

STATES OF GUERNSEY

**TREASURY AND RESOURCES
DEPARTMENT**

BUDGET REPORT

2006

NOVEMBER 2005

The Chief Minister
Sir Charles Frossard House
St. Peter Port
Guernsey
GY1 1 FH

1 November 2005

Dear Sir,

2006 BUDGET REPORT

I enclose a copy of the above Report which I should be grateful if you would lay before the States.

Yours faithfully,

L S Trott
Minister
Treasury and Resources Department

2006 BUDGET REPORT

Background to the Budget

- 1.1 As set out in its 2005 Interim Financial Report the Treasury and Resources Department, in conjunction with the Policy Council and the other States Departments, undoubtedly has a more difficult task in producing the annual Budget than has faced the States for many years.
- 1.2 In recent years the level of public services and the condition of the public sector infrastructure (in particular on Health, Housing and Education) have improved considerably. However, this has come at a cost and the States finances are under severe pressure. Although the Department remains confident in the Island's future, it has to be acknowledged that the Island faces a period of unprecedented challenge.
- 1.3 The present financial position of the States is much less healthy than last year. Primarily this is due to significant increases in ongoing revenue expenditure and the unprecedented demands for capital expenditure. This trend, which is largely in the control of the States, is unsustainable.
- 1.4 **The necessity for public sector financial restraint sets the background for this year's Budget.**

Summary

- 1.5 The main highlights and proposals contained within this year's Budget Report are as follows:
 - **Personal income tax allowances for 2007 to remain at 2006 levels.**
 - **6.8% increase in the rate of duty on tobacco (RPI plus 3%).**
 - **10% increase in the rate of duty on alcohol.**
 - **No increase in the rates of other indirect taxes.**
 - **2006 Cash limits reduced by £6m compared to previous indications.**
 - **No transfers to the Capital or Contingency Reserves.**
 - **A transfer of £12.75m from the Capital Reserve to continue to fund the Les Nicolles Schools Project.**
 - **A transfer from the Contingency Reserve of £5m to establish a Reorganisation & Restructuring Fund.**

Changes to Personal Allowances

- 1.6 In view of the present States financial position, the Department is recommending that the basic personal income tax allowances for 2007 remain at the same level as 2006. It is worth emphasising that in recent years personal income tax allowances have increased significantly in real terms.

Indirect Taxation

- 1.7 In April 2002 (Billet d'Etat VI) the States directed that increases in the rate of excise duty on tobacco and tobacco products should be "at least RPI plus 3.0% for a minimum of five years commencing with the Budget proposals for 2003."
- 1.8 Therefore, the Treasury and Resources Department recommends an increase in excise duty on tobacco of 6.8% (being 3.0% plus the increase in the Guernsey Retail Prices Index as at September 2005 of 3.8%). This proposal should raise approximately an additional £0.5m per year.
- 1.9 However, the Department is concerned about the increasing amount of tobacco products that are being consumed in the Island on which no duty has been paid. In 2005 revenues from tobacco duty are now expected to be approximately £6.0m compared to a previous estimate of £7.95m (£7.4m in 2004). The Treasury and the Customs Service are currently investigating the causes of this decline and what, if anything, can be done to protect States Revenues.
- 1.10 As part of the Bailiwick Alcohol Strategy, as agreed by the States in October 2005, the Treasury and Resources Department is required to take into account the aims and objectives of the Strategy when making recommendations to the States on the rates of duty on alcohol.
- 1.11 As part of last year's Budget, for the first time in many years, the duty on alcohol was increased. In view of the above Strategy, and for fiscal reasons, a further increase of 10% in the duty on alcohol is being recommended. This measure will increase the duty on a litre of beer by approximately 2 pence and 11 pence on a litre of wine. This proposal should raise approximately an additional £0.6m per year.
- 1.12 The Department is very conscious of the present high oil prices, which have already increased business and consumer costs, and believes that a further increase in these costs should be avoided. The Department is therefore not recommending any increase in duty on fuel as part of this Budget.
- 1.13 The Department does, however, recognise the need to address the long outstanding issue of the most appropriate way to tax the usage and ownership of motor vehicles. The Department is therefore seeking States endorsement of its intention to carry out a full review of this area and to introduce a revised system during the life of this States.
- 1.14 The Department is recommending no other changes in indirect taxation as part of this Budget.

2006 Cash Limits, Capital Allocations etc.

- 1.15 As set out above, this year's Budget has been prepared against a background of the necessity for financial restraint and therefore a considerable amount of effort has been directed at reducing Departmental cash limits (compared to those previously indicated as part of last year's Budget).
- 1.16 In recent years, almost without exception, revised cash limits have exceeded original estimates as more services and costs have been added. However, this year this trend has been reversed.
- 1.17 The total revised indicative cash limits for 2006 was just over £303m. However, due to the above cost containment process, the proposed cash limits for 2006 are now £297m, a reduction of £6m.
- 1.18 Compared to 2005, total expenditure for 2006 represents a less than inflation increase. In recent years expenditure has increased by an average of 3% above inflation.
- 1.19 **Although in the context of historic patterns, reducing cash limits by this extent is a significant achievement, the Department is very conscious of the fact that much more will need to be done which requires Departments to embrace a culture of continuing efficiencies and cost reductions.**
- 1.20 Departments have also returned to the General Revenue Account unspent balances and excess capital allocations totalling £3.4m.

Reserves

- 1.21 As projected in the Interim Financial Report, due to the present States financial position, no new transfers to the Capital and Contingency Reserves are possible. This position is in sharp contrast to recent Budgets when significant appropriations to these Reserves have been possible.
- 1.22 The main theme of this Budget is the absolute need to cut States expenditure. The Department recognises that, in certain circumstances, it will be necessary to incur expenditure in the short term to deliver ongoing savings in the long term ("Spend to Save").
- 1.23 The Department is therefore recommending that a Reorganisation and Restructuring Fund is established, by transferring £5m from the Contingency Reserve with effect from 1 January 2006.
- 1.24 Expenditure from this Fund would be available to all Departments, but subject to approval by the Treasury and Resources Department, which would require very carefully prepared business plans to justify any expenditure and explain the savings to be made.

- 1.25 As set out in section 2 of this Report the current balance on the Contingency Reserve is higher than originally predicted due to better than expected financial performance.
- 1.26 As a consequence of the £14m shortfall in income tax receipts in 2004 the General Revenue Account provision is now exhausted. Due to the demands of general revenue expenditure and capital allocations insufficient money is available to be put aside to replenish the provision as part of this year's Budget.

Conclusion

- 1.27 The previous trend of relentless increases in ongoing revenue expenditure and the unprecedented demands by Departments for capital expenditure is simply unsustainable.
- 1.28 This year's Budget has placed far more restraint on States expenditure than those of recent years. **Further downward pressure must continue to be exerted and it needs to be accepted that this is a joint responsibility that all Departments, States Members and staff must share.**
- 1.29 The purpose of this year's Budget is to ensure that public services are delivered in an efficient and cost effective manner. The Department, working in cooperation with the Policy Council and other Departments, has started on that process. However, it is neither easy or one that can be attained in just one go. Expenditure control is a continual process which all Departments will need to engage with on an ongoing basis.

SECTION 2: OVERALL FINANCIAL POSITION

- 2.1 This section of the Report deals mainly with the financial position of the States. This section also includes a brief summary of the General Revenue Account, Contingency and Capital Reserves.

Income Tax Projections

- 2.2 Income tax receipts are by far the largest contributor to States total revenue. However, as dramatically demonstrated earlier this year, the volatility in income tax receipts remains relatively high. This can therefore have a significant impact on the financial planning of the States.

Financial Position

- 2.3 The estimated financial revenue position can be summarised as follows:

	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Revenue Income	306	298	285	288	288
Revenue Expenditure	<u>297</u>	<u>290</u>	<u>276</u>	<u>254</u>	<u>240</u>
Operating Surplus	9	8	9	34	48
Capital Income	3	0	5	5	14
Capital Allocations	<u>(13)</u>	<u>(12)</u>	<u>(16)</u>	<u>(18)</u>	<u>(21)</u>
Transfer (from) / to Reserves	<u>(1)</u>	<u>(4)</u>	<u>(2)</u>	<u>21</u>	<u>41</u>

- 2.4 The above figures show a worrying trend of ongoing revenue expenditure increasing at a rate well above income growth. **This is simply unsustainable and expenditure will need to decrease which will require Departments to look very hard at their expenditure, staffing levels and services.**

- 2.5 Capital expenditure, funded from individual Departments capital allocations or from the Capital Reserve, is expected to be as follows:

	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Capital Expenditure	<u>51</u>	<u>62</u>	<u>44</u>	<u>51</u>	<u>33</u>

- 2.6 Further details on capital expenditure are contained in the detailed line-by-line (blue) Budget Billet d'Etat published at the same time as this Report. However, it should be noted that, by their nature, the timing of some of the major capital projects could vary.

Capital Prioritisation

- 2.7 As set out in the 2006 Policy & Resource Plan (which is published at the same time as this Report) the progress made in establishing a robust capital prioritisation process has been less than anticipated. Whilst recognising the complexity of this issue, the Treasury and Resources Department shares the Policy Council's concern and disappointment at this lack of progress.
- 2.8 However, notwithstanding the above, because of a combination of previous commitments made by the States and the present financial position, short-term capital prioritisation has effectively already been carried out.
- 2.9 The past few years have seen a period of unprecedented expenditure on the Island's infrastructure, partly necessitated by underinvestment in the past. **A period of measured consolidation is now required.**

Capital Reserve & Capital Allocations

- 2.10 The Capital Reserve plays an essential role in the management of the States finances. The purpose of the Capital Reserve is to provide a means of funding future capital projects within a controlled and prioritised strategic framework.
- 2.11 The Capital Reserve must also be protected from capital project overspends which inevitably mean that the available funding for other future projects will be reduced. **It is absolutely essential that all capital projects should be rigorously costed and controlled and that all costs associated with the project (such as property purchases, equipment and relocation costs) be included and not just the "headline construction costs". Otherwise, any form of capital planning and prioritisation is severely undermined.**
- 2.12 The movements on the Capital Reserve since the beginning of 2003 have been considerable, and as a result its balance has fallen from just under £100m to around £40m. Appendix II provides a summary of the movements on the Capital Reserve.
- 2.13 In addition to the Capital Reserve, individual Departments have access to funding for capital expenditure through their own capital allocations. Capital allocations form an important part of the annual budget process and are set at levels that allow individual Departments to carry out their more urgent projects and routine replacement programmes.
- 2.14 As at 30 September 2005 the aggregate capital allocations available to Departments from out of General Revenue was £37.7m (£30.8m last year). The largest individual capital allocations are, as expected given their major development programmes, for the Departments of Health (£3.1m) and Education (£28.9m).
- 2.15 The States has, subject to affordability and availability of funds, already approved a further transfer of £12.75m from the Capital Reserve in January 2006 to continue with the Education Development Plan (Les Nicolles).

- 2.16 The recommended January 2006 transfer of £12.75m will be sufficient to substantially complete the Les Nicolles phase of the EDP. Depending on the outcome of the ongoing value for money exercise, a modest further transfer from the Capital Reserve in 2007 will be needed.
- 2.17 Any further transfers from the Capital Reserve to fund the remaining phases of the EDP (including Les Beaucamps and Oakvale) will need to be revisited in the light of the demands for other projects, the priority afforded by the States and the financial position.
- 2.18 The overspend on the Beau Sejour Centre Refurbishment will also reduce the Capital Reserve by £1.4m.
- 2.19 Appendix III provides an updated summary of major capital projects which are expected to require funding in excess of the amounts originally envisaged. It is emphasised that the majority of these projects will have no impact on the Capital Reserve as they will be funded from the Ports Holding Account.

Ports Holding Account

- 2.20 The Ports Holding Account was established by States Resolution in the 1960's with the basic principle that any capital expenditure should be funded out of the trading surpluses of the Ports (Harbours and Airport).
- 2.21 During the past few years the Ports Holding Account has funded several significant projects including the new Airport Terminal, St. Sampson's Marina and the start of the New Jetty major refurbishment.
- 2.22 As expected, the Ports Holding Account's reserves have been used to fund these major projects. At the beginning of 2003 the Ports Holding Account had a balance of £24.4m (2000: £25.1m). At the end of 2004 the balance had reduced to £5.3m with a projected annual operating surplus, including interest income, of £0.8m.
- 2.23 Furthermore, as set out in Appendix III, significant but as yet unquantifiable expenditure is required on these projects which will exhaust the Ports Holding Account and put it in a deficit position, possibly for a number of years. As a consequence any future major capital projects will only be possible if the Ports continue to make a reasonable level of operating surpluses.
- 2.24 It should also be noted that, in accordance with the January 2001 States Resolution (Billet d'Etat I, 2001), the budget of the Ports Holding Account has been prepared on a conventional trading basis. The year-end accounts for 2005 will also be prepared under this new basis. The 2003 and 2004 accounts included, on an incremental basis, conventional accounts as a memorandum trial basis.

Contingency Reserve

- 2.25 The purpose of the Contingency Reserve is to provide protection against major emergencies including significant economic downturns having a severe adverse effect on the Island.
- 2.26 Following the States decision to sell Guernsey Telecoms Limited to Cable & Wireless plc (Billet d'Etat X, May 2002) total proceeds of £23.8m have been received and appropriated to the Contingency Reserve.
- 2.27 In addition to the above sales proceeds and accrued interest, since 2000 appropriations totalling £23m have also been made out of the General Revenue operating surplus to the Contingency Reserve.
- 2.28 The balance on the Contingency Reserve as at 30 September 2005 was £203m. This is higher than previous projections due to a better than expected market performance.
- 2.29 In view of the continuing pressures on the finances of the States, it is unlikely that there will be any further transfers to the Contingency Reserve in the foreseeable future. It is more likely that the Reserve will be needed to make good any deficit on the General Revenue Account and to fund an acceptable level of public sector capital expenditure.
- 2.30 As set out above, the Department is recommending that a Reorganisation and Restructuring Fund is established, by transferring £5m from the Contingency Reserve with effect from 1 January 2006.
- 2.31 The Contingency Reserve, or at least the interest income, will also be needed as part of the introduction of the Future Economic and Taxation Strategy.

SECTION 3: BUDGET PROPOSALS

- 3.1 This section of the Report sets out in more detail the Budget proposals relating to changes in taxation.

Personal Income Tax Allowances

- 3.2 In view of the concerns about the States financial position the Department is recommending that for **2007 the basic personal income tax allowances remain the same as those in 2006.**

- 3.3 Therefore it is recommended that:

- The personal allowances for 2007 shall be as follows:

Single persons	£8,250
Single entitled to age relief	£9,750
Married persons	£16,500
Married one entitled to age relief	£18,000
Married both entitled to age relief	£19,500

- The supplementary allowances for 2007 shall be as follows:

Dependent relative	£2,640
Housekeeper	£2,640
Infirm persons	£2,640
Charge of Children	£5,615

- For 2007 the Wife's Earned Income Allowance shall remain in line with the Single Person's Allowance, i.e. £8,250. It should be noted that the Married Persons' Allowance is reduced by the sum of £1 for every £1 of Wife's Earned Income Allowance.
- For 2007 the income limit of a dependent relative before the Dependent Relative Allowance is reduced shall remain at £5,615.

Document Duty & Tax on Rateable Values

- 3.4 In view of the overall States financial position the Department does not feel that it is able to recommend any further reductions in document duty as part of this year's Budget. In doing so it has taken notice of the independent consultant's advice included in the joint Advisory and Finance Committee and Housing Authority report entitled "The Operation of the Housing Market in Guernsey" which cautioned against reducing document duty rates at a time when demand for housing was high.

- 3.5 As set out in previous reports, including the 2004 Interim Financial Report "although revised from time to time, the present rating system was devised in 1947 and uses a system of notional "annual rental values". These are calculated

with reference to the usable square footage of the property and adding extra charges for such things as central heating and extra hot and cold water taps. Any system that has been in use for such a long time will inevitably develop anomalies”.

- 3.6 In July 2005, the States endorsed the Treasury and Resources Department’s intention to carry out a thorough review of the TRV system and, following consultation, to report back to the States with proposals no later than March 2006.
- 3.7 **The Department is currently evaluating the results of its public consultation exercise and therefore, at this time, the Department is not recommending any change to the level of Tax on Rateable Values.**

Excise Duty on Tobacco

- 3.8 In April 2002, the States directed that increases in the rate of excise duty on tobacco and tobacco products should be “at least RPI plus 3.0% for a minimum of five years commencing with the Budget proposals for 2003”.
- 3.9 The Department is therefore recommending changes to the existing rates of excise duty in respect of tobacco of 6.8% as follows:

Description of Goods	Present Rate of Duty Per Kilogram	Proposed Rate of Duty Per Kilogram
Cigars and Cigarettes	£137.85	£147.22
Hand rolling tobacco	£128.37	£137.10
Other manufactured tobacco	£111.35	£118.92
Tobacco leaf - unstemmed	£123.60	£132.00
Tobacco leaf - stemmed	£124.84	£133.33

- 3.10 It is estimated that this proposal will raise approximately an additional £0.5m per year. However, as mentioned previously, the Department is concerned about the increasing amount of tobacco products that are being consumed in the Island on which no duty has been paid.

Excise Duty on Alcohol

- 3.11 As part of last year’s Budget the rate of duty on alcohol was increased by 10%. This was the first increase since 1991.
- 3.12 As part of the Bailiwick Alcohol Strategy, the Treasury and Resources Department is required to take into account the aims and objectives of the Strategy when making recommendations to the States on the rates of duty on alcohol.

- 3.13 **It is therefore recommended that the rate of excise duty on alcohol is again increased by 10%. As a result, duties will be increased as follows:**

Description of Goods	Present Rate of Duty Per Litre	Proposed Rate of Duty Per Litre
Beer - small independent brewery	23p	25p
Other beer	35p	39p
Cider	35p	39p
Spirits (25% to 50% volume)	£5.03	£5.53
Light wines (5.5% to 15 % volume)	£1.07	£1.18

- 3.14 The rates of duty on other alcoholic products will be increased in line with the above increases. It is estimated that this proposal will raise approximately an additional £0.6m per year.

Duty on Motor Spirit, Motor Vehicle Licences & End of Life Disposal Levy

- 3.15 Although the duty on motor spirit has remained unchanged since 1995, and is low compared to other jurisdictions, the Department believes that, at this point in time, there should be no increase in the rate of duty on motor spirit. The Department believes that with the present high oil prices, which have already increased business and therefore consumer costs, restraint in this area is required. **It is therefore recommended that the rate of excise duty on motor spirit remains unchanged.**
- 3.16 As part of last year's Budget a £10 annual levy on all Guernsey motor vehicles was introduced with effect from 1 January 2005 in order to help defray the cost to the States of vehicle disposal.
- 3.17 When Members approved the introduction of the annual levy, they did so in the knowledge that further refinement of the system was required. The Environment Department, which is responsible for the day to day administration of the system, has requested that no further complexities are added to the existing system this year to enable the new procedures to bed down and stabilise. The Treasury and Resources Department agrees with this approach, in particular given its desire to review the entire motor spirit duty and licence system as set out below.
- 3.18 Over recent years, despite outstanding Resolutions, several attempts have been made to revise the arrangements for taxing motor vehicles and fuel. The Treasury and Resources Department is firmly of the view that the present arrangements (whereby the duty on motor spirit raises £2m annually; Licences raise £6m annually and motor vehicles that are diesel driven are charged a higher licence fee to compensate for an absence of duty on diesel fuel) is inappropriate.
- 3.19 **It is the Department's intention to bring forward proposals, after consulting with the appropriate parties, including the Environment Department, to enable a revised system to be introduced during the life of the existing States.**
- 3.20 In order to be able to start with a clean slate, the States is therefore recommended to endorse the Department's intention to conduct a review of the system of motor

vehicle licences and motor spirit excise duties and to report back to the States with proposals as soon as practicable.

Implementation of Budget Proposals

- 3.21 Under its existing powers, the Treasury and Resources Department 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'Etat containing this Report. The new rates will not apply to stocks in the hands of any trader.
- 3.22 The Order will cease to have effect at the conclusion of the States Budget meeting and the Department accordingly **recommends the States to approve by Ordinance that from that date the rates of excise duty shall be varied as set out in this Report.** These arrangements are the same as in previous years.

SECTION 4: FINANCIAL PROPOSALS

- 4.1 This section of the Report deals with the detailed financial proposals including the 2006 cash limits and additional capital allocations for individual Departments.
- 4.2 Individual cash limits have been set to enable Departments to have sufficient funding to carry out their priority existing services and to meet specific States commitments. However, Departments have had to consider very carefully their own priorities and how to save money. In general, the Treasury and Resources Department has not interfered in the detailed Department budgets as it considers that this is the responsibility of the individual Departments concerned. **The Department is under no illusion as to how difficult it is going to be for Departments to curtail expenditure. However, it is also under no illusion as to how essential this process is.**
- 4.3 As part of this process each Department has been required to very critically review their spending priorities and plans and as a result:
- Policy Council: Returned £500,000 of unspent balances and cut its 2006 cash limit by £1.3m.
 - Treasury & Resources Department: Using unspent balances to balance its 2005 & 2006 budgets and cut its cash limit by £630,000. The cash limit for the States of Alderney has been frozen.
 - Commerce & Employment Department: Returned £1,000,000 of unspent balances, £300,000 of capital allocation and cut its 2006 cash limit by £310,000. Furthermore, it is committed to seeking further reductions once its business plan is completed.
 - Culture & Leisure Department: Returned £200,000 of unspent balances, £250,000 of capital allocation and cut its 2006 cash limit by £350,000.
 - Education Department: 2006 cash limit reduced by £1m.
 - Environment Department: 2006 cash limit reduced by £500,000.
 - Health and Social Services Department: 2006 cash limit reduced by £1m.
 - Home Department: Returned £500,000 of its existing capital allocation, £650,000 of its unspent balances and cut its 2006 cash limit by £650,000.
 - Public Services Department: 2006 cash limit cut by £500,000 and £1.4m of unspent balances used to fund its ongoing capital programme.

Revised Cash Limit for 2005: Higher & Advanced Education

- 4.4 As set out in the 2005 Interim Financial Report, for a variety of reasons largely outside of the control of the Education Department, its Higher & Advanced Education Budget will be exceeded by approximately £500,000 (Original cash limit £5.45m). **Therefore, as envisaged, this Report contains a recommendation to increase the 2005 Budget of the Higher & Advanced Education by £500,000.**

Department Cash Limits for 2006

- 4.5 The recommended cash limits for 2006 are as follows:

	Non- Formula Led £'000	Formula Led £'000	Cash Limit £'000
Policy Council	6,750	1,100	7,850
Treasury and Resources			
General	11,970	1,750	13,720
Courts & Law Officers	4,700		4,700
States of Alderney	1,420	7	1,427
Commerce and Employment	11,940	170	12,110
Culture and Leisure	2,900		2,900
Education			
General	52,250		52,250
Higher and Advanced	6,500		6,500
Grants to Libraries and Colleges	5,500		5,500
Environment	8,600		8,600
Health and Social Services			
General	80,270		80,270
St. John Ambulance & Rescue	1,780		1,780
Home	25,600	460	26,060
Housing	1,600		1,600
Public Services	8,800		8,800
Social Security	2,080	61,078	63,158
	<u>232,660</u>	<u>64,565</u>	<u>297,225</u>

- 4.6 Full line-by-line details of the 2006 budgets of the individual Departments are included in the (blue) Budget Billet d'Etat accompanying this Report. However, the following specific matters are worthy of note:

- The Policy Council Budget includes £1.9m in respect of Overseas Aid. In May 2001 the States resolved that the Overseas Aid Budget for 2002 to 2005 should be increased by £100,000 per annum in real terms. In accordance with a decision of the Policy Council, the 2006 Budget for Overseas Aid has been increased from £1.7m in 2005 to £1.9m which represents an increase of £120,000 in real terms. The Policy Council has resolved to review the long term funding of Overseas Aid in time for next year's Budget.

- The Treasury and Resources Department Budget (Formula Led) includes £1.75m in respect of payments to States Members.
- The Treasury and Resources Department's Budget is separated into three parts, General, Courts & Law Officers and Alderney. The Courts & Law Officers includes costs associated with: Bailiff's Chambers, Court Buildings, Greffe, H.E. Lieutenant Governor, Law Officers, Magistrates Court and Sergeant & Sheriff. This part of the Department's Budget has experienced considerable growth in recent years.

New Departmental Capital Allocations

- 4.7 The following table summarises the allocations already available to individual Departments, the recommended new allocations and, the resultant total allocations. These will allow the Departments concerned enough funds to proceed with their routine replacement and minor capital programmes.

	Allocation September 2005 £	New Allocation £	Total Allocation £
Policy Council	Nil	Nil	Nil
Treasury and Resources			
General	1,481,248	500,000	1,981,248
States of Alderney	494,772	200,000	694,772
Commerce and Employment	315,879	Nil	315,879
Culture and Leisure	625,857	Nil	625,857
Education			
General	427,988	1,000,000	1,427,988
Development Plan	28,457,500	Nil	28,457,500
Environment	792,041	Nil	792,041
Health and Social Services	3,091,868	Nil	3,091,868
Home	854,038	950,000	1,804,038
Housing			
General	1,116,941	Nil	1,116,941
Corporate Housing Programme	Nil	7,000,000	7,000,000
Public Services	6,466	3,250,000	3,256,466
Social Security	Nil	Nil	Nil
	<hr/>	<hr/>	<hr/>
	37,664,598	12,900,000	50,564,598

- 4.8 **It is emphasised that before a project can commence, whether it is funded from an individual Department's capital allocation or from the Capital Reserve, it must be approved by the States or by the Treasury and Resources Department acting under its delegated authority.**

- 4.9 The capital allocation as at 30 September 2005 for the Public Services Department is stated after funding the £950,160 overspend on the construction of the St Sampson Harbour Pumping Station & Northside Firemain.

- 4.10 Included in these recommended new allocations is £3 million to continue with the Network Extension Plan (Public Services Department). The Treasury and Resources Department and the Public Services Department recognise that the Network Extension Plan is no longer affordable at the same rate as in the past few years. However, it is sensible, and value for money, that the present level of expenditure continues for the next two years until the existing network is extended to the Creux Mahie sewer outfall. To terminate this work prematurely would mean that substantial monies would be required to refurbish this sewer outfall.
- 4.11 Also included in the above is £7 million for the Corporate Housing Programme (Housing Department). In addition, the sales proceeds estimated to be up to £10m from the disposal of various properties (as identified in the Housing Department's October Report, Billet d'Etat XV, 2005) will also be available to fund the Corporate Housing Programme. This underlines the Treasury and Resources Department's ongoing commitment to the Corporate Housing Programme and its role in the Corporate Anti-Poverty Programme.
- 4.12 In accordance with the February 2005 States Resolution, a transfer from the Capital Reserve of £12.75m to the Education Development Plan is being recommended in January 2006 to fund the construction of the new Secondary and Special Needs Schools at Les Nicolles.
- 4.13 In October 2005, following a value for money and benchmarking exercise (which has already saved £4m) the Treasury and Resources Department agreed to the commencement of this important project. As set out in its January 2005 letter of comment, and as supported by the Policy Council, the Department will continue with its constructively robust examination of all aspects of the EDP at every stage to ensure that value for money is achieved.

Indicative Cash Limits for 2007 & 2008

- 4.14 The overwhelming majority of the responses received as part of the first public consultation period on the Future Economic and Taxation Strategy strongly endorsed the need for States expenditure to be curtailed. **It therefore has to be accepted by all Departments, States Members and staff, and indeed the public, that the culture of increased public sector service provision and ever growing expenditure needs to be reversed as a matter of urgency.**
- 4.15 In the coming years the introduction of any new services can only be contemplated in very exceptional circumstances and then only if existing (lesser priority) services are reduced or withdrawn. It must also be seriously questioned whether "RPI plus" pay awards in addition to promotions and a final salary pension scheme are sustainable for public sector workers. Although the level of States expenditure has risen in the past few years, the independent benchmarking exercise carried out in cooperation with Jersey and the Isle of Man, showed that, in general, Guernsey has a well deserved reputation for delivering public services at a cost which compares favourably with the other jurisdictions. **Nonetheless efficiencies and savings must be delivered.**

- 4.16 There are already considerable existing pressures to increase public sector expenditure in a number of areas, (public sector employer pensions contributions, various social policy initiatives, medical inflation and healthcare workers pay to name but a few). Efforts must be made to contain these additional costs. However, while recognising that expenditure in some areas will inevitably need to grow, compensating reductions will need to be made elsewhere. **Public sector expenditure must be curtailed and a maximum target figure of no more than the amount spent in 2005 in cash terms for ongoing annual revenue expenditure needs to be established.**
- 4.17 In absorbing both the inevitable cost increases referred to above, and inflation (including wage inflation), the States will be expected to cut very significantly compared to present expenditure levels.
- 4.18 The Department recognises that in order to hit this target it will take Departments time to reverse existing commitments and introduce cost savings measures, some of which will need States approval. It is therefore accepted that some measures will take time to be introduced, but that a start must be made immediately.
- 4.19 **Therefore, in order to continue with the process of public sector expenditure constraint the Department intends to set a target of £294m for general revenue budget in 2007, i.e. a reduction on 2006 levels. The States will be asked to approve the formal 2007 cash limits and detailed line-by-line Department budgets as part of next year's Budget.**

SECTION 5: OTHER MATTERS

- 5.1 This Section of the Report contains a commentary and update on various matters that are considered appropriate to draw to the attention of the States.

Operations of the States Treasury

- 5.2 The Treasury, through professional managers, invests the combined surplus cash (of the order of £250m) of various States entities and, as a result, gains the advantages of wholesale interest rates. It has also previously been explained how, from time to time, various entities borrow money from the Treasury at rates generally lower than those offered by a commercial loan. This aspect of the Treasury's operations has always been important, however, it is an area that has increased in complexity in recent years.
- 5.3 As reported previously a £25m borrowing facility in respect of the Housing Development and Loan Fund was obtained in 2001. The Fund is currently borrowing £5m from this source (compared to £5m at the time of the 2005 Interim Financial Report).
- 5.4 The following loans, with interest payable at the States Treasurer's rate, have been made as at 30 September 2005:
- Guernsey Gambling Control Commission: £92,000 (30.4.05: £92,000).
 - Energy From Waste Plant: £3.5m (30.4.05: £3.9m).
 - Guernsey Water: £0.6m (30.4.05: £1.1m).
 - States Housing Association Fund: £2.7m (30.4.05: £2.1m).
 - Health & Social Services Accommodation Fund: £3.0m (30.4.05: £3.0m)
- 5.5 It is emphasised that, as a general principle, loan arrangements are only entered into where there is an income stream which can be used to support the repayment of the loan and associated interest charges.
- 5.6 If any loan, for any reason, is subsequently written off this will be against either the Capital Reserve or the General Revenue Account. In either case it will mean that there is less money to fund new projects.
- 5.7 The interest and capital associated with the loan for the Energy from Waste Plant is, as originally envisaged, being repaid out of increased waste disposal charges. As part of the overall package of waste handling measures £500,000 of this additional revenue stream has been allocated to the 2006 General Revenue budget of the Environment Department to fund expenditure in this area, including recycling initiatives.
- 5.8 As part of the June 2005 States debate (which endorsed the retention of the Aurigny Group) the Treasury and Resources Department was authorised to

“facilitate (if necessary by providing guarantees) the Aurigny Group’s borrowing from third parties”.

- 5.9 In July 2005 Cabernet Limited obtained a loan facility from a local financial institution at normal commercial terms and rates. The Treasury and Resources Department, acting on behalf of the States in accordance with the above Resolution, is the Guarantor of that facility up to £4.2m. As at 30 September 2005 the amount borrowed under that facility was £3.1m. Appendix VIII sets out the most recent (unaudited) trading results for the Group.
- 5.10 The Treasury also has a substantial operational role and, as reported previously, this is an area where considerable development has occurred in the past few years, in particular the implementation of a major systems project. Further work continues in this area and during the summer of 2004 internet and touch telephone payments systems were introduced. The Treasury is currently undertaking a further major phase of this project by replacing its outdated payroll and pensions systems. Once this part of the project has been completed, the corporate financial systems of the States (accounting, procurement, payroll and pensions) will be modern, robust, technically supported, efficient and common to all States Departments.

Use of Delegated Authority

- 5.11 In order to speed up decision making and to avoid the States of Deliberation having to spend considerable amounts of time on routine financial matters, the Treasury and Resources Department has been granted delegated authority for certain financial matters.
- 5.12 In summary, the Treasury and Resources Department has delegated authority to approve as follows:
- An increase in an individual Department’s revenue expenditure budget by the greater of £250,000 or 2% in any one financial period.
 - Use of the Asset Purchase Fund (no longer used).
 - Capital votes (straightforward replacements without limit and projects up to £250,000).
 - Capital overspends up to £250,000.
 - Property purchases without limit (if funding is available).
 - Sale of properties with a value of less than £250,000.
 - Sale of incompatible States houses up to a threshold of £500,000 per unit.
- 5.13 It is emphasised that just because the Department has delegated authority does not mean that it cannot, or will not, refer specific instances to the States.

- 5.14 The Department is required to report on the use of its delegated powers to the States twice a year, i.e. as part of the annual Budget and Interim Financial Reports (see Appendix V).
- 5.15 The Department also has the delegated authority to allow Departments to borrow temporarily by way of overdraft from banks or from the States Treasury and to make loans or grants to registered charities and similar organisations.

Staff Number Limitation Policy

- 5.16 The Department is also mandated with the responsibility for the administration of the Staff Number Limitation Policy. Appendix VII of this Report provides a summary of the staff numbers covered by the Staff Number Limitation Policy.
- 5.17 The Treasury and Resources Department is very concerned about the apparently ever-increasing demand for resources, both financial and human, and is looking to all Departments to curtail their demands as far as possible. The Department therefore requires extremely compelling reasons for any increase in resources.
- 5.18 Since the last time the Department reported to the States (as part of the 2005 Interim Financial Report) **NO** further increases in establishment have been approved.
- 5.19 In considering applications for increased staffing the Department has paid, and will continue to, pay particular attention to costs and resultant potential ongoing savings. **The Department anticipates that it will support very few, if any, staff increases in the foreseeable future.**
- 5.20 **Furthermore, if the States is to achieve the necessary public sector expenditure reductions, overall staff levels will need to fall.** Until corporate priorities and Departmental service reviews have been completed it would be premature to set a firm target for staff number reductions. However, the Department would wish to see, as far as possible through natural wastage, a reduction of the order of 50 per year.
- 5.21 In order to ensure that all Departments continue to vigorously assess their priorities and staff resources the Department is introducing much stricter controls over staff recruitment. **In particular, procedures have been implemented to ensure that any staff who leave (through retirement, resignation, or internal promotion) are NOT automatically replaced.**
- 5.22 **The Department recognises that this approach is in sharp contrast to the prevailing culture of previous years where staff numbers continually increased and staff replacement was, by and large, automatic. However, put simply, the financial situation demands that such a radical change of culture and direction is required.**

Public Sector Employees: Superannuation Fund

- 5.23 The States of Guernsey, in common with most public sector employers, maintains benefit-defined pension schemes. In general terms, this means that the pension payable to employees is determined by their years of service and their final salary. Stock market performance does not impact upon the pension benefits accruing to the employees as it does with a contribution-defined scheme.
- 5.24 All States employees pay a fixed percentage of their pensionable remuneration as their contribution to the Fund. The amount paid by the employer (i.e. the States from monies received from general taxation) is set by actuarial valuation at rates which are affected by a range of assumptions including future benefit rates, mortality rates and stock market performance. Hence, any gains or losses arising from these assumptions can affect the contribution rate of the employer but not the employees.
- 5.25 Actuarial valuations are carried out by professional independent actuaries on a three-year cycle. The valuation for the period ended 31 December 2001 was considered by the States as part of the 2003 Budget in December 2002. As a result, and in line with the actuaries' recommendations, the main employer contribution rate was increased from 7.25% to 7.85%. Since that time the stock market performance has been less than originally anticipated. As a consequence, in order to meet existing future commitments, employer contribution rates will have to rise, perhaps significantly, in the near future. This is a further additional pressure on the States financial position.
- 5.26 In the normal course of events, this Budget would have contained details of the actuarial valuation (as at 31 December 2004) and recommendations on the employer contribution rates from 1 January 2006 onwards. However, as set out in the July 2005 Interim Financial Report a more fundamental review of the Superannuation Fund, its benefits and funding arrangements is required.
- 5.27 In view of the significant financial impact of the Actuaries recommendations, estimated to up to £18m per year, the Treasury and Resources Department has taken a specific States Report to the November States Meeting to initiate a wide scope review of the arrangements of public sector pension provision. The results of the States debate are, of course, unknown at the time of writing.

Capital Funding for Corporate Housing Programme

- 5.28 Capital funding for States housing initiatives has perhaps been subject to more changes in recent years than any other single area. The Housing Department continues to take significant steps to reduce the demand for States capital funding in particular by using the Guernsey Housing Association as the major provider of new social housing.
- 5.29 Furthermore, the States Houses and States Housing Association Funds can, with the Treasury and Resources Department's agreement, borrow from the States Treasury (or even commercially) and pay interest which is therefore a cost to the Funds. As at 30 September 2005, the Housing Association Fund was borrowing £2.7m from the Treasury.

- 5.30 The Housing and Treasury and Resources Departments continue to work together to ensure that the most appropriate funding mechanisms are employed. As set out in the 2005 Interim Financial Report, this year's Budget contains specific proposals, concerning the use of the Housing Development and Loan Fund. As a consequence of deficiencies with the then existing capital funding arrangements for housing, in 1990 the States approved the formation of the Housing Development and Loan Fund ("HDLF").
- 5.31 As set out at the time, broadly speaking the proposals allowed for the continuation of the States Home Loans Scheme under existing arrangements, except that instead of all capital required to finance such Scheme being raised from the taxpayer, the capital could be augmented by third party borrowings or investment by public subscription.
- 5.32 Since 1990, and in particular since the launch of the Corporate Housing Programme, there have been considerable changes to the way that the housing services and programmes overseen by the Housing Department are accounted for. For example, the year-end accounts for 2004 included, for the first time, a Corporate Housing Programme Summary of Balances which, in simple terms, is an aggregation of the various individual housing funds (the HDLF, Corporate Housing Programme Fund, States Houses Fund and States Housing Association Fund).
- 5.33 However, although much has changed since 1990, one thing has remained constant, a continuation of the demand for capital funding to invest in the programmes to maintain, refurbish and develop the Island's social housing, (as described in detail in the Housing Department's Report last October). As in 1990, these demands simply cannot be met from ongoing general revenue income plus rental receipts, net of rebates, from States tenants.
- 5.34 As reported in recent Budget and Interim Financial Reports, in 2001 the Treasury and Resources Department secured a £25m borrowing facility with a local financial institution for the HDLF to support the approval of increased numbers of States Loans. Initially £11m of that borrowing facility was utilised, but by the end of 2004 the level of borrowings had decreased to just £5m.
- 5.35 This situation has arisen because of two main factors. The first is as a result of the high level of redemptions as borrowers have switched from the Fund to the private sector which, due to interest rate cuts, is now offering competitive rates. Second, while the States Home Loans Scheme has been under review, the Housing Department has maintained a borrowing maximum threshold of £130,000. This means that to take advantage of the scheme most first time buyers will require top-up secondary borrowing, which has constrained the take-up of States Loans, reducing it to pre-2001 levels.
- 5.36 As a consequence, at the present time the HDLF is actually in surplus and the current borrowing of £5m is no longer required except to maintain the facility. Furthermore, the interest receivable from borrowers (£1.2m per annum) on the loan book of nearly £30m is capable of funding additional borrowing.

- 5.37 At the same time as the HDLF is in surplus, both the States Housing Association Fund and the States Houses Fund are under severe pressure: the States Housing Association Fund is borrowing and paying interest on funds from the Treasury (currently £2.7m), while the States Houses Fund requires an annual capital allocation in the region of £5m to break-even.
- 5.38 With the establishment of the overarching Corporate Housing Programme, it is not sensible for the funding of its various constituent parts to be artificially separated, as this limits the ability of the Housing Department, in conjunction with the Treasury and Resources Department, to fund the States priorities for the Programme in a flexible and responsive manner. The Treasury and Resources Department anticipates that £12m is currently available to transfer from the HDLF.
- 5.39 Should monies be moved from the HDLF to another part of the Corporate Housing Programme it would mean that those monies would no longer be available to fund future States Loans, in turn, restricting not only the income accruing to that Fund through loan interest payments, but also the size of the loan book capital upon which borrowing can be sustained. However, prioritisation, and the ability to use funds effectively, is necessary in the present financial climate.
- 5.40 Under the present States resolutions, which have been developed over a period of time, monies, including borrowings, from one part of the Programme are not available for use in another part. In particular, the 1990 resolutions (Billet d'Etat XIII) debar the HDLF from being used other than for limited prescribed purposes; generally, land purchases and the development of housing for onward sale, and the issue of States Home Loans.
- 5.41 **It is therefore recommended that the States authorise the Housing Department, with the approval of the Treasury and Resources Department, to transfer amounts, including those obtained by third party borrowings, between the various constituent parts of the Corporate Housing Programme and, specifically, to modify the use of the HDLF to permit this.**

APPENDIX I

Reconciliation of General Revenue Account Reserve

	£'000
Balance as at 31 December 2004	24,435
Less: Unspent Balances	(17,072)
Less: Transfer to Contingency Reserve 1.1.05	(5,000)
Less: Transfer to Capital Reserve 1.1.05	(10,000)
Less: Capital Allocations 2005	(12,500)
Add: Returns of Unspent Balances & Capital Allocations	3,400
Add: 2005 Operating Surplus	8,500
Balance as at 31 December 2005	<u>(8,237)</u>
Add: 2006 Operating Surplus	8,775
Add: 2006 Capital Income	3,000
Less: New Capital Allocations	(12,900)
Balance as at 31 December 2006	<u>(9,362)</u>

Target balance for General Revenue Account Reserve is
5% of annual States income

APPENDIX II

Movements of the Capital Reserve

	£m
Balance 1 January 2005	50.7
Appropriation (2005 Budget)	10.0
Withdrawals:	
Education Development Plan	12.8
Health: Purchase of "The Oaks"	0.5
Les Nicolles Swimming Pool	1.0
Mignot Memorial Hospital	2.4
Alderney Commercial Quay	4.0
Royal Court Essential Maintenance	<u>2.8</u>
	(23.5)
Interest 2005 (estimate)	<u>5.0</u>
Balance 31 December 2005	42.2
Appropriation 2006 Budget	Nil
Education Development Plan	(12.8)
Interest 2006 (estimate)	<u>3.5</u>
Balance 31 December 2006	<u>32.9</u>

Notes:

The Capital Reserve will also be needed to fund the £1.4m overspend on the Beau Sejour Centre refurbishment.

The £12.75m allocation in January 2006 will be sufficient to fund the majority of the Education Development Plan - Les Nicolles phase. The size of any further transfer (in January 2007) is dependent on the results of the ongoing value for money process but is expected to be of a modest value.

Updated Summary of Major Capital Project Issues

Beau Sejour Centre

This project has now been completed and the final account settled. The original budget for this project was £9m. The resultant overspend of £1.4m will, subject to States approval, be funded from the **Capital Reserve**. It is understood, following a review by the Public Accounts Committee, a Report on this project will soon be brought to the States.

Airport Terminal

This project has now been completed but the final account is still not finalised. The original budget for this project was £19.5m including consultants fees, etc. but as at 1 June 2005, amounts totalling £23.0m have been paid of which £21.0m has been paid to the contractor (original tender £16.4m). The contractor's total claims for this project (which are disputed and are being contested) are at present £27.0m. The resultant overspend will be charged to the **Ports Holding Account**.

St Sampson's Marina

This project has now been completed but the final account is still to be settled. The original budget for this project was £3.4m but as at 1 June 2005, amounts totalling £4.2m have been paid of which £3.6m has been paid to the contractor (original tender £3.2m). The contractor's total claims for this project (which are disputed and are being contested) are at present £6.0m. The resultant overspend will be charged to the **Ports Holding Account**.

St Peter Port Harbour: New Jetty

This project is now substantially complete. As at 30 September 2005, amounts totalling £5.5m have been paid. Contractor's claims (which are disputed and are being contested) are at present £17.9m. The original estimate for this work was £3.3m. The cost of this project will be charged to the **Ports Holding Account**.

- **It is emphasised that contractors' claims values are the amounts that the contractors themselves are seeking to claim and that final settlements are expected to be substantially less.**
- **As a matter of best practice full post implementation reviews will be carried out (or have already been carried out) on the above projects.**

APPENDIX IV

Formula Led Expenditure	Actual	Present	Present
	2004	Estimate	Estimate
	£'000	2005	2006
		£'000	£'000
Payments to States Members	1,481	1,700	1,750
Maintenance of Prisoners in the U.K.	167	240	460
Legal Aid Scheme	1,525	1,450	1,100
Social Insurance Grant	25,326	26,680	28,170
Health Service Grant	8,347	8,780	9,260
Long-Term Care Grant	1,327	1,395	1,485
Supplementary Benefits	9,805	10,500	11,550
Family Allowances	7,407	7,722	8,050
Attendance & Invalid Care Allowance	1,877	1,985	2,089
Concessionary Television Licences	426	450	474
Parochial Outdoor Assistance Boards	532	280	-
Cull Cattle Compensation Payments	56	57	57
Horticulture Interest Subsidy Scheme	97	113	113
States of Alderney			
Out Relief	14	14	5
Cull Cattle Compensation Payments	1	2	2
TOTALS	58,388	61,368	64,565

Use of Delegated Financial Authority

The States Financial Procedures require the Treasury and Resources Department to report periodically on the use of its delegated financial authority. The Department last reported to the States on these matters as part of the 2005 Interim Financial Report. Since that time:

The following increases in operating costs have been approved:

	£
Environment Department – Waste Strategy Report	100,000

The following capital projects have been approved:

	£
Treasury and Resources	
Conditions surveys – Phase II	80,000
States of Alderney	
The Val – Land Purchase/Car Park	125,000
Mobile Crane refurbishment	35,000
Newton – Purchase of area of land	18,000
Tipper lorry replacement	15,000
Harbour Office radar replacement	14,000
Works Department vehicle	11,700
Culture and Leisure	
Osmond Priaulx Field landscaping/site enhancement (additional)	132,985
Beau Sejour Tennis Courts refurbishment	88,000
Castle Cornet Lighting replacement	17,000
Guernsey Museum building management system replacement	17,000
Education	
Priaulx Library remedial works	220,000
College of Further Education cladding and windows replacement	170,000
Grange House external decoration	70,000
Environment	
Petit Port steps remedial works	137,000
Seafront Junction assessment	38,500
St Germain nature trail	21,000
Soldiers Bay remedial works	16,500
Vulnerable road users minor works	5,000
Health and Social Services	
Hospital and other equipment additional/replacement	844,000
Princess Elizabeth Hospital store replacement	235,000
Princess Elizabeth Hospital lift replacement	185,000
Calorifier room E upgrade	105,000

Castel Hospital minor works	100,000
IT Hardware additional/replacement	30,000
Home	
Prison CCTV system replacement and fence repairs	87,000
Fire Service IT upgrade	16,000
Fire Service vehicle replacement	11,500
Public Services	
Sewer connection grants	100,000
Alderney Airport hangar steelwork replacement	31,500
Alderney Airport master plan	21,000
Ports	
Airport technical block fire alarm system replacement	30,000
Airport Fire Service radio replacements	13,000
Airport Fire Service TETRA radios	6,500
St Peter Port Harbour vehicle replacement	13,000

The following property purchases have been approved:

<u>Purchases</u>	£
Baubigny Farm, Baubigny, St Sampsons	1,252,500
The Oaks, Baubigny, St Sampsons	465,000

Summary of Recent Budget Proposals

Personal Allowances

YOC 2006	3.1% increase
YOC 2005	3.5% increase
YOC 2004	3.0% increase
YOC 2003	7.1% increase
YOC 2002	4.5% increase
YOC 2001	4.7% increase

Duty on Tobacco

2005	8.2% (RPI plus 3%)
2004	6.3% (RPI plus 3%)
2003	6.9% (RPI plus 3%)
2002	11.1% (RPI plus 8.5%)
2001	13% (RPI plus 8.5%)
2000	10.3% (RPI plus 8.5%)

Document Duty

2005	No change
2004	No change
2003	Document duty reduced on modest value properties
2002	Document duty reduced on modest value properties
2001	General rate of document duty reduced by 1%
2000	No change

Tax On Rateable Value

2005	No change
2004	No change
2003	No change
2002	No change
2001	18% increase to compensate for document duty cut
2000	No change

Duty on Fuel

2005	No change
2004	No change
2003	No change
2002	No change
2001	No change
2000	No change

Duty on Alcohol

2005	10% increase
2004	No change
2003	No change
2002	No change
2001	No change
2000	No change

Motor Vehicle End Of Life Disposal Levy

2005	Annual £10 levy introduced
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APPENDIX VII

Establishment Staff Numbers

	Total Establishment 31.12.04 FTE	Total Establishment 30.9.05 FTE
Policy Council	68.96	68.96
Treasury & Resources: Income Tax	85.30	85.30
Treasury & Resources: Others	70.28	70.28
Commerce & Employment	139.30	137.30
Culture & Leisure	110.40	111.40
Education: Teachers and Lecturers	667.66	670.36
Education: Others	226.40	229.32
Environment	76.56	76.56
Health & Social Services: Nurses	825.52	831.39
Health & Social Services: Others	830.64	834.14
Home	292.64	292.64
Housing	104.68	104.68
Public Services	597.73	597.73
Social Security	109.17	113.17
Public Accounts Committee	1.00	1.00
Scrutiny Committee	2.00	2.00
Legal Services	69.95	69.95
TOTALS	4278.19	4296.18
Number of Police Officers	177.00	177.00
GRAND TOTALS	4455.19	4473.18

	2001 FTE	2002 FTE	2003 FTE	2004 FTE	2005 FTE
GRAND TOTALS	4251	4327	4381	4455	4473

- Not included in these figures are States of Guernsey staff working in Alderney and Sark.
- Number of Police Officers set by States and not included in Staff Number Limitation Policy.

**AURIGNY & ANGLO NORMANDY:
TRADING POSITION (YEAR TO AUGUST 2005)**

Aurigny Air Services Limited

	Year to Date Actual	Year to Date Budget	Full Year Actual 2004
	£'000	£'000	£'000
Revenue	16,156	15,646	29,571
Direct Costs	(9,737)	(9,664)	(25,218)
Operating Result	6,419	5,982	4,353
Overheads	(6,064)	(5,812)	(5,987)
Other Operating Income	-	-	140
Profit/(Loss)	355	170	(1,494)
Exceptional Costs	(1,127)	(1,066)	(420)
Profit/(Loss)	(772)	(896)	(1,914)

Anglo Normandy Aero
Engineering Limited

	Year to Date Actual	Year to Date Budget	Full Year Actual 2004
	£'000	£'000	£'000
Revenue	3,444	2,962	5,460
Direct Costs	(2,585)	(2,117)	(4,301)
Operating Result	859	845	1,159
Overheads	(859)	(915)	(1,279)
Profit/(Loss)	0	(70)	(120)

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2005

THE STATES, in pursuance of their Resolution of 14th December 2004 and in exercise of the powers conferred on them by section 23C(3) of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972 as amended^a, hereby order:-

Increase in excise duties

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 6 under “GOODS LIABLE TO EXCISE DUTY; & RATES OF EXCISE DUTY” substitute the following:

"1. Tobacco and tobacco products

- | | |
|-------------------------------|------------------|
| a. Cigars and Cigarettes | £147.22 per kilo |
| b. Hand rolling tobacco | £137.10 per kilo |
| c. Other manufactured tobacco | £118.92 per kilo |
| d. Tobacco leaf – unstemmed | £132.00 per kilo |
| e. Tobacco leaf – stemmed | £133.33 per kilo |

2. Hydrocarbon oil

- | | |
|--|----------------|
| a. Petrol other than any fuel used for the purpose of air navigation | 6.8p per litre |
|--|----------------|

3. Beer

- | | |
|--|---------------|
| a. Beer brewed by an independent small brewery | 25p per litre |
| b. Other beer | 39p per litre |

4. Spirits

- | | |
|--|---|
| a. Spirits not exceeding 5.5 per cent volume | 29p per litre |
| b. Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume | £4.16 per litre |
| c. Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume | £5.53 per litre |
| d. Spirits exceeding 50.0 per cent volume | In the extra proportion to 50.0 per cent volume |

^a Ordres en Conseil Vol. XXIII, p.573; Vol. XXIV, p.87; No XIII of 1991; No.X of 2004; Ordinance No.XXXII of 2004.

- 5. Cider
 - a. Cider 39p per litre

- 6. Wines
 - a. Light wines not exceeding 5.5 per cent volume 29p per litre
 - b. Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines) £1.18 per litre
 - c. Other wines £1.88 per litre”.

Extent

- 2. This Ordinance shall have effect in the Islands of Guernsey and Alderney.

Repeal

- 3. The Excise Duties (Budget) Ordinance, 2004^a is repealed.

Citation

- 4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2005.

Commencement

- 5. This Ordinance shall come into force on 14th December 2005.

^a Ordinance No. XLII of 2004.

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To note that no transfers will be made to the Capital and Contingency Reserves at the beginning of the financial year 2006.
2. To approve a transfer of £12.75m from the Capital Reserve to the Education Department's capital allocation with effect from 1 January 2006 for the purpose of funding the construction of a new Secondary School and new Special Education Needs Secondary School at Les Nicolles.
3. To approve the cash limits for ordinary expenditure for 2006 for individual Departments totalling £297,225,000 as set out in paragraph 4.5 of this Report.
4. To approve the additional capital allocations for individual Departments totalling £12,900,000 as set out in paragraph 4.7 of this Report.
5. To approve an increase of £500,000 in the revenue expenditure budget for 2005 of the Education Department - Higher & Advanced Education.
6. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods be increased as follows:

Cigars and Cigarettes	£147.22 per kilogram
Hand rolling tobacco	£137.10 per kilogram
Other manufactured tobacco	£118.92 per kilogram
Tobacco leaf - unstemmed	£132.00 per kilogram
Tobacco leaf - stemmed	£133.33 per kilogram
Beer brewed by an independent small brewery	25p per litre
Other beer	39p per litre
Spirits not exceeding 5.5 per cent volume	29p per litre
Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£4.16 per litre
Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£5.53 per litre
Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume
Cider	39p per litre
Light wines not exceeding 5.5 per cent volume	29p per litre
Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.18 per litre
Other wines	£1.88 per litre

7. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2005” and to direct that the same shall have effect as an Ordinance of the States.
8. To endorse the Treasury and Resources Department’s intention to conduct a review of the system of motor vehicle licences and motor spirit excise duties and to report back to the States with proposals as soon as practicable.
9. To authorise the Housing Department, with the approval of the Treasury and Resources Department, to transfer amounts, included those obtained by third party borrowings, between the various constituent parts of the Corporate Housing Programme and, specifically, to modify the use of the Housing Development and Loan Fund to permit this.
10. To establish a Restructuring and Reorganisation Fund by transferring £5m from the Contingency Reserve Fund with effect from 1 January 2006, and to give the Treasury and Resources Department delegated authority to approve expenditure from that Fund.
11.
 - (1) That, for the Year of Charge 2007 income tax shall be charged at the standard rate of 20p in the £.
 - (2)
 - (a) That, subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2007 by an individual solely or principally resident in Guernsey by way of relief from income tax at the standard rate, shall be the allowances specified in the First Schedule to this Proposition.
 - (b) That the allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975, and who has proved that the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.
 - (c) That:

“Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Laws, 1950 to 1976;

“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 2007

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

<u>Nature of Allowance</u>	<u>Amount of Allowance</u>
1. Personal Allowance.	
(i) for married persons.	Tax at the standard rate on £16,500. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(ii) for married persons where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.	Tax at the standard rate on £18,000. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iii) for married persons where, at the commencement of the year of charge both he, and his wife living with him, were of the age of 64 years or over.	Tax at the standard rate on £19,500. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iv) for single persons.	Tax at the standard rate on £8,250.
(v) for single persons aged 64 years or over at the commencement of the year of charge.	Tax at the standard rate on £9,750.
2. Dependent Relative Allowance.	In respect of each dependent relative – tax at the standard rate on £2,640 or on the amount of the contributions whichever is less:

Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £5,615 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £2,640 the sum of £1 for every pound by which the dependent relative's income exceeds £5,615.

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 £2,640, or such lesser sum as remains after deducting from £2,640 the sum of £1 for every pound by which the dependent relative's income exceeds £5,615, the sum of £220 for every month in the year of charge for which such Family Allowances are payable.

3. **Infirm Person's Allowance.** Tax at the standard rate on £2,640.
4. **Housekeeper Allowance.** Tax at the standard rate on £2,640.
5. **Wife's Earned Income Allowance.** Tax at the standard rate on a sum equal to the amount of the claimant's wife's net qualifying income but not exceeding tax at the standard rate on £8,250.
6. **Life Assurance Allowance.** Tax at the standard rate on a sum equal to one-half of the allowable premiums or payments or deductions.
7. **Charge of Children Allowance.** Tax at the standard rate on £5,615.
8. **Retirement Annuity Allowance.** Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions for the Year of Charge 2007 applicable to the allowances specified in the First Schedule

1. Personal Allowance

- (1) The conditions to be fulfilled to entitle the claimant to the personal allowance are:-
- (a) for married persons -
- (i) that in the year of charge his wife is living with him or is wholly maintained by him; and
- (ii) that in computing his assessable income for that year he is not entitled to make any reduction on account of any payment made for his wife's maintenance.

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

- (b) in other cases, that the conditions in paragraph (a) of this provision are not fulfilled.

2. Dependent Relative Allowance

- A. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in the case of a child receiving higher education are:-
- (a) that the child in respect of whom an allowance is claimed -
- (i) is the child of the claimant, or
- (ii) is the illegitimate child of the claimant and in the year of charge is maintained by the claimant;
- (b) that on the first day of August in the year of charge, the child is over the age of nineteen years and is, in that year of charge, receiving full-time instruction at any university, college, school or other educational establishment.
- (2) The expression "child" shall include a stepchild, and a child who has been lawfully adopted shall be treated as the child of the individual by whom he has been so adopted and not as the child of the natural parent.
- (3) Where a man and a woman are cohabiting as husband and wife and either has a child in respect of whom a dependent relative allowance is claimable the man or woman as the case may be, and by a notice in writing

addressed to the Administrator, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of the cohabitee.

- (4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.
 - (5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.
- B.
- (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:-
 - (a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and
 - (b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself.
 - (2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

3. Infirm Person's Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:-
 - (a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;

Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity.
 - (b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished.
- (2) Not more than one allowance shall be allowed to any claimant for any year.

4. Housekeeper Allowance

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

5. Wife's Earned Income Allowance

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

6. Life Assurance Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an allowance in respect of life assurance are:-
 - (a) that the claimant has effected an assurance on his own life or on the life of his wife; or
 - (b) that the claimant has contracted for a deferred annuity on his own life or on the life of his wife; or
 - (c) that the claimant is, under the provisions of any Law or under the terms or conditions of his employment, liable to the payment of

any sum or to the deduction from his emoluments of any sum, for the purpose of securing a deferred annuity to his widow or provision for his children after his death not being a sum which may be claimed as an authorised deduction under the provisions of sub-section (3) of section 8 of the Income Tax (Guernsey) Law, 1975.

(2) Subject to the provisions of the next succeeding paragraph the allowable premiums, payments or deductions shall be the amount of any premium paid, payments made or deductions suffered by the claimant in the year of charge in respect of any such assurance, contract or liability.

(3) Notwithstanding the provisions of the preceding paragraph:-

- (a) No allowance shall be made in respect of any premium payments or deductions to the extent to which they exceed in the aggregate one-sixth of the assessable income of the claimant;
- (b) No allowance shall be made in respect of any premium or other payment on any policy for securing a capital sum on death (whether in conjunction with any other benefit or not) to the extent that the premium or other payment exceeds an amount equal to seven per cent of the actual capital sum assured, and in calculating any such capital sum no account shall be taken of -
 - (i) any sum which is payable on the happening of any contingency other than death; or
 - (ii) the value of any premium agreed to be returned; or
 - (iii) any benefit by way of bonus, share of profits, or otherwise which is not the sum actually assured.
- (c) No allowance shall -
 - (i) be made in respect of policies of insurance or contracts for deferred annuities except in respect of premiums payable on policies for securing a capital sum on death, whether in conjunction with any other benefit or not; or
 - (ii) be made in respect of premiums payable during the period of deferment in respect of a policy of deferred assurance:

Provided that this sub-paragraph shall not affect premiums payable on policies or contracts made in connection with any bona fide pension scheme for the benefit of the employees of any employer or of persons engaged in a particular business or for the benefit of the wife or widow of any such employee or person or of his children or other dependants.

- (4) Where a premium is paid by a wife out of her separate income in respect of an insurance on her own life or the life of her husband or a contract for any deferred annuity on her own life or the life of her husband, the same allowance shall be given as if the premium were a premium paid by her husband for an insurance on his own life or for a contract for a deferred annuity on his own life and all the conditions to be fulfilled to entitle a claimant to an allowance in respect of life assurance and for the purpose of determining the amount of the allowable premium payments or deductions shall apply accordingly.

7. Charge of Children Allowance

- (1) The conditions to be fulfilled to entitle a claimant who is also entitled to the personal allowance for married persons to a charge of children allowance are:-
- (a) that 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, and
 - (b) that the claimant proves that throughout the year either he or his wife is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by him for the purpose of having the charge and care of the child, and
 - (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 he 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 entitled to the personal allowance appropriate to persons other than married persons to a charge of children allowance are that in the year of charge:
- (a) the claimant is in receipt of Family Allowances in respect of one or more children, and
 - (b) the claimant is not cohabiting with another person, except where -
 - (i) the claimant proves that throughout the year either he or his cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by him for the purpose of having the charge and care of the child, and
 - (ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if he or any other individual is so entitled that the claim has been relinquished.

Provided that where the recipient of a family allowance is not entitled to claim the charge of children allowance because he is cohabiting with another person, he may, in respect of the year of charge, by notice in writing addressed to the Administrator elect that the whole, or any unused part of, the personal allowance to which he would otherwise be entitled shall cease to be his and shall become an additional personal allowance of the person with whom he is cohabiting, 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 that person's husband or wife throughout the year of charge.

- (3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.
- (4) Where an individual is entitled to claim a dependent relative allowance in the case of a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

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

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

8. Retirement Annuity Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance are that the claimant or his wife 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 that the claimant or his wife as appropriate is in receipt of relevant earnings.
- (2)
 - (a) 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 or his wife during the year of computation of the relevant earnings of the claimant or his wife assessable for the year of charge.
 - (b) The expression "relevant earnings" in relation to any individual has the meaning assigned to it by sub-section (9) of section 157A of the Income Tax (Guernsey) Law, 1975.
- (3) Notwithstanding the provisions of the preceding paragraph no allowance shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed an amount equal to fifteen per

cent of the relevant earnings of the claimant or the claimant's wife, as the case may be, or 25% of those earnings if the claimant, or the claimant's wife as the case may be, is aged 40 or over at any time during the year of computation referred to in subparagraph (a) of the preceding paragraph and is not also a member of an occupational pension scheme approved under section 150 or a scheme which is deemed to be such a scheme for the purposes of section 153 of the Income Tax (Guernsey) Law, 1975.

Provided that if an individual has contributed to a pension scheme approved under section 150 of the Income Tax (Guernsey) Law, 1975, or a States scheme or a Statutory scheme, during the year of computation referred to in subparagraph (a) of the preceding paragraph, and the aggregate of his contributions to that scheme and the aforesaid premium or contributions exceed fifteen per cent of the income of the individual from any office or employment held or exercised by him, the qualifying premium or contributions shall be reduced by the amount of that excess.

- (4) For the purposes of this allowance the relevant earnings of a wife shall be treated separately from the relevant earnings of her husband, notwithstanding that her income would otherwise be treated as his income.