STATES OF GUERNSEY

TREASURY AND RESOURCES DEPARTMENT

BUDGET REPORT

2008

OCTOBER 2007

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

24 October 2007

Dear Sir,

2008 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

2008 BUDGET REPORT

Background to the Budget

1.1 In June 2006 the States approved the Future Economic and Taxation Strategy. This is the first Budget to be prepared under the Zero-Ten regime which comes into effect on 1 January 2008 and following States approval of the Government Business Plan in September 2007.

1.2 **This Budget attempts to achieve a balance between funding the level of public services demanded by the community, spreading the tax burden in a way that meets the States' economic, fiscal, social and environmental objectives while facilitating a competitive environment aimed at attracting and retaining businesses which power the local economy.**

1.3 The requirement for public sector financial restraint set the tone for the 2006 and 2007 Budgets. The need for ongoing restraint is greater than ever and, as a result, the Treasury and Resources Department, in conjunction with the Policy Council and the other States Departments, will need to continue carefully controlling expenditure through efficiencies and the prioritisation of services.

1.4 **The Treasury and Resources Department is of the view that this Budget demonstrates controlled public sector expenditure restraint, coupled with prudent revenue raising proposals which will enable funds to be set aside for high priority capital projects.**

1.5 **As set out in its letter of comment on the Policy Council's Future Economic and Taxation 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 tax reforms.**

Economic and Taxation Strategy

1.6 A two-stage approach to public finances has been adopted under the new strategy. The first stage, which commenced in 2007 includes:

- Measures to promote economic growth.
- A shift from corporate tax to income tax from individuals (mainly ETI receipts).
- Public sector expenditure restraint.
- Increases in indirect taxes.
- Increased collections from social security contributions.
- If required, use of up to half of the Contingency Reserve Fund.

1.7 It is currently anticipated that Stage Two will come into effect between 2011 and 2013. The actual measures that are necessary at that time will depend on the level of success achieved by the measures introduced in Stage One, with particular emphasis placed on the performance of the economy and the level of public sector income. Stage Two measures will focus on producing a ‘package’ to sustain Guernsey’s competitive economic position, whilst also generating sufficient income to ensure that Guernsey maintains an acceptable level of essential public services and infrastructure.

1.8 **The overall objective of the strategy is to ensure that Guernsey remains a good place for businesses to operate and to provide well-paid jobs, therefore enabling wages to remain high and to increase.**

Strategic Economic Plan

1.9 The Strategic Economic Plan, which was approved by the States in September 2007, included Action Point 2 which aimed to achieve a convergence between:

- The aspirations of the community as a whole; and
- The desired restoration and eventual increases in tax take.

1.10 The States also agreed to adopt the following Strategic Economic Objectives:

- Creating and maintaining conditions conducive to achieving the annual levels of economic growth for the next five years as has been experienced on average over the last decade;
- Increasing the primary and secondary benefits to the community of business activity whilst at the same time increasing the opportunity for the working population to migrate into higher paid jobs;
- Achieving an expansion and diversification of high value exporting activities within both the finance and non-finance sectors where possible through the substitution of low value activities;
- Using the total value of income to individuals from remuneration and other sources as the prime reflection of economic performance;
- Pursuing policies to achieve 3% growth per annum in the total value of income to individuals from remuneration and other sources.

Summary

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

- **States revenue is predicted to be above previous forecasts for 2007 and 2008, especially in the key area of income tax ETI receipts.**
- **Total Non-Formula Led Cash Limits for 2008 to increase by RPI, but with above RPI increases in the priority areas of Health and Education.**
- **A transfer of £8.5million to the Capital Reserve to fund the projects identified as the highest priority in the October 2006 capital prioritisation States Report.**
- **A further transfer of £12million to the Capital Reserve to be 'earmarked' for a major capital project.**
- **No requirement to make a withdrawal from the Contingency Reserve Fund in 2008.**
- **Commissioning of Fundamental Spending Reviews during 2008 in order to influence the 2009 and 2010 Budget processes.**
- **A 7.7% increase in the rate of duty on cigarettes (RPI plus 3%).**
- **A 20% increase in the rate of duty on alcohol.**
- **Introduction of a lower "independent small cider-maker" rate of duty.**
- **Duty on Petrol to increase by 2p per litre.**
- **The introduction of Tax on Real Property (to replace Tax on Rateable Values) with no increases for domestic properties. In respect of commercial, utilities and recreational and sporting buildings and land, increases of 100% are proposed apart from for Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land where increases of 400% are proposed.**
- **Personal income tax allowances for 2009 to remain at present levels.**
- **Phasing out of income tax relief on life assurance policy premiums.**
- **Establishment of a Strategic Property Purchase Fund with an initial balance of £1million.**

SECTION 2: FINANCIAL POSITION

2.1 The financial position can be summarised as follows:

	2008 Estimate £m	2007 Estimate £m	2006 Actual £m	2005 Actual £m	2004 Actual £m
Revenue Income	306	351	325	311	285
Revenue Expenditure	(294)	(301)	(295)	(292)	(276)
Revenue Surplus	12	50	30	19	9
Capital Allocations / Capital Expenditure (2008)	(16)	(18)	(13)	(12)	(16)
Capital Income	1	-	1	-	5
Transfer to / (from) Reserves	(3)	32	18	7	(2)

2.2 Income can be summarised as follows:

	2008 Estimate £m	2007 Estimate £m	2006 Actual £m	2005 Actual £m	2004 Actual £m
Income Tax					
Individuals - ETI	143	135	124	116	109
Individuals - other	46	37	38	33	31
Reduction of Reliefs	6	-	-	-	-
Companies (excl. Banks)	3	75	70	73	58
Banks	15	39	38	37	38
Distributed Profits	2	-	-	-	-
Transitional Company Tax	18	-	-	-	-
	233	286	270	259	236
Indirect Taxes					
Customs Duties	28	19	16	16	16
Document Duty (conveyancing)	20	22	18	17	15
Company Fees / Duty	8	7	8	7	7
Tax on Rateable Values / Tax on Real Property	10	6	4	4	4
Motor Tax	-	4	6	6	5
Miscellaneous Income	7	7	3	2	2
Total Income	306	351	325	311	285

2.3 **The total anticipated income for 2007 of £351million is £10million more than the amounts projected in the 2007 Interim Financial Report (£12million more than the original estimate included in the 2007 Budget Report). This demonstrates continued strong growth in the economy feeding through into income tax receipts**.

2.4 Predicted Income Tax receipts for 2007 are £15.4million more than 2006, with ETI receipts anticipated to increase by 9%, a significant real terms increase of over 4%. This growth in ETI receipts is particularly welcome as, with the implementation of the Economic and Taxation Strategy, the predominant factor to assess the increase in economic activity will be the income generated by individuals and the tax generated from that income.

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

	2008 Estimate £m	2007 Estimate £m	2006 Actual £m	2005 Actual £m	2004 Actual £m
Capital Expenditure	58	52	42	50	44

Capital Reserve

2.6 In October 2006, the States agreed a capital prioritisation programme for the period to 2009, which identified the Health and Social Services Department's Clinical Block as the key capital expenditure priority for the States of Guernsey. Subject to adequate funding being available, it was also decided that the following capital projects would receive the highest priority for funding from either the Capital Reserve or existing capital allocations:

- Belle Greve Wastewater Disposal (Phase I to be considered by the States in October 2007).
- Electronic Health and Social Care record (approved December 2006).
- States Residential Homes - renovation and upgrade.
- Alderney Commercial Quay – additional funding of £2million.
- Network Extension Plan – Creux Mahie Connection.
- Fire Station essential repairs.

2.7 In addition, it was anticipated that there would be up to £8million available for other uses including extending the life of buildings which can not currently be prioritised for replacement. As approved in the 2007 Budget Report, an appropriation to the Capital Reserve of £5million was made on 1 January 2007, in line with the capital prioritisation States Report.

2.8 **As indicated in the 2007 Interim Financial Report, the Treasury and Resources Department is recommending that £8.5million is transferred to the Capital Reserve to fund those projects that have been identified as the highest priority**.

2.9 During the latter part of 2008, a further capital prioritisation process will be undertaken which will identify those projects which should be progressed during the period up to 2012 (i.e. during the life of the next House).

2.10 The Treasury and Resources Department has confidence that the States financial position will be such that funding of £30-£40million will be available to undertake a major capital project such as the next stage of the Education Development Plan (rebuilding of Les Beaucamps or La Mare de Carteret School) or progressing the Health Development Plan, including the relocation of the services currently provided at the Castel Hospital site. It will, of course, be for the new House to decide its own capital priorities and funding options.

2.11 As set out above, the total anticipated 2007 revenue income is approximately £12million more than budgeted. **Therefore, the Treasury and Resources Department is recommending that a further £12million is transferred to the Capital Reserve to be 'earmarked' for a major capital project.**

2.12 Furthermore, 2008 income is also anticipated to be higher than that originally forecast, due to expected strong growth in ETI Receipts. However, it is recognised that non-ETI income tax receipts in 2008 and future years will be somewhat volatile as, to some extent, they will be dependent on the timing of distributions. Therefore, a further appropriation to the Capital Reserve to be 'earmarked' for a major capital project (in addition to the transfer detailed above) is not recommended at this time but may be possible as part of the 2009 Budget.

2.13 The Treasury and Resources Department, as part of its role in managing the States extensive property portfolio, has identified a number of major States properties which it considers should be disposed of (by either sale or lease).

2.14 In addition, as the Education and Health and Social Services Departments progress their development plans, a number of services will be transferred to new or redeveloped buildings and existing properties, some of which are not fit for the purpose for which they are currently being used, will be disposed of.

2.15 It is the Treasury and Resources Department's intention that future Budget Reports will include recommendations that capital receipts arising from rationalisation of the States property portfolio are transferred to the Capital Reserve. It is anticipated that, if the Treasury and Resources Department's recommendations concerning the rationalisation of the States property portfolio are accepted, **at least £10million of capital receipts will be received**.

2.16 The Treasury and Resources Department will also, in conjunction with the Housing Department, be reviewing the future funding arrangements of the Housing Development and Loan Fund. It is anticipated that there will be a significant tranche of capital funding identified as being ‘surplus to requirements’ and available for transfer to the Capital Reserve.

Contingency Reserve Fund

2.17 The purpose of the Contingency Reserve Fund is to provide protection against major emergencies including significant economic downturns having a severe adverse effect on the Island.

2.18 In June 2006 the States resolved that up to half of the Contingency Reserve (interest and capital) may be used to fund the shortfall in public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy. At that time the Contingency Reserve had a balance of approximately £200million. It is therefore intended that £100million of that balance, plus any new monies transferred into the Reserve, plus the interest accumulated on such sums may be used to fund public services during the first phase.

2.19 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 in 2007, as approved in the 2007 Budget Report, a transfer of £15million to the Contingency Reserve was made on 1 January 2007.

2.20 The balance on the Contingency Reserve as at 30 September 2007 was £225.8million with £120.6million being available to fund the shortfall in public sector expenditure during stage one of the Economic and Taxation Strategy. It is emphasised that transfers into or out of the Contingency Reserve can only be made with a specific resolution of the States.

2.21 **It is not anticipated that a transfer from the Contingency Reserve Fund will be required in 2008.**

Strategic Property Purchase Fund

2.22 The Treasury and Resources Department has delegated authority to approve purchases of land and property provided funding is available. The cost of purchase is charged to the Department on whose behalf it is made. On occasion, land and property can become available that may be of future strategic importance to the States but no funding for its purchase is readily available.

2.23 **The Treasury and Resources Department is recommending that a Strategic Property Purchase Fund is established, by transferring £1million from the General Revenue Account Reserve, with effect from 1 January 2008.**

2.24 When the land or property is transferred to an individual Department it would be required to reimburse the Fund with the full market value of the property.

Ports Holding Account

2.25 The Ports Holding Account was established by States Resolution in the 1960s with the basic principle that any capital expenditure in these areas should be funded out of the trading surpluses of the Ports (Harbours and Airport).

2.26 The Commerce and Employment Department is the lead Department for progressing Action Point 26 of the Strategic Economic Plan which states that *"The financial structure of the airport should be reviewed to confirm if it is purely a self-funding trading operation whose costs require charges some 3 to 4 times that of other regional airports or if it is to be considered as a gateway to the island which merits general revenue support as a strategic asset thus permitting charges to be reduced."*

2.27 The Ports Holding Account's reserves are used to fund major projects. At the beginning of 2003, the Ports Holding Account had a balance of £24.4million but by the end of 2006 this had reduced to £7.6million (projected to be £9.7million at 31.12.2007 and £4.1million at 31.12.2008). The annual operating surplus, including interest income, is projected to be £0.9million in 2007 and £1.0million in 2008.

2.28 During the past few years the Ports Holding Account has funded, and continues to fund, several significant projects including the new Airport Terminal, St Peter Port New Jetty major refurbishment and St Sampson's Marina.

2.29 The Airport Terminal project is now complete. The original budget for this project was £19.5million including consultants fees. In March 2007 a settlement was agreed with the contractor, which was significantly less than the amount being claimed, and the final account has now been paid. At 30 September 2007, total expenditure on this project was £25.8million. The Public Services Department is seeking advice from the Law Officers on the possibility of taking legal action to recover some of the amounts expended on this project.

2.30 Significant but as yet unquantifiable expenditure in excess of the amounts originally approved is being claimed on the New Jetty refurbishment project and St Sampson's Marina.

2.31 The St Peter Port New Jetty major refurbishment project is now substantially complete. The original estimate for this work was £3.3million. As at 30 September 2007, amounts totalling £7.3million have been paid. A timetable for dealing with the contractor's claim through a formal arbitration process has been agreed. Since the move towards arbitration the contractor's claim (which is disputed and will be contested) has risen from £19.7million to £27.3million.

2.32 The St Sampson's Marina project has now been completed but the final account is still to be settled. The original budget for this project was £3.4million but as at 30 September 2007, amounts totalling £4.3million have been paid of which £3.6million has been paid to the contractor (original tender £3.2million). The contractor's total claims for this project (which are disputed and are being contested) are at present £7.1million. It is expected that this project will result in additional income from mooring fees and rents of at least £250,000 per annum.

2.33 **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. The resultant overspends will all be charged to the Ports Holding Account.**

2.34 As a matter of best practice, full post implementation reviews will be carried out on all of the above projects. In addition, the Public Services Department will be required to submit States Reports requesting that the overspends are sanctioned.

2.35 The significant, but as yet unquantifiable expenditure that may be required on the St Peter Port New Jetty major refurbishment and St Sampson's Marina projects may put the Ports Holding Account into a deficit position, possibly for a number of years. As a consequence, funding any future major capital projects (including major work on the Airport runway) from the Ports Holding Account will only be possible if the Ports continue to make a reasonable level of operating surpluses.

SECTION 3: BUDGET PROPOSALS

Personal Income Tax Allowances

3.1 The Department is recommending that for **2009 the basic personal income tax allowances remain the same as those in 2008.** In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, the Department is recommending that no new claims will be admitted for the Year of Charge 2009 or any subsequent year of charge.

3.2 The effect of increasing personal allowances by 3.5% (equivalent to £300 for a single person which would reduce their annual income tax bill by £60) would be a fall in States revenues of in excess of £1,500,000 per annum. The Treasury and Resources Department is of the view that an across-the-board increase in personal income tax allowances is not affordable in the current States financial position and this would not support the aims of the Corporate Anti-Poverty Programme that recommends directing support to those most in need.

3.3 However, the Treasury and Resources Department will assess the impact of the ‘freezing’ of personal income tax allowances and, if necessary and affordable, proposals to restore their real terms value will be included in future Budget Reports.

3.4 Therefore, it is recommended that:

- The personal allowances for 2009 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 2009 shall be as follows (see also 3.1 above):

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

- For 2009 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 2009 the income limit of a dependent relative before the Dependent Relative Allowance is reduced shall remain at £5,615.

3.5 In accordance with the on-going process of simplifying the personal income tax system, the Department is recommending that, with effect from 1 January 2009, no new claims for Housekeeper Allowance, Infirm Person's Allowance and Dependent Relative Allowance for an aged or infirm relative are admitted. Existing claims, however, would continue to be allowed, so long as they continue to meet the conditions.

3.6 These changes would not generate significant additional revenue but they would simplify administration, thereby saving resources. Currently, there are three claims a year at a cost of £1,584 for Housekeeper Allowance and forty seven claims at a cost of £24,816 for Infirm Persons Allowance. There are approximately eight hundred claims a year for Dependent Relative Allowance at a maximum cost of £400,000 but the majority of claimants relate to children receiving higher education **which would continue to be granted**. The maximum allowance may be restricted, dependent on the level of the income of the dependent relative.

Income Tax - Interest Relief

3.7 In June 2006, the States agreed the Policy Council's recommendation that *"interest relief should only continue to be provided on principal private residences. The Policy Council believes that a maximum value for mortgages of not exceeding £400,000 is, at this time, appropriate."* The States also agreed in July 2007 to continue to allow interest in respect of let property, subject to certain conditions.

3.8 **The Treasury and Resources Department is of the view that restricting income tax relief on interest payable on mortgages exceeding £400,000 from 1 January 2008 strikes the correct balance between revenue raising, fairness and affordability for the taxpayer without harming the buoyant housing market.**

3.9 The current annual cost of mortgage interest relief is approximately £10million and the introduction of a 'cap' of £400,000 will raise approximately £2million per annum. The removal of interest relief for personal and other non-business related loans will raise a further £3.5million per annum.

3.10 **It is anticipated that the legislation required to effect these restrictions will be laid before the December 2007 meeting of the States.**

Income Tax – Life Assurance Relief

3.11 In June 2006 the States resolved that the existing allowances in respect of life assurance policies, including those already in place, should be removed. Generous relief from income tax is currently provided on life assurance policies. In summary, with certain restrictions, half of the insurance premiums on such policies are given tax relief. Although initially intended to provide a tax free capital element on the death of the policyholder, many of these policies are now in fact investment vehicles which are entered into because of their favourable taxation treatment.

3.12 **It is proposed that there is no relief granted for policies entered into on or after 1 January 2008. However, in respect of policies set up before 1 January 2008, it is proposed that relief will be phased out by reducing it by 50% in 2008 and a further 25% in 2009.** The total cost of life assurance relief is currently £1.5million per annum so these proposals would raise £750,000 in 2008, a further £375,000 in 2009 and a further £375,000 from 2010 onwards.

Excise Duty on Tobacco

3.13 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."*

3.14 There is strong world-wide evidence that tobacco is price-sensitive, i.e. a 10% rise in overall price will generally result in around a 5% drop in consumption. Furthermore, the continuing real-terms increases in the duty on tobacco are a powerful motivator for smokers to quit and to deter young people from starting smoking.

3.15 The Treasury and Resources Department has consulted with the Health and Social Services and Home Departments and is recommending **an increase in excise duty on cigarettes of 7.7%** (being 3.0% plus the increase in the Guernsey Retail Prices Index as at June 2007 of 4.7%). It is not proposed to increase the excise duty on cigars, hand rolling tobacco, other manufactured tobacco or tobacco leaf because this would result in a level of duty that was higher than the UK and / or Jersey.

3.16 It is estimated that this proposal will raise approximately an additional £300,000 per year. The excise duty on cigarettes would increase from £156.79 per kilogram to £168.86 per kilogram – the excise duty on an average packet of 20 cigarettes would increase from £2.30 to £2.48 (compared to £3.00 in Jersey and £3.92 including VAT in the UK).

3.17 Although it appears that less tobacco is being consumed, the decrease in import volume 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 Resources Department (and the Home Department) will continue to monitor the situation and take any necessary steps to ensure that States Revenues are protected.

Excise Duty on Alcohol

3.18 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. As part of the 2005 and 2006 Budgets, the rate of duty on alcohol was increased by 10% and, for fiscal reasons, as part of the 2007 Budget the rate of duty on alcohol was increased by 20%.

3.19 In view of the above Strategy, and for fiscal reasons, **an increase of 20% in the duty on alcohol is being recommended**. This measure will increase the duty on a pint of beer by approximately 5p, on a bottle (750ml) of wine by 21p and on a litre of spirits by £1.33.

3.20 As part of the 1999 Budget, a lower rate of excise duty for beer produced by a small independent brewery was introduced. **It is recommended that excise duty on cider produced by a small independent cider-maker is reduced to the same rate as for beer produced by a small independent brewery.** The recommended reduction is equivalent to approximately 11p per pint and will cost in the region of £20,000 per annum.

3.21 For this purpose, a small independent cider-maker is defined as a cider-maker, wherever located, in respect of which the Chief Customs Officer is satisfied that:

(a) it does not produces more than 50,000 hectolitres of cider per annum;

(b) it is legally and economically independent of any other cider-maker;

(c) it uses only premises situated physically apart from any other cider-maker;

(d) it does not operate under licence;

provided that where two or more cider-makers co-operate and their combined annual production of cider does not exceed 50,000 hectolitres, those cider-makers may be treated as a single independent cider-maker.

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

Description of Goods	Present Rate of Duty Per Litre	Proposed Rate of Duty Per Litre
Beer – small independent brewery	30p	36p
Other beer	47p	56p
Cider – small independent cider-maker	47p	36p
Other cider	47p	56p
Spirits (25% to 50% volume)	£6.64	£7.97
Light wines (5.5% to 15% volume)	£1.42	£1.70

3.23 It is recommended that the rates of duty on other alcoholic products be increased in line with the above increases.

3.24 These proposals should, taking into account a small anticipated fall in import levels (due to a reduction in consumption and an increase in duty-free imports), raise approximately an additional £1,500,000 per annum.

Excise Duty on Motor Spirit

3.25 The Department believes that there are sound environmental, social and fiscal reasons for increasing the duty on motor spirit. It is therefore recommended that **petrol duty is increased by 2p per litre to 15p per litre.**

3.26 Since diesel fuel is not currently subject to duty, the Department would usually recommend an associated increase in motor vehicle taxation for diesel powered vehicles. However, in October 2006 (Billet d'Etat XVII) the States agreed to the abolition of motor tax with effect from 1 January 2008 with a corresponding increase (14p per litre) in petrol duty and the introduction of a diesel duty.

3.27 In June 2007, the States agreed to introduce a concessionary rate of duty on petrol for marine use (excluding the element relating to the abolition of motor tax) and that diesel for marine use will continue to be exempt from duty.

3.28 The Ordinance to introduce an excise duty charge on diesel and introduce a lower rate for marine petrol will be laid before the States at the December 2007 meeting. **Subject to States approval of that Ordinance and the recommendations in this Report, from 1 January 2008, the standard rate of duty on petrol and diesel will be 29p per litre. The concessionary rate of duty on petrol for marine use will be 15p per litre.**

Tax on Real Property

3.29 The current system of taxing properties using Rateable Value has become very complex, subjective (and hence potentially unfair) and, as a consequence, inefficient to administer and not easily understood by property owners. In March 2006, the States endorsed the Treasury and Resources Department's high-level recommendations for a revised system of Tax on Real Property (TRP) that would be simple to administer, transparent, objective and equitable, enabling objective comparisons of the assessed unit values of one property to another.

3.30 As highlighted in the June 2006 States Report on the Future Economic and Taxation Strategy, there is considerable scope for increasing revenue from property, in particular from commercial property. As part of the 2007 Budget, Tax on Rateable Value rates were increased by 25% for domestic properties and 100% for commercial properties.

3.31 In June 2007, the States approved the introduction of TRP with effect from year of charge 2008. TRP represents a change in measurement methodology and the introduction of property unit values under the new TRP system will change the basis used to calculate the relevant charges.

3.32 **The Treasury and Resources Department is recommending that, for Guernsey properties, the 2008 TRP rates are not increased for domestic, horticultural or agricultural buildings and land.** In respect of Alderney properties, it is recommended that buildings are charged at the same rate as Guernsey buildings. As agreed by the States in June 2007, Alderney land and Herm building and land will be zero-rated for TRP purposes.

3.33 **In respect of commercial, utilities and recreational and sporting buildings and land, increases of 100% are proposed apart from for Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land where increases of 400% are proposed as these will be the main beneficiaries of the Zero-Ten regime.**

3.34 It is recognised that due to the levels of subjectivity applied to property measurements under the TRV system over the years, and the fact that a number of properties do not have up to date measurements, there could be a number of properties that will, as a result of the introduction of the new TRP tariffs in 2008, face a greater or lesser level of increase than the proposed percentage increases.

3.35 **In respect of domestic properties (approximately 20,000), it is anticipated that 80% will have a TRP bill that is either less than the TRV bill or increased by less than £20 per annum. Overall, it is anticipated that 7,500 domestic properties will have TRP bills of more than £100 per annum, of which less than 2,000 domestic properties will have TRP bills greater than £200 per annum.**

3.36 The following table details the 2007 'TRV equivalent' rate per TRP unit (calculated to raise a similar income level as TRV - £6.1million) and the proposed 2008 TRP rate per unit.

Buildings (all zero-rated for Herm)	2007 'TRV equivalent' TRP rate per unit	Proposed increase	Proposed 2008 TRP rate per unit
Domestic (whole unit) Local Market	54p	-	54p
Domestic (flat) Local Market	54p	-	54p
Domestic (glasshouse) Local Market	8p	-	8p
Domestic (outbuildings) Local Market	27p	-	27p
Domestic (whole unit) Open Market	54p	-	54p
Domestic (flat) Open Market	54p	-	54p
Domestic (glasshouse) Open Market	8p	-	8p
Domestic (outbuildings) Open Market	27p	-	27p
Domestic (whole unit) Social Housing	Zero	-	Zero
Domestic (flat) Social Housing	Zero	-	Zero
Domestic (glasshouse) Social Housing	Zero	-	Zero
Domestic (outbuildings) Social Housing	Zero	-	Zero
Hostelry and food outlets	£1.70	100%	£3.40
Self-catering accommodation	£1.05	100%	£2.10
Motor and marine trade	£1.44	100%	£2.88
Retail	£3.14	100%	£6.28
Warehousing	£1.55	100%	£3.10
Industrial and workshop	£1.24	100%	£2.48
Recreational and sporting premises	72p	100%	£1.44
Utilities providers	£12.15	100%	£24.30
Office and ancillary accommodation (regulated finance industries)	£3.19	400%	£15.95
Office and ancillary accommodation (non-regulated finance industries)	£3.19	100%	£6.38
Horticulture (building other than a glasshouse)	5p	-	5p
Horticulture (glasshouse)	8p	-	8p
Agriculture	5p	-	5p
Publicly owned non-domestic	Zero	-	Zero
Exempt (Buildings)	Zero	-	Zero
Buildings – Penal Rate	Zero	-	Zero

Land (all zero-rated for Alderney and Herm)

Communal (flat) Local Market	9p	-	9p
Communal (flat) Open Market	9p	-	9p
Hostelry and food outlets	9p	100%	18p
Self-catering accommodation	9p	100%	18p
Motor and marine trade	9p	100%	18p
Retail	9p	100%	18p
Warehousing	9p	100%	18p
Industrial	9p	100%	18p
Recreational and sporting premises	9p	100%	18p
Office and ancillary accommodation (regulated finance industries)	9p	400%	45p
Office and ancillary accommodation (non-regulated finance industries)	9p	100%	18p
Utilities providers	9p	100%	18p
Approved development site	9p	400%	45p
Domestic Local Market	9p	-	9p
Domestic Open Market	9p	-	9p
Horticulture	9p	-	9p
Agriculture	9p	-	9p
Domestic Social Housing	Zero	-	Zero
Publicly owned non-domestic	Zero	-	Zero
Exempt (Land)	Zero	-	Zero
Land – Penal Rate	Zero	-	Zero

3.37 These proposals will raise approximately an additional £3.9million per annum.

TRP Assistance Scheme

3.38 In March 2006, the States supported an amendment proposed by Deputy Brehaut which provided for the protection of less well off members of society against the effects of TRP increases. As set out in the June 2007 States Report, a ‘zero’ tariff will be applied to social rented housing provided by the Housing Department or any housing association approved by that Department. Supplementary benefit beneficiaries living in owner-occupied or private rental accommodation are provided with additional allowances for property related expenditure so they will have their TRP bills covered as part of their normal benefit payment, provided that they are not already receiving the maximum amount of benefit payable.

3.39 Therefore, any additional scheme of assistance will need to target financial assistance to people who would qualify for supplementary benefit but have chosen not to make a claim and those whose incomes exceed their requirements by relatively modest amounts. The Social Security Department has developed comprehensive proposals for the introduction from 1 January 2008 of a non-statutory, means-tested TRP Assistance Scheme with a minimum TRP bill threshold of £100 per annum.

3.40 In respect of 2008, it is anticipated that, as it is not proposed to increase the TRP rates, the value of any benefits paid out under the scheme will be relatively small – estimated to be no more than £30,000. In addition, the Social Security Department may need to employ a part-time temporary member of staff to administer the scheme, at least in the initial period. Once the actual costs are known, the Treasury and Resources Department will use its delegated authority to increase the budget of the Social Security Department by an appropriate amount.

Treizième

3.41 In September 2002 (Billet d'Etat XX, 2002) the States agreed to the abolition of treizième (a Crown Revenue then charged at 2%) and its replacement by a 2% increase in document duty. As a result of this change, which took effect on 1 April 2003, the vast majority of property transactions were unaffected.

3.42 However, it was recognised at the time that conveyances of realty held in fee farm tenure or in certain other circumstances were exempt from treizième (but not document duty), and it might be considered unfair to impose, in this admittedly small number of cases, an immediate 2% increase in document duty. The States therefore put in place a transitional arrangement whereby half of the advantage of the exemption (i.e. 1%) would be maintained for the time being, with the then Advisory and Finance Committee indicating its intention to bring forward proposals for its complete removal in five years, i.e. with effect from 1 April 2008.

3.43 The Treasury and Resources Department endorses that intention as made clear to the States and the public in 2002, and therefore recommends the abolition, with effect from 1 April 2008, of the current transitional 1% reduction in duty payable in respect of a conveyance of realty held in fee farm tenure or in such other circumstances that it would prior to 1 April 2003 have been exempt from treizième.

Impact of Indirect Taxation Proposals

3.44 Appendix V is a summary of the impact of the indirect taxation proposals in terms of total additional revenue raised, the impact on inflation and the impact on individuals.

Implementation of Budget Proposals

3.45 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.

3.46 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 The objective set out in the Government Business Plan is to contain increases in revenue expenditure to RPI or less. It is anticipated that, during 2008, RPI will fall to 3.5%.

4.2 In September 2007 the States agreed to continue with the existing formula for calculating the grants to the Social Insurance Funds which is anticipated to result in an increase which is significantly in excess of RPI.

4.3 In reflecting upon that decision, the Treasury and Resources Department has concluded that it has no choice but to extend the same treatment (i.e. exclude from the *"contain increases in revenue expenditure to RPI or less"* constraint) to all other areas of Formula Led expenditure.

4.4 **Therefore, the Department is recommending that 2008 revenue expenditure Cash Limits are set on the basis of only containing increases in Non Formula Led revenue expenditure to RPI or less.** The total revenue Cash Limit of £293.6million has been calculated as follows:

	£m
2006 Actual Non Formula Led Expenditure	229.8
Plus 2007 RPI (June 2007 : 4.7%)	10.8
	240.6
Plus 2008 RPI Allowance (3.5%)	8.4
2008 Non Formula Led Cash Limits	249.0
2008 Formula Led estimates	44.6
2008 Cash Limits	293.6

4.5 **If expenditure had continued to increase at the average real terms growth seen in the period 2000 – 2005 (at an average of 4.0% in excess of inflation), the 2008 revenue Non Formula Led Cash Limits would have been at least £40million more than those proposed. This equates to approximately £1,300 for every individual currently paying income tax.**

4.6 As set out in the Report on Capital Prioritisation which was debated in October 2006, the States noted *"the Treasury and Resources Department's intention to review the method of funding and accounting for Departmental routine capital expenditure and to report back as soon as practicable."* As set out in the 2007 Interim Financial Report the Treasury and Resources Department believes that the time is right for the introduction of a system where Departments are allocated a single annual Cash Limit which would fund both “revenue” and “routine capital” expenditure. This will increase Departments’ ability to manage their own affairs although major capital items would continue to be funded specifically, from the Capital Reserve.

4.7 Therefore, in addition to the revenue Cash Limit, it is recommended that Departments will have an allowance for routine capital expenditure of £9million (including £1million in respect of the Network Extension Plan) and a £7.5million transfer to the Corporate Housing Programme Fund to progress the five year development programme that will see the remainder of the States Housing stock modernised and new social housing built by the Guernsey Housing Association on the site of old estates which are no longer considered to be fit for purpose.

4.8 Routine capital expenditure includes the replacement of essential equipment, plant and vehicles, maintenance and repairs / upgrades to buildings and IT projects. In practice (partly as a legacy of the old committee system) a number of Departments treat expenditure on some of these items as revenue costs.

4.9 Within their agreed Cash Limits, Departments have to consider very carefully their own priorities. In general, the Treasury and Resources Department does not seek to ‘micro-manage’ individual Department’s budgets as it considers that this is the responsibility of the Departments concerned. However, appropriate procedures will be put in place to ensure that Departments do not budget to use significant sums allocated to ‘routine capital’ to fund revenue expenditure.

4.10 The Treasury and Resources Department currently has, under the States Financial Procedures, delegated authority to, inter alia, *“Approve all capital votes for straightforward replacements and property purchases without limit and up to £250,000 for all others.”* **It is recommended that all States Departments are given delegated authority to “Approve capital votes up to £250,000”. The use of this delegated authority would be reported on twice a year by the Treasury and Resources Department within the annual Interim Financial and Budget Reports.**

4.11 All States Departments are mandated to be *“accountable for the management and safeguarding of public funds and other resources entrusted to it”* and this is subject to review by the Public Accounts Committee. Furthermore, the States Property Services Unit will, in conjunction with Departments, be compiling asset management plans and will closely review expenditure programmes to ensure that Departments are fulfilling their responsibilities to maintain buildings and infrastructure and not diverting monies to fund ongoing revenue expenditure.

4.12 The recommended Cash Limits for 2008 are:

	Non-Formula Led £'000	Formula Led £'000	Revenue Cash Limit £'000	Routine Capital £'000	Total Cash Limit £'000
Policy Council	6,200	1,250	7,450		7,450
Treasury and Resources					
General	13,425	1,850	15,275	1,100	16,375
Courts and Law Officers	5,500		5,500	200	5,700
States of Alderney	1,500		1,500	200	1,700
Commerce and Employment	11,200		11,200	100	11,300
Culture and Leisure	3,250		3,250	250	3,500
Education					
General	56,250		56,250	1,000	57,250
Higher and Advanced	6,500		6,500		6,500
Grants to Colleges and Libraries	6,000		6,000		6,000
Environment	7,850		7,850	250	8,100
Health and Social Services					
General	89,655		89,655	2,750	92,405
St John Ambulance & Rescue	1,895		1,895		1,895
Home	27,075		27,075	1,000	28,075
Housing	1,780		1,780	7,500	9,280
Public Services	8,300		8,300	2,150	10,450
Social Security	2,175	41,475	43,650		43,650
Public Accounts Committee	270		270		270
Scrutiny Committee	200		200		200
	249,025	44,575	293,600	16,500	310,100

4.13 Full line-by-line details of the 2008 Budgets of the individual Departments and Committees are included in the (blue) Budget Billet d'Etat accompanying this Report. However, following are brief commentaries on each proposed Cash Limit:

Policy Council

4.14 The Non-Formula Led Cash Limit includes £2.305million in respect of the Overseas Aid Commission (2007: £2.085million). This represents an increase of £145,000 in real terms. The Formula-Led estimate of £1,250,000 is significantly less than that expended in recent years due to the introduction of revised contracts for the provision of legal aid services to a number of firms of Advocates agreed by the States in September 2007.

Treasury and Resources Department - General

4.15 This Cash Limit is a reduction of £300,000 in cash terms (£850,000 in real terms) partly due to a decrease in the premium for the central insurance policy administered on behalf of all States Departments and related entities. Furthermore, the Department commenced 2007 with £2million of Unspent Balances and anticipates that these will be substantially exhausted by the end of 2008. The Formula-Led estimate is in respect of Payments to States Members and does not include provision for any changes to the remuneration arrangements that may follow the recommendation of the independent review body considering the remuneration of States Members and Non-States Members which is due to report to the States in early 2008.

Treasury and Resources Department – Courts and Law Officers

4.16 There have been significant necessary additional staff resources allocated to the Courts and Law Officers in recent years. Furthermore, many of the processes have been modernised, particularly in the area of IT, improving the service provided to users and it has been necessary to introduce an increased level of security arrangements. However, these additional costs have been largely offset by a thorough review of the level of charges for the services (non-criminal) provided by the Courts which had not been reviewed for a number of years.

Treasury and Resources Department – States of Alderney

4.17 The States of Alderney revenue Cash Limit of £1,500,000 is an increase of 3.5% over the 2007 Limit. However, this Cash Limit had been frozen for several years with a small increase of 1.6% in 2007. The States of Alderney is budgeting to exhaust its Unspent Balances in 2008. However, its financial position should improve in future years once it has implemented an on-island waste disposal solution which should be significantly cheaper than the current arrangement of exporting waste to Guernsey.

Commerce and Employment Department

4.18 In 2004, the Commerce and Employment Department stated its aim to annually reduce its Cash Limit by £300,000. Therefore, the 2008 proposed revenue Cash Limit of £11,200,000, which specifically includes £100,000 in respect of the Competitions Office is £1.1million less than the 2004 Cash Limit (a real terms reduction of approximately £3million). The Commerce and Employment Department commenced 2007 with in excess of £2,500,000 of Unspent Balances.

Culture and Leisure Department

4.19 Following the redevelopment of Beau Sejour Leisure Centre, the budget of the Culture and Leisure Department has been reduced in real terms and the 2008 revenue Cash Limit is an increase of £50,000 (1.5%) compared to 2007.

Education Department – General

4.20 The Education Department is one of only two Departments whose non-Formula Led proposed 2008 revenue Cash Limit is an increase in real terms compared to 2007. The proposed revenue Cash Limit for the Education Department - General is an increase of 4.5% compared to the 2007 Budget and a 9.7% increase over 2006 actual expenditure.

Education Department – Higher and Advanced Education

4.21 This Cash Limit is set at £6.5million, i.e. the same as 2007 pending the outcome of the States debate on the future system of grants and loans for students attending courses of higher and further education off-island. Any adjustment to the 2008 Cash Limit will be dependent on the number of students, parental contributions and courses studied and would be made retrospectively as part of the November 2008 Budget Report. A similar arrangement had been put in place in respect of 2007 but will not be required as the Cash Limit and Unspent Balances will be sufficient.

Education Department – Grants to Libraries and Colleges

4.22 In June 2005 (Billet d'Etat IX), the States approved a new model of funding for the Colleges (Blanchelande College, Elizabeth College and Ladies College) from September 2005. The Treasury and Resources Department was directed to "*take into account these proposals when recommending to the States revenue allocations for 2006 and subsequent years*". The proposed Cash Limit which largely relates to Colleges funding (£4.3million) is in line with this direction.

Environment Department

4.23 Responsibility for Waste Services (net budget of £759,000) has transferred from the Environment Department to the Public Services Department. The proposed 2008 revenue Cash Limit for the Environment Department is set at the same cash level as the adjusted 2007 Budget. There has been no adjustment in respect of the introduction of paid parking as the revenue will be used to fund administration and collection costs and the Island's Road Transport Strategy.

Health and Social Services Department - General

4.24 The proposed revenue Cash Limit for the Health and Social Services Department – General is £89.65million which is £4.2million (5%) more than the 2007 Budget and an increase of £7.8million (9.5%) compared to the 2006 actual expenditure. Overall, the Health and Services Department proposed revenue 2008 Cash Limit represents 36% (2007: 35.2%) of the total Non-Formula Led revenue Cash Limits.

4.25 In respect of Out of Island Placements and Reciprocal Health Agreements, the 2008 revenue Cash Limit includes provision at the same level as 2007 plus an RPI allowance. However, the Health and Social Services Department has indicated that expenditure could be significantly in excess of this provision as the need for unanticipated and expensive treatment can occur without warning and budgeting for these areas is difficult.

4.26 The Treasury and Resources Department and the Health and Social Services Department will therefore jointly commission an external review to examine, in detail, the appropriateness of the criteria for deciding on off-island referral, how these criteria are applied in practice and whether the most cost-effective options are followed, including whether it would be feasible, in the long term, and represent better value for money for some of the specialist facilities to be provided on-island.

4.27 The review would also recommend the most appropriate long-term funding mechanism for these areas taking into account the desire to provide high quality health and social services (both on and off-island) and the need to control public sector expenditure.

4.28 Therefore, as an interim measure, for 2008 only, the portion of the Health and Social Services Department's Cash Limit allocated to Out of Island Placements and Reciprocal Health Agreements (£11.75million) will be 'ring-fenced' and any adjustment would be made retrospectively as part of the November 2008 Budget Report.

<u>Health and Social Services Department – St John Ambulance and Rescue Service Grant</u>

4.29 This grant is calculated in accordance with a formula and the proposed Cash Limit is in line with this mechanism.

<u>Home Department</u>

4.30 Whilst maintaining Law and Order is one of the States' key priorities, the proposed 2008 revenue Cash Limit for the Home Department of £27.1million is only a small increase compared to the 2007 Budget. However, it is anticipated that the Department's fixed penalty income will be significantly increased as a result of raising the level of such fines. Furthermore, the Department has historically had a high level of Unspent Balances (in excess of £3million at the beginning of 2007), mainly due to not being able to recruit to full establishment, especially police officers.

<u>Housing Department</u>

4.31 The Housing Department has, for a number of years, used its Unspent Balances to fund ongoing expenditure and these are anticipated to be exhausted in 2008. However, the introduction of fees for housing control services in 2009 will result in an income stream that will fund this shortfall.

Public Services Department

4.32 The proposed 2008 revenue Cash Limit for the Public Services Department is the same as the adjusted 2007 Budget. As set out in the Interim Financial Report, some of the revenue stream from the increased waste disposal charges will be used by the Public Services Department to fund interim waste processing facilities and services to support the recycling initiatives which were agreed by the States in February 2007. The capital allowance includes £1million specifically to complete the last tranche of the vital Creux Mahie link of the Network Extension Plan.

Social Security Department

4.33 The large majority of this Cash Limit relates to Formula Led Services (Grants to Social Insurance Funds, supplementary benefit, family allowance, etc) where expenditure is anticipated to increase by in excess of RPI.

Public Accounts Committee

4.34 The proposed Cash Limit is the same as the 2007 Cash Limit but the Public Accounts Committee is anticipating commencing 2008 with approximately £100,000 of Unspent Balances.

Scrutiny Committee

4.35 The proposed Cash Limit is the same as the 2007 Cash Limit but the Scrutiny Committee is anticipating commencing 2008 with approximately £150,000 of Unspent Balances.

Fundamental Spending Reviews

4.36 The Treasury and Resources Department remains committed to ensuring that public sector expenditure is controlled and that waste and inefficiency are eliminated. The intention to undertake Fundamental Spending Reviews during 2008 was first announced by the Minister of the Treasury and Resources Department during the States debate in July 2007 on Priority 3 of the Government Business Plan.

4.37 Since then, the Department has undertaken some detailed research on how Fundamental Spending Reviews could assist the States with its revenue expenditure plans in particular, by informing the preparation of future Annual Budgets. The Treasury & Resources Department is of the view that if these Reviews are undertaken effectively and adopted by all Departments as a ‘corporate’ tool, this will result in more efficient and effective Spending Plans that focus on the States’ and hence Departments’ priorities. The Department also believes that Fundamental Spending Reviews will complement the Chief Executive’s “Modernising Agenda for the Public Sector”.

4.38 **In the Department's opinion, Fundamental Spending Reviews should cover the following issues: -**

- **Are there services currently being provided by States Departments which could be reduced or ceased altogether?**

- **Are there services currently being provided by the States that would be better provided by the private sector?**

- **Are there services currently being provided by States Departments which could be provided (by them) more efficiently?**

- **Have Departments prioritised their services appropriately and are these broadly aligned to the Government Business Plan and Departments' operational plans?**

- **What essential services should Departments be providing that they are currently unable to as a result of insufficient funding?**

- **Can existing funds be reallocated to (current or new) priority areas?**

- **Are Departments' base budgets set at the right limits?**

4.39 The key objectives for the Reviews would include **ensuring** that: -

1. Departments' spending plans provide for the most efficient and effective delivery of essential services.

2. Departments' services (including corporate services and initiatives) are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan.

3. Departments are only engaged in delivering essential services and those services that cannot or should not be provided by the private sector.

4.40 The Treasury and Resources Department recognises that it does not have in-depth expertise on the formulation and undertaking of Fundamental Spending Reviews. Inevitably, outside assistance is going to be required to at least develop and facilitate such Reviews.

4.41 Of equal importance however is the fact that if the proposed Fundamental Spending Reviews are going to be successful in delivering the key objectives, then the process must involve Departments in developing the most appropriate framework within which these Reviews can be undertaken. It is important that they are not perceived as an initiative which is being 'forced' upon Departments by the Treasury; instead the Reviews, if they are to be successful, must be embraced as a necessary corporate measure.

4.42 It is therefore intended that during the early part of 2008, the Treasury and Resources Department will facilitate the opportunity for all Departments to contribute to the development of the framework within which Fundamental Spending Reviews will be carried out. This will include shaping the key objectives as well as the intended outputs. Once the framework has been developed it will be tendered out during 2008 to enable the Fundamental Spending Reviews to commence. It is intended that the cost of the Reviews will be met from the Restructuring and Reorganisation Fund.

4.43 Information obtained during 2008 will be used to inform the preparation of the 2009 Annual Budget. However, given the anticipated work involved and the overarching requirement for the Reviews to be successful and deliver tangible results, it is expected that the outputs will be of considerably more value in preparing the 2010 Annual Budget. That will also be the first budget to be prepared having regard to at least one full year of experience with the States Economic and Taxation Strategy.

SECTION 5: OTHER MATTERS

Operations of the States Treasury

5.1 The following loans, with interest payable at the States Treasury rate (formerly States Treasurer's rate), have been made as at 30 September 2007:

- Public Services Department Energy from Waste: £1.2million (30.04.07: £1.8million).
- Health and Social Services Department Accommodation Fund: £2.8million (30.04.07: £2.8million).
- Guernsey Dairy: £82,000.

5.2 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.

5.3 The Treasury and Resources Department has agreed to make an overdraft facility of £150,000 available to the Guernsey Dairy. This facility is required due to delays in increasing the retail price of milk, pending the outcome of the Milk Price Review Panel's deliberations.

5.4 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 package of waste handling measures, £500,000 of this additional revenue stream was allocated to the Environment Department in 2006 to fund expenditure in this area, including recycling initiatives. It is anticipated that similar arrangements will be made in 2007 and 2008 (for the Public Services Department), to fund interim waste processing facilities and services to support the recycling initiatives which were agreed by the States in February 2007.

Restructuring and Reorganisation Fund

5.5 As part of the 2006 Budget, the Restructuring and Reorganisation Fund was established, by transferring £5million from the Contingency Reserve Fund with effect from 1 January 2006. The balance of the Fund at 30 September 2007 was £1.7million. Major uses of the Fund have been:

• Redundancy Costs	£1.4m
• Electronic Health and Social Care record	£0.8m
• Housing Control – IT system	£0.7m

5.6 Access to the Fund is only available to Departments to meet the cost of initiatives where short term investment will have long term advantages (i.e. genuine spend to save initiatives). The following criteria are used by the Treasury and Resources Department when determining whether to agree to a request for funding from the Restructuring and Reorganisation Fund:

- Redundancy costs - Provided long term savings are made, i.e. the post is permanently deleted or replaced by a significantly more junior post with resultant salary savings.

- Improvements to systems (usually IT) - A pay-back must be available through the reduction of revenue expenditure or the introduction / increase of fees and charges.

- Termination of contracts / leases – Provided the equipment / property is no longer required and where the cost of terminating the contract will be offset by the consequent savings.

- Investigations / feasibility studies - Initiatives for which there is a high probability that their implementation will result in reduced expenditure or increased income.

Document Duty Review

5.7 The Treasury and Resources Department will be setting up a working group to undertake a fundamental review of the present Document Duty Law and Ordinances. This will include the following areas:

- The current thresholds and rates of Document Duty on conveyances and the rate of Document Duty on registration of bonds.

- The relative merits of taxing property ownership by Document Duty (payable when property is sold or secured loans are taken out) as against Tax on Real Property (payable every year by all property owners) and whether the relative levels of each of these taxes should be adjusted.

- The possibility of levying a charge on the transfer of beneficial ownership of real property by share transfer.

5.8 This review process will be carried out having regard to the benefits of the current system, which is simple and cost effective to administer in the vast majority of cases, but also recognising that currently, considerable sums of money are being lost to the exchequer.

Investment Rules – Contingency Reserve Fund

5.9 As set out in previous Budget and Interim Financial Reports, the Treasury and Resources Department keeps its investment policies and procedures under continuous review and takes advice from highly qualified and experienced professional advisors.

5.10 The Treasury and Resources Department is recommending that the States should approve the investment rules for the Contingency Reserve as set out in Appendix VI. These would replace the original intention (agreed in 1986) that it was envisaged that the Fund "would be invested in suitable fixed interest securities". The Department considers that equities and other investment vehicles should form part of the permitted investments in order to diversify the portfolio and take advantage of the better long-term returns offered by such investment.

5.11 As stage one of the Future Economic and Taxation Strategy includes significant annual withdrawals from the Contingency Reserve, the proposed investment rules require that a minimum of 50% of the Fund is realisable at or near current market value within seven days.

Social Security Funds - Review

5.12 In September 2007, the States agreed that "*the Social Security Department should carry out a comprehensive review of the long term future funding of the Guernsey Insurance Fund, Guernsey Health Service Fund and the Long-term Care Insurance Fund in conjunction with the Treasury and Resources Department, and that –*

(a) the Review should, in particular, encompass all possible options for contribution rates, the level of the States Grant and the retirement age and include actuarial advice and wide consultation, and

(b) the results of the Review should be reported to the States as part of the Benefit and Contributions Rates Report in September 2008."

5.13 The future long-term funding arrangements for the Social Security Funds will have a significant impact on the overall States financial position and will directly influence the proposals in the 2009 Budget Report.

Format of the States Accounts

5.14 The Treasury and Resources Department is undertaking a general review of the format and layout of the States Accounts and Budget, including whether in the light of experience, specific functions are budgeted for in the appropriate Department. It is intended that, as part of the 2007 Accounts, the Summary of Balances will be revised to more clearly reflect the assets, liabilities and reserves of the States of Guernsey.

Chief Accountant

5.15 During 2007, a reorganisation of the staffing structure of the Treasury and Resources Department has taken place and one of the outcomes is to retitle the former position of "States Treasurer" as "Chief Accountant". The responsibilities of the "States Treasurer" (including having a facsimile of his or her signature on the States of Guernsey currency notes) are now the responsibility of the "Chief Accountant". It is necessary, therefore, to amend the references in all legislation and other documents to reflect that change.

Staff Number Limitation Policy

5.16 The Department is mandated with the responsibility for the administration of the Staff Number Limitation Policy. Appendix VII provides a summary of the staff numbers covered by the Staff Number Limitation Policy and Appendix VIII shows the direct costs of employing those staff in General Revenue Departments only. Over 50% of General Revenue expenditure relates to staff costs.

5.17 The Treasury and Resources Department has, since 30 April 2007, approved the following increases in establishment:

- Public Accounts Committee – 1.00FTE to enable the appointment of a Public Accounts Officer.

- House Committee – 1.00FTE to enable the appointment of a Chief Officer whose rôle will include organising General Elections and significant project work in such areas as Island-wide Elections, Reform of the States of Election and Government of Guernsey Law (to replace the Reform Law).

5.18 The Treasury and Resources Department will be submitting a States Report, for debate in December 2007, recommending that, with effect from 1 January 2008, the existing Staff Number Limitation Policy is replaced with a system based on budget capping to control staff numbers. There would be a comprehensive system put in place to record and report on staff costs and numbers (including vacancies, contract and temporary appointments).

The Economically Active Population

5.19 **The Treasury and Resources Department is keen to introduce innovative initiatives that will encourage and enable members of the community who are not currently working to become economically active. The following initiatives are currently under investigation and, if deemed workable, proposals for their implementation will be included in the 2009 Budget Report:**

- Exempting from income tax the profits of Registered Nursery Schools in order to encourage more investment in premises and staff training.
- Encouraging more on-Island higher education and training through tax incentives particularly aimed at individuals (rather than employers).
- Incentivising working from home.
- Introducing an additional personal allowance for earned income for those people in employment over the age of 65.
- Reviewing whether the married persons allowance currently acts as a disincentive to women returning to work and, if so, how this could be changed.

5.20 As part of the Department's research, it intends to facilitate an independent survey of the non-economically active population to assist in determining what incentives might attract them into the workplace.

Charitable Donations

5.21 The Treasury and Resources Department is investigating the feasibility of introducing income tax relief on non-covenanted donations over a certain minimum sum made to registered Guernsey charities.

Private Pension Savings

5.22 The Treasury and Resources Department is investigating proposals for incentivising private pension savings through income tax relief on modest sums paid into a designated bank account to build a capital sum to be used for purchasing a personal pension. It is intended that this facility would be made available to those taxpayers who do not have sufficient income to access a regular contribution personal pension scheme.

Benefits in Kind – Motor Vehicles

5.23 Specific legislation to tax benefits in kind was first introduced in Guernsey with effect from 1 January 1996. The principal types of benefits in kind which are provided by employers to employees are those where the employee has use of something without the ownership of the asset passing to the employee including accommodation and company vehicles.

5.24 The amounts to be charged to tax are set down in Regulations which are laid before the States each year. The amounts / formulae used to calculate the taxable benefits for motor vehicles have not altered since 1996.

5.25 The present benefit system for vehicles can be summarised as follows:

- Cars that have limited private use only – the taxable benefit is £500 per annum.

- Cars that are mainly used for private use:

    - Where the cost of the vehicle is less than £10,000, the taxable benefit is £1,500 per annum,

    - Where the cost of the vehicle is £10,000 - £19,999, the taxable benefit is £2,500 per annum,

    - Where the cost of the vehicle is £20,000 or more, the taxable benefit is 17.5% of the cost of the vehicle, per annum.

5.26 The Treasury and Resources Department is of the view that, at present, benefits from the use of a vehicle are very much under taxed (particularly taking into account the fact that a separate income tax charge on the provision of fuel, servicing charges, etc. is not levied). Therefore, the Treasury and Resources Department intends, by Regulation (which will be laid before the States in January 2008), to double the taxable benefits relating to motor vehicles.

5.27 The following example shows the effect of this change:

An employee is provided with a vehicle that costs £25,000. He is also allowed to charge all of the costs of fuel, maintenance, etc to his employer.

Under current rates, the benefit would be £25,000 x 17.5% = a chargeable benefit of £4,375 which converts to actual tax due of £875.

Under the proposed rates, this would change to £25,000 x 35% = a chargeable benefit of £8,750 which converts to actual tax due of £1,750.

5.28 This change would raise an additional sum of approximately £100,000 per annum. It is not proposed to change the benefits in kind for non car-related benefits.

Aurigny Group

5.29 In June 2005, the States agreed the Treasury and Resources Department's recommendation that "the retention of the Aurigny Group is in the overwhelming public interest, and represents the best strategic option for the Island at the present time." The encouraging results achieved in 2006 and the forecasts that the Group will continue to be profitable serve to highlight that the right decision was made, although this will be kept under review.

5.30 Appendix IX sets out the most recent (unaudited) financial results of the Aurigny Group. The Treasury and Resources Department is very pleased to note that the results to August 2007 are well ahead of budget and show a surplus.

5.31 As part of the June 2005 States debate the Treasury and Resources Department was authorised to *"facilitate (if necessary by providing guarantees) the Aurigny Group's borrowing from third parties".*

5.32 In July 2005 Cabernet Limited (the holding company of Aurigny and Anglo-Normandy Engineering) 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 £4.2million. As at 30 September 2007, the amount borrowed under that facility was £3.4million (30.04.07: £3.3m).

5.33 At its meeting in June 2007, the States agreed *"To endorse the Treasury and Resources Department's conclusion that the purchase of two new ATR72-500 aircraft by the Aurigny Group at a cost of $37million is the best strategic and financial option" and "To authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, the Aurigny Group's borrowing from third parties to finance the purchase of the aircraft"*.

5.34 It is emphasised that the States will **not** be providing the funds to purchase the aircraft but facilitating, by providing guarantees, the Aurigny Group borrowing the necessary funds from the private sector.

Use of Delegated Authority

5.35 In order to facilitate swifter decision making and to avoid the States having to spend considerable amounts of time on routine financial matters, the Treasury and Resources Department has delegated authority to approve:

- 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.

5.36 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 (Appendix X).

5.37 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.

APPENDIX I

MOVEMENTS ON THE GENERAL REVENUE ACCOUNT RESERVE

	£m
Balance 31 December 2006	34.5
Less: Unspent Balances	(17.7)
Balance 1 January 2007	16.8
Add: 2007 Anticipated Operating Surplus	50.4
Less: 2007 Capital Allocations	(18.0)
Less: 2007 Transfer to Capital Reserve	(5.0)
Less: 2007 Transfer to Contingency Reserve	(15.0)
Anticipated Balance at 1 January 2008 *	29.2
Add: 2008 Anticipated Revenue Surplus	12.4
Add: 2008 Capital Income / Returns of Unspent Balances	1.4
Less: 2008 'Routine' Capital Expenditure	(16.5)
Less: 2008 Recommended Appropriations to Capital Reserve	(20.5)
Less: 2008 Recommended Transfer to Strategic Property Purchase Fund	(1.0)
Anticipated Balance at 31 December 2008	**5.0**

* The anticipated Balance at 1 January 2008 is £13.1million more than that anticipated in the 2007 Budget Report (£16.1million). The May 2007 Future Economic and Taxation Strategy States Report predicted that £10million would be transferred from the General Revenue Account Reserve in 2008 to fund ongoing revenue and capital expenditure.

APPENDIX II

MOVEMENTS ON THE CAPITAL RESERVE

	£m	£m
Balance 1 January 2007		30.1
2007 Budget Appropriation		5.0
2007 Withdrawals		
EDP	(5.0)	
Clinical Block 1st Tranche	(17.2)	
Les Nicolles – Foul Water Sewers	(0.8)	
Belle Greve Wastewater Disposal 1st Tranche	(1.3)	
		(24.3)
2007 Interest		3.8
Balance 31 December 2007		14.6
2008 Budget appropriation		20.5
Anticipated 2008 Withdrawals		
Clinical Block 2nd Tranche	(17.1)	
Alderney Commercial Quay - additional	(2.0)	
		(19.1)
2008 Interest		3.0
Balance 31 December 2008		19.0
Anticipated 2009 Budget appropriation		8.0
Anticipated 2009 Withdrawals		
Belle Greve Wastewater Disposal 2nd Tranche	(4.7)	
Residential Homes	(1.0)	
		(5.7)
2009 Interest		2.0
Amount available for other uses including extending the life of buildings identified as low priority for replacement and major projects		**23.3**

APPENDIX III

FORMULA LED EXPENDITURE

	Estimate 2008 £'000	Estimate 2007 £'000	Actual 2006 £'000
Legal Aid Scheme	1,250	1,400	1,685
Payments to States Members *	1,850	1,825	1,817
Social Insurance Grant	12,020	23,325	27,939
Health Service Grant	3,830	7,180	9,195
Long-Term Care Grant	-	-	1,455
Supplementary Benefit	14,150	13,720	12,142
Family Allowance	8,620	8,340	8,055
Attendance and Invalid Care Allowance	2,345	2,060	2,050
Concessionary TV Licences	510	500	483
TOTALS	**44,575**	**58,350**	**64,821**

* Includes payments to Alderney Representatives, Non-States Members Attendance Allowances and non-contributory pensions paid in respect of pre-1990 service.

APPENDIX IV

SUMMARY OF RECENT BUDGET PROPOSALS - INDIRECT TAXATION

Duty on Tobacco

2007	6.5% increase	(RPI plus 3%)
2006	6.8% increase	(RPI plus 3%)
2005	8.2% increase	(RPI plus 3%)
2004	6.3% increase	(RPI plus 3%)
2003	6.9% increase	(RPI plus 3%)

Duty on Alcohol

2007	20% increase
2006	10% increase
2005	10% increase
2004	No change
2003	No change

Duty on Fuel

2007	91.1% increase
2006	No change
2005	No change
2004	No change
2003	No change

Document Duty

2007	No change
2006	No change
2005	No change
2004	No change
2003	Document duty reduced on modest value properties

Tax on Rateable Value

2007	25% increase - Domestic 100% increase - Commercial
2006	No change
2005	No change
2004	No change
2003	No change

APPENDIX V

SUMMARY OF 2008 BUDGET PROPOSALS – INDIRECT TAXATION

	Revenue Raised	Impact on Individuals	Impact on RPI
Petrol Duty increased by 2p per litre *	£0.8m	Average motorist less than 50p per week more	0.05%
Tobacco Duty (cigarettes only) increased by RPI plus 3%	£0.3m	20 cigarettes increase by 18p	0.08%
Alcohol Duty increased by 20%	£1.5m	Pint of beer up by 5p, bottle of wine (750ml) up by 21p, litre of spirits up by £1.33	0.20%
TRP increased by 100% on commercial, 400% on office and ancillary accommodation (regulated finance industries)	£3.9m	N/A	N/A

* The abolition of motor tax with effect from 1 January 2008 with a corresponding increase (14p per litre) in petrol duty and the introduction of a diesel duty will be revenue neutral and, therefore, will not impact on the average motorist.

APPENDIX VI

CONTINGENCY RESERVE FUND – PROPOSED PERMITTED INVESTMENT RULES

The States Treasury and Resources Department (hereinafter referred to as "the Department") shall arrange for the investment of the Fund in investments of all or any of the following descriptions:

a) Bonds

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

i) any Government of any country or territory, or

ii) the States of Guernsey, or

iii) any local authority or other public body in any of the above countries or territories, or

iv) any building society in the United Kingdom, or

v) any supranational institution, or

vi) any company incorporated in any country or territory.

b) Equities

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

c) Property

Real property or interests in real property including:

i) commercial property,

ii) residential property,

iii) land for residential or commercial use,

iv) agricultural land,

v) forestry,

vi) any form of pooled investments for categories i) to v), including, but not limited to, limited partnerships, property unit trusts, fund of property unitised vehicles, societies d'investissement a capital variable (SICAVs) and real estate investment trusts.

d) Derivatives

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

e) Pooled Funds

i) any form of pooled investment including, but not limited to, as a limited partnership, unit trust, SICAV, fund of funds or exchange traded fund,

ii) policies issued by a properly constituted insurance or assurance company.

f) Other Assets

The following assets may be held:

i) Hedge funds of any type including fund of hedge funds,

ii) Infrastructure assets of any type, including Private Finance Initiative investments,

iii) Private equity,

iv) Currency and currency overlays,

v) Pooled funds where the underlying assets are commodities.

g) Liquidity

A minimum of 50% of the Fund can be realised at or near current market value within 7 days.

h) Other Controls

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

Additional Powers

The Fund has power to:

i) sub underwrite or underwrite a new issue,

ii) enter into stock lending arrangements with financial institutions,

iii) guarantee the obligation of a company owned or partly owned by the Fund,

iv) borrow on a temporary basis to a maximum of 5% of the total market value of the Fund,

v) enter into arrangements for a common investment fund with other Funds of the States of Guernsey excluding the Funds under the control and management of the Social Security Department, namely the Guernsey Insurance Fund, the Guernsey Health Services Fund and the Long-term Care Insurance Fund,

vi) The investment functions of the Department under these Rules may be delegated (in whole or in part) to professional fund or investment managers.

APPENDIX VII

ESTABLISHMENT STAFF NUMBERS

	Total Establishment 31.12.2006 FTE	Total Establishment 30.09.2007 FTE
Policy Council	65.64	65.64
Treasury and Resources : Income Tax	85.17	85.17
Treasury and Resources : Others	104.97	104.97
Commerce and Employment Department	118.61	118.61
Culture and Leisure Department	114.79	114.79
Education : Teachers and Lecturers	672.71	671.92
Education : Others	228.98	229.77
Environment Department	76.56	76.56
Health and Social Services : Nurses	828.22	823.22
Health and Social Services : Others	830.81	834.81
Home Department	296.45	296.45
Housing Department	104.68	104.68
Public Services Department	564.50	564.50
Social Security Department	113.17	113.17
House Committee	0.00	1.00
Public Accounts Committee	1.00	2.00
Scrutiny Committee	2.00	2.00
Legal Services	72.95	76.95
TOTAL	**4,281.21**	**4,286.21**
Number of Police Officers	177.00	177.00
GRAND TOTAL	**4,458.21**	**4,463.21**

- 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 VIII

PAYROLL COSTS

	2008 Estimate £'000	2007 Estimate £'000	2006 Actual £'000	2005 Actual £'000	2004 Actual £'000
Policy Council	2,816	2,336	2,492	2,427	2,376
Treasury and Resources	8,870	8,155	7,625	7,812	7,414
Commerce and Employment	3,740	3,407	3,145	3,512	3,260
Culture and Leisure	4,301	4,081	3,914	3,932	3,437
Education	45,045	42,013	41,257	39,396	36,057
Environment	3,584	3,601	3,067	3,273	2,966
Health and Social Services	60,324	57,845	54,960	52,939	49,654
Home	22,295	21,252	19,248	18,785	17,368
Housing	2,325	2,196	2,040	1,996	1,831
Public Services	2,446	2,241	2,245	2,011	2,099
Social Security	1,072	1,062	1,025	972	914
Public Accounts Committee	145	87	97	77	53
Scrutiny Committee	187	179	162	110	34
Legal Services	6,218	5,363	4,834	4,333	3,997
TOTALS	**163,368**	**153,818**	**146,111**	**141,575**	**131,460**
% Increase (Cash Terms)	6.2%	5.3%	3.2%	7.7%	7.4%
% Increase / (Decrease) (Real Terms)	2.7%	0.6%	(1.2%)	4.4%	2.5%

APPENDIX IX

AURIGNY & ANGLO NORMANDY:

TRADING POSITION (TO AUGUST 2007)

Aurigny Air Services Limited

	Year to Date Actual 2007 £'000	Year to Date Budget 2007 £'000	Full Year Actual 2006 £'000
Revenue	16,476	16,377	25,650
Direct Costs	(9,924)	(10,074)	(19,926)
Operating Result	6,552	6,303	5,724
Overheads	(6,362)	(6,277)	(5,165)
Other Operating Income	53	70	90
Operating Profit	243	96	649
Net Interest Payable	(117)	(118)	(169)
Profit / (Loss)	126	(22)	480

Anglo Normandy Aero Engineering Limited

	Year to Date Actual 2007 £'000	Year to Date Budget 2007 £'000	Full Year Actual 2006 £'000
Revenue	4,005	3,086	5,287
Direct Costs	(3,128)	(2,277)	(4,089)
Operating Result	877	809	1,198
Overheads	(764)	(808)	(1,422)
Operating Profit / (Loss)	113	1	(224)
Net Interest Receivable / (Payable)	1	-	(1)
Profit / (Loss)	114	1	(225)

APPENDIX X

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 2007 Interim Financial Report.

Since that time:

No increases in 2007 revenue budgets have been approved.

The following capital projects have been approved:

	£
Treasury and Resources Department	
Income Tax Office refurbishment	250,000
Courts security upgrade	145,000
Courts and Prison video link	110,000
Property conditions surveys	80,000
Fountain Vinery site fencing and compounds	35,000
Data centre upgrade	32,000
Commerce and Employment Department	
Leopardess refit	75,000
Culture and Leisure Department	
Victoria Tower refurbishment	125,000
Education Department	
Roofing replacement programme	190,000
Vale Infants and Amherst heating systems replacement	160,000
EDP Oakvale School additional accommodation	90,000
EDP Oakvale School fencing	40,000
Health and Social Services Department	
Air-conditioning water chillers replacement	400,000
King Edward VII Saward and Kinnersley wards upgrade	248,000
Home Department	
Prison telephone system replacement	90,000
Police vehicles replacement	45,000

Housing Department	
Residential Homes essential works	167,000
Public Services Department	
Longue Hougue recycling facilities infrastructure	135,000
Alderney Airport Fire Station electrics replacement	38,500
Ports	
Guernsey Airport	
Runway friction works	150,000
UPS batteries replacement	22,000
Navigational Aid Test equipment replacement	6,000
St Peter Port Harbour	
Crane Strategy consultants	60,000
St Sampsons Harbour	
Pontoons additional	75,000
Forklift truck replacement	14,000

The following property purchases and sales have been approved:

	£
Purchases	
Public Services Department – Water Board	
Area of land at Rue des Bailleuls, St Andrews	5,000
Sales	
Housing Department	
1 to 8 Victoria Avenue, St Sampsons	660,000
Clairval House, Collings Road, St Peter Port	351,000
La Grande Houguette, Rue des Coutures, St Martins	289,000
Amballa, Les Oberlands, St Martins	1
(Derelict property to Guernsey Housing Association)	
Wayleave	
Land at Port Soif, Castel and Vale	600

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2007

THE STATES, in pursuance of their Resolution of 28th November 2007 and in exercise of the powers conferred on them by sections 23B(3) and 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.	Cigarettes	£168.86 per kilo
b.	Cigars	£156.79 per kilo
c.	Hand rolling tobacco	£146.01 per kilo
d.	Other manufactured tobacco	£126.65 per kilo
e.	Tobacco leaf – unstemmed	£140.58 per kilo
f.	Tobacco leaf – stemmed	£142.00 per kilo

2. Hydrocarbon oil

a.	Petrol other than any fuel used for the purpose of air navigation	15p per litre

3. Beer

a.	Beer brewed by an independent small brewery	36p per litre
b.	Other beer	56p per litre

4. Spirits

a.	Spirits not exceeding 5.5 per cent volume	42p per litre
b.	Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£6.00 per litre
c.	Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£7.97 per litre
d.	Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume

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[a] Ordres en Conseil Vol. XXIII, p.573; Vol. XXIV, p.87; No XIII of 1991; No.X of 2004; Ordinance No. LIV of 2006.

5. Cider

a.	Cider produced by an independent small cider-maker	36p per litre
b.	Other cider	56p per litre

6. Wines

a.	Light wines not exceeding 5.5 per cent volume	42p per litre
b.	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.70 per litre
c.	Other wines	£2.71 per litre".

Amendment to interpretation provisions of Fourth Schedule

2. In the fourth schedule to the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended, immediately after the definition of "independent small brewery", insert the following definition –

> **"independent small cider-maker"** means a cider-maker, wherever located, in respect of which the Chief Officer of Customs and Excise is satisfied that –
>
> (a) it does not produce more than 50,000 hectolitres of cider per year;
>
> (b) it is legally and economically independent of any other cider-maker;
>
> (c) it uses only premises situated physically apart from any other cider-maker; and
>
> (d) it does not operate under licence;
>
> provided that where two or more cider-makers co-operate and their combined annual production of cider does not exceed 50,000 hectolitres, those cider-makers may be treated as a single independent small cider-maker".

Extent

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

Repeal

4. The Excise Duties (Budget) Ordinance, 2006[b] is repealed.

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[b] Ordinance No. LIV of 2006.

Citation

5. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2007.

Commencement

6. This Ordinance shall come into force on 28th November 2007.

Draft Ordinance Entitled

The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2007

THE STATES, in exercise of the powers conferred upon them by sections 1 and 2 of the Taxation of Real Property (Enabling Provisions) (Guernsey and Alderney) Law, 2005[a] and the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007, and in pursuance of their Resolution of 28th November 2007, hereby order:-

Rates of Property Tax

1. The rates of property tax attributable to each tariff reference specified in column 3 of each of the tables (A), (B) and (C) set out in the Schedule to this Ordinance are the various rates specified in column 4 of each table in respect of each of the property references in column 1 and property descriptions / usages in column 2 thereof.

Extent.

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

Citation and Commencement

3. This Ordinance may be cited as the Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2007 and shall come into force on 1st January 2008.

[a] Order in Council No. X of 2006.

SCHEDULE

RATES OF PROPERTY TAX

TABLE (A)

GUERNSEY REAL PROPERTY

GUERNSEY BUILDINGS

1 Property Reference	**2 Property Description/Usage**	**3 Tariff Reference**	**4 Tariff**
B1.1	Domestic (whole unit) Local Market	C	54p
B1.2	Domestic (flat) Local Market	C	54p
B1.3	Domestic (glasshouse) Local Market	C	8p
B1.4	Domestic (outbuildings) Local Market	C	27p
B2.1	Domestic (whole unit) Open Market	D	54p
B2.2	Domestic (flat) Open Market	D	54p
B2.3	Domestic (glasshouse) Open Market	D	8p
B2.4	Domestic (outbuildings) Open Market	D	27p
B3.1	Domestic (whole unit) Social Housing	F	Zero
B3.2	Domestic (flat) Social Housing	F	Zero
B3.3	Domestic (glasshouse) Social Housing	F	Zero
B3.4	Domestic (outbuildings) Social Housing	F	Zero
B4.1	Hostelry and food outlets	H	£3.40
B4.2	Self-catering accommodation	H	£2.10
B4.3	Motor and marine trade	E	£2.88
B4.4	Retail	E	£6.28
B4.5	Warehousing	E	£3.10
B4.6	Industrial and workshop	E	£2.48
B4.7	Recreational and sporting premises	E	£1.44
B5.1	Utilities providers	H	£24.30
B6.1	Office and ancillary accommodation (regulated finance industries)	E	£15.95
B6.2	Office and ancillary accommodation (non-regulated finance industries)	E	£6.38
B7.1	Horticulture (building other than a glasshouse)	C	5p
B8.1	Horticulture (glasshouse)	A	8p
B9.1	Agriculture	C	5p
B10.1	Publicly owned non-domestic	F	Zero
B11.1	Exempt (Buildings)	F	Zero
B12.1	Buildings – Penal Rate	G	Zero

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff Reference	4 Tariff
L1.1	Communal (flat) Local Market	E	9p
L1.2	Communal (flat) Open Market	E	9p
L1.3	Hostelry and food outlets	E	18p
L1.4	Self-catering accommodation	E	18p
L1.5	Motor and marine trade	E	18p
L1.6	Retail	E	18p
L1.7	Warehousing	E	18p
L1.8	Industrial	E	18p
L1.9	Recreational and sporting premises	E	18p
L1.10	Office and ancillary accommodation (regulated finance industries)	E	45p
L1.11	Office and ancillary accommodation (non-regulated finance industries)	E	18p
L1.12	Utilities providers	E	18p
L2.1	Approved development site	E	45p
L3.1	Domestic Local Market	A	9p
L3.2	Domestic Open Market	A	9p
L3.3	Horticulture	A	9p
L3.4	Agriculture	A	9p
L3.5	Domestic Social Housing	F	Zero
L3.6	Publicly owned non-domestic	F	Zero
L4.1	Exempt (Land)	F	Zero
L5.1	Land – Penal Rate	G	Zero

TABLE (B)

ALDERNEY REAL PROPERTY

ALDERNEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff Reference	4 Tariff
B1.1A	Domestic (whole unit)	C	54p
B1.2A	Domestic (flat)	C	54p
B1.3A	Domestic (glasshouse)	C	8p
B1.4A	Domestic (outbuildings)	C	27p
B2.1A	Domestic (whole unit) Social Housing	F	Zero
B2.2A	Domestic (flat) Social Housing	F	Zero
B2.3A	Domestic (glasshouse) Social Housing	F	Zero
B2.4A	Domestic (outbuildings) Social Housing	F	Zero
B3.1A	Hostelry and food outlets	H	£3.40
B3.2A	Self-catering accommodation	H	£2.10
B3.3A	Motor and marine trade	E	£2.88
B3.4A	Retail	E	£6.28
B3.5A	Warehousing	E	£3.10
B3.6A	Industrial and workshop	E	£2.48
B3.7A	Recreational and sporting premises	E	£1.44
B4.1A	Utilities providers	H	£24.30
B5.1A	Office and ancillary accommodation (regulated finance industries)	E	£15.95
B5.2A	Office and ancillary accommodation (non-regulated finance industries)	E	£6.38
B6.1A	Horticulture (building other than a glasshouse)	C	5p
B7.1A	Horticulture (glasshouse)	A	8p
B8.1A	Agriculture	C	5p
B9.1A	Publicly owned non-domestic	F	Zero
B10.1A	Exempt (Buildings)	F	Zero
B11.1A	Buildings – Penal Rate	G	Zero

ALDERNEY LAND

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

TABLE (C)

HERM REAL PROPERTY

HERM BUILDINGS

1 **Property Reference**	2 **Property Description/Usage**	3 **Tariff Reference**	4 **Tariff**
B1.1H	Domestic (whole unit)	C	Zero
B1.2H	Domestic (flat)	C	Zero
B1.3H	Domestic (glasshouse)	C	Zero
B1.4H	Domestic (outbuildings)	C	Zero
B2.1H	Domestic (whole unit) Social Housing	F	Zero
B2.2H	Domestic (flat) Social Housing	F	Zero
B2.3H	Domestic (glasshouse) Social Housing	F	Zero
B2.4H	Domestic (outbuildings) Social Housing	F	Zero
B3.1H	Hostelry and food outlets	H	Zero
B3.2H	Self-catering accommodation	H	Zero
B3.3H	Motor and marine trade	E	Zero
B3.4H	Retail	E	Zero
B3.5H	Warehousing	E	Zero
B3.6H	Industrial and workshop	E	Zero
B3.7H	Recreational and sporting premises	E	Zero
B4.1H	Utilities providers	H	Zero
B5.1H	Office and ancillary accommodation (regulated finance industries)	E	Zero
B5.2H	Office and ancillary accommodation (non-regulated finance industries)	E	Zero
B6.1H	Horticulture (building other than a glasshouse)	C	Zero
B7.1H	Horticulture (glasshouse)	A	Zero
B8.1H	Agriculture	C	Zero
B9.1H	Publicly owned non-domestic	F	Zero
B10.1H	Exempt (Buildings)	F	Zero
B11.1H	Buildings – Penal Rate	G	Zero

HERM LAND

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

The Document Duty (Amendment) Ordinance, 2007

THE STATES, in exercise of the powers conferred upon them by sections 1 and 6 of the Document Duty (Guernsey) Law, 1973, as amended[a], and in pursuance of their Resolution of 28th November 2007, hereby order:-

Termination of transitional duty reduction in relation to fee farm property etc.

1. In the Document Duty Ordinance 2003[b], sections 3(2) and 6(2) are repealed.

Extent.

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

Citation and Commencement.

3. This Ordinance may be cited as the Document Duty (Amendment) Ordinance, 2007 and shall come into force on 1st April, 2008.

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[a] Ordres en Conseil Vol. XXIV, pp. 74 and 236; Vol. XXV, p.43 (repealed by XXVI of 2002); and Recueil d'Ordonnances Tome XXVI, p.139 (repealed by Ordinance VI of 2003); No. VI of 2003; modified by G.S.I. 2002 No.6; amended by No. XXXIII of 2003; and No. XVIII of 2006, there are other amendments not relevant to this enactment.

[b] No. VI of 2003; amended by the Machinery of Government (Transfer of Functions) (Guernsey) Ordinance, 2003 (No. XXXIII of 2003) and by the Incorporated Cell Companies Ordinance, 2006 (No. XVIII of 2006).

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To transfer the sum of £20,500,000 to the Capital Reserve at the beginning of 2008.

2. To establish a Strategic Property Purchase Fund by transferring £1million from the General Revenue Account Reserve with effect from 1 January 2008, and to give the Treasury and Resources Department delegated authority to approve expenditure from that Fund.

3. To approve the cash limits for ordinary revenue and capital expenditure for 2008 for individual Departments and Committees totalling £310,100,000 as set out in paragraph 4.12 of this Report.

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

Cigarettes	£168.86 per kilogram
Hydrocarbon oil-petrol other than any fuel used for the purpose of air navigation	15p per litre
Beer brewed by an independent small brewery	36p per litre
Other beer	56p per litre
Spirits not exceeding 5.5 per cent volume	42p per litre
Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£6.00 per litre
Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£7.97 per litre
Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume
Cider produced by an independent small cider-maker	36p per litre
Other cider	56p per litre
Light wines not exceeding 5.5 per cent volume	42p per litre
Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.70 per litre
Other wines	£2.71 per litre

5. To approve the draft Ordinance entitled "The Excise Duties (Budget) Ordinance, 2007" and to direct that the same shall have effect as an Ordinance of the States.

6. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2008 shall be as set out in paragraph 3.36 of this Report.

7. To approve the draft Ordinance entitled "The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2007" and to direct that the same shall have effect as an Ordinance of the States.

8. To approve the abolition, with effect from 1st April 2008, of the current transitional 1% reduction in duty payable in respect of a conveyance of realty held in fee farm tenure or in such other circumstances that it would prior to 1st April 2003 have been exempt from treizième.

9. To approve the draft Ordinance entitled "The Document Duty (Amendment) Ordinance, 2007" and to direct that the same shall have effect as an Ordinance of the States.

10. To approve a revision to the States Financial Procedures from 1 January 2008 such that all States Departments have delegated authority to approve capital votes up to £250,000, as set out in paragraph 4.10 of this Report.

11. To approve the permitted investment rules of the Contingency Reserve Fund, as set out in Appendix VI to this Report.

12. To approve that references in all legislation and other documents to the "States Treasurer" be changed so as to refer to the "Chief Accountant" and to direct the preparation of such legislation as may be necessary to give effect to this decision.

13. (a) That, subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition:

1. For the year of charge 2008 an individual solely or principally resident in Guernsey may claim by way of relief from income tax at the individual standard rate a life assurance allowance (in addition to any relevant allowances contained in the States' Resolutions on Billet XX of 2006) as set out in Part A of the First Schedule to this Proposition; and

2. For the year of charge 2009 the allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in Part B of the First Schedule to this Proposition.

(b) That the allowances specified in Parts A and B of 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) Law, 1950, as amended;

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

FIRST SCHEDULE

A. Year of Charge 2008

Nature of Allowance	Amount of Allowance
Life Assurance Relief	Tax at the individual standard rate on a sum equal to one quarter of the allowable premiums or payments or deductions.

(Note: the remaining allowances relating to the Year of Charge 2008 are contained in Resolutions on Billet d'État XX of 2006).

B. **Year of Charge 2009**

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

Nature of Allowance	**Amount of Allowance**
1. **Personal Allowance**.	
(i) for married persons.	Tax at the individual 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 individual 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 individual 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 individual 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 individual standard rate on £9,750.

2.	**Dependent Relative Allowance.**	In respect of each dependent relative – tax at the individual 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 individual 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 individual 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 individual standard rate on £2,640.
4.	**Housekeeper Allowance.**	Tax at the individual standard rate on £2,640.
5.	**Wife's Earned Income Allowance.**	Tax at the individual 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 individual standard rate on a sum equal to one-eighth of the allowable premiums or payments or deductions.
7.	**Charge of Children Allowance.**	Tax at the individual standard rate on £5,615.
8.	**Retirement Annuity Allowance.**	Tax at the individual 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; and

(c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

3. Infirm Person's Allowance

(1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:-

(a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;

Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity;

(b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished;

(c) that the claim relates to an infirm person in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) Not more than one allowance shall be allowed to any claimant for any year.

4. Housekeeper Allowance

(1) The conditions to be fulfilled to entitle the claimant to a housekeeper allowance are:-

(a) that the claimant is a widow or widower;

(b) that in the year of charge a person is employed or maintained by the claimant solely for the purpose of acting in the capacity of a housekeeper for the claimant;

(c) if such person is a relative of the claimant or of the claimant's deceased spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that person, that the claim has been relinquished;

(d) that the claim relates to a housekeeper in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.

(2) A housekeeper allowance shall not be granted to any individual for any year in respect of more than one person.

(3) A housekeeper allowance shall not be granted to any individual for any year if such individual is entitled for that year to a personal allowance for married persons, or to an infirm person's allowance.

(4) "Housekeeper" means a person who is responsible by delegation for the management of the household, including arrangements for food, housekeeping expenditure and the care of linen and laundry.

5. Wife's Earned Income Allowance

(1) The conditions to be fulfilled to entitle a claimant to a wife's earned income allowance are that the claimant is entitled to the personal allowance for married persons and that there is included in the claimant's assessable income some earned income arising or accruing to the claimant's wife.

(2) "Earned income" has the meaning assigned to it by section 148 of the Income Tax (Guernsey) Law, 1975.

6. 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; and

(d) that the claim relates to a policy effected prior to 1 January 2008.

(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.

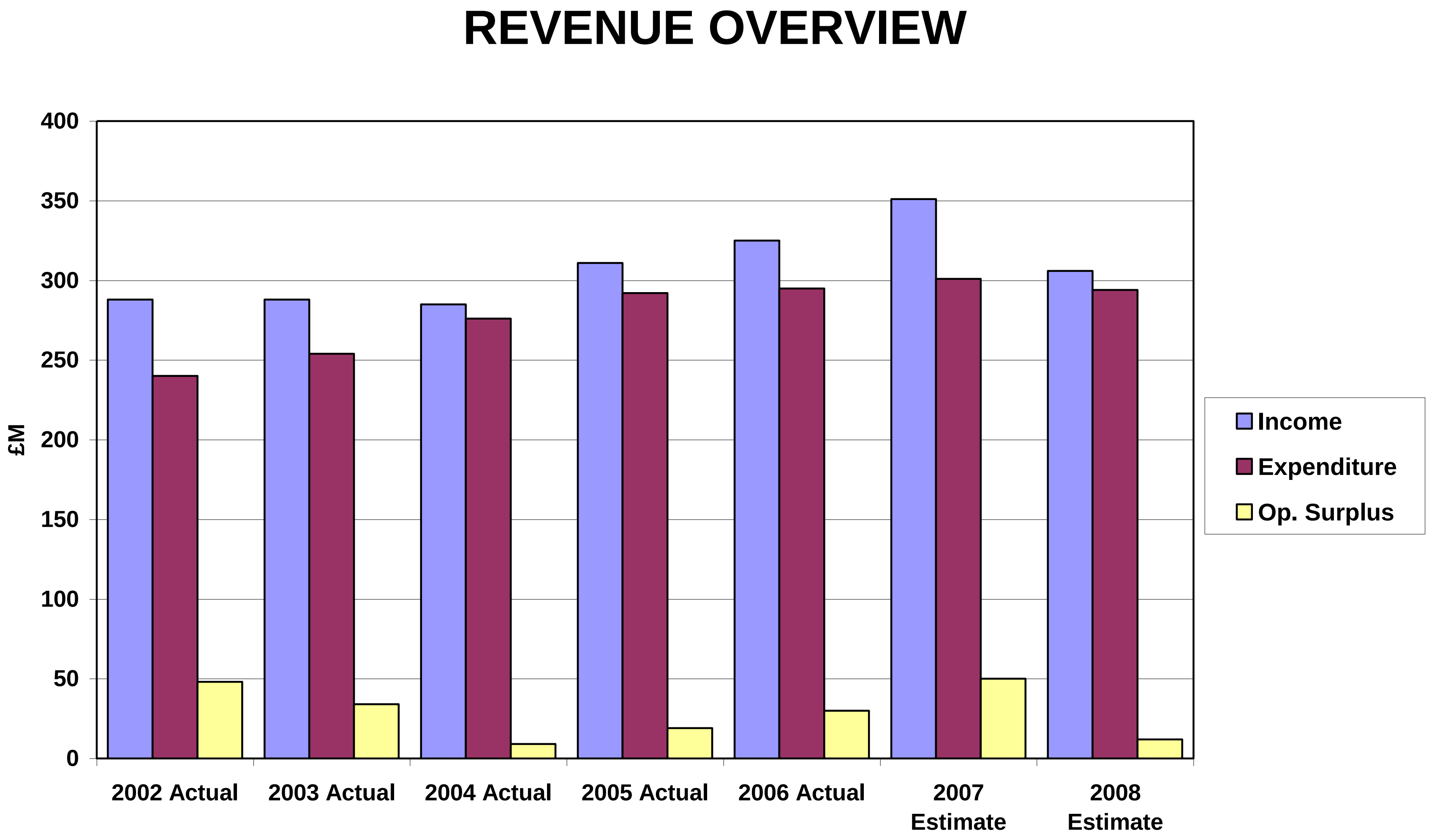
(2) (a) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant or his wife during the year of computation of the relevant earnings of the claimant or his wife 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.

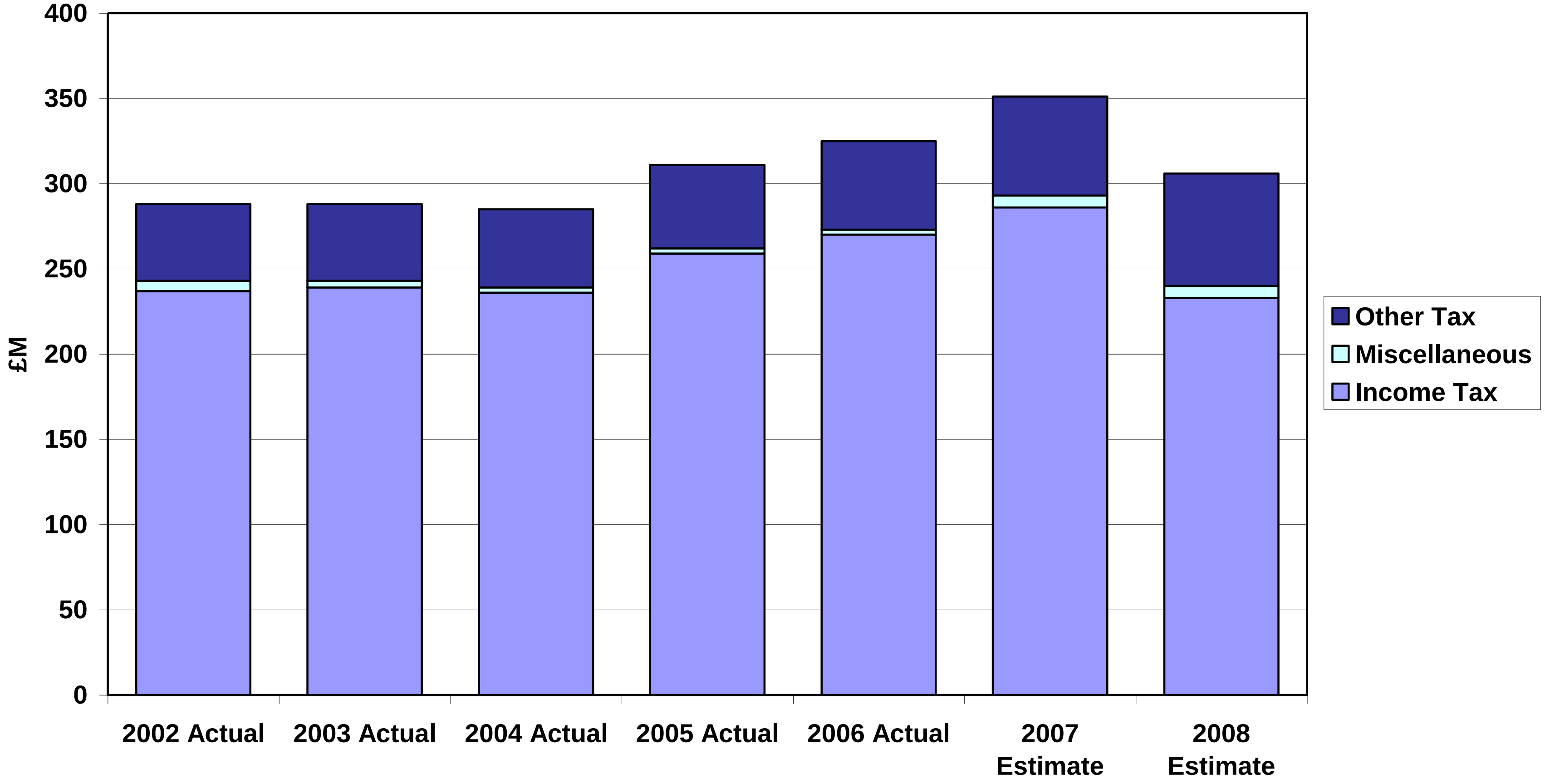
(3) Notwithstanding the provisions of the preceding paragraph no allowance shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed an amount equal to fifteen per cent of the relevant earnings of the claimant or the claimant's wife, as the case 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.

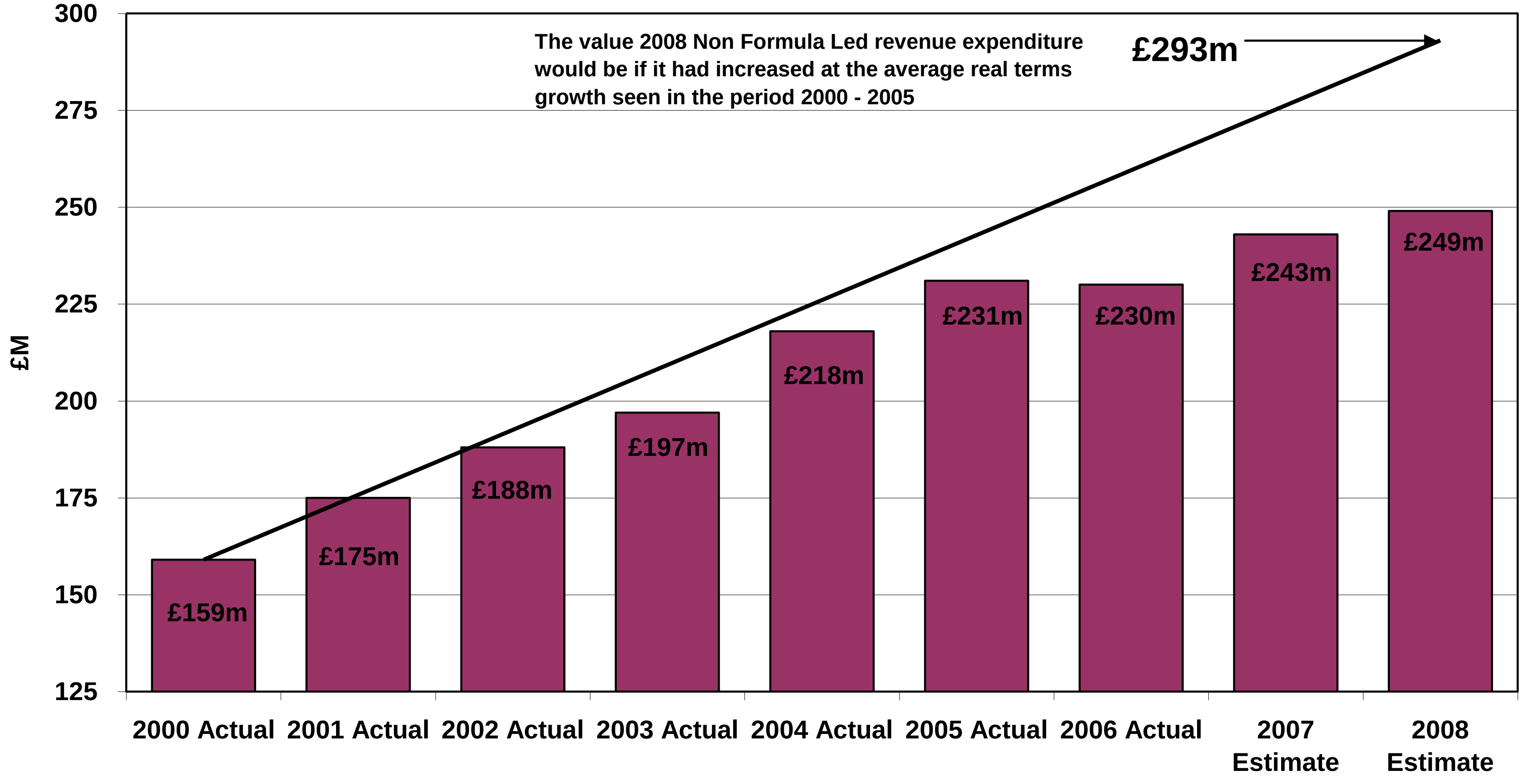
(4) For the purposes of this allowance the relevant earnings of a wife shall be treated separately from the relevant earnings of her husband, notwithstanding that her income would otherwise be treated as his income.


REVENUE OVERVIEW
£M
400
350
300
250
200
150
100
50
0
2002 Actual
2003 Actual
2004 Actual
2005 Actual
2006 Actual
2007 Estimate
2008 Estimate
Income
Expenditure
Op. Surplus

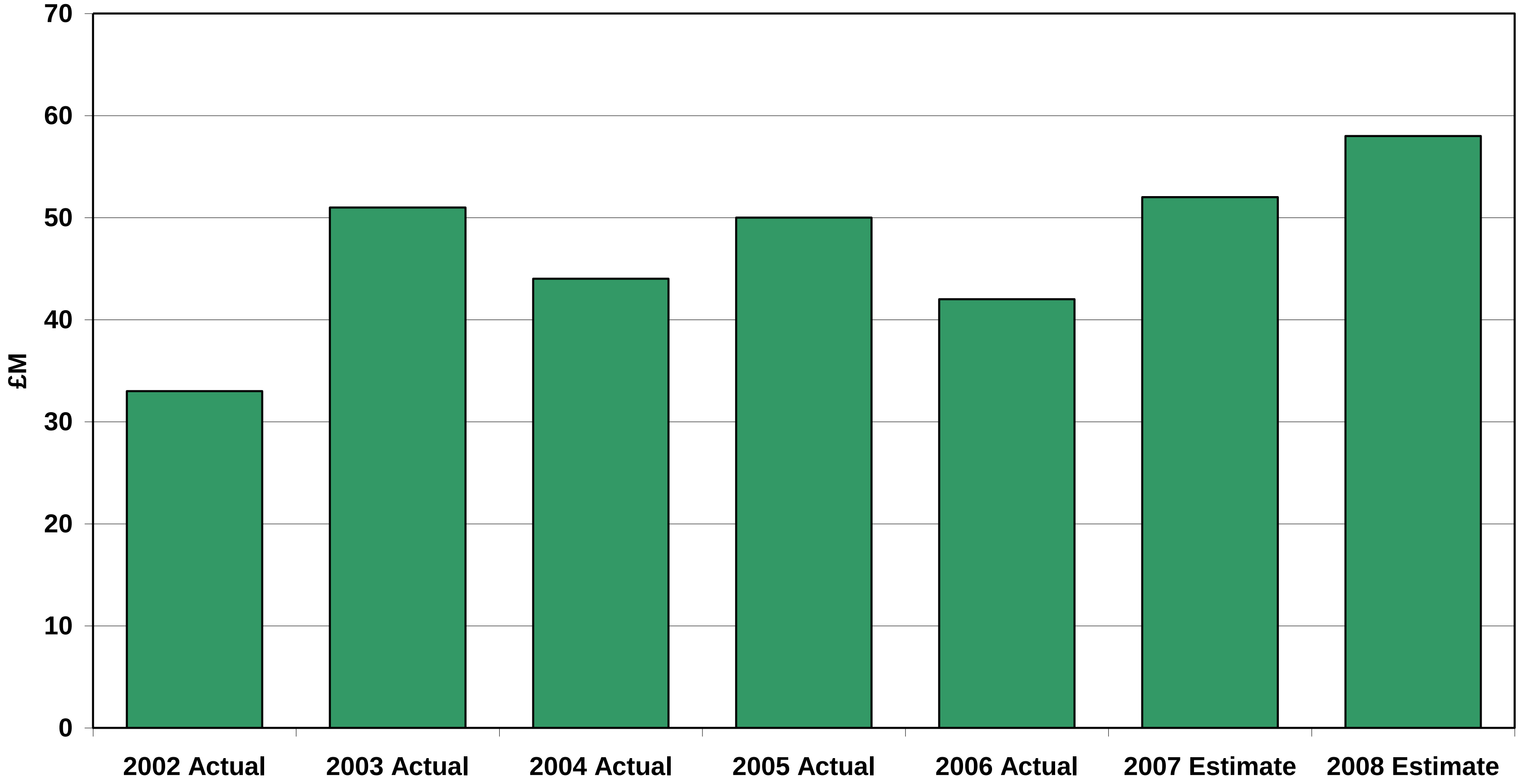
REVENUE INCOME ANALYSIS



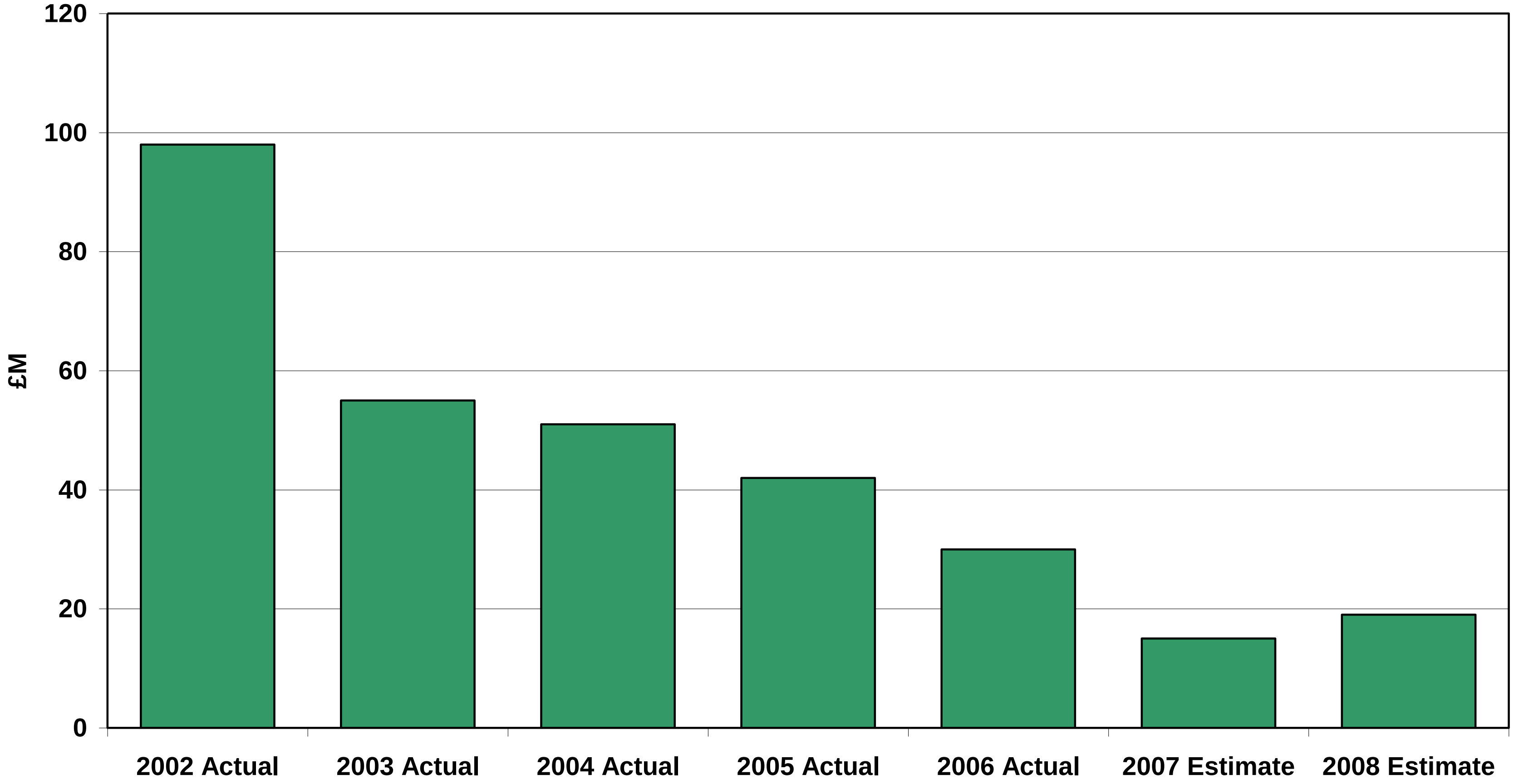
NON FORMULA LED REVENUE EXPENDITURE



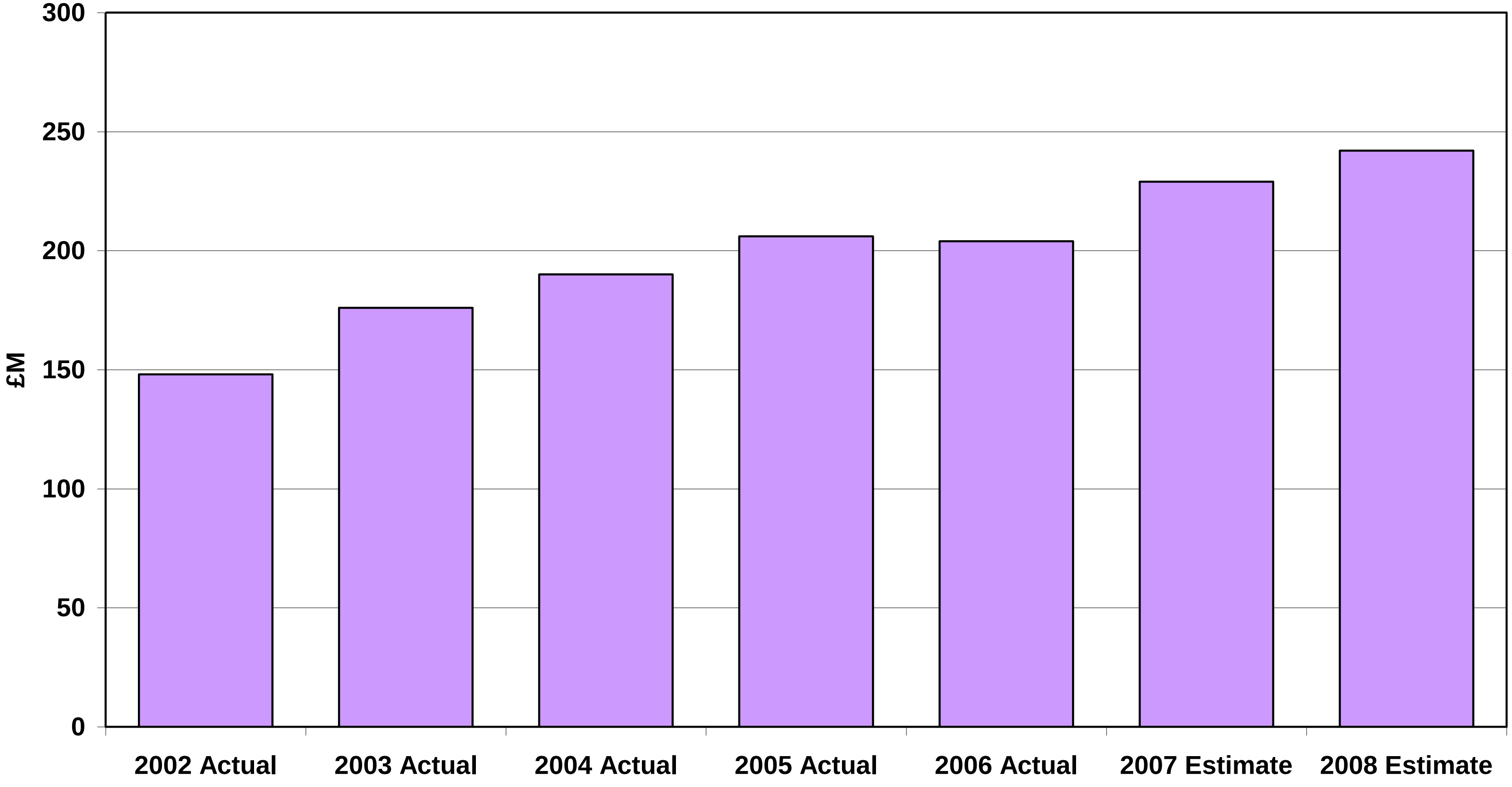
CAPITAL EXPENDITURE



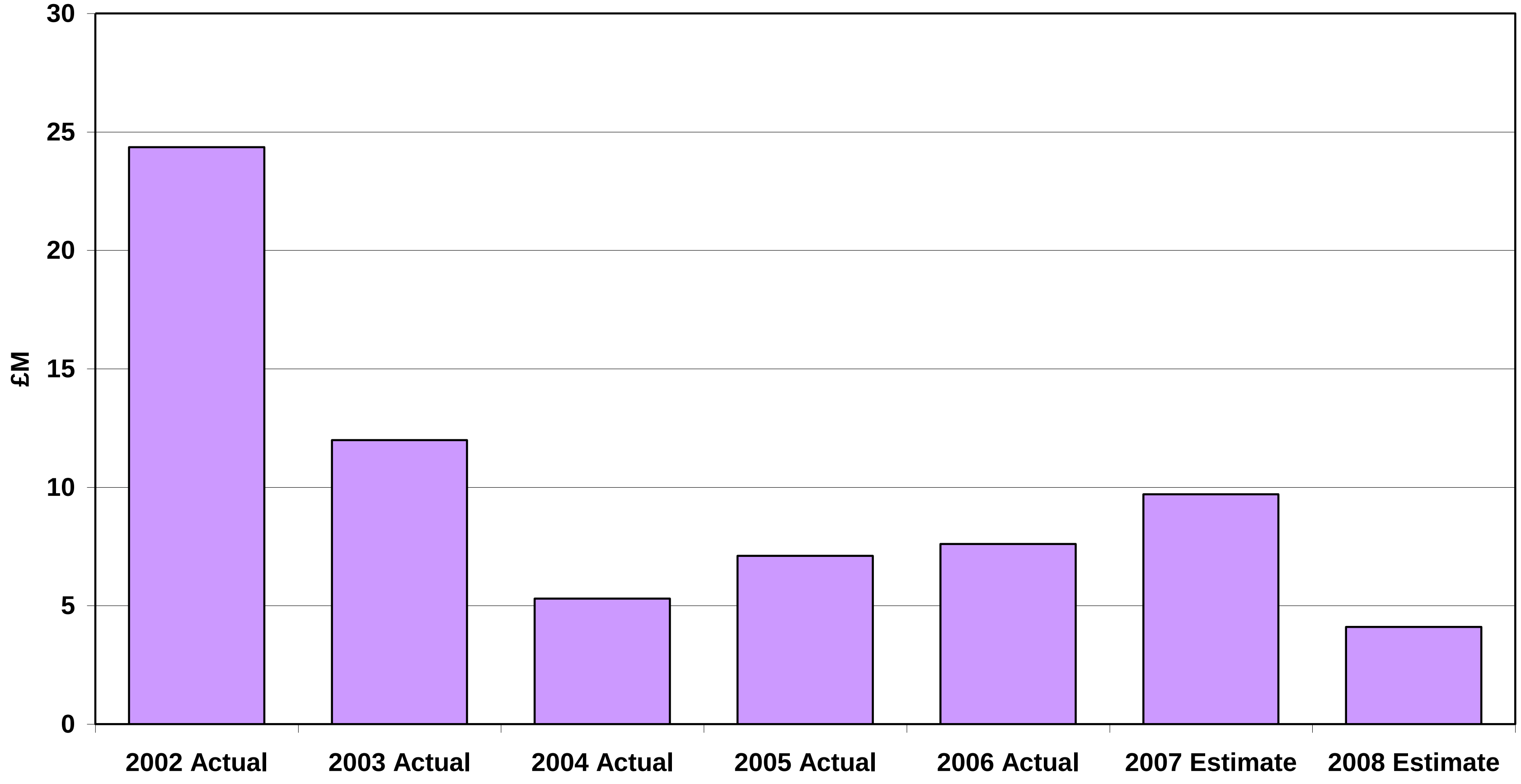
CAPITAL RESERVE



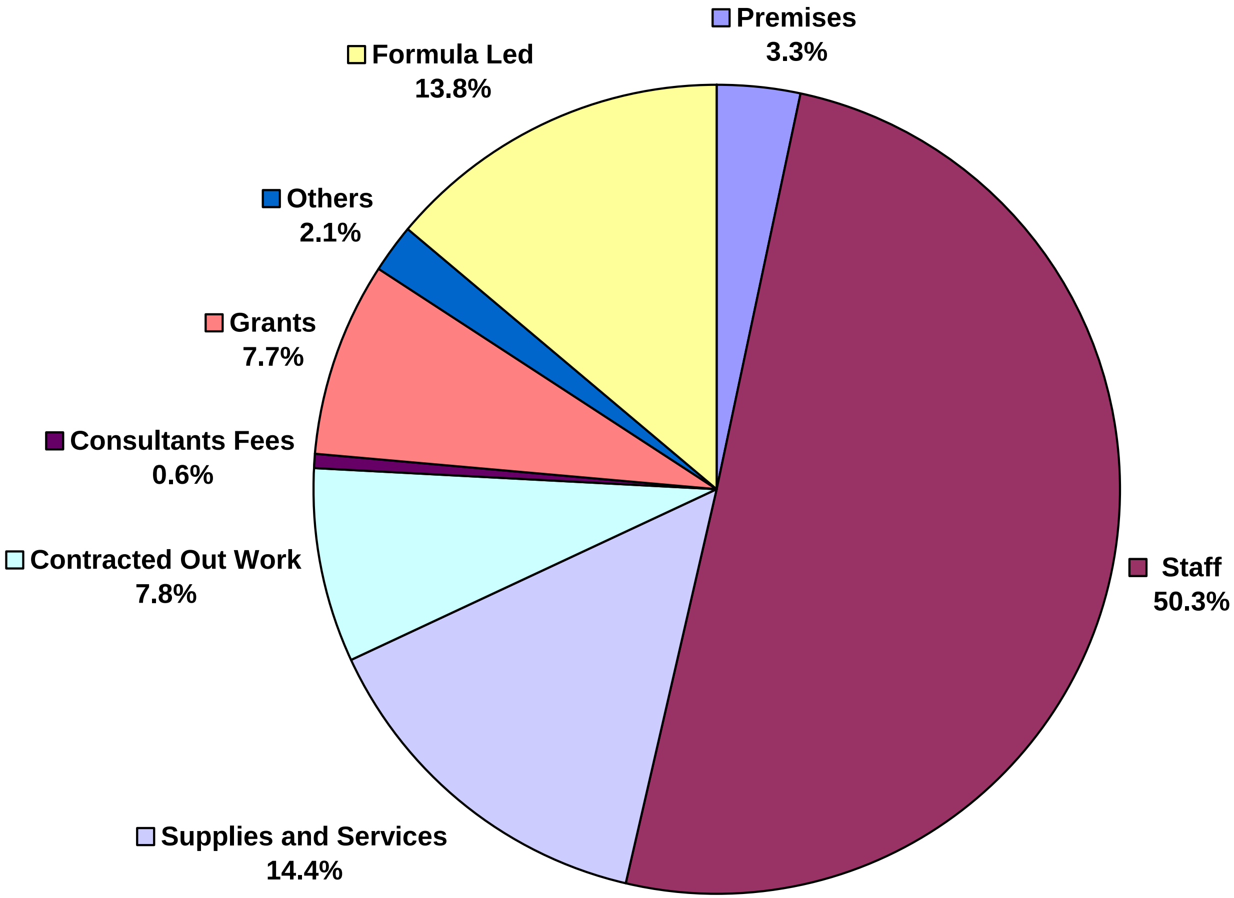
CONTINGENCY RESERVE



PORTS HOLDING ACCOUNT



2008 REVENUE EXPENDITURE BY STANDARD HEADING



2008 REVENUE EXPENDITURE BY TYPE