy & Resources Committee to cost and benchmark services identified opportunities for tactical, productivity and method changes, as well as more radical transformation, that would lead to savings. This gives the host Committees and the Policy & Resources Committee confidence that reducing the cost base of the States without cutting services **is** possible. It will be necessary to take a medium term approach to delivering many of the opportunities identified and there may be a requirement to invest in the changes required through the Transformation and Transition Fund. However, the costing and benchmarking reports provide a list of areas that can be explored and delivered as part of PSR including 'method changes' with ongoing savings of £530,000 for the Committee *for* Education, Sport & Culture and £970,000 for the Committee *for* Home Affairs.

7.11 The 2018 Budget Report and annual review of the Policy & Resource Plan resulted in resolutions which required both Committees to work with the Policy & Resources Committee through the establishment of oversight groups and that these groups should oversee, amongst other things, the assessment of the opportunities for savings and an implementation plan for their delivery. Both Committees have now developed outline plans which set out the opportunities identified through the PwC report and consolidate these with any other opportunities identified through internal or external reviews or other transformation plans. The following table summarises the profile of the delivery of these savings opportunities which total £4.5million for the Committee *for* Education, Sport & Culture and £1.3million for the Committee *for* Home Affairs:

Category	2019 £'000	2020 £'000	2021 £'000	Longer Term £'000
Committee *for* Education, Sport & Culture	105	555	745	3,130
Committee for Home Affairs	150	455	480	240

7.12 The Policy & Resources Committee recognises that the Committees have to balance the need for shorter term tactical, productivity and method changes with the longer term planning for transformation of services and the day to day delivery of those services. The 2018 Budget Report recognised that, in relation to the Committee *for* Education, Sport & Culture, there would inevitably be delays in the delivery of savings for some projects and recognised that due consideration should be given for this by way of temporary budget adjustments.

7.13 Both Committees have now set out their medium term plans for the delivery of savings and are working up more detailed plans for the delivery of these opportunities as part of their transformation programmes. As set out in paragraph 2.22 and 2.23, £3,920,000 from the General Reserve is therefore being used to increase the 2019 Cash Limits of the Committee *for* Education, Sport & Culture (£3,620,000) and the Committee *for* Home Affairs (£300,000) to recognise the delayed delivery of budget reductions.

2019 – 2021 Savings

7.14 In respect of savings for the period 2019 to 2021, more detailed planning and research work has now been undertaken on the workstreams set out in the table in paragraph 7.5 resulting in changes to the savings values estimated as well as their profile. The total savings forecast over the period remain in line with those modelled as part of the MTFP. However the timing and nature of the savings now looks somewhat different.

Organisational & Service Design

7.15 In order to be confident that the public service can deliver the 10-year PSR framework priorities endorsed by the States in 2015, as well as the targets set in the MTFP, the organisational structure of the public service needs to be radically redesigned, and a new operating model implemented by 2020.

7.16 PSR aims to build a single public service entity, organising and delivering services centred on those who use them: our community. However, the public service has historically been organised based on the political Committee structure. In practical terms, to achieve the ambition of working as one organisation, with the focus on serving the community, the civil service must meet the needs of both Community and serving its government and therefore the structure of the civil service must change accordingly.

7.17 Therefore, the Policy & Resources Committee is supporting the introduction of a new structure for the organisation that groups strategic responsibility by services and customer need, joining up services at the highest level. The purpose of the organisational redevelopment work is to improve the services received by the community. For example, when accessing adult care an individual might currently encounter twenty nine touchpoints with the States, with thirty professionals involved, across eleven different services, overseen by four different Committees. The new model will be designed to improve the way services are delivered to the community and result in a customer experience that is seamless.

7.18 This set of changes will enable the organisation to:

- meet the targets set out in the MTFP;
- deliver and capitalise on the Future Digital Services project (as set out below) that will change the way services are delivered;
- deliver the three prioritised transformation programmes of education and training; health and social care (the ‘Partnership of Purpose’); and justice and equality;
- implement a leaner structure with revised terms and conditions across the public service; and
- build an organisation structure that supports government – ensuring the flexibility to support the current and any future structure of government.

7.19 The proposed changes will equally provide greater support for Committees from senior leaders freed up from operational responsibility and able to concentrate on the cross-Committee working necessary for the delivery of the Policy & Resource Plan.

7.20 It is the belief of the Policy & Resources Committee that significant benefits, including substantial financial savings, are available if the States are prepared to be bold. There are opportunities to make savings in the civil service and reduce staff numbers by improving processes and becoming leaner through re-structuring to remove duplication and truly integrate services. This programme of work will see a significant reduction in the civil service headcount of more than 200 FTEs releasing between £10million and £17million per annum.

7.21 The public service is well placed to deal with this given the age profile of staff and the number of retirements likely in the next five years - as well as natural turnover. However, it would be naïve to think that all of this change can be managed through ‘natural wastage’. The public service is going to need to be ready to deal with the displacement of staff. To facilitate this: HR policies, procedures, capacity and skills will be required to manage the change; there is a need for an organisational approach to re-deployment; and to work closely with the private sector to understand where skills can be transferred; and for a programme of re-skilling. Managing vacancies and optimising redeployment will always be the priority as redundancy comes at a significant cost – both financial to the taxpayer and personal to the individual concerned. However, there will be a requirement to be able to fund any redundancies and an allocation to this effect is recommended in paragraph 7.45 below.

Future Digital Services

7.22 The States’ IT services face a number of challenges, including:

- the need to deliver consistently acceptable IT services on a day-to-day basis, while controlling revenue costs in line with the MTFP;
- the need for IT to act as the key enabler of the majority of transformation initiatives, as part of PSR; and
- the need to make a meaningful contribution to sustaining and developing the economy, particularly through its digital economy.

7.23 The purpose of the Future Digital Services project is to identify the optimal means to transform the States’ provision of IT to meet these challenges, and progress associated work to the point where such transformation can be implemented. The preferred solution is entering a Strategic Partnership with an external provider, with developing an Internal Improvement Programme as the alternative mechanism.

7.24 The element of this project in respect of PSR will ensure that technology solutions are available to the organisation to fundamentally transform service delivery. This will be a vital enabling component to the organisational and service design programme.

7.25 The Future Digital Services project is entering the final selection period with a preferred bidder expected to be chosen early in 2019 leading to, subject to appropriate contract negotiations and political approvals, contract award by the end of June 2019.

Service Transformation Programmes

7.26 The early estimates of savings from other programmes initiated as part of PSR have also now been included in the savings opportunities over the MTFP period:

- the benefits to be delivered through the Revenue Service programme have been included as set out in the Policy Letter considered by the States in April 2018 (Billet d'État XI). A total of £1.5million is expected before the end of 2021 with a further £1.2million in subsequent periods;

- the Transforming Health and Care services programme savings only relate to 2019 as planning for longer term delivery of reform dividend has yet to commence. Although the high level modelling undertaken to date shows that the cost pressures in health services as a result of the changing demographics are likely to be greater than any reform dividends that can be realised from the transformation of services, the Policy & Resources Committee believes that it is **vital** that monitoring the delivery of reform dividends holds high priority when planning projects and that the achievement of benefits is monitored by focused reporting and tracking. This will be important in justifying the continued and substantial investment in the transformation and in meeting the continuing service demands;

- the programme of Transforming Education and Training Services is at the early stages and work is underway to plan the overall programme, its likely costs and level of overall benefits. The estimates included in this exercise up to 2021 are largely derived from opportunities for tactical, productivity and method changes. Longer term benefits from the transformation have been estimated at a further £3.1m per annum;

- early estimates of savings to be delivered through the Home Affairs improvement programme have been incorporated which largely consist of opportunities for tactical, productivity and method changes. Some longer term opportunities have also been identified but these have yet to be planned and costed. A detailed exercise is underway to formally initiate this programme which will include estimating the likely overall benefits and costs;

- no estimates of benefits have been included at this stage in respect of Transforming Justice and Equality Services although work is now underway to initiate this programme and agree the scope and opportunities.

7.27 The savings included in the table in paragraph 7.5 in respect of the procurement, property, sickness and allowances workstream forecasts have all been based on the initiatives which are already planned or in the pipeline. The estimates set out in the MTFP for these workstreams remain valid. However, more detailed planning for the savings to be delivered in 2020 and beyond now needs to be undertaken to enable the estimates to be verified in full.

7.28 The medium term savings estimates are inherently difficult to plan for with a high degree of certainty. The amounts below are included for planning purposes noting that the actual savings delivered could be more or less than those set out. However, there is more certainty regarding the amounts that can be delivered in the next year, and the estimate for savings to be delivered in 2019 is £5.25million as set out in the table below:

Savings Summary

Initiative	2019 Savings £'000	Total 2019-2021 £'000
Organisational and Service Design[5]	1,670	10,000
Future Digital Services	900	3,600
Procurement	900	3,400
Managing Sickness, Overtime and Allowances	295	535
Property Rationalisation	100	395
Revenue Service	180	1,470
Transforming Education & Training Services	105	1,405
Transforming Health & Care Services	945	945
Home Affairs Improvement Programme	150	1,085
TOTAL	**5,245**	**22,835**
Less: Amounts already included in savings targets	(625)	(2,225)
NET ADDITIONAL MTFP SAVINGS	**4,620**	**20,610**
Savings previously achieved		**5,500**
TOTAL MTFP SAVINGS		**26,110**

7.29 Of this total, £625,000 is already incorporated into the cash limits of the Committees *for* Education, Sport & Culture and Home Affairs and the Policy & Resources Committee through savings targets from previous years. The balance of new savings to be delivered in 2019 is therefore £4.6million.

7.30 The MTFP set out an initial expected profile for the savings to be delivered over the period which were estimated at £6.2million for 2019. There is therefore a £1.5million difference against this amount although the overall savings for the period remain in line with original estimates.

7.31 The Policy & Resources Committee has considered whether this shortfall against the plan in respect of 2019 should be made up from a small Committee based universal target in line with previous years. The MTFP did include an allowance for such targets in the range of 0.5% - 1% per annum in recognition of the need for all service areas to continue to deliver incremental improvements in efficiency and value for money in areas which might be outside the scope of any wider shared initiatives. However, the Committee recognises that is a crude way of applying targets and could perpetuate the

[5] This workstream is currently estimated to deliver savings in the range of £10million to £17million, but the lower estimate is included here for prudence

'siloed' approach to delivering savings. Therefore, on balance, the Committee felt it would be more effective (and increase the chances of success) at this stage if the civil service was able to focus on delivering against the workstreams and programmes in the table above rather than seeking further tactical savings which may lead to service cuts or simply result in the unsustainable 'salami slicing' of budgets. This decision also recognises the considerable requests from several Committees for additional resources through the budget setting process; and the failure to uniformly deliver on the previous targets demonstrates that the scope for such savings has reduced.

7.32 The 2019 Committee budgets have been prepared **before** applying these savings. In some cases, the savings have been clearly identified and can be removed from budgets. In other cases (for example procurement where initiatives will impact on multiple parts of several Committee budgets) further work is required in order to understand the likely values that will benefit each Committee before budgets can be adjusted. It is the intention of the Policy & Resources Committee that this work is finalised before the end of 2018 so that all budgets can be adjusted ahead of the start of the new financial year. Should the savings actually realised be more or less than the budget adjustments made, subsequent adjustments will need to be made. For clarity, it is not the intention that these savings targets create cost pressures or provide net benefit to any Committees.

7.33 It is imperative that these reform dividends are realised in order to make funding available to redistribute for managing cost pressures or investing in service developments. However, this re-investment of savings **must** be undertaken at a States level as it will not necessarily be the case that the service areas that generate the reform dividend will be the highest priority for allocation of additional funding. The Policy & Resources Committee intends to issue guidance on this matter.

Funding the Transformation – Transformation and Transition Fund

7.34 The Transformation and Transition Fund was established with an initial balance of £26.68million, in order to recognise *"the significant investment required to deliver the public services of the future and the substantial policy agenda for the States*." The overarching criteria to be demonstrated in any business case for use of the Fund were set out as:

- significant long-term transformation in the delivery of services;
- evidenced and measurable benefits; and
- a return on investment.

7.35 The States have subsequently prioritised a number of programmes for funding to allow planning work to develop and define these programmes. The original intention was that funding be applied in order to progress programmes to the point where they are ready to be presented to the States for approval of policy or transformation proposals including projects of work and programme benefits (both financial and non-financial) before moving to project delivery. However, the portfolio now contains programmes at various stages of development from early planning (Justice and Equality Services) to planning detailed implementation (Health and Care Services).

7.36 The table below sets out the current balance of the Fund and all the programmes and projects which have been prioritised along with the amounts committed to date:

	Prioritised £'000	Approved £'000
Opening balance	25,000	
Transfer from Fundamental Spending Review Fund	817	
Transfer from Strategic Development Fund	862	
	26,679	
Initiatives:		
Public Service Reform	1,600	1,595
Social Policy Development	750	472
Transforming Education and Training Services	2,750	1,529
Transforming Health and Social Care Services	3,500	2,791
Transforming Justice and Equality Services	750	123
Transforming Other Government Services	750	583
Civil Service Reform	750	536
People Plan	750	195
Other commitments	4,755	3,035
Balance		**15,820**

Review of the Transformation and Transition Fund

7.37 In June 2018, the States approved an amendment to the Policy & Resource Plan (2017 Review and 2018 Update) which directed the Policy & Resources Committee to carry out a review of the Transformation and Transition Fund:

a) to re-evaluate the criteria for access to the Transformation and Transition Fund (currently "significant long-term transformation in the delivery of services, evidenced and measurable benefits, and a return on investment");

b) to re-evaluate the internal processes governing applications for release of funding from the Fund;

c) to consider whether the criteria and processes surrounding the Fund are fit for purpose, in terms of promoting timely and effective support for transformation and transition projects across the States; and

d) to make recommendations in the 2019 Budget report for any changes which may be required to the criteria and processes surrounding the Fund, in order better to achieve its purpose.

7.38 An online survey was designed which was distributed to all States' members, senior staff and non-States' members who have been elected onto States Committees. In addition, interviews were held with those officers who had experience of accessing the Fund in order to get more in-depth feedback.

7.39 Eighteen respondents completed the survey in total – eleven States' Members, four staff members, and three 'other'. The results have been collated and analysed and the Policy & Resources Committee has drawn the following conclusions:

- there is general consensus that the criterion concerning the need for *"evidenced and measurable benefits"* is too rigid and that there should be an opportunity to consider other forms of benefit apart from cashable savings. The issues cited include the long-term nature of the benefits of transformation; the difficulty in measuring benefits; and the challenges associated with future cost avoidance.

  The Rules and Guidance Booklet produced to accompany the Transformation and Transition Fund describes the numerous different benefit types which include non-cashable benefits. The Policy & Resources Committee considers that the guidance is somewhat confusing and needs clarifying to say *"measurable reform dividend which can be made up of cashable, non-cashable, quantitative and qualitative benefits"*

- respondents generally felt that the Rules and Guidance Booklet was helpful but some indicated that the booklet would benefit from simplification.

  The rules were set out to be as comprehensive as possible in light of the criticism of not having such fulsome rules during the Financial Transformation Programme. Given the feedback received, the Policy & Resources Committee has asked that the rules are reviewed with a view to simplifying them as far as possible.

  However, it is also clear from the feedback received that there is a lack of understanding and awareness from officers as to what can and cannot be funded and how an application should be made. Therefore, it is the intention to run a communication exercise to reinforce the purpose of the Transformation and Transition Fund and how to access it which will be targeted at those most likely to be supporting any applications for funding;

- the Committee also considered whether to relax the need for all three criteria to be met by any applications for funding. However, the criteria were set to seek to ensure that there is a valid case for investing public money in the initiative by ensuring it delivers long-term transformation in service delivery and has measurable benefits including some cashable benefits (although the level of return required is not defined). Therefore the Policy & Resources Committee would not be able to support any change. Instead it is recommended that the rules clarify **why** the criteria are as they are and **what** each element means;

- finally, the Policy & Resources Committee considered whether funding should simply be allocated to Committees as part of their routine budget. The Committee could not support this approach since it would present an increased risk that there would be blurring of the lines between short term transformation funding and operational business as usual and could result in an increase in the baseline costs.

7.40 The Policy & Resources Committee believes that the exercise of reviewing the Fund has been extremely useful and thank Deputy Yerby for the timely direction. In the course of conducting the review, the Policy & Resources Committee has also considered the expenditure from the Fund and what it has delivered to date.

7.41 Deputy Yerby highlighted in the explanatory note to the amendment that after three years of operation, only £5.5million had been committed up to the end of 2017. The table above indicates that £10.9million of the Fund has now been committed over the first four years of PSR with the rate of expenditure increasing in line with the development of the transformation programmes across the States.

Future Use of the Transformation and Transition Fund

7.42 The balance available to fund the remaining six years of PSR is £15.8million. There are a number of estimated and known demands on the Fund which include:

- the Committee *for* Health & Social Care has indicated a requirement for £3.1million in 2019 to run its programme and initiatives such as the Reablement service and the Carers Action Plan. There will continue to be a requirement to fund the transformation programme in subsequent years;

- the Committee *for* Education, Sport & Culture has estimated that it is likely to require some £2million per annum for the next phase of its programme;

- funding will be required for the Justice & Equality programme, although it is not yet possible to quantify the amounts until early work to define the programme has been completed; and

- funding for the International Public Sector Accounting Standards ('IPSAS') project of at least £1million will be required if this project is to proceed in line with the direction of the States.

7.43 It is therefore apparent that far from needing to speed up the rate of expenditure from the Fund, it is likely that it will be exhausted within the next two to three years, unless the Fund can to be topped up. The Policy & Resources Committee considers that it is entirely appropriate that, should surpluses be generated as a result of the delivery of cashable reform dividends, the balance on the Transformation and Transition Fund should be replenished, enabling further investment in transformation. The Committee would propose that it makes recommendations to the States as part of future Budget Reports as to how surpluses are allocated between the Future Guernsey Economic Fund, the Transformation and Transition Fund and the Core Investment Reserve to best balance the prevailing needs and deliver best value.

7.44 The Policy & Resources Committee is aware that the service transformation programmes listed above are unlikely to deliver significant reform dividends in the short-term because of their nature of and is therefore conscious of the need to balance the requirement to invest for the long-term with the shorter term needs of delivering savings in order to top up the Fund.

7.45 Therefore, the Policy & Resources Committee believes it vital that investment is made in the Organisational and Service Design programme outlined in Paragraphs 7.15 to 7.21 above. In order to make the bold changes envisioned, it will be necessary to properly resource the programme but also to make funding available for a voluntary redundancy package should all other options of redeployment and retraining be exhausted. This type of investment delivers significant financial benefit provided that roles are rigorously removed from the establishment when services are re-designed. It is therefore **recommended that £8million is prioritised from the Transformation and Transition Fund for this purpose and the Policy & Resources Committee is given delegated authority to approve its use.**

7.46 In addition, as a result of feedback from the review of the Transformation and Transition Fund and to address the fact that there is limited funding remaining, the Policy & Resources Committee wishes to carry out a substantial piece of work during 2019 which would involve more extensive high level analysis of all of the change programmes to define their outcomes; how these will help deliver against strategic objectives; what projects will be necessary in order to achieve these outcomes; the type and quantum of benefits likely to be delivered (both financial and non-financial); the estimated overall level of investment required to complete the programmes; and a comparison of this against the baseline.

7.47 The outputs of this piece of work will enable the States to take an informed decision about the cost versus benefit of the investment in transformation; enable prioritisation of resources; and give a clearer indication of the overall funding that might be required to complete the desired transformation.

7.48 In addition, the Policy & Resources Committee has been directed by the States, following consideration of the Policy Letter from the Committee *for* Health & Social Care titled "*A Partnership of Purpose: Transforming Bailiwick Health and Care*" (Billet d'État XXIV, 2017) to:

"*Consider, as part of future budgets, what steps, if any, are required, over and above the transformation of health and care, to ensure the sustainability of funding for health and care services*."

7.49 The project outlined above would model in much more detail both the future costs of health and social care services under the current model (the 'do nothing' option) and the likely impact of delivery of the Partnership of Purpose. This will then enable the Policy & Resources Committee and the States to better understand the likely requirement for future funding and how this might be met.

7.50 It is estimated that approximately £500,000 will be required to undertake this important piece of work.

7.51 Therefore, in recognition that there is a limited amount available within the Fund and, balancing the requirement to fund initiatives that will deliver the required reform dividend, with the need to invest in the longer-term transformation of services, the Policy & Resources Committee is of the view that the balance of the Transformation and Transition Fund is allocated as follows:

Initiative	£m	£m
Remaining Balance		15.8
Organisational and Service Design programme	8.0	
Transforming Health and Social Care Services	2.5	
Transforming Education and Training Services	2.0	
Transforming Justice and Equality Services	0.5	
Public Service Reform	0.5	
International Public Sector Accounting Standards	1.0	
		14.5
Balance remaining		**1.3**

7.52 The Policy & Resources Committee already has delegated authority for use of the Transformation and Transition Fund. However, these are not sufficient in all cases and therefore, the Policy & Resources Committee is recommending:

- **an increase of £1.8million to £5.3million in its delegated authority to approve funding from the Transformation and Transition Fund for Transforming Health and Social Care Services;**

- **an increase of £750,000 to £3.5million in its delegated authority to approve funding from the Transformation and Transition Fund for Transforming Education and Training Services;**

- **an increase of £500,000 to £2.1million in its delegated authority to approve funding from the Transformation and Transition Fund for Public Service Reform.**

Section 8: Expenditure Proposals

Cash Limits

8.1 The Policy & Resources Committee must decide on an annual basis the level of funding to be allocated to the overall Cash Limit. The exercise is based on the previous year's Cash Limit (£377.8million), adjusted for changes which affect the base level of funding. For 2019, this comprises:

- a reduction of £225,000 in relation to the Committee *for* Education, Sport & Culture's Cash Limit in respect of the final year of implementation of changes to the grants to the Colleges agreed in 2011;

- an increase of £8.7million as the estimated additional 2019 expenditure on the Income Support scheme which was introduced in July 2018, so 2019 is the first full year of operation. The net cost of the scheme is an additional £2million in 2019 as the additional expenditure is offset by an increase in social housing rental income received of £6.7million;

- an increase of £3million due to the treatment of rental income received from properties managed by the Property Services section as General Revenue income instead of operating income within the States' Trading Supervisory Board budget. This will ensure that the amount of funding available to the States' Trading Supervisory Board to administer the property portfolio including routine maintenance is not adversely impacted if a rental property is vacant and ensures that decisions regarding property usage (including whether to dispose of a property) are made in the best overall interests of the States; and

- an inflation allowance of £9.3million based on June 2018 RPIX.

8.2 Therefore, the 2019 overall starting base for allocating to Committees as initial Cash Limits is £398.6million. Committees seek to prepare a budget within this initial Cash Limit. However, if a Committee is unable to do so, it will submit appropriately detailed requests for additional allocation to fund expenditure pressures and service developments to the Policy & Resources Committee.

8.3 As set out in Section 1, after a rigorous review and prioritisation exercise, and extensive dialogue with Committees, the Committee is of the view that, in light of the overall financial position of the States, the increased real-terms' allocations to Committees to address expenditure pressures and service developments is appropriate.

8.4 In recommending the individual Cash Limits for 2019, the Policy & Resources Committee is making an allowance for a total of £6.1million for additional expenditure pressures and service developments. This is £2.9million higher than the allowance included in the MTFP which was £3.2million comprising £1.6million in respect of the ending of the transfer from the Solid Waste Trading Account to General Revenue (States' Trading Supervisory Board); and £1.6million for other expenditure pressures.

8.5 **Therefore, the overall recommended 2019 Cash Limits total £404.7 million** as summarised in the table below:

	£m
2018 Cash Limits	377.8
Less allowance for late delivery of FTP Targets	(0.2)
Implementation of income support scheme	8.7
Change in treatment of Property Services rental income	3.0
Reflate 2018 Cash Limits using June 2018 RPIX (2.4%)	9.3
2019 'Base' Cash Limits	**398.6**
Allowance for expenditure pressures	6.1
2019 Recommended Cash Limits	**404.7**

8.6 Individual Committee 2019 Cash Limits take account of adjustments for budget transfers; cyclical and one-off items; inflation allowances, and other adjustments. including:

- the transfer of responsibility for the expenditure budgets (£794,000) for support to the Guernsey Employment Trust and grant to Guernsey's Rural Occupational Workshop from the Committee *for* Health & Social Care to the Committee *for* Employment & Social Security;
- a small number of other low value inter-Committee transfers where responsibility for a service has transferred between Committees;
- transfers from the Budget Reserve for all settled pay awards (£5.6million);
- an inflation allowance on non-pay costs for certain specific contracts and utilities' costs (£1.3million);
- a small number of cyclical, one-off and other low value items.

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

8.8 The recommended Cash Limits for 2019 are detailed in the following table and further detail of the funding allocated to each Committee is set out below. (Full line by line details of the 2019 budgets are included as Appendix II):

	Note	2019 Revenue Cash Limit £'000s	2018 Restated Cash Limit £'000
Corporate Services (Policy & Resources)	1	29,050	27,110
Economic Development		6,040	6,235
Education, Sport & Culture	2	78,350	73,925
Timing of delivery of budget reductions		(3,620)	-
		74,730	73,925
Employment & Social Security	3	12,070	11,919
Environment & Infrastructure	4	12,255	11,975
Health & Social Care	5	119,470	114,621
Home Affairs	6	31,400	29,825
Timing of delivery of budget reductions		(300)	-
		31,100	29,825
Policy & Resources	7	8,830	8,400
Scrutiny Management	8	531	547
Development & Planning		1,410	1,340
Overseas Aid & Development	9	2,960	2,960
States' Trading Supervisory		6,210	4,530
Royal Court	10	2,570	2,535
Law Officers	11	5,055	4,475
States of Alderney		1,875	1,840
Pooled Budget	12	506	-
TOTAL NON-FORMULA LED		**314,662**	**302,237**
Policy & Resources – Formula Led		1,935	1,900
Employment & Social Security Formula Led		75,885	65,020
TOTAL FORMULA LED		**77,820**	**66,920**
BUDGET RESERVE		**12,238**	11,683
		404,720	**380,840**

8.9 **Corporate Services (Note 1)** – Corporate Services are those provided to and on behalf of the entire organisation and comprise Assurance and Risk; Communications; Finance; Human Resources; Information Systems & Services; Insurance; Procurement, Shared Services Centre and Tribunals. The recommended Cash Limit includes an inflation allowance of £95,000 for IT contracts. In addition, ongoing funding of £453,000 has been included for: additional capacity in the procurement team in order to deliver budget reductions (£260,000), enhancing organisational performance reporting and monitoring (£86,000 in 2019, £132,000 per annum thereafter); meeting statutory corporate health & safety requirement (£57,000); and cross-organisation business continuity capability (£50,000).

8.10 **Committee *for* Education, Sport & Culture (Note 2)** – The Committee *for* Education, Sport & Culture has a budget reduction outstanding of £3.62million for which plans are in place for delivery in 2020 and subsequent years. Therefore, funding from the General Revenue Account Reserve has been made available in 2019 to recognise the timing of the delivery of the budget reduction.

8.11 The recommended Cash Limit of £74.73million includes an inflation allowance of £280,000 for specific contracts and utilities expenditure; and £335,000 of a total request for additional funding of £600,000. The shortfall compared to requests (£265,000) represents approximately 0.35% of the Committee's total budget and it is expected that, given that full allowance has been made for the anticipated non-delivery of the budget reduction, the Committee would examine and reallocate its budget in order to fund the balance of the requests should it consider they are priorities.

8.12 **Committee *for* Employment & Social Security (Note 3)** – the Cash Limit of £12.07million includes specific funding of £70,000 for increased expenditure on uniform and educational grants as the introduction of the Income Support scheme has resulted in more families being eligible to claim.

8.13 In November 2013, following consideration of the Disability and Inclusion Strategy (Billet d'État XXII, 2013), the States agreed to make available funding from the Budget Reserve of up to £250,000 to be used for projects as part of the initial implementation of the Strategy. It is anticipated that this allocation will be exhausted in 2019 and additional funding will be required to fund initiatives on the work to progress this strategy and the development of multiple-grounds' protection against discrimination. The Policy & Resources Committee will, following consideration of suitably detailed requests, make project funding available from the Budget Reserve in 2019 and subsequent years to progress strategic priorities in respect of these elements of social inclusion within the mandate of the Committee *for* Employment & Social Security.

8.14 In November 2013, the States also resolved:

"To approve, in principle, the establishment of an equality and rights organisation, based on the Paris Principles, but defer the implementation of such an organisation dependent on:

a. a business plan being developed stating in detail the functions, staffing resources, costs and charges for such an organisation; and

b. any additional funding required being available and the States having given priority to the establishment of an organisation through any prioritisation process in effect at that time."

8.15 As part of its budget submission, the Committee *for* Employment & Social Security indicated that the establishment and annual operating costs of an Equality and Rights Organisation could be in the region of £500,000 and requested that appropriate provision be made within the 2019 Budget Reserve. However, in line with the 2013 States' resolutions the States have not yet been requested to give priority to the establishment of this organisation and allocated funding, therefore, no budgetary provision has been made.

8.16 Within Formula Led expenditure, a lower than expected number of claims for Income Support has offset additional expenditure pressures arising from the inclusion of allowances for household waste charges in the scheme.

8.17 As set out in its Policy Letter entitled *"Non-Contributory Benefit Rates for 2019",* the Committee *for* Employment & Social Security is proposing a real-terms' increase in the benefit limitation which has a recurring cost of £330,000 per annum. As set out in its letter of comment, the Policy & Resources Committee would usually be of the view that it would be inappropriate to implement a further real-terms' increase in the benefit limitation in advance of the States agreeing a policy regarding the benefit limitation level. In light of the compelling case made by the Committee *for* Employment & Social Security and the costs of Income Support being lower than modelled for 2019, the Policy & Resources Committee supports the proposal to increase the ongoing baseline cost of the Income Support scheme by raising the benefit limitation to £750 in 2019 and has allowed an additional £330,000 to cover the estimated cost of this discretionary policy change.

8.18 Overall, Formula Led expenditure has increased by approximately £400,000 in real-terms compared to that anticipated with a substantial real-terms' increase (£670,000 / 11.5%) in Severe Disability Benefit and Carers' Allowance. This is due to increasing demand arising from legislative changes; promotion of the benefit; and an ageing population. However, this additional expenditure is being partially offset by a decrease in the cost of Concessionary TV Licences due to the phased transfer of payment to the BBC.

8.19 **Committee *for the* Environment & Infrastructure (Note 4)** – 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 (2015 – 2019).

8.20 The funding agreed by the States in July 2015 (Billet d'État XIV, 2015) to implement the Integrated On Island Transport Strategy covers both revenue and routine capital expenditure; and, depending on which initiatives are planned to be progressed, the specific amounts allocated to these budgetary headings will vary between years. The 2019 Cash Limit includes a reduction of £75,000 in this respect.

8.21 **Committee *for* Health & Social Care (Note 5)** – The suggested Cash Limit is £119.47million which includes an additional inflation allowance of £530,000 in respect of Off Island care and medical supplies and specific additional funding of £2million for several cost/income pressures being experienced and service developments including the restructuring of ward provision to provide an additional medical ward (£370,000); to address general pressures as a result of the ageing demographic (£306,000); and the introduction of a programme to increase the number of student nurses being trained locally (£300,000). The Committee *for* Health & Social Care has identified £945,500 of savings which will be delivered in 2019 and its budget will be reduced accordingly.

8.22 The Committee *for* Health & Social Care has identified an increased risk, at least for 2019, regarding the recruitment and retention of skilled nurses and allied health professionals from off-island due to a combination of factors including a general decline in numbers of qualified staff; more attractive packages available in other jurisdictions; and uncertainties arising from Brexit. This is also resulting in upward pressure on agency rates due to increased demand. If this results in expenditure exceeding budget then an application can be made for in-year funding from the Budget Reserve.

8.23 In 2017, the Committee *for* Health & Social Care accepted the application of an ongoing 1% reduction in its budget, amounting to £1.19million which was possible as there were a number of managed vacancies being carried. The Committee *for* Health & Social Care advised that it was intending to assess all vacant posts by early 2018 in order to rebase the overall establishment. Therefore, as there was uncertainty as to whether these vacancies needed to be filled, the Policy & Resources Committee gave an assurance that it would use its delegated authority to transfer from the Budget Reserve to the 2018 budget of the Committee *for* Health & Social Care, the maximum sum of £1.19million should a cost pressure arise as a consequence of the Committee *for* Health & Social Care recruiting to a significant number of its vacant posts.

8.24 The Committee *for* Health & Social Care has advised that the assessment of all vacant posts has commenced but has not yet been completed. Therefore, the Policy & Resources Committee gives an assurance that it will use its delegated authority to transfer from the Budget Reserve to the 2019 budget of the Committee *for* Health & Social Care, the maximum sum of £1.19million should a cost pressure arise as a consequence of the Committee *for* Health & Social Care needing to recruit to a significant number of its vacant posts. However, it is imperative that the rebasing of the overall establishment is completed by mid-2019 in order to inform the 2020 Cash Limit setting process as this is not considered to be a sustainable approach to budgeting.

8.25 In 2016, additional budget, in excess of the Fiscal Policy Framework limit, of £8.2million, was made available to the Health and Social Services Department on a temporary basis. This was in order to fund the existing service model while whole system transformation was being designed and tactical, productivity and efficiency savings being planned and delivered in line with the BDO Costing, Benchmarking & Prioritisation Report (contained as Appendix II to the Annual Budget for the States for 2016 [Billet d'État No. XIX of 2015]). Due to significant political and civil service changes experienced in 2016 and a consequent delay in initiating the transformation programme, a similar amount was required in 2017. In 2016, the States agreed that no grant be made from General Revenue to the Health Service Fund in 2017 in recognition of the funding challenges being faced in the respect of health and social care services and while work was underway to examine the future funding of health and social care.

8.26 The Committee for Health & Social Care was able to reduce its budget for 2018 by £3.6million (3%). Therefore, in recognition that there was still a continued requirement by the Committee *for* Health & Social Care for £4.6million of the temporary additional funding, the States agreed that no grant would be made from General Revenue to the Health Service Fund in 2018.

8.27 As set out above, the recommended 2019 Cash Limit for the Committee *for* Health & Social Care includes a real-terms' increase in funding. Therefore, since work is ongoing to consider the future model for funding the services currently provided from the Health Service Fund (as set out in paragraphs 9.22 to 9.26), no grant will be made from General Revenue to the Health Service Fund in 2019. The grant is calculated at 12% of the contributions collected for that Fund and would have totalled £5.1million in 2019.

8.28 This recommendation is being made given that, according to the most recent actuarial valuation of the Fund, the Health Service Fund contributions are above the break-even level with the balance of the Fund expected to grow from 2.6 times cover in 2014 to 3.3 times cover at the end of the projection period in 2030. This is in contrast to the Guernsey Insurance Fund and the Long Term Care Fund which are expected to spend in excess of the contributions collected under those schemes over the valuation period.

8.29 As set out in paragraph 9.24, the Policy & Resources Committee, the Committee *for* Employment & Social Security and the Committee *for* Health & Social Care anticipate submitting a joint Policy Letter in early 2019 which will seek approval for the transfer of policy and operational control for the £43million of services currently provided through the Guernsey Health Service Fund from the Committee *for* Employment & Social Security to the Committee *for* Health & Social Care. This will also propose that the contributions collected are paid into General Revenue and thus there would no longer be a requirement for a grant to be paid from General Revenue to the Health Service Fund.

8.30 **Committee *for* Home Affairs (Note 6)** – The Committee *for* Home Affairs has a budget reduction outstanding of £450,000 for which plans are in place for delivery of £150,000 in 2019 with the balance of £300,000 anticipated to be delivered in 2020 and subsequent years. Therefore, funding of £300,000 from the General Revenue Account Reserve has been made available in 2019 to recognise the timing of the delivery of the balance of budget reduction.

8.31 The recommended Cash Limit includes specific additional funding of £866,000 for the operation of the Guernsey Data Protection Authority and to develop the capacity and capabilities necessary to meet the requirements of the new Data Protection legislation that came into force on 25 May 2018. The Committee *for* Home Affairs is developing plans for the introduction of a funding mechanism for the Authority including a fee structure (which would also apply to the States as data processors) which would reduce the funding requirement in future years.

8.32 Furthermore, allowance of £80,000 has been made for the appointment of an additional officer to lead on the delivery of the objectives of the Cyber Security Strategy (which is one of the twenty three policies prioritised as part of the Policy & Resource Plan).

8.33 **Policy & Resources Committee (Note 7)** - In respect of the Committee's Core Services (External Affairs, Policy, Treasury and Revenue Service) and other responsibilities, in addition to an inflation allowance of £100,000 in respect of the corporate insurance contract, the recommended cash limit includes funding for increased resources in the

Revenue Service. This is to ensure the ongoing compliance and enforcement of sanctions for non-compliance with substance requirements for companies resident in Guernsey of £136,000 (ongoing £181,000) in order to meet commitments given to the Code of Conduct Group on Business Taxation (as set out in Section 5).

8.34 In addition, funding of £252,000 (ongoing £351,000) is recommended in order to enhance policy work across the States. It is evident that this resource needs to be made available to fill gaps that are arising in delivering the priority workstreams in the Policy & Resource Plan. Principal Committees have now indicated that delivery of the priority workstreams cannot be resourced by using only their existing complement of policy staff and, through the budget process, submitted requests for a total of eight additional policy officers.

8.35 However, it is considered that a flexible pool of additional policy officers will be more effective and efficient solution and this allocation will enable the appointment of six additional policy officers for the States. They will be deployed across the organisation on short- to medium-term placements, spending time in different service areas in accordance with the priorities established by the States within the Policy & Resource Plan, and managed under the Policy & Resources Committee's mandate to coordinate policy development.

8.36 As identified in its June 2018 Policy Letter, the Committee's view is that the way of working envisaged with the change to the structure of Government in 2016, with more cross-Committee work being undertaken through the sharing of resources, has not been embedded. This approach will help to achieve that, and will also enable the Committee to consider whether the Policy & Resource Plan requires further refinement and prioritisation, including a reduction in the number of prioritised work streams. The Committee will make recommendations to the Assembly on these matters in its June 2019 update.

8.37 **Scrutiny Management Committee (Note 8)** – In February 2016 (Billet d'État IV, 2016), the States considered a Policy Letter from the Scrutiny and Public Accounts Committee entitled "The Scrutiny Management Committee – Powers, Resources and Impartiality" and, inter alia, resolved *"To agree that the Scrutiny Managements Committee will annually submit to the Policy & Resources Committee a budget request (not exceeding a Cash Limit of £936,000 for 2017), which will be considered in conjunction with all other committees' budget requests. If the Policy & Resources Committee is unable to recommend within the Annual Budget of the States a Cash Limit for the Scrutiny Management Committee at the level requested by that Committee, then the Policy & Resources Committee will reproduce in full in the Annual Budget the Scrutiny Management Committee's budget request and include the reasons why it is not recommending a Cash Limit at the level requested and the financial implications of approving a Cash Limit at the level requested*."

8.38 The Scrutiny Management Committee has advised that *"The Scrutiny Management Committee budget submission for 2019 is £531,000, this is £16,000 lower than 2018. The Scrutiny Management Committee will, during 2019, consider its resource requirements for 2020 and future years in light of its planned programme of reviews and the financial position of the States and submit budget requests accordingly."*

8.39 The Policy & Resources Committee commends the continued responsible financial approach being taken by the Scrutiny Management Committee. If the Scrutiny Management Committee is required / considers it beneficial to carry out an unplanned review for which it does not have sufficient budget, it is able to apply for funding from the Budget Reserve.

8.40 **Overseas Aid & Development Commission (Note 9)** – As set out in paragraph 2.15, it is recommended that £1million is made available from the General Reserve for commencing a programme of impact investing on behalf of the Overseas Aid & Development Commission. In light of this substantial investment and the potential it creates for generating returns which would be available for reinvestment, the Commission has agreed that its 2019 Cash Limit shall remain at £2.96million.

8.41 **Royal Court (Note 10)** – In 2016, the Policy & Resources Committee commissioned an independent review of the relationship between the States of Guernsey and St James' Chambers. The review panel reported back in July 2017 and recommended that the States' Assembly & Constitution Committee should assess the potential for the establishment of a dedicated parliamentary clerk. Such an appointment would sit as clerk in States meetings; providing support to the Presiding Officer; and offer an opportunity to provide additional support to individual States Members in the preparation of amendments or consideration of other procedural issues.

8.42 The States' Assembly & Constitution Committee has reported back, recommending the creation of the role to be entitled 'States Greffier'. In recognition that, in part, there will be a redistribution of duties from existing staff to this new post, the Policy & Resources Committee is recommending specific additional funding of £50,000 to support the reconfiguration of the current structure in order to create this new role.

8.43 **Law Officers (Note 11)** – The Law Officers have advised that their workload has increased significantly in recent years in terms of both quantity and complexity across the range of legal services provided: criminal; civil; commercial; employment; drafting of legislation; advisory; and mutual legal assistance. This is adversely impacting on response timescales and causing operational difficulties in the delivery of services. A resource request has been made for additional funding of approximately £1million in order to increase the capacity of St James' Chambers to enable it to discharge its functions across the Bailiwick and maintain the delivery of a range of legal services.

8.44 The Law Officers are also initiating a transformation programme designed to create a modern and more efficient service, through the use of technology, understanding of demand; and consideration of opportunities for new ways of working. A joint Transformation Oversight Group will be formed as part of the project governance comprising representatives of the Policy & Resources Committee and St James' Chambers.

8.45 It is recognised that additional resources are necessary in critical areas to manage the current issues being experienced and to provide the capacity within the service to implement a transformation programme. Therefore, the Policy & Resources

Committee is recommending additional funding of £460,000 in 2019. It is recognised that further resources will be required and the allocation for 2020 will be considered in light of the progress and impact of the transformation programme and be dependent on the availability of funds and the prioritisation thereof in light of bids submitted from other services areas.

8.46 In March 2018, the States considered a Policy Letter from the Policy & Resources Committee entitled *"Prioritisation of Legislative Drafting"* and resolved, inter alia, *"To direct the Policy and Resources Committee to publish, in the 2019 Budget at the latest, a summary of the various options that would be available to increase the overall pace and productivity of the legislative drafting process, and the cost implications of these various options."*

8.47 The following options have been identified as being relevant to enabling an increase the overall pace and productivity of the legislative drafting process:

1. recruit additional Policy Officers and upskill existing Policy Officers: Policy Officers provide the drafting instructions upon which the legislation is prepared and the provision of high quality drafting instructions will ensure that the legislative drafting process is as quick and efficient as possible. As set out in paragraphs 8.34, additional funding is recommended to enhance the team of policy officers working across the organisation;

2. increased use of external resources: having the ability to outsource legislative drafting work from time to time to suitably experienced drafters as demand dictates would likely assist in ensuring that the legislative drafting process keeps pace with demand. However, there is an extremely small number of trained and suitably experienced drafters who are familiar with local legislation and in practice it is not considered by the Law Officers to be cost-effective or proportionate to outsource that work except to that small cohort. In particular, rates charged are usually significantly higher than the cost of using internal resources and there remains the requirement for internal resources to oversee and review output;

3. improve the efficiency of existing practices including an enhanced document management system to increase ease of sharing of work and knowledge; and the use of electronic legislative templates. As set out above, the Law Officers are initiating a Transformation Programme designed to create a modern and more efficient service, through the use of technology, understanding of demand; and consideration of opportunities for new ways of working;

4. ensure those lawyers who have legislative drafting skills focus solely on legislative drafting work: this is not recommended as it would merely result in increased pressure and functional difficulties in other areas. These lawyers have a considerable range of specialist skills and knowledge and provide advisory support on a wide range of subjects (recent examples include Public Trustee; population management regime; and civil aviation); and

5. recruit additional legislative drafters: as set out above, the Law Officers of the Crown submitted a request for a significant increase in resources to respond to the rising demand being faced for legal services, including legislative drafting. The recommended 2019 Cash Limit of the Law Officers of the Crown includes a significant increase of £460,000 as the first tranche of funding.

8.48 Therefore, it is anticipated that the combined effect of the initiatives outlined above will have a positive effect on increasing the overall pace and productivity of the legislative drafting process.

8.49 **Pooled Budgets (Note 12) -** Following an amendment to the 2018 Budget Report, the States agreed:

"*To note that some policy priorities may benefit from pooled budgets, created by re-allocating Committees' budgets; and to note that the Policy & Resources Committee is able at any time to submit Propositions to the States to create such pooled budgets; and to direct that in the 2018 Policy & Resource Plan report on progress, or sooner if desirable, the Policy & Resources Committee shall make proposals for the use of a pooled budget and the governance thereof in relation to the Children & Young People's Plan".*

8.50 The Policy & Resource Plan 2018 update included:

"Work is underway to establish a framework for pooling budgets in general which will support delivery of broad policy objectives. Specific proposals in respect of the Children and Young People's Plan budget will be included in the 2019 Budget Report".

8.51 A 'pooled' budget is where, instead of multiple Committees holding individual budgets to deliver a particular service, they are pooled to create one budget in order to support service improvement and greater efficiency and effectiveness in the deployment of resources, including financial resources and people related resources such as service area experts.

8.52 The benefits of effective pooled budgets include:

- pooled budgets can bring greater clarity with regards to the level and type of resources that are committed to a particular service or section of the population;

- funding can be ring-fenced, providing assurance and protection with regards to funding commitments to strategies;

- the creation of a single contact point for external agencies, including the third sector, promotes further efficiency and potentially improved engagements relating to commissioning of services; and
- sharing of resources and expertise can promote greater understanding of key issues being faced and improved responses to these challenges; and

- financial savings can be realised through improved use of resources including removal of duplication of effort.

8.53 However, there are also a number of challenges that could limit the effectiveness of pooled budgets:

- committees may perceive pooled budgets as losing control of the funding for the services they provide; and

- although introducing pooled budgets should improve service outcomes, measures are still required to assess their impact and effectiveness.

8.54 Therefore, clear principles and governance arrangements are required in order to best support the introduction and expansion of the pooled budget methodology and the Policy & Resources Committee intends to adopt the following when establishing pooled budgets:

- pooled budgets should be introduced on a trial basis initially and the benefit of establishing them monitored;

- pooled budgets will only be established for services which are funded by two or more Committees and will only consist initially of budgets within the control of the States;

- there must be a governance group in place to oversee the expenditure against the budget who regularly report to the Policy & Resources Committee on the operation of the pooled budget;

- pooled budgets must be treated like others with expenditure monitored and controlled with regular reporting to those responsible. Any cost pressures should be managed holistically with those Committees participating in the pooled budget seeking to manage any such pressures through prioritisation of existing resources and, if required, additional transfers to the pooled budget; and

- there should be no transfers out of pooled budgets to other Committees or to other pooled budgets without the approval of all participating Committees.

8.55 The Supervisory Group overseeing the implementation of the Children and Young People Plan is supportive of the introduction of a pooled budget arrangement for the Multi-Agency Support Hub ("MASH") which is a single point of entry to multi-agency help and support for children, young people and their families who have additional needs and who require the support of more than one agency or professional.

8.56 The current cost of providing the MASH is £506,000 per annum, made up entirely of specialist staff resources currently funded from within the cash limits of the Committee *for* Health & Social Care (£455,000), Committee *for* Home Affairs (£30,000) and the Committee *for* Education, Sport & Culture (£21,000). These Committees are supportive of continued participation in operation of the MASH and contributing to a pooled budget arrangement.

8.57 Therefore, a 'Pooled Budget' Cash Limit has been included for 2019, with an allocation of £506,000, specifically to fund the Multi-Agency Support Hub. There have been commensurate adjustments made to the recommended Cash Limits for the Committees *for* Education, Sport & Culture; Health & Social Care; and Home Affairs.

8.58 The 2020 Budget Report will include an update on the operation of pooled budgets. It is expected that further pooled budgets, either to support delivery of the Children & Young People's Plan or other policy areas, will be established in the coming years. If all Committees are in agreement it is intended that they will be established in-year by transferring budgets from participating Committees. Otherwise, a proposal will be included in the annual Budget Report.

Budget Reserve

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

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

8.61 The 2019 Budget Reserve is £12.2million (2018:£11.7million) and includes:

- provision for increasing budgets in respect of pay awards (both in respect of a small number of pay groups where 2018 settlements have not been finalised; and in respect of 2019 for all pay groups);
- provision for increasing established staff budgets in case the assumed 5% level of underspend arising from staff turnover does not occur;

- allowance for variations in formula-led expenditure including the risk regarding expenditure on Income Support scheme[t];

- provision of £250,000 to transfer to the 2019 budget of the Committee *for* Health & Social Care, to match funding raised from external sources by the Health Improvement Commission (previously The Bailiwick Health and Wellbeing Trust). As set out in the 2018 Budget Report, a two-year commitment has been made to match funding up to a maximum of £250,000 per annum in order to fund its contribution towards achieving the Policy & Resource Plan outcome of a healthy community through focusing on the promotion of health and wellbeing, and the prevention of, early intervention in, and protection from negative health outcomes;

- 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.

8.62 In addition, there are a number of matters which the Policy & Resources Committee is aware of which could require funding from the Budget Reserve including: potential non-recovery of expenditure incurred by the Office of the Public Trustee and the introduction of a public service agreement in respect of air services from Guernsey to Alderney. Any required funding would be provided from the Budget Reserve in 2019 and, if a recurring obligation, by adjustment to Cash Limits from 2020 onwards. In addition, as set out in paragraphs 8.22 to 8.24, the Committee *for* Health & Social Care had identified specific financial risks regarding the recruitment and retention of skilled nurses and allied health professionals; and uncertainty regarding the requirement to fill posts that have been vacant for some time.

8.63 Although there is a large balance on the Budget Reserve in 2019, there are also a significant number of risks and pressures for which allowance has been made based on the information currently available. However, if the Budget Reserve proves insufficient to manage all of these contingencies, then this could lead to an overspend on the overall budget. If this was not balanced by a similar increase in revenues above budget, then it would result in a draw on the General Revenue Account Reserve which would subsequently need to be replenished in accordance with the agreed policy.

[t] In the first eight weeks of its operation, there were a lower than expected number of claims for Income Support (either through changes of circumstances or individuals choosing not to claim). There is, of course, the possibility that some of these who opted not to claim change their minds or additional claims are made as awareness increases of the Income Support scheme.

Capital Reserve

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

	£m	£m
Balance of the Capital Reserve at 1 January 2018	240	
Less 2018 forecast expenditure	(47)	
Less unspent balances on legacy (pre-2017) projects	(38)	
		155
General Revenue Appropriations:		
2018	53	
2019	55	
2020	56	
		164
Other sources of income:		
Returns of Capital from the States' trading assets (2018 – 2020)	18	
Other capital income (2018 – 2020)	3	
Other net income (2018 – 2020)	33	
		54
Less allowance for projects prioritised in the 2017-2020 approved capital portfolio	(228)	
Less allowance for minor capital projects (2017 – 2018)	(17)	
Less allowance for minor capital projects (2019 – 2021)	(37)	
Less allowance for urgent and emergency projects (2018 – 2020)	(25)	
		(307)
Total estimated funding available for future portfolio		**66**

8.65 The 2017-2020 capital portfolio originally allocated £282million for projects within the three categories of Maintain (£85million), Transform (£141million) & Grow (£56million). However, it is now estimated that £235million will be required for projects that commence during this portfolio period (comprising £7million forecast to be spend by the end of 2018 and provision of £228million to complete delivery). Therefore, it has been possible to accommodate the £31.7million required for the new facilities and services required for the implementation of the island's solid waste strategy (Billet d'État XI, 2018) within the portfolio without the consequence of requiring other projects to be deferred.

8.66 The allowances for projects in progress but where the substantive capital vote has not yet been opened has been set at the midpoint of the range of the estimated cost of each project. However, as a significant number of projects remain at early stages, these costings should be considered to be indicative with multi-million pound breadth in terms of range and the estimates could increase or decrease as they progress in their development. This could materially impact on the level of unallocated funding available.

Capital Returns

8.67 The MTFP stated that:

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

And

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

8.68 The forecast level of capital return for 2018, including the capital income relating to the sale of General Revenue properties is approximately £900,000 above the £6.5million combined target for this year.

8.69 The Policy & Resources Committee is pleased to report that the States' Trading Supervisory Board has undertaken significant appraisal of a range of options in order to enable delivery of this target. In addition, the States' Trading Supervisory Board and the Policy & Resources Committee have agreed a series of principles to be applied in seeking to identify such returns to ensure a consistent and equitable approach. The agreed principles are:

- the trading assets are required to operate on a commercial basis;
- all 'routine' capital investment should be self-funded by the respective entity;
- in applying commercial rigour, the long-term interests of islanders, both in their capacity as customers and owners, need to be balanced;
- each of the trading assets should be expected to pay the equivalent of income tax at the standard rate of 20% consistent with the incorporated bodies; and
- restructuring of balance sheets to be undertaken in a responsible manner to release capital.

8.70 Following consultation and agreement on these principles, the States' Trading Supervisory Board has undertaken to validate the overall level and source of return that can be delivered in line with these principles over the period to 2021. It is recognised that the yearly profile of returns may not be in accordance with that set out in the MTFP. However, in advance of the completion of this work, a target contribution to General Revenue of £6million of capital returns (in addition to any dividend paid in accordance with the existing policy) from the States' trading assets has been assumed for 2019.

8.71 In addition, there is budgeted capital income of £1million arising from the sale of General Revenue properties. **It is recommended that the return of capital from the States' trading assets and capital income in 2019 is transferred to the Capital Reserve.**

8.72 There is a need to agree the longer term approach to the States' owned entities and their business models, including whether and/or at what level they should be generating income streams by way of dividend for their owner. Dialogue to agree a longer term policy on this matter continues between the States' Trading Supervisory Board and the Policy & Resources Committee.

Transfer to the Capital Reserve

8.73 In order to achieve the Fiscal Framework Target of *"actual capital expenditure averaging 3% of GDP per annum in the medium-term"* which is £76.5million (3% of GDP of £2,550million – para 3.6). After allowing for £7million of capital income / capital return from the States' trading assets and £15million anticipated investment return and other transfers into the Reserve, an appropriation from General Revenue to the Capital Reserve of £54.5million in 2019 is required. The States' financial position allows the full value of this transfer to be made to the Capital Reserve. Therefore, **it is recommended that £54.5million is transferred to the Capital Reserve on 1 January 2019**.

Portfolio Progress

8.74 Although a number of projects are in various stages of planning and delivery, there have been significant delays compared to that anticipated when the portfolio was compiled. However, substantial projects are currently finalising their programme business cases for submission to the States including the 'reprofiling' of the Princess Elizabeth Hospital; rehabilitation of Alderney Airport runway; and education estate development. It will be essential to plan the delivery of these projects at a portfolio level to ensure that the works are phased in order to avoid peak demands on a small number of suppliers.

8.75 It is a stated priority to undertake capital investment to ensure that public services have the infrastructure they need and to invest to enable transformation of how services are delivered in order to help address the challenges being faced and, increasingly importantly, to facilitate and drive economic growth.

8.76 In considering the reasons for the delays in progressing the portfolio, it has become apparent that there is a general lack of capacity and capability for initiating and developing projects. The greatest demand is for support to define the fundamental components of a project in terms of its scope, deliverables, time scales, resource requirements and budget. The Policy & Resources Committee is committed to facilitate acceleration of the delivery of capital projects where it is reasonable and practicable to do so. Therefore, after considering feedback, a small team of capital business partners to work with service areas to support acceleration of delivery of the portfolio will be established.

8.77 There were a number of pipeline programmes and projects approved in the MTFP including Hydrocarbons, Inert Waste, Coastal Flood Defences, Strategic Air and Sea Links Infrastructure, Seafront Enhancement Area which are currently being investigated and developed, supported by seed funding. This longer-term approach should improve the robustness of information available to inform the next round of capital prioritisation and enable projects to commence in a timely manner.

8.78 As the process of capital prioritisation is maturing, it is important that the time horizon increases and potential programmes and projects are identified for subsequent portfolios and initial planning and feasibility work undertaken. The Policy & Resources Committee intends to initiate co-ordination of planning the longer-term capital pipeline during 2019 and the capital business partners will play a key role in supporting service areas in identifying and developing future programmes and projects for inclusion in the pipeline at the appropriate time and subsequent compilation into a proposed portfolio within the next MTFP.

Minor Capital

8.79 The establishment of minor capital categories and Oversight Boards has enabled the appropriate focus on prioritisation of projects, improving project governance arrangements and the start of development of multi-year programmes.

8.80 In order to support the development of rolling programmes the allocations within the Capital Reserve for minor capital are being made for a three year period for 2019 - 2021 inclusive. This allocation would align with the MTFP and provide increased flexibility in the timing of delivery of projects as well as improving the ability to plan for the medium term.

8.81 The allocation to each category has been informed by historical expenditure patterns as well as known anticipated projects:

- property maintenance and minor works - £22million including:
    - £7.5million for the roads resurfacing programme;
    - £3million for coastal repairs;
    - £1.5million for implementation of the Integrated Transport Strategy;
- information Technology - £6million;
- medical Equipment - £5million; and
- vehicles and other Equipment - £4million.

8.82 The provision for urgent and emergency projects would be available to fund any capital expenditure required as a result of Brexit.

8.83 The 2018 Budget Report included *"the Policy & Resources Committee is aware that there could be a number of projects being developed by non-States' bodies that would provide significant public benefit and support delivery of the objectives within the Policy & Resource Plan. Often, such projects would span the mandates of several Committees who may not individually consider it a priority. However, in its co-ordinating role, the Policy & Resources Committee recognises the wider benefits that working in partnership with the third sector on such projects could deliver."*

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

8.85 During 2018 one such application for funding has been received from the Guernsey Botanical Trust LBG seeking support for funding of £100,000 (being 50% of the cost) for rebuilding of the Gatehouse at the Saumarez Park Victorian walled kitchen garden. This project application was supported by the Committees *for* Economic Development, Education, Sport & Culture and *the* Environment & Infrastructure. The Policy & Resources Committee has approved the request, recognising the contribution will make to the community sense of well-being and encourage active lifestyles which aligns to the Policy & Resource Plan.

Section 9: Other Matters

Charitable Giving / Social Investment Commission

9.1 As part of the MTFP, the Policy & Resources Committee set out its commitment to the idea of a “social investment commission”. The purpose of the commission will be to invest in the charitable and community sector, the public sector or potentially other entities (“organisations”) with the aim of helping the States deliver on their aims under the Policy & Resource Plan for ‘Future Guernsey’.

9.2 There will be significant additional funding made available to the social investment commission through unlocking funds that are currently out of reach but could be used for the public good. For example, the Policy & Resources Committee is intending to submit a Policy Letter before the end of 2018 on dormant bank accounts and will be recommending that these potentially significant funds should be administered by the commission.

9.3 Once funding is available, it will be loaned or granted in order to help deliver on the Future Guernsey themes of:

- healthy community;
- inclusive and committed to social justice;
- safe and secure place to live;
- lifelong learning;
- centre of excellence and innovation; and
- mature international identity.

9.4 The commission will provide financial support to organisations that have clear plans to affect change in the longer term in relation to the key policy themes. It is envisaged that the commission will be able to support longer-term investment in projects (5-10 years), where appropriate, subject to clear targets being agreed.

9.5 Throughout 2018, work on the development of the commission has been guided through a steering group populated by representatives from the States; Community Foundation; Lloyds Foundation; and the Association of Guernsey Charities.

9.6 The Policy & Resources Committee is currently developing a Policy Letter on this matter to seek the formal establishment of the commission and secure some of the funding necessary to underpin its work. It is intended that this Policy Letter will be presented for debate before the end of the first quarter of 2019.

9.7 In the meantime, the intention is to seek to establish the commission in shadow form before the end of 2018 by appointing suitably experienced and qualified individuals. The board must have a broad range of skills including an understanding of the charitable and community sector; finance/grant making experience; understanding of the States and appreciation of the policy objectives and how they might be furthered.

9.8 This will allow the shadow board to:

- develop the investment criteria;
- engage with the charitable sector at an early stage and while funding arrangements are put in place;
- establish a "User Involvement Sub-Group" with representatives from the charitable sector to inform planning, development and operational delivery of the commission; and
- develop a monitoring and evaluation framework.

9.9 The 2018 Budget Report set out that the Policy & Resources Committee "*is of the view that if such a commission is also given the role of administering a revised gift aid scheme, it might offer a more effective way of providing long-term sustainability to the charitable sector than the recommendations in relation to the current gift aid scheme.*"

9.10 This matter has been discussed several times by the steering group with no agreement being reached on the proposal. Some members strongly believe that Gift Aid should remain a tax relief administered by income tax and that, when affordable, the recommendations of the gift aid panel regarding the removal of qualifying thresholds should be implemented. The counter view is that current gift aid should be scrapped and a simple allocation (based on the level of income received) should be put in place which is administered by the commission.

9.11 The Policy & Resources Committee has concluded that it would be preferable not to make any changes to the gift aid scheme at this time. Changing gift aid would be an administrative burden for the commission with no clear benefits other than a marginal redistribution of funds across the sector.

9.12 This decision will be reviewed again ahead of the 2020 Budget Report in order to decide whether changes, either to the administration or the thresholds, should be made as of 1 January 2020.

Future Guernsey Economic Fund

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

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

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

	£'000	£'000
Opening Balance	7,000	
Transfer from Strategic Development Fund	2,100	
		9,100
Initiatives approved:		
Contribution to Guernsey Finance LBG (up to 2020)	2,500	
Tourism Marketing (Visit Guernsey)	500	
Innovation Centre (Digital Greenhouse) (up to 2021)	1,950	
Locate Guernsey (up to 2021)	2,175	
Marketing – GLAPPPS[u] Film	553	
Guernsey University Investigations	50	
Air Route Support - Cardiff	44	
		(7,772)
Balance		**1,328**

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

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

[u] Guernsey Literary and Potato Peel Pie Society

And which:

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

9.17 As set out in the Policy & Resource Plan, the continued strength of our economy is a critical foundation to supporting our quality of life and community. A strong, growing and sustainable economy is also a vital element in delivering sustainable public finances and real-terms' growth in States' revenues through new or enhanced tax receipts. This will help ensure that the targets set by the States when approving the MTFP can be delivered.

9.18 As set out in paragraph 2.8, the Policy & Resources Committee is recommending that £1.5million is transferred from the General Reserve to the Future Guernsey Economic Fund as 50% of evidenced fiscal receipts to the States of Guernsey arising from the Locate Guernsey initiative. This will increase the unallocated balance of the Fund to £2.8million.

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

9.20 The Committee *for* Economic Development has requested that it be given delegated authority from the Policy & Resources Committee to spend sums of up to £100,000 from the Future Guernsey Economic Fund on individual initiatives (up to a maximum of £500,000 per year) which demonstrably support the States' agreed priorities within the Economic Development Strategy.

9.21 The Policy & Resources Committee supports this request and therefore it is **recommended that the Policy & Resources Committee is authorised to delegate authority to the Committee *for* Economic Development to approve use of the Future Guernsey Economic Fund.** The Policy & Resources Committee intends to delegate authority to the Committee for Economic Development to spend sums of up to £100,000 on individual initiatives (up to a maximum of £500,000 per year) from the Future Guernsey Economic Fund on the following conditions:

- initiatives demonstrably support the States' agreed priorities within the Economic Development Strategy;
- initiatives comply with the criteria set out in the 2017 Budget Report for use of the Fund; and
- the business case is reviewed by the Treasury team on behalf of the Committee *for* Economic Development. This will ensure that all proposals for use of the Future Guernsey Economic Fund receive a consistent level of challenge and analysis, irrespective of which Committee is approving the funding.

Funding Health and Long Term Care

9.22 As set out in the 2018 Budget Report, the Policy & Resources Committee and the Committee *for* Employment & Social Security, in consultation with the Committee *for* Health & Social Care, are examining options for reforming the funding of health and long term care. The review was originally focussed solely on funding of health care services. However, when the two Committees met initially to discuss this matter consideration was given to the fact that the same issues regarding 'distributional equity' which had been identified in respect of the current health service contributions collected through the social security system applied to the contributions collected in respect of long term care. Therefore the Committees decided to incorporate long term care contributions within the scope of the review.

9.23 The original driver for consideration of this project was that the public funding of health and social care services (including those that are directly commissioned by the States, and those, such as prescriptions or primary care, that are subsidised) currently has multiple sources. In effect, this means that multiple bodies make decisions about the allocation of funding to health services, and shape health policy making by so doing. The multiple sources of funding and decision making and their associated restrictions are an organisational inefficiency and present barriers and disincentives to the full transformation of health and social care services.

9.24 Therefore, the Committees have decided to adopt a two phase approach to enable this issue to be addressed as soon as possible. As the first stage, the three Committees anticipate submitting a Policy Letter in early 2019 which will seek approval for the transfer of policy and operational control for the £43million of services currently provided through the Guernsey Health Service Fund from the Committee *for* Employment & Social Security to the Committee *for* Health & Social Care. The Committee *for* Employment & Social Security will retain responsibility for the collection of contributions to the Health Service Fund.

9.25 This stage of work will provide a clearer division between the mandates of the two Committees by consolidating governance of all health services under a single Committee. In the short-term, managing services and policy development within a single mandate and with a single budget should improve both political transparency and financial control. In the longer-term, the transfer of responsibilities will enable the Committee *for* Health & Social Care to fully integrate these services within its transformation plans, ensuring that future service developments are fully co-ordinated to deliver the best social and financial outcomes.

9.26 The second phase will concentrate on the way in which the States raise revenues to fund health and long term care services, with extensive and detailed analysis to design a new model and undertake consultation thereon. There will be particular focus on the distributional impact given that the Committees are aiming to deliver a more progressive system in line with the direction approved by the States as part of the MTFP *"to seek a greater contribution from those most able to pay"*. This is a complex piece of work which will impact on the whole tax system and this two phase approach will allow for greater integration between this project and the Revenue Service Programme.

General Revenue Funded Social Security Benefits

9.27 Following consideration of an amendment to the 2018 Budget Report, the States *"directed the Policy & Resources Committee with the Committee for Employment & Social Security to investigate the advantages and disadvantages of integrating the compilation, presentation and debate by the States of all general revenue income and expenditure, including non-contributory benefits within a single Report and, following dialogue with the States Assembly & Constitution Committee on any changes to the rules of procedure, to report back with any recommendations to the States no later than October 2018."*

9.28 The Policy & Resources Committee is very conscious that there is an overall limit on States' revenue expenditure and, therefore, the inevitable consequence of any increase in the benefit expenditure, whether arising from rate rises; demand variations; or other policy changes, is a commensurate decrease in funding available for other critical service areas. It is fully accepted that the formula-led classification of these benefits means that there is no option but to fully fund any additional expenditure arising as a result of demand changes, at least in the short-term. It is recognised that the Committee *for* Employment & Social Security is undertaking significant work that seeks to influence the demand for these benefits.

9.29 However, there is discretion in considering the level of benefit rises to be applied and in the introduction of policy changes including those which extend the scope of the benefit to encompass additional claimants or increase the benefit paid to existing claimants. It is the clear view of the Committee that these measures which result in non-demand led (ie policy led) increases in expenditure on benefits should be subject to the same level of scrutiny and prioritisation as a request from any other Committee for additional budget.

9.30 The Policy & Resources Committee is of the view that it is not sustainable for the States to be making decisions on general revenue funded benefit rates in isolation from the remainder of the Budget of the States, as decisions made on these benefit rates inevitably impact on the resources available to allocate to all other Committees during the Budget process.

9.31 The non-contributory benefits expenditure, ie those funded from general taxation, is expected to be approximately £59million in 2019, a significant 15% of the total general revenue budget and the Committee's view is that any proposals to increase expenditure (beyond maintaining the real value of benefits) should not be deliberated on a piecemeal basis through a separate Policy Letter considered in advance of the budget debate but as part of a holistic approach to the States' entire expenditure and contained within the annual Budget Report. The integrated compilation, presentation and consideration of all proposals affecting the States' general revenue financial position would result in the relative merits of all measures being considered at the same time.

9.32 There has been concern expressed that non-contributory rates not being the subject of a separate Policy Letter could reduce the attention and priority given to this area of expenditure, which largely provides key support for the poorest members of society.

9.33 There are a number of benefits that interact (for example if the increase in Income Support rates are more or less than the increase to other benefits, eg. pension; sickness; invalidity; or unemployment there will be a consequential effect on income support expenditure). There is a risk that separate consideration of Non-Contributory Benefits and Contributory Rates will make it more difficult to consider these interactions.

9.34 Following consideration of this matter at a joint Committee meeting, it was agreed that the following be adopted:

- the Committee *for* Employment & Social Security prepares a Non-Contributory Benefit Rates Report with recommendations on rates for the following year and any changes to eligibility and administrative arrangements, etc. This would, as currently happens, be based on the second quarter inflation figures and, in light of updated demand figures, include budget estimates for current year and next year. This report would be submitted to the Policy & Resources Committee in early August;

- when compiling the annual Budget Report, the Policy & Resources Committee would consider the financial implications of the Non-Contributory Benefits submission in conjunction with all other Committees' budget requests – both in respect of the projected change in demand for the existing benefits and any increased cost as a result of the proposed rate changes;

- if the Policy & Resources Committee agrees with the Committee *for* Employment & Social Security's recommendations, it will include them as propositions in the Budget Report and make appropriate provision within the budget figures. The Budget Report would include the Non-Contributory Benefit Rates Report as an appendix and the main body of the Report would include narrative explaining to what extent these recommendations can be accommodated within the overall Budget proposals;

- if the Policy & Resources Committee is unable to recommend the Committee *for* Employment & Social Security's recommendations, it will include a detailed narrative in the Budget Report setting out why it is unable to do so and the financial implications if they were approved. The Budget Report would include the Policy & Resources Committee's recommendations on Non-Contributory Benefit rates but The Committee *for* Employment & Social Security would then be able to place amendment(s) to the Budget Report if it was unable to support the Budget recommendations;

- there would be regular dialogue and meeting scheduled during the Budget process to discuss the proposals and financial implications thereof.

9.35 However, the Committee *for* Employment & Social Security has now advised that, on reflection, it does not support this revised arrangement. The Committee would be unhappy with the Policy & Resources Committee submitting propositions to the States on matters that are in Law the responsibility of the Committee *for* Employment &

Social Security. The latter Committee is also concerned by the logistical issues of handling amendments to propositions from the Policy & Resources Committee on matters that are core to the mandate of the Committee *for* Employment & Social Security.

9.36 Whilst the Policy & Resources Committee understands these concerns it remains firmly of the view that proposals for non-contributory rates should be considered as part of the annual Budget Report. The unique nature of these formula-led benefits means that, unlike other States' expenditure, once decisions have made regarding changes to rates or entitlements, there is no opportunity for budgetary control to be exercised on the resulting expenditure level. There is also no requirement for the Committee *for* Employment & Social Security to reprioritise its overall budget to accommodate any increases in formula led expenditure.

9.37 Therefore, the Policy & Resources Committee **recommends that the States agree the revised arrangements set out in paragraph 9.34 above, with any modifications necessary to ensure that the Committee *for* Employment & Social Security can continue to discharge its legal responsibilities concerning non-contributory benefits, are implemented from 2019; and directs the States' Assembly & Constitution Committee to make any necessary changes to the rules of procedure.**

9.38 The submission by the Committee *for* Employment & Social Security of separate Policy Letters for *"Contributory Benefit and Contribution Rates for 2019"* and *"Non-Contributory Benefit Rates for 2019",* due for debate at the October States meeting, is welcomed as it highlights the difference between those benefits which are funded by and only available to those who make contributions and those which are funded by general taxation and available to all who meet the criteria.

States Accounts and appointment of external auditors

9.39 In 1904 the States approved *"Regulations regarding the States' Accounts"* and resolved that *"The Accounts of the States be published in the body of a Billet followed by a proposition (translated) of "If they are of the opinion to* approve". However, the Accounts are statements of fact and are signed as such by the President of the Policy & Resources Committee and the States Treasurer, following approval of the Policy & Resources Committee, which is required for the external auditors to issue their audit opinion and report. Therefore, it is **proposed that with effect from the States Accounts for the year ended 2018, the proposition shall be for the States to note that the Policy & Resources Committee has approved the States of Guernsey Accounts for the year ending *[insert year].***

9.40 Currently, all of the States Accounts are submitted as a single item for debate by the States. However, the Policy & Resources Committee considers that it would be more appropriate for the Accounts of the States' Trading Supervisory Board's unincorporated entities and the Social Security Contributory Funds to each be the subject of separate propositions to enable separate and focused debated to be held concerning them. Therefore, it is **recommended that the States agree that the mandate of the Policy & Resources Committee is amended so that its existing function of *"preparing the States' Accounts and submitting them to the States annually"* is expanded to *"preparing the States' Accounts and submitting them to the***

***States annually or arranging for the States' Accounts or any part of them to be prepared and submitted to the States by such other Committee of the States as the Committee, following consultation with the Committee in question, may determine"*.**

9.41 The mandated responsibilities of the Policy & Resources Committee include *"annually recommending the appointment of external auditors to the States".* However, this requirement is somewhat anomalous as approval of appointments to revenue contracts is usually the responsibility of the Committee concerned. In addition, external auditors are appointed for a fixed term contract – typically three or five years. Therefore, **it is recommended that the States agree that the mandate of the Policy & Resources Committee is amended so that it is authorised to approve the appointment of external auditors to the States.**

Guernsey Waste

9.42 In February 2014, the States considered a Policy Letter entitled *"Implementation of the Solid Waste Strategy"* (Billet d'État II, 2014) and established the Solid Waste Trading Account for the purposes of managing the financial arrangements relating to solid waste. This included the then 'business as usual' for dealing with solid waste; the development and implementation of the Solid Waste Strategy; funding of waste minimisation and recycling initiatives.

9.43 Now that the strategy implementation is nearly completed, with the new collections and processing in place; and charging mechanisms proposed for States approval, it is appropriate to transition the Solid Waste Trading Account into a more commercial structure which will continue to be overseen by the States' Trading Supervisory Board. Therefore, it is **recommended that the States notes that Guernsey Waste will be established, from 1 January 2019, as a trading business unit, forming part of the States' Trading Supervisory Board, to carry out operational functions of the Waste Disposal Authority including administering the Solid Waste Trading Account.**

9.44 The Treasury and Resources Department [Policy & Resources Committee] was authorised *"to approve expenditure from the Solid Waste Trading Account…….until such time as a new charging regime is in place".* As the new charging regime is proposed for States approval, **it is recommended that this resolution is rescinded and authority delegated to the States' Trading Supervisory Board to approve revenue expenditure from the Solid Waste Trading Account and open capital votes for any solid waste project with a value not exceeding £2million, funded from the Solid Waste Trading Account.**

States of Guernsey Bond

9.45 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."

9.46 In November 2014, the Policy Council approved an increase of £80million in the value of the States of Guernsey bond issue.

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

9.48 The Bond Management Sub-Committee of the Treasury and Resources Department and the Investment and Bond Management Sub-Committee of the Policy & Resources Committee have agreed loans totalling £190million from the proceeds of the States of Guernsey Bond issue. However, the amount currently lent on only totals £140million due to planned repayments and the States decision to fund the solid waste infrastructure from the Capital Reserve instead of a loan from the bond.

9.49 The bond issue proceeds which have not yet been lent on to entities form part of the General Revenue investment assets which are invested in line with the direction set by the Committee's Investment and Bond Management Sub-Committee. At the end of 2017, the Bond Reserve had a balance of £15.6million which will mitigate against the potential for investment returns being lower than the coupon rate in future years.

9.50 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. This is partially due to short-term timing issues as there are some entities which currently have external borrowings, guaranteed by the States of Guernsey, where breaking the existing arrangements and replacing with a loan from the bond proceeds is not considered to be cost effective (e.g. due to cost of exiting fixed rate arrangements or the attractiveness of short-term funding in the current interest rate environment). In addition, the solid waste strategy is no longer being funded by a loan from the bond and there are some entities where the timing of the funding requirement has changed significantly including Guernsey Electricity Limited where there is no longer an immediate requirement to replace a cable.

9.51 As it is currently forecast that a portion of the bond proceeds will not be lent on in the medium-term to entities currently authorised by the States, the Policy & Resources Committee is investigating the possibility of introducing a scheme for providing loans to organisations which are not part of, or wholly owned by, the States for projects which support delivery of the priorities set out in the Policy & Resource Plan. This investigation includes the development of a policy for how any such support would be accessed and the terms which would apply. The Committee will report back to the States with recommendations, if appropriate, to change the policy for the on-lending of the bond proceeds.

Alderney

9.52 The formal financial relationship between Guernsey and Alderney stems from an agreement made in 1948 ("the 1948 agreement") and the two islands are *de facto* in fiscal union, although not in political union. Under the 1948 agreement, tax contributions from Alderney accrue to Guernsey and services which are designated as transferred services (including health, education, policing and immigration, and Alderney Airport) are funded by the States of Guernsey.

9.53 Following a decision of the States of Deliberation in February 2016, an analysis of income and expenditure attributable to Alderney is published annually. The total net cost (excluding social security contributions and expenditure) was £6.8million in 2017 (including £3.3million in respect of the Aurigny operating loss on Alderney routes). With regard to social security attributable to Alderney, it is estimated that benefit payments exceed contributions by approximately £2-2.5million per annum. There are a number of businesses based in Guernsey which benefit from the e-gaming sector in Alderney; it is estimated that their annual contribution through personal income tax and social security contributions is in the region of £1.1million per annum. The per capita cost of the Alderney deficit is therefore over £4,000. An equivalent for the Guernsey population would equate to approximately £250million which would be outside of the Fiscal Policy Framework which stipulates that annual overall deficits on general revenue may not exceed 3% of GDP.

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

- Guernsey retains responsibility to fund all Transferred Services, and the Social Security Funds, through the pooled income sources of Income Tax and Social Security Contributions;
- the States of Alderney is responsible for funding all other public services in Alderney (including the harbour, drainage (foul and surface water), roads,

coastal defences and water), from all other levies, rates, taxes, permit fees, rents, duties and other income collected from sources based in Alderney (such as tax on real property, occupiers' rates, import duties and excise duties, fees in lieu of Congé, document duty, numismatic and philatelic profits, and company registration fees.

9.55 In order to enable the revised arrangements to be introduced, the States of Alderney need to amend their existing Occupier's Rates system (which uses the existing Cadastre register) in order to levy one property tax. This requires primary legislation and, following approval of the States of Alderney in July 2018, it is anticipated that this will be initiated during 2019 with the intention that phase one of the modified financial arrangements will, subject to the formal approval of the States of Alderney, be proposed in the 2020 Budget Report.

9.56 As set out in its Letter of Comment to the Committee *for* Economic Development's Policy Letter entitled *"Review of Air Transport Licensing"* (Billet d'État XIX, 2018), the Policy & Resources Committee has initiated a comprehensive review of the 1948 agreement. This evidence-based review will ensure that the terms of the agreement are appropriate and sustainable; provide clarity on a number of aspects concerning the relationship between Guernsey and Alderney; and result in clear recommendations. These recommendations will reflect the interests of our communities; ensure the relationship is based on a clear understanding of the level of services to be provided; and balance rights and obligations with the interests of our taxpayers.

9.57 The work has commenced with research and analysis of the 1948 Agreement and the services provided under it. The findings of this work will then need to be discussed between a joint group of representatives from the States of Alderney and the States of Guernsey before confirming the approach to the next phase of the review.

9.58 The States' decision to liberalise the air route licensing regime whilst protecting the lifeline route between Guernsey and Alderney is an important step in helping Alderney secure the future of their transport infrastructure, a commitment that is additional to the obligations set out in the 1948 agreement.

9.59 Aurigny's forecast loss of £4.4million for 2019 includes an expected loss of £3million in respect of the Alderney routes (£1.2million for Alderney – Guernsey and £1.8million for Alderney - Southampton). As set out in its Letter of Comment to the Committee *for* Economic Development's Policy Letter entitled *"Review of Air Transport Licensing"* (reference), the Policy & Resources Committee is of the view that *"a reasonable level of funding should be made available from the Bailiwick's collective resources to contribute toward the provision of an appropriate level of service on the lifeline route to Guernsey. However, it would be entirely unrealistic to assume that the sum of the current losses on the Alderney routes of approximately £3million per annum could be made available from General Revenue for funding a Public Service Obligation."*

9.60 The Policy & Resources Committee is firmly of the view that no funding should be made available from General Revenue to provide an ongoing subsidy on the Alderney-Southampton route. Therefore, should the tenders received for the Public Service Obligation indicate that an Alderney-Southampton service cannot be operated without provision of a subsidy additional to that required for the lifeline route of Guernsey-Alderney, the Committee's recommendation would be that the acceptance of losses accruing from this route and funded from General Revenue should cease.

9.61 However, there may be other mechanisms to enable continued operation of this route: the States of Alderney could raise additional revenues; the Committee *for* Economic Development may designate it as an economic enabler route with a subsidy being provided from the Future Guernsey Economic Fund; or the route could be operated such that it makes a positive contribution to the operator's break-even position.

Aurigny

9.62 In November 2015 (Billet d'État XX, 2015), following consideration of a Policy Letter from the Treasury and Resources Department, the States resolved, *inter alia*, to approve the recapitalisation of Cabernet Ltd (Aurigny Group) in respect of its cumulative losses of £19.9million up to 31 December 2014 and its forecast losses of £5.3million for the years 2015 to 2017.

9.63 The States also agreed *"to authorise the Treasury and Resources Department to provide short-term borrowing facilities to the Aurigny Group"* and *"To direct the Treasury and Resources Department to report to the States of Deliberation with details of any short-term borrowing facilities provided to the Aurigny Group within six months of their provision, explaining the need for the facility."*

9.64 The following table details the actual losses incurred in 2015 to 2017 (excluding any adjustment arising from the application of Accounting Standard FRS102 which will 'reverse out' in future years) compared to those forecast in the Policy Letter:

	Forecast Loss £m	Actual Loss £m
2015	2.3	2.5
2016	1.5	5.2
2017	1.5	6.2

9.65 This means that all of the recapitalisation funds were used by the end of 2016 and there were accumulated losses of £8.6million at the end of 2017.

9.66 In respect of 2018, Aurigny is forecasting a loss of £3.7million which will increase the accumulated losses to £12.3million. As reported in the 2018 Budget Report, the Policy & Resources Committee agreed the Company's request for a temporary overdraft facility in 2018.

9.67 For 2019, a loss of £4.4million is anticipated and it is estimated that the company will have a cash requirement of £15million in 2019, although this will need to be reviewed once a decision is made concerning the Public Service Obligation for the lifeline Alderney-Guernsey route and also the Alderney-Southampton route since there may be one-off costs incurred if Aurigny ceases operating either or both of these routes. **Therefore, it is recommended that the States endorses the decision of the Policy &**

Resources Committee to make available a temporary overdraft facility to Aurigny of £15million in 2019.

9.68 Aurigny has requested that it has the option of obtaining its short-term financing requirement from an external provider (with a guarantee provided by the States), as an alternative to using the States provided overdraft facility. Therefore, it is **recommended that the Policy & Resources Committee is authorised to guarantee external overdraft facilities of Aurigny up to 31 December 2019 of a maximum of £15million.**

9.69 The majority of Aurigny's accumulated losses since 2015 arise from the ongoing requirement for the airline to continue operating its Alderney services. The introduction of a PSO framework for those services will mean that these losses will no longer have to be sustained by Aurigny's profit and loss account. In anticipation of the above, the States' Trading Supervisory Board is working with Aurigny on the development of an updated business model for the airline where the focus will be on a requirement to break-even, whilst also recognising the airline's role in maintaining and supporting the Island's connectivity. This model will be developed against the background of both the Strategic Review of the airline commissioned by the Policy & Resources Committee and the new Air Transport Licensing policy recently adopted by the States. As it is not likely that the company will be in a position to reduce / eliminate the accumulated losses, there will need to be consideration of whether there should be a further recapitalisation of the airline.

The Excise Duties (Budget) Ordinance, 2018

THE STATES, in pursuance of their Resolution of the 6th November 2018 and in exercise of the powers conferred on them by sections 23C(3) and 23K of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended[a], and all other powers enabling them in that behalf, hereby order:-

Amendment of Fourth Schedule to the Law.

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

"1. Tobacco and tobacco products -

(a)	Cigarettes	£364.98 per kilo
(b)	Cigars	£364.98 per kilo
(c)	Hand rolling tobacco	£346.22 per kilo
(d)	Other manufactured tobacco	£300.30 per kilo
(e)	Tobacco leaf – unstemmed	£333.37 per kilo
(f)	Tobacco leaf – stemmed	£336.71 per kilo

[a] Ordres en Conseil Vol. XXIII, p.573; as amended by Vol. XXIV, p.87; Vol. XXXI, p. 278; Vol. XXXIII, p. 217; Order in Council No. X of 2004; No. XIV of 2007; No. II of 2010; No. XV of 2012; Recueil d'Ordonnances Tome XXIX, p. 406; Tome XXXII, pp. 607 and 668; Tome XXXIII, p. 38; Ordinance No. XLIII of 2013; Nos. IX and XXXI of 2016; No. XXXI of 2017.

2. Petrol and gas oil -

(a)	Petrol other than any fuel used for the purpose of air navigation (and subject to b.)	70.1p per litre
(b)	Petrol used for the purpose of marine navigation	47p per litre where supplied by an approved trader except where supplied to an approved trader in which case 70.1p per litre[b]
(c)	Gas oil	70.1p per litre

3. Other fuels -

Biodiesel	70.1p per litre

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

(a) any computation of the volume of biodiesel shall be made in litres as at 15 degrees Celsius, and

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

(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 brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	25p per litre
(b)	Beer, other than beer brewed by an independent small brewery, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	51p per litre
(c)	Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	41p per litre

(d)	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	83p per litre
(e)	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	52p per litre
(f)	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.04 per litre
(g)	Beer exceeding 7.5 per cent volume	£1.20 per litre

5. Spirits -

Spirits	£37.44 per litre of alcohol contained in the liquor, calculated in accordance with section 23D

6. Cider -

(a)	Cider produced by an independent small cider-maker exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	25p per litre

(b)	Cider, other than cider produced by an independent small cider-maker, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	51p per litre
(c)	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	41p per litre
(d)	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	83p per litre
(e)	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	52p per litre
(f)	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	£1.04 per litre
(g)	Cider exceeding 7.5 per cent volume	£1.20 per litre

7. Wines -

(a)	Light wines not exceeding 5.5 per cent volume	65p per litre

(b)	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.64 per litre
(c)	Other wines	£4.21 per litre".

Extent.

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

Repeals.

3. The Excise Duties (Budget) Ordinance, 2017[c] is repealed.

Citation.

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2018.

Commencement.

5. This Ordinance shall come into force on the 6th November, 2018.

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[c] Ordinance No. XXXI of 2017.

The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2018

THE STATES, in pursuance of their resolution of the 6th November, 2018 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.

Definitions of "accountancy services" and "NRFSB".

2. In Part III of Schedule 1 to the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007 -

(a) immediately before the definition of "agricultural", insert the following definition –

""**accountancy services**" property means real property owned or occupied for the purpose of carrying on the business of an accountant who, by way of

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a Order in Council No. X of 2006.

b Ordinance No. XXXIII of 2007, as amended by No. XXXII of 2017; there are other amendments not material to this Ordinance.

business, provides accountancy services to third parties (and for the purposes of this Ordinance an "accountant" does not include accountants employed by undertakings which do not by way of business provide accountancy services to third parties," and

(b) immediately after the definition of "non-owner occupied", insert the following definition -

""**NRFSB**" property means real property owned or occupied for the purpose of carrying on the business of a financial services business within the meaning of the Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008[c],".

Extent.

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

Citation.

4. This Ordinance may be cited as the Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2018.

Commencement.

5. This Ordinance shall come into force on the 1st January, 2019.

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[c] No. XV of 2008; there are amendments not material to this Ordinance.

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 with a plan area of less than 500 assessable units	£1.67
B1.1.5	Domestic (whole unit) Local Market with a plan area of 500 and over assessable units	£2.67
B1.2	Domestic (flat) Local Market with a plan area of less than 500 assessable units	£1.67
B1.2.5	Domestic (flat) Local Market with a plan area of 500 and over assessable units	£2.67
B1.3	Domestic (glasshouse) Local Market	5p
B1.4	Domestic (outbuildings) Local Market	84p
B1.5	Domestic (garaging and parking) (non-owner-occupied) Local Market	£1.67
B2.1	Domestic (whole unit) Open Market with a plan area of less than 500 assessable units	£1.67
B2.1.5	Domestic (whole unit) Open Market with a plan area of 500 and over assessable units	£2.67
B2.2	Domestic (flat) Open Market with a plan area of less than 500 assessable units	£1.67
B2.2.5	Domestic (flat) Open Market with a plan area of 500 and over assessable units	£2.67
B2.3	Domestic (glasshouse) Open Market	5p
B2.4	Domestic (outbuildings) Open Market	84p
B2.5	Domestic (garaging and parking) (non-owner-occupied) Open Market	£1.67
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	£6.10
B4.2	Self-catering accommodation	£3.80
B4.3	Motor and marine trade	£5.15
B4.4	Retail	£10.50
B4.5	Warehousing	£5.55
B4.6	Industrial and workshop	£4.45
B4.7	Recreational and sporting premises	£2.55
B4.8	Garaging and parking (non-domestic)	£5.55
B5.1	Utilities providers	£43.50

GUERNSEY BUILDINGS (continued)

1 Property Reference	2 Property Description/Usage	3 Tariff
B6.1	Office and ancillary accommodation (regulated finance industries)	£40.60
B6.2	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	£12.55
B6.3	Office and ancillary accommodation (legal services)	£40.60
B6.4	Office and ancillary accommodation (accountancy services)	£40.60
B6.5	Office and ancillary accommodation (NRFSB)	£40.60
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)	84p
B13.2	Development buildings (non-domestic)	£5.80

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1	Communal (flat) Local Market	22p
L1.2	Communal (flat) Open Market	22p
L1.3	Hostelry and food outlets	44p
L1.4	Self-catering accommodation	44p
L1.5	Motor and marine trade	44p
L1.6	Retail	44p
L1.7	Warehousing	44p
L1.8	Industrial	44p
L1.9	Recreational and sporting premises	44p
L1.10	Office and ancillary accommodation (regulated finance industries)	£1.45
L1.11	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	48p
L1.11.2	Office and ancillary accommodation (legal services)	£1.45
L1.11.3	Office and ancillary accommodation (accountancy services)	£1.45
L1.11.4	Office and ancillary accommodation (NRFSB)	£1.45
L1.12	Utilities providers	44p
L2.1	Approved development site	£1.45
L3.1	Domestic Local Market	22p
L3.2	Domestic Open Market	22p
L3.3	Horticulture	22p
L3.4	Agriculture	22p
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)	44p

TABLE (B)

ALDERNEY REAL PROPERTY

ALDERNEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1A	Domestic (whole unit) with a plan area of less than 500 assessable units	£1.67
B1.1.5A	Domestic (whole unit) with a plan area of 500 and over assessable units	£2.67
B1.2A	Domestic (flat) with a plan area of less than 500 assessable units	£1.67
B1.2.5A	Domestic (flat) with a plan area of 500 and over assessable units	£2.67
B1.3A	Domestic (glasshouse)	5p
B1.4A	Domestic (outbuildings)	84p
B1.5A	Domestic (garaging and parking) (non-owner-occupied)	£1.67
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	£6.10
B4.2A	Self-catering accommodation	£3.80
B4.3A	Motor and marine trade	£5.15
B4.4A	Retail	£10.50
B4.5A	Warehousing	£5.55
B4.6A	Industrial and workshop	£4.45
B4.7A	Recreational and sporting premises	£2.55
B4.8A	Garaging and parking (non-domestic)	£5.55
B5.1A	Utilities providers	£43.50
B6.1A	Office and ancillary accommodation (regulated finance industries)	£40.60
B6.2A	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	£13.55
B6.3A	Office and ancillary accommodation (legal services)	£40.60
B6.4A	Office and ancillary accommodation (accountancy services)	£40.60
B6.5A	Office and ancillary accommodation (NRFSB)	£40.60
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)	84p
B13.2A	Development building (non-domestic)	£5.80

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, legal services, accountancy services and NRFSB)	Zero
L1.11.2A	Office and ancillary accommodation (legal services)	Zero
L1.11.3A	Office and ancillary accommodation (accountancy services)	Zero
L1.11.4A	Office and ancillary accommodation (NRFSB)	Zero
L1.12A	Utilities providers	Zero
L2.1A	Approved development site	Zero
L3.1A	Domestic	Zero
L3.3A	Horticulture	Zero
L3.4A	Agriculture	Zero
L3.5A	Domestic Social Housing	Zero
L3.6A	Publicly owned non-domestic	Zero
L4.1A	Exempt (Land)	Zero
L5.1A	Land – Penal Rate	Zero
L6.1A	Garaging and parking (non-domestic)	Zero

TABLE (C)

HERM REAL PROPERTY

HERM BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1H	Domestic (whole unit) with a plan area of less than 500 assessable units	Zero
B1.1.5H	Domestic (whole unit) with a plan area of 500 and over assessable units	Zero
B1.2H	Domestic (flat) with a plan area of less than 500 assessable units	Zero
B1.2.5H	Domestic (flat) with a plan area of 500 and over assessable units	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, legal services, accountancy services and NRFSB)	Zero
B6.3H	Office and ancillary accommodation (legal services)	Zero
B6.4H	Office and ancillary accommodation (accountancy services)	Zero
B6.5H	Office and ancillary accommodation (NRFSB)	Zero
B7.1H	Horticulture (building other than a glasshouse)	Zero
B8.1H	Horticulture (glasshouse)	Zero
B9.1H	Agriculture	Zero
B10.1H	Publicly owned non-domestic	Zero
B11.1H	Exempt (Buildings)	Zero
B12.1H	Buildings – Penal Rate	Zero
B13.1H	Development buildings (domestic)	Zero
B13.2H	Development buildings (non-domestic)	Zero

HERM LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1H	Communal (flat)	Zero
L1.3H	Hostelry and food outlets	Zero
L1.4H	Self-catering accommodation	Zero
L1.5H	Motor and marine trade	Zero
L1.6H	Retail	Zero
L1.7H	Warehousing	Zero
L1.8H	Industrial	Zero
L1.9H	Recreational and sporting premises	Zero
L1.10H	Office and ancillary accommodation (regulated finance industries)	Zero
L1.11H	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	Zero
L1.11.2H	Office and ancillary accommodation (legal services)	Zero
L1.11.3H	Office and ancillary accommodation (accountancy services)	Zero
L1.11.4H	Office and ancillary accommodation (NRFSB)	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

The Document Duty (Rates) (Amendment) Ordinance, 2018

THE STATES, in pursuance of their Resolution of the 6th November, 2018, and in exercise of the powers conferred on them by section 6(1) of the Document Duty (Guernsey) Law, 2017[a], and all other powers enabling them in that behalf, hereby order:-

Amendment of 2017 Ordinance.

1. The Document Duty (Rates) Ordinance, 2017[b] is amended as follows.

2. For paragraphs (a) to (e) of section 1(2), substitute the following paragraphs –

"(a) 2.25% of any part of the value of the transaction not exceeding £250,000, and

(b) 3.50% of any part of the value of the transaction exceeding £250,000 but not exceeding £400,000, and

(c) 4.00% of any part of the value of the transaction exceeding £400,000 but not exceeding £750,000, and

(d) 4.25% of any part of the value of the transaction exceeding £750,000 but not exceeding £1,000,000, and

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a Order in Council No. IX of 2017; amended by Ordinance No. I of 2018.

b Ordinance No. II of 2018.

(e) 4.50% of any part of the value of the transaction exceeding £1,000,000 but not exceeding £2,000,000, and

(f) 5.50% of any part of the value of the transaction exceeding £2,000,000.".

3. In section 2, for "0.5% of the sum secured" substitute "0.00% of the sum secured".

Transitional relief.

4. (1) Relief in accordance with the following provisions of this section is available on document duty paid in connection with a qualifying registration.

(2) Relief shall consist of a payment to be made by the States Policy & Resources Committee, out of the general revenue of the States, of an amount equal to any difference between the document duty paid and that which would have been payable if this Ordinance had not been enacted.

(3) For the purposes of this section –

(a) "**a qualifying registration**" means –

(i) registration, within the transitional period, of a chargeable transaction which has been executed further to a qualifying agreement, or

(ii) registration, after the expiration of the transitional period, of a chargeable transaction –

(A) which has been executed further to a qualifying agreement, and

(B) where written notice of the existence of that agreement has, within the transitional period, been given to Her Majesty's Greffier,

(b) "**a qualifying agreement**" means an agreement –

(i) entered into prior to 9th October, 2018, and

(ii) the terms and conditions of which, in the opinion of Her Majesty's Greffier, are or were legally binding on any party to the agreement, and

(c) "**the transitional period**" means the period commencing on 1st January, 2019 and ending on 30th June, 2019.

Extent.

5. This Ordinance has effect in the islands of Guernsey and Alderney.

Citation.

6. This Ordinance may be cited as the Document Duty (Rates) (Amendment) Ordinance, 2018.

Commencement.

7. This Ordinance shall come into force on the 1st January, 2019.

The Document Duty (Anti-Avoidance) (Rates) (Amendment) Ordinance, 2018

THE STATES, in pursuance of their Resolution of the 6th November, 2018, and in exercise of the powers conferred on them by section 4(1) of the Document Duty (Anti-Avoidance) (Guernsey) Law, 2017[a], and all other powers enabling them in that behalf, hereby order:-

Amendment of 2017 Ordinance.

1. The Document Duty (Anti-Avoidance) (Rates) Ordinance, 2017[b] is amended as follows.

2. For paragraphs (a) to (e) of section 1(1), substitute the following paragraphs –

"(a) 2.25% of any part of the value of the transaction not exceeding £250,000, and

(b) 3.50% of any part of the value of the transaction exceeding £250,000 but not exceeding £400,000, and

(c) 4.00% of any part of the value of the transaction exceeding £400,000 but not exceeding £750,000, and

(d) 4.25% of any part of the value of the transaction exceeding £750,000 but not exceeding £1,000,000, and

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a Order in Council No. X of 2017; amended by Ordinance No. III of 2018.

b Ordinance No. IV of 2018.

(e) 4.50% of any part of the value of the transaction exceeding £1,000,000 but not exceeding £2,000,000, and

(f) 5.50% of any part of the value of the transaction exceeding £2,000,000.".

Transitional relief.

3. (1) Relief in accordance with the following provisions of this section is available on duty paid in connection with a qualifying transaction.

(2) Relief shall consist of a payment to be made by the States Policy & Resources Committee, out of the general revenue of the States, of an amount equal to any difference between the duty paid and that which would have been payable if this Ordinance had not been enacted.

(3) For the purposes of this section –

(a) "**a qualifying transaction**" means –

(i) a chargeable transaction which is executed within the transitional period further to a qualifying agreement, or

(ii) a chargeable transaction which is executed after the expiration of the transitional period but –

(A) such execution is effected further to a qualifying agreement, and

(B) written notice of the existence of that agreement has, within the transitional period, been given to Her Majesty's Greffier,

(b) "**a qualifying agreement**" means an agreement –

(i) entered into prior to 9th October, 2018, and

(ii) the terms and conditions of which, in the opinion of Her Majesty's Greffier, are or were legally binding on any party to the agreement, and

(c) "**the transitional period**" means the period commencing on 1st January, 2019 and ending on 30th June, 2019.

Extent.

4. This Ordinance has effect in the islands of Guernsey and Alderney.

Citation.

5. This Ordinance may be cited as the Document Duty (Anti-Avoidance) (Rates) (Amendment) Ordinance, 2018.

Commencement.

6. This Ordinance shall come into force on the 1st January, 2019.

SUMMARY OF BUDGET PROPOSALS - INDIRECT TAXATION

Duty on Tobacco

2019	7.4% increase 7.9% increase 9.9% increase	Cigarettes (RPIX plus 5%) Cigars (RPIX plus 7.9%) All other tobacco products (RPIX plus 7.5%)			
2018	7.8% increase 10.3% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2017	5.6% increase 8.1% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2016	6.5% increase 9% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2015	5.5% increase	(RPI plus 3%)	2011	4.6% increase	(RPI plus 3%)
2014	5.7% increase	(RPI plus 3%)	2010	15% increase	
2013	6% increase	(RPI plus 3%)	2009	8.5% increase	(RPI plus 3%)
2012	6.5% increase	(RPI plus 3%)	2008	7.7% increase	(RPI plus 3%)

Duty on Alcohol

2019	5% increase	2013	3% increase
2018	5% increase	2012	3% increase
2017	5% increase	2011	3.5% increase
2016	5% increase	2010	15% increase on spirits only
2015	5% increase	2009	5.5% increase
2014	5% increase	2008	20% increase

Duty on Fuel

2019	4.6% (to maintain the real value of income received)		
2018	5.5% (to maintain the real value of income received)		
2017	8.5% increase		
2016	12.9% increase (to restore the real value of the motor tax element)		
2015	6.1% increase	2011	10.8% increase
2014	5% increase	2010	15% increase
2013	3.3% increase	2009	6.9% increase
2012	9.8% increase	2008	7.4% increase

Document Duty

2019	Duty on bonds set to 0% with compensatory increases in rates for conveyances; introduction of a higher band for conveyances for the proportion of the property value which exceeds £2million
2018	No change
2017	Change to a graduated based system of calculating duty
2015-2016	No change
2014	Increase in thresholds and temporary rate reductions for lower bands
2008-2013	No change

Tax on Rateable Value / Tax on Real Property

2019	10% increase 5% increase	Domestic Commercial
2018	10.2% increase 5% increase	Domestic Commercial
2017	10.5% increase 5% increase	Domestic Commercial
2016	10% increase 2.5% increase 5% increase	Domestic Retail Commercial (other than retail)
2015	15% increase 5% increase 10% increase	Domestic Retail Commercial (other than retail)
2014	5% increase	
2013	3% increase	
2012	20% increase 3% increase	Domestic Commercial
2011	20% increase 3.5% increase	Domestic Commercial
2010	10% increase	
2009	5.5% increase 25% increase 50% increase	Domestic and Commercial Office and ancillary accommodation (other than regulated finance industries) Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land
2008	100% increase 400% increase	Commercial, utilities and recreational / sporting buildings and land Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land

INCOME AND EXPENDITURE ACCOUNT

2017 Actual £'000s	2018 Original Budget £'000s	Income and Expenditure by Category	Note	2019 Budget £'000s
		Income		
324,068	324,500	*Income Taxes*	1	339,570
79,824	80,300	*Other Taxes*	2	84,970
29,740	29,740	*Miscellaneous Income*	3	35,460
433,632	434,540	General Revenue Income		460,000
39,031	39,075	Committee Operating Income (including transfers)		39,681
472,663	473,615	**Total Income**		499,681
		Less Expenditure		
218,670	218,635	*Pay*	4	228,260
124,321	127,629	*Non-Pay*	5	130,628
56,000	66,920	*Formula-Led*	6	77,820
-	(1,100)	*Balance of Budget Reduction*		(625)
-	(3,852)	*Budget Submission in Excess of Cash Limit*		-
-	-	*Transfer from General Reserve*		(3,920)
-	-	*Savings Target*		(4,620)
398,991	408,232	Revenue Expenditure		427,543
-	11,683	Budget Reserve		12,238
73,672	53,700	**Revenue Surplus**		59,900
5,018	6,500	Capital Income		7,000
78,690	**60,200**	**Total Cash Limits**		**66,900**
		Transfers		
(49,669)	(59,700)	*To Capital Reserve*		(61,500)
-	-	*To States Trading Entities Reserve (Provision for Aurigny Loss)*		(4,400)
29,021	**500**	**Transfer to General Reserve**		**1,000**

INCOME AND EXPENDITURE ACCOUNT

2017 Actual £'000s	2018 Original Budget £'000s	Income and Expenditure by Service Area	2019 Budget £'000s
433,632	434,540	Revenue Income	460,000
5,018	6,500	Capital Income	7,000
438,650	441,040	**Total Income**	467,000
		Net Revenue Expenditure	
37,678	37,410	*Policy & Resources Committee*	39,815
6,755	6,235	*Committee for Economic Development*	6,040
77,276	73,925	*Committee for Education, Sport & Culture*	74,730
64,938	76,902	*Committee for Employment & Social Security*	87,955
11,456	11,975	*Committee for the Environment & Infrastructure*	12,255
114,072	114,658	*Committee for Health & Social Care*	119,470
30,305	29,825	*Committee for Home Affairs*	31,100
474	547	*Scrutiny Management Committee*	531
1,167	1,340	*Development & Planning Authority*	1,410
2,915	2,960	*Overseas Aid & Development Commission*	2,960
3,685	4,530	*States' Trading Supervisory Board*	6,210
2,800	2,535	*Royal Court*	2,570
4,592	4,475	*Law Officers*	5,055
-	-	*Pooled Budgets*	506
1,847	1,840	*States of Alderney*	1,875
-	11,683	*Budget Reserve*	12,238
-	-	*Savings Target*	(4,620)
359,960	380,840	**Total Cash Limits**	400,100
78,690	**60,200**	**Net Surplus**	**66,900**
		Transfers	
(49,669)	(59,700)	*To Capital Reserve*	(61,500)
-	-	*To States Trading Entities Reserve (Provision for Aurigny Loss)*	(4,400)
29,021	**500**	**Transfer to General Reserve**	**1,000**

NOTES

1. Income Taxes

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
253,762	257,200	Individuals	267,440
58,772	56,600	Companies (including Banks)	62,130
11,534	10,700	Distributed Profits	10,000
324,068	**324,500**	**Income Taxes**	**339,570**

2. Other Taxes

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Customs - Excise and Import Duties	
3,373	3,600	*Beer*	3,755
815	850	*Cider*	950
19,390	19,800	*Motor Fuel*	20,300
3,343	3,350	*Spirits*	3,900
7,050	7,850	*Tobacco*	7,600
5,399	5,600	*Wine*	5,775
1,634	1,800	*Import duties*	1,800
41,004	42,850		44,080
20,662	23,000	Tax on Real Property	25,160
16,964	13,300	Document Duty - Conveyancing and Bonds	14,550
1,194	1,150	Vehicle First Registration Duty	1,180
79,824	**80,300**	**Other Taxes**	**84,970**

NOTES

3. Miscellaneous Income

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
5,181	11,950	Housing Rental Income	18,275
10,786	9,750	Company Fees	9,900
2,800	3,040	Property Rental Income	3,000
4,465	2,100	Surplus on Notes and Coins Trading Account	2,100
4,288	2,100	Net Investment Return	1,500
1,313	400	States' Trading Companies' Dividends	250
-	175	Royalties	250
907	225	Other Income	185
29,740	**29,740**	**Miscellaneous Income**	**35,460**

4. Pay Costs by Pay Group

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
83,361	85,287	Established Staff	89,811
51,105	49,767	Nurses and Medical Consultants	54,323
42,545	42,509	Teachers, Lecturers and Learning Support Assistants	43,004
16,291	16,300	Public Service Employees	15,930
8,803	8,986	Police Officers	8,707
3,308	3,358	Prison Officers	3,551
3,442	3,405	Fire Officers	3,437
3,486	3,155	Border Agency Officers	3,422
2,661	1,636	Crown Officers and Judges	2,315
2,041	2,116	Home Support Staff	2,107
1,627	2,116	Other Pay Groups	1,653
218,670	**218,635**	**Pay Costs by Pay Group**	**228,260**

NOTES

5. Non-Pay Costs by Expenditure Category

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Staff Non Pay Costs	
2,438	2,209	*Recruitment*	2,041
2,161	2,225	*Training*	2,165
528	615	*Other Staff Costs*	567
5,127	5,049		4,773
		Support Services	
1,786	1,982	*Advertising Marketing and PR*	2,112
256	215	*Audit Fees*	247
153	196	*Bank Charges*	185
9,850	10,875	*Communications and IT*	10,373
3,121	2,059	*Consultants Fees*	2,303
12,726	12,589	*Contracted Out Work*	13,087
99	-	*Incidental and Other costs*	-
1,650	1,302	*Postage, Stationery and Printing*	1,159
2,192	2,256	*Risk Management and Insurance*	3,038
31,833	31,474		32,504
		Premises	
857	755	*Equipment, Fixtures and Fittings*	887
2,509	2,620	*Rents and Leasing*	2,716
14,750	15,832	*Repairs, Maintenance and Servicing*	16,584
4,993	5,461	*Utilities*	5,183
23,109	24,668		25,370
		Third Party Payments	
254	303	*Benefit Payments*	311
24,956	24,893	*Grants and Subsidies*	27,235
25,210	25,196		27,546
		Transport	
1,448	1,266	*Vehicles and Vessels*	1,452
		Supplies and Services	
23,601	25,093	*Services*	23,772
13,993	14,883	*Supplies*	15,211
37,594	39,976		38,983
124,321	**127,629**	**Non-Pay Costs by Expenditure Category**	**130,628**

NOTES

6. Formula-Led Costs by Expenditure Category

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Policy & Resources Committee	
1,855	1,900	*Payments to States Members*	1,935
		Committee *for* Employment & Social Security	
21,683	31,690	*Income Support*	41,327
15,668	16,165	*Guernsey Insurance Fund Grant*	16,643
8,190	8,415	*Family Allowance*	8,540
5,569	5,820	*Severe Disability Benefit and Carers' Allowances*	6,630
2,453	2,390	*Legal Aid*	2,442
582	540	*Concessionary TV Licences for the Elderly*	303
56,000	**66,920**	**Formula-Led Costs**	**77,820**

POLICY & RESOURCES COMMITTEE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
3,185	3,880	**Operating Income**	4,528
		Non Formula-Led Expenditure	
21,393	22,346	Pay costs	24,441
		Non Pay costs	
2,663	2,522	*Staff Non Pay costs*	2,336
12,868	12,991	*Support Services*	13,773
368	407	*Premises*	417
888	947	*Third Party Payments*	965
6	11	*Transport*	9
822	691	*Supplies & Services*	837
-	(525)	*Balance of Budget Reduction*	(370)
17,615	17,044		17,967
35,823	35,510	**Net Non Formula-Led Expenditure by Category**	37,880
		Formula-Led Expenditure	
1,855	1,900	Third Party Payments	1,935
1,855	1,900	**Formula-Led Expenditure by Category**	1,935
37,678	**37,410**	**Total Net Expenditure by Category**	**39,815**

POLICY & RESOURCES COMMITTEE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure	
		Core Services	
605	480	*Central Services*	599
1,091	1,397	*External Affairs*	1,151
4,428	4,197	*Revenue Service*	4,271
981	1,025	*Policy & Strategy*	1,262
782	758	*Treasury*	818
-	(280)	*Balance of Budget Reduction*	(180)
7,887	7,577		7,921
		Corporate Functions	
458	483	*Assurance & Risk*	492
275	274	*Communications & Media*	463
402	620	*Data & Analysis Services*	544
-	376	*Data Protection*	414
2,690	2,310	*Finance*	2,362
6,635	5,742	*Human Resources*	5,745
10,632	11,405	*Information Systems & Services*	11,538
1,954	1,925	*Insurance*	2,700
356	374	*Procurement*	879
3,585	3,721	*Shared Services Centre*	3,931
121	125	*Tribunals & Reviews*	172
-	(245)	*Balance of Budget Reduction*	(190)
27,108	27,110		29,050
55	52	Commonwealth Parliamentary Association	120
773	771	HE Lieutenant Governor	789
35,823	35,510		37,880
		Formula-Led Expenditure	
1,855	1,900	Payments to States Members	1,935
1,855	1,900		1,935
37,678	**37,410**	**Net Expenditure by Service Area**	**39,815**

COMMITTEE *for* ECONOMIC DEVELOPMENT

2017 Actual £'000s	2018 Original Budget £'000s	Net Expenditure by Category	2019 Budget £'000s
427	608	**Operating Income**	1,113
		Non Formula-Led Expenditure	
2,645	2,881	Pay costs	2,743
		Non Pay costs	
30	35	*Staff Non Pay costs*	21
2,873	2,374	*Support Services*	2,759
85	83	*Premises*	34
1,227	1,112	*Third Party Payments*	1,269
56	77	*Transport*	72
266	281	*Supplies & Services*	255
4,537	3,962		4,410
6,755	**6,235**	**Net Non Formula-Led Expenditure by Category**	**6,040**

COMMITTEE *for* ECONOMIC DEVELOPMENT

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure	
519	592	Central Services	397
7	11	Civil Aviation Office	-
		Finance & Economic Development	
553	791	*Finance Sector Development*	700
403	542	*Business Innovation & Skills*	510
956	1,333		1,210
1,200	1,110	Grant & Support Schemes	1,217
		Marketing & Tourism	
1,351	1,287	*Consumer & Communications*	1,301
80	74	*Guernsey Information Centre*	83
51	70	*Quality Development*	69
658	616	*Strategic Marketing*	640
448	503	*Trade & Media Relations*	461
2,588	2,550		2,554
995	20	Office of the Public Trustee	52
296	372	Sea Fisheries	351
194	247	Strategic Projects	259
6,755	**6,235**	**Net Expenditure by Service Area**	**6,040**

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2017 Actual £'000s	2018 Original Budget £'000s	Net Expenditure by Category	2019 Budget £'000s
5,928	5,900	**Operating Income**	5,971
		Non Formula-Led Expenditure	
57,963	57,815	Pay costs	57,897
		Non Pay costs	
1,002	744	*Staff Non Pay costs*	619
1,269	1,109	*Support Services*	1,020
4,901	5,193	*Premises*	5,287
14,266	14,607	*Third Party Payments*	14,883
261	145	*Transport*	110
3,542	4,064	*Supplies & Services*	4,610
-	-	*Balance of Budget Reduction*	(105)
25,241	25,862		26,424
77,276	77,777		78,350
-	(3,852)	**Budget Submission in Excess of Cash Limit**	-
-	-	**Transfer from General Reserve**	(3,620)
77,276	**73,925**	**Net Non Formula-Led Expenditure by Category**	**74,730**

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2017 Actual £'000s	2018 Original Budget £'000s	Net Expenditure by Service Area	2019 Budget £'000s
		Beau Sejour	
493	625	*Net expenditure*	667
(493)	(625)	*Less transfer from Channel Islands Lottery (Guernsey) Fund*	(667)
	-		-
4,554	5,120	Central Services	4,739
394	400	Cultural Activities & Events	403
		Further Education	
8,073	7,995	*College of Further Education*	8,014
275	703	*Guernsey Training Agency*	703
1,200	1,221	*Institute of Health & Social Care Studies*	1,254
9,548	9,919		9,971
4,266	4,310	Higher Education	4,300
		Museums & Libraries	
1,526	1,518	*Grants to Libraries*	1,550
279	292	*Island Archive Service*	302
1,068	1,065	*Museums Service*	1,188
2,873	2,875		3,040
4,814	4,705	School & Pupil Support Services	4,718
		Schools	
4,396	4,351	*Grants to Colleges*	4,313
2,032	1,920	*Pre-School*	2,075
15,783	15,529	*Primary Schools*	16,067
716	722	*School Music Service*	773
19,490	19,307	*Secondary Schools*	19,067
6,024	6,182	*Special Schools*	6,406
1,943	1,990	*Voluntary Schools*	1,932
50,384	50,001		50,633
443	447	Sports	651
-	-	Balance of Budget Reduction	(105)
77,276	77,777		78,350
-	(3,852)	**Budget Submission in Excess of Cash Limit**	-
-	-	**Transfer from General Reserve**	(3,620)
77,276	**73,925**	**Net Expenditure by Service Area**	**74,730**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
32	13	**Operating Income**	20
		Non Formula-Led Expenditure	
3,891	4,264	Pay costs	4,309
		Non Pay costs	
20	42	*Staff Non Pay costs*	52
498	438	*Support Services*	455
5,011	5,705	*Premises*	5,696
1,261	1,296	*Third Party Payments*	1,441
28	33	*Transport*	37
116	117	*Supplies & Services*	100
6,934	7,631		7,781
10,793	11,882	**Non Formula-Led Expenditure by Category**	12,070
		Formula-Led Expenditure	
51,692	62,630	*Third Party Payments*	73,443
2,453	2,390	*Supplies & Services*	2,442
54,145	65,020	**Formula-Led Expenditure by Category**	75,885
64,938	**76,902**	**Total Net Expenditure by Category**	**87,955**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure by Service Area	
1,744	2,325	Administration of Social Security & Legal Aid	2,287
1,193	1,227	Benefits & Allowances	1,309
683	430	Central Services	644
124	53	Disability & Inclusion	54
229	291	Employment Relations Service	289
394	368	Health & Safety Executive	380
580	712	Housing Strategy & Planning	662
5,288	5,957	Social Housing Buildings Maintenance	5,969
558	519	Social Housing Tenancy Management	476
10,793	11,882	**Net Non Formula-Led Expenditure by Service Area**	12,070
		Formula-Led Expenditure	
		Legal Aid	
1,671	1,570	*Civil Legal Aid*	1,622
782	820	*Criminal Legal Aid*	820
2,453	2,390		2,442
582	540	Concessionary TV Licences for the Elderly	303
8,190	8,415	Family Allowance	8,540
-	-	Health Service Grant	-
5,569	5,820	Severe Disability Benefit & Carers' Allowances	6,630
15,668	16,165	Social Insurance Grant	16,643
21,683	31,690	Supplementary Benefit	41,327
54,145	65,020	**Formula-Led Expenditure by Service Area**	75,885
64,938	**76,902**	**Total Net Expenditure by Service Area**	**87,955**

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
3,031	2,898	**Operating Income**	3,042
		Non Formula-Led Expenditure	
2,654	2,659	Pay costs	2,951
		Non Pay costs	
15	29	*Staff Non Pay costs*	25
7,626	8,121	*Support Services*	8,114
2,036	2,263	*Premises*	2,370
1,476	1,266	*Third Party Payments*	1,092
45	33	*Transport*	35
635	707	*Supplies & Services*	710
-	(205)	*Balance of Budget Reduction*	-
11,833	12,214		12,346
11,456	**11,975**	**Net Non Formula-Led Expenditure by Category**	**12,255**

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
319	336	Central Services	526
73	80	Alderney Breakwater	81
		Agriculture, Countryside & Land Management	
2,143	2,010	*Agriculture & Veterinary Services*	1,814
783	865	*Coastal Services*	882
903	916	*Parks, Gardens & Nature Trails*	852
406	431	*Other Environmental Services*	481
4,235	4,222		4,029
		Traffic & Highway Services	
2,582	2,480	*Highway Services*	2,646
368	733	*Integrated Transport Strategy*	714
(482)	(297)	*Licensing & Traffic Services*	(496)
4,361	4,626	*Passenger Transport*	4,755
6,829	7,542		7,619
-	(205)	Balance of Budget Reduction	-
11,456	**11,975**	**Net Expenditure by Service Area**	**12,255**

COMMITTEE *for* HEALTH & SOCIAL CARE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
14,820	14,320	**Operating Income**	14,905
		Non Formula-Led Expenditure	
85,800	84,631	Pay costs	90,287
		Non Pay costs	
560	717	*Staff Non Pay costs*	634
2,926	2,821	*Support Services*	2,809
6,809	6,329	*Premises*	6,767
2,806	2,675	*Third Party Payments*	3,472
639	587	*Transport*	802
29,352	31,218	*Supplies & Services*	29,604
43,092	44,347		44,088
114,072	**114,658**	**Net Non Formula-Led Expenditure by Category**	**119,470**

COMMITTEE *for* HEALTH & SOCIAL CARE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
		Central Services	
1,210	1,360	*Clinical Governance*	1,413
1,059	1,142	*Contract Management & Procurement*	884
1,629	1,606	*Corporate & Strategy*	1,907
13,100	12,980	*Estates & Facilities*	13,628
1,232	963	*Systems & Performance*	1,225
18,230	18,051		19,057
		Acute Services	
29,981	29,799	*Acute Hospital Services*	30,714
8,546	8,511	*Acute Off Islands Treatment*	8,545
1,217	1,038	*Health Care Management*	1,029
733	762	*Institute of Health and Social Care Studies*	780
2,486	2,315	*St John Ambulance & Rescue*	2,392
42,963	42,425		43,460
		Community Services	
12,255	12,061	*Adult Services*	13,285
11,380	11,813	*Childrens Services*	12,304
6,637	7,984	*Complex Placements*	6,760
283	344	*Social Care Management*	284
18,354	17,537	*Specialist Services*	19,098
48,909	49,739		51,731
		Public Health & Strategy	
1,511	1,528	*Community Health & Wellbeing*	1,597
608	641	*Drug and Alcohol Strategy*	631
936	1,202	*Medical Public Health*	1,363
205	271	*Public Health Management*	820
3,260	3,642		4,411
710	801	Office of the Children's Convenor	811
114,072	**114,658**	**Net Expenditure by Service Area**	**119,470**

COMMITTEE *for* HOME AFFAIRS

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
2,833	2,479	**Operating Income**	2,585
		Non Formula-Led Expenditure	
27,408	27,107	Pay costs	27,422
		Non Pay costs	
683	743	*Staff Non Pay costs*	840
1,530	1,335	*Support Services*	1,378
1,455	1,416	*Premises*	1,404
99	99	*Third Party Payments*	1,125
229	226	*Transport*	219
1,734	1,728	*Supplies & Services*	1,747
-	(350)	*Balance of Budget Reduction*	(150)
5,730	5,197		6,563
30,305	29,825		31,400
-	-	**Transfer from General Reserve**	(300)
30,305	**29,825**	**Net Non Formula-Led Expenditure by Category**	**31,100**

COMMITTEE *for* HOME AFFAIRS

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Service Area	
543	471	Administration and Central Services	531
104	132	Data Protection	998
395	428	Domestic Abuse Strategy	432
154	153	Emergency Planning	151
(28)	(26)	Gambling Control	(26)
3,789	3,709	Guernsey Fire and Rescue Service	3,781
(344)	(3)	Population Management	(95)
998	856	Joint Emergency Services Control Centre	916
17,795	17,810	Law Enforcement	17,935
(245)	(261)	Liquor Licence Fees	(261)
5,534	5,457	Prison Service	5,699
1,610	1,449	Probation Service	1,489
-	(350)	Balance of Budget Reduction	(150)
30,305	29,825		31,400
-	-	**Transfer from General Reserve**	(300)
30,305	**29,825**	**Net Expenditure by Service Area**	**31,100**

SCRUTINY MANAGEMENT COMMITTEE

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		<u>Net Expenditure by Category</u>	
		Non Formula-Led Expenditure	
430	440	Pay costs	426
		Non Pay costs	
7	8	*Staff Non Pay costs*	6
26	79	*Support Services*	79
2	1	*Premises*	4
9	19	*Supplies & Services*	16
44	107		105
474	**547**	**Net Non Formula-Led Expenditure by Category**	**531**

DEVELOPMENT & PLANNING AUTHORITY

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
1,181	1,075	**Operating Income**	1,086
		Non Formula-Led Expenditure	
2,267	2,258	Pay costs	2,351
		Non Pay costs	
41	75	*Staff Non Pay costs*	53
12	42	*Support Services*	54
1	2	*Premises*	1
17	21	*Transport*	19
10	17	*Supplies & Services*	18
81	157		145
1,167	**1,340**	**Net Non Formula-Led Expenditure by Category**	**1,410**
		Net Expenditure by Service Area	
95	122	Building Control	163
69	161	Planning Control	183
475	473	Planning Support	482
528	584	Policy & Conservation	582
1,167	1,340		1,410
1,167	**1,340**	**Net Expenditure by Service Area**	**1,410**

STATES' TRADING SUPERVISORY BOARD

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
3,641	3,884	**Operating Income**	2,555
		Non Formula-Led Expenditure	
4,005	4,189	Pay costs	4,290
		Non Pay costs	
43	67	*Staff Non Pay costs*	63
979	1,061	*Support Services*	1,160
1,740	2,452	*Premises*	2,634
33	38	*Transport*	41
526	607	*Supplies & Services*	577
3,321	4,225		4,475
3,685	**4,530**	**Net Non Formula-Led Expenditure by Category**	**6,210**
		Net Expenditure by Service Area	
815	806	Alderney Airport	896
421	479	Central Services	509
64	39	Shareholder Executive	39
(1,595)	(1,574)	Solid Waste	-
3,980	4,780	States Property Services	4,766
3,685	4,530		6,210
3,685	**4,530**	**Net Expenditure by Service Area**	**6,210**

ROYAL COURT

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
1,886	2,016	**Operating Income**	1,858
		Non Formula-Led Expenditure	
4,040	3,720	Pay costs	3,719
		Non Pay costs	
16	12	*Staff Non Pay costs*	8
220	360	*Support Services*	272
178	215	*Premises*	198
5	8	*Transport*	8
227	236	*Supplies & Services*	223
646	831		709
2,800	**2,535**	**Net Non Formula-Led Expenditure by Category**	**2,570**
		Net Expenditure by Service Area	
841	861	Bailiffs Office	859
530	539	Client Services	454
1,202	780	Court Services	980
227	355	Parliament	277
2,800	2,535		2,570
2,800	**2,535**	**Net Expenditure by Service Area**	**2,570**

LAW OFFICERS

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		Net Expenditure by Category	
200	180	**Operating Income**	180
		Non Formula-Led Expenditure	
4,490	4,370	Pay costs	4,952
		Non Pay costs	
48	34	*Staff Non Pay costs*	34
98	82	*Support Services*	82
34	25	*Premises*	23
1	1	*Transport*	1
121	143	*Supplies & Services*	143
302	285		283
4,592	**4,475**	**Net Non Formula-Led Expenditure by Category**	**5,055**

POOLED BUDGETS

2017 Actual £'000s	2018 Original Budget £'000s		2019 Budget £'000s
		<u>Net Expenditure by Category</u>	
		Non Formula-Led Expenditure	
-	-	Pay costs	506
-	**-**	**Net Non Formula-Led Expenditure by Category**	**506**
		<u>Net Expenditure by Service Area</u>	
		Children and Young People's Plan	
-	-	*Multi-Agency Support Hub*	506
-	**-**	**Net Expenditure by Service Area**	**506**

STATES OF ALDERNEY

2017 Actual £'000s	2018 Original Budget £'000s	Net Expenditure by Category	2019 Budget £'000s
1,867	1,822	**Operating Income**	1,838
		Non Formula-Led Expenditure	
1,684	1,955	Pay costs	1,966
		Non Pay costs	
(1)	21	*Staff Non Pay costs*	82
908	661	*Support Services*	549
489	577	*Premises*	535
272	234	*Third Party Payments*	339
128	86	*Transport*	99
234	148	*Supplies & Services*	143
-	(20)	*Balance of Budget Reduction*	-
2,030	1,707		1,747
1,847	**1,840**	**Net Non Formula-Led Expenditure by Category**	**1,875**

Note: The Budget for the States of Alderney for 2019 will be considered at the 10 October 2018 meeting of the States of Alderney.

CORPORATE HOUSING PROGRAMME FUND

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Income and Expenditure by Category	
			Income	
3	-	155	Sale of Incompatible Housing Stock	-
3	-	155	**Total Income**	-
			Expenditure	
			Non Pay Costs	
(71)	-	-	*Support Services*	-
(643)	(885)	(885)	*Premises*	(3,885)
(2,291)	(2,121)	(1,986)	*Third Party Payments*	(801)
(3,005)	(3,006)	(2,871)		(4,686)
(3,002)	**(3,006)**	**(2,716)**	**Net (Deficit) for the year**	**(4,686)**
			Net Income / (Expenditure) by Service Area	
3	-	155	Sale of Incompatible Housing Stock	-
(643)	(885)	(885)	Modernisation	(885)
(640)	(885)	(730)		(885)
			Corporate Initiatives & Strategies	
(2,362)	(1,031)	(896)	*Social Housing Development Programme*	(3,801)
-	(1,090)	(1,090)	*Supported Living*	-
(2,362)	(2,121)	(1,986)		(3,801)
(3,002)	**(3,006)**	**(2,716)**	**Net (Deficit) for the year**	**(4,686)**
30,092	26,506	27,090	Balance of Fund at 1st January	24,374
(3,002)	(3,006)	(2,716)	Net (Deficit) for the year	(4,686)
27,090	**23,500**	**24,374**	**Balance of Fund at 31st December**	**19,688**

SOLID WASTE TRADING ACCOUNT

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Income by Category	
			Income	
6,697	6,917	6,609	*Operating Income*	11,255
205	-	8	*Investment Return*	-
6,902	6,917	6,617	**Total Income**	11,255
			Net Expenditure	
(241)	(523)	(305)	Pay Costs	(517)
			Non Pay Costs	
(3)	(5)	(6)	*Staff Non-Pay Costs*	(4)
(4,678)	(5,445)	(5,834)	*Support Services*	(8,211)
(125)	(92)	(380)	*Premises*	(332)
-	(1)	(2)	*Transport*	(2)
(411)	(524)	(598)	*Supplies & Services*	(2,092)
(5,217)	(6,067)	(6,820)	**Total Expenditure**	(10,641)
1,444	**327**	**(508)**	**Net Surplus/(Deficit) for the Year**	**97**
3,611	2,785	3,460	*Balance at 1 January*	1,378
1,444	327	(508)	*Net Surplus/(Deficit) for the year*	97
(1,595)	(1,574)	(1,574)	*Transfer to General Revenue*	-
3,460	**1,538**	**1,378**	**Balance at 31 December**	**1,475**
			Capital Expenditure	
-	-	-	Miscellaneous Capital Works	(397)
-	-	-	IT Projects and Equipment	(10)
-	-	-	Equipment, Machinery and Vehicles	(100)
-	**-**	**-**	**Net Capital Expenditure**	**(507)**

GUERNSEY REGISTRY

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			<u>Net Income by Category</u>	
			Income	
10,620	10,101	10,229	Operating Income	10,199
			Expenditure	
(395)	(412)	(300)	Pay costs	(415)
			Non Pay costs	
(5)	(12)	(6)	*Staff Non Pay costs*	(12)
(201)	(422)	(343)	*Support Services*	(387)
(131)	(151)	(155)	*Premises*	(155)
(11)	(34)	(25)	*Supplies & Services*	(30)
(348)	(619)	(529)		(584)
9,877	**9,070**	**9,400**	**Surplus transferred to General Revenue**	**9,200**
			<u>Net Income by Service Area</u>	
			Company Registry	
10,446	9,948	10,070	Income	10,037
(746)	(984)	(804)	Expenditure	(955)
9,700	8,964	9,266		9,082
			Intellectual Property Office	
180	153	159	Income	162
(3)	(47)	(25)	Expenditure	(44)
177	106	134		118
9,877	**9,070**	**9,400**	**Surplus transferred to General Revenue**	**9,200**

GUERNSEY AIRPORT

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Expenditure by Category	
12,303	12,272	11,981	Operating Income	12,552
(7,067)	(7,086)	(7,370)	Pay costs	(6,939)
			Non Pay costs	
(202)	(277)	(213)	*Staff Non Pay costs*	(224)
(1,172)	(1,270)	(1,232)	*Support Services*	(1,284)
(1,193)	(1,376)	(1,324)	*Premises*	(1,249)
(45)	(56)	(110)	*Transport*	(97)
(2,009)	(2,244)	(2,022)	*Supplies & Services*	(1,951)
(4,621)	(5,223)	(4,901)		(4,805)
615	(37)	(290)	**Operating Surplus / (Deficit) before depreciation**	808
(902)	(1,258)	(972)	Depreciation	(1,050)
(287)	**(1,295)**	**(1,262)**	**Operating (Deficit) after depreciation**	**(242)**
			Net Income / (Expenditure) by Service Area	
			Income	
442	371	371	*Advertising, picketing etc*	373
731	726	720	*Airport Development Charge*	726
696	727	718	*Car Parking Fees*	771
2,085	2,149	1,958	*Rents*	2,194
8,387	8,292	8,245	*Traffic Receipts*	8,495
12,341	12,265	12,012		12,559
			Operational Expenditure	
(1,209)	(1,515)	(1,379)	*Administration*	(1,431)
(2,157)	(2,130)	(2,234)	*Aerodrome Fire Service*	(2,067)
(2,666)	(2,747)	(2,765)	*Airport Infrastructure*	(2,655)
(1,795)	(2,057)	(1,850)	*Airport Security*	(1,768)
(4,079)	(4,036)	(4,257)	*Navigational Services*	(4,013)
(11,906)	(12,485)	(12,485)		(11,934)
180	183	183	Recovery From Alderney Airport	183
615	(37)	(290)	**Operating Surplus / (Deficit) before depreciation**	808
(902)	(1,258)	(972)	Depreciation	(1,050)
(287)	**(1,295)**	**(1,262)**	**Operating (Deficit) after depreciation**	**(242)**

GUERNSEY AIRPORT

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s	Capital Expenditure	2019 Budget £'000s
(5)	(1,183)	(777)	Miscellaneous Capital Works	(2,782)
-	(750)	-	IT Projects and Equipment	(325)
(167)	(1,250)	(898)	Equipment, Machinery and Vehicles	(970)
(172)	(3,183)	(1,675)	**Routine Capital Expenditure**	(4,077)
7	-	(21)	Airport Pavements Project	-
(33)	-	-	Airport Radar	-
26	-	21	Transfer from Capital Reserve	-
(172)	**(3,183)**	**(1,675)**	**Net Capital Expenditure**	**(4,077)**

GUERNSEY HARBOURS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s	Net Expenditure by Category	2019 Budget £'000s
9,158	9,245	9,357	Operating Income	9,658
(3,443)	(3,553)	(3,500)	Pay costs	(3,498)
			Non Pay costs	
(88)	(173)	(103)	*Staff Non Pay costs*	(113)
(199)	(64)	54	*Peripheral Activities*	(2)
(871)	(826)	(1,142)	*Support Services*	(862)
(1,345)	(1,383)	(1,443)	*Premises*	(1,402)
(78)	(124)	(108)	*Transport*	(122)
(255)	(363)	(388)	*Supplies & Services*	(420)
(2,836)	(2,933)	(3,130)		(2,921)
2,879	2,759	2,727	**Operating Surplus before depreciation**	3,239
(1,178)	(1,269)	(1,481)	Depreciation	(1,606)
1,701	**1,490**	**1,246**	**Operating Surplus after depreciation**	**1,633**

GUERNSEY HARBOURS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Income / (Expenditure) by Service Area	
2,865	2,946	2,904	Commercial Port Operations	3,155
233	(21)	51	Property	103
1,076	1,147	1,119	Leisure	1,242
(1,272)	(1,277)	(1,295)	Non-Commercial Port Operations	(1,237)
(23)	(36)	(52)	Ships Registry	(24)
2,879	2,759	2,727	**Operating Surplus before Depreciation**	3,239
(1,178)	(1,269)	(1,481)	Depreciation	(1,606)
1,701	**1,490**	**1,246**	**Operating Surplus after Depreciation**	**1,633**
			Capital Expenditure	
(15)	(3,075)	(530)	Miscellaneous Capital Works	(1,605)
(75)	(250)	(469)	IT Projects and Equipment	-
(125)	(1,100)	(630)	Equipment, Machinery, Vehicles and Vessels	(784)
(215)	(4,425)	(1,629)	**Routine Capital Expenditure**	(2,389)
(27)	-	(11)	Crane Strategy	-
27	-	11	Less transfer from Capital Reserve	-
(215)	**(4,425)**	**(1,629)**	**Net Capital Expenditure**	**(2,389)**

PORTS HOLDING ACCOUNT

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Operating Surplus before depreciation	
615	(37)	(290)	Guernsey Airport	808
2,879	2,759	2,727	Guernsey Harbours	3,239
3,494	2,722	2,437		4,047
131	-	-	Investment Return	-
			Capital Expenditure	
(172)	(3,183)	(1,675)	Guernsey Airport	(4,077)
(215)	(4,425)	(1,629)	Guernsey Harbours	(2,389)
(387)	(7,608)	(3,304)		(6,466)
3,238	**(4,886)**	**(867)**	**Surplus / (Deficit) before depreciation**	**(2,419)**
(2,080)	(2,527)	(2,453)	Depreciation	(2,656)
1,158	**(7,413)**	**(3,320)**	**(Deficit) for the year**	**(5,075)**
3,577	5,362	2,815	Balance at 1st January	1,948
3,238	(4,886)	(867)	Surplus / (Deficit) for the year before depreciation	(2,419)
(4,000)	-	-	Transfer to Capital Reserve	-
-	-	-	Loan Drawdown	4,130
-	-	-	Loan Repaid	(434)
2,815	**476**	**1,948**	**Balance at 31st December**	**3,225**

GUERNSEY WATER

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Income by Service Area	
			Income	
			Water Supplies**	
7,043	7,453	7,399	*Measured*	3,651
3,624	3,660	3,694	*Unmeasured*	1,773
			Waste Water**	
2,187	2,325	2,309	*Measured*	6,074
1,278	1,303	1,298	*Unmeasured*	3,106
1,083	1,171	1,197	*Cesspit Emptying Charges*	1,192
269	268	269	*Grant from General Revenue*	269
205	312	310	Surplus on other trading activities	312
15,689	16,492	16,476		16,377
			Expenditure	
			Operating Expenses	
(353)	(482)	(407)	*Asset Management*	(481)
(1,313)	(1,317)	(1,227)	*Pumping Stations*	(1,305)
(3,228)	(3,527)	(3,471)	*Sewers*	(3,557)
(472)	(540)	(445)	*Water distribution*	(429)
(1,808)	(1,919)	(1,750)	*Water production*	(1,924)
			Management Expenses	
(524)	(583)	(559)	*Compliance*	(611)
(729)	(724)	(721)	*Customer services*	(843)
(1,068)	(1,331)	(1,257)	*Management and general*	(1,339)
(926)	(1,011)	(1,014)	*Support Services*	(1,026)
(10,421)	(11,434)	(10,851)		(11,515)
5,268	5,058	5,625	**Operating Surplus before Depreciation**	4,862
(5,226)	(5,229)	(5,321)	Depreciation/impairment of assets	(4,620)
11	-	-	Gain on disposal of fixed assets	-
53	(171)	304	**Operating Surplus / (Deficit) for the year**	242
334	(394)	(282)	Net Interest receivable/(Payable)	(289)
387	**(565)**	**22**	**Retained Surplus / (Deficit) for the year transferred to / (from) Revenue Account Reserve**	**(47)**

** Guernsey Water is rebalancing its water and wastewater charges in 2019 to be more reflective of the cost of providing each service.

GUERNSEY WATER

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Capital Expenditure	
(4,321)	(5,292)	(4,959)	Infrastructure	(4,314)
(15)	(50)	(209)	Land & Buildings	(150)
(136)	(50)	(25)	Motor Vehicles	(50)
(10)	(200)	(175)	Office Equipment	(55)
(7)	(70)	(32)	Intangibles	(100)
(4,489)	**(5,662)**	**(5,400)**	**Total Capital Expenditure for the Financial Year**	**(4,669)**

STATES WORKS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Income by Service Area	
			Income	
113	88	106	Administration	38
4	-	-	Building Maintenance	-
1,383	1,358	1,283	Cleansing and Refuse	1,298
335	332	332	Drainage	335
1,034	1,060	1,060	Electrical and Mechanical	1,071
91	92	92	Emergency Services	93
635	731	737	Fleet Services	764
1,274	1,224	1,224	Highway Repairs	1,225
2,124	2,020	2,020	Land Management	2,040
3,388	3,458	3,534	Landfill and Recycling	1,838
207	210	210	Management Services	212
2,385	2,514	2,592	Sewage Collection	2,617
430	425	425	Signs and Lines	429
381	430	430	Stores	434
852	901	980	Waste Collection	1,141
-	-	-	Waste Transfer Station and Household Waste Recycling Centre	3,059
14,636	14,843	15,025		16,594
			Expenditure	
			Management Expenses	
(617)	(718)	(737)	*Administration expenses*	(693)
(216)	(314)	(242)	*Building maintenance*	(248)
(1,511)	(1,799)	(1,669)	*Salaries, wages and superannuation*	(2,031)
			Operating Expenses	
(6,517)	(6,513)	(6,372)	*Labour*	(6,316)
(3,491)	(3,528)	(3,608)	*Materials*	(4,688)
(448)	(385)	(410)	*Transport and plant*	(422)
(12,800)	(13,257)	(13,038)		(14,398)
1,836	1,586	1,987	**Operating Surplus before Depreciation**	2,196
(1,090)	(1,360)	(1,211)	Depreciation	(1,580)
26	-	-	Gain on disposal of fixed assets	-
772	226	776	**Operating Surplus for the year**	616
185	18	-	Net Interest Receivable	-
957	**244**	**776**	**Surplus for the year**	**616**

STATES WORKS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Capital Expenditure	
(44)	(186)	(150)	Office Equipment	(191)
(183)	(100)	-	Site Developments	-
(1,416)	(2,132)	(3,314)	Vehicles, Plant, Tools and Equipment	(1,800)
(1,643)	**(2,418)**	**(3,464)**	**Total Capital Expenditure for the Financial year**	**(1,991)**

GUERNSEY DAIRY

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Income by Service Area	
			Sales	
1,620	1,773	1,859	*Dairy products*	1,967
6,089	6,543	6,364	*Liquid Milk*	6,714
20	24	18	Sundry income	28
7,729	8,340	8,241	**Total Income**	8,709
			Cost of Sales	
(38)	(52)	(41)	*Dairy product ingredients*	(41)
(4,158)	(4,573)	(4,373)	*Milk*	(4,717)
(103)	(120)	(105)	*Milk working loss*	(100)
(81)	(74)	(84)	*Freight*	(84)
(573)	(530)	(571)	*Packaging materials*	(591)
(923)	(912)	(976)	*Production wages*	(942)
(5,876)	(6,261)	(6,150)		(6,475)
			Expenses	
(52)	(70)	(60)	Advertising and promotion	(70)
(65)	(67)	(62)	Cleaning materials	(62)
(282)	(299)	(346)	Fuel, light, power, water and rates	(298)
(54)	(50)	(52)	General administration costs	(52)
(91)	(82)	(92)	Laboratory expenses	(92)
(34)	(41)	(25)	Motor vehicle expenses	(25)
(56)	(80)	(130)	Other expenses	(48)
(422)	(322)	(282)	Professional fees	(409)
(368)	(170)	(217)	Repairs, maintenance and insurance	(170)
(531)	(608)	(591)	Salaries and wages	(586)
(1,955)	(1,789)	(1,857)		(1,812)
(7,831)	(8,050)	(8,007)	**Total Expenditure**	(8,287)
(102)	290	234	**Operating Surplus/(Deficit) before Depreciation and Interest**	422
(331)	(275)	(254)	Depreciation/impairment of assets	(371)
(433)	15	(20)	**Operating Surplus/(Deficit) for the year**	51
78	10	-	Net Interest receivable/(payable)	(36)
(355)	**25**	**(20)**	**Surplus/(Deficit) for the year**	**15**
			Capital Expenditure	
(10)	(125)	(50)	Miscellaneous Capital Works	-
(4)	(18)	(92)	IT Projects and Equipment	(50)
(165)	(610)	(178)	Equipment, Machinery and Vehicles	(1,750)
(179)	**(753)**	**(320)**	**Total Capital Expenditure for the year**	**(1,800)**

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Expenditure by Category	
			Pay costs	
353	524	214	*Established Staff*	595
353	524	214		595
			Non Pay costs	
15	45	45	*Staff Non Pay costs*	50
29	61	11	*Support Services*	18
10	135	169	*Supplies & Services*	215
54	241	225		283
407	**765**	**439**	**Total Expenditure by Category**	**878**

SUPERANNUATION FUND ADMINISTRATION

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			Net Expenditure by Category	
			Pay costs	
380	476	381	*Established Staff*	419
380	476	381		419
			Non Pay costs	
444	234	318	*Consultants Fees*	240
80	107	84	*Support Services*	86
524	341	402		326
904	**817**	**783**	**Total Expenditure by Category**	**745**
			Capital Expenditure	
-	-	13	ICT System	53
-	**-**	**13**	**Routine Capital Expenditure**	**53**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY
CONTRIBUTORY FUNDS

2017 Actual £'000s	2018 Original Budget £'000s	2018 Probable Outturn £'000s		2019 Budget £'000s
			<u>Net Income / (Expenditure) by Category</u>	
			Income	
172,713	179,227	178,870	*Contribution Income*	184,500
15,668	16,165	16,130	*States Grants*	16,643
188,381	195,392	195,000		201,143
			Benefit Expenditure	
(137,246)	(142,579)	(144,459)	*Social Insurance*	(149,486)
(41,213)	(41,190)	(41,468)	*Health Insurance*	(42,389)
(19,416)	(20,740)	(19,989)	*Long-term Care Insurance*	(20,600)
(197,875)	(204,509)	(205,916)		(212,475)
			Administration	
(3,929)	(3,879)	(3,854)	*Pay Costs*	(4,145)
(12)	(17)	(17)	*Staff Non Pay costs*	(20)
(1,982)	(2,461)	(2,681)	*Support Services*	(2,711)
(37)	(37)	(59)	*Premises*	(39)
(1)	(1)	(1)	*Transport*	(1)
(157)	(177)	(162)	*Supplies & Services*	(159)
(6,118)	(6,572)	(6,774)		(7,075)
(93)	(150)	(90)	Depreciation	(120)
(15,705)	**(15,839)**	**(17,780)**	**Operating Deficit Before Investing Activities**	**(18,527)**
			<u>Net Income / (Expenditure) by Service Area</u>	
(19,575)	(21,344)	(23,544)	Guernsey Insurance Fund	(24,759)
(2,993)	(1,669)	(2,095)	Guernsey Health Service Fund	(1,788)
6,863	7,174	7,859	Long-term Care Insurance Fund	8,020
(15,705)	**(15,839)**	**(17,780)**	**Operating Deficit Before Investing Activities**	**(18,527)**
			<u>Routine Capital Expenditure</u>	
(124)	(220)	(70)	Miscellaneous Capital Works	(180)
(30)	(470)	(120)	Equipment, Machinery and Vehicles	(280)
(331)	(545)	(350)	IT Projects and Equipment	(350)
(485)	**(1,235)**	**(540)**	**Net Routine Capital Expenditure**	**(810)**

THE LADIES' COLLEGE (Senior School)

2016/2017 Actual £'000s	2017/2018 Budget £'000s		2018/2019 Budget £'000s
		Net Income by Category	
		Income	
4,164	2,550	Fees	2,608
37	24	Miscellaneous Income	24
	1,868	States Grant	1,821
4,201	4,442		4,453
		Expenditure	
8	8	Art	8
5	8	Audit Fee	8
109	121	Books and Stationery	121
181	221	Depreciation	248
54	50	Examination Fees	50
48	52	Fixed Asset Acquisition Costs	79
56	68	General Administrative Expenses	61
12	17	Laboratory and Design and Technology Expenses	17
122	184	Maintenance of Buildings, Grounds and Equipment	184
14	22	Marketing and Development Expenses	22
21	25	Rates, Taxes and Insurance	25
17	36	Recruitment and Relocation	36
3,083	3,289	Salaries and Wages	3,402
24	43	Sports, conferences, field trips etc.	43
17	20	Staff training	20
78	87	Utilities	87
3,849	4,251		4,411
352	191	**Revenue Surplus / (Deficit) for the year**	42
212	200	Fundraising donations received	50
(47)	(42)	Bank Interest payable	(46)
3,137	3,355	Balance b/f from previous year	4,003
3,654	**3,704**	**Balance c/f to next year**	**4,049**

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ANNUAL BUDGET FOR 2019

The States are asked to decide:-

Whether, after consideration of the States of Guernsey Annual Budget for 2019, they are of the opinion:-

1. (Paragraph 2.8) To immediately transfer the sum of £1.5million from the General Reserve to the Future Guernsey Economic Fund.

2. (Paragraph 2.12) To approve the immediate establishment of a Brexit Transition Fund within the General Reserve with an allocation of £3million and to delegate authority to the Policy & Resources Committee to approve uses of this Fund.

3. (Paragraph 2.17) To rescind States resolution 3 of Article VIII of Billet d'État XXI, 2017 entitled 'Overseas Aid & Development Commission: Funding Arrangements and Future Developments'.

4. (Paragraph 2.17) To approve the immediate establishment of an Overseas Aid & Development Impact Investment Fund within the General Reserve with an allocation of £1million and to delegate authority to the Policy & Resources Committee to approve investment of this Fund.

5. (Paragraph 2.20) To approve the immediate establishment of a Participatory Budgeting Fund within the General Reserve with an allocation of £1million and to delegate authority to the Policy & Resources Committee to approve uses of this Fund.

6. (Paragraph 2.23) To note the use of £3.92million of the General Reserve to increase the 2019 budgets of the Committee *for* Education, Sport & Culture (£3.62million) and the Committee *for* Home Affairs (£300,000).

7. (Paragraph 2.25) To immediately transfer the sum of £12.9million from the General Reserve to the Core Investment Reserve.

8. (Paragraph 5.16) To amend the Income Tax (Guernsey) Law, 1975 to provide the ability for the Policy & Resources Committee to make Regulations requiring companies carrying on or undertaking relevant activities or other specified activities to have a substantive presence in Guernsey by meeting 'substance requirements' in the manner outlined in section 5, and making provision for the activities subject to substance requirements, the detailed substance requirements applicable, sanctions and enforcement measures, the obtaining and exchange of information and supervision, monitoring and verification of compliance.

9. (Paragraph 5.30) To amend the Disclosure (Bailiwick of Guernsey) Law, 2007 to enable the disclosure of information by the Guernsey Financial Services Commission to the Director of Income Tax where this would assist the Director in performing her functions.

10. (Paragraph 5.35) To note that a political commitment will be given, to introduce legislation enabling real-time or close to real-time access to beneficial ownership information by EU tax and law enforcement authorities, on a reciprocal basis, subject to ensuring appropriate data and security safeguarding measures are in place.

11. (Paragraph 5.37) To note that a political commitment will be given to introduce legislation implementing mandatory disclosure rules by 31 December 2019 aligned to the OECD work on mandatory disclosure rules for the Common Reporting Standard Avoidance arrangements and opaque offshore structures.

12. (Paragraph 5.43) To amend the Income Tax (Guernsey) Law, 1975 to provide the ability for the Policy & Resources Committee to make Regulations to implement any international tax measure described in section 5, provided that the measure has been specified by Resolution of the States.

13. (Paragraph 6.5) To extend the company intermediate income tax rate (10%) to income from the regulated activity of operating an investment exchange under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2019.

14. (Paragraph 6.5) To extend the company intermediate income tax rate (10%) to income from compliance and other related activities provided to regulated financial services businesses, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2019.

15. (Paragraph 6.11) To amend the Income Tax (Guernsey) Law, 1975 to provide that with effect from 1 January 2019, a company which is treated as non-resident under the terms of a double taxation arrangement with a country or territory where the highest rate at which any company may be charged to tax is 10% or higher will not be considered tax resident in Guernsey for domestic tax purposes, and to make any consequential amendments to the anti-avoidance provisions of the Law as required.

16. (Paragraph 6.24) To reduce the threshold for withdrawal of personal allowances to £100,000, decelerating the withdrawal ratio to £1 for every £5 a person’s calculated income increases above the threshold with effect from 1 January 2019.

17. (Paragraph 6.32) To increase the Income Tax Cap referred to in paragraph 6.30 of this Report from £110,000 to £130,000 on qualifying income and from £220,000 to £260,000 on worldwide income, updating section 39B(1) and the Sixth Schedule of the Income Tax (Guernsey) Law, 1975 accordingly.

18. (Paragraphs 6.33 and 6.35) To amend the Sixth Schedule of the Income Tax (Guernsey) Law, 1975 to:

    a. clarify that income from land and buildings in Guernsey or Alderney will not be excluded from the income tax cap, when the income is derived from an exempt body;
    b. amend the open market tax cap such that it may be claimed by an individual resident in Guernsey;
    c. extend the permitted period for an individual to purchase an open market property in order to be eligible to claim the open market tax cap from 6 months to 12 months;
    d. enable an individual to claim the Alderney income tax cap in any year of charge from 2016 to 2025.

19. (Paragraph 6.39) To propose that in future the annual tax-free lump sum limit for a pension scheme is set annually as part of the Budget by Resolution of the States, with the limit for 2019 being set at £198,000.

20. (Paragraph 6.40) To note that guidance will be issued setting out what is an acceptable contribution to a pension scheme eligible for tax relief as set out in paragraph 6.40 of this Report which will apply from 1 January 2019.

21. (Paragraph 6.41) To amend the conditions for triviality payments from pension schemes in the Income Tax (Guernsey) Law, 1975 in the manner set out in paragraph 6.41 of this Report:

    a. triviality is increased for members aged 50 or over to £50,000 per scheme taxable at 20% in the year of charge in which it is paid; and
    b. triviality is introduced for schemes in drawdown where either the aggregate value of the fund attributable to the member at the time of the request is no greater than:
        i. £50,000 or
        ii. £100,000 and the individual member has a guaranteed minimum retirement income of £20,000 per annum.

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

22. (Paragraph 6.44) To amend the Income Tax (Guernsey) Law, 1975, such that there is a 10% charge on an outward transfer of funds to a UK pension scheme, unless the transfer is made in respect of an individual resident in the UK except where the individual has not been resident in Guernsey at any time.

23. (Paragraph 6.46) To amend section 40 of the Income Tax (Guernsey) Law, 1975 to introduce an exemption for regulated end of service/gratuity schemes where the beneficiaries are non-resident and all income of the trust is non Guernsey source income apart from Guernsey bank interest.

24. (Paragraph 6.48) To amend the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 to make it clear that Mortgage Interest Relief is not available if the loan on a principal private residence is from a trust, with effect from 1 January 2019.

25. (Paragraph 6.53) To amend the Income Tax (Guernsey) Law, 1975 to provide that relief for the underlying tax suffered by a company flows through to the beneficial member on distribution, if the company is either incorporated or controlled in Guernsey, with effect from 1 November 2015.

26. That,

    (a) subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2019 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition;

    (b) the allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975 and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled;

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

    (d) "the income Tax (Guernsey) Law, 1975" means that Law as amended, extended or applied by or under any other enactment.

FIRST SCHEDULE

Year of Charge 2019

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

(i) the allowances shall be pro-rated for a person who is solely or principally resident in the years of that person's, arrival in, or permanent departure from, Guernsey, based on the proportion of time spent in Guernsey in the relevant year of charge in the same manner in which income is pro-rated by virtue of sections 5(3) and 5(4) of the Income Tax (Guernsey) Law, 1975,

(ii) where a person is in receipt of a Guernsey source pension, which is liable to be taxed at source under the Employees Tax Instalment scheme, or a Guernsey old age pension arising under section 33 of the Social Insurance (Guernsey) Law 1978, then the pro-rating under section 51(5) and 51A(2A) of the Income Tax (Guernsey) Law, 1975 shall apply –

(a) from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival),

(b) from the date of departure until the end of the year of charge (in the case of that individual's permanent departure), and

(iii) the totality of each person's allowances and withdrawable deductions are reduced at a ratio of £1 of allowances and withdrawable deductions for every £5 that that person's calculated income is above £100,000 in respect of the relevant tax year.

For the purpose of this schedule –

(a) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and

(b) the withdrawable deductions are the following deductions

- Pension contributions, namely
  - o Retirement Annuity Allowance
  - o contributions to an approved occupational or personal pension scheme

  over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')

- Mortgage interest relief

NATURE OF ALLOWANCE	AMOUNT OF ALLOWANCE
1. **Personal Allowance*^**	Tax at the standard rate on £11,000.
2. **Age-related allowance*^**	Tax at the standard rate on £450 for persons aged 64 years or over at the commencement of the year of charge.
3. **Dependent Relative Allowance***	In respect of each dependent relative - tax at the standard rate on £3,550 or on the amount of the contributions whichever is less: Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £7,450 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,550 the sum of £1 for every pound by which the dependent relative's income exceeds £7,450. 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 £3,550, or such lesser sum as remains after deducting from £3,550 the sum of £1 for every pound by which the dependent relative's income exceeds £7,450 the sum of £296 for every month in the year of charge for which such Family Allowances are payable.
4. **Infirm Person's Allowance***	Tax at the standard rate on £3,550
5. **Housekeeper Allowance**	Tax at the standard rate on £3,550
6. **Charge of Children Allowance***	Tax at the standard rate on £7,475
7. **Retirement Annuity Allowance***	Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

Dependent Relative Allowance

A. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in the case of a child receiving higher education are:

(a) that the child in respect of whom an allowance is claimed -

(i) is the child of the claimant, or

(ii) is the illegitimate child of the claimant and in the year of charge is maintained by the claimant;

(b) that on the first day of August in the year of charge, the child is over the age of nineteen years and is, in that year of charge, receiving full-time instruction at any university, college, school or other educational establishment.

(c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2018.

(2) The expression "child" shall include a stepchild, and a child who has been lawfully adopted shall be treated as the child of the individual by whom he has been so adopted and not as the child of the natural parent.

(3) Where a couple are cohabiting as if they were married and either has a child in respect of whom a dependent relative allowance is claimable, either individual by a notice in writing addressed to the Director, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of that cohabitee.

(4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.

(5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

B. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:

(a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and

(b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself; and

(c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

Infirm Person's Allowance

(1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:

(a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;

Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity.

(b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished;

(c) that the claim relates to an infirm person in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) Not more than one allowance shall be allowed to any claimant for any year.

Housekeeper Allowance

(1) The conditions to be fulfilled to entitle the claimant to a housekeeper allowance are:

(a) that the claimant is a widow or widower.

(b) that in the year of charge a person is employed or maintained by the claimant solely for the purpose of acting in the capacity of a housekeeper for the claimant;

(c) if such person is a relative of the claimant or of the claimant's deceased spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that person, that the claim has been relinquished;

(d) that the claim relates to a housekeeper in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) A housekeeper allowance shall not be granted to any individual for any year in respect of more than one person.

(3) A housekeeper allowance shall not be granted to any individual in any year in which another person's unused allowance has been transferred to that individual or if that individual is in receipt of an infirm person's allowance.

(4) "Housekeeper" means a person who is responsible by delegation for the management of the household, including arrangements for food, housekeeping expenditure and the care of linen and laundry.

Charge of Children Allowance

(1) The conditions to be fulfilled to entitle a claimant who is married or in a civil partnership to a charge of children allowance are:

(a) that in the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children

(i) on 1 January, or

(ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

(b) that the claimant proves that throughout the year either the claimant or the claimant's spouse is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and

(c) that neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained, or if the claimant or any other individual is so entitled, that the claim has been relinquished.

(2) The conditions to be fulfilled to entitle a claimant who is not married or in a civil partnership to a charge of children allowance that in the year of charge:

(a) the claimant is in receipt of Family Allowances in respect of one or more children

(i) on 1 January, or

(ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

(b) the claimant is not cohabiting with another person, except where -

(i) the claimant proves that throughout the year either the claimant or the claimant's cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and

(ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if the claimant or any other individual is so entitled that the claim has been relinquished.

(3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.

(4) Where an individual has a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

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

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

Retirement Annuity Allowance

(1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance or deduction under section 8(3)(bb) are that the claimant pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and of which the claimant or the claimant's spouse is a beneficiary.

(2) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant during the year of computation of the income of the claimant assessable for the year of charge.

(3) Notwithstanding the provisions of the preceding paragraph no allowance or deduction shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed:

(a) 100% of the income of the claimant during the year of computation referred to in the preceding subparagraph, or

(b) any retirement annuity contribution limit for the time being prescribed by Regulations made by the Committee.

Transferability of unused allowances

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

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

(i) transfers between married couples or couples in a civil partnership	Any allowances due to an individual which are greater than the individual's own income may only be transferred to the spouse, if at the commencement of the year of charge the claimant's spouse is living with the claimant as a married couple. Provided that, should the marriage or a civil partnership end in the year of charge, by reason of divorce or separation, the allowance is proportioned on the basis of the number of days in the year of charge which precede that event, with the relevant proportion of any unused allowances prior to that event being automatically transferred. For the purposes of this paragraph – "divorce" means that the Court for Matrimonial Causes has made a Final Order on a decree of divorce or of nullity of marriage in respect of the marriage in question or that the courts of another jurisdiction have made a corresponding order in respect thereof, and includes an order for the dissolution of a civil partnership, and "separation" means that the couple are living separately as fully and as completely as though they had never been married or in a civil partnership, as the case may be.

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

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

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

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

For the purposes of this paragraph "cohabiting" means living with another person, as if they were married or in a civil partnership, throughout the year of charge.

27. (Paragraphs 6.55, 6.60 and 6.74) That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

With immediate effect:

a	Cigarettes	£364.98 per kilogram
b	Cigars	£364.98 per kilogram
c	Hand rolling tobacco	£346.22 per kilogram
d	Other manufactured tobacco	£300.30 per kilogram
e	Tobacco leaf – unstemmed	£333.37 per kilogram
f	Tobacco leaf – stemmed	£336.71 per kilogram
g	Petrol other than any fuel used for the purpose of air navigation	70.1p per litre
h	Petrol used for the purpose of marine navigation where supplied by an approved trader	47.0p per litre
i	Gas oil	70.1p per litre
j	Biodiesel	70.1p per litre
k	Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	25p per litre
l	Beer, other than beer brewed by an independent small brewery, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	51p per litre
m	Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	41p per litre
n	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	83p per litre
o	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	52p per litre
p	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.04 per litre
q	Beer exceeding 7.5 per cent volume	£1.20 per litre
r	Spirits	£37.44 per litre of alcohol contained in the liquor.

s	Cider brewed by an independent small cider-maker exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	25p per litre
t	Cider, other than cider brewed by an independent small cider-maker, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	51p per litre
u	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	41p per litre
v	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	83p per litre
w	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	52p per litre
x	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	£1.04 per litre
y	Cider exceeding 7.5 per cent volume	£1.20 per litre
z	Light wines not exceeding 5.5 per cent volume	65p per litre
aa	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.64 per litre
bb	Other wines	£4.21 per litre

28. (Paragraph 6.76) To approve the draft Ordinance entitled "The Excise Duties (Budget) Ordinance, 2018" and to direct that the same shall have effect as an Ordinance of the States.

29. (Paragraphs 6.79, 6.80, 6.85 and 6.87) To approve the draft Ordinance entitled "The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2018" and to direct that the same shall have effect as an Ordinance of the States.

30. (Paragraph 6.80) To agree to introduce increased Tax on Real Property tariffs in 2020 for properties with a TRP rating between 200 and 499 as set out in paragraph 6.80 of this Report.

31. (Paragraphs 6.91, 6.93 and 6.94) To approve the draft Ordinance entitled "The Document Duty (Rates) (Amendment) Ordinance, 2018" and to direct that the same shall have effect as an Ordinance of the States.

32. (Paragraphs 6.91, 6.93 and 6.94) To approve the draft Ordinance entitled "The Document Duty (Anti-Avoidance) (Rates) (Amendment) Ordinance, 2018" and to direct that the same shall have effect as an Ordinance of the States.

33. (Paragraph 7.45) To delegate authority to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund of up to £8million to fund the programme of organisational and service design.

34. (Paragraph 7.52) To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Transforming Health and Social Care Services by £1.8million to £5.3million.

35. (Paragraph 7.52) To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Transforming Education and Training Services by £750,000 to £3.5million.

36. (Paragraph 7.52) To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Public Service Reform by £500,000 to £2.1million.

37. (Paragraph 8.8) To approve the cash limits for ordinary revenue expenditure for 2019 totalling £404.72million as set out in paragraph 8.8 of this Report.

38. (Paragraph 8.71) To approve that returns of capital from the States' trading assets and capital income in 2019 be transferred to the Capital Reserve.

39. (Paragraph 8.73) To transfer the sum of £54.5million from General Revenue to the Capital Reserve on 1 January 2019.

40. (Paragraph 9.21) To authorise the Policy & Resources Committee, to whom the States have delegated authority to approve the use of the Future Guernsey Economic Fund (previously the Economic Development Fund), to delegate (and subsequently to modify or withdraw) that authority in whole or in part, subject to such terms, conditions, limitations or restrictions as that Committee thinks fit, and without prejudice to the power of that Committee to continue to exercise that authority, to the Committee *for* Economic Development.

41. (Paragraph 9.37) To agree the revised arrangements for consideration of Non-Contributory Benefits as set out in paragraph 9.34 of this Report, with any modifications necessary to ensure that the Committee *for* Employment & Social Security can continue to discharge its legal responsibilities concerning non-contributory benefits, are implemented from 2019; and to direct the States' Assembly & Constitution Committee to make any necessary changes to the rules of procedure.

42. (Paragraph 9.39) To agree that with effect from and following submission to the States of the States' Accounts for the year ended 2018, the proposition relating to the Accounts in question shall be *"to note that the Policy & Resources Committee has approved the States of Guernsey Accounts for the year ending [insert year]"*

43. (Paragraph 9.40) To agree that the mandate of the Policy & Resources Committee be amended so that its existing function specified in item (b) 3. of the "Duties & Powers" of "preparing the States' accounts and submitting them to the States annually" is expanded to "preparing the States' Accounts and submitting them to the States annually or arranging for the States' Accounts or any part of them to be prepared and submitted to the States by such other Committee of the States as the Committee, following consultation with the committee in question, may determine."

44. (Paragraph 9.41) To agree that the mandate of the Policy & Resources Committee be amended by deleting "annually recommending" from item (b) 10. of the "Duties & Powers" specified in its Mandate.

45. (Paragraph 9.43) To note that Guernsey Waste will be established, from 1 January 2019, as a trading business unit, forming part of the States' Trading Supervisory Board, to carry out operational functions of the Waste Disposal Authority including administering the Solid Waste Trading Account.

46. (Paragraph 9.44) To rescind States resolution 3 of Article I of Billet d'État II, 2014 entitled 'Public Services Department: Implementation of the Solid Waste Strategy' and to delegate authority to the States' Trading Supervisory Board to approve revenue expenditure from the Solid Waste Trading Account and opening capital votes for any solid waste project with a value not exceeding £2million, funded from the Solid Waste Trading Account.

47. (Paragraph 9.67) To endorse the decision of the Policy & Resources Committee to make available a temporary overdraft facility for 2019 of £15million to Aurigny Limited.

48. (Paragraph 9.68) To authorise the Policy & Resources Committee to guarantee external overdraft facilities of Aurigny Limited up to 31 December 2019 of a maximum of £15million.

49. To approve the following Expenditure Budgets for the year 2019:

    (a) Policy & Resources Committee
    (b) Committee *for* Economic Development
    (c) Committee *for* Education, Sport & Culture
    (d) Committee *for* Employment & Social Security
    (e) Committee *for the* Environment & Infrastructure
    (f) Committee *for* Health & Social Care
    (g) Committee *for* Home Affairs
    (h) Scrutiny Management Committee
    (i) Development & Planning Authority
    (j) Overseas Aid & Development Commission
    (k) States' Trading Supervisory Board
    (l) Royal Court
    (m) Law Officers
    (n) Pooled Budgets
    (o) States of Alderney

50. To approve the following Budgets for the year 2019:

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

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

Committee Support for Propositions

In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed Deputy Trott does not support the increase in excise duty on gas oil proposed in Propositions 27 and 28; all other propositions have the unanimous support of the Policy & Resources Committee.

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens