

**STATES OF GUERNSEY**

**TREASURY AND RESOURCES  
DEPARTMENT**

**2006 INTERIM  
FINANCIAL REPORT**

**JUNE 2006**



# TREASURY AND RESOURCES

A STATES OF GUERNSEY GOVERNMENT DEPARTMENT

Treasury and Resources  
Sir Charles Frossard House  
PO Box 43, La Charroterie  
St Peter Port, Guernsey  
GY1 1FH  
Telephone +44 (0) 1481 717000  
Facsimile +44 (0) 1481 717321  
[www.gov.gg](http://www.gov.gg)

The Chief Minister  
Policy Council  
Sir Charles Frossard House  
La Charroterie  
St. Peter Port

1 June 2006

Dear Sir,

## **INTERIM FINANCIAL REPORT**

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

**At the June 2006 States Meeting the Policy Council's Report on the Future Economic & Taxation Strategy will be debated. This will, of course, have a significant bearing on future States finances, including the resultant proposals that the Treasury and Resources Department are likely to bring forward in its 2007 Budget.**

The 2006 Interim Financial Report has, by necessity, been prepared before the June 2006 debate and is therefore less detailed in some areas than it would otherwise have been. However, the Report still provides a useful financial overview of the States finances.

Yours faithfully,

L S Trott  
Minister  
Treasury and Resources Department

## 2006 INTERIM FINANCIAL REPORT

### Background

1.1 **This Report has been prepared to provide States Members, States Departments and the general public with a brief financial overview of the States finances and the work that needs to be done in preparation for the 2007 Budget to be presented to the States in December 2006. It does not therefore contain any specific resolutions and is presented to the States for information purposes and Members are therefore being asked to note its contents.**

1.2 In recent years the level of public services and the condition of the public sector infrastructure (in particular on Health, Housing and Education) have improved considerably. However, this has come at a cost and the States finances are under severe pressure. Although the Department remains very confident in the Island's future, it has to be acknowledged that the Island faces a period of unprecedented challenge.

1.3 The financial position can be summarised as follows:

	2006 Estimate £m	2005 Actual £m	2004 Actual £m	2003 Actual £m	2002 Actual £m
Revenue Income	320	311	285	288	288
Revenue Expenditure	<u>299</u>	<u>292</u>	<u>276</u>	<u>254</u>	<u>240</u>
Operating Surplus	21	19	9	34	48
Capital Income	3	0	5	5	14
Capital Allocations	<u>(13)</u>	<u>(12)</u>	<u>(16)</u>	<u>(18)</u>	<u>(21)</u>
Transfer to/ (from) Reserves	<u>11</u>	<u>7</u>	<u>(2)</u>	<u>21</u>	<u>41</u>

1.4 Capital expenditure, funded from individual Departments capital allocations or from the Capital Reserve, can be summarised as follows:

	2006 Estimate £m	2005 Actual £m	2004 Actual £m	2003 Actual £m	2002 Actual £m
Capital Expenditure	<u>51</u>	<u>50</u>	<u>44</u>	<u>51</u>	<u>33</u>

1.5 Taking into account the need to provide individual Departments with their own capital allocations for routine equipment replacements and minor capital works it

is anticipated that, in comparison to previous years, only relatively small amounts of new monies will be available to appropriate into the Capital and Contingency Reserves.

- 1.6 **However, should the States endorse the Policy Council’s recommendation as part of the Future Economic and Taxation Strategy to implement increases in existing indirect taxes (and social security contributions) in a transitional manner commencing with the 2007 Budget (a recommendation strongly supported by the Treasury and Resources Department) then around £15m would be available for appropriation to Reserves.**
- 1.7 **The necessity for public sector financial restraint set the background for the 2006 Budget. This is likely to continue and, as a result, the Treasury and Resources Department, in conjunction with the Policy Council and the other States Departments, undoubtedly has a more difficult task than has faced the States for many years. However, the Department still remains confident in the future.**
- 1.8 As part of the future economic and taxation consultation process a number of areas for protecting States revenues were identified and, in general, supported. For example, increased indirect taxes and restricting various personal income tax allowances and reliefs. At this stage it is anticipated that a start will be made to introduce some of those measures (probably on a phased basis) in the forthcoming Budget.
- 1.9 As a result of the above consultation process there is also a growing awareness of the need to ensure that the States fiscal policies are developed and implemented in such a way that they make a positive contribution to the economic health of the Bailiwick. Traditionally States Budgets have been very much focused on “balancing the books”. It is clear that going forward, a broader consideration of their impact on the wider economy will be needed.
- 1.10 It is against this background and framework that the 2007 Budget will be prepared, in particular, in respect of:
  - Income tax rates and related allowances
  - Indirect tax rates
  - Detailed Department budgets for 2007
  - New Department capital allocations
  - Any transfers to/from Capital and Contingency Reserves.
- 1.11 In the coming months the Treasury and Resources Department will be working closely with Departments to set the detailed Budgets for 2007.
- 1.12 During that process every effort must be made to ensure that Budgets are, as far as possible, contained. Difficult decisions will be needed and, if necessary, previous States approved spending plans revisited. Although this may well prove difficult to achieve, it is essential that States revenue expenditure is controlled, not least to enable money to be set aside for high priority capital expenditure.

- 1.13 **There is clearly a general recognition of the need for the careful control and prioritisation of expenditure and this year's Budget will need to place far more restraint on States expenditure than those of recent years. Downward pressure will need to continue to be exerted and it needs to be accepted that this is a joint responsibility that all Departments, States Members and staff must share.**
- 1.14 The Treasury and Resources Department has consistently received strong support for this approach as demonstrated by the unanimous support given by the States to the 2006 Budget Report.
- 1.15 Finally, it is important to remember the achievements and progress that has been made. The ongoing process to improve the Island's infrastructure has made considerable progress, public services are generally of a high standard, the economy is strong, rates of personal and indirect taxes are, by comparison with other jurisdictions, very low and the States still has reasonable reserves and is unencumbered by debt. **These are very solid foundations on which to build and face the challenges of the future.**

## SECTION 2: FINANCIAL POSITION

- 2.1 The Accounts Billet d'Etat, which is presented for approval at the same time as this Report, contains full details of individual Department Accounts and includes a report from the States Treasurer summarising and commenting on the financial outturn for 2005.
- 2.2 The States Treasurer's Report shows:
- Although the Operating Surplus for 2005 was higher than 2004, it was still a marked decline compared to previous years. The average Operating Surplus for 2000 to 2003 was £48m.
  - Total income increased by nearly 9% with income tax receipts increasing by £22.8m (9.7%) compared to 2004. This follows a period (2002 to 2004) when income tax receipts showed a decline in real terms.
  - Ongoing revenue expenditure increased by 5.8% in cash terms or 2.5% in real terms (2004: 3.5%). This represents the lowest real terms increase in expenditure for many years.
  - The major increases in expenditure in 2005 compared to 2004 were due to increases in Health Services (£6.6m), Education (£5.1m), Home Department (£1.6m) and Social Insurance and Supplementary Benefits (£3.3m).
  - Total capital expenditure for 2005 was £50.2m (2004: £44.3m).
  - As at 31 December 2005 the balances on the Capital Fund and the Capital Reserve were £45.8m and £42.4m respectively (2004: £61.1m and £50.7m).
- 2.3 The appendices to this Report provide an overview of the financial trends over the period 1998 to 2005. From these it can be seen that after a levelling off in income, 2005 showed a return to the increases experienced in previous years. Although this is an encouraging development, expenditure has continued to accelerate considerably faster which has had an adverse impact on the annual operating surplus.
- 2.4 **This trend is simply not sustainable and both revenue and capital expenditure will need to be more restrained in the future. The progress made in 2006 in restraining the growth in ongoing revenue expenditure must be continued.**
- 2.5 The graphs and pie-charts included as appendices to this report highlight the following:
- States income increased significantly in the period up to 2001, plateaued in 2002 to 2004 and then again increased significantly (by nearly 9%) in 2005.

- The biggest areas of growth during that period were income tax (in particular ETI) and property taxes (mainly document duty).
- Revenue expenditure increased from £177m in 1998 to £292m in 2005. An increase of 65% in cash terms (29% in real terms) in 7 years. An average of over 7.5% a year.
- In 2005 ongoing revenue expenditure increased by 5.8% in cash terms or 2.5% in real terms. This represents the lowest real terms increase in expenditure for many years. **Overall revenue expenditure is predicted to increase by less than 2.5% in cash terms in 2006, i.e. a real terms decrease.**
- Over 70% of revenue expenditure is on Health, Education and Social Welfare. A further 11% is spent on Law & Order. The costs of central government are about 2%.
- Nearly half of all the States revenue expenditure is in respect of staff costs. This figure increases to nearly 65% if grants and formula-led expenditure are excluded.
- Capital Expenditure in recent years, as predicted, has increased significantly in order to readdress the lack of investment in the island's infrastructure in previous years. Capital Expenditure at £40m to £50m is now considerably in excess of the annual operating surplus and is being funded by monies put aside previously in the Capital Reserve. Ongoing capital expenditure will be less than in recent years but will still need to be more than the average amounts spent in the 1990s.

#### Capital Reserve & Capital Allocations

- 2.6 The Capital Reserve plays an essential role in the management of the States finances. The purpose of the Capital Reserve is to provide a means of funding future capital projects within a controlled and prioritised strategic framework.
- 2.7 The Capital Reserve must also be protected from capital project overspends which inevitably mean that the available funding for other future projects will be reduced. **It is absolutely essential that all capital projects should be rigorously costed and controlled and that all costs associated with the project (such as property purchases, equipment and relocation costs) be included and not just the "headline construction costs". Otherwise, any form of capital planning and prioritisation is severely undermined.**
- 2.8 The movements on the Capital Reserve since the beginning of 2003 have been considerable, and as a result its balance has fallen from just under £100m to around £30m. Appendix III provides a summary of the movements on the Capital Reserve since the beginning of 2005.

- 2.9 In addition to the Capital Reserve, individual Departments have access to funding for capital expenditure through their own capital allocations. Capital allocations form an important part of the annual budget process and are set at levels that allow individual Departments to carry out their more urgent projects and routine replacement programmes.
- 2.10 As at 1 May 2006 the aggregate capital allocations available to Departments from out of General Revenue was £50m (2005: £30.8m).
- 2.11 Of the above £50m, £41.2m is in respect of the Education Development Plan (“EDP”). The January 2006 transfer of £12.75m will be sufficient to substantially complete the Les Nicolles phase of the EDP. Depending on the outcome of the ongoing value for money exercise, a modest further transfer from the Capital Reserve in 2007 will be needed.
- 2.12 Appendix IV provides an updated summary of major capital projects which are expected to require funding in excess of the amounts originally envisaged. It is emphasised that these projects will have no impact on the Capital Reserve as they will be funded from the Ports Holding Account.
- 2.13 However, it is worth remembering that the vast majority of capital projects are delivered on time and on or below budget. It is understandable, but nonetheless unfortunate that, these successful projects do not receive the same level of attention as those that experience problems.
- 2.14 The past few years have seen a period of unprecedented expenditure on the island’s infrastructure, partly necessitated by underinvestment in the past. **A period of measured consolidation is now required.**

#### Ports Holding Account

- 2.15 The Ports Holding Account was established by States Resolution in the 1960’s with the basic principle that any capital expenditure should be funded out of the trading surpluses of the Ports (Harbours and Airport).
- 2.16 During the past few years the Ports Holding Account has funded several significant projects including the new Airport Terminal, St. Sampson’s Marina and the start of the New Jetty major refurbishment.
- 2.17 As expected, the Ports Holding Account’s reserves have been used to fund these major projects. At the beginning of 2003 the Ports Holding Account had a balance of £24.4m but by the end of 2005 this had reduced to £7.2m. The annual operating surplus, including interest income, was £1.6m
- 2.18 Furthermore, as set out in Appendix IV, significant but as yet unquantifiable expenditure is required on these projects which will effectively exhaust the Ports Holding Account and may even put it in a deficit position. As a consequence any future major capital projects will only be possible if the Ports continue to make a reasonable level of operating surpluses.



- 2.19 In should also be noted that, in accordance with the January 2001 States Resolution (Billet d'Etat I, 2001), the year-end accounts for 2005 of the Ports Holding Account have been prepared on a conventional trading basis. The 2003 and 2004 accounts included, on a trial basis, memorandum conventional accounts.

#### Contingency Reserve Fund

- 2.20 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.
- 2.21 In addition to the £23.8m sales proceeds from the sale of Guernsey Telecoms Limited to Cable & Wireless plc, since 2000 appropriations totalling £23m have also been made out of the General Revenue operating surplus to the Contingency Reserve.
- 2.22 The balance on the Contingency Reserve as at 1 May 2006 was £200m.
- 2.23 If the States endorses the Policy Council's recommendation as part of the Future Economic and Taxation Strategy to implement increases in existing indirect taxes (and social security contributions) in a transitional manner commencing with the 2007 Budget (a recommendation strongly supported by the Treasury and Resources Department) then around £15m would be available for appropriation to Reserves. Up to half of the Contingency Reserve (capital and interest) will be needed as part of the introduction of the Future Economic and Taxation Strategy.

**SECTION 3: DETAILED FINANCIAL MATTERS**

3.1 The recommended cash limits as approved by the States as part of the 2006 Budget were as follows:

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

3.2 Since the approval of the above figures in December 2005, there have been a limited number of minor adjustments to the above budgets, including transfers between Departments (with no net financial impact). Updated formula-led estimates for 2006 (totalling £65.7m) are included in Appendix I.

Future Cash Limits

3.3 Although the level of States expenditure has risen in the past few years, the independent benchmarking exercise carried out in co-operation with Jersey and the Isle of Man, showed that, in general, Guernsey has a well deserved reputation for delivering public services at a cost which compares favourably with the other jurisdictions. **Nonetheless efficiencies and savings must be delivered.**

- 3.4 The overwhelming majority of the responses received as part of the first public consultation period on the Future Economic and Taxation Strategy strongly endorsed the need for States expenditure to be curtailed. **It therefore has to be accepted by all Departments, States Members and staff, and indeed the public, that the culture of increased public sector service provision and ever growing expenditure needs to be reversed.**
- 3.5 Efforts must be made to contain these additional costs. However, while recognising that expenditure in some areas will inevitably need to grow, compensating reductions will need to be made elsewhere.
- 3.6 Last year when it became clear that financial restraint was needed, it was recognised that it would take Departments time to reverse existing commitments and introduce cost savings measures, some of which will need States approval. It was therefore accepted that some measures would take time to be introduced, but that a start had to be made. **The fact that in 2005 Departments spent £6m less than their authorised budgets demonstrates that real progress has started to be made.**
- 3.7 Furthermore, and as set out in its comments on the 2006 Budget, The Policy Council strongly endorses the view that the States finances are under considerable pressure and that the trend of ever increasing revenue and capital expenditure is unsustainable. There is a clear need for control and prioritisation of expenditure.
- 3.8 **Against this background, the Treasury and Resources Department will be working with Departments in the coming months to prepare detailed Budgets for approval in December 2006.**
- 3.9 The 2006 Budget Report, which was issued shortly after the Fiscal & Economic Policy Steering Group's second consultation document, stated that "in order to continue with the process of public sector expenditure constraint the Department intends to set a target of £294m for general revenue budget in 2007, i.e. a reduction on 2006 levels. The States will be asked to approve the formal 2007 cash limits and detailed line-by-line Department budgets as part of next year's Budget."
- 3.10 Since the December 2005 Budget debate, the Policy Council, having taken into account the results of public consultation process and independent economic analysis, has issued its States Report on the Future Economic and Taxation Strategy. A key part of that Strategy is "Robust Public Expenditure control with only modest annual increases".
- 3.11 The Treasury and Resources Department remains committed to ensure that public sector expenditure is controlled and that waste and inefficiency are eliminated. It believes that there is very strong support for this stance and therefore welcomes the Policy Council's statement.

3.12 Before the 2007 cash limits can be developed there is clearly a need for the States debate on the Future Economic & Taxation Strategy to be concluded (June 2006). **Therefore at this stage the Department does not feel it is in a position to set out its likely total cash expenditure targets for 2007.**

3.13 Nonetheless, for illustrative purposes only, the following scenarios for 2007 are shown:

Same as 2004	£276m
Same as 2005	£292m
Same as 2006	£299m
1% reduction on 2005	£289m
5.8% reduction on 2005	£276m
1% increase on 2005	£295m
3% increase on 2005	£300m
3% increase on 2006	£308m

#### Use of Delegated Authority

3.14 In order to speed up decision making and to avoid the States of Deliberation having to spend considerable amounts of time on routine financial matters, the Treasury and Resources Department has been granted delegated authority for certain financial matters.

3.15 In summary, the Treasury and Resources Department has delegated authority to approve as follows:

- An increase in an individual Department's revenue expenditure budget by the greater of £250,000 or 2% in any one financial period.
- Capital votes (straightforward replacements without limit and projects up to £250,000).
- Capital overspends up to £250,000.
- Property purchases and sales.

3.16 It is emphasised that just because the Treasury and Resources Department has delegated authority does not mean that it cannot, or will not, refer specific instances to the States.

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

#### Staff Number Limitation Policy

- 3.19 The Department is also mandated with the responsibility for the administration of the Staff Number Limitation Policy. Appendix VII of this Report provides a summary of the staff numbers covered by the Staff Number Limitation Policy. Appendix VIII (which is additional information not previously included in previous Reports) shows the actual direct costs of employing those staff.
- 3.20 The Treasury and Resources Department is very concerned about the apparently ever-increasing demand for resources, both financial and human, and is looking to all Departments to curtail their demands as far as possible. The Department therefore requires extremely compelling reasons for any increase in resources.
- 3.21 Since the last time the Department reported to the States (as part of the 2006 Budget) **NO** further increases in establishment have been approved.
- 3.22 In considering applications for increased staffing the Department has paid, and will continue to, pay particular attention to costs and resultant potential ongoing savings. **The Department anticipates that it will support very few, if any, staff increases in the foreseeable future.**
- 3.23 **Furthermore, if the States is to achieve the necessary public sector expenditure reductions, overall staff levels will need to fall.** Until corporate priorities and Departmental service reviews have been completed it would be premature to set a firm target for staff number reductions. However, the Department would wish to see, as far as possible through natural wastage, a reduction of the order of 50 per year.
- 3.24 In order to ensure that all Departments continue to vigorously assess their priorities and staff resources the Department is introducing much stricter controls over staff recruitment. **In particular, procedures have been implemented to ensure that any staff who leave (through retirement, resignation, or internal promotion) are NOT automatically replaced.**
- 3.25 **The Department recognises that this approach is in sharp contrast to the prevailing culture of previous years where staff numbers continually increased and staff replacement was, by and large, automatic. However, put simply, the financial situation demands that such a radical change of culture and direction is required.**

- 3.26 The evidence thus far is that Departments have risen to the challenge and that much more consideration is being given as to the staffing requirements that are really necessary, how they can be best accomplished and how value for money can be obtained.
- 3.27 Departments have already identified a number of permanent savings in staff and the necessary reorganisation and restructuring procedures started. The 2007 Budget Report (to be considered by the States in December 2006) will contain more detail on the progress made.

## **SECTION 4: OTHER MATTERS**

### Income Tax Projections

- 4.1 Income tax receipts are by far the largest contributor to States total revenue. However, as stated on previous occasions, even when inflation is taken into account the volatility in income tax receipts remains relatively high. Since income tax is the main source of States revenue this can have a significant impact on the financial planning of the States.
- 4.2 Similar issues are also faced in other jurisdictions. Therefore, although every effort will always be made to provide as accurate a picture as it can, it believes it must continue to do so on a cautious basis. The shortfall in the actual outturn for 2004 has, more than ever, emphasised the necessity of taking this approach.

### Review of Income Tax Procedures

- 4.3 In the last few years the States has approved a number of recommendations to update and modernise the income tax system. In addition to significant changes to the basis of assessment for both business and personal taxation, a number of other changes have also been made to modernise and streamline the income tax system.
- 4.4 It is the Department's intention that this process should continue and it will be bringing forward other proposals, including a review of capital allowances, in the coming months. The Department will also be investigating on-line tax assessment and other administrative processes which should be of benefit for both the taxpayer and income tax staff.

### Fees and Charges

- 4.5 The States of Guernsey for many years has levied fees and charges for a very wide variety of services. Many of these fees and charges had remained unchanged for many years (and in some cases decades).
- 4.6 In its report issued in June 2005, the National Audit Office concluded that there were many areas where Guernsey fees and charges were well below the levels raised in other jurisdictions. The NAO also identified a number of areas currently provided free of charge for which fees were made in other jurisdictions.
- 4.7 Since the NAO's report was issued, States Departments have been reviewing the levels of their existing fees and some additional areas where fees and charges could appropriately be introduced have also been identified. As a result, the States have already approved a number of increases in the level of fees and charges. For example, in March 2006 document registration fees were increased for the first time since 1977 and Births, Deaths & Marriage fees were also increased from their 1992 levels.

- 4.8 Although further (and possibly significant) income can be raised from similar measures, especially as such an approach is supported by the user-payer principle, care will need to be taken that raising additional charges is not overdone or carried out in manner which is uncoordinated and possibly ultimately self-defeating.
- 4.9 It is clear that there are opportunities for significant amounts of further income to be raised from fees and charges and that these should be explored. **It is also clear that existing fees and charges must be kept under periodic review to ensure that their real values are not eroded to the extent that has happened in recent years.**

#### Duty on Motor Spirit & Motor Vehicle Licences

- 4.10 Over recent years, despite outstanding Resolutions, several attempts have been made to revise the arrangements for taxing motor vehicles and fuel. The Treasury and Resources Department is firmly of the view that the present arrangements (whereby the duty on motor spirit raises £2m annually; Licences raise £6m annually and motor vehicles that are diesel driven are charged a higher licence fee to compensate for an absence of duty on diesel fuel) are inappropriate.
- 4.11 In order to be able to start with a clean slate, as part of the 2006 Budget the States endorsed “the Treasury and Resources Department’s intention to conduct a review of the system of motor vehicle licences and motor spirit excise duties and to report back to the States with proposals as soon as practicable.”
- 4.12 As part of the March 2006 debate on the Environment Department’s Road Transport Strategy the States did not support a proposition to abolish motor vehicle licences. However, as stated at that time, the Treasury and Resources Department still intends to report back on this thorny issue in the autumn. In doing so the Department will, amongst others, continue to consult with the Environment and Home Departments.
- 4.13 However, whatever system is finally decided upon, it is clear that for a combination of environmental, social and fiscal reasons, the amount of revenues raised from motoring will be increased, probably substantially.
- 4.14 **Furthermore, the Department continues to be firmly of the view that the liquid fuel market must be adequately controlled in an appropriate manner and that such control is a fundamental part of this process.**

#### Tax on Real Property

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



- 4.16 In March 2006 the States considered and approved the Department's outline plans for a much simpler revised system.
- 4.17 Further consultation and investigation into this important matter is continuing and the Department remains on course for bringing forward a further report within the next few months.

#### Operations of the States Treasury

- 4.18 The following loans, with interest payable at the States Treasurer's rate, have been made as at 30 April 2006:
- Energy From Waste: £3.0m (30.09.05: £3.5m).
  - Guernsey Gambling Control Commission: £92,000 (30.09.05: £92,000).
  - Guernsey Water: Repaid (30.09.05: £0.6m).
  - Health and Social Services Accommodation Fund: £2.9m (30.09.05: £3.0m).
- 4.19 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.
- 4.20 If any loan, for any reason, is subsequently written off this will be against either the Capital Reserve or the General Revenue Account, in either case it will mean that there is less money available to fund new projects.
- 4.21 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. It is estimated that the majority of this loan will have been repaid by 2008.
- 4.22 As part of the June 2005 States debate (which endorsed the retention of the Aurigny Group) the Treasury and Resources Department was authorised to "facilitate (if necessary by providing guarantees) the Aurigny Group's borrowing from third parties".
- 4.23 In July 2005 Cabernet Limited obtained a loan facility from a local financial institution at normal commercial terms and rates. The Treasury and Resources Department, acting on behalf of the States in accordance with the above Resolution, is the Guarantor of that facility up to £4.2m. As at 30 April 2006 the amount borrowed under that facility was £3.9m (30.9.05: £3.1m). Appendix VI sets out the most recent trading results of the Group.

#### Capital Funding for Corporate Housing Programme

- 4.24 Capital funding for States housing initiatives has perhaps been subject to more changes in recent years than any other single area. The Housing Department continues to take significant steps to reduce the demand for States capital

funding in particular by using the Guernsey Housing Association as the major provider of new social housing.

- 4.25 The Corporate Housing Programme Fund and its constituent parts can, with the Treasury and Resources Department's agreement, borrow from the States Treasury (or even commercially) and pay interest which is therefore a cost to the Funds.
- 4.26 As reported previously, a £25m borrowing facility in respect of the Housing Development and Loan Fund has been obtained. The Fund is currently borrowing £5m from this source (compared to £5m at the time of the 2006 Budget).
- 4.27 The Housing and Treasury and Resources Departments continue to work together to ensure that the most appropriate funding mechanisms are employed. As a result of this ongoing work, in last year's Budget it was agreed that the Housing Department, with the approval of the Treasury and Resources Department, should be able to transfer amounts, including those obtained by third party borrowings, between the various constituent parts of the Corporate Housing Programme and, specifically, to modify the use of the HDLF to permit this.
- 4.28 Although, thus far, it has not been necessary for the Housing Department to utilise the above facility, it is nonetheless important to have such a mechanism available.
- 4.29 The Treasury and Resources Department acknowledges that further work is still required concerning the existing States resolutions regarding the funding of rent rebates for both States tenants and Guernsey Housing Association nominated tenants. However, this is a major piece of work that has possible implications over a wide range of financial matters, including capital, revenue and non-general revenue funding mechanisms.

#### Public Sector Employees: Superannuation Fund

- 4.30 The States of Guernsey, in common with most public sector employers, maintains benefit-defined pension schemes. In general terms, this means that the pension payable to employees is determined by their years of service and their final salary. Stock market performance does not impact upon the pension benefits accruing to the employees as it does with a contribution-defined scheme.
- 4.31 All States employees pay a fixed percentage of their pensionable remuneration as their contribution to the Fund. The amount paid by the employer (i.e. the States from monies received from general taxation) is set by actuarial valuation at rates which are affected by a range of assumptions including future benefit rates, mortality rates and stock market performance. Hence, any gains or losses arising from these assumptions can affect the contribution rate of the employer but not the employees.
- 4.32 Professional independent actuaries carry out actuarial valuations on a three-year cycle. The valuation for the period ended 31 December 2004 was presented to the States in November 2005.
- 4.33 In view of the significant financial impact of the Actuaries recommendations the Treasury and Resources Department, as part of its November 2005 States Report recommended that a wide scope review of the arrangements of public sector pension provision. The States endorsed this approach and the review (also involving the Public Sector Remuneration Committee) is currently underway.

#### Restructuring and Reorganisation Fund

- 4.34 As part of the 2006 Budget, the Restructuring and Reorganisation Fund was established, by transferring £5m from the Contingency Reserve with effect from 1 January 2006.
- 4.35 The amount expended on this new Fund thus far is, as expected, relatively limited. As a result, as at 1 May 2006 the Fund had a balance of £4.8m. The only call on this Fund since its inception has been to meet the redundancy costs of one employee. The Department anticipates further calls on this Fund in the coming months as Departments come to grips with their own restructuring and reorganisation plans.

#### Property Rationalisation Strategy

- 4.36 In February 2006 (Billet D'Etat V, 2006) the States approved the formation of a States Property Services unit within the Treasury & Resources Department.
- 4.37 As part of that process the States recognised that the improved management of the States of Guernsey's extensive property portfolio (land and building) could result

in substantial, benefits for the Island. It was therefore acknowledged that it was vital that the property portfolio was properly managed.

- 4.38 A key component of the above States Report was to put in place a Rationalisation Strategy to unlock the potential of the property portfolio.
- 4.39 With the formal adoption of the Property Rationalisation Strategy, work has continued on identifying where savings can be made. Thus far a number of properties have been identified (including those previously earmarked by the former Board of Administration) for disposal. The Department intends to report back to the States with details in the autumn.

#### Operational Update

- 4.40 The Treasury also has a substantial operational role and, as reported previously, this is an area where considerable development has occurred in the past few years, in particular the implementation of a major systems project. Further work continues in this area and during the summer of 2004 internet and touch telephone payments systems were introduced. The Treasury has recently completed a further major phase of this project by replacing its outdated payroll and pensions systems. Now this part of the project has been completed, the corporate financial systems of the States (accounting, procurement, payroll and pensions) are modern, robust, technically supported, efficient and common to all States Departments.

## APPENDIX I

<b>FORMULA LED EXPENDITURE</b>	Actual	Original	Revised
	2005	Estimate	Estimate
	£'000	2006	2006
		£'000	£'000
Payments to States Members	1,654	1,750	1,710
Maintenance of Prisoners in the U.K.	175	460	350
Legal Aid Scheme	1,547	1,100	1,600
Social Insurance Grant	26,766	28,170	28,040
Health Service Grant	8,782	9,260	9,200
Long-Term Care Grant	1,384	1,485	1,450
Supplementary Benefits	10,664	11,550	12,675
Family Allowances	7,754	8,050	8,025
Attendance & Invalid Care Allowance	1,917	2,089	1,980
Concessionary Television Licences	453	474	480
Parochial Outdoor Assistance Boards	431	-	-
Cull Cattle Compensation Payments	54	57	60
Horticulture Interest Subsidy Scheme	103	113	70
States of Alderney			
Out Relief	7	5	8
Cull Cattle Compensation Payments	1	2	2
<b>TOTALS</b>	<b>61,692</b>	<b>64,565</b>	<b>65,650</b>

## APPENDIX II

### USE OF DELEGATED FINANCIAL AUTHORITY

The States Financial Procedures require the Treasury and Resources Department to report periodically on the use of its delegated financial authority. The Department last reported to the States on these matters as part of the 2006 Budget, since that time:

The following capital projects have been approved:

	£
Treasury and Resources	
Market Offices fitting out	250,000
TRP project	250,000
Courts equipment additional / replacement	155,000
Income Tax late payments IT software upgrade	80,000
Markets redevelopment consultants fees – additional	35,000
Fontaine Vinery clearance	34,000
Markets Flats fitting out	30,000
States of Alderney	
Municipal solid waste disposal – consultants fees	30,000
Culture and Leisure	
Beau Sejour Leisure Centre fitness equipment replacement	60,000
Museums wide area network	59,000
Vehicles replacement	30,000
Grounds maintenance equipment replacement	23,000
Education	
Roof maintenance programme	180,000
Schools maintenance minor capital works	100,000
College of Further Education car park	30,000
Grammar School swimming pool	20,000
Asbestos removal – additional	14,015
Environment	
Candie Gardens lower greenhouse repairs	28,000
Recycling vehicles replacement	25,000
Salarie Corner sea wall	21,500
Admiral Park traffic signals - additional	5,328
Soldiers Bay remedial works – additional	1,607
Bus CCTV equipment – additional	1,411
Health and Social Services	
Hospital and other equipment additional / replacement	890,000
Ozanne ward upgrade	246,000
A&E, Radiology and Outpatients reception merger	50,000
Pathology Laboratory area road resurfacing	18,000

Home	
Passports system replacement	323,000
Temporary mortuary replacement	203,000
Emergency Planning project	152,000
Fire tender replacement	150,000
St Sampsons CCTV system replacement	75,000
Administration relocation	71,000
Police vehicles replacement	48,000
Probation Service relocation	44,000
Police fingerprint equipment replacement	35,000
Police tactical firearms equipment replacement	25,000
Police IT replacement programme	20,000
Customs NCT System	15,000
Customs vehicle replacement – additional	41
Public Services	
Foul water network extension plan	2,930,000
Alderney Airport ground lighting replacement	370,000
Bellegreve pumping station refurbishment consultants fees	200,000
Pumping stations SCADA upgrade	185,000
Sewer connection grants – additional	30,000
Alderney Airport snow clearance equipment	8,000
Ports	
Airport Flight data handling system replacement	925,000
Airport Meteorological system replacement	92,000
Airport AFTN upgrade	18,000
Airport Signal generator	8,000
Airport Van replacement	6,500
Airport Fire Service area surface water drainage – additional	869
Airport runway resurfacing consultants fees – additional	200
St Peter Port Harbour genie boom replacement	38,000
St Peter Port Harbour dorey replacement	10,500
St Sampsons Harbour CCTV replacement	15,500

The following property purchases and sales have been approved:

	£
<u>Purchases</u>	
Land at Les Camps du Moulin / Ville Amphrey, St Martins	17,000
Wayleave at Perelle, St Saviour	3,000
<u>Sales</u>	
La Retraite, Rue Cohu, Castel (Incompatible Housing Stock)	325,000
Land at Montville Drive, St Peter Port	100,000
Field at Frie Plaidy, Castel (Water Board)	42,200
Land at La Vrangue Hill, St Peter Port	2,500

## APPENDIX III

### MOVEMENTS ON THE CAPITAL RESERVE

	£m
Balance 1 January 2005	50.7
Appropriation (2005 Budget)	10.0
Withdrawals:	
EDP 2005	12.8
Health: Purchase of "The Oaks"	0.5
Les Nicolles Swimming Pool	1.0
Mignot Memorial Hospital	2.3
Alderney Commercial Quay	4.0
Royal Court Essential Maintenance	<u>2.8</u>
	(23.4)
Interest 2005	<u>5.1</u>
Balance 31 December 2005	42.4
Appropriation 2006 budget	Nil
EDP 2006 (Jan 2006)	(12.8)
Beau Sejour Overspend	(1.4)
Interest 2006 (estimate)	<u>3.5</u>
December 2006	<u>31.7</u>

#### Note:

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



**SUMMARY OF MAJOR CAPITAL PROJECT ISSUES**

Airport Terminal

This project has been completed but the final account is still not finalised. The original budget for this project was £19.5m including consultants fees, etc. but as at 1 May 2006, amounts totalling £23.0m have been paid of which £21.0m has been paid to the contractor (original tender £16.4m). The contractor's total claims for this project (which are disputed and are being contested) are at present £27.6m. The resultant overspend will be charged to the **Ports Holding Account**.

St Sampson's Marina

This project has been completed but the final account is still to be settled. The original budget for this project was £3.4m but as at 1 May 2006, amounts totalling £4.3m have been paid of which £3.6m has been paid to the contractor (original tender £3.2m). The contractor's total claims for this project (which are disputed and are being contested) are at present £6.9m. The resultant overspend will be charged to the **Ports Holding Account**.

St Peter Port Harbour: New Jetty

This project has now been completed but the final account is still not finalised. As at 1 May 2006, amounts totalling £6.1m have been paid. Contractor's claims (which are disputed and are being contested) are at present £19.6m. The original estimate for this work was £3.3m. The cost of this project will be charged to the **Ports Holding Account**.

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

## APPENDIX V

<b>UNSPENT BALANCES</b>	2005	2004
	£	£
Policy Council	1,129,806	1,101,716
Treasury and Resources Department	2,137,003	3,023,177
Commerce and Employment Department	1,952,790	2,397,468
Culture and Leisure Department	563,397	552,234
Education Department	1,009,413	2,290,125
Environment Department	1,646,436	1,103,709
Health and Social Services Department	791,247	1,259,089
Home Department	2,445,810	2,812,525
Housing Department	441,840	511,444
Public Services Department	1,701,914	1,717,163
Social Security Department	8,985	303,094
Total	13,828,641	17,071,744
31 December 2003	16,368,609	
31 December 2002	15,680,910	
31 December 2001	15,372,473	
31 December 2000	15,497,965	

Note: The above figures are before transfers and returns to General Revenue.

**APPENDIX VI**

**AURIGNY & ANGLO NORMANDY:  
TRADING POSITION 2005**

Aurigny Air Services Limited

	2005 Actual £'000	2005 Budget £'000	2004 Actual £'000
Revenue	24,162	22,398	29,571
Direct Costs	(18,332)	(17,618)	(25,218)
Operating Result	5,830	4,780	4,353
Overheads	(5,396)	(4,951)	(5,987)
Other Operating Income	91	128	140
Operating Profit / (Loss)	525	(43)	(1,494)
Net Interest payable	(189)	(96)	(43)
Exceptional Costs	(941)	(880)	(420)
Profit / (Loss)	(605)	(1,019)	(1,957)

Anglo Normandy Aero  
Engineering Limited

	2005 Actual £'000	2005 Budget £'000	2004 Actual £'000
Revenue	5,043	4,189	5,460
Direct Costs	(3,855)	(3,059)	(4,301)
Operating Result	1,188	1,130	1,159
Overheads	(1,327)	(1,293)	(1,279)
Operating Profit / (Loss)	(139)	(163)	(120)
Net Interest receivable	2	-	1
Profit / (Loss)	(137)	(163)	(119)

**APPENDIX VII**

<b>ESTABLISHMENT STAFF NUMBERS</b>	Total Establishment	Total Establishment
	31.12.05	31.12.04
	FTE	FTE
Policy Council	75.75	75.75
Treasury & Resources: Income Tax	85.17	85.17
Treasury & Resources: Others	69.47	68.97
Commerce & Employment	136.61	139.30
Culture & Leisure	113.09	110.40
Education: Teachers & Lecturers	671.71	667.33
Education: Others	228.98	227.74
Environment	76.56	76.56
Health & Social Services: Nurses	828.22	825.52
Health & Social Services: Others	837.31	830.64
Home	295.45	295.45
Housing	104.68	96.68
Public Services	595.20	595.70
Social Security	112.17	109.17
Public Accounts Committee	1.00	1.00
Scrutiny Committee	2.00	1.00
Legal Services	69.95	69.95
<b>TOTALS</b>	<b>4303.32</b>	<b>4276.33</b>
Number of Police Officers	177.00	177.00
<b>GRAND TOTALS</b>	<b>4480.32</b>	<b>4453.33</b>

- 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.

**Note: The above figures have been restated as a result of a comprehensive review and audit of the SNLP figures. As a result a net additional 7.14 FTE posts have been identified.**

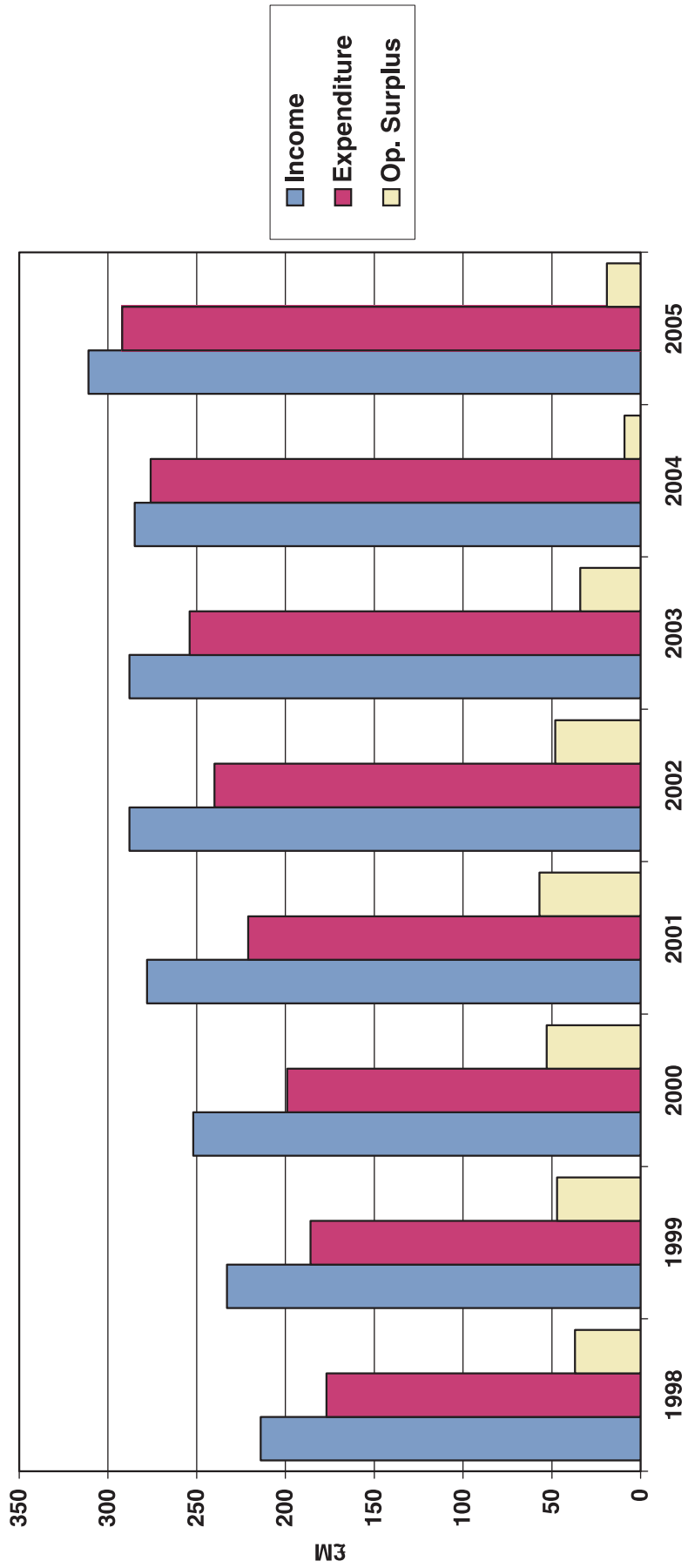
## APPENDIX VIII

### PAYROLL COSTS

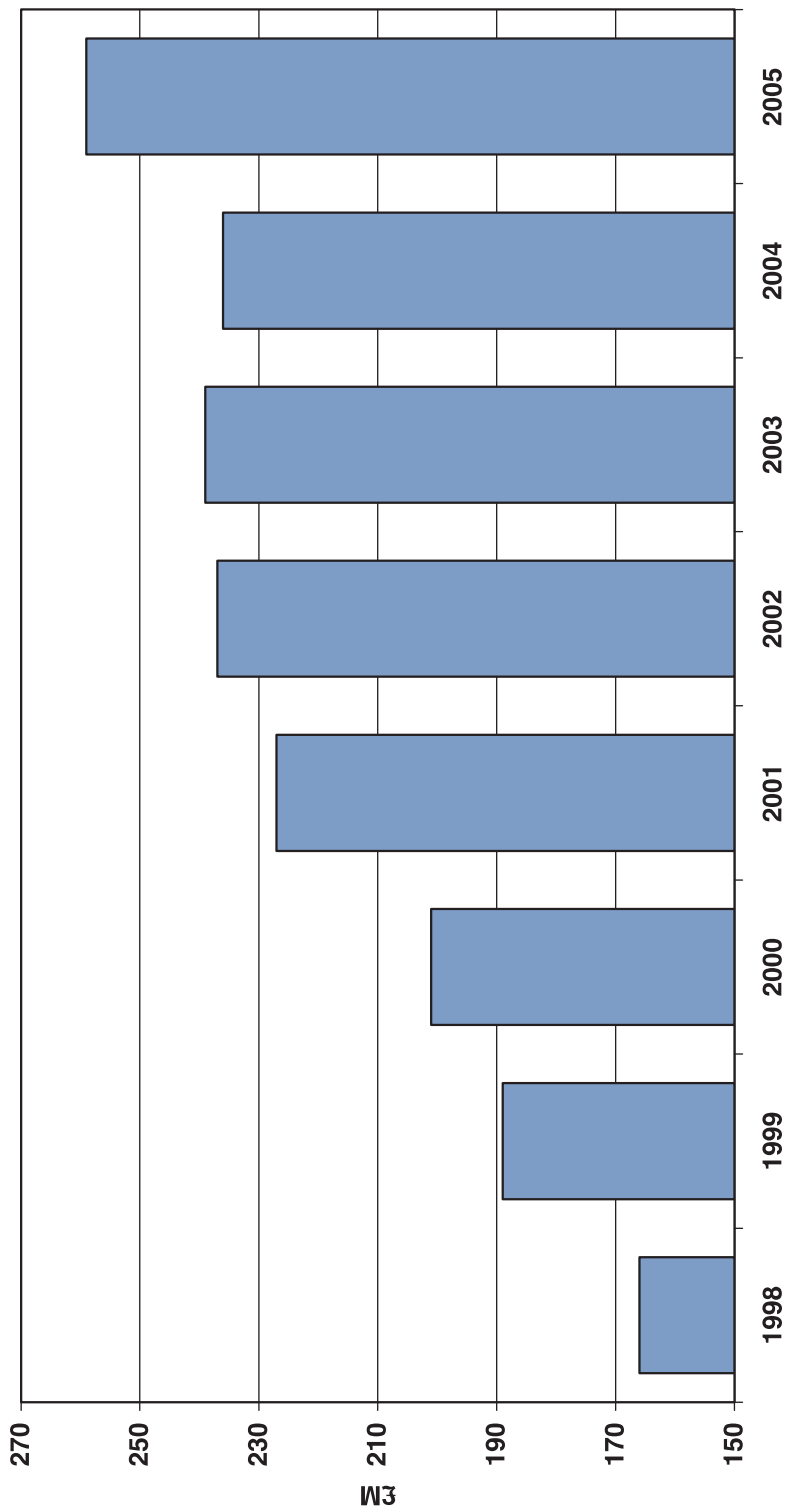
	2005 £'000	2004 £'000	2003 £'000
Policy Council	2,427	2,376	2,419
Treasury & Resources	6,452	6,094	5,736
Commerce & Employment	3,512	3,260	3,210
Culture & Leisure	3,932	3,437	3,187
Education	39,396	36,057	33,715
Environment	3,380	3,071	2,720
Health & Social Services	52,939	49,654	46,153
Home	18,785	17,368	15,789
Housing	1,996	1,831	1,969
Public Services	4,808	4,833	4,623
Social Security	972	914	848
Public Accounts Committee	77	53	0
Scrutiny Committee	110	34	0
Legal Services	4,333	3,997	3,554
<b>TOTALS</b>	<b>143,119</b>	<b>132,979</b>	<b>123,923</b>

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

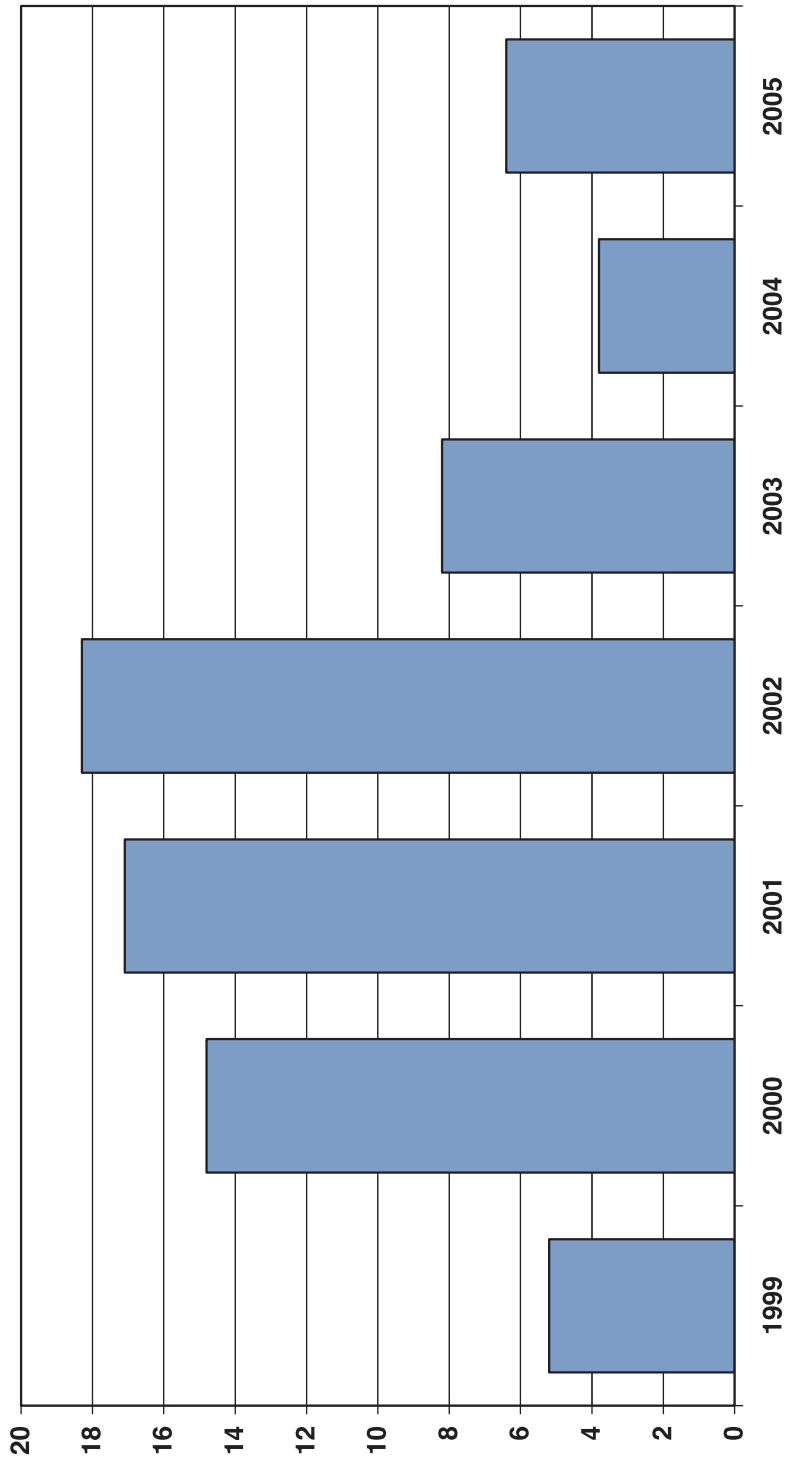
# FINANCIAL OVERVIEW



# INCOME TAX RECEIPTS

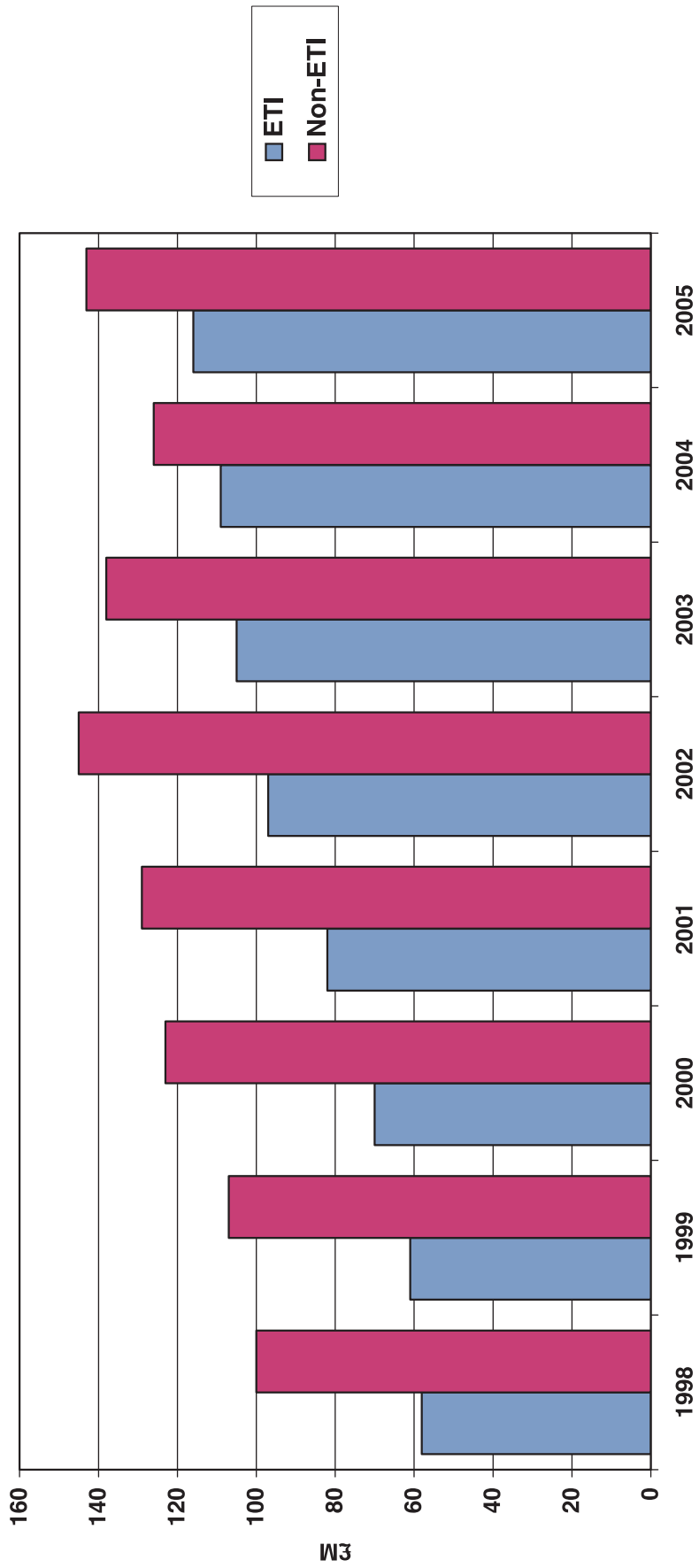


# ETI TAX RECEIPTS : % INCREASE

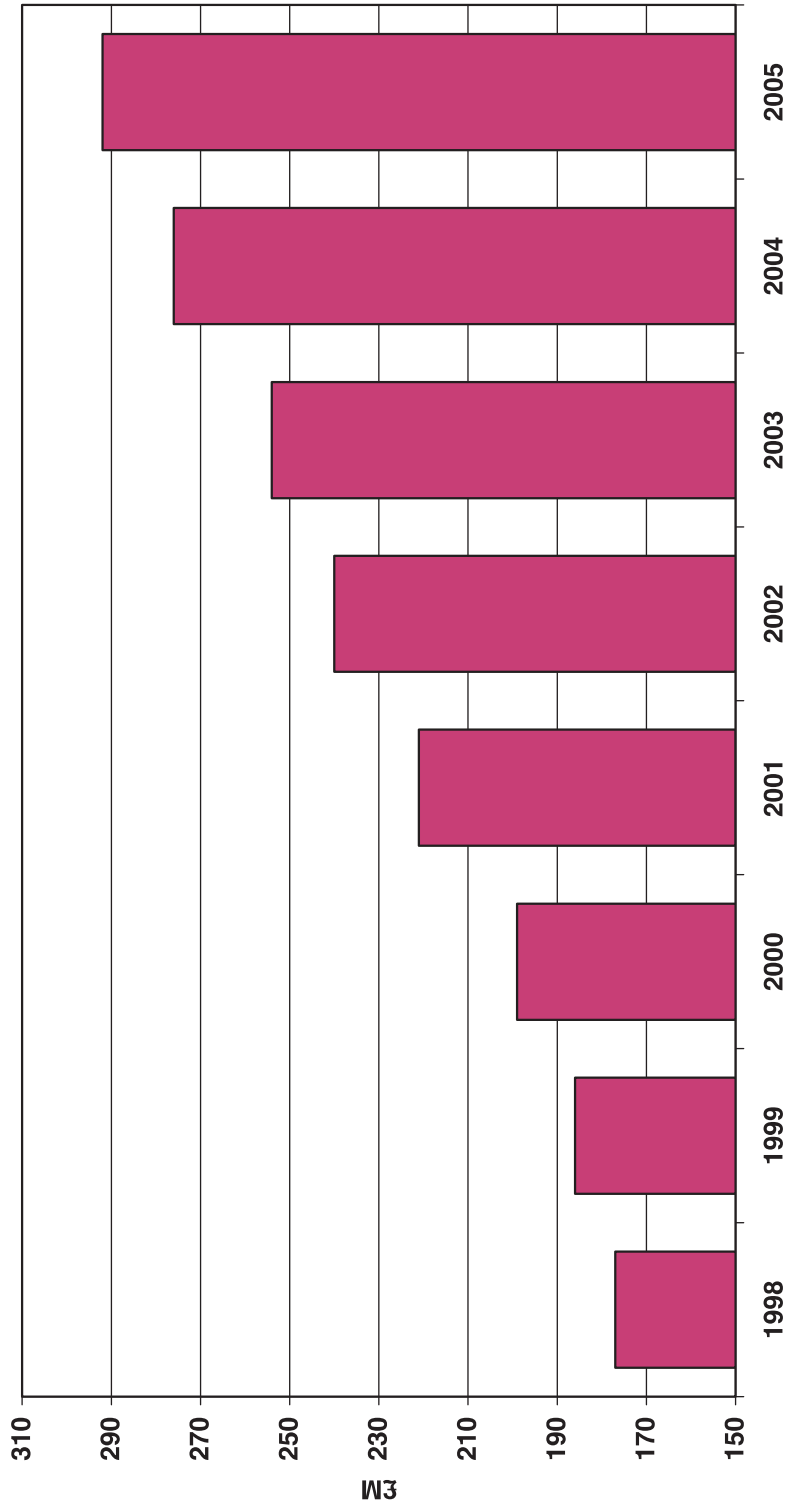




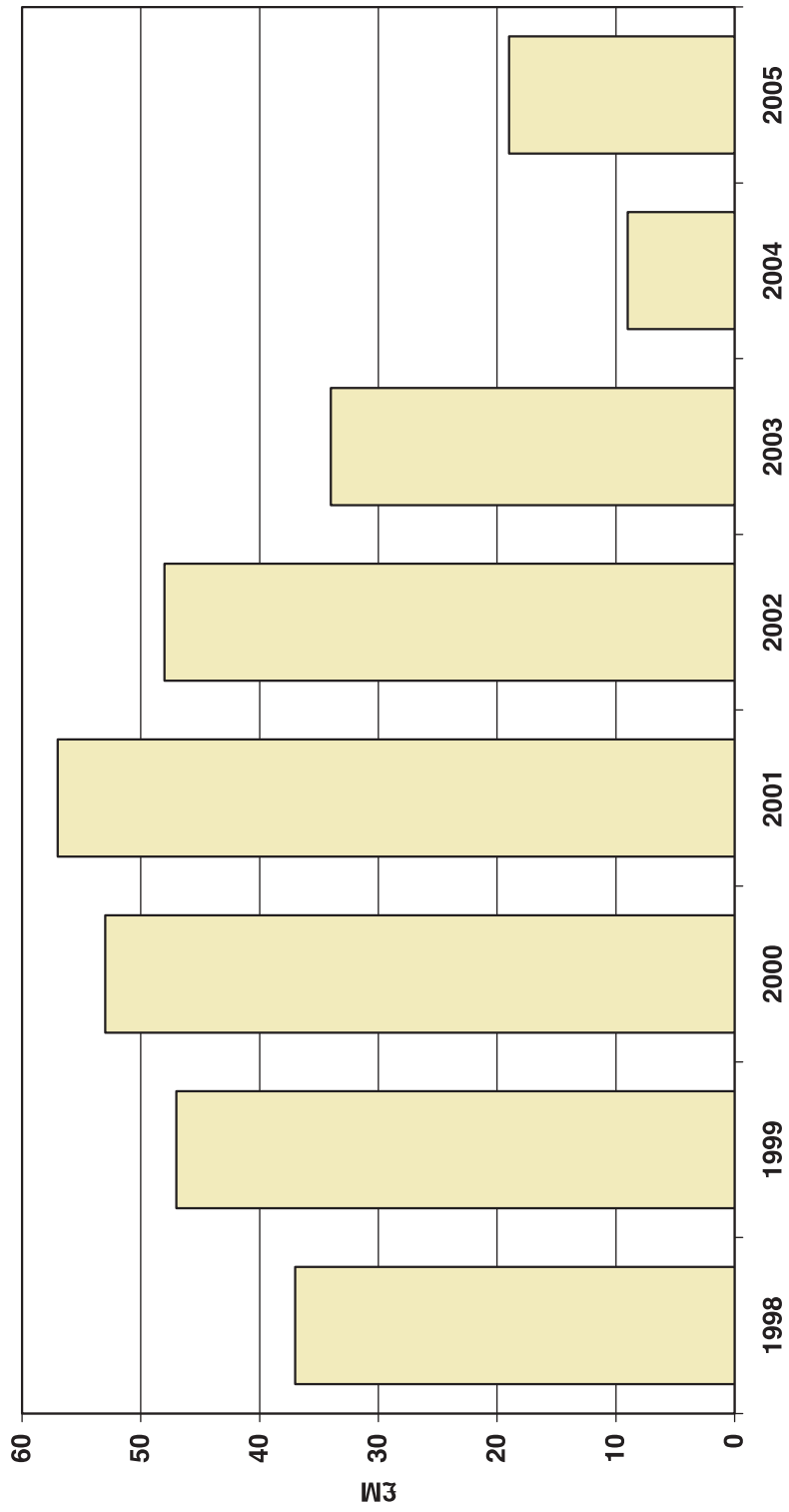
# TAX RECEIPTS



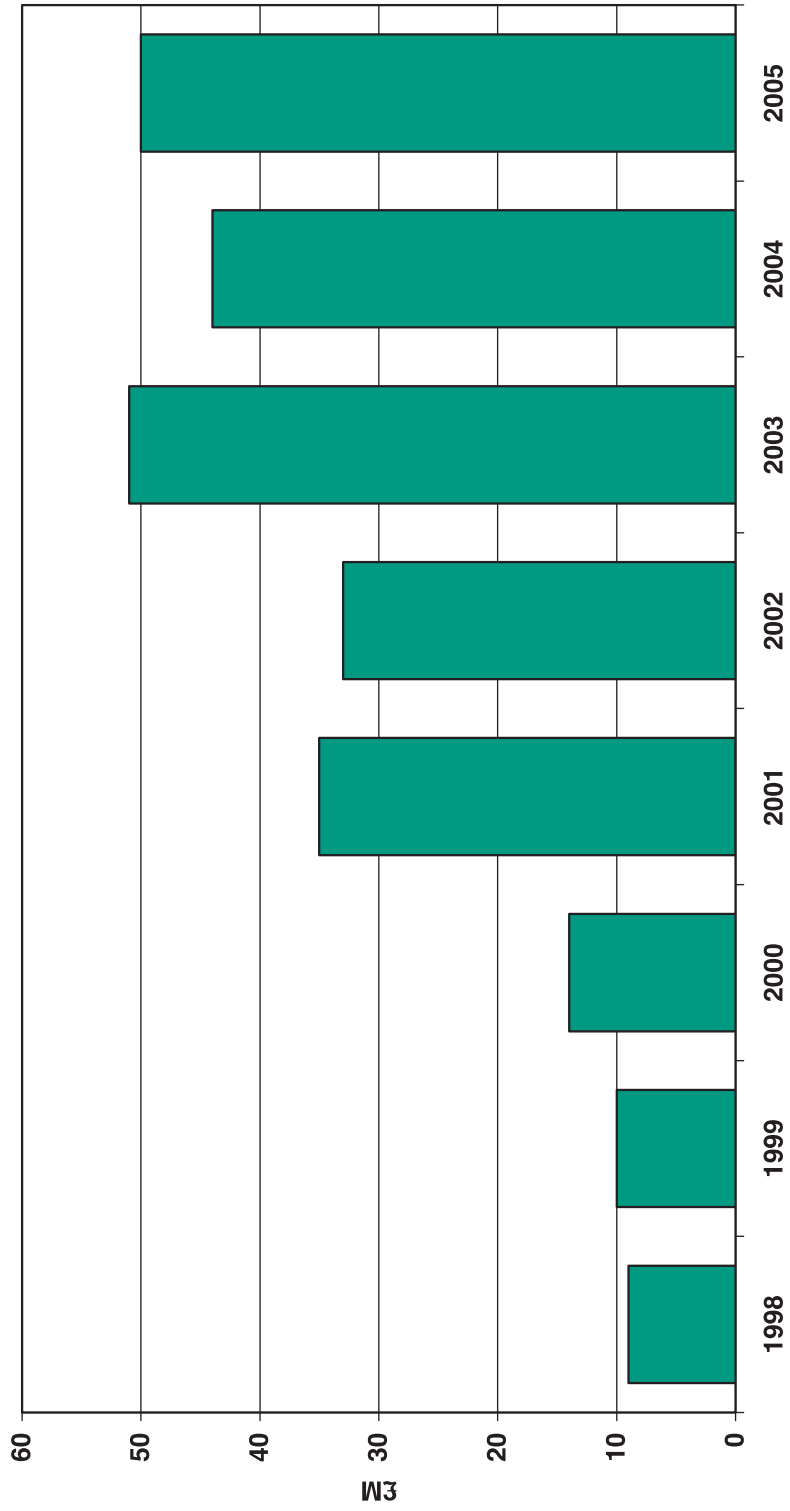
# REVENUE EXPENDITURE



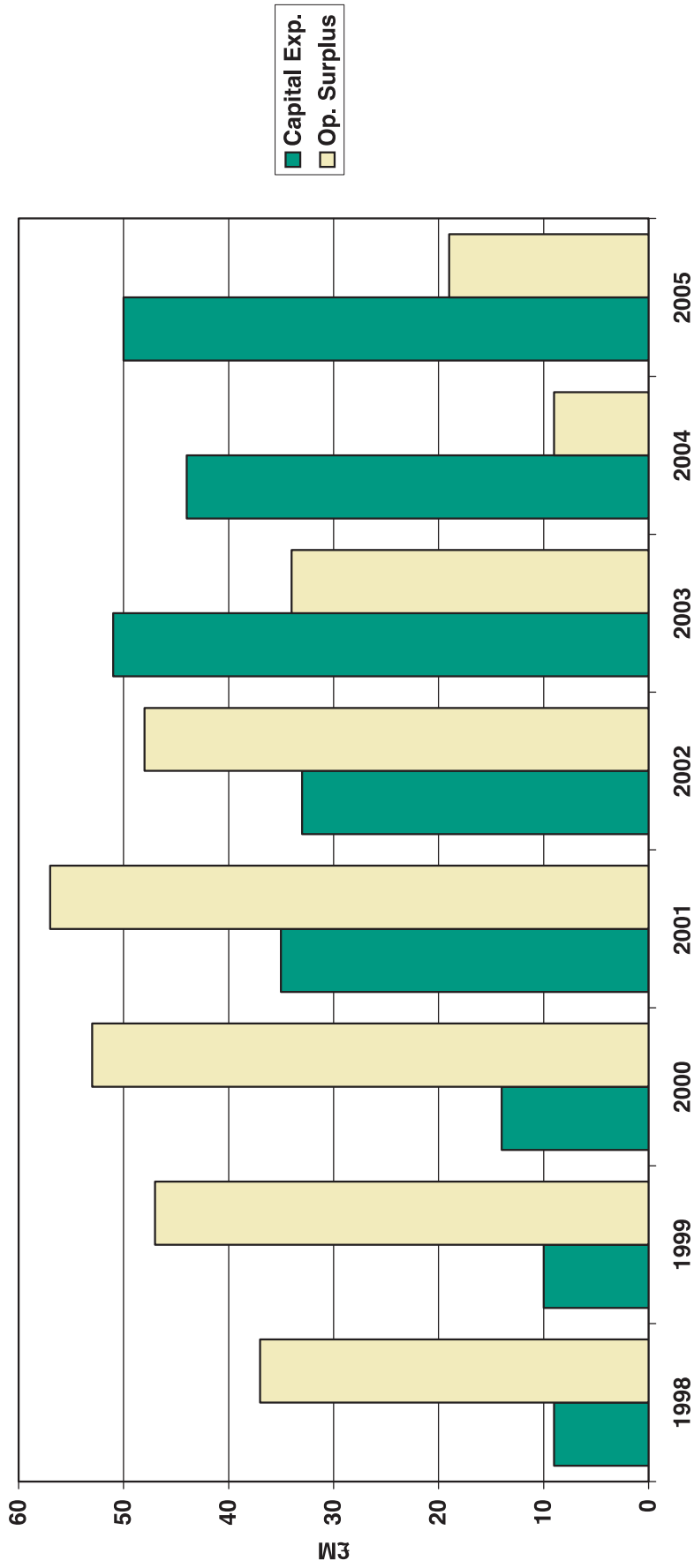
# OPERATING SURPLUS



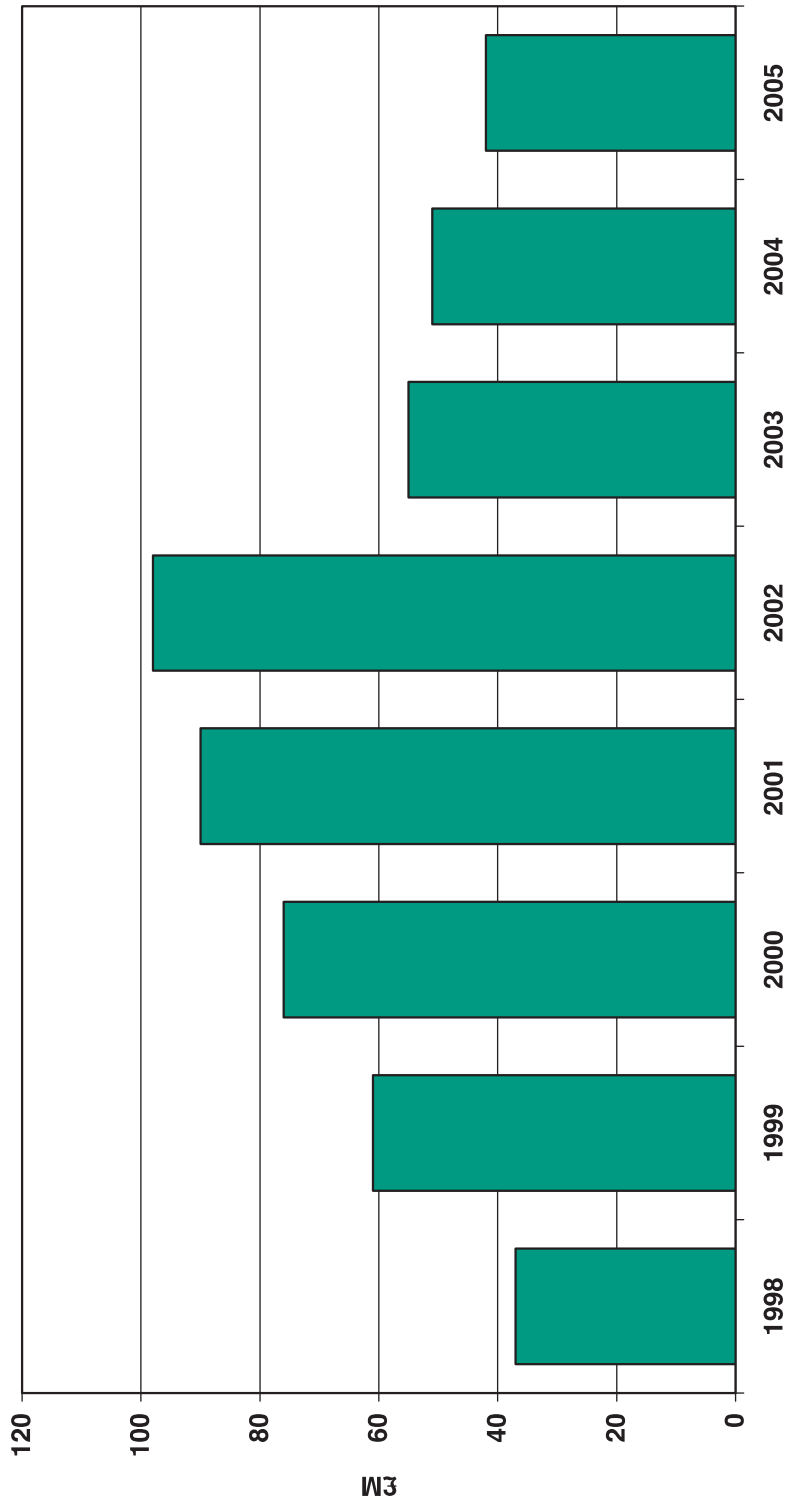
# CAPITAL EXPENDITURE



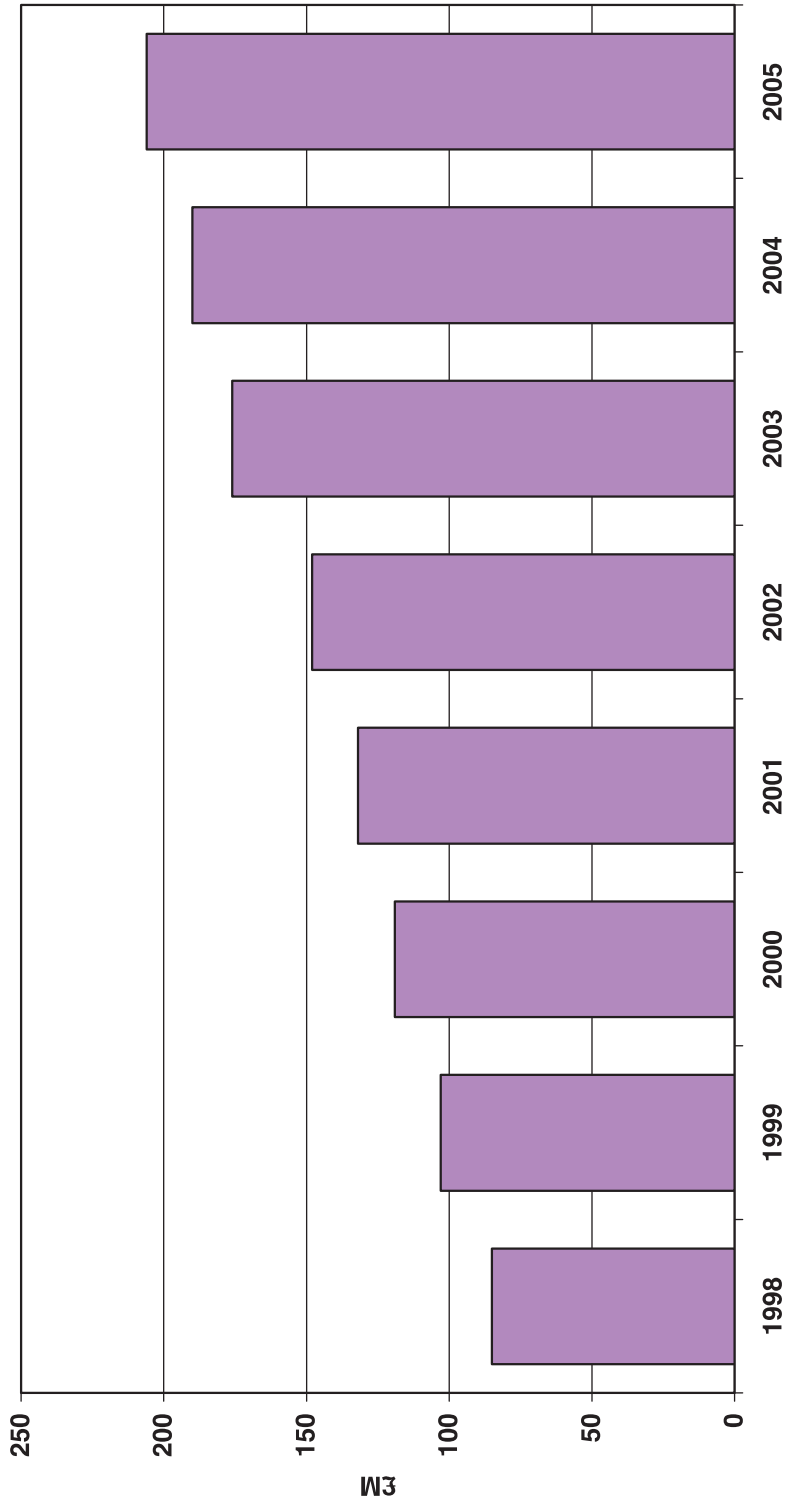
# CAPITAL EXPENDITURE vs OPERATING SURPLUS



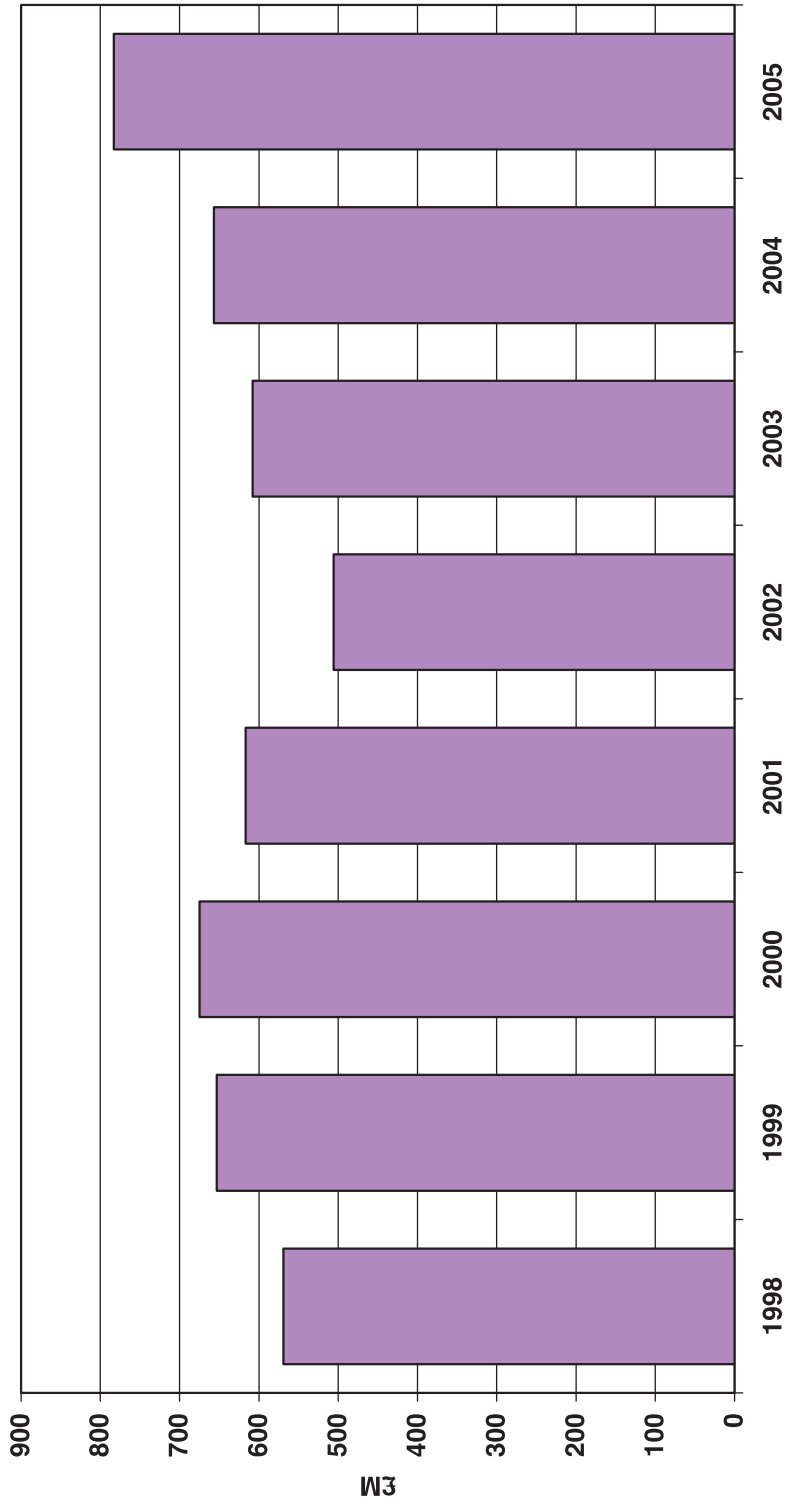
# CAPITAL RESERVE



# CONTINGENCY RESERVE

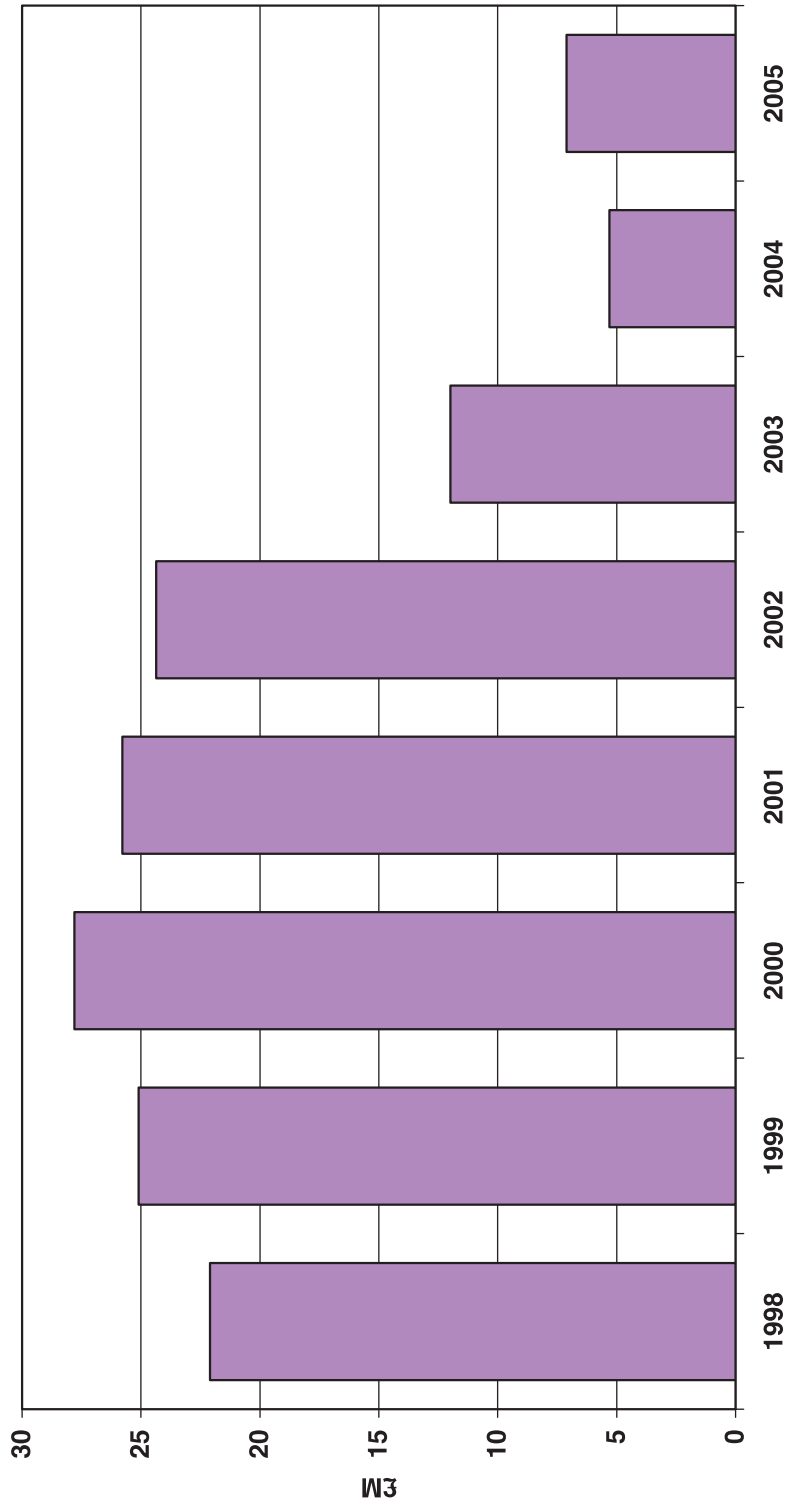


# SUPERANNUATION FUND

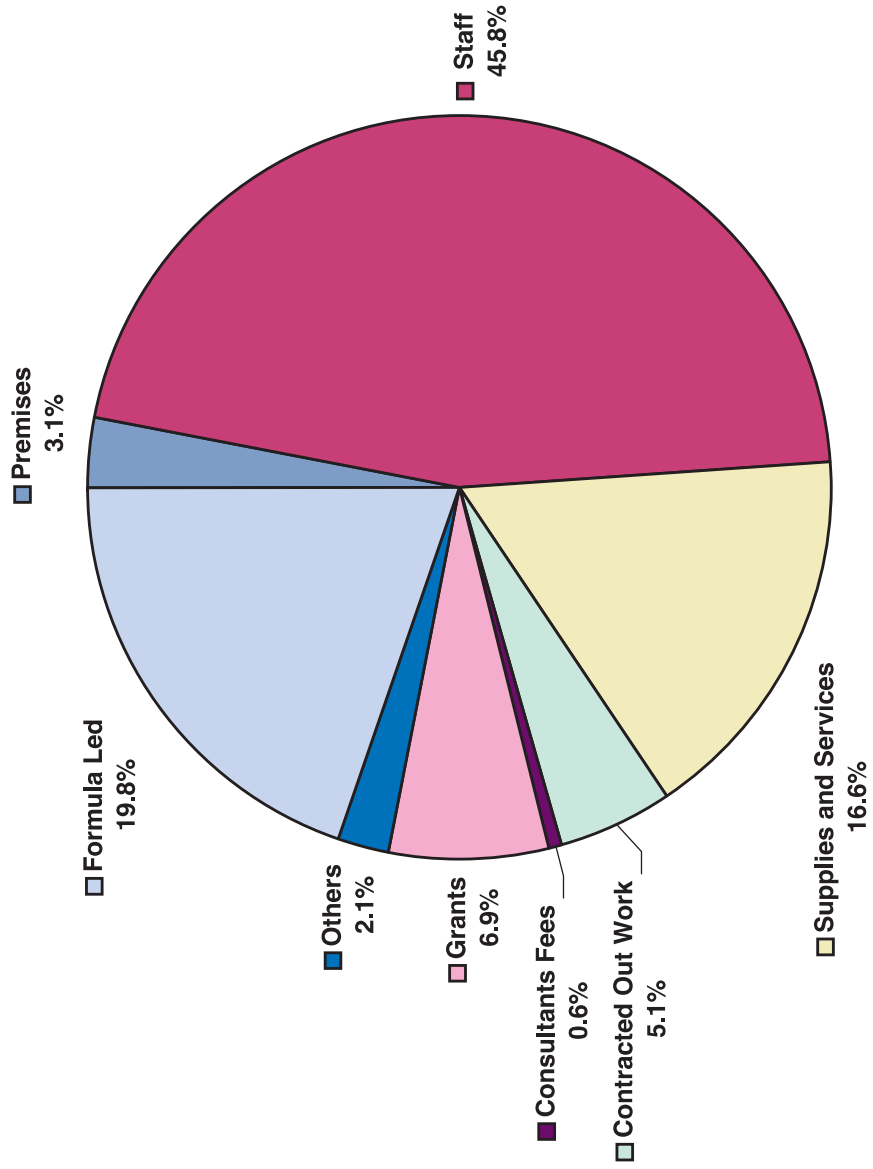




# PORTS HOLDING ACCOUNT BALANCE



# 2005 REVENUE EXPENDITURE BY STANDARD HEADING



# 2005 REVENUE EXPENDITURE BY TYPE

