STATES OF GUERNSEY

TREASURY AND RESOURCES DEPARTMENT

BUDGET REPORT

2007

NOVEMBER 2006

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

1 November 2006

Dear Sir,

2007 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

2007 BUDGET REPORT

Background to the Budget

1.1 As set out in the 2006 Interim Financial Report, the outcome of the June 2006 debate on the Policy Council's Report on the Future Economic & Taxation Strategy has had a significant bearing on this year's Budget Report.

1.2 As directed by the States, the Treasury and Resources Department is bringing forward proposals to increase existing indirect taxes in a transitional manner commencing with this Budget Report. Together with the phased increases in social security contributions, this means that £15m is now available for appropriation to the Contingency Reserve ahead of 2008.

1.3 There is a growing awareness of the need to ensure that the States fiscal policies are developed and implemented in such a way that they make a positive contribution to the economic health of the Bailiwick. Traditionally States Budgets have been very much focused on "balancing the books". It is clear that going forward, a broader consideration of their impact on the wider economy will be needed.

1.4 The Treasury and Resources Department also acknowledges that during the recent public consultation processes, it was clear that there was a very strongly expressed view that public sector expenditure needed to be controlled. It was clear that a genuine commitment to public sector expenditure control is required and must be delivered. Public services must be delivered in an efficient and effective manner and value for money must always be achieved. Furthermore, States expenditure must be directed towards high priority areas.

1.5 **The main theme of this year's Budget is the need to raise revenue to fund essential public services and the continuing need to control expenditure.**

1.6 **This year's Budget also continues the trend of redistributing public sector expenditure towards the key priorities of Health, Education, Social Security Benefits and Law & Order.**

1.7 On a more general note it is worth noting that although much remains to be done, progress is continuing to be made in the overall development and implementation of the States economic and financial strategies.

1.8 In June 2006 the Future Economic & Taxation Strategy was approved and as a result in September 2006 the States agreed changes to the method of funding social security. In October 2006 the States approved its capital priorities. In December 2006 the States is considering this Budget (which contains proposals to further implement the Taxation Strategy) and the first of the new style Government Business Plan. Furthermore, in the early part of 2007 the States will be considering Reports on Fees and Charges and Property Rationalisation.

Summary

1.9 The main highlights and proposals contained within this year's Budget Report are as follows:

- **States Revenues predicted to increase by £17m or over 5%.**
- **Total cash limits for 2007 to increase by less than RPI, but with greater than RPI increases in priority areas.**
- **A transfer of £15m to the Contingency Reserve.**
- **A transfer of £5m to the Capital Reserve.**
- **6.5% increase in the rate of duty on tobacco (RPI plus 3%).**
- **Duty on Petrol to increase by 6.2p per litre.**
- **20% increase in the rate of duty on alcohol.**
- **Tax on Rateable Values to increase by 100% for commercial premises and 25% for domestic properties.**
- **Personal income tax allowances for 2008 to remain at present levels**

Personal Income Tax Allowances

1.10 As a result of the States Debate on the Future Economic and Taxation Strategy, the Department will be bringing forward proposals in next year's Budget Report (i.e. to take effect from 1 January 2008) for the revision of income tax relief on interest payable (including mortgages on principal private residences) and life assurance premiums. The opportunity will also be taken to review other allowances (possibly including their increases) on such items as payments into retirement annuity schemes.

1.11 In the coming months the Department, in consultation with relevant bodies, including the Housing Department, will continue to review the possible options concerning interest relief on mortgage payments. The Department believes that a careful balance needs to be struck between raising revenue, fairness and ensuring a buoyant housing market. In the Policy Council's Future Economic & Taxation Strategy a figure of £400,000 was suggested as being appropriate "at this time." The Treasury and Resources Department is of the view that this figure is the maximum amount that should be provided for interest relief and that over time it will reduce, at least in real terms. **It is intended that next year's Budget Report will contain detailed recommendation on this and other "2008" matters**.

1.12 In view of the present States financial position, the Department is recommending that the basic personal income tax allowances for 2008 remain at the present level. It is worth emphasising that in recent years personal income tax allowances have increased in real terms.

Indirect Taxation

1.13 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."

1.14 Therefore, the Treasury and Resources Department recommends an increase in excise duty on tobacco of 6.5% (being 3.0% plus the increase in the Guernsey Retail Prices Index as at September 2006 of 3.5%). This proposal should raise approximately an additional £0.4m per year.

1.15 Although it appears that less tobacco is being consumed, the decrease in duty receipts also indicates that there is an increasing amount of tobacco products that are being consumed in the Island on which no duty has been paid. The Treasury and the Customs Service continue to monitor the situation to ensure that States Revenues are protected.

1.16 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.

1.17 The duty on alcohol had not been altered for a number of years, but increases have been approved in each of the last two Budgets. In view of the above Strategy, and for fiscal reasons, a further increase of 20% in the duty on alcohol is being recommended. This measure will increase the duty on a litre of beer by approximately 5 pence and 24 pence on a litre of wine. The duty on a litre of spirits will increase by £1.11. This proposal should raise approximately an additional £1.25m per year.

1.18 The Department believes that despite the high oil prices, there are good environmental, social and fiscal reasons for increasing the duty on petrol. It is therefore recommending that petrol duty is increased by 6.2p per litre, with associated increases in motor vehicle taxation for diesel powered motor vehicles. This proposal should raise approximately an additional £2.25m per year.

1.19 It should be noted that in October 2006 (Billet d'Etat, XVI) the States agreed to the abolition of motor tax with effect from 1 January 2008 with corresponding increases in petrol and diesel duties.

1.20 As highlighted in the Future Economic & Taxation Strategy, Tax on Rateable Values (TRV) should be increased to raise an additional £2m during 2007. This would be the first increase in TRV rates for many years. It is emphasised that Parish and water rates will be unaffected by this Budget Report.

1.21 As the main beneficiaries of the income tax changes it is proposed that the rates of TRV on business premises should be increased by 100%. It is probable that a similar percentage increase will be proposed in next year's Budget for business premises.

1.22 It is proposed that the TRV on domestic properties should be increased by 25% (i.e. much less that commercial rates). This will mean the average domestic TRV charge will increase by less than 50 pence per week. Agricultural, horticultural and public properties will see no increase in TRV with Utilities and Tourist industry properties to be increased by 25%.

1.23 **Appendix VII is a summary of the impact of the above proposals in terms of total additional revenue raised, the impact on inflation and the impact on individuals.**

Public Sector Expenditure

1.24 The Treasury and Resources Department remains committed to ensuring that public sector expenditure is controlled and that waste and inefficiency are eliminated. **It firmly believes that there is very strong support for this stance**.

1.25 Therefore this year's Budget has been prepared against a background of the necessity for financial restraint balanced with the need for maintaining essential public services.

1.26 As set out in last year's Budget, and on many previous occasions, the trend of ever increasing revenue and capital expenditure is unsustainable and there is a clear need for control and prioritisation of expenditure. Low priority services and projects will need to be curtailed.

1.27 Although the level of States expenditure has risen in the past few years, the independent benchmarking exercise carried out in co-operation 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.**

1.28 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.**

1.29 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.

1.30 Last year when it became clear that financial restraint was needed, it was recognised that it would take Departments time to reverse existing commitments and introduce cost savings measures, some of which will need States approval. It was therefore accepted that some measures would take time to be introduced, but that a start had to be made. The fact that in 2005 Departments spent £6m less than their authorised budgets demonstrates that real progress has started to be made. Furthermore, expenditure in 2005 compared to 2004 showed the lowest rate of real terms growth for many years and 2006 revenue expenditure is projected to be a real terms decrease compared to 2005.

1.31 The cash limits proposed for 2007 total £301m which (after adjusting for changes to the social security contributions grant) represents a real terms decrease compared to 2006.

1.32 Of the 18 separate cash limits that make up the total general revenue expenditure, half are frozen or reduced in cash terms and 6 are increased by RPI or less. Only the priority areas of Education, Health and Law & Order see real terms increases.

1.33 Such an outcome is in sharp contrast to previous years when significant real terms increases were very much the norm for nearly all Departments and demonstrates the increased financial responsibility of Departments.

1.34 **If States expenditure had continued at its former rate of increase (at an average of 3.0% in excess of inflation) then the total cash limits for 2007, and each year thereafter, would have been nearly £25m higher.**

1.35 **Furthermore, this year's Budget continues the trend of curtailing expenditure in some areas and redistributing those savings to the key priority areas of Health, Education, Social Security Benefits and Law & Order.**

1.36 **It is clear that States finances are now under better control and more focused on high priority areas.**

Appropriation to Reserves

1.37 As a result of the stronger than originally projected outturn for 2005 and 2006, and the **phased introduction of increased indirect taxes and social security contributions (as approved by the States in September 2006), a transfer to the Contingency Reserve of £15m is proposed with effect from 1 January 2007**. This is in line with the amount indicated by the Department in its 2006 Interim Financial Report.

1.38 An appropriation of £5m to the Capital Reserve is also recommended. This appropriation will mean that the Capital Reserve will be almost in balance by the end of 2008, i.e. after the completion of the capital projects included in the Department's capital prioritisation report.

1.39 It is anticipated that, once the actual outturn for 2006 and projections for 2007 are known, a further appropriation to these Reserves may also be possible as part of next year's Budget.

SECTION 2: OVERALL FINANCIAL POSITION

2.1 The estimated financial revenue position can be summarised as follows:

	2007 £m	**2006** £m	**2005** £m	**2004** £m	**2003** £m
Revenue Income	339	322	311	285	288
Revenue Expenditure	301	299	292	276	254
Operating Surplus	38	23	19	9	34
Capital Income	-	3	-	5	5
Capital Allocations	(18)	(13)	(12)	(16)	(18)
Transfer to / (from) Reserves	20	13	7	(2)	21

2.2 Further details on income and expenditure are contained in the detailed line-by-line (blue) Budget Billet d'Etat published at the same time as this Report. Income can be summarised as follows:

	2007 £m	**2006** £m	**2005** £m	**2004** £m	**2003** £m
ETI & Self-employed	165	158	149	140	137
Business Profits	115	111	110	96	102
Total Direct Taxation	280	269	259	236	239
Indirect Taxes	50	45	45	42	39
Exempt Company Fees	5	5	5	5	5
Miscellaneous	4	3	2	2	5
Total Income	339	322	311	285	288

2.3 The total anticipated income for 2006 of £322m is £2m more than the amounts projected in the 2006 Interim Financial Report and shows continued strength in the economy feeding through into income tax receipts. Indirect taxes continue to grow due to increased rates of duty on alcohol and tobacco. Document Duty receipts continue to be strong due to the buoyant property market.

2.4 The total income projected for 2007 of £339m represents a growth of over 5%. Indirect taxes are projected to increase due to the increases proposed in this Budget for alcohol, tobacco, petrol and Tax on Rateable Values.

2.5 Miscellaneous income for 2006 and 2007 includes amounts of over £1m per year retained by the authorities in Guernsey in respect of monies collected in the Bailiwick from deposits by EU residents as a result of bi-lateral agreements with EU Member States.

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

	2007	**2006**	**2005**	**2004**	**2003**
	£m	£m	£m	£m	£m
Capital Expenditure	70	40	50	44	51

2.7 Capital Expenditure in 2006 is now estimated to be less than the £51m previously reported due to a number of projects (including Les Nicolles Schools and Alderney Quay) commencing later than originally envisaged.

2.8 The past few years have seen a period of unprecedented level of investment in the Island's infrastructure, (nearly £300m since 1998) partly necessitated by underinvestment in the past. **A period of measured consolidation is now required.**

Capital Reserve & Capital Allocations

2.9 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 £31.3m as at 30 September 2006. Appendix II provides a summary of the movements on the Capital Reserve.

2.10 **In order to fund the key capital projects identified in the capital prioritisation debate an appropriation of £5m to the Capital Reserve, with effect from 1 January 2007, is recommended.**

2.11 **In order to complete the Les Nicolles Schools phase of the EDP a further transfer of £5m from the Capital Reserve at the beginning of 2007 is proposed.**

2.12 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.

2.13 Appendix III provides an updated summary of major capital projects which are expected to require funding in excess of the amounts originally envisaged. A common misunderstanding persists that the recent capital overspends as reported by the Treasury and Resources Department have in some way contributed to the so-called "Black Hole" or have resulted in the Department's capital prioritisation report.

2.14 As has been stated on several previous occasions, the major capital overspends, the New Jetty, Airport Terminal and the St. Sampson's Marina (none of which were initiated by the present House) **will have no impact on the Capital Reserve as they will be funded from the Ports Holding Account.**

Ports Holding Account

2.15 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).

2.16 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 New Jetty major refurbishment.

2.17 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 but by the end of 2005 this had reduced to £7.2m (31.12.06 projected £7.9m). The annual operating surplus, including interest income, for 2007 is projected to be £3.4m.

2.18 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.

Contingency Reserve

2.19 As part of the introduction of the Future Economic and Taxation Strategy, the States has agreed that up to half of the Contingency Reserve may be used to fund the shortfall in public sector expenditure during the transitional phase.

2.20 The balance on the Contingency Reserve as at 30 September 2006 was £204m.

2.21 As a result of the stronger than originally projected outturn for 2005 and 2006, and the phased introduction of increased indirect taxes and social security contributions (as approved by the States in September 2006), a transfer to the Contingency Reserve of £15m is proposed with effect from 1 January 2007.

2.22 It is anticipated that, once the actual outturn for 2006 and projections for 2007 are known, a further appropriation to the Contingency Reserve may also be possible as part of next year's Budget.

SECTION 3: BUDGET PROPOSALS

Personal Income Tax Allowances

3.1 In view of the concerns about the States financial position the Department is recommending that for **2008 the basic personal income tax allowances remain the same as those in 2007**.

3.2 Therefore it is recommended that:

- The personal allowances for 2008 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 2008 shall be as follows:

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

- For 2008 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 2008 the income limit of a dependent relative before the Dependent Relative Allowance is reduced shall remain at £5,615.

3.3 As a result of the States Debate on the Future Economic and Taxation Strategy, the Department will be bringing forward proposals in next year's Budget Report (i.e. to take effect from 1 January 2008) for the revision of income tax relief on interest payable (including mortgages on principal private residences) and life assurance premiums. The opportunity will also be taken to review other allowances (possibly including their increases) on such items as payments into retirement annuity schemes.

Excise Duty on Tobacco

3.4 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".

3.5 The Department is therefore recommending changes to the existing rates of excise duty in respect of tobacco of 6.5% as follows:

Description of Goods	Present Rate of Duty Per Kilogram	Proposed Rate of Duty Per Kilogram
Cigars and Cigarettes	£147.22	£156.79
Hand rolling tobacco	£137.10	£146.01
Other manufactured tobacco	£118.92	£126.65
Tobacco leaf - unstemmed	£132.00	£140.58
Tobacco leaf - stemmed	£133.33	£142.00

3.6 It is estimated that this proposal will raise approximately an additional £0.4m per year. However, as mentioned previously, the Department (and the Home Department) is concerned about the increasing amount of tobacco products that are being consumed in the Island on which no duty has been paid and will continue to monitor the situation.

Excise Duty on Alcohol

3.7 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. As part of the last two Budgets the rate of duty on alcohol has been increased by 10%.

3.8 **It is therefore recommended that the rate of excise duty on alcohol be increased by 20%. 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	25p	30p
Other beer	39p	47p
Cider	39p	47p
Spirits (25% to 50% volume)	£5.53	£6.64
Light wines (5.5% to 15% volume)	£1.18	£1.42

3.9 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 £1.25m per year.

Duty on Motor Spirit & Motor Vehicle Licences

3.10 As part of the Future Economic & Taxation Strategy, the Policy Council recommended that "an extra £3m should be raised from motor vehicle usage". However, the Treasury and Resources Department recognises that some Members of the States, and the public, believe that in fact more could be raised from this area in the future.

3.11 It is therefore proposed that the duty on petrol is increased from 6.8p per litre to 13p, i.e. an increase of 6.2p.

3.12 Since diesel fuel is not subject to duty, it is proposed to increase the rates of motor vehicle taxation for diesel-powered vehicles accordingly. For vehicles fitted with pneumatic tyres (the vast majority) the annual rate of motor vehicle tax will increase from £6.74 per hundredweight (or part thereof) to £8.69 per hundredweight. For those vehicles with tyres that are not pneumatic, the rate will increase from £8.24 to £10.56.

3.13 It is not proposed to increase the annual rate of motor vehicle tax for Omnibuses (licensed to carry 20 or more passengers).

3.14 The annual rate of motor vehicle tax for **petrol driven** vehicles will remain unchanged.

3.15 It is estimated that the increase in petrol duties and the resultant increase in motor vehicle tax on diesel-fuelled vehicles will raise an additional £2.25m per year.

3.16 Although the proposed increase in duty in percentage terms is significant, it is emphasised that petrol duties are, by comparison with other jurisdiction, very low. Furthermore, the rate of duty on petrol has not been increased for many years. The impact of the Department's proposals on the average motorist will be small, around £1 per week.

Tax on Rateable Values

3.17 As part of the Future Economic & Taxation Strategy, the Policy Council recommended that "an extra £6m to £10m should be raised from property taxes". As set out in its letter of comment on the Strategy, the Treasury and Resources Department believes that in order to raise revenue it is more appropriate to use existing taxes and to raise taxes from the beneficiaries of the proposed tax reforms. Therefore increasing property taxes, especially commercial property taxes, was identified as one area that would be addressed in this year's Budget.

3.18 **Except for an increase to compensate for a cut in Document Duty in 2001, the rate of TRV has remained unchanged for many years.**

3.19 It is recommended that the rates of TRV for 2007 are increased as follows:

Description of Premises	Present Rate	Proposed Rate
Domestic (categories A to H)	£1.44	£1.80
Tourist, public utility(categories I, L & P)	£2.48	£3.10
Business (category M)	£2.48	£4.96
Public (category N)	£2.48	£2.48
Horticultural & Agricultural (categories J & K)	93p	93p
Other Real Property (category Z)	£1.96	£3.38

3.20 It is estimated that the above proposal will raise an additional £2m per year. However, the impact on the average domestic property will be of the order of around £20 per year, or less than 50p per week.

3.21 At present the Department is in the process of carrying out further consultation on revising the existing TRV system. Part of that process involves consideration of what, if any, concession should be provided to properties (domestic and commercial) in Alderney. The Treasury and Resources Department believes that until that consultation process is complete, and in view of the fact that the above proposals are less than half those proposed in the Future Economic & Taxation Strategy, the rate of TRV should be increased at the same rate in both Islands for 2007, and that, at least at this stage, Alderney should not have reduced rates.

3.22 **It is emphasised that the proposals included in this Report are based on the existing TRV system.** The revised system of property taxes (as considered by the States in July 2005 and March 2006) will not come into force until <u>after</u> next year's bills are issued (in July 2007).

<u>Implementation of Budget Proposals</u>

3.23 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.

3.24 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 Within their agreed cash limits, Departments have to consider very carefully their own priorities. In general, the Treasury and Resources Department does not interfere 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**.

Department Cash Limits for 2007

4.2 The recommended cash limits for 2007 are as follows:

	Non-Formula Led	Formula Led	Cash Limit
	£'000	£'000	£'000
Policy Council	6,250	1,400	7,650
Treasury and Resources			
General	13,725	1,825	15,550
Courts & Law Officers	5,750		5,750
States of Alderney	1,450		1,450
Commerce and Employment	11,500		11,500
Culture and Leisure	3,200		3,200
Education			
General	54,750		54,750
Higher and Advanced	6,500		6,500
Grants to Libraries and Colleges	5,830		5,830
Environment	8,600		8,600
Health and Social Services			
General	84,500		84,500
St. John Ambulance & Rescue	1,800		1,800
Home	26,900		26,900
Housing	1,725		1,725
Public Services	7,550		7,550
Social Security	2,150	55,125	57,275
Public Accounts Committee	270		270
Scrutiny Committee	200		200
	242,650	58,350	301,000

4.3 Full line-by-line details of the 2007 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 £2.1m in respect of Overseas Aid (£1.9m in 2006). This represents an increase of £120,000 in real terms.

- 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 part of which had been funded by the use of unspent balances.

- The Budget for Health & Social Services Department at £84.5m is an increase of £4.2m over 2006 or 5.3% in cash terms. Furthermore, the Department presently has £750,000 of unspent balances which are available to use to supplement its 2007 cash limit.

- The Education Department's General Budget at £54.75m is an increase of £2.5m, or 4.8% on 2006.

- The Education Department's Higher & Advanced Budget is set at £6.5m, i.e. the same as 2006. This cash limit may require adjustment as a result of any States Debate on the introduction, or otherwise, of student loans. **Any adjustment to the 2007 cash limit could then be made retrospectively as part of the December 2007 Budget Report (as happened in the 2005 Budget Report).**

- The Home Department's Budget for 2007 is £26.9m. It is estimated that at the end of 2006 the Department will have unspent balances of £2.5m, of which £1.2m are to be used to supplement the 2007 Budget (the remainder being carried forward). The Home Department is therefore planning to spend £28.1m in 2007, an increase of £1.7m or 6.5% compared to 2006. In 2005 the Department's actual expenditure was £24.3m (i.e. since 2005 there has been a 15.6% increase).

- The Policy Council, Treasury and Resources, Commerce & Employment, Culture & Leisure, Environment, Social Security, Scrutiny, and the Public Accounts Committee all see their budgets either cut or only maintained in real terms.

New Departmental Capital Allocations

4.4 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.

	Existing Allocation £	New Allocation £	Total Allocation £
Policy Council	Nil	Nil	Nil
Treasury and Resources			
General	1,012,700	1,050,000	2,062,700
States of Alderney	872,789	200,000	1,072,789
Commerce and Employment	315,030	100,000	415,030
Culture and Leisure	69,847	200,000	269,847
Education	535,750	1,000,000	1,535,750
Environment	499,501	250,000	749,501
Health and Social Services	982,091	2,750,000	3,732,091
Home	182,789	1,500,000	1,682,789
Housing			
General	1,116,941	Nil	1,116,941
Corporate Housing Programme	Nil	7,000,000	7,000,000
Public Services	171,631	3,950,000	4,121,631
Social Security	Nil	Nil	Nil
	5,759,069	18,000,000	23,759,069

4.5 **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**.

4.6 Included in these recommended new allocations is £3m 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 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.

4.7 Also included in the above is £7m 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.

4.8 In addition to the normal capital allocations set out above, and in accordance with the February 2005 States Resolution, a transfer from the Capital Reserve of £5m to the Education Development Plan is being recommended in January

2007 as the final tranche to complete the funding of the construction of the new Secondary and Special Needs Schools at Les Nicolles.

4.9 The proposed allocation for the Home Department of £1.5m is considerably more than in previous years (last year £950,000) because new emergency & contingency equipment is required.

SECTION 5: OTHER MATTERS

Income Tax Projections

5.1 Income tax receipts are by far the largest contributor to States total revenue. However, as stated on previous occasions, even when inflation is taken into account the volatility in income tax receipts remains relatively high. Since income tax is the main source of States revenue this can have a significant impact on the financial planning of the States. Therefore, although every effort will always be made to provide as accurate a picture as possible, the Department believes it must continue to do so on a cautious basis.

Review of Income Tax Procedures

5.2 In the last few years the States has approved a number of recommendations to update and modernise the income tax system. In addition to significant changes to the basis of assessment for both business and personal taxation, a number of other changes have also been made to modernise and streamline the income tax system.

5.3 It is the Department's intention that this process should continue and it will be bringing forward other proposals, in the coming months. The Department will also be investigating on-line tax assessment and other administrative processes which should be of benefit for both the taxpayer and income tax staff.

5.4 One initiative that has already had a beneficial effect on States revenues is the introduction of surcharges for late payment of income tax. As a result, many tens of millions of pounds has been collected earlier which, as intended, has increased the interest earned by the States. The recent decision by the States that major employers (i.e. those with 80 or more employees) will remit ETI monthly will have a similar beneficial impact.

Fees and Charges

5.5 The States of Guernsey for many years has levied fees and charges for a very wide variety of services. Many of these fees and charges had remained unchanged for many years (and in some cases decades).

5.6 In its report issued in June 2005, the National Audit Office concluded that there were many areas where Guernsey fees and charges were well below the levels raised in other jurisdictions. The NAO also identified a number of areas currently provided free of charge for which fees were levied in other jurisdictions.

5.7 Since the NAO's report was issued, States Departments have been reviewing the levels of their existing fees and some additional areas where fees and charges could appropriately be introduced have also been identified. As a result, the States have already approved a number of increases in the level of fees and charges. For example, in March 2006 document registration fees were increased for the first time since 1977 and Births, Deaths & Marriage fees were also increased from their 1992 levels.

5.8 Although further (and possibly significant) income can be raised from similar measures, especially as such an approach is supported by the user-payer principle, care will need to be taken that raising additional charges is not overdone or carried out in manner which is uncoordinated and possibly ultimately self-defeating.

5.9 **The Treasury and Resources Department, at the request of the Policy Council, will therefore be bringing forward a States Report early in 2007 to ensure that this issue is dealt with in a coordinated manner. The Department considers this to be an extremely important process.**

5.10 It is clear that there are opportunities for significant amounts of further income to be raised from fees and charges and that these should be explored. It is also clear that existing fees and charges must be kept under periodic review to ensure that their real values are not eroded to the extent that has happened in recent years.

<u>Tax on Real Property</u>

5.11 In July 2005 the States approved the Department's "green paper" setting out its intention to conduct a review of the present system of tax on rateable values (TRV). As a result, in November 2005 primary legislation was approved.

5.12 In March 2006 the States considered and approved the Department's outline plans for a much simpler revised system.

5.13 Further consultation and investigation into this important matter is continuing and the Department remains on course for bringing forward a further report within the next few months.

<u>Treizième: End of Transitional Arrangements</u>

5.14 In September 2002 (Billet d'Etat XX, 2002) the States agreed to the abolition of treizième. In order to protect States revenues, document duty rates were increased by the same amount (i.e. 2%). As a result of this change the vast majority of property transactions were unaffected.

5.15 However, as set out at the time, one of the anomalies identified in the abolition of this feudal due was in respect of conveyances of properties held in fee farm tenure or on franc fiefs. Such conveyances were exempt from treizième but not document duty, and thereby had had for many years a financial advantage.

5.16 In these, admittedly small number of cases, it was recognised that immediately increasing document duty by the same amount as the abolished treizième might be considered unfair. It was therefore agreed that a transitional arrangement would be put in place whereby half of the advantage (i.e. 1%) would be maintained for five years, i.e. until April 2008. The Treasury and Resources Department will therefore be bringing forward the necessary proposal as part of next year's Budget.

<u>Operations of the States Treasury</u>

5.17 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.

5.18 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 2006 Interim Financial Report).

5.19 The following loans, with interest payable at the States Treasurer's rate, have been made as at 30 September 2006:

- Guernsey Gambling Control Commission: £92,000 (30.4.06: £92,000).
- Energy From Waste Plant: £2.7m (30.4.06: £3.0m).
- Health & Social Services Accommodation Fund: £2.9m (30.4.06: £2.9m)

5.20 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.

5.21 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.

5.22 As part of the consideration of the 2005 Annual Report of the Gambling Control Commission, the States "noted that the Commission's loan facility is now unlikely to be repaid". It is therefore the intention that, as part of the 2006 year-end procedures this loan will be written off against General Revenue.

5.23 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 General Revenue budget of the Environment Department to fund expenditure in this area, including recycling initiatives.

5.24 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".

5.25 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

2006 the amount borrowed under that facility was £3.9m (30.4.06: £3.9m). Appendix XI sets out the most recent (unaudited) trading results for the Group. The Department is very pleased to note that the figures to August 2006 are well ahead of budget and show a surplus.

Timing of the States Debate of the Year-End Accounts and the Budget

5.26 For many years the two principal States Debates on routine financial matters have been in July (the States Accounts and more recently the Interim Financial Report) and in December (the annual Budget).

5.27 Although there have been no major problems associated with this timing, the Treasury and Resources Department recognises that there is merit in considering whether other times would be more convenient.

5.28 For example, the Department believes that the year-end accounts and Interim Financial Report could be debated in June each year. The Annual Budget Debate could also move to October.

5.29 **The Treasury and Resources Department therefore recommends the States to note its intention to review the timing of the Annual States Debates in respect of the year-end accounts and the Budget.**

5.30 The Treasury and Resources Department will also be undertaking a general overview of the format of the States accounts, including whether, in the light of experience, specific functions are budgeted for in the appropriate Department. Such reviews of the form and content of the accounts have been carried out periodically in the past and have invariably led to improvements.

Use of Delegated Authority

5.31 In order to speed up decision making and to avoid the States 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.

5.32 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.
- Capital votes (straightforward replacements without limit and projects up to £250,000).
- Capital overspends up to £250,000.
- Property purchases and sales.

5.33 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.

5.34 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).

5.35 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

5.36 The Department is also mandated with the responsibility for the administration of the Staff Number Limitation Policy. Appendix VIII of this Report provides a summary of the staff numbers covered by the Staff Number Limitation Policy.

5.37 The Treasury and Resources Department is very concerned about the apparently ever-increasing demand for resources, both financial and human, and continues to look to all Departments to curtail their demands as far as possible. The Department therefore requires extremely compelling reasons for any increase in resources.

5.38 Since the last time the Department reported to the States (as part of the 2006 Interim Financial Report) the Department has approved a small number of temporary short-term appointments (to facilitate transitional changes) but **NO** further increases in the permanent establishment have been approved.

5.39 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**. **Furthermore, if the States is to achieve the necessary public sector expenditure reductions, overall staff levels will need to fall.**

5.40 As set out in last year’s Budget report, in order to ensure that all Departments continue to vigorously assess their priorities and staff resources the Department introduced much stricter controls over staff recruitment. Procedures were implemented to ensure that any members of staff who leave (through retirement, resignation, or internal promotion) were not automatically replaced.

5.41 Although the Department recognises that this approach was a blunt instrument, it strongly believed that the culture of previous years staff replacement was, by and large, automatic and needed a short sharp shock. Put simply, the financial situation meant that such a radical change of culture and direction was required.

5.42 **This approach is vindicated by the fact that the seemingly ever increasing staff numbers (and associated payroll costs) has been stopped, and as set out in Appendix VIII, actually reversed.**

5.43 Significantly, the number of temporary and short-term contract staff (i.e. not included in SNLP numbers) employed by Departments has also decreased by over 25. There have also been a number of instances where senior staff have been replaced by more junior graded posts with no anticipated deterioration in service.

5.44 At the time of writing this Report, the Department is working alongside the Scrutiny Committee to consider what changes are required to the existing Staff Number Limitation Policy and associated administrative procedures to ensure that the above objectives are delivered in an efficient manner. The Department is confident that this work will result in strategies and procedures which are more aligned to the current situation.

Capital Funding for Corporate Housing Programme

5.45 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.

5.46 The Corporate Housing Programme Fund and its constituent parts 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.

5.47 As reported previously, a £25m borrowing facility in respect of the Housing Development and Loan Fund has been obtained. The Fund is currently borrowing £5m from this source (compared to £5m at the time of the 2006 Budget).

5.48 The Housing and Treasury and Resources Departments continue to work together to ensure that the most appropriate funding mechanisms are employed. As a result of this ongoing work, in last year's Budget it was agreed that the Housing Department, with the approval of the Treasury and Resources Department, should be able 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.

5.49 Although, thus far, it has not been necessary for the Housing Department to utilise the above facility, it is nonetheless important to have such a mechanism available.

5.50 In its 2006 Interim Financial Report the Treasury and Resources Department acknowledged that further work is still required concerning the existing States resolutions regarding the funding of rent rebates for both States tenants and Guernsey Housing Association nominated tenants.

5.51 Having considered this matter further, including as part of the Capital Prioritisation Debate, the Treasury and Resources Department believes that, starting in 2008, rent rebates should be treated as a revenue item within the

Housing Department's budget. This is a significant move in securing the funding of the Corporate Housing Programme.

Restructuring and Reorganisation Fund

5.52 As part of the 2006 Budget, the Restructuring and Reorganisation Fund was established, by transferring £5m from the Contingency Reserve with effect from 1 January 2006.

5.53 The amount expended on this new Fund thus far is, as expected, relatively limited. As a result, as at 1 October 2006 the Fund had a balance of £3.8m. The majority of the Fund thus far has been used in connection with the redundancy of 5 senior civil servants (the individual redundancy costs were in the range between £75k and £360k) all of whom were long standing employees. It is emphasised that access to the Fund is only available to Departments to meet the redundancy costs if long term savings are made, i.e. the staff post is permanently deleted or filled by a significantly more junior post.

5.54 The Department anticipates further calls on this Fund in the coming months as Departments come to grips with their own restructuring and reorganisation plans including schemes where short term investment will have long term advantages (i.e. genuine spend to save initiatives).

Property Rationalisation Strategy

5.55 In February 2006 (Billet d'Etat V, 2006) the States approved the formation of a States Property Services unit within the Treasury & Resources Department. As part of that process the States recognised that the improved management of the States of Guernsey's extensive property portfolio (land and buildings) could result in substantial, benefits for the Island. It was therefore acknowledged that it was vital that the property portfolio was properly managed.

5.56 A key component of the above States Report was to put in place a Rationalisation Strategy to unlock the potential of the property portfolio. With the formal adoption of the Property Rationalisation Strategy, work has continued on identifying where savings can be made. Thus far a number of properties have been identified (including those previously earmarked by the former Board of Administration) for disposal. The Department intends to continue with this important work in the coming months. In carrying out this policy it is emphasised that the principal purpose of disposing of unnecessary properties is not necessarily to raise income (a one-off event) but to avoid ongoing expenditure.

Operational Update

5.57 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 major systems projects. Further work continues in this area and internet and touch telephone payments systems have been introduced. The Treasury has recently completed a further major phase of this project by replacing its outdated payroll and pensions systems. Now that this project has been completed, the corporate financial systems of the States (accounting, procurement, payroll and pensions) are modern, robust, technically supported, efficient and common to all States Departments.

APPENDIX I

General Revenue Account Reserve

	£'000
Balance as at 31 December 2005	16,855
Less: Unspent Balances	(13,829)
Less: Capital Allocations 2006	(12,900)
Add: 2006 Operating Surplus	23,000
Add: 2006 Capital Income	3,000
Balance as at 31 December 2006	16,126
Add: 2007 Operating Surplus	38,000
Less: New Capital Allocations 2007	(18,000)
	36,126
Recommended Appropriation to Contingency Reserve	(15,000)
Recommended Appropriation to Capital Reserve	(5,000)
Balance as at 31 December 2007	16,126

The Target Balance for the 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:		
EDP 2005	12.8	
Health: Purchase of "The Oaks"	0.5	
Les Nicolles Swimming Pool	1.0	
Mignot Memorial Hospital	2.3	
Alderney Commercial Quay	4.0	
Royal Court Essential Maintenance	2.8	
		(23.4)
Interest 2005		5.1
Balance 31 December 2005		42.4
Appropriation 2006 budget		Nil
EDP 2006		(12.8)
Beau Sejour Overspend		(1.4)
Clinical Block (two tranches)		(34.3)
Electronic Health & Social Care Records		(3.1)
Additional on Alderney Commercial Quay		(2.0)
Les Nicolles Schools (final tranche)		(5.0)
Appropriation 1 January 2007 (proposed)		**5.0**
Interest income (2006-2008)		7.0
Extra Funding required for Capital Reserve by the beginning of 2009		**(4.2)**

Note: The above does not include any appropriations into the Capital Reserve that may be included in future Budgets.

APPENDIX III

Updated Summary of Major Capital Project Issues

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 30 September 2006, amounts totalling £24.0m have been paid of which £21.9m 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 £27.8m. 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 30 September 2006, amounts totalling £4.3m 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 £6.9m. 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 2006, amounts totalling £6.3m have been paid. Contractor's claims (which are disputed and are being contested) are at present £19.7m. 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 2005** £'000	**Estimate 2006** £'000	**Estimate 2007** £'000
Payments to States Members	1,654	1,875	1,825
Legal Aid Scheme	1,547	1,375	1,400
Social Insurance Grant	26,766	27,840	23,325
Health Service Grant	8,782	9,150	7,180
Long-Term Care Grant	1,384	1,450	-
Supplementary Benefits	10,664	12,700	13,720
Family Allowances	7,754	8,090	8,340
Attendance & Invalid Care Allowance	1,917	1,990	2,060
Concessionary Television Licences	453	480	500
Parochial Outdoor Assistance Boards	431	-	-
TOTALS	**61,352**	**64,950**	**58,350**

APPENDIX V

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 2006 Interim Financial Report. Since that time:

The following increase in operating costs has been approved:

	£
Environment Department – Traffic Strategy Report	200,000

The following capital projects have been approved:

	£
Treasury and Resources	
Courts equipment additional / replacement	140,600
States of Alderney	
Island Hall renovation (additional)	216,122
Minor overspends	13,934
Alderney Works Department vehicle replacement	12,000
Braye Beach Pumping station – sewage pumps replacement	8,500
Commerce and Employment	
Laboratory equipment replacement	40,000
Culture and Leisure	
Osmond Priaulx Field changing rooms/clubhouse (additional)	204,131
Beau Sejour asbestos removal	197,839
Education	
La Mare de Carteret School heating system replacement	224,000
Fire detection and emergency lighting upgrades	175,000
Vauvert School new entrance	100,000
La Mare de Carteret School external cladding and windows	82,000
Environment	
Driver Licensing and Vehicle Registration system replacement	230,000
1 La Vrangue Hill demolition (additional)	20,398
Health and Social Services	
CT Scanner replacement	800,000
Duchess of Kent fire alarms replacement	124,000
Radio Jubilee relocation	40,000
Ozanne Ward upgrade – fire alarms	26,500
Secure Unit refurbishment (additional)	8,786
Rue des Pins Family Centre (additional)	5,289
Garden Hill refurbishment (additional)	3,398

Home	
Customs/Prison radio systems replacement	350,000
Courts CCTV system	93,000
Police vehicle replacements	53,500
Customs X-ray machine replacement	31,000
Public Services	
Les Nicolles drainage works	85,000
Alderney Airport petrol interceptor	35,000
Ports	
Airport Terminal building air conditioning	74,000
Airport Visual control room replacement	52,000
Airport Radar rotating joint replacement	39,500
Airport/Harbours direction finding equipment replacement	261,000

The following property purchases and sales have been approved:

Purchases	£
None	
Sales	
1, Brookland Cottage, St Peter Port (Incompatible Housing Stock)	209,000
Strip of Land at Pointues Rocques, St Sampsons (Guernsey Water)	10,000

APPENDIX VI

Summary of Indirect Taxation

Duty on Tobacco

2006	6.8% (RPI plus 3%)
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%)

Document Duty

2006	No change
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%

Tax On Rateable Value

2006	No change
2005	No change
2004	No change
2003	No change
2002	No change
2001	18% increase to compensate for document duty cut

Duty on Fuel

2006	No change
2005	No change
2004	No change
2003	No change
2002	No change
2001	No change

Duty on Alcohol

2006	10% increase
2005	10% increase
2004	No change
2003	No change
2002	No change
2001	No change

APPENDIX VII

Summary of Budget Proposals

	Revenue Raised	Impact on individuals	Impact on RPI
Petrol duty up by 6.2p per litre & increase in motor vehicle taxation (Diesel)	£2.25m	Average motorist about £1 per week more.	0.1%
Tobacco duty up by RPI plus 3%	£0.4m	20 cigarettes increase by 15p	0.05%
Alcohol duty up by 20%	£1.25m	Pint of beer up by 2p, litre of wine up by 24p, spirits £1.11 per litre	0.2%
TRV up by 25% on domestic	£0.5m	Average TRV bill to increase by £20 per year, or less than 50p per week.	0.1% (total)
TRV up by 100% on commercial	£1.25m		
TRV, Utilities, tourist and others	£0.25m		

APPENDIX VIII

Establishment Staff Numbers

	Total 31.12.05	**Transfers**	**Returns**	**Total 30.9.06**
	FTE	FTE	FTE	FTE
Policy Council	75.75	(9.00)	(2.12)	64.63
Treasury & Resources: Income Tax	85.17			85.17
Treasury & Resources: Others	69.47	39.50*	(4.00)	104.97
Commerce & Employment	136.61	(10.30)	(7.00)	119.31
Culture & Leisure	113.09	5.00	(4.00)	114.09
Education: Teachers and Lecturers	671.71			671.71
Education: Others	228.98		(15.00)	213.98
Environment	76.56			76.56
Health & Social Services: Nurses	828.22	(8.00)		820.22
Health & Social Services: Others	837.31	4.50	(8.00)	833.81
Home	295.45	1.00		296.45
Housing	104.68			104.68
Public Services	595.20	(25.70)	(5.00)	564.50
Social Security	112.17			112.17
Public Accounts Committee	1.00			1.00
Scrutiny Committee	2.00			2.00
Legal Services	69.95	3.00		72.95
TOTALS	**4303.32**	**-**	**(45.12)**	**4258.20**
Number of Police Officers	177.00			177.00
GRAND TOTALS	**4480.32**	**-**	**(45.12)**	**4435.20**

* These transfers are mostly in respect of the centralisation of Land and Property.

- 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.

APPENDIX IX

Payroll Costs

	2007 £'000	**2006** £'000	**2005** £'000	**2004** £'000	**2003** £'000
Policy Council	2,336	2,419	2,427	2,376	2,419
Treasury & Resources	8,155	8,214	7,812	7,414	7,016
Commerce & Employment	3,407	3,600	3,512	3,260	3,210
Culture & Leisure	4,081	3,556	3,932	3,437	3,187
Education	42,013	39,390	39,396	36,057	33,715
Environment	3,731	3,509	3,380	3,071	2,720
Health & Social Services	57,845	56,870	52,939	49,654	46,153
Home	21,252	20,421	18,785	17,368	15,789
Housing	2,196	2,121	1,996	1,831	1,969
Public Services	2,111	2,328	1,904	1,994	1,860
Social Security	1,062	1,070	972	914	848
Public Accounts Committee	87	87	77	53	0
Scrutiny Committee	179	168	110	34	0
Legal Services	5,363	4,952	4,333	3,997	3,554
TOTALS	**153,818**	**148,705**	**141,575**	**131,460**	**122,440**
% Increase	3.4%	5.0%	7.7%	7.4%	9.0%

The above payroll costs are in respect of General Revenue only. Non-General Revenue payroll costs (States Works, Dairy, Ports, Social Security Funds etc.) are not included.

APPENDIX X

Overview of expenditure trends

Percentage of total annual expenditure by Department

	2007	**2004**
	%	%
Policy Council	2.6	3.0
Treasury & Resources	7.5	7.7
Commerce & Employment	3.8	4.4
Culture & Leisure	1.1	1.1
Education	22.3	21.9
Environment	2.9	2.9
Health & Social Services	28.7	27.3
Home	8.9	8.4
Housing	0.7	0.9
Public Services	2.5	3.5
Social Security	19.0	18.9
	100%	100%

Note: 1% redistribution is equivalent to £3m.

Total Expenditure 2007 to 2003 (adjusted)

	2007	**2006**	**2005**	**2004**	**2003**
Expenditure	£301m	£299m	£292m	£276m	£254m
Increase in cash terms	3.2%	2.4%	5.8%	8.4%	5.9%
Increase/(Decrease) in real terms	(0.2%)	(1.0%)	2.5%	3.5%	3.0%

In the period 2000 to 2002 expenditure grew by an average of 6% per annum in real terms.

Aurigny and Anglo Normandy:
Trading Position (Year to August 2006)

Aurigny Air Services Limited

	Year to Date Actual	Year to Date Budget	Full Year Actual 2005
	£'000	£'000	£'000
Revenue	17,245	16,384	24,162
Direct Costs	(10,475)	(10,188)	(18,332)
Operating Result	6,770	6,196	5,830
Overheads	(6,330)	(6,201)	(5,396)
Other Operating Income	-	-	91
Operating Profit/(Loss)	440	(5)	525
Net Interest payable	(112)	(117)	(189)
Exceptional Costs	-	-	(941)
Profit / (Loss)	328	(122)	(605)

Anglo Normandy Aero Engineering Limited

	Year to Date Actual	Year to Date Budget	Full Year Actual 2005
	£'000	£'000	£'000
Revenue	3,463	3,084	5,043
Direct Costs	(2,698)	(2,229)	(3,855)
Operating Profit	765	855	1,188
Overheads	(902)	(909)	(1,327)
Operating Profit / (Loss)	(137)	(54)	(139)
Net Interest payable	(2)	-	2
Profit / (Loss)	(139)	(54)	(137)

Draft Ordinance Entitled

The Tax on Rateable Values (Amendment) (Guernsey) Ordinance, 2006

THE STATES, in pursuance of their Resolution of 13th December, 2006, and in exercise of the powers conferred on them by sections 3 and 14 of the Tax on Rateable Values (Guernsey) Law, 1976[a], and section 9 of the Parochial Collection of Refuse (Guernsey) Law, 2001[b] hereby order:-

Amendment to Ordinance of 1976

1. For Part I of the Schedule to the Tax on Rateable Values (Guernsey) Ordinance, 1976[c], there is substituted the Part set out in the Schedule to this Ordinance.

Repeals

2. The Tax on Rateable Values (Amendment) (Guernsey) Ordinance, 2000[d] and paragraph 1 of Schedule 2 to the Parochial Collection of Refuse (Guernsey) Law, 2001[e] are repealed.

Citation

3. This Ordinance may be cited as the Tax on Rateable Values (Amendment) (Guernsey) Ordinance, 2006.

Collective title

4. This Ordinance and the Tax on Rateable Values (Guernsey) Ordinance, 1976 may be cited together as the Tax on Rateable Values (Guernsey) Ordinances, 1976 and 2006.

Commencement

5. This Ordinance shall come into force on 13th December 2006.

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[a] Ordres en Conseil Vol. XXVI. p.86.

[b] Order in Council No.IX of 2002.

[c] Recueil d'Ordonnances Tome XX, p.456.

[d] Ordinance No. XXIII of 2000.

[e] Order in Council No. IX of 2002

SCHEDULE

Section 1

PART I

Rates at which the tax is to be assessed

	(1) Category of Real Property	(2) Rate Per Pound
A.	Domestic premises comprising a registered dwelling house and having a rateable value of seventy five pounds or less	£1.80
B.	Domestic premises comprising a registered dwelling house and having a rateable value of seventy-six pounds or more but less than one hundred and one pounds	£1.80
C.	Domestic premises comprising a registered dwelling house and having a rateable value of more than one hundred pounds	£1.80
D.	Domestic premises having a rateable value of thirty pounds or less	£1.80
E.	Domestic premises having a rateable value of thirty-one pounds or more but less than fifty-one pounds	£1.80
F.	Domestic premises not comprising a registered dwelling house and having a rateable value of fifty-one pounds or more but less than seventy-six pounds	£1.80
G.	Domestic premises not comprising a registered dwelling house and having a rateable value of seventy-six pounds or more but less than one hundred and one pounds	£1.80
H.	Domestic premises not comprising a registered dwelling house and having a rateable value of more than one hundred pounds	£1.80

(1) Category of Real Property		(2) Rate Per Pound
	<u>Premises Other Than Domestic Premises</u>	
I.	Tourist premises, other than self-catering tourist accommodation	£3.10
J.	Horticultural premises	93p
K.	Agricultural premises	93p
L.	Public Utility premises	£3.10
M.	Business premises	£4.96
N.	Public premises	£2.48
P.	Tourist premises comprising self-catering tourist accommodation	£3.10
Z.	Real property not comprised in any other category	£3.38

Draft Ordinance Entitled

The Motor Tax (Amendment) Ordinance, 2006

THE STATES, in pursuance of their Resolution of 13th December 2006 and in exercise of the powers conferred on them by section 2(10) of the Motor Taxation and Licensing (Guernsey) Law, 1987[a], and all other powers enabling them in that behalf, hereby order:-

Increase in Motor Tax on certain vehicles driven by heavy oil

1. In the right hand column of item 6 in Schedule 3 to the Indirect Taxes, Duties and Impôts (Increase of Rates) (Budget) Ordinance, 1994[b]:

(a) for "£6.74" substitute "£8.69",

(b) for "£8.24" substitute "£10.56".

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a Ordres en Conseil Vol. XXX, p.341.

b Receuil d'Ordonnances, Tome XXVI, p.350; No. XLIII of 2004 (which applies only in the Island of Guernsey)

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2006

THE STATES, in pursuance of their Resolution of 13th December 2006 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	£156.79 per kilo
	b.	Hand rolling tobacco	£146.01 per kilo
	c.	Other manufactured tobacco	£126.65 per kilo
	d.	Tobacco leaf – unstemmed	£140.58 per kilo
	e.	Tobacco leaf – stemmed	£142.00 per kilo
2.	Hydrocarbon oil		
	a.	Petrol other than any fuel used for the purpose of air navigation	13p per litre
3.	Beer		
	a.	Beer brewed by an independent small brewery	30p per litre
	b.	Other beer	47p per litre
4.	Spirits		
	a.	Spirits not exceeding 5.5 per cent volume	35p per litre
	b.	Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£5.00 per litre
	c.	Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£6.64 per litre
	d.	Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume
5.	Cider		

[a] Ordres en Conseil Vol. XXIII, p.573; Vol. XXIV, p.87; No XIII of 1991; No.X of 2004; Ordinance No.XXXII of 2005.

	a.	Cider	47p per litre
6.	Wines		
	a.	Light wines not exceeding 5.5 per cent volume	35p per litre
	b.	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.42 per litre
	c.	Other wines	£2.26 per litre".

Extent

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

Repeal

3. The Excise Duties (Budget) Ordinance, 2005[b] is repealed.

Citation

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2006.

Commencement

5. This Ordinance shall come into force on 13th December 2006.

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[b] Ordinance No. XXXII of 2005.

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To transfer the sum of £15,000,000 to the Contingency Reserve Fund at the beginning of the financial year 2007.

2. To transfer the sum of £5,000,000 to the Capital Reserve at the beginning of the financial year 2007.

3. To approve a transfer of £5,000,000 from the Capital Reserve to the Education Department's capital allocation with effect from 1 January 2007 for the purpose of funding the construction of a new Secondary School and new Special Education Needs Secondary School at Les Nicolles.

4. To approve the cash limits for ordinary expenditure for 2007 for individual Departments totalling £301,000,000 as set out in paragraph 4.2 of this Report.

5. To approve the additional capital allocations for individual Departments totalling £18,000,000 as set out in paragraph 4.4 of this Report.

6. That the Tax on Rateable Value of Real Property in Guernsey and Alderney be increased with effect from 1 January 2007 as follows:

	Rate per Pound
Domestic (categories A to H)	£1.80
Tourist, public utility (categories I, L & P)	£3.10
Business (category M)	£4.96
Public (category N)	£2.48
Horticultural & Agricultural (categories J & K)	93p
Other real property (category Z)	£3.38

7. To approve the draft Ordinance entitled "The Tax on Rateable Values (Amendment) (Guernsey) Ordinance, 2006" and to direct that the same shall have effect as an Ordinance of the States.

8. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods be increased as follows:

Cigars and Cigarettes	£156.79 per kilogram
Hand rolling tobacco	£146.01 per kilogram
Other manufactured tobacco	£126.65 per kilogram
Tobacco leaf - unstemmed	£140.58 per kilogram
Tobacco leaf - stemmed	£142.00 per kilogram

Hydrocarbon oil-petrol other than any fuel used for the purpose of air navigation	13p per litre
Beer brewed by an independent small brewery	30p per litre
Other beer	47p per litre
Spirits not exceeding 5.5 per cent volume	35p per litre
Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£5.00 per litre
Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£6.64 per litre
Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume
Cider	47 per litre
Light wines not exceeding 5.5 per cent volume	35p per litre
Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.42 per litre
Other wines	£2.26 per litre

9. To approve the draft Ordinance entitled "The Excise Duties (Budget) Ordinance, 2006" and to direct that the same shall have effect as an Ordinance of the States.

10. That the annual rates of tax in Guernsey and Alderney on mechanically propelled vehicles driven by heavy oil charged per hundredweight (other than on omnibuses licensed to carry 20 or more passengers) should be increased to £8.69 per hundredweight (and £10.56 per hundredweight if fitted with any non-pneumatic tyre).

11. To approve the draft Ordinance entitled "The Motor Tax (Amendment) Ordinance, 2006" and to direct that the same shall have effect as an Ordinance of the States.

12. To note the Treasury and Resources Department's intention to review the timing of the annual States Debates in respect of the year-end accounts and the Budget.

13. (1) That, for the Year of Charge 2008 income tax for individuals 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 2008 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 1984;

“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 2008

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

Nature of Allowance	Amount of Allowance
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.	**Charge of Children Allowance.**	Tax at the standard rate on £5,615.
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.

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. 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.

7. 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.