THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ANNUAL BUDGET FOR 2020

The States are asked to decide:-

Whether, after consideration of the States of Guernsey Annual Budget for 2020, they are of the opinion:-

1. To endorse the intention of the Policy & Resources Committee to submit a policy letter to the States for consideration no later than March 2020 reporting on the findings of the review of the terms and conditions of public sector workers, together with any recommendations in respect of the remuneration of employees based on the principles of fair and equal pay.

2. To endorse the intention of the Policy & Resources Committee to submit a revised "Review of the Fiscal Policy Framework" policy letter to the States for consideration no later than January 2020 including:

    i. Addressing what the appropriate long-term aggregate limit on States' revenues (including all forms of taxation and social insurance contributions) should be, taking into account the known and estimated long-term pressures; and

    ii. Terms of reference for a review to examine options to raise further revenues from corporate taxes and the introduction of new taxes in areas such as a ring-fenced health tax, consumption taxes, etc. in order to raise sufficient revenues.

3. To authorise the Policy & Resources Committee to make transfers from the General Revenue Account Reserve to the Budget Reserve until 31 December 2019.

4. To note that the £26.1million of savings projected in the Medium Term Financial Plan will not be fully realised by the end of 2021 and to agree that public service reform activity must continue to generate reform dividends in order to contribute towards balancing the budget.

5. To authorise the Policy & Resources Committee to transfer the sum of £40million from General Revenue to the Capital Reserve during 2020.

6. To approve that returns of capital from the States' trading assets and capital income in 2020 be transferred to the Capital Reserve.

7. To immediately transfer the sum of £900,000 from the General Reserve to the Future Guernsey Economic Fund.

8. To note the use of £3.34million of the General Reserve to increase the 2020 budgets of the Committee *for* Education, Sport & Culture (£3.065million) and the Committee *for* Home Affairs (£275,000).

9. To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for the People Plan by £500,000 to £1.25million.

10. To increase the authority delegated to the Policy & Resources Committee to approve funding from the Transformation and Transition Fund for Public Service Reform by £1million to £3.1million.

11. To extend the company higher rate tax (20%) to:

    (a) Income from the licensed activity of cultivation of cannabis plants, and income from the use of those cultivated cannabis plants or parts of those cultivated cannabis plants for –

        i. any licensed production of industrial hemp, supplements, cannabidiol, fibre, medicinal products or other products,
        ii. any licensed processing, or
        iii. any other licensed activity or use, and

    (b) where prescribed by regulations of the Policy & Resources Committee, income from –

        i. the licensed production of controlled drugs, and
        ii. the use of those controlled drugs (produced under license) or parts of those controlled drugs for any licensed activity or use,

    and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2020.

12. To extend the company intermediate income tax rate (10%) to the income from the activity of operating an aircraft registry, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2020.

13. To agree that the annual tax-free lump sum limit for a pension scheme is set at £203,000 for 2020.

14. To endorse the intention of the Policy & Resources Committee to increase the Benefit in Kind charges with effect from 1 January 2020, by 2.5% per annum, compounded, for 2020, 2021 and 2022, as set out in paragraph 6.36 of this Report, by regulation under powers conferred by section 8(2A)(b) of the Income Tax (Guernsey) Law, 1975.

15. To amend the Income Tax (Guernsey) Law, 1975 to clarify that an individual electing to pay the standard charge remains liable to Guernsey income tax on his or her worldwide income, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2020.

16. To amend the Sixth Schedule of the Income Tax (Guernsey) Law, 1975 to exclude from the tax cap-

    (a) triviality payments, and

    (b) such amounts of lump sum payments from pension schemes or annuity schemes which are chargeable to tax as being over the tax-free limit,

    which derive from Guernsey tax-relieved contributions.

17. That,

    (a) subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2020 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition;

    (b) the allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975 and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled;

    (c) "Family Allowances" means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and

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

FIRST SCHEDULE

Year of Charge 2020

Allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the standard rate. In order to calculate the amount of the allowance, where the taxpayers are married or in a civil partnership, each spouse's income shall be considered separately, in accordance with the table below. All allowances are subject to the following conditions –

(i) the allowances shall be pro-rated for a person who is solely or principally resident in the years of that person's, arrival in, or permanent departure from, Guernsey, based on the proportion of time spent in Guernsey in the relevant year of charge in the same manner in which income is pro-rated by virtue of sections 5(3) and 5(4) of the Income Tax (Guernsey) Law, 1975,

(ii) where a person is in receipt of a Guernsey source pension, which is liable to be taxed at source under the Employees Tax Instalment scheme, or a Guernsey old age pension arising under section 33 of the Social Insurance (Guernsey) Law 1978, then the pro-rating under section 51(5) and 51A(2A) of the Income Tax (Guernsey) Law, 1975 shall apply –

  (a) from the commencement of the year of charge until the date of arrival (in the case of that person's permanent arrival),

  (b) from the date of departure until the end of the year of charge (in the case of that individual's permanent departure), and

(iii) the totality of each person's allowances and withdrawable deductions are reduced at a ratio of £1 of allowances and withdrawable deductions for every £5 that that person's calculated income is above the limit of £100,000 (such limit being pro-rated in the year of arrival or departure, based on the proportion of time spent in Guernsey in the relevant year).

For the purpose of this schedule –

  (a) calculated income is an individual's income net of deductions but gross of any withdrawable deductions to which that individual is entitled, and

  (b) the withdrawable deductions are the following deductions

  - Pension contributions, namely
    - Retirement Annuity Allowance
    - contributions to an approved occupational or personal pension scheme

    over £1,000 (which aggregate amount shall not be withdrawn, and shall not form part of the 'withdrawable deductions')

- Mortgage interest relief

NATURE OF ALLOWANCE	**AMOUNT OF ALLOWANCE**
1. **Personal Allowance*^**	Tax at the standard rate on £11,575.
2. **Dependent Relative Allowance***	In respect of each dependent relative - tax at the standard rate on £3,750 or on the amount of the contributions whichever is less: Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £7,825 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,750 the sum of £1 for every pound by which the dependent relative's income exceeds £7,825.
3. **Infirm Person's Allowance***	Tax at the standard rate on £3,750
4. **Housekeeper Allowance**	Tax at the standard rate on £3,750
5. **Charge of Children Allowance***	Tax at the standard rate on £7,875
6. **Retirement Annuity Allowance**	Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

Dependent Relative Allowance

A. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in the case of a child receiving higher education are:

(a) that the child in respect of whom an allowance is claimed -

(i) is the child of the claimant, or

(ii) is the illegitimate child of the claimant and in the year of charge is maintained by the claimant;

(b) that on the first day of August in the year of charge, the child is over the age of nineteen years and is, in that year of charge, receiving full-time instruction at any university, college, school or other educational establishment.

(c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2018.

(2) The expression "child" shall include a stepchild, and a child who has been lawfully adopted shall be treated as the child of the individual by whom he has been so adopted and not as the child of the natural parent.

(3) Where a couple are cohabiting as if they were married and either has a child in respect of whom a dependent relative allowance is claimable, either individual by a notice in writing addressed to the Director, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of that cohabitee.

(4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.

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

B. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:

(a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and

(b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself; and

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

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

Infirm Person's Allowance

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

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

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

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

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

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

Housekeeper Allowance

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

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

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

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

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

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

(3) A housekeeper allowance shall not be granted to any individual in any year in which another person's unused allowance has been transferred to that individual or if that individual is in receipt of an infirm person's allowance.

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

Charge of Children Allowance

(1) The conditions to be fulfilled to entitle a claimant who is married or in a civil partnership to a charge of children allowance are:

(a) that in the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children

(i) on 1 January, or

(ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

(b) that the claimant proves that throughout the year either the claimant or the claimant's spouse is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and

(c) that neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained, or if the claimant or any other individual is so entitled, that the claim has been relinquished.

(2) The conditions to be fulfilled to entitle a claimant who is not married or in a civil partnership to a charge of children allowance that in the year of charge:

(a) the claimant is in receipt of Family Allowances in respect of one or more children

(i) on 1 January, or

(ii) on the date on which Family Allowance is first claimed in respect of that child in the year in question,

whichever date is first relevant, and

(b) the claimant is not cohabiting with another person, except where -

(i) the claimant proves that throughout the year either the claimant or the claimant's cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by the claimant for the purpose of having the charge and care of the child, and

(ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if the claimant or any other individual is so entitled that the claim has been relinquished.

(3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.

(4) Where an individual has a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

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

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

Retirement Annuity Allowance

(1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance or deduction under section 8(3)(bb) are that the claimant pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and of which the claimant or the claimant's spouse is a beneficiary.

(2) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant during the year of computation of the income of the claimant assessable for the year of charge.

(3) Notwithstanding the provisions of the preceding paragraph no allowance or deduction shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed:

(a) 100% of the income of the claimant during the year of computation referred to in the preceding subparagraph, or

(b) any retirement annuity contribution limit for the time being prescribed by Regulations made by the Committee.

Transferability of unused allowances

- *the allowances marked with an * in the first schedule are transferable between taxpayers in the circumstances described in paragraph (i) below*
- *the allowances with an ^ in the first schedule are transferable between taxpayers in the circumstances described in paragraph (ii) below,*

and in all cases transfer is subject to the conditions detailed below.

(i) transfers between married couples or couples in a civil partnership	Any allowances due to an individual which are greater than the individual's own income may only be transferred to the spouse, if at the commencement of the year of charge the claimant's spouse is living with the claimant as a married couple. Provided that, should the marriage or a civil partnership end in the year of charge, by reason of divorce or separation, the allowance is proportioned on the basis of the number of days in the year of charge which precede that event, with the relevant proportion of any unused allowances prior to that event being automatically transferred. For the purposes of this paragraph – "divorce" means that the Court for Matrimonial Causes has made a Final Order on a decree of divorce or of nullity of marriage in respect of the marriage in question or that the courts of another jurisdiction have made a corresponding order in respect thereof, and includes an order for the dissolution of a civil partnership, and "separation" means that the couple are living separately as fully and as completely as though they had never been married or entered into a civil partnership, as the case may be. Provided that, should the marriage or a civil partnership end in the year of charge, by

reason of death, the full unused allowance is transferrable.

Where there is an entitlement to transfer of an allowance under this paragraph, that allowance will be automatically transferred.

(ii) transfers between co-habiting couples in receipt of Family Allowance, but not eligible for the charge of children allowance

Where the recipient of a Family Allowance in respect of one or more children is not entitled to claim the charge of children allowance because the claimant is cohabiting with another person, the claimant may, in respect of the year of charge, by notice in writing addressed to the Director, elect that any unused part of, the personal allowance to which the claimant would otherwise be entitled shall cease to be the claimant’s and shall become part of the personal allowance of the person with whom they are cohabiting, such election, once made, to be irrevocable in respect of that year of charge.

For the purposes of this paragraph "cohabiting" means living with another person, as if they were married or in a civil partnership, throughout the year of charge.

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

With immediate effect:

a	Cigarettes	£390.16 per kilogram
b	Cigars	£390.16 per kilogram
c	Hand rolling tobacco	£378.76 per kilogram
d	Other manufactured tobacco	£328.53 per kilogram
e	Tobacco leaf – unstemmed	£364.71 per kilogram
f	Tobacco leaf – stemmed	£368.36 per kilogram
g	Petrol other than any fuel used for the purpose of air navigation	71.2p per litre
h	Petrol used for the purpose of marine navigation where supplied by an approved trader	48.1p per litre
i	Gas oil	71.2p per litre
j	Biodiesel	71.2p per litre
k	Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	26p per litre
l	Beer, other than beer brewed by an independent small brewery, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	54p per litre
m	Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	43p per litre
n	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	87p per litre
o	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	55p per litre
p	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.09 per litre
q	Beer exceeding 7.5 per cent volume	£1.26 per litre
r	Spirits	£39.31 per litre of alcohol contained in the liquor.

s	Cider brewed by an independent small cider-maker exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	26p per litre
t	Cider, other than cider brewed by an independent small cider-maker, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	54p per litre
u	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	43p per litre
v	Cider, other than cider produced by an independent small cider-maker, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	87p per litre
w	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	55p per litre
x	Cider, other than cider produced by an independent small cider-maker, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.09 per litre
y	Cider exceeding 7.5 per cent volume	£1.26 per litre
z	Light wines not exceeding 5.5 per cent volume	68p per litre
aa	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.77 per litre
bb	Other wines	£4.42 per litre
With effect from 1 January 2020:		
cc	Petrol other than any fuel used for the purpose of air navigation	72.3p per litre
dd	Petrol used for the purpose of marine navigation where supplied by an approved trader	49.2p per litre
ee	Gas oil	72.3p per litre
ff	Biodiesel	72.3p per litre

19. To approve the draft Ordinance entitled "The Excise Duties (Budget) Ordinance, 2019" and to direct that the same shall have effect as an Ordinance of the States.

20. To agree that commercial buildings and land TRP tariffs shall be increased by 5% with effect from 1 January 2020.

21. To agree that, over a period of five years, the tariff for the general Office and Ancillary Accommodation category shall be increased to the same tariff as the Office and Ancillary Accommodation tariffs for regulated finance industries, legal services, accountancy services and non-regulated financial services businesses, commencing with an additional increase of £5.70 to that tariff with effect from 1 January 2020.

22. To agree that domestic and land TRP tariffs shall be increased by 10.2% with effect from 1 January 2020.

23.

   A. To reaffirm Resolution 30 of Article1 of Billet d'État XXIV of 2019 to introduce increased Tax on Real Property tariffs in 2020 for properties with a TRP rating between 200 and 499 as set out in paragraph 6.80 of that Report.

   Or, only if Proposition 23A shall have been defeated,

   B. To agree that commercial TRP tariffs shall be increased by a further 5% with effect from 1 January 2020.

   Or, only if Proposition 23B shall have been defeated,

   C. To reaffirm Resolution 30 of Article1 of Billet d'État XXIV of 2019 to introduce increased Tax on Real Property tariffs in 2020 for properties with a TRP rating between 200 and 499 as set out in paragraph 6.80 of that Report; and

      i. to agree that commercial TRP tariffs shall be increased by a further 5% with effect from 1 January 2020, and

      ii. to increase the service development funding in paragraph 7.3 by £850,000 to £6,250,000.

24. To agree that domestic buildings and land TRP tariffs shall be increased by 8.8% with effect from each of 1 January 2021; 1 January 2022; 1 January 2023; 1 January 2024; and 1 January 2025.

25. To agree that:

      i. the "outbuildings" categories are removed from the TRP Ordinance and these outbuildings classified within the appropriate domestic buildings category; and

      ii. a new category of "property for other use" is created within the domestic TRP classifications to be used for buildings, whether attached or detached from the dwelling house, which are not used in connection with the enjoyment of the dwelling house (which includes use for domestic storage or garaging) where the Policy & Resources Committee has approved an application made by the owner.

26. To agree that attached domestic glasshouses which are not used for domestic dwelling purposes are included within the domestic glasshouse TRP classification where they are not used for the purposes of a business, trade or undertaking, and the Policy & Resources Committee has approved an application made by the owner.

27. To approve the draft Ordinance entitled "The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2019" and to direct that the same shall have effect as an Ordinance of the States.

28. To direct the preparation of such legislation as may be necessary to amend customary law to enable equity release mortgages to be offered in Guernsey.

29. To approve the cash limits for ordinary revenue expenditure for 2020 totalling £432.125million as set out in paragraph 7.3 of this Report and the revenue expenditure budgets on pages 138 to 158;

30. To agree that a Pooled Budget be formed for "Countering economic crime, money laundering and terrorist financing" initially comprising the service development funding of a maximum of £1.3million.

31. To agree that, with effect from 2020, the direct funding from the States of Guernsey General Revenue Account to the States of Alderney is treated as a grant instead of a Cash Limit.

32. To agree that the Alderney Gambling Control Commission surpluses received by the States of Alderney continue to be transferred to the States of Alderney capital allocation up to 31 December 2020.

33. To delegate authority to the States of Alderney to transfer from the States of Alderney capital allocation to the Alderney Economic Development Fund a maximum amount of £300,000 in 2020.

34. To endorse the decision of the Policy & Resources Committee to make available a temporary overdraft facility for 2020 of £25.7million to Aurigny Limited.

35. To authorise the Policy & Resources Committee to guarantee external overdraft facilities of Aurigny Limited up to 31 December 2020 of a maximum of £25.7million.

36. To authorise the Policy & Resources Committee to make available a temporary overdraft facility for 2020 of a maximum of £5million to Aurigny Limited if Aurigny ceases operating either or both of the Alderney air routes.

37. To authorise the Policy & Resources Committee to guarantee an external overdraft facility of Aurigny Limited up to 31 December 2020 of a maximum of £5million if Aurigny ceases operating either or both of the Alderney air routes

38. To endorse the intention of the Policy & Resources Committee, in consultation with the Committee *for* Economic Development and the States' Trading Supervisory Board, to develop a co-ordinated and coherent government framework for the consideration of all aspects of air route operation and support that is under the control or influence of the States of Guernsey and report back to the States by no later than April 2020.

39. To approve the following Budgets for the year 2020:

(a) Ports
(b) Guernsey Water
(c) Guernsey Waste
(d) States Works
(e) Guernsey Dairy
(f) Corporate Housing Programme Fund
(g) Guernsey Registry
(h) States Capital Investment Portfolio – Operating Costs
(i) Superannuation Fund Administration
(j) Committee *for* Employment & Social Security – Contributory Funds

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

Committee Support for Propositions

In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that Deputy Brouard does not support Proposition 12; all other propositions have the unanimous support of the Policy & Resources Committee.

G A St Pier
President

L S Trott
Vice-President

A H Brouard
J P Le Tocq
T J Stephens

PRESIDENT'S FOREWORD

Despite unprecedented pressure on the cost of and demand for public services, the Policy & Resources Committee has been able to present a balanced budget which meets all but 15% of budget requests.

In compiling this Budget, the Committee has also reviewed the level of the transfer to the Capital Reserve and reduced this to a level it considers to be more appropriate and sustainable and which will meet the needs of the States for the current and next capital portfolios.

The States' finances are in a strong position following many years of financial discipline, delivery of savings, recent economic growth and transferring funds to both the Capital and Core Investment Reserves. This means that the States are well prepared for the now real impact of the ageing population and the consequential demand pressures on public services, as was set out in the Medium Term Financial Plan. What has changed since the development of that plan is not the existence but the speed at which service pressures have materialised and their scale.

In Section 2 of this report, the Committee highlights the multiple longer-term policies and plans under development which, if approved by the States, will have a material impact on the taxpayer, the economy and the cost of public services. These include: addressing the sustainability of the Long Term Care scheme; changes to the policy regarding the funding of NICE drugs and treatments; and the introduction of a Secondary Pension Scheme. These are in addition to the pressures that will inevitably continue to be experienced as a result of the ageing population and the need to take actions to address the impact of climate change.

The potential cumulative financial effect of these measures is large and cannot be met from within existing resources. Therefore, there is a requirement for the States to carefully consider the level of public services which is affordable and realistic. The level of total revenues raised by government in Guernsey is currently 21% of GDP which compares to 26% in Jersey, 38% in the UK and 53% in France. However, the level of public services cannot be considered in isolation of the options and appetite for raising revenues to provide that level of service.

The Policy & Resources Committee has produced an analysis breaking down the real cost of providing public services and the impact of the current tax regime on individual households (Appendix II). This is intended to provide context and clarity over where public funds come from, how they are spent, and the value that is provided. This information is central to any informed debate on the future funding of public services.

The corporate tax base has been substantially extended since 2012. The personal income tax system has become increasingly progressive in recent years with approximately 69% of total income tax revenues coming from the top 25% of earners. Notwithstanding these changes, the existing tax base remains exceptionally narrow and therefore the options to raise substantial additional funding within the current structure of taxes and duties are very limited. Consequently, it is the intention of the Policy & Resources Committee to submit a revised "Review of the Fiscal Policy Framework" policy letter to the States for debate no later than January 2020, including:

PRESIDENT’S FOREWORD

- addressing what the appropriate long-term aggregate limit on States’ revenues (including all forms of taxation and social insurance contributions) should be, taking into account the known and estimated long term expenditure pressures; and

- the terms of reference for a review to examine options to raise further revenues from corporate taxes and for the introduction of new taxes in areas such as a ring fenced health tax, consumption taxes, etc. in order to raise sufficient revenues.

Deputy Gavin St Pier
President, Policy & Resources Committee

CONTENTS

2020 BUDGET REPORT

Section 1: Overview

1.1 This Budget has been prepared in the context of the framework of overarching States' policies and strategies including the Fiscal Policy Framework and the Policy & Resource Plan. The Medium Term Financial Plan ('MTFP') (Billet d'État XII, 2017) set out an overall expectation of the position that will be attained over its four year period as a result of complying with the financial strategies set out therein.

1.2 Unlike many other jurisdictions, the requirement of any Guernsey Budget is that the necessary level of income is raised to fund the appropriate level of public services without recourse to a public sector borrowing requirement. At the outset of the budget planning process, with the information available at that time and based on the MTFP, the Policy & Resources Committee constructed a financial model consisting of a number of variables and assumptions around growth, savings, revenues and expenditure. This produced a range of possible outcomes for the overall financial position of the States in 2020 from 'best' to 'worst' case.

1.3 The Revenue Income position is ahead of the MTFP estimate by £6million and in line with 'best case' forecasts. This is due to the revenue raising decisions made in previous budgets and continued strength in the economy. This is demonstrated financially through income tax receipts and the ongoing growth in document duty receipts as a result of increasing volumes and values of property conveyances.

1.4 The expenditure position however is significantly more challenging, by some £12million, than the modelled 'worst case' forecast. This is as a result of a combination of delays in the delivery of savings and significant increases in the demand for funding existing public services and their development.

1.5 In compiling this Budget Report and recommending it to the States, the over-riding focus of the Policy & Resources Committee was to deliver a balanced and responsible budget. The Committee has sought to balance the limited revenue raising opportunities and their economic impact with the overwhelming demand for additional public sector expenditure. The Committee has also focussed on the continued need to provide reductions in the cost base to deliver on the ambition of Public Service Reform and the longer term sustainability of services.

1.6 A careful equilibrium has been sought between the short term needs and responsibility for the longer term. The Policy & Resources Committee is recommending a reduction in the transfer to the Capital Reserve. This has been done with regard to the medium term and the need for continued realistic investment in public sector assets, but has also enabled a balanced budget to be delivered.

1.7 It would not be responsible to present a deficit budget or to balance by short term measures alone which would impose an immediate challenge for the next States. However, Section 2 of this report does consider the longer term challenges which will need to be addressed if the States are to continue to deliver the public services the community wants.

Revenue Raising Measures

1.8 Section 6 sets out a number of income proposals which will raise an additional £3.8million per annum:

- income from the licensed activity of cultivation and manufacturing of the plant cannabis is brought within the scope of the company higher income tax rate (20%);

- extension of the company intermediate rate (10%) to the income from the activity of running an aircraft registry;

- excise duties on tobacco and motor fuel are increased in line with existing policies and the excise duty on alcohol is increased by 5% (£1.45million);

- commercial TRP tariffs are increased by 5% (£850,000) and the general office and ancillary accommodation category is increased to the same tariff as those for regulated finance industries, legal services, accountancy services and non-regulated financial services businesses over a five year period (£700,000);

- domestic TRP tariffs are increased by 10.2% (£825,000); and

- an option to either:

  - Increase domestic TRP tariffs for all properties with a rating of between 200 and 499 (£800,000); or

  - Increase commercial TRP tariffs are increased by a further 5% (£850,000); or

  - Increase domestic TRP tariffs for all properties with a rating of between 200 and 499, **and** increase commercial TRP tariffs by a further 5% (total of £1.65million) in order to fund £850,000 of additional service developments.

Expenditure

1.9 The base estimate of the Policy & Resources Committee, in line with the MTFP, was that there would be £7.5million (excluding pay awards) available to allocate to Committees to fund requests for additional budget in 2020. This comprised £2.6million of inflation on non-pay expenditure, £1.4million for funding expenditure pressures, and £3.5million for service developments. However, detailed submissions were received from Committees which requested funding of £27.9million.

1.10 An extensive programme of dialogue with Committees was undertaken to understand the submissions. Subsequently each submission was categorised, reviewed, challenged and moderated with service development requests being scored in order to produce a prioritised list. Alternative funding sources were identified for £4.4million of these items.

1.11 The Policy & Resources Committee considered options for making additional funding available for allocation to Committee budgets and concluded that maximising the funding allocated to Cash Limits would be achieved by reducing the transfer to the Capital Reserve to £40million (paragraphs 5.45 to 5.52) and making a transfer of £3.3million from the General Revenue Account Reserve to fund the anticipated but yet to be delivered balance of budget reductions for the Committees *for* Education, Sport & Culture and Home Affairs (paragraphs 5.59 to 5.62).

1.12 This resulted in additional funding being available which enables the non-discretionary requirements (£15.5million) to be fully funded and £5.4million to be allocated to service developments.

1.13 A total of £3.35million of requests remain unfunded. The States are being given an option to raise an additional £850,000 through Commercial TRP which would then be available to allow additional service development funding. Committees will have to consider how the budget provided is best allocated to establish a strong baseline and fund the service developments which they consider are the highest priority.

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

1.14 As set out in paragraph 5.28, a total of £4.2million of new savings are estimated to be delivered in 2020. This includes

- £820,000 already incorporated into the cash limits of the Committees *for* Education, Sport & Culture and Home Affairs through savings targets from previous years;

- £562,000 of savings already identified and removed from the cash limits of the Committee *for* Health & Social Care, the States' Trading Supervisory Board and the Royal Court;

- a 3% energy cost saving, totalling £150,000, allocated across Committees.

1.15 Therefore, the balance of new savings expected to be delivered in 2020 is £2.7million.

1.16 The delivery of these savings is not about cutting services, but to realise significant benefits, both financial and non-financial, by delivering improved services at a lower cost. There is substantial investment being made, from the Transformation and Transition Fund and the Capital Reserve, and it is expected that such investment should deliver an appropriate return by generating ongoing revenue savings.

1.17 It is clear that Committees' requirements for increases in expenditure budgets to fund baseline pressures and service developments are greatly exceeding the estimates included in the MTFP and cannot be met on an ongoing basis from the modest increase in revenue income. Without the delivery of these savings, the overall cost of public services will need to increase substantially, wholly funded by the taxpayer.

1.18 In 2020, the savings are being entirely used to fund service developments. That is, without realising the balance of the savings, only £2.7million instead of £5.4million could be allocated to service developments.

Reserves

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

- Capital Reserve – an earmarked long-term reserve created to provide funding for the States' programme of capital investment;

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

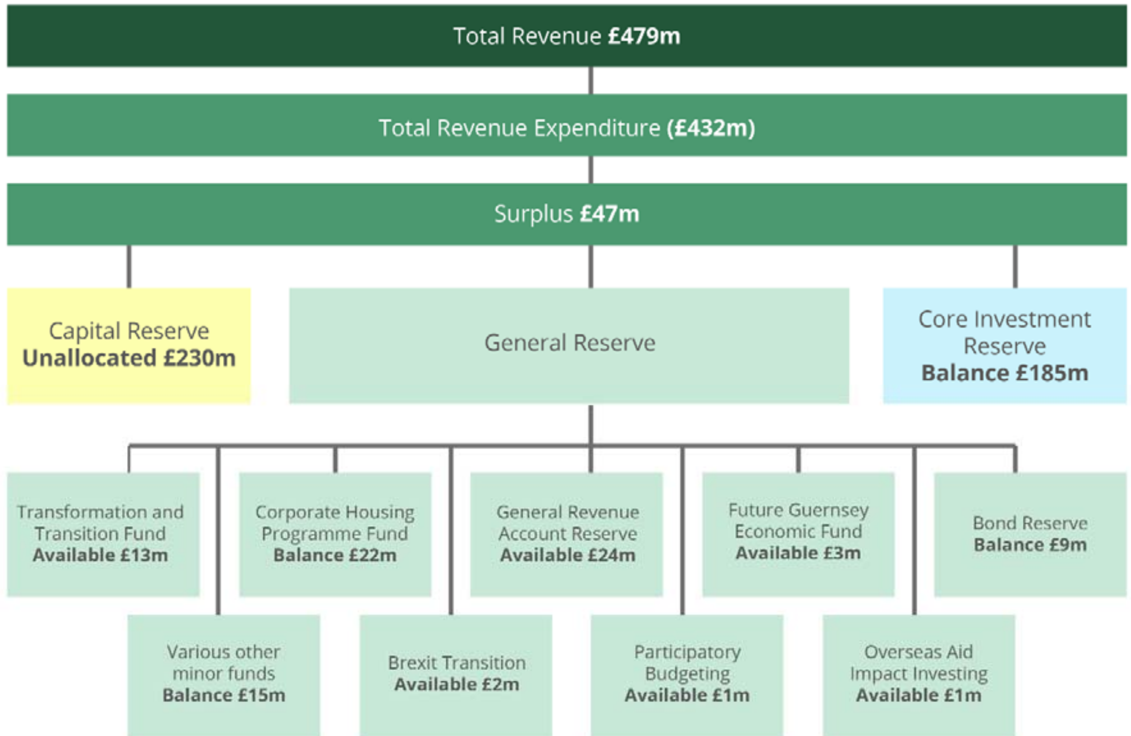
- States' Trading Entities Reserve – a long-term non-distributable reserve representing the book value of the shares held in commercial trading entities; and

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

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

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

1.22 The following diagram illustrates the structure of the various Reserves and Funds which the States have established over time and seeks to simplify the structure for communication.



1.23 Along with the evolution of the range of Reserves and Funds, the States have delegated authority to the Policy & Resources Committee (and formerly the Treasury & Resources Department) to be able to commit expenditure on behalf of the States to certain values and for specific matters. A schedule of those delegated authorities is included as Appendix III to this Budget Report.

1.24 The Policy & Resources Committee is conscious that the web of Funds has become complicated. In addition:

- the structure has, inadvertently, resulted in focus on which 'pot' of money is best used to fund a particular project rather than the schemes/projects/initiatives requiring funding, their outcomes and benefits for the States and the economy;

- funds have historically been set up with allocations, based on anticipated need, which are then not available for other, perhaps more pressing, projects (even if allocation is not being spent);

- the lines between transformation and capital investment are sometimes blurred and there is little value in splitting the costs of a project to fit a structure of Funds; and

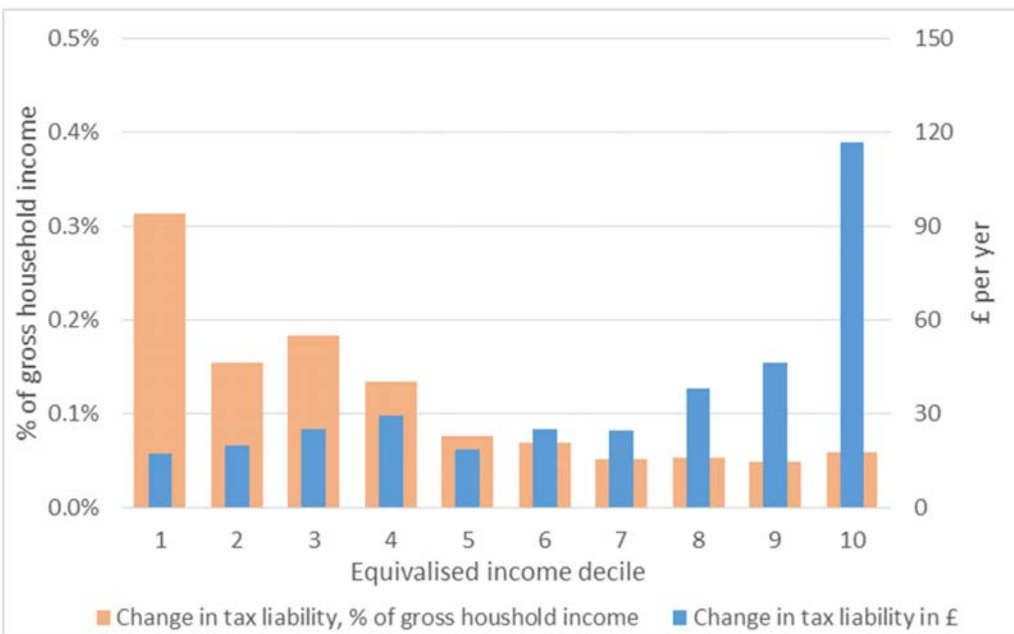
- there are worthy projects – perhaps relating to improving disability access to public spaces, 'green' initiatives or climate change actions – which do not sit comfortably in any of the existing Funds.

1.25 Therefore, it is the intention of the Policy & Resources Committee to recommend (in its handover document) that the next MTFP includes a proposal to rationalise the structure of the Reserves so that, as far as possible, they are collapsed into a single Reserve with the States being asked to approve a scheme of uses and delegation. A simplified structure would increase flexibility around the use of funds and provide clarity on uses authorised by the States and delegated authority given.

Household Impact of Budget Measures

1.26 This analysis examines the real (above inflation) impact of the proposed budget measures using information about real households[a]. Included in the analysis are the changes in: personal and other tax allowances; domestic TRP tariffs, and excise duties such as fuel duty. The results are presented by equivalised[b] income deciles and by household composition and report the impact of changes both in monetary terms (i.e. £ per year) and relative to a household's gross income. The numbers presented are averages intended to provide an illustration of the overall scale of the impact, as the circumstances of individual households can vary significantly.

1.27 The following graph presents the effect of the proposed budget measures by equivalised income decile:



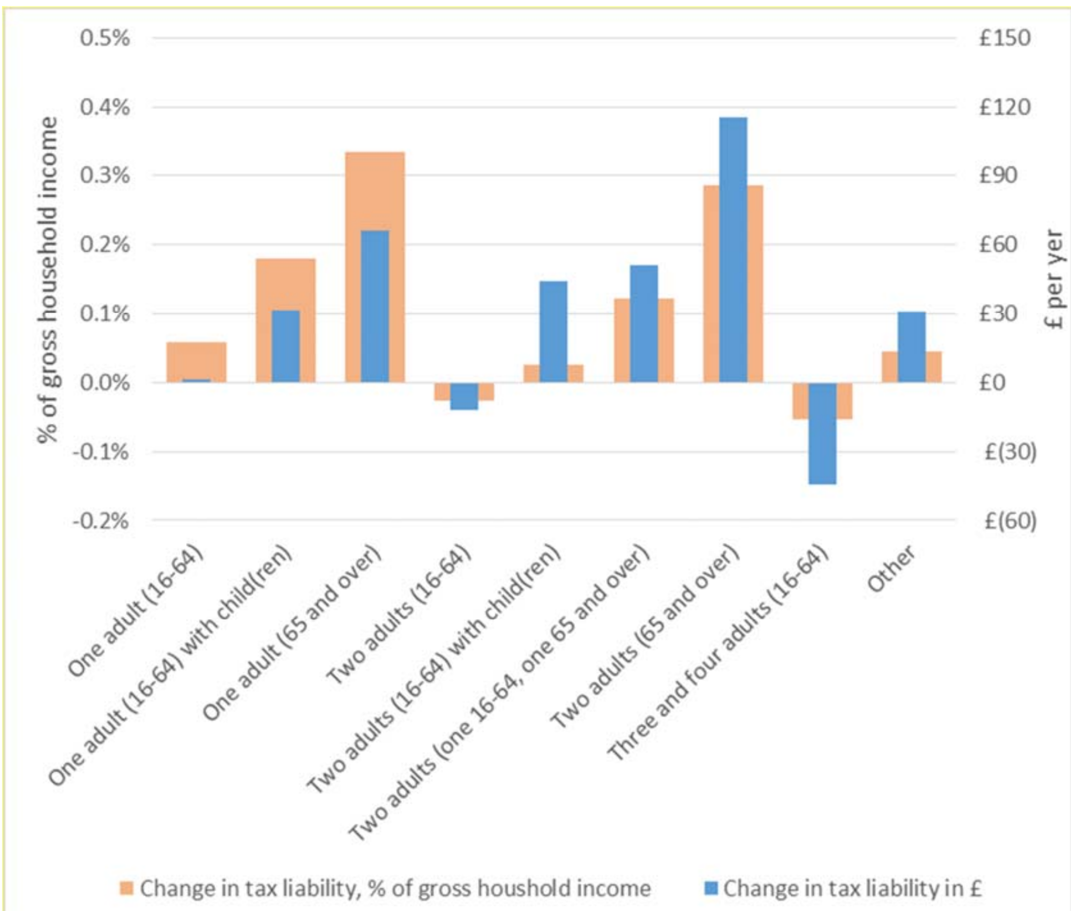
[a] from the data contained in the rolling electronic census

[b] Equivalised household income is a way of grouping households by income. First a household's income after the receipt of any benefits and the payment of taxes, contributions and any housing costs is calculated. This income is then adjusted to reflect the number of people that income must support. For example a couple without children would be able to live more comfortably on an income of £50,000 than a couple with children, so the income of the couple with children is adjusted downwards to reflect this.

Households are then grouped into ten deciles which represent households of similar incomes. The first decile represents the 10% of households with the lowest income, the tenth decile represents the wealthiest. Income deciles take no account of how much capital wealth a household might own (for example a family home).

1.28 The measures in this budget are expected to cost a household in the first income decile an average of £17 a year or 32p a week, compared to an average of £117 a year extra or £2.24 a week for households in the tenth income decile. The higher monetary impact on high income households is largely due to extention of the tiered TRP tariff structure. However, households in that decile also receive less benefit from the real-terms' increase in personal income tax allowances due to their withdrawal for higher earners.

1.29 The graph below presents the average impact of budget measures by household composition and shows that the highest impact is for pensioner couples and single pensioners, averaging £115 and £66 a year (or £2.22 and £1.27 a week) respectively. This is because pensioner households are more likely than working age households to own a property that is large in relation to their annual income. They also receive less benefit from the increase in personal income tax allowances.



1.30 Households of working age adults without children would on average be a little better off since this group would receive the largest benefit from the increase in the personal allowance.

1.31 The overall average imact on households is estimated at £36 a year or 0.1% of household income.

Section 2: The Cost of Public Services – Managing the Pressures

2.1 In recent years the States have developed a hierarchy of fiscal policy formation covering the long, medium and short term:

- the Fiscal Policy Framework sets out the island's highest level of fiscal policy, establishing the boundaries within which more detailed policy should operate. The Framework provides a series of high-level principles which define these boundaries in terms of long-term fiscal balance and limits on revenues, deficits and debt. It is designed to endure across multiple political terms to promote stability and consistency in fiscal policy. Policies which need to be more adaptable to the prevailing circumstances, requiring more frequent revision, should be set within the more detailed, shorter term policy vehicles;

- the Medium Term Financial Plan (MTFP) is a vehicle for agreeing the Government's fiscal policies for a four year period. It is bound by the Fiscal Policy Framework but provides more detail on policy responses and medium term ambition and plans; and

- the Annual Budget Report and the Annual Uprating Reports (developed by the Committee *for* Employment & Social Security) set detailed plans for the year ahead which operate within the medium and long term frameworks previously agreed by the States; they are the mechanisms for implementing policy decisions.

2.2 This structure provides assurance to islanders about Guernsey's commitment to fiscal prudence, while retaining the freedom for each States to pursue more detailed objectives around how this is achieved in the context of the economic and fiscal climate at the time.

2.3 This Budget Report has been compiled against a backdrop of unprecedented expenditure pressures, some of which are short term in nature and many of which are longer term and relate to the policy responses to the ageing population.

2.4 The MTFP was compiled during 2016 and 2017 and was the first time the States had sought to take a multi-year view of revenue income and expenditure. As a consequence, it proved difficult to estimate expenditure pressures over the Plan period. Committees have historically planned the cost of services on a year by year basis. Therefore, the systems and processes did not, in the majority of cases, exist to enable the estimation of the likely future service changes either as a result of changing demand, regulatory developments, or price changes. In seeking to identify cost pressures over the period, an allowance of approximately 0.5% real-terms increases (£1.5million) in cost across the four year period was made within the MTFP which said:

"There are no existing funding sources for such cost pressures and many are at an early stage in terms of both assessing their potential financial impact and whether they can be either significantly reduced or avoided entirely through changing models of service delivery and managing or diverting demand. ***The value used in this Plan is an early estimate and so could be significantly below the total of all such pressures****"* [emphasis added].

2.5 In addition, an allowance was made in the MTFP for the cost of service developments over the period estimated at £3.5million in each of 2020 and 2021. The Plan said:

"Further work is required to better understand any future service demands arising from the changing demographic and the financial implication of this. The work being undertaken in initiatives such as the Supported Living & Ageing Well Strategy and Transforming Health & Social Care Services should help understand the likely residual demand growth once those strategies and plans have been put in place which are focussed on mitigating such demand.

In addition, although there are currently no clearly identified or costed pipeline new or improved services, the Policy & Resources Committee has assumed that the policy work being undertaken by the Committees will ultimately lead to such proposals and has therefore made an allowance of £3.5million per annum in both 2020 and 2021.

It is hoped that, in future iterations, the Policy & Resource Plan will facilitate longer term planning such that a good understanding is available at an early stage of the likely implications of policy proposals which would allow prioritisation of such developments. However, at this stage in the evolution of the Policy & Resource Plan, the Committee considered it important to make an estimated allowance of the amount likely to be available for investing in those plans and initiatives that best deliver the outcomes set out and agreed in the Policy & Resource Plan."

2.6 Therefore, the total allowance for the increasing cost of existing services and the development of new or improved services in the MTFP was £5million for 2020.

Short Term Pressures

2.7 The Policy & Resources Committee (and before that the Treasury & Resources Department) has always had to consider requests for additional funding on an annual basis which have largely been able to be accommodated. However, in compiling the 2019 Budget Report, detailed submissions requesting additional funding of in excess of £13million were made, significantly exceeding the funding allowance of £3.1million made in the MTFP.

2.8 In seeking to balance the requests from those responsible for service delivery with the commitments made to control public expenditure, the Policy & Resources Committee recommended an increased real-terms allocation for 2019 to fund expenditure pressures and service developments.

2.9 Therefore, having undertaken a rigorous review and prioritisation exercise, declined some requests; identified others as being more appropriately funded from another source; and following extensive dialogue with Committees, the 2019 Cash Limits recommended the allocation of additional funding of £6.1million (1.5% of base Cash Limits).

2.10 The requests for funding in 2020 totalled £28million, or approximately 7% more than the base Cash Limits. These submissions are over and above the requirement to fund pay awards with some staff groups demanding significant real-terms' increases.

2.11 Through the review of the submissions it has become apparent that the majority of these requests were non-discretionary in nature with a significant amount already committed to by Committees within the baseline.

2.12 The pressures now being experienced are not new or unexpected. The MTFP said:

"The structural pressures are not something that can simply be tackled through raising taxes or cutting services. The changing demographic is increasing the ratio of those above pension age to those of working age. This means that demand for public services, in particular health and social care services, will increase; and the total cost of providing these services will increase proportionally, unless the services are redesigned to be financially sustainable.

In addition, the proportion of the population which is of working age is reducing, despite an assumed positive net migration of 100 per annum, which will lead to a long-term erosion of public revenues before allowing for any economic growth.

The Plan demonstrates that, if no actions are taken, an underlying deficit will persist throughout the period, cumulating to £70million. The 'carry on as normal' approach is therefore not an option. The Policy & Resources Committee believes that the burden of eliminating the structural deficit must be shared between taxpayers, particularly those most able to pay, and a reduction in the cost base through the reform of public services – which will lead to working differently, changing and improving the way services are delivered to enable savings to be made."

2.13 **What has changed since the development of the MTFP is the speed at which service pressures have materialised and their scale.** However, the Policy & Resources Committee still takes extremely seriously the need to control public expenditure. Recognising that there are pressures which need to be addressed does not remove the responsibility to ensure that taxpayers' money is spent wisely and that public services are run as efficiently as possible. That is why the Policy & Resources Committee remains committed to Public Service Reform and the need to redesign, modernise and digitise public services to minimise the burden on the taxpayer.

Longer Term Pressures

2.14 In addition to the significant short-term cost pressures on the delivery of public services, there will be a need to address wider economic and societal factors such as pressures relating to the ageing population and climate change. The Committee *for the* Environment & Infrastructure is developing a climate change policy and a 'Climate Change Action Plan' which will have resource implications for the States.

2.15 The Policy & Resources Committee is aware of numerous such longer-term policies and plans which, if approved, are likely to have a material impact on the taxpayer, the economy and the cost of public services including:

- part of the implementation of the Supported Living and Ageing Well Strategy involves examination of the sustainability of the Long Term Care scheme and considering broadening its scope to incorporate care in the community to ensure that there is consistency in the way both residential based and home care is funded;

- the potential requirement to increase social security contributions in order to stabilise the Guernsey Insurance Fund which is explored as part of the Committee *for* Employment & Social Security's Contributory Uprating Report for 2020;

- changes to the policy regarding the funding of NICE drugs and treatments which is being progressed by the Committee *for* Health & Social Care;

- the introduction of a Secondary Pension scheme to encourage individuals saving for retirement which will have an impact on individuals not already part of a scheme and result in a loss of taxation (through tax relief on pension contributions) in the medium to long term;

- access to and funding of Primary Care as part of the Partnership of Purpose;

- baseline pressures as a result of the ageing population (largely through the cost of health and care services);

2.16 In addition, as part of its work on developing the People Plan (funded from the Transformation and Transition Fund), the Policy & Resources Committee has commissioned a review of the terms and conditions of the numerous groups of public sector workers. This work is examining pay, benefits, working hours, leave and sickness entitlements with a view to enabling harmonisation where practical and appropriate.

2.17 In respect of pay, a desired outcome will be a mechanism and timeline to ensure that the States remuneration to employees is based on the principles of fair and equal pay. As this could fundamentally change the pay structure and potentially have long-term cost implications, the States **are asked to endorse the intention of the Policy & Resources Committee to submit a policy letter to the States for consideration no later than March 2020 reporting on the findings of the review of the terms and conditions of public sector workers, together with any recommendations in respect of the remuneration of employees based on the principles of fair and equal pay** [Proposition 1]**.**

2.18 In each area there are various options for progressing the policy which may change the scale and distribution of costs borne by individuals and the economy. However, the potential cumulative effect of these policies on General Revenue and the Social Security funds is large and many of the decisions will need additional revenues, over and above the current baseline. Whether these are collected via general taxation or through social security contributions, they are drawn from a single tax base and the same population.

2.19 The Policy & Resources Committee and the Committee *for* Employment & Social Security, in consultation with the Committee *for* Health & Social Care, are concerned that each of these proposals, taken in isolation, may be compelling and be approved but that the combined impact needs to be given consideration when making decisions.

2.20 The potential impact of all of these measures over the next 5-10 years is considerable. For example an individual auto-enrolled in a secondary pension scheme for the first time could, when combined with the potential increases in social security contributions, see an additional 8.4% deducted from their wages by 2028. This could reduce the disposable income of households and reduce aggregate consumption in the medium term by an estimated £72million per annum (approximately 2.4% of GDP).

2.21 In the longer term, some of this money will return to the economy. In relation to Secondary Pensions, externally commissioned economic analysis demonstrates that, over an extended time frame, the impact reduces significantly and could eventually be neutral or positive. Nevertheless in the medium term the combined impact of these policies, if not planned and co-ordinated, could be difficult to manage for households and the economy alike.

2.22 However, it is evident that there will need to be an increase in the amount of revenue raised if the States are to manage the long term cost pressures it faces, unless a willingness emerges to reduce or cease the provision of other services. The Fiscal Framework was specifically designed to incorporate a differential between the total revenues currently collected and the maximum allowed (this is presently equivalent to approximately £80million) to accommodate these pressures. However, this limit is not set so high that the cumulative effect of States decisions can be ignored. Without remaining aware of the whole landscape of developing policies and the aggregate pressure they represent, it would be easy to create long term financial obligations which would stretch or exceed the limits of the Fiscal Policy Framework.

The Way Ahead

2.23 The Policy & Resources Committee considers that the States must be given an opportunity to discuss and debate these pressures in the round; understand what they mean for the community and the economy; and be able to take holistic strategic decisions. The Committee also strongly believes that the annual Budget debate is **not** the appropriate forum to decide on long-term structural policy considerations.

2.24 The States will need to carefully consider the level of public services which is affordable and realistic. All policy is funded from a single tax base and a single economy and resources need to be prioritised and managed. It is necessary to consider how taxpayer's money is most effectively used, and whether there are options which might achieve the desired outcomes without the need to increase taxation.

2.25 Nevertheless, in light of the volume and value of the expenditure pressures that are projected, it is considered likely that there will be a requirement to raise extra revenues through additional taxation. The narrowness of the existing tax base and the efforts already taken to shift the tax burden towards those 'most able to pay', mean that options to raise substantial additional funding to reach the framework limit within the current structure of taxes and duties are limited.

2.26 Therefore, the Policy & Resources Committee is of the view that there will need to be a review initiated to examine how public services could be funded in the longer term. The Personal Tax, Pensions & Benefits Review ("the Joint Report") (Billet d'État IV, 2015) looked at a range of tax options and ruled out some, such as capital gains and inheritance taxes, as being wholly incompatible with our economy. **This situation remains unchanged.**

2.27 In September 2019, the States agreed to the Policy & Resources Committee's request to withdraw the policy letter entitled "Review of the Fiscal Policy Framework" in light of the mounting fiscal pressures.

2.28 **The States are asked to endorse the intention of the Policy & Resources Committee to submit a revised "Review of the Fiscal Policy Framework" policy letter to the States for consideration no later than January 2020 including**:

- **addressing what the appropriate long-term aggregate limit on States' revenues (including all forms of taxation and social insurance contributions) should be, taking into account the known and estimated long term expenditure pressures; and**

- **terms of reference for a review to examine options to raise further revenues from corporate taxes and for the introduction of new taxes in areas such as a ring fenced health tax, consumption taxes, etc. in order to raise sufficient revenues** [Proposition 2].

2020 BUDGET REPORT

<u>**Section 3: Strategic Context**</u>

Fiscal Policy

3.1 As set out above, the Fiscal Policy Framework is a set of parameters that guides how much money the States can collect from the public; sets out the size and duration of any deficit; and states the maximum amount of borrowing permitted. The Policy & Resources Committee has undertaken a review of the Framework and is proposing that it be updated to reflect changes to accounting practices and the calculation of GDP. In addition, following the review, recommendations are being made to change the principles in the Framework around investment in capital infrastructure.

3.2 The intention had been that the States would be given an opportunity to debate and approve the revised Framework ahead of the publication of this Budget Report. Consideration of the Policy Letter is now timetabled for January 2020 and therefore, in compiling this Budget Report, consideration has been taken of the proposed revisions to the Fiscal Policy Framework.

3.3 The Policy & Resources Committee has prepared this Budget to comply with the parameters set out in the revised Fiscal Policy Framework, one of which is of particular importance:

"*Total capital expenditure over any States term should be maintained at a level which reflects the need for long- and medium term investment in infrastructure and direct capital expenditure by the States should average no less than 1.5% of GDP per year over a four year period.*

This will be identified through the infrastructure plan and the Medium Term Capital Plan. The MTFP should ensure sufficient resources are allocated to deliver on these requirements.

Direct capital expenditure includes any capital spending supported by recourse to general taxation or reserves."

3.4 The Policy & Resources Committee remains firmly committed to investment in the island's infrastructure as part of delivery of the vision of Future Guernsey – great today, better tomorrow. That is why the Committee is determined to ensure that sufficient is transferred to the Capital Reserve to meet the current and future commitments from the present capital portfolio; the pipeline of longer term projects; and the routine requirement to replace end of life assets.

3.5 Had the previous Framework been used as a policy to guide the level of appropriation to the Capital Reserve, the 2020 transfer would have been approximately £56million. However, the Policy & Resources Committee is recommending that a total of 1.5% of GDP, or £40million is transferred. As set out in paragraph 5.46, this level of appropriation carefully balances the need for funding today for public services with saving for tomorrow's capital investment.

3.6 The Budget has also been prepared with due regard to the Framework requirement that the *"upper limit on aggregate government income, incorporating General Revenue, Social Security contributions and fees and charges, such that total government income should not exceed 24% of Gross Domestic Product."* It is estimated that, taking into account the measures proposed in this Budget Report and in the Committee *for* Employment & Social Security's policy letter entitled *"Contributory Benefit and Contribution Rates for 2020*", aggregate government income in 2020 will represent approximately 21.3% of GDP (2019: 21.4%). This has increased by approximately 0.5% since 2015 in line with additional tax and other revenue raising measures; increased social security contributions; and the ending of the Rent Rebate scheme (which resulted in an increase in income as gross rents are now received).

Public Service Reform

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

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

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

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

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

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

3.11 This Budget Report relies on reform dividends that are planned to deliver further cashable savings of £2.7million during 2020 as a critical component of the funding of the additional cost of public services.

Policy & Resource Plan

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

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

3.13 Policy and operational priorities must be suitably aligned with and supportive of the Policy & Resource Plan, the MTFP and Public Service Reform and allowance has been made for these factors in prioritising the discretionary expenditure bids for funding.

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

3.15 Additional funding requests have been prioritised partly based on their contribution to the delivery of the outcomes specified in the Policy & Resource Plan in order to ensure that the Budget remains aligned with strategic priorities. For example, funding is being recommended to develop the Climate Change Action Plan, establish a Computer Emergency Response Team and strengthen the resources allocated to countering economic crime, money laundering and terrorist financing.

Medium Term Financial Plan

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

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

- adhere to the fiscal rules contained within the Fiscal Policy Framework;
- present a credible fiscal strategy as part of phase two of the Policy & Resource Plan in June 2017 which will reflect the commitment of the States to encourage economic growth; restrain public expenditure by requiring further efficiency savings and the prudent management of financial resources, people and physical

infrastructure; and raise additional revenue as far as possible from individuals and entities most able to bear the burden;

- achieve and maintain a balanced budget in the short-term and surplus in the medium-term without contravening any part of the States' Fiscal Policy Framework;
- continue expenditure restraint and ensure no real-terms' growth in expenditure while the budget remains in deficit;
- provide leadership of the transformation agenda and support the Public Service Reform agenda in order to manage both short and long term spending pressures;
- ensure that the States' commercial and semi-commercial entities and other States' assets are maximised, making an appropriate return to the States but without placing a disproportionate burden on customers, many of whom are inevitably on low incomes;
- prioritise capital investment aligned with the Policy & Resource Plan; and
- ensure competitive recruitment and retention of quality, skilled professionals, balanced with appropriate scrutiny including control and review of staffing costs, grading and pay awards, and effective performance management, within the public sector.

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

3.19 The MTFP was designed to achieve and maintain a balanced budget before moving into a sustainable surplus over the next four year period. This would enable the re-building of reserves, which had been depleted to fund deficits in the years 2009 to 2015, thus enhancing our ability to be resilient in the face of future economic challenges.

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

3.21 To date, the revenue side of this equation has been achieved. Through a combination of revenue raising measures and growth in our economy, the targets set out in the Plan have proved realistic and achievable. However, the balancing of expenditure within this context has proved challenging due to the lack of any detailed forward planning of services and the delay in the delivery of savings (which is set out in more detail in paragraph 4.9)

Economic Context

3.22 Guernsey's economy has performed well over the last two years. First estimates of GDP for 2018 show real growth of 1.7% (to £3.372billion) supported by continuing growth in the workforce, low unemployment, real growth in median earnings, a return to a modest rate growth in our population and an increase in the level of transactions in the housing market.

3.23 Real earnings growth, high employment and low unemployment point to tangible benefits for local people in terms of levels of personal and household income. However, with the available resident workforce fully committed in all practical terms, recruitment becomes more challenging for local businesses.

3.24 The population management regime is designed to streamline off-island recruitment for businesses where skills are not available locally. The increase in net immigration as the resident workforce has reached its natural capacity suggests that in most areas it is succeeding: allowing the expansion of Guernsey's workforce capacity when it is needed. Recruitment is complicated by other factors. The weakness of the pound and the relative strength of the eastern European economies from which many of the islands hostelry staff are hired means that staffing is particularly challenging in this sector.

3.25 Most of our secondary data sources would indicate steady economic growth has continued through 2019 and this is reflected in current outturn forecasts. ETI, the largest revenue stream, is currently forecast to return real growth of just over 1%, approximately £2million above budget. The recovery of the housing market has significantly boosted receipts of document duty and overall revenues for 2019 are forecast to be £11million ahead of budget.

3.26 However the link between GDP growth and revenues is not direct. Compensation of employees through wages comprises between 43% and 45% of GDP, but the taxes charged on these earnings represent 51% of our general revenue income and 64% of the total income of the States. Earnings tend to be relatively stable, less likely to be subject to volatile swings upwards and downward than company profits.

3.27 Company profits make up another 37% to 44% of GDP and tax on these profits accounts for 17% (£60million) of income tax revenues. The extent to which movements in profits translate into tax receipts depends on where the profits arise. Approximately 1,800 companies in Guernsey, primarily in the Finance sector, are subject to tax at 10% or 20%. However, both company profits and consequently the tax received from them tend to be volatile.

3.28 Inflation at the end of June 2019 was 1.9%[c] which is relatively low compared to long term averages. However, it is expected to rise towards the end of 2019, pushed upwards by increases in electricity prices over the summer. If the UK exits the EU in October, there is a risk that supply disruption, a further fall in the sterling exchange rate, or the application of trade tariffs on a minority of goods could add an upward pressure on inflation. A recovery of sterling could have the opposite effect. The central expectation is that the Bank of England will take effective steps to manage inflationary pressure if necessary and that inflation will remain at a moderate level. This budget is compiled on the assumption that RPIX will settle just below its long term average at 2.7% through 2020.

3.29 This Budget is published less than four weeks ahead of the next significant deadline in the UK's exit from the EU and departure without a deal is now a real possibility. Over the three years since the initial vote, considerable work has gone in to preparing for the UK's exit in whatever form it may take. A trade deal has been signed with the UK to protect the free movement of goods between Guernsey and the UK and officers have worked closely with major suppliers to minimise the extent of any possible disruption to supply lines. As an Island we are well prepared to manage the outcome, but uncertainty will continue. This Budget has not taken account of any possible material price shifts which may result from a no-deal departure.

[c] As per States resolution, this is used as the reference point for calculating increases in the excise duty on tobacco.

2020 BUDGET REPORT

Section 4: 2019 Financial Position

4.1 Whilst income receipts are £12million higher than budgeted in 2019, this has been offset by revenue expenditure being expected to exceed budget by £8million and a £3.2million increase in the provision for Aurigny's loss (paragraph 8.23). Therefore, it is expected that the 2019 financial position will be broadly in line with budget. The following table summarises the States' 2019 financial position:

	2019 Probable Outturn £m	2019 Budget Estimate £m	2019 MTFP (inflated) Estimate £m	2018 Actual £m
Revenue Income				
Income Tax	345	339	334	332
Other Taxes	88	85	83	86
Miscellaneous Income	39	36	38	21
Revenue Income	472	460	455	439
Revenue Expenditure				
Cash Limits	(410)	(405)	(399)[d]	(376)
Savings to be delivered	2	5	-	-
Allowance for delayed delivery of savings[e]	(4)	(4)	-	-
Revenue Expenditure	(412)	(404)	(399)	(376)
Revenue Surplus	**60**	**56**	**56**	**63**
Capital Income	9	7	7	4
Operating Surplus	**69**	**63**	**63**	**67**
Transfer to Capital Reserve[f]	(64)	(62)	(62)	(57)
Transfer from General Reserve	4	4	-	-
Provision for Aurigny loss[g]	(8)	(4)	-	-
Surplus	**1**	**1**	**1**	**10**

4.2 In comparing 2018 and 2019, there are two changes which will distort figures. Firstly, under the Rent Rebate scheme, rent rebates were netted off against rental income resulting in a lower rent charged to tenants. Under the Income Support scheme, which was introduced in July 2018, all tenants are now charged gross rents and all benefits paid, whether for rental or other living expenses, are recorded as expenditure. Secondly, with effect from 2019, rental income from properties managed by the Property Services section is treated as General Revenue income instead of operating income. Therefore, as a result of both of these changes, income and expenditure have each increased by approximately £10million in 2019 compared to 2018.

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

[e] A transfer of £3.92million is being made from the General Reserve in 2019 to fund the anticipated yet to be delivered balance of budget reductions for the Committees *for* Education, Sport & Culture and Home Affairs.

[f] This includes capital income.

[g] For 2018, provision for the Aurigny loss was made directly within the General Revenue Account Reserve. However, it is considered more prudent and transparent for this provision to be made directly within the budget.

Revenue Income

4.3 Compared to the MTFP, the income budgeted for 2019 was £5million higher primarily due to a non-recurring income tax settlement and expenditure was similarly higher due to £2.9million of additional allocations to fund expenditure pressures and service developments and the delay in delivery of savings against the original schedule (£1.5million).

4.4 The 2019 budget for income tax receipts was compiled in mid-2018 based on the best information, indicators and forecasts available at that time. There is an inherent difficulty in forecasting income tax receipts as there is a significant time delay between profits and investment income earned and assessed tax paid for all receipts apart from those relating to employment. Although income tax is collected based on interim assessments, the submission of returns and issue of final assessments can be up to two years later than the year of charge and can lead to significant under- or over-payments in the intervening period. This can distort the statistics and lead to inaccuracies in forecasting.

4.5 The 2019 projected income is £12million higher than budgeted due to a combination of:

- additional income tax receipts of £6million which is predominantly in the area of self-employed and non-employed individuals;
- a £2.5million increase in the income from Document Duty and Anti-Avoidance Duty, reflecting the current strength of the local property market (paragraph 6.88); and
- £3million improvement in investment returns which, in part, compensates for the loss recorded in 2018.

Revenue Expenditure

4.6 The improvement in income is largely diminished by revenue expenditure being forecast at £411.6million which is £7.6million more than budgeted. This is due to a combination of non-delivery of £3.2million of savings in 2019 (paragraph 4.9) and a forecast overspend of £5.2million by the Committee *for* Health & Social Care which it advises is largely driven by pay pressures totalling £3.4million and unbudgeted costs in respect of Off-Island treatments.

4.7 The following table details the anticipated 2019 Probable Outturn for each Committee[h] compared with budget, based on the position at the end of July:

2019	Original Budget £'000s	Authorised Budget[i] £'000s	Probable Outturn £'000s	Anticipated (Over) / Underspend £'000s
Corporate Services	29,050	29,393	29,574	(181)
Economic Development	6,040	6,168	6,168	-
Education, Sport & Culture	78,350	79,598	79,541	57
Employment & Social Security	12,070	12,157	12,185	(28)
Environment & Infrastructure	12,255	12,235	12,021	214
Health & Social Care	119,470	120,146	125,318	(5,172)
Home Affairs	31,400	31,912	32,272	(360)
Policy & Resources	8,830	9,057	8,781	276
Scrutiny Management	531	531	531	-
Development & Planning	1,410	1,408	1,195	213
Overseas Aid & Development	2,960	2,960	2,960	-
States' Trading Supervisory	6,210	6,144	6,063	81
Royal Court	2,570	2,565	2,394	171
Law Officers	5,055	5,106	5,106	-
Pooled Budgets	506	506	506	-
States of Alderney	1,875	1,875	1,825	50
TOTAL NON-FORMULA LED	**318,582**	**321,761**	**326,440**	**(4,679)**
SAVINGS TARGET	**(4,620)**	**(3,607)**	**(462)**	**(3,145)**
FORMULA LED	**77,820**	**77,820**	**77,590**	**230**
BUDGET RESERVE	**12,238**	**8,046**	**8,046**	**-**
	404,020	**404,020**	**411,614**	**(7,594)**

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

[i] Authorised Budgets include inter-Committee transfers and £4.2million of funding which has been transferred between the Budget Reserve and Committees including £1.5million in respect of settled pay awards.

Savings

4.8 As set out in the 2019 Budget Report, it was anticipated that £5.25million of savings would be delivered in 2019 including £625,000 which was already incorporated into the cash limits of the Committees *for* Education, Sport & Culture and Home Affairs and the Policy & Resources Committee through savings targets from previous years. Therefore, the balance of new savings expected to be delivered in 2019 was £4.6million from the following initiatives:

Initiative	2019 Savings Budget £'000	2019 Savings Forecast £'000
Organisational and Service Design	1,670	110
Future Digital Services	900	-
Procurement	900	610
Managing Sickness, Overtime and Allowances	295	10
Property Rationalisation	100	110
Revenue Service	180	75
Transforming Education & Training Services	105	105
Transforming Health & Care Services	945	945
Home Affairs Improvement Programme	150	30
TOTAL	**5,245**	**1,995**
Less: Amounts already within savings targets	(625)	(520)
NET ADDITIONAL SAVINGS	**4,620**	**1,475**

4.9 It is currently forecast that £2million (of which £460,000 is still to be 'signed-off') of the £5.2million of savings will be delivered in 2019 resulting in a shortfall of £3.2million (including £105,000 within the residual Committee savings targets) predominantly from the following initiatives:

- £900,000 from Future Digital Services – the savings which were initially expected to be realised in the early years of the contract will not now be realised until the second half of its ten year term as set out in the June 2019 Policy Letter (Billet d'État X). Therefore, all Future Digital Services savings have been removed from the forecast;

- £1.6million from Organisational and Service Design – delays to the commencement of the Future Digital Services contract have had an adverse effect on the timing of the realisation of savings through Service Design as technology solutions are vital to enable the organisation to fundamentally transform service delivery. In addition, delays to implementing changes to the organisational structure have had a consequential impact in delaying the delivery of savings through Organisational Redesign;

- £300,000 from Procurement – the pace of delivery of savings is slower than originally anticipated although the momentum continues to grow. In addition to the £600,000 of cash-releasing revenue savings achieved, there have been savings achieved for non-General Revenue entities (£300,000); in relation to capital projects (£300,000), and substantial cost-avoidance of approximately £1.5million over capital and revenue expenditure; and

- £285,000 from Managing Sickness Absence, Overtime and Allowances – the majority of the savings are expected from better management of staff sickness levels and whilst several initiatives are being undertaken to target improvements, these are not yet at a stage where budgets can be reduced in order to generate cashable benefits.

Budget Reserve

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

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

4.12 The 2019 Budget Reserve is £12.2million and comprises:

- £7.3million provision for increasing budgets following settlement of pay awards (both in respect of a small number of pay groups where 2018 settlements had not been finalised when the 2019 Budget was compiled; and in respect of 2019 for all pay groups). All outstanding 2018 pay awards have been settled but negotiations are still ongoing for the vast majority of 2019 pay awards.

  The Budget Reserve includes full provision to fund these pay awards in line with the settlement offers which have been made. However, if final awards are greater than the provision made, this could lead to an overspend on the overall expenditure budget which is greater than that currently forecast. If this is not balanced by a similar increase in revenues above those currently forecast, this would result in a draw on the General Revenue Account Reserve which would subsequently need to be replenished in accordance with agreed policy if its balance falls below 5% of revenue income.

  If pay awards are greater than the 2019 provision this will have a consequential effect on the 2020 budget which, without remedial action, would mean that expenditure budgets would overspend;

- £1million - provision for increasing established staff budgets in case the assumed 5% level of underspend arising from staff turnover does not occur;

- £3.9million – general provision including for:

  - variations in formula-led expenditure including the risk regarding expenditure on the Income Support scheme;

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

- o allowance for unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures that cannot be met by reprioritising existing budgets. At the time of preparing the 2019 Budget, there were a number of matters which the Policy & Resources Committee was aware of which could have required funding from the Budget Reserve including: potential non-recovery of expenditure incurred by the Office of the Public Trustee and the introduction of a public service agreement in respect of air services from Guernsey to Alderney.

4.13 The £3.9million general provision has been fully approved / committed including:

- £1.5million to the Committee *for* Health & Social Care to fund an initiative to address the orthopaedic treatment waiting list;

- £900,000 to the Corporate Services budget to fund the additional costs of the Future Digital Services contract. This is less that than the £1.4million authorised by the States in June 2019 (Billet d'État X) due to the contract commencing later than was anticipated;

- £900,000 to the Committee *for* Economic Development in respect of expenditure incurred by the Office of the Public Trustee; and

- £236,000 to the Committee *for* Home Affairs to prepare for a new electoral roll as agreed by the States in April 2019 (Billet d'État VII).

4.14 Although the Budget Reserve is fully committed for 2019, there could be unanticipated expenditure that arises during the final months of 2019. Therefore, it is **recommended that the Policy & Resources Committee is authorised to make transfer(s) from the General Revenue Account Reserve to the Budget Reserve until 31 December 2019** to enable additional budget to be allocated to Committees to fund unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures that cannot be met by reprioritising existing budgets [Proposition 3].

Capital Income

4.15 The 2019 Budget Estimate was for capital income to total £7million comprising £6million of capital returns from the States' trading assets (in addition to any dividend paid in accordance with existing policy) and £1million arising from the sale of properties.

4.16 However, the transactions for £4million of the 2018 contribution from the States' trading assets were not completed until early 2019 and the States' Trading Supervisory Board has advised that it expects to be able to deliver a further £3.6million of returns from 2019 initiatives, bringing the total to £7.6million.

4.17 The revised forecast for income from the sale of properties in 2019 is £1.2million.

4.18 Therefore, the revised forecast for capital income in 2019 is £1.8million higher than budgeted which, in line with States' direction, will increase the transfer to the Capital Reserve by a commensurate amount.

Section 5: 2020 Financial Position

5.1 The following table summarises the General Revenue financial position:

	2020 Recommended Budget Estimate £m	2020 MTFP (inflated) Estimate £m
Revenue Income		
Income Tax	348	345
Other Taxes	92	85
Miscellaneous Income	36	40
Revenue Income	476	470
Revenue Expenditure		
Cash Limits	(432)	(412)
Savings to be delivered	3	7
Allowance for delayed delivery of savings	(3)	-
Revenue Expenditure	(432)	(405)
Revenue Surplus	**44**	**65**
Capital Income	3	8
Operating Surplus	**47**	**73**
Transfer to Capital Reserve[j]	(43)	(65)
Transfer from General Reserve	3	-
Provision for Aurigny loss	(7)	-
Surplus	**-**	**8**

5.2 Revenue income for 2020 is ahead of the MTFP estimate by £6million, as a result of revenue raising decisions made in previous budgets and continued strength in the economy. This is demonstrated through income tax receipts and, predominantly, through strong document duty receipts. However, revenue expenditure is £27million more (including £5million that was allocated in the 2019 Budget Report) due to additional baseline expenditure pressures / service developments of £20million and delayed delivery of savings of £7million.

5.3 The Policy & Resources Committee is recommending reducing the transfer to the Capital Reserve to £43million (comprising £3million of capital income and £40million appropriation from General Revenue) and making a transfer of £3.3million from the General Revenue Account Reserve to fund the anticipated but yet to be delivered balance of budget reductions for the Committees *for* Education, Sport & Culture and Home Affairs. This results in additional funding being available to fund the Aurigny loss and for allocation to Committees.

[j] This includes capital income.

Budget Setting Process

5.4 Following consideration of the 2019 Budget Report, the States resolved:

"To direct the Policy & Resources Committee to review the Budget setting process in consultation with all committees of the States and consider how the process might be improved for the 2020 Annual Budget in order to ensure greater transparency and information-sharing in the interests of good governance and effective coordination."

5.5 In February 2019, the States Treasurer wrote to all States Members to ask for their assistance by submitting:

i. suggestions on particular measures that they would like the Policy & Resources Committee to consider as it compiles the 2020 Budget proposals. Appendix V summarises the suggestions received and the response of the Policy & Resources Committee; and

ii. any observations on any aspect of the existing budget process and suggestions on how it might be improved.

5.6 From the written and verbal feedback received on the budget process, the Policy & Resources Committee considered a revised approach to political engagement during budget setting and standardisation of submissions and wrote to all Committees setting out a proposal in May.

5.7 All Committees were then invited to meet with the Policy & Resources Committee ahead of commencement of the budget process and these meetings happened in June, where the Policy & Resources Committee set out the financial context for the compilation of the 2020 budget; Committees were able to share emerging cost pressures and likely service development bids; and feedback was sought on the revisions to the budget setting process.

5.8 Indicative cash limits were then issued based on the 2019 cash limit, adjusted for pay awards, budget transfers, savings realised and cyclical items. Committees were asked to seek to prepare a budget within this indicative cash limit and, if they were unable to do so, to submit a schedule and supporting documentation setting out their budget requests in a revised standard template in the following broad categories:

i. inflation for providing existing services;
ii. non-inflation change in the cost of providing existing services;
iii. effect of change in demand for existing services;
iv. service Developments; and
v. savings.

5.9 Further meetings were arranged with all Committees during August to discuss the budget submissions.

5.10 A meeting with all Committee Presidents was arranged in early September to discuss the results of the prioritisation exercise and the way forward acknowledging the limited resources available. Following the meeting, Committees were all asked to consider how they would set budgets within the cash limit derived following the prioritisation exercise and summarise what impact this would have on service provision on the basis that it is lower than Committees may have requested and therefore may require some difficult decisions to be made. In addition, Committees were asked to indicate the minimum funding level that would allow current provision to be maintained (that is through taking account of baseline, inflation and demand pressures).

5.11 Following responses from Committees and further extensive officer level dialogue, it became apparent that the initial suggested allocations would be insufficient to meet baseline pressures. Therefore, a revised proposal for the allocation of funding between cash limits and reserves was formulated by the Policy & Resources Committee.

5.12 In recent years, 'oversight groups' have been established between the Policy & Resources Committees and the Committees *for:* Education, Sport & Culture; Employment & Social Security; Health & Social Care; and Home Affairs. A group has also been established to oversee the transformation of the functions and processes of the Law Officers' Chambers. These groups have been invaluable in a number of areas including regular dialogue in respect of budget submissions. The Policy & Resources Committee will recommend in its handover document that these groups continue in the next States' term.

Cash Limits

5.13 The total 2019 Cash Limits were £400.1million comprising £392.5million allocated to individual Committees; £12.2million held as the Budget Reserve; and a £4.6million target for delivery of savings.

5.14 After taking into account: the effect of pay awards settled in 2019; the effect of savings realised in 2019 and the net effect of cyclical items in both 2019 and 2020, the base Cash Limits for 2020 to be allocated to individual Committees were £392million (2019: £392.5million).

5.15 The base estimate was that, in line with the MTFP, there should be £7.5million available to allocate to Committees to fund requests for additional budget. This is made up of: £2.6million of inflation on non-pay expenditure; £1.4million for funding expenditure pressures; and £3.5million for service developments. However, the requests received from Committees was significantly above this at £27.9million including £16.5million of non-discretionary requirements and £11.4million for service developments.

5.16 The non-discretionary requirements, as well as comprising the net effect of increases in cost and demand for existing services, also include a number of instances of baseline pressures where expenditure is being incurred without ongoing funding being available to the Committee. For example, an additional permanent member of staff is appointed, funded in the first year from a one-off saving arising from short-term vacancies in other posts. Whilst there is not an in-year funding shortfall, insufficient budget will be available in the following year when all posts are filled. This demonstrates weak process and discipline as, unless savings are made in other areas, Committees will not remain within the Cash Limits allocated to them by the States.

5.17 Control over the staff establishment is important in maintaining disciplined and controlled oversight over the number and cost of public sector workers. The States previously had a Staff Numbers Limitation Policy which sought to co-ordinate such control, but it was removed and replaced with devolved controls at Committee level. A standard approach across the States is being implemented as of November 2019 which will ensure that, in future, posts can only be established if a corresponding recurring budget is identified at the outset.

5.18 Due to the scale and volume of the budget requests, a standardised approach to scoring and ranking proposals was adopted and every line of additional funding requested (over 200 items) was individually reviewed, scored, challenged, categorised and (where appropriate) moderated.

5.19 As part of this exercise, alternative funding sources have been identified for £4.4million of the items including the Guernsey Insurance Fund; minor capital votes; and the Transformation and Transition Fund.

5.20 It became apparent that it would not be possible to recommend a 2020 expenditure budget that provides adequate funding to meet existing commitments, let alone allocate any resources for service developments unless additional funding is made available.

5.21 The Policy & Resources Committee considered options for making additional funding available for allocation to Committee budgets and concluded that maximising the funding allocated to Cash Limits would be achieved through the proposed reduction in the transfer to the Capital Reserve (paragraph 5.46) and making a transfer of £3.3million from the General Revenue Account Reserve to fund the anticipated but yet to be delivered balance of budget reductions for the Committees *for* Education, Sport & Culture and Home Affairs (paragraph 5.61).

5.22 This resulted in additional funding being available which fully funds the non-discretionary requirements (£15.5million) and enables £5.4million to be allocated to service developments.

5.23 The following table details the additional funding allocated to each Committee and the value of service development requests which it has not been possible to fund:

	Non-discretionary Funding £'000	Service Develops. Funding £'000	Total Additional Funding £'000	Unfunded Service Develops £'000
Corporate Services	3,895	225	4,120	110
Economic Development	48	-	48	265
Education, Sport & Culture	1,108	715	1,823	705 *
Employment & Social Security	48	70	118	160 *
Environment & Infrastructure	240	100	340	100
Health & Social Care	7,234	2,000	9,234	1,075
Home Affairs	782	780	1,562	105
Policy & Resources	-	155	155	55
Overseas Aid & Development	80	-	80	-
States' Trading Supervisory	15	-	15	5
Royal Court	12	55	67	5
Law Officers	193	-	193	415 *
Pooled Budgets	-	1,300	1,300	10
TOTAL NON-FORMULA LED	**13,655**	**5,400**	**19,055**	**3,010**
Policy & Resources Formula Led	105	-	105	-
Employment & Social Security Formula Led	1,740	-	1,740	340 *
TOTAL FORMULA LED	**1,845**	**-**	**1,845**	**340**
TOTAL	**15,500**	**5,400**	**20,900**	**3,350**

5.24 However, as set out in paragraph 6.74, there is an opportunity to raise additional revenues of £850,000 per annum which would enable additional funding to be made available for service developments by the following Committees (reducing the unfunded allocations marked * above):

- Committee *for* Education, Sport & Culture - £70,000;
- Committee *for* Employment & Social Security - £75,000;
- Committee *for* Employment & Social Security (Formula Led) - £275,000; and
- Law Officers - £415,000.

5.25 The Policy & Resources Committee is responsible for considering the relative requirements submitted by Committees and then recommends Cash Limits accordingly. As a general rule, Committees are not obliged to use additional funding allocated for specific purposes. However, there may be occasions where budget is given a defined purpose in order to introduce or expand a high-priority service or in response to a particular need.

5.26 Thereafter, Committees are responsible for managing their expenditure within their authorised budgets and managing within existing resources, including in response to changing priorities. An incremental budgeting approach of always providing additional funding for new or expanded services creates unsustainable cost pressures for the public purse. The expectation should not be that additional funding can be provided in order to fund increases in services but that consideration is first given to reallocating existing resources by reducing or ceasing other services.

5.27 If Committees are unable to accommodate expenditure pressures within their budgets, they should not make any spending decisions to commit ongoing funding but instead submit a bid for additional funding as part of the annual budget process.

Savings

5.28 It is anticipated that £4.2million of new savings will be delivered in 2020. This includes £820,000 which was already incorporated into the cash limits of the Committees *for* Education, Sport & Culture and Home Affairs and the Policy & Resources Committee through savings targets from previous years and £562,000 of savings already identified and removed from the cash limits of the Committee *for* Health Social Care, the States' Trading Supervisory Board and the Royal Court. In addition, each Committee's Cash Limit incorporates a 3% energy cost saving, totalling £150,000. Therefore, the balance of new savings expected to be delivered in 2020 is £2.7million from the following initiatives:

Initiative	**2020 Savings Forecast £'000**
Organisational and Service Design	1,500
Procurement	570
Managing Sickness, Overtime and Allowances	20
Property Rationalisation	60
Revenue Service	550
Transforming Education & Training Services	555
Transforming Health & Care Services	320
Home Affairs improvement programme	235
Other	420
TOTAL ADDITIONAL SAVINGS TO BE REALISED IN 2020	**4,230**
Less: Amounts already within savings targets	(820)
	3,410
Less: Amounts already reduced in Cash Limits	(710)
NET ADDITIONAL SAVINGS	**2,700**

5.29 The 2019 Budget Report included a detailed analysis of the savings forecast for the year and the workstreams expected to deliver them. The savings forecast for 2020 continue the same established themes and programmes.

5.30 Organisational and service design are the initiatives expected to deliver the most significant level of savings. Now that the contract with the States' technology partner, Agilisys, has commenced, it is expected that there will be a significant acceleration in the service design programme. Exploratory work undertaken as part of pre-contract discovery has validated savings of between £6million and £7.5million by the end of 2021 and funding from the Capital Reserve has now been put in place to support delivery of this.

5.31 Work has also commenced on the organisational design work which will develop and deliver a new operating model for the public service leading to a reduction in posts. This will be achieved through re-structuring to remove duplication and truly integrating services.

5.32 The exploratory work undertaken with Agilisys has also validated the Procurement savings being forecast and estimates that a higher value is in fact achievable. However, given the difficulties experienced of removing procurement savings from budgets, a more conservative forecast has been adopted.

5.33 In addition, there are £400,000 of savings expected to be delivered in the latter part of 2019. Therefore, there is a total of £3.1million of realised savings for which funding will be removed from 2020 budgets when they are signed-off by the appropriate Committees.

5.34 The MTFP set out an initial expected profile for the £18.8million of expenditure savings to be delivered over the period 2018 -2020 as follows:

Year	Expenditure Savings per MTFP £'000	Savings Delivered / (Anticipated) £'000
2018	5,500	5,500
2019	6,200	2,000
2020	7,100	4,200
TOTAL	**18,800**	**11,700**

5.35 Therefore, there is a shortfall of £7.1million of savings compared to the MFTP central estimates. The MTFP also included £7.3million of savings to be delivered in 2021.

5.36 The MTFP savings estimates included a 'universal efficiency target' of 0.5% - 1% per annum for Committees and an expectation that between £6million and £12million would be achieved over the Plan period through the delivery of incremental improvements in efficiency and value for money in areas outside the scope of any wider initiatives. While some Committees have offered general efficiency savings through the budget setting process, the Policy & Resources Committee has not sought to impose such targets given the significant expenditure pressures and the need to focus on the Public Service Reform themes.

5.37 However, a modest target for a reduction in the consumption of energy has been applied in 2020 to counter the above inflationary rise in utility costs. This target has been applied in the context of an ambition to reduce energy use in light of climate change concerns, ahead of an agreed Climate Change Action Plan. Therefore, all areas have been asked to accept a modest 3% reduction challenge which makes a small contribution (£150,000) to the size of the funding pot.

5.38 Following consideration of the Policy & Resource Plan in June 2019 (Billet d'État IX), the States resolved *"To direct the Policy & Resources Committee to bring to the States, either in its Fiscal Rules policy letter or otherwise before or within the debate on the 2020 States Budget, a proposition that will allow the States to decide whether to maintain or amend the anticipated value and timing of the savings targets set out in the Medium Term Financial Plan and the contribution which reductions in expenditure should be expected to make to returning public finances to surplus…..".*

5.39 The MTFP included that, over the Plan period of 2018-2021, a total net improvement to the States' baseline financial position of £40million is necessary in order to eliminate the structural deficit and ensure that the finances of the States can support the delivery of the outcomes set out in the Policy & Resource Plan. The MTFP estimated that £26million of this would be delivered through savings delivered as a result of the reform of public services. However, the MTFP also said:

"The range of potential savings is between £5million and £37million. ***These ranges are based on early analysis of available data and significant further work will be necessary to quantify them in more detail. It should also be noted that it is extremely unlikely that all initiatives will be capable of achieving the upper end of the ranges and therefore these values should not be considered as savings targets****.* [emphasis added]

However, the Committee is confident that the potential opportunities warrant further research and investigation and represent realistic strategies to achieve the £26million baseline annual savings required over the medium term."

5.40 The delivery of these savings is not about cutting services, but to realise significant benefits, both financial and non-financial, by delivering improved services at a lower cost. There is substantial investment being made and it is expected that such investment should deliver an appropriate return by generating ongoing revenue savings. Funding is being provided from the Transformation & Transition Fund to continue programmes of service transformation and through the Capital Reserve. For example, under the Public Service Reform pillar of the contract with Agilisys, significant funding is being applied to transform the way we deliver externally facing transactional services and internal business support services with the aim of reducing the unit cost of transactional services where appropriate and improving the overall user experience.

5.41 As set out in the Policy & Resource Plan 2019 Update, it is necessary to ensure that public services are modern, fit for purpose and efficient. Transactional, back and middle office processes need to be improved to ensure that front line services can be properly funded and the pressures of the ageing population addressed.

5.42 As set out in paragraph 4.9, there has been a delay in delivery of savings, particularly in respect of Organisational and Service Design. Therefore, it is accepted that the original £26.1million of savings will not be delivered in full by the end of 2021. However, the imperative to continue to support delivery of such savings remains as it is the initial means of funding investment in service developments.

5.43 It is clear that Committees' requirements for increases in expenditure budgets to fund baseline pressures and service developments are greatly exceeding the estimates included in the MTFP and cannot be met on an ongoing basis from the modest increase in revenue income. Without the delivery of these savings, the overall cost of public services will need to increase substantially, wholly funded by the taxpayer.

5.44 In 2020, the savings are being entirely used to fund service developments. That is, without savings only £2.7million instead of £5.4million could be allocated to service developments. Therefore, in light of the ongoing imperative to realise savings from the transformation of the delivery of services to enable investment in delivering States' objectives but acknowledging the inherent uncertainty in their timing and value, **it is recommended that the States note that the £26.1million of savings projected in the MTFP will not be fully realised by the end of 2021 and to agree that Public Service Reform activity must continue to generate reform dividends in order to contribute towards balancing the budget** [Proposition 4].

Capital Reserve

5.45 The 2019 Budget Report estimated that the Capital Reserve, which had a balance of £241million at the end of 2018, would have £66million available at the end of 2020 for funding projects in future capital portfolios. This was based on appropriations in line with those included in the MTFP and fully funding the 2017-2020 capital portfolio. Subsequently, the States have approved proposals for the Hospital Modernisation Programme (Billet d'État V) and for the Transforming Education Programme (Billet d'État XVI, 2019).

5.46 A review has been undertaken of projects within the capital portfolio and the pipeline. This has included consideration of all decisions made by the States to open capital votes and delegate authority to the Policy & Resources Committee; underspends on open capital votes; the likely cost and timing of all projects in the portfolio; updating the pipeline for the latest estimates; and reviewing current and legacy projects to be closed enabling funding to be released. Based on this review, and allowing for minor and low value routine replacements and urgent / emergency expenditure, it is estimated that an annual appropriation of £40million per annum from General Revenue is required.

5.47 The Capital Reserve is funded through appropriations from General Revenue and various other sources. It is anticipated that approximately £10million per annum will come from a combination of investment return, returns from the States' trading entities, capital income and transfers of real-terms' returns from the Core Investment Reserve.

5.48 Therefore, reducing the annual appropriation from General Revenue to £40million per annum would give total funding of £50million per annum, which is approximately 1.5% of GDP (which is in line with the minimum investment which the Policy & Resources Committee will be proposing in the Fiscal Framework). This would fully fund anticipated expenditure on the projects within the capital portfolio and the pipeline. **Therefore, it is recommended that the Policy & Resources Committee is authorised to transfer £40million to the Capital Reserve during 2020** [Proposition 5].

5.49 The States' Trading Supervisory Board has undertaken an appraisal of a range of options and reviewed the level of returns that the States' trading entities (both incorporated and unincorporated) can realistically and affordably deliver over the period of the MTFP.

5.50 Therefore, it estimates that the returns are expected to total £19million, compared to the original broad brush estimate of £30million, with £3.6million anticipated in 2019 and £2-2.5million in each of 2020 and 2021. These returns include distribution of reserves, special dividends and repayments in respect of assets previously funded from the Capital Reserve.

5.51 The States' Trading Supervisory Board is of the view that the trading entities should be regarded as 'not for dividend' organisations, with surpluses either used for reinvestment in the businesses or for return to the customer. However, it is intending to put in a place a mechanism by which each of the unincorporated trading assets would make an annual contribution to General Revenue equivalent to the amount of income tax they would pay if assessed at the standard rate of 20% so treating them on an equivalent basis to the incorporated businesses.

5.52 In addition, there is budgeted capital income of £1million in 2020 arising from the sale of properties. However, it is possible that the rationalisation of the States' property estate will result in additional receipts. **It is recommended that the return of capital from the States' trading assets and capital income in 2020 is transferred to the Capital Reserve** [Proposition 6].

General Revenue Account Reserve

5.53 The 2018 States Accounts included:

"The unallocated surplus forms part of the General Reserve which, at the end of 2018, included an unallocated balance of £35.8m. As agreed as part of the Medium Term Financial Plan, there is a policy for an amount equivalent to 5% of annual revenue income to be retained within the General Reserve to be used to manage any in year shortfalls in income, short term cyclical variations and any other timing issues.

Therefore, after allowing for £23m as the 5% retained balance and a £3.9m provision for delayed delivery of budget reductions, there is £8.9m available for appropriation. The 2020 Budget Report will include proposals for use of this surplus, taking into account the projected financial position for 2019 and 2020."

5.54 Based on the 2020 revenue income budget of £476million, £23.8million needs to be retained as the General Revenue Account Reserve. Therefore, the revised amount unallocated within the General Reserve is £8.1million and the Policy & Resources Committee is recommending that it is appropriated as follows:

Future Guernsey Economic Fund

5.55 The Future Guernsey Economic Fund provides funding for initiatives which deliver on the policy objectives within the Policy & Resource Plan to:

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

And which:

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

5.56 As set out in the Policy & Resource Plan, the continued strength of our economy is a critical foundation to supporting our quality of life and community. A strong, growing and sustainable economy is also a vital element in delivering sustainable public finances and real-terms' growth in States' revenues through new or enhanced tax receipts.

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

	£'000	£'000
Opening Balance	7,000	
Transfer from Strategic Development Fund	2,100	
Transfer from General Reserve	1,500	
		10,600
Initiatives approved:		
Contribution to Guernsey Finance LBG (up to 2020)	2,500	
Tourism Marketing (Visit Guernsey)	500	
Innovation Centre (Digital Greenhouse) (up to 2021)	1,950	
Locate Guernsey (up to 2021)	2,175	
Marketing – GLAPPPS[k] Film	553	
Guernsey University Investigations	50	
Air Route Support - Heathrow	1,325	
Air Route Support - Cardiff	44	
		(9,097)
Balance		**1,503**

5.58 As part of the 2017 Budget Report (Billet d'État XXVI, 2016), the States agreed that, in order to encourage and incentivise initiatives which deliver tangible fiscal returns, that 50% of any evidenced fiscal receipts to the States of Guernsey arising from measures funded from the Future Guernsey Economic Fund are re-invested in the Fund. The Committee *for* Economic Development has advised that, at this time, the only initiative on which it has been able to measure the return on investment is Locate Guernsey which, up to the end of June 2020, totals approximately £4.8million. Therefore, as £1.5million has previously been reinvested, **it is recommended that £900,000 is immediately transferred from the General Revenue Account Reserve to the Future Guernsey Economic Fund** [Proposition 7]. This will increase the unallocated balance of the Fund to £2.4million.

Delayed delivery of budget reductions

5.59 The Committees *for* Education, Sport & Culture and Home Affairs have yet to fully deliver on the balance of their budget reductions and it is anticipated that they will have undelivered balances of £3.065million and £275,000 respectively by the end of 2020.

5.60 The Policy & Resources Committee recognises that the Committees have to balance the need for shorter term tactical, productivity and method changes with the longer-term planning for transformation of services and the day-to-day delivery of those services. Both Committees have medium-term plans for the delivery of savings and are planning for the delivery of these opportunities as part of their transformation programmes. This includes the revised funding arrangements for the grant-aided college which were approved by the States in September 2017 (Billet d'État XVIII) and

[k] Guernsey Literary and Potato Peel Pie Society

over the period up to 2027 will reduce the financial support provided by the States to the Grant – Aided Colleges, by £2.9million.

5.61 The Policy & Resources Committee is therefore **recommending that the States notes that £3,340,000 of the General Reserve is being used to increase the 2020 budgets of the Committee *for* Education, Sport & Culture (£3,065,000) and the Committee *for* Home Affairs (£275,000)** [Proposition 8].

5.62 It is anticipated that £745,000 will be delivered in 2021 by the Committee *for* Education, Sport & Culture and £200,000 by the Committee *for* Home Affairs. Therefore, there will be a balance of approximately £2.4million in 2021 which will become a budgetary pressure in that year and will need to be the first call on any available funding.

<u>Provision for Alderney air route funding</u>

5.63 As set out in paragraph 8.25, there is an ongoing tender process for the award of a Public Service Obligation to operate the lifeline Alderney–Guernsey route and the Alderney-Southampton route. Given the uncertainty over the timing, recipient and cost of the award of the Public Service Obligation, the Policy & Resources Committee has made provision of £2.9million (the 2019 forecast losses attributed to the Alderney routes) within the General Revenue Account Reserve in the event that Aurigny continues to operate both routes unsubsidised for the whole year.

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

5.65 The States noted that while the Alderney-Southampton route has not been designated as a lifeline route, *"it may be considered for a Public Service Obligation in combination with the Alderney-Guernsey route, should such a combined approach be possible following the tender process, and subject to agreement between the Policy & Resources Committee and the States of Alderney as to the source of funding for this route."* Therefore, once the outcome of the Public Service Obligation tender exercise is known, consideration will have to be given to the scale and source(s) of funding for each of the routes, including the relative contributions from the States of Guernsey and Alderney.

Transformation and Transition Fund

5.66 The balance remaining on the Transformation and Transition Fund is now £12.8million. There are a number of estimated and known demands on the Fund and the Policy & Resources Committee wishes to balance its use between long-term service delivery transformation programmes, such as Transforming Health and Social Care Services, and shorter-term programmes designed to improve services and deliver substantial efficiencies and reform dividends.

5.67 The States have recently resolved that the costs related to the Transforming Education and Training Services Programme should be funded from the Capital Reserve and the Transforming Justice and Equality Programme will only be established following the review of justice policy which is currently underway. Therefore, no further funding is expected in respect of these programmes.

5.68 Following consideration of the 2019 Budget Report, the States resolved to allocate funding to the Organisational and Service Design programme in order to make the envisioned changes to the structure of and processes carried out by the public service. Work commenced on this programme in 2019 with a planning and preparation phase, but implementation has been delayed. Now that the senior organisational changes have been initiated and the contract commenced with the States' technology partner, Agilisys, it is anticipated that significant progress will be made in 2020. The expenditure on this programme should deliver significant financial benefit provided that operational policies and processes are rigorously challenged and roles removed from the establishment when services are re-designed. This will require the support of Committees and officers, as well as the strategic partner, if it is to succeed.

5.69 The Committee *for* Health & Social Care Services has submitted a request for further funding in 2020 in order to retain a core team to undertake the Cost and Service Improvement Programme and to initiate a portfolio of programmes and projects that will define the outcomes, benefits and implement the Resolutions of the Assembly pursuant to the 'Partnership of Purpose'.

5.70 The overall programme of Public Service Reform is a large and complex portfolio which covers all elements of the public service. It is vital that the portfolio is properly planned, delivered and monitored if it is to be a success. Continued funding will be required for the co-ordination of the portfolio including supporting the overall governance structures; ensuring there is consistent and appropriate reporting of progress; ensuring that benefits are identified, monitored and delivered; ensuring resources are appropriately allocated to the programmes and that scarce resources are properly managed; co-ordinating the work with Jersey and the alignment with the transformation programme underway in public services there; and that risks are appropriately monitored and treated.

5.71 The Policy & Resources Committee is committed to the development and implementation of the People Plan which is a significant element of the overall programme of the reform of public services. One of the critical pieces of work being undertaken through this programme is the review of the terms and conditions of public sector workers. It will be necessary to continue to invest in this programme during 2020 in order to conclude the investigation and planning phase of that work.

5.72 In June 2018, the States prioritised funding of up to £1million from the Transformation and Transition Fund to support, over the course of a two year transitional period, the development and adoption of a new operating model for land and property, with the purpose of rationalising and optimising the management and administration of land and property owned and leased by the States. Significant preparatory work has been undertaken on this workstream and will require funding in 2020.

5.73 Funding for the continued phased implementation of the International Public Sector Accounting Standards project in line with the direction of the States will be required. The focus of this project is now on the identification, classification and valuation of the extensive assets of the States.

5.74 The Policy & Resources Committee is therefore of the view that the balance of the Transformation and Transition Fund is allocated as follows:

Initiative	£m	£m
Remaining Balance		12.8
Organisational and Service Design programme	7.0	
Transforming Health and Social Care Services	2.0	
Public Service Reform	1.0	
People Plan	0.5	
Operating model for land and property	1.0	
International Public Sector Accounting Standards	1.0	
		12.5
Balance remaining		**0.3**

5.75 The Policy & Resources Committee already has delegated authority for the use of the Transformation and Transition Fund. However, these authorities are not sufficient in respect of the Public Service Reform and People Plan initiatives and therefore, the Policy & Resources Committee is recommending:

- **an increase of £500,000 to £1.25million in its delegated authority to approve funding from the Transformation and Transition Fund for the People Plan** [Proposition 9];

  and

- **an increase of £1million to £3.1million in its delegated authority to approve funding from the Transformation and Transition Fund for Public Service Reform** [Proposition 10].

Section 6: Income Proposals

Income Tax

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

a) regulated activities of fiduciary business, insurance managers, insurance intermediary business and domestic insurers - £5million per annum;

b) regulated activities of fund administrators - £3million per annum;

c) provision of custody services by a company carrying on banking business - £500,000 per annum; and

d) provision of regulated investment managements services to individual clients - £500,000 per annum;

e) income from the regulated activity of operating an investment exchange; and

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

6.2 In addition, from January 2016, the 20% corporate income tax rate was extended to the importation and/or supply of hydrocarbon oil or gas in Guernsey and to large retail business carried on in Guernsey where the company has a taxable profit of more than £500,000.

6.3 This widening has resulted in the generation of approximately an additional £11million per annum for the Guernsey exchequer (after allowing for the fact that beneficial owners of Guernsey owned companies would already be paying income tax on any distributions).

6.4 In April 2015, following consideration of the Joint Report, the States resolved, *inter alia*:

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

6.5 In light of the above resolution and the changing scene as a result of a number of international initiatives, the Policy & Resources Committee is only recommending minor further amendments to the present regime.

6.6 In recent years, the States have set policy direction to make the income tax and social security system as a whole more progressive. The continued real-terms' increases in personal income tax allowances and withdrawal of personal allowances for higher earners has targeted the benefit of increased tax allowances at low and middle income earners funded by those most able to pay thus ensuring that the income tax system has become more progressive.

6.7 Following approval of measures set out in the 2019 Budget Report, which were the third phase of the removal of the universality of personal tax allowances, an individual's income tax allowances (including mortgage interest relief and pension scheme contributions) are withdrawn at a ratio of £1 for every £5 that an individual's income exceeds £100,000.

6.8 There are now more than 2,200 individuals subject to the withdrawal personal income tax allowances (approximately 5.5% of taxpayers), which raises additional income of approximately £5million per annum on an ongoing basis.

6.9 The efforts already taken to maximise corporate income tax within the current structure and to shift the personal income tax burden towards those 'most able to pay' mean that there is now limited scope to raise additional revenues.

Corporate Income Tax

<u>The cultivation and manufacturing of cannabis products</u>

6.10 The 2019 Budget Report included *"As part of the continued monitoring of the corporate tax regime, the Policy & Resources Committee has considered domestic developments in relation to the growing of cannabis plants for the production of industrial hemp; food supplements or medicinal products, etc. Should this become a licensed activity, it would be the intention of the Policy & Resources Committee to recommend that it be brought within the scope of the company higher income tax rate (20%)."*

6.11 During 2018, the Misuse of Drugs (Modification) Order, Misuse of Drugs (Modification No 2) Order and the Misuse of Drugs (Modification No 3) Order excepted cannabidiol preparations of specified descriptions from various prohibitions relating to import, export, possession, supply and administration. Sativex and other medicinal cannabidiol products, which have been approved for human use by the Medicines and Healthcare Products Regulatory Agency or the European Medicines Agency can also be prescribed, administered or supplied, the same as any other controlled drug under schedule 2 of the Misuse of Drugs (Bailiwick of Guernsey) Ordinance 1997.

6.12 A licence, for the cultivation of cannabis and associated activities, can be applied for by completing an application form (providing detailed information regarding the legal entity, the product to be produced, method of production and documentation, and details of the site to be used) and by paying a licence fee to the Committee *for* Health and Social Care. This allows for the licensed production and manufacturing of products that can legally be marketed in Guernsey.

6.13 Therefore, **it is recommended that, with effect from 1 January 2020, income from licensed activity associated with the cultivation and use of cannabis plants is brought within the scope of the company higher income tax rate (20%)** [Proposition 11].

6.14 Should any other controlled drugs be licensed for production in the future, the Policy & Resources Committee is also **recommending that it be able to extend the company higher income tax rate (20%) to income associated with their production or use by regulation** [Proposition 11].

6.15 There are currently four licences issued for the cultivation of cannabis and associated activities, however at this early stage it is unknown what the likely revenues will be from this activity (as the companies have not yet had to file corporate tax returns).

6.16 Under existing arrangements, any income will accrue in the same way as other income tax receipts into General Revenue. However, the Policy & Resources Committee suggests that there may be merit, if the revenues become significant, in the States considering 'bifurcating' the tax received. Bifurcation would see any income from this stream divided into two separate parts with each part being applied for a different purpose.

6.17 Consideration could be given to one part accruing, in the normal manner, to General Revenue with the other part being credited to the Core Investment Reserve. Neither part would be hypothecated as the purpose of the Core Investment Reserve is not to fund expenditure but its status is recognised as the taxpayers' long-term savings account, the 'family silver'. This approach would be similar to that adopted by Norway, in respect of its revenues from oil exploration.

6.18 Dependent on the value of the tax receipts from this source, such bifurcation could enable further progress to be made towards achieving the States' agreed target balance for the Core Investment Reserve of 100% of General Revenue Income. The Policy & Resources Committee will keep this matter under consideration and report back to the States in future Budget Reports.

Aircraft Registry

6.19 As set out in paragraph 6.1 above, significant progress has been made over recent years to widen the coverage of the intermediate - 10% - corporate income tax rate to regulated entities. The Policy & Resources Committee continues to examine all such options but opportunities are now extremely limited.

6.20 **It is recommended**[l] **that the company intermediate rate (10%) is extended to the income from the activity of operating an aircraft registry** [Proposition 12].

[l] Deputy Brouard does not support this recommendation.

Personal Income Tax

2020 Personal Income Tax Allowances

6.21 In order to maintain Guernsey's personal tax competitiveness with other jurisdictions, such as Jersey, the Isle of Man and the UK, **it is recommended that an individual's personal allowance is increased to £11,575.** This is a 5.2% increase for those aged under sixty five. It also completes the removal of the Age Related Allowance for people aged over sixty five, in accordance with the resolutions of the Joint Report. The personal allowance for people aged over sixty five would increase from £11,450 by £125 (1.1%). This means that an individual, whose only source of income is the full-rate Old-Age Pension with bank interest of less than £50 will not pay any income tax.

6.22 As income tax from employment is forecast to grow by 3%, the net real-terms' cost of the increase in personal allowances over that rate, after taking into account the final phase of removal of the Age Related Allowance, is estimated to be £1.5million per annum. It is estimated that each 1% increase in personal allowances above the forecast growth in individual income tax results in a decrease in States' revenues of approximately £750,000.

6.23 The personal allowances are recommended to be as follows:

	2020	2019
Personal Allowance	£11,575	£11,000
Age Related Allowance	£0	£450

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

6.24 The **supplementary personal income tax allowances are recommended to increase by 5.2%** and be as follows[m][n]

	2020	2019
Dependent relative	£3,750	£3,550
Housekeeper	£3,750	£3,550
Infirm Persons	£3,750	£3,550
Charge of Children	£7,875	£7,475

6.25 As part of the 2019 Budget Report, the States agreed that the annual tax-free lump sum limit for a pension scheme is set annually as part of the Budget. It is **recommended that the 2020 limit is increased by 2.7% (the inflation forecast) to £203,000** [Proposition 13].

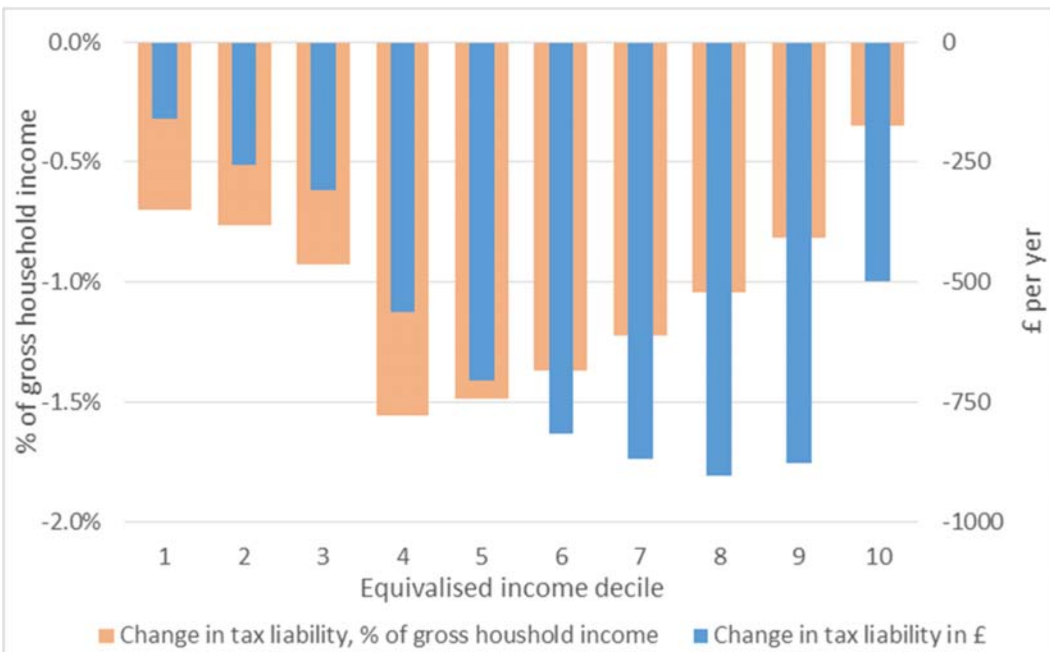
[m] In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, no new claims have been admitted from Year of Charge 2009 onwards.

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

6.26 The Policy & Resources Committee has considered the desirability and practicality of introducing further changes to the personal income tax allowance regime that would, further benefit those on lower income including contributing towards the improvement of living standards by addressing the issue of in-work poverty, but has decided not to pursue any such measures.

6.27 The first initiative considered was the introduction of a lower income-tax rate band, whereby the first £5,000 of an individual's taxable income (i.e. income in excess of current allowances) would be subject to income tax at a rate of 10% instead of 20%. The maximum benefit to an individual would be £500 per annum and it is estimated that this would result in an ongoing reduction in revenues from income tax of approximately £15million per annum, after taking into account those individuals who are subject to the withdrawal of personal allowances.

6.28 The following graph depicts the benefit that would be derived from a 10% income tax band for each decile of equivalised household income[o] :



6.29 This shows that the greatest percentage improvement in household income would be enjoyed by those in the fourth and fifth deciles, potentially reducing their overall income tax burden by 1.6% of their gross household income. However, the benefit for lower income households would be significantly less, because they are less likely to

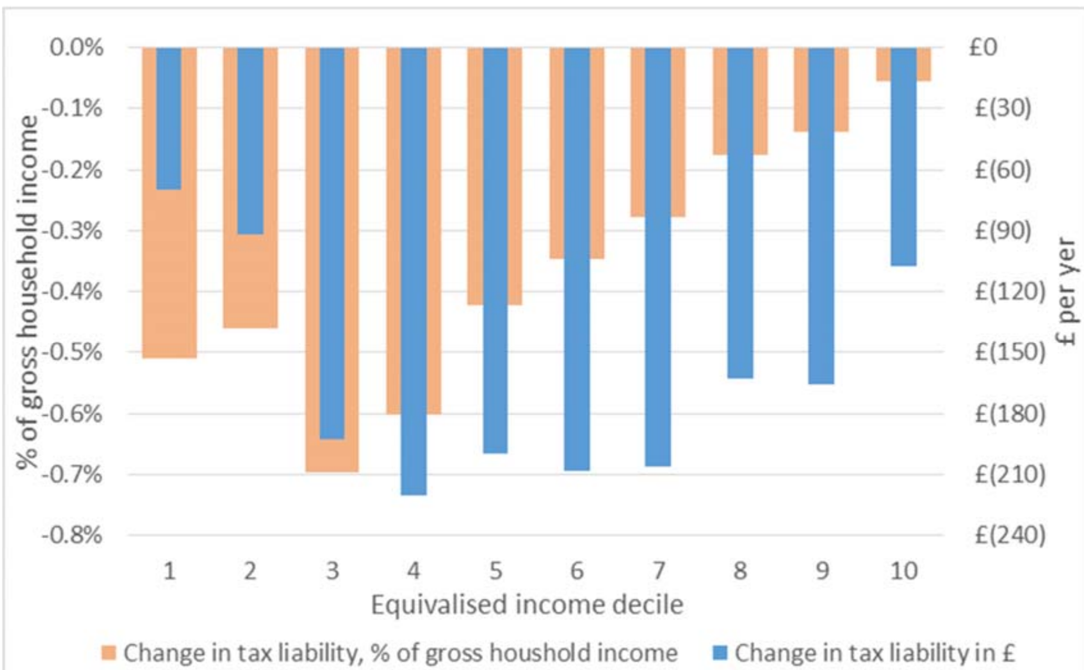
[o] Equivalised household income is a way of grouping households by income. First a household's income after the receipt of any benefits and the payment of taxes, contributions and any housing costs is calculated. This income is then adjusted to reflect the number of people that income must support. For example a couple without children would be able to live more comfortably on an income of £50,000 than a couple with children, so the income of the couple with children is adjusted downwards to reflect this.

Households are then grouped into ten deciles which represent households of similar incomes. The first decile represents the 10% of households with the lowest income, the tenth decile represents the wealthiest. Income deciles take no account of how much capital wealth a household might own (for example a family home).

have sufficient taxable income to utilise the full lower rate band. Notwithstanding the withdrawal of personal allowances for higher earners, it is estimated that 42% of the total cost of introducing a 10% income tax band would benefit the wealthiest 30% of households compared to only 12% improving the financial position of the poorest 30% of households.

6.30 The Policy & Resources Committee also investigated the potential effect of applying an additional personal allowance of £1,000 for individuals with an income of up to £35,000 (similar to median earnings), with decreasing allowance (to avoid high marginal rates of taxation) for individuals with an income of up to £40,000.

6.31 The maximum benefit to an individual would be £200 per annum and it is estimated that this would result in an ongoing reduction in income tax income of approximately £5million per annum. The following graph depicts the benefit that would be derived from the introduction of an additional income tax allowance for each decile of equivalised household income:



6.32 This graph shows that households between the third and seventh deciles would generally benefit the most from this measure, with their net income increasing by approximately £200 per annum. The lower income households would again gain limited benefit as they are less likely to have significant taxable income. There would still be a benefit for higher income households where, for example, there is one very high income individual with a second individual earning a low income. This means that 25-30% of the cost of introducing an additional personal allowance would benefit households in the wealthiest three deciles.

6.33 The Policy & Resources Committee has decided **not** to pursue the introduction of either a 10% income tax band or an additional personal allowance as either measure would be prohibitively costly with the benefits failing to target those individuals on the lower-middle incomes and would add administrative complexity and cost.

2020 BUDGET REPORT

Benefits in Kind

6.34 "Benefits in Kind" are non-cash benefits, received by an employee from their employer, commonly consisting of the use of assets (for example, the occupation of a property or use of a motor vehicle) without a transfer of ownership, or from third parties (such as gifts from customers). Regulations are required to set the amount to be charged to income tax for certain such benefits.

6.35 In order to maintain the real value of Benefits in Kind charges, which were last increased following approval of the 2017 Budget Report for 2017-2019, **it is recommended that they are increased at a fixed percentage of 2.5% per annum, compounded, for each of the next three years (2020 – 2022 inclusive)** [Proposition 14]. By scheduling the proposed charges now, rather than increasing charges annually, employers who provide such benefits will be able to plan for the proposed increases when amending their payroll systems, rather than requiring an amendment each year.

6.36 The Benefit In Kind charges for 2020-2022 are recommended to be as follows:

Benefit in Kind Charges	**Current 2019**	**Proposed 2020**	**Proposed 2021**	**Proposed 2022**
Cars:				
Limited private use only	£1,255	£1,285	£1,315	£1,350
Cost less than £10,000	£3,770	£3,865	£3,960	£4,060
Cost £10,000 - £19,999	£6,290	£6,445	£6,605	£6,770
Where the cost is £20,000 or more, the taxable benefit is 35% of the cost, per annum.				
3,4 and 5 star hotel / guesthouse accommodation for proprietary directors, proprietary employees and their dependants:				
Single Person	£2,380	£2,440	£2,500	£2,565
Married Person	£3,985	£4,085	£4,185	£4,290
Children up to age 1 *	-	-	-	-
Children between 1-4 years *	£375	£385	£395	£405
Children between 5-16 years *	£1,070	£1,095	£1,120	£1,150
Children age 17+ and still in formal education *	£1,575	£1,615	£1,655	£1,695
1 and 2 star hotel / guesthouse accommodation for proprietary directors, proprietary employees and their dependants:				
Single Person	£2,070	£2,120	£2,175	£2,230
Married Person	£3,465	£3,550	£3,640	£3,730
Children up to age 1 *	-	-	-	-
Children between 1-4 years *	£375	£385	£395	£405
Children between 5-16 years *	£925	£950	£975	£1,000
Children age 17+ and still in formal education *	£1,380	£1,415	£1,450	£1,485
Employed managers (other than proprietary managers) and other employees:				
Accommodation (per week)	£25	£25	£25	£25
Food (per week)	£25	£25	£25	£25

* At 31 December in the relevant year.

6.37 The following example shows the effect of this change:

> An employee is provided with a vehicle that costs £18,000. In 2019, the actual tax due would be £1,258. Under the proposed rates, this would increase to actual tax due of £1,289 (2020), £1,321 (2021) and £1,354 (2022), an increase of £31 in 2020, a further £32 in 2021 and a further £33 in 2022.

Miscellaneous Income Tax Matters

6.38 These miscellaneous amendments either simplify / clarify existing arrangements; remove inequalities; or are necessary to protect income tax revenues and sustain Guernsey's competitive position.

Standard Charge

6.39 A technical change is required following the signing of a new double taxation agreement ("DTA") with the UK to ensure that an individual who is 'resident only' for income tax purposes can continue to benefit from the treaty provisions when the new DTA enters into force in Guernsey on 1 January 2020.

6.40 It is therefore **recommended that the Income Tax (Guernsey) Law, 1975 is amended to clarify that an individual electing to pay the standard charge remains liable to Guernsey income tax on their worldwide income**, with the standard charge set as being the higher of £30,000 (or such other sum as the Policy & Resources Committee may determine by regulation) or the tax on the individual's Guernsey source income [Proposition 15].

6.41 This proposal would not have any impact on States' revenues.

Triviality provisions

6.42 Following consideration of the 2019 Budget Report, the States agreed revised limits and income tax arrangements for pension scheme funds which are classified as trivial whereby the entire fund can be paid to the member as a lump sum, thus increasing flexibility and preventing small pension pots being significantly eroded by administration charges. The 2019 Budget Report included the intention that these triviality payments would be excluded from the income tax cap but, regrettably, no proposition was included to this effect. It is therefore **recommended that an encashment of a pension fund (i.e. both triviality payments and lump sum payments which are over the annual tax-free lump sum limit) which comprises Guernsey tax relieved pension contributions is excluded from the income tax cap** [Proposition 16].

6.43 In addition, the States resolved that the conditions for triviality payments from pension schemes be amended so that, for members aged 50 or over, the limit was raised to £50,000 per scheme. The Income Tax (Pension Amendments) (Guernsey) Ordinance 2018 amended the Income Tax (Guernsey) Law 1975, to a limit of £50,000 from £30,000, but it failed to remove further sections of the Law that set the limit as an aggregate of all schemes, rather than per scheme. The Policy & Resources Committee intends to use its Regulation powers conferred on it by section 153A(4) and 157CA(4) to make the necessary adjustments.

Excise Duties

Tobacco

6.44 In April 2015, the States considered a States Report from the Health and Social Services Department entitled *"Guernsey and Alderney Tobacco Control Strategy 2015 – 2020"* (Billet d'État VII, 2015) and resolved, inter alia:

"To increase the rate of excise duty on cigarettes at a minimum of the Retail Price Index(X) plus 5% annually for the five years 2016 to 2020; and

To increase the rate of excise duty on other tobacco products at a minimum of Retail Price Index (X) plus 7.5% annually for the five years 2016 – 2020, subject to the rate of excise duty on each tobacco product not exceeding the rate of excise duty on cigarettes;"

6.45 Therefore, as the increase in the Guernsey RPIX as at June 2019 was 1.9%, the Policy & Resources Committee is recommending **an increase in excise duty in respect of cigarettes and cigars of 6.9%; and for all other tobacco products of 9.4%** as set out in The Excise Duties (Budget) Ordinance, 2019 (starting on page 79) [Proposition 18]. The excise duty on an average packet of twenty cigarettes would increase from £5.36 to £5.73.

6.46 It is anticipated that the budget measure will raise an additional £200,000 which compensates for an estimated general 5% volume decrease[p]. It is estimated that the income from Excise Duty on Tobacco will be £7.7million in 2019 and £7.2million in 2020 as stock-holdings which increased in advance of Brexit are reduced.

6.47 The Committee *for* Health & Social Care has advised that work is ongoing to explore the unification of the Bailiwick Drug and Alcohol Strategy and the Tobacco Control Strategy into a single Substance Misuse Strategy. A joint strategic needs assessment is currently ongoing to inform the combined Strategy's development, and it is anticipated that this will be presented to the Assembly within the first half of 2020. Particular consideration is being given to e-cigarette products and associated health concerns. Whilst recognising that, for some, e-cigarettes can be of assistance as a smoking cessation aid, it is important to note that, as a relatively new phenomenon, research remains ongoing in respect of their safety and the long-term health effects.

6.48 The current strategies include the use of excise duty as one of a range of tools to achieve policy objectives and the Policy & Resources Committee recommends increases in excise duty rates accordingly, ie real-terms' increases in duty rates are generally recommended for health improvement, instead of for fiscal reasons. The Committee *for* Health & Social Care, after suitable research, consultation and consideration of the impact of such a policy decision, may recommend that the States directs the imposition of a duty on e-cigarette products in order to discourage their use by anyone other than those trying to give up smoking.

[p] although decreasing import volumes indicate that less tobacco is being consumed, such indication may be countered by an increase in the amount of tobacco products being consumed on which no duty has been paid.

Alcohol

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

6.50 Although there is no clear direction on the approach to be taken in setting rates of excise duty on alcohol in order to achieve specific policy objectives, along the lines of that currently within the Tobacco Control Strategy, the Policy & Resources Committee is continuing with the approach taken in annual Budgets since 2014 where the annual increase has been 5%.

6.51 Therefore, it is recommended that the **increase in the duties levied on alcohol is 5%** as set out in The Excise Duties (Budget) Ordinance, 2019 (starting on page 79) [Proposition 18]. This is estimated to raise an additional £700,000 per annum (£325,000 real-terms' increase). The 2019 anticipated income from excise duty on alcohol is £14.1million which is £300,000 lower than the budget estimate due to a general decrease in the volume of alcohol imports.

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

Description of Goods	Present Duty	Increase in Duty	Proposed Duty
Beer / Cider (2.8% - 4.9% ABV) – small independent brewery – 1 pint	23.29p	**1.17p**	24.46p
Beer / Cider (2.8% - 4.9% ABV) - 1 pint	47.14p	**2.36p**	49.50p
Beer / Cider (4.9% - 7.5% ABV) - 1 pint	59.07p	**2.95p**	62.02p
Spirits (37.5% ABV) – 25mls	35.10p	**1.76p**	36.86p
Spirits (37.5% ABV) – bottle (1 litre)	£14.04	**70p**	£14.74
Light wine (5.5% to 15% volume) – 125mls	33.00p	**1.65p**	34.65p
Light wine (5.5% to 15% volume) – bottle (750mls)	£1.98	**10p**	£2.08

Motor Fuel

6.53 Following consideration of the Taxation of Motoring Policy Letter (Billet d'État XIII, July 2019), the Policy & Resources Committee was directed to *"include proposals in the 2020 and 2021 Budget Reports to increase the rate of excise duty on motor fuel to a level necessary to maintain the real-value of the income raised by taking account both of inflation (RPIX) and any change in sales volume."*

6.54 The 2019 anticipated income from excise duty on motor fuel is £20.6million which is £300,000 higher than the budget estimate due to the decline in volumes being slightly less in 2018 and 2019 than projected. This means that, in order to maintain the real value of the income raised (at the 2019 Budget level) pursuant to States' direction, and based on the latest inflation forecast for 2020 of 2.7% and assuming a further 1.6% decrease in volumes (the average of that experienced in 2018 and 2019), duty would need to rise by 2.2p (3.1%) to 72.3p per litre.

6.55 Therefore, **it is recommended that excise duty on motor fuel is increased by 2.2p per litre to 72.3p per litre** [Proposition 18]. As previously indicated by the President in a statement to the States of Deliberation in September 2019, in order to phase in the increase, the Policy & Resources Committee is recommending that 1.1p is applied on publication of the Billet d'État containing this Report and 1.1p is applied on 1 January 2020.

6.56 Diesel for marine (and other non-road) use would remain exempt from duty and the concessionary rate of duty on petrol for marine use would be 48.1p per litre from publication of the Billet d'État containing this Report and 49.2p per litre from 1 January 2020.

<u>Implementation of Excise Duty Budget Proposals</u>

6.57 Under its existing powers, the Policy & Resources Committee will make an Order bringing the recommended changes in the rates of excise duty (with the exception of 1.1p of the increase in the excise duty on motor fuel) into effect on the date of publication of the Billet d'État containing this Report. The Order will cease to have effect at the conclusion of the States' Budget meeting and the Committee accordingly **recommends the States to approve by Ordinance that, from that date, the rates of excise duty shall be varied as set out in this Report** [Proposition 19]. These arrangements are the same as in previous years.

Taxation of Real Property ('TRP')

<u>Commercial</u>

6.58 The 2019 estimate for Commercial TRP is £16.8million.

6.59 **It is recommended that commercial buildings and land tariffs are increased by 5%** (being the inflation projection of 2.7% and a real-terms' increase of 2.3%) [Proposition 20]. It is estimated that this will raise approximately a further additional £850,000 per annum (£400,000 in real-terms).

6.60 As part of the 2018 and 2019 Budgets, office accommodation used for legal services, accountancy services and non-regulated financial services businesses has been assigned to new categories at the same TRP rate as regulated finance industries office accommodation (TRP tariff of £42.65 in 2020 instead of £14.25 raising an additional £850,000 per annum). There remains approximately £1.75million of income collected in the office and ancillary accommodation category, which largely comprises premises used by professional services and related businesses. Due to the numerous purposes that such office accommodation is used for, it is not considered feasible to identify further specific groups for separate categorisation.

6.61 Therefore, in order to increase the office accommodation tariff to that of the specific office accommodation categories, the Policy & Resources Committee is recommending, as a revenue raising measure, a gradual rise in the TRP tariff charged for this category, over a period of five years, to increase it to the higher tariff.

6.62 It is **recommended that, over a period of five years, the tariff for the general Office and Ancillary Accommodation category is increased to the same tariff as the Office and Ancillary Accommodation tariffs for regulated finance industries, legal services,**

accountancy services and non-regulated financial services businesses [Proposition 21]. This would be an increase of £5.70 per unit and would raise an additional £700,000 in 2020.

Tax on Real Property - Domestic

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

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

6.64 In line with the States' direction to raise additional revenues from those most able to bear the burden, the States agreed, following consideration of the 2019 Budget Report, the introduction of increased TRP tariffs for domestic properties with a TRP rating of 200 and above as follows:

With effect from 2019:

- properties with a TRP of over 500: a premium of 60%.

With effect from 2020:

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

6.65 This will affect approximately 30% of domestic properties and raise an additional £1.3million per annum (£500,000 from 2019 and a further £800,000 from 2020).

6.66 During the 2019 Budget Report debate, concern was expressed at the possible impact of budget measures in respect of domestic TRP tariffs and a commitment was given to undertake an impact analysis.

6.67 An assessment has therefore been carried out to determine the impact of the annual increase in domestic TRP tariffs since 2016 and the introduction of tiered bandings with higher tariffs for larger properties. This impact assessment (Appendix IV) shows that the impact of increases in baseline TRP tariffs is broadly proportional for working age adults since people tend to increase the size of their home (whether owned or rented) as they gain more income.

6.68 For older adults the relationship between property size and income is less clear with those beyond pension age being more likely to own (but not rent) properties that are disproportionately large compared to their income. This means that, for this age group only, increases in the baseline TRP tariffs tend to be less progressive in relation to income but not necessarily in relation to overall wealth. In total over the five year period from 2015 up to 2020 (including the proposed increase) the increase in the baseline TRP tariffs will have added a cumulative increase in household costs averaging about £100 a year or £1.92 a week.

6.69 The introduction of tiered TRP tariffs (for properties with a rating of 200 and over) in value terms tends to affect more of those in higher income deciles than in lower income deciles. The average TRP value of a property in Guernsey is approximately 150, which means the number of households affected is relatively small which keeps the average impact low. For working age adults, the tiered system is generally proportional or slightly progressive and it is broadly proportional for households above pension age.

6.70 Therefore, the Policy & Resources Committee is recommending that the States proceeds with the final phase of the introduction of tiered domestic TRP tariffs (for properties with a rating of between 200 and 499).

6.71 It is **recommended that domestic buildings and land tariffs are increased by 10.2%** (being the inflation projection of 2.7% plus 7.5% in line with the April 2015 States' resolution) [Proposition 22]. This would raise an additional £825,000 per annum (£600,000 in real-terms). The 2019 forecast for income from domestic TRP and land is £8.2million (2018: £7.1million) and the 2020 estimate increases to £9.8million.

6.72 The following table illustrates the effect of the increase in TRP rates on different domestic properties for 2020:

TRP of Property	Current (2019) TRP Annual	Increase in TRP Annual	Proposed (2020) TRP Annual
75	£125.25	£12.75	£138.00
150	£250.50	£25.50	£276.00
200	£334.00	£50.00	£424.00
300	£501.00	£216.00	£717.00
400	£668.00	£300.00	£1,068.00
500	£1,335.00	£135.00	£1,470.00
750	£2,002.50	£202.50	£2,205.00
1,000	£2,670.00	£270.00	£2,940.00

6.73 Therefore, in summary, the Policy & Resources Committee is recommending:

- a 10.2% increase in domestic building and land TRP tariffs;
- the final phase of the introduction of tiered domestic building TRP tariffs (for properties with a rating of between 200 and 499);
- a 5% increase on commercial building and land TRP tariffs; and
- the tariff for the general Office and Ancillary Accommodation category be increased to the same tariff as the Office and Ancillary Accommodation tariffs for regulated finance industries, legal services, accountancy services and non-regulated financial services businesses, over a period of five years.

6.74 However, the Policy & Resources Committee also considers that there is scope for further revenue to be raised through a higher increase in commercial tariffs to that recommended in paragraph 6.59. A further 5% increase (i.e. a total general increase of 10%) would raise an additional £850,000 which could be used either to not introduce the final phase of the introduction of tiered domestic building TRP tariffs (for properties with a rating of between 200 and 499) or to increase the service development funding available to the following Committees:

- Committee *for* Education, Sport & Culture - £70,000;
- Committee *for* Employment & Social Security - £75,000;
- Committee *for* Employment & Social Security (formula led) - £275,000; and
- Law Officers - £415,000.

6.75 **Therefore, the States are being asked to decide whether they wish to:**

a) introduce the final phase of tiered domestic buildings TRP tariffs (for properties with a rating of between 200 and 499;

or

b) in order to raise a similar amount of additional income, not to introduce the final phase of tiered domestic buildings TRP tariffs (for properties with a rating of between 200 and 499) but instead apply a further increase of 5% to commercial TRP tariffs;

or

c) in order to raise an additional £850,000 to be used to increase the service development funding, introduce the final phase of the introduction of tiered domestic buildings TRP tariffs (for properties with a rating of between 200 and 499) and apply a further increase of 5% to commercial TRP tariffs [Proposition 23].

6.76 The 2020 Budget Report is the fifth year in which real-terms' increases of 7.5% for domestic TRP tariffs have been recommended and, if approved, they will have increased by 62.4% (47.6% in real-terms). In order to attain the 100% real-terms' increase in tariffs (set out in paragraph 6.63), based on an inflation assumption of 2.5%[q], annual increases of 8.8% would be required for each of the five years from 2021 to 2025 inclusive. The tariffs to be charged (on residential buildings with a TRP of less than 200) would be:

Year	Tariff per unit	Charge for a property with a TRP of 150
2019	£1.67	£250.50
2020	£1.84	£276.00
2021	£2.00	£300.00
2022	£2.18	£327.00
2023	£2.37	£355.50
2024	£2.58	£387.00
2025	£2.81	£421.50

[q] This forecast is the best estimates of medium-term inflation based on historical trends, expectations of inflation in the UK, and forecast movements in the price of key commodities.

6.77 Therefore, it is **recommended that the States agrees to increase domestic buildings and land TRP tariffs by 8.8% per annum for 2021 to 2025 inclusive** [Proposition 24].

Outbuildings

6.78 There is an anomaly within the current domestic TRP structure whereby a building which is detached from the main dwelling can be defined as an outbuilding if certain criteria are met and attract a lower tariff but all buildings attached to the main dwelling, irrespective of their use, are classified and charged as part of the main building.

6.79 Under the Taxation of Real Property (Guernsey and Alderney), Ordinance, 2007 "outbuildings" means a shed, barn or any other building which:

a) is detached from, and used in connection with the enjoyment of, a dwelling house,
b) is used primarily for domestic storage, and
c) is not a domestic garage.

6.80 When TRP was introduced in 2008 (replacing the Tax on Rateable Value system), it was designed to be simple to administer, transparent, objective and equitable. A key component of this was to base the tax on the external plan-view measurement of the property which would be obtained by a low-level aerial survey. Therefore, it was intended that the vast majority of properties would not require a site visit in order to assign a TRP unit value.

6.81 It is considered inevitable that there are some buildings which have been classified as "outbuildings" but, as they are not primarily used for domestic storage, should be categorised with the main dwelling, for example if they are used as a home office or a games room. Without physically inspecting the property, it is not possible to determine use of the "outbuilding" from the aerial photography. Likewise, there may be some attached outbuildings which are not habitable.

6.82 The tariff for "outbuildings" is 50% of the standard domestic rate (84p per unit in 2019) raising £130,000 (within a total domestic TRP income of £8.2million).

6.83 The Policy & Resources Committee wishes to address the perceived unfairness in the current system whilst also protecting States' revenues by addressing the potential issue of buildings being incorrectly classified as "outbuildings" but not introducing a mechanism which is complex to understand or time-consuming and costly to administer. Therefore, in order to ensure consistency of treatment between building which are attached or detached from the dwelling house, **it is recommended that:**

i. **the "outbuildings" categories are removed from the TRP Ordinance and these outbuildings classified within the appropriate domestic buildings category; and**

ii. **a new category of "property for other use" is created within the domestic TRP classifications to be used for buildings, whether attached or detached from the dwelling house, which are not used in connection with the enjoyment of the dwelling house (which includes use for domestic storage or garaging)** [Proposition 25].

6.84 The new category, which would cover outbuildings which, for example, are unused / derelict or used as an aviary or (non-commercial) stables would have a TRP tariff of 50% of the standard domestic rate and buildings classified therein would not be included when assessing the total unit value of a domestic property (relevant to which graduated TRP banding the property is placed). The classification of properties as "property for other use" would be following submission of a simple application from the property owner which could then be followed by a site visit by Cadastre officers. For administrative efficiency and in order to ensure that TRP is not charged on a large number of items such as small sheds, coal bunkers, play houses, etc. the exemption previously applied for detached outbuildings under 10m² would continue.

6.85 Under the current TRP system, attached domestic glasshouses which are used as glasshouses and not for domestic dwelling purposes (eg. as a conservatory) are classified within the domestic property category instead of the domestic glasshouse category (currently 5p per unit). This treatment is considered inconsistent and, therefore, **it is recommended[r] that domestic glasshouses which are not used for domestic dwelling purposes are classified as domestic glasshouses** [Proposition 26]. Again, as it is not possible to determine the use of a glasshouse from the aerial photography, an application from the property owner for their attached glasshouse to be classified as a glasshouse would be required.

Document Duty and Anti-Avoidance Duty

6.86 As part of the 2019 Budget Report, document duty on the registration of bonds[s] was reduced to 0% with effect from 1 January 2019. This was designed to remove an impediment to borrower's refinancing and changing mortgage provider, thus increasing competition and not 'trapping' people into paying higher interest rates than might be available elsewhere. The income forgone was replaced by the Document Duty and Anti-Avoidance Duty on conveyances increasing by 0.25% on the bandings covering up to £400,000 and 0.5% thereafter (revenue neutral). A new rate of 5.5% was introduced for the proportion of a property conveyance which exceeds £2million. This revised structure was designed to be of particular benefit for first time buyers who typically purchase the lower value properties and have the highest loan to value ratios.

6.87 In the first seven months of 2019, there was an overall increase of 150 (26%) in the number of bonds (secured against domestic and commercial properties) registered, with 58 being linked to a conveyance (which reflects the increased number of property conveyances). There has been an increase of 79 (50%) in the number of private debtor bond registrations which are not linked to a conveyance, which suggests that there has been a significant increase in individuals changing mortgage provider.

6.88 Based on the continued strength of the local property market with increases in both volume and value of transactions, it is estimated that income from Document Duty and Anti-Avoidance Duty will be £18.2million in 2020 (2019 revised forecast: £17million; 2018 income: £17.6million) which is a substantial increase over the £14.5million originally budgeted for 2019.

[r] Deputy St Pier, having declared an interest, withdrew from the meeting at which this matter was discussed and did not participate in the discussion or the decision.

[s] A bond is a registered security charge against any real property owned by an individual; individuals; or company.

Equity Release Mortgages

6.89 An equity release mortgage (also known as lifetime mortgage) allows homeowners to access the value (equity) tied up in their home whilst retaining ownership by borrowing against the security of their property. The loan amount and interest accrued are paid back when the property is sold when the homeowner(s) dies or moves into long-term care. Equity release mortgages can provide greater financial options and flexibility to individuals including those who own substantial property assets but have limited income.

6.90 However, under existing Guernsey customary law, equity release mortgages cannot currently be offered due to the following reasons:

- in the case of an ordinary mortgage, the periodic payments of interest act as an acknowledgement of the debt and thus stop the six year prescription period[t] from running. This is not the case with an equity release mortgage where the interest is simply rolled up. There is thus a risk with an equity release mortgage of repayment of the debt becoming time barred unless some other means for securing acknowledgement of the debt is put in place;

- although it is theoretically possible for interest to be 'rolled-up' for many years under a mortgage secured by a registered bond, there is a 730 day maximum on the amount of interest that can be claimed as a priority in saisie proceedings when a creditor forecloses on the mortgaged property. This would be unsuitable in the case of an equity release mortgage; and

- bonds also tend to specify the amount secured and which the bank can thus claim in priority to subsequent creditors. Again, this is not feasible with equity release mortgages where the size of the final debt, including accrued interest, is unknown at the outset; and

- there is some uncertainty as to exactly when time starts to run for prescription purposes against a capital sum repayable on demand.

6.91 The legislative changes required to amend the customary law to enable equity release mortgages to be offered are relatively straightforward and, therefore, **it is recommended that the States agree to direct the preparation of such legislation as may be necessary to enable equity release mortgages to be offered** [Proposition 28].

6.92 The Committee *for* Economic Development and the Policy & Resources Committee are planning, by the end of 2019, to submit a Policy Letter recommending that lending, as an activity, and matters ancillary to lending will be subject to license by the Guernsey Financial Services Commission. The Policy & Resources Committee is aware that there have been incidences in other jurisdictions of inappropriate selling of equity release mortgages and hence does not intend to enact the legislation to enable equity release mortgages to be offered until it is satisfied that there are appropriate consumer safeguards in place.

[t] Prescription is when a debt (for example, an obligation to repay money) is extinguished after a period of time passes during which there is no payment made by the debtor or other acknowledgement of the debt; and without the creditor taking steps (eg, by serving a summons) to claim payment.

Section 7: Expenditure Proposals

7.1 The 2020 allocation for revenue expenditure is £432.1million which comprises: Non-Formula Led Cash Limits of £327million; Formula Led estimates of £79.7million; a Budget Reserve of £20million; and allocations for service developments of £5.4million.

7.2 Individual Committee 2020 Cash Limits take account of adjustments for budget transfers between Committees including:

- £1.3million from multiple Committees to Corporate Services in respect of the establishment of the Strategic Leadership Team;
- £260,000 of operating income from liquor licensing from the Committee *for* Home Affairs to the Committee *for* Health & Social Care;
- £400,000 from multiple Committees to Corporate Services in respect of consolidating IT budgets; and
- a small number of other low value inter-Committee transfers where responsibility for a service has transferred between Committees.

7.3 The recommended Cash Limits for 2020 are detailed in the following table and further detail of the funding allocated to each Committee is set out below. (Full line by line details of the 2020 budgets are included as Appendix VII):

	Note	2020 Revenue Cash Limit £'000s	2019 Revenue Cash Limit £'000
Corporate Services	1	34,790	29,050
Economic Development	2	5,985	6,040
Education, Sport & Culture	3	79,770	78,350
Timing of delivery of budget reductions		(3,065)	(3,620)
		76,705	74,730
Employment & Social Security	4	11,975	12,070
Environment & Infrastructure	5	12,535	12,255
Health & Social Care	6	124,665	119,470
Home Affairs	7	31,500	31,400
Timing of delivery of budget reductions		(275)	(300)
		31,225	31,100
Policy & Resources		8,090	8,830
Scrutiny Management	8	531	531
Development & Planning	9	1,290	1,410
Overseas Aid & Development	10	3,080	2,960
States' Trading Supervisory	11	5,940	6,210
Royal Court		2,540	2,570
Law Officers		5,300	5,055
States of Alderney		1,875	1,875
Pooled Budgets		507	506
TOTAL NON-FORMULA LED		**327,033**	**314,662**
Policy & Resources – Formula Led	12	2,080	1,935
Employment & Social Security Formula Led	13	77,625	75,885
TOTAL FORMULA LED		**79,705**	**77,820**
BUDGET RESERVE	14	**19,987**	**12,238**
SERVICE DEVELOPMENTS	15	**5,400**	-
		432,125	**404,720**

7.4 **Corporate Services (Note 1)** – Corporate Services are those provided to and on behalf of the entire organisation and comprise Assurance and Risk; Communications; Finance; Human Resources; Information Systems & Services; Insurance; Procurement, Shared Services Centre and Tribunals.

7.5 In addition to the Inter-Committee transfers of £1.7million (paragraph 7.2) to establish the Strategic Leadership Team and consolidate IT budgets, the recommended Cash Limit includes £950,000 of additional funding. This includes £400,000 in respect of the increase in expenditure on recruitment fees and staff rent allowances, as appointments are being made to a significant number of vacancies within health and social care services.

7.6 In June 2019 (Billet d'État X), the States approved the recommendations within the "Future Digital Services" Policy Letter including entering into a ten-year strategic partnership contract with Agilisys Guernsey Limited for the delivery of States' IT services including the provision and maintenance of the States' IT infrastructure and support services, technology support for Public Service Reform transformation programmes and delivering a programme of approved economic development initiatives. The Policy Letter anticipated that, over the life of the strategic partnership, the revenue cost will be £5.9million less than the current baseline. The profile of the contract value is for higher costs in the early years which will gradually reduce over the term of the contract as Agilisys delivers contractually guaranteed savings. The States agreed to *"direct the Policy & Resources Committee to include specific additional funding of £2.0m for the Strategic Partnership in the 2020 recommended Cash Limits, and to take account of the ongoing costs when recommending Cash Limits for subsequent years."*

7.7 However, the additional funding requirement for 2020 has been revised to £2.9million due to: the delayed contract start date which has had the effect of reducing the incremental cost in 2019 but pushing 2020 higher; the savings on power costs from the closure of States server facilities being lower and realised later than originally anticipated; and a modest increase in the initial contract price as a result of a small proportion of the savings commitment now being classed as target savings rather than guaranteed.

7.8 **Committee *for* Economic Development (Note 2)** – Following an audit of the office of the Director of Civil Aviation in 2018, it was identified that there is a requirement to discontinue the current practice of one post holder fulfilling the roles of both Director of Civil Aviation and Aircraft Registrar. Therefore, the recommended Cash Limit includes specific funding of £48,000 to enable the appointment of a part-time Aircraft Registrar.

7.9 **Committee *for* Education, Sport & Culture (Note 3)** – The Committee *for* Education, Sport & Culture has a budget reduction outstanding of £3.065million which it has committed to deliver in 2021 and subsequent years, primarily though the transformation of 11-18 and further and higher education. Therefore, funding from the General Revenue Account Reserve has been made available in 2020 to recognise the timing of the delivery of the budget reduction.

7.10 The recommended Cash Limit of £76.7million includes allowance of £1.1million for non-discretionary items including: funding baseline pressures (£405,000); an inflation allowance of £418,000 for specific areas of expenditure including utilities, grants to the Colleges and Higher Education grants; and £285,000 in respect of increased demand for pre-school (£50,000) and higher secondary school numbers which has necessitated the employment of four additional teachers (£235,000).

7.11 **Committee *for* Employment & Social Security (Note 4)** – the Cash Limit of £12million includes specific funding of £48,000 to enable the appointment of an additional Tenancy Management Officer to meet the requirements for ongoing landlord tenancy functions and debt management issues.

7.12 In November 2013, the States resolved:

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

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

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

7.13 The service development allocation includes £70,000 to fund an additional post to focus on policy and legislative developments in the areas of equality and inclusion, including in respect ensuring States' compliance with the Convention on the Rights of Persons with Disabilities.

7.14 As part of its budget submission, the Committee *for* Employment & Social Security indicated that the establishment and annual operating costs of an Equality and Rights Organisation ("ERO") could be in the region of £500,000. That Committee is currently working towards developing a full business case for a staged approach to developing the ERO including an options appraisal and financial estimates together with cost implications associated with the enforcement of the discrimination legislation.

7.15 In line with the 2013 States' resolutions the States have not yet been requested to give priority to the establishment of this organisation and allocated funding, therefore, no budgetary provision has been made. However, once the States have approved the establishment of the ERO, funding could be made available from the Budget Reserve to fund project set-up costs. The allocation of any ongoing funding requirement will be considered in future Budget Reports.

7.16 **Committee *for the* Environment & Infrastructure (Note 5)** – The funding agreed by the States in July 2015 (Billet d'État XIV, 2015) to implement the Integrated On Island Transport Strategy covers both revenue and routine capital expenditure; and, depending on which initiatives are planned to be progressed, the specific amounts allocated to these budgetary headings will vary between years. The 2020 Cash Limit includes an increase of £139,000 in this respect.

7.17 The recommended Cash Limit includes an inflation allowance of £240,000 including £184,000 in respect of the Scheduled Bus Service contract.

7.18 The Committee has offered a reduction of £50,000 in its Cash Limit as it is forecasting an increase in its income.

7.19 **Committee *for* Health & Social Care (Note 6)** – In previous years, the Committee *for* Health & Social Care has only been able to prepare a balanced budget by assuming that a significant number of posts will not be filled in year. This has enabled some spending decisions to be made to meet demand for existing services or introduce new services without ongoing budgetary provision being in place. However, there has recently been successful recruitment to some of these posts which is resulting in baseline pressures and contributes to the forecast overspend of £5.2million in 2019.

7.20 The recommended Cash Limit of £124.7million includes allowance of £7.2million for non-discretionary items including an inflation allowance of £1million and £6.2million for addressing baseline pressures. Therefore, before allowing for the effect of any pay awards (which are not yet settled for either 2019 or 2020) the Committee *for* Health & Social Care's base Cash Limit has increased by 6% simply to fund existing commitments.

7.21 In addition, this budget is recommending that £2million of service development funding is allocated to the Committee *for* Health & Social Care which is a further 1.7% increase in funding.

7.22 As set out in paragraphs 5.26-5.27, it is now expected that all Committees will be able to fund their existing commitments within the 2020 Cash Limits and should seek to manage any emerging pressures within their authorised budget.

7.23 During 2019, the Committee *for* Health & Social Care advised the Policy & Resources Committee that there was an urgent requirement to address the substantial issues associated with the scale of the build-up of patients requiring orthopaedic treatment. The Policy & Resources Committee, as a short-term measure, made one-off funding of £1.5million available from the Budget Reserve and noted the Committee *for* Health & Social Care's intention to consider and, where appropriate, implement earlier intervention measures which should reduce the number of orthopaedic referrals. As part of its revised (September) budget submission, the Committee *for* Health & Social Care requested that £1.5million also be made available in 2020. This has not been possible to accommodate within the overall budget but the Policy & Resources Committee will seek to make further one-off funding available from the Budget Reserve.

7.24 **Committee *for* Home Affairs (Note 7)** – The Committee *for* Home Affairs has a budget reduction outstanding of £511,000[u] for which plans are in place for delivery of £236,000 in 2020 with the balance of £275,000 anticipated to be delivered in 2021 and subsequent years. Therefore, funding of £275,000 from the General Revenue Account Reserve has been made available in 2020 to recognise the timing of the delivery of the balance of budget reduction.

7.25 The recommended Cash Limit includes allowance of £782,000 for addressing baseline pressures, predominantly relating to posts within Law Enforcement that have been established without accompanying funding.

[u] including £250,000 in respect of the reversal of savings previously signed-off which are no longer being realised

7.26 As directed by the States in March 2019, following consideration of the Policy Letter *"Preparation for a New Electoral Roll"* (Billet d'État VII, 2019) , the recommended 2020 Cash Limit for the Committee *for* Home Affairs includes specific additional allowance of £144,000, to fund the 2020 costs associated with compiling the new Electoral Roll and managing the election process.

7.27 As set out in the 2019 Budget Report, the 2019 budget of the Committee *for* Home Affairs included specific one-off funding to provide a grant to the Office of the Data Protection Authority ('ODPA') in order to develop the capacity and capabilities necessary to meet the requirements of the new Data Protection legislation that came into force on 25 May 2018. The intention was that plans would be developed to enable the ODPA to move to a self-funding model by charging (which would also apply to the States as data controllers and processors). Although a significant amount of work has been undertaken to research and devise an appropriate fee mechanism, it has not yet been agreed and implemented.

7.28 The funding mechanism is being designed to ensure that, from 2020 onwards, sufficient income is raised to cover the costs of operation. However, there will be a delay in commencing the new regime and, since the States of Guernsey is currently legally obliged to provide funding for the operation of the ODPA, short-term funding will be made available in 2020 with the expectation that it will be recovered from fee income in future years. This has had the impact of reducing the Committee *for* Home Affairs cash limit by £866,000.

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

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

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

7.32 **Development & Planning Authority (Note 9)** – The Authority has offered a reduction of £80,000 in its Cash Limit as the income it has received has exceeded forecasts for a number of years.

7.33 The Policy & Resources Committee has assured the Development & Planning Authority that it will make funding available from the Budget Reserve in 2019 and 2020 to fund four Development Frameworks for Regeneration Areas if the Development & Planning Authority cannot fully meet the costs from its existing budget.

7.34 **Overseas Aid & Development Commission (Note 10)** – In July 2019 (Billet d'État XIII) following consideration of the Commission's Policy Letter entitled *"Our Place in the World: The next ten years of overseas aid in Guernsey", the States resolved "That, in 2020 and 2021, the funding allocated to the Overseas Aid & Development Commission should be increased by inflation only, and to direct the Policy & Resources Committee to take this into account when recommending Cash Limits as part of the annual Budget Report".*

7.35 The Commission has agreed with the Policy & Resources Committee that an administrative budget for the Commission (including staff salaries, training and project oversight) is created by transferring the budget for the resources which are currently funded by the Policy & Resources Committee (£40,000). For the purpose of good governance, it is important that they are set out clearly and separately and this revised arrangement will give the Commission the flexibility to adjust the amount of resources it allocates for administrative purposes.

7.36 **States' Trading Supervisory Board (Note 11)** – The States' Trading Supervisory Board has reviewed the allocation of charges for the central services and oversight function it provides for the incorporated and unincorporated trading entities. This has enabled a reduction of £200,000 in its base Cash Limit which has contributed towards achievement of the MTFP savings target.

7.37 **Formula Led Payments to States Members (Note 12)** – In accordance with the decisions of the States in September 2019 following consideration of the Independent States Members' Pay Review Panel Report (Billet d'État XVIII), the 2020 estimate includes provision for remuneration to be increased in line with the change in median earnings. A cyclical provision of £40,000 has been made to provide standard information technology equipment and software to all States Members elected in June 2020.

7.38 **Formula Led Social Security (Note 13)** – The 2020 estimate includes provision for inflation increases in rates of benefit for claimants of Severe Disability & Carers' Allowance and Income Support, together with an inflation increase in the Income Support benefit limitation. As a result of the arrangements for the introduction of Income Support, it was anticipated that expenditure would reduce by approximately £270,000 in 2020 as transitional payments for those individuals whose overall support decreased under the new arrangements are phased out. However, due to a small but consistent upward trend in the number of claimants, demand has been greater than previously anticipated for which provision of an additional £500,000 has been made in the 2020 estimate.

7.39 The grant to the Guernsey Insurance Fund (which is based on a set percentage of total social security contributions received) is budgeted to increase by 3% which is in line with the assumption used for growth in personal income tax receipts.

7.40 **Budget Reserve (Note 14)** – As 2019 pay awards have not yet been settled for the vast majority of pay groups, the 2020 Budget Reserve includes provision for two years of pay awards.

7.41 Whilst there is a limited amount of funding available within the Budget Reserve for unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures; it is the expectation that Committees should first have comprehensively reviewed their existing budgets in order to reprioritise and accommodate any additional expenditure.

7.42 **Service Developments (Note 15)** - there has been a rigorous review and prioritisation exercise, and dialogue with Committees, following which the Policy & Resources Committee is recommending that a total of £5.4million of service development funding is allocated to two specific initiatives of the establishment of a Computer Emergency Response Team (Committee *for* Home Affairs) (£725,000) and countering economic crime, money laundering and terrorist financing (£1.3million); and £3.375million to individual Committees.

7.43 **Individual Committees will be able to choose to allocate their funding to the initiatives which they consider are of the highest priority.** The funding will be transferred into Committee budgets and allowance made within recommended 2021 Cash Limits following the Policy & Resources Committee's approval of a request which clearly demonstrates that the service development can be fully funded within the allocation on an ongoing basis.

7.44 It is anticipated that there will be a delay in the commencement of some of these service developments, including as a result of the time taken to recruit staff. Therefore, any in-year balance will be available to increase the funding available within the 2020 Budget Reserve and could be used for initiatives without ongoing funding implications, such as further addressing the orthopaedic treatment waiting list.

7.45 The service development funding has been prioritised as follows:

	Note	£'000
Corporate Services		225
Committee *for* Education, Sport & Culture		715
Committee *for* Employment & Social Security		70
Committee *for* the Environment & Infrastructure		100
Committee *for* Health & Social Care		2,000
Committee *for* Home Affairs		55
Policy & Resources Committee		155
Royal Court		55
TOTAL ALLOCATED TO COMMITTEES		**3,375**
Computer Emergency Response Team (Committee *for* Home Affairs	1	725
Countering economic crime, money laundering and terrorist financing (Pooled Budget)	2	1,300
TOTAL		**5,400**

Appendix VI details the individual service developments for each Committee.

7.46 **Computer Emergency Response Team (Note 1)** – Our island geography has traditionally insulated the Channel Islands from international crime. However, with the advent of cyber-crime, geographical separation is no longer a protection. The exponential increase in cyber-attacks presents a significant economic and global reputational risk with an attack in one island having the potential to impact the others.

7.47 Cyber-attacks can disable entire networks, systems and operational functioning. They can affect businesses of all sizes, and critical national infrastructure. An incident at a single organisation can seamlessly spread to infect others and the wider business sector. Effective cyber-threat and incident response relies on comprehensive threat analysis and evaluation, effective coordination of responses and providing expert advice and support to organisations, businesses and the community.

7.48 In light of the growing threat and the potential economic damage caused by cyber-attacks, governments need to ensure that they are equipped to effectively manage the response to a major cyber-attack when (not if) it occurs. They also need to strengthen national cyber resilience by ensuring businesses and citizens are aware of the risks they are exposed to and the steps they should take to respond to them.

7.49 Therefore, it is intended to establish and operate a pan-island Computer Emergency Response Team with Jersey. A pan-island cyber resilience function will optimise operational efficiency and value for money. It is estimated that Guernsey's share of the costs will be £465,000 per annum on an ongoing basis with an additional £260,000 to establish the function. This project contributes towards delivery of the outcomes of the Policy & Resource Plan priority policy area of "security and cyber-security".

7.50 **Countering economic crime, money laundering and terrorist financing (Note 2)** - during the last few years it has become increasingly clear internationally what is required for jurisdictions to be effective in detecting, investigating and prosecuting criminals engaged in tax evasion, acquisitive crime such as corruption and money laundering and in preventing criminals from benefiting from crime by confiscating or forfeiting their proceeds. This same increased clarity applies to the detection, investigation and prosecution of terrorist financing; and in preventing terrorism by removing assets destined for terrorism from such use. Accordingly, it has become apparent that Guernsey, like other jurisdictions, must further develop its capacity and functions in these areas.

7.51 In light of the foregoing, and as a result of the complexity of the cross-border risks faced by Guernsey (the natural consequence of a customer base which is mostly cross-border), the functions undertaken by the Financial Intelligence Service, the Economic Crime Division of Guernsey Law Enforcement, the Revenue Service and the Law Officers' Chambers all require strengthening. This necessitates additional resource. Therefore, in recognition of increasing international expectations, the increasing scope of domestic and foreign legislation and increasing upskilling in other jurisdictions, £1.3million of additional funding has been allocated to further strengthen these functions. At this stage, the distribution of this funding has not been determined but will be done to ensure that best value is derived from the additional resources.

7.52 A formal governance mechanism will be adopted, including both the Committee *for* Home Affairs and the Policy & Resources Committee, which will consider the optimum allocation of the funding available. It is also envisaged that the overall framework for these activities will require reshaping so that it can be as effective as possible with multi-agency working and this will be best achieved through a pooled budget arrangement. Therefore, **it is recommended that a pooled budget is established for countering economic crime, money laundering and terrorist financing** [Proposition 30]. It is intended that this pooled budget will initially comprise the £1.3million of additional funding but should, in due course, and with the agreement of the Committees concerned, include existing budgets for providing these functions.

7.53 The Policy & Resources Committee is mindful that it expects Guernsey's system for anti-money laundering and combatting terrorist financing to be evaluated by MoneyVal in 2023. This additional funding will benefit Guernsey in ensuring that sufficient resources are committed to this important area, which will also reflect well in such evaluations. This project contributes towards delivery of the outcomes of the Policy & Resource Plan priority policy area of "international standards".

7.54 There were £3.3million of service developments, for which it is **not** recommended that funding is allocated within the 2020 Budget:

	£
Corporate Services	110,000
Committee *for* Economic Development	265,000
Committee *for* Education, Sport & Culture	705,000
Committee *for* Employment & Social Security	160,000
Committee *for* Employment & Social Security – Formula Led	340,000
Committee *for* the Environment & Infrastructure	100,000
Committee *for* Health & Social Care	1,075,000
Committee *for* Home Affairs	105,000
Policy & Resources Committee	55,000
States' Trading Supervisory Board	5,000
Royal Court	5,000
Law Officers	415,000
Pooled Budgets	10,000
TOTAL	**3,350,000**

7.55 Appendix VI details the individual service developments for each Committee.

7.56 However, as set out in paragraph 6.74, there is an opportunity to raise additional revenues of £850,000 per annum which would increase the funding available for the following Committees:

- Committee *for* Education, Sport & Culture - £70,000;
- Committee *for* Employment & Social Security - £75,000;
- Committee *for* Employment & Social Security – Formula Led) - £275,000; and
- Law Officers - £415,000.

Section 8: Other Matters

Alderney

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

8.2 Following a decision of the States of Deliberation in February 2016, an analysis of income and expenditure attributable to Alderney is published annually. The total net cost (excluding social security contributions and expenditure) was £5.7million in 2018. This includes £2.8million in respect of the Aurigny operating loss on Alderney routes, which is outside the scope of the transferred services funded under the 1948 Agreement.

	2018 Actual £'000
Income	
Taxation and duty revenue received by the States of Guernsey	8,610
States of Alderney – capital receipts	66
Alderney Gambling Control Commission	2,642
Total Income	11,318
Expenditure	
States of Alderney – net revenue expenditure	1,755
States of Alderney – capital expenditure	952
States of Alderney – economic development expenditure	300
Transferred Services – net revenue expenditure	10,629
Transferred Services – capital expenditure	560
Aurigny operating loss in respect of Alderney routes	2,800
Total Expenditure	16,996
Net Cost	**5,678**

8.3 With regard to social security attributable to Alderney, it is estimated that benefit payments exceed contributions by approximately £3million per annum.

8.4 There are a number of businesses based in Guernsey which benefit from the e-gaming sector in Alderney; it is estimated that their annual contribution through personal income tax and social security contributions is in the region of £1.7million per annum.

8.5 The *per capita* cost of the Alderney deficit is averaging approximately £3,500 per annum.

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

- Guernsey retains responsibility to fund all transferred services, and the Social Security Funds, through the pooled income sources of Income Tax and Social Security Contributions;

- the States of Alderney is responsible for funding all other public services in Alderney (including the harbour, drainage (foul and surface water), roads, coastal defences and water), from all other levies, rates, taxes, permit fees, rents, duties and other income collected from sources based in Alderney (such as tax on real property, occupiers' rates, import duties and excise duties, fees in lieu of Congé, document duty, numismatic and philatelic profits, and company registration fees.

8.7 In order to enable the revised arrangements to be introduced, the States of Alderney need to amend their existing Occupier's Rates system (which uses the existing Cadastre register) in order to levy one property tax. It is anticipated that the necessary primary legislation will be in place during 2020 which will enable this element of the modified financial arrangements to be incorporated in the 2021 Budget with an appropriate adjustment to the Cash Limit. Work is ongoing to enable the rates of document duty and certain excise duty on motor fuel[v] to be set by the States of Alderney with the income retained to fund public services in Alderney, also with an appropriate adjustment to the Cash Limit.

8.8 As part of the package of measures to implement the recommendations of *"The Review of the Financial Relationship between Guernsey and Alderney"*, it was intended that the basis of direct allocation of funding from the States of Guernsey General Revenue Account would change from a Cash Limit to a grant. The only substantial change would be that any underspend / overspend would not be returned to / funded from General Revenue but will need to be managed by the States of Alderney.

8.9 Therefore, following consultation with the States of Alderney Policy & Finance Committee which has confirmed that it would welcome introduction of the revised arrangement, **it is recommended that, with effect from 2020, the direct funding from the States of Guernsey General Revenue Account to the States of Alderney is treated as a grant instead of a Cash Limit** [Proposition 31].

[v] At this stage, it is not recommended that a similar arrangement is put in place for other excise (alcohol and tobacco) and import duties as, unlike motor fuel which is delivered directly into Alderney Harbour, the vast majority are made as 'duty-paid' imports as they have formed part of larger imports into Guernsey where the duty has been paid. Therefore, any change would require revised administrative and duty charging arrangements which would result in increased cost of collection and the need for additional border agency officials, particularly if the duty rates were different between Guernsey and Alderney in order to protect against evasion.

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

8.11 The States' decision to liberalise the air route licensing regime whilst protecting the lifeline route between Guernsey and Alderney is an important step in helping Alderney secure the future of their transport infrastructure, a commitment that is additional to the obligations set out in the 1948 agreement and, therefore, careful consideration needs to be given as to the level of Bailiwick taxpayer funding which can be used to support the lifeline route.

8.12 Following initial discussion on the principles behind the 1948 Agreement, the Policy & Resources Committee and the States of Alderney Policy & Finance Committee have begun to explore, on a thematic basis, the obligations and the services provided to Alderney under the 1948 Agreement, as well as the obligation and services that are provided more widely. These services and obligations will then be subject to quantitative and quantitative analysis with the findings of this work to be discussed between a joint group of representatives from the States of Alderney and the States of Guernsey before any recommendations for change are made.

8.13 The Alderney Gambling Control Commission generates annual surpluses in the region of £2million which, under the existing financial arrangements, should be treated as General Revenue income or operating income for the States of Alderney with a commensurate adjustment to their cash limit. However, for a number of years, these surpluses have been used as the source of funding for the States of Alderney capital programme and have predominantly been used to address the back-log of major infrastructure works. As part of the 2017 Budget Report the States, inter alia, agreed:

- that the Alderney Gambling Control Commission surpluses received by the States of Alderney continue to be transferred to the States of Alderney capital allocation up to 31 December 2019;
- delegated authority is given to the States of Alderney to:
  - make transfers from the States of Alderney capital allocation to the States of Alderney Economic Development Fund[w] of a maximum of £300,000 per annum; and
  - approve uses of the States of Alderney Economic Development Fund;

[w] Intended to fund projects which are designed to contribute positively to economic development, population growth, income growth or lead to expenditure reduction

- with effect from 2020, unless alternative arrangements are put in place as part of the package of changes to the financial relationship between Guernsey and Alderney, the Alderney Gambling Control Commission surpluses will be credited to the General Revenue Account.

8.14 The future treatment of the Alderney Gambling Control Commission surpluses and funding arrangements for the States of Alderney capital requirements, Alderney Airport and air routes are key elements of the ongoing review of the 1948 Agreement.

8.15 Therefore, in order to provide short-term certainty for the States of Alderney whilst the review of the 1948 Agreement continues, **it is recommended that the Alderney Gambling Control Commission surpluses received by the States of Alderney continue to be transferred to the States of Alderney capital allocation up to 31 December 2020 and the States of Alderney be authorised to transfer from the States of Alderney capital allocation to the Alderney Economic Development Fund a maximum amount of £300,000 in 2020** [Propositions 32 and 33].

Aurigny

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

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

8.18 The following table details the actual losses incurred in 2015 to 2018 (excluding any adjustment arising from the application of Accounting Standard FRS102 which will 'reverse out' in future years) compared to those forecast in the Policy Letter:

	Forecast Loss £m	**Actual Loss £m**
2015	2.3	2.5
2016	1.5	5.2
2017	1.5	6.0
2018 *	-	3.6
Total	**5.3**	**17.3**

* The 2015 Policy Letter assumed that an alternative funding arrangement for the Alderney route(s) would be in place by 2018 and therefore, that the airline would no longer make annual losses.

8.19 This means that all of the £5.3million of the balance of the recapitalisation funds were used by the end of 2016 and there were accumulated losses of £10.6million at the end of 2018 (net of £1.4million arising from the application of Accounting Standard FRS102 which will 'reverse out' in future years).

8.20 The States' Trading Supervisory Board, in its role as shareholder on behalf of the States of Guernsey, has set the company objectives that include:

"Aurigny should become financially self-sufficient. With the exception of any subsidies paid for its operation of contracted Public Service Obligation air services or funding provided in accordance with the States' Air Route Development Support Policy, it should not be in receipt of State-aid. Aurigny's cumulative financial performance (measured by its Profit & Loss results) on a rolling five-year basis must show a breakeven or positive position. In satisfying this objective, the Shareholder's expectation is that Aurigny will:

- *identify and exploit opportunities to improve the airline's economies of scale and efficiency by developing business activities and services beyond its lifeline service operations;*
- *ensure that it is an efficient and well managed organisation;*
- *identify and exploit opportunities to maintain and improve the Island's connectivity, taking onto account the Shareholder Guidance.*

Beyond a breakeven position, the Shareholder's expectation is that improving the Island's connectivity and increasing passenger numbers travelling to and from Guernsey should take precedence over increases in profitability."

8.21 The 2018 loss of £3.6million comprised £2.8million in respect of operating the Alderney-Guernsey and Alderney-Southampton routes and £400,000 in respect of overdraft interest, leaving a balance of £400,000 attributable to the Guernsey routes and other activities.

8.22 The 2019 Budget Report included the company's forecast of its losses for 2019 of £4.4million (including £3million in respect of the Alderney routes) with a cash requirement of £15million. Therefore, provision was made for funding the loss and the States agreed to either the Policy & Resources Committee providing a temporary overdraft facility or guaranteeing external overdraft facilities.

8.23 However, the 2019 loss is now forecast to be £7.6million, a deterioration of £3.2million, which it is understood is largely due to the net effect of liberalisation of the air route licensing regime agreed by the States in December 2018 (Billet d'État XXVII) and subsidised competition on the Guernsey-Heathrow route. The losses on the Alderney routes are forecast to improve slightly by £100,000 to £2.9million.

8.24 It is estimated that the company could have a further cash requirement of up to £1.5million in 2019 as a result of the deterioration in the 2019 position and the Policy & Resources Committee will use its existing delegated authority to provide a temporary overdraft facility to cover this requirement.

8.25 The Committee *for* Economic Development is currently overseeing a tender exercise in respect of a Public Service Obligation for: the lifeline Alderney-Guernsey route; the Alderney-Southampton route; and for the patient transfer service. The responses to the tender are in the process of being evaluated with the support of an independent external expert. The Committee *for* Economic Development intends to indicate a preferred bidder to the Policy & Resources Committee by the end of November 2019.

8.26 In December 2018 (Billet d'État XXVII) the States supported the replacement of Aurigny's existing three ATR72-500 aircraft with ATR72-600 aircraft. The business case included that there would be net financial benefits from reduced maintenance costs and reductions in delay and disruption costs associated with the operation of a younger and, therefore, more reliable fleet which will be installed with the enhanced flight vision system, improving their ability to operate in foggy weather conditions. It is anticipated that all of the new fleet will be in operation during 2020.

8.27 In respect of 2020, the Aurigny budget has been prepared based on a number of key assumptions including that it continues operating all routes it currently serves and does not make any substantial changes; the subsidised competition continues and there is no change in the services operated by other airlines. In the absence of a decision concerning the Public Service Obligation for the Alderney routes, it is also assumed that the company continues to operate both routes unsubsidised.

8.28 Aurigny is forecasting a loss in 2020 of £9.6million, comprising an operating loss of £8.6million plus a potential £1million loss on the disposal of the two old Dornier Classic aircraft should there be a two-aircraft model operating on the Alderney routes (continuation of the current three-aircraft operating model would require the wing of one aircraft to be replaced at a cost of £500,000). The explanations given for the deterioration of £5million in the company's operating loss from £3.6million in 2018 to a projected £8.6million in 2020 are:

- £3.7million –the net effect of liberalisation of the air route licensing regime and subsidised competition on the Guernsey-Heathrow route; plus

- £2.4millon net increase in other costs (crew; fuel; handling; decline in sterling's value against the US dollar; etc); less

- £1.1million benefit of new ATR aircraft.

8.29 It is estimated that the company will have a cash requirement of £25.7million in 2020. **Therefore, it is recommended that the States authorises the Policy & Resources Committee making available a temporary overdraft facility to Aurigny or guaranteeing external facilities of a maximum of £25.7million in 2020** [Propositions 34 and 35].

8.30 Given that the Public Service Obligation tender exercise has not yet concluded, the Policy & Resources Committee has made provision of £2.9million (the 2019 forecast losses attributed to the Alderney routes) within the General Revenue Account Reserve. The 2020 States of Guernsey budget includes provision of £6.7million for the balance of Aurigny's forecast losses.

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

8.32 The States noted that while the Alderney-Southampton route has not been designated as a lifeline route, *"it may be considered for a Public Service Obligation in combination with the Alderney-Guernsey route, should such a combined approach be possible following the tender process, and subject to agreement between the Policy & Resources Committee and the States of Alderney as to the source of funding for this route."* Therefore, once the outcome of the Public Service Obligation tender exercise is known, consideration will have to be given to the scale and source(s) of funding for each of the routes.

8.33 The funding solution for implementing the outcome of the tender process is closely linked with the Review of the Relationship between Guernsey and Alderney (1948 Agreement). Therefore, once the Committee *for* Economic Development has concluded the tender process and recommended award of the contract, the Policy & Resources Committee will, in conjunction with the Committee *for* Economic Development, and following consultation with the States of Alderney's Policy & Finance Committee, prepare a Policy Letter for consideration by the States that sets out the funding options available, including any contribution to be made by the States of Alderney, and recommends the most appropriate way forward.

8.34 Once a decision is made concerning the Public Service Obligation, there will be one-off costs incurred if Aurigny ceases operating any of the routes. It is estimated that these could be up to £5million and therefore, it is recommended **that the States authorises the Policy & Resources Committee to make available a further temporary overdraft facility to Aurigny or guarantee external facilities of an maximum of £5million in 2020 if Aurigny ceases operating either or both of the Alderney air routes** [Propositions 36 and 37].

<u>Air Links</u>

8.35 Notwithstanding the airline's role in maintaining and supporting the Island's connectivity, the Policy & Resources Committee is extremely concerned about the scale of the losses being incurred by Aurigny and the resultant direct impact they have on the States' financial position and hence commensurate reduction in funding available for Committee Cash Limits and capital investment.

8.36 It is apparent that the financial support given to other airlines to encourage route development offered by both the Committee *for* Economic Development in respect of the London Heathrow link[x] (from the Future Guernsey Economic Fund) and the States' Trading Supervisory Board (through concessions on Airport landing fees) have had a

[x] As agreed by the States in December 2018 (Billet d'État)

significant adverse effect on Aurigny's trading position. The likely extent of the impact on Aurigny was not known at the time this financial support was agreed and data is being collected to provide an evidence-based view of the actual impact.

8.37 In the short-term, there are limited options for temporary measures that could be introduced to mitigate these losses in any meaningful way. The possible long-term consequences of any permanent measures that would reduce these losses would need to be fully investigated and carefully considered.

8.38 However, whilst the increase in the loss incurred by Aurigny is a direct cost to the States of Guernsey, there are undoubtedly benefits to the wider economy and indirect benefits to the States as a result of the increase in passengers using the expanded route network. The identification and measurement of these wider benefits is key to assessing whether the States' financial investment in supporting air route development represents value for money when considered against the impact on Aurigny's financial position (taking into account the effect of mitigation measures) and other States' priorities.

8.39 The Policy & Resources Committee's mandate for leadership and co-ordination of the work of the States includes: *"developing and promoting the States' overall policy objectives"; "promoting and facilitating cross-committee policy development".* It is apparent that there is an urgent need for a co-ordinated and coherent government approach to consideration of all aspects of air route operation and support to develop and safeguard air links to and from Guernsey that is under the control or influence of the States of Guernsey.

8.40 This would then inform the actions of multiple States' Committees in exercising aspects of their mandates: the Committee *for* Economic Development in respect of securing the provision of, and promoting, air and sea links to and from the Bailiwick; States' Trading Supervisory Board in carrying out the States' role as shareholder of the Cabernet Group and the operation of Guernsey Airport. It will also ensure that due consideration is given to the impact on the overall States' financial position (including in respect of funding losses) of decisions taken in respect of air route operation and support. The complex policy issues associated with the maintenance and development of air links and their strategic importance to the whole community clearly require this joined-up approach.

8.41 Therefore, the Policy & Resources Committee is **requesting that States endorses its intention, in consultation with the Committee *for* Economic Development and the States' Trading Supervisory Board, to develop a co-ordinated and coherent government framework for the consideration of all aspects of air route operation and support that is under the control or influence of the States of Guernsey and report back to the States by no later than 2020** [Proposition 38]**.**

8.42 This framework will take into account, as a minimum, the need to: maintain air links that are of strategic importance to the island; stimulate the economy through the enhancement of routes available for both business and leisure travellers; consider the likely effects of the revised framework on Aurigny's financial position; and determine how any conflicting interests are to be reconciled.

8.43 In respect of Aurigny's financial position, as well as enabling consideration to be given to the appropriate level and source of funding for operating the lifeline routes (between Guernsey and Gatwick; and between Guernsey and Alderney), agreement of an air links strategy would also enable a policy to be set concerning provision of government subsidy for all other routes. For example, individual routes might only be subsidised on an ongoing basis if they operate at such a level that it makes a positive contribution to achievement of Aurigny's break-even position. This means that the income generated from each route[y] at least covers all of its variable costs (airport charges, fuel, etc) and all of any fixed costs which would not be incurred if the route was ceased. This would ensure that the effect of each service on Aurigny's 'bottom-line' was positive – i.e. its losses are no more than if it did not operate the service.

[y]Income could be provided if the route attracted other support – for example, if the Committee *for* Economic Development designate it as an economic enabler route with a subsidy being provided from the Future Guernsey Economic Fund.

The Excise Duties (Budget) Ordinance, 2019

THE STATES, in pursuance of their Resolution of the 5th November 2019 and in exercise of the powers conferred on them by sections 23C(3) and 23K of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended[a], and all other powers enabling them in that behalf, hereby order:-

<u>Amendment of Fourth Schedule to the Law.</u>

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

"1. Tobacco and tobacco products -

(a)	Cigarettes	£390.16 per kilo
(b)	Cigars	£390.16 per kilo
(c)	Hand rolling tobacco	£378.76 per kilo
(d)	Other manufactured tobacco	£328.53 per kilo
(e)	Tobacco leaf – unstemmed	£364.71 per kilo
(f)	Tobacco leaf – stemmed	£368.36 per kilo

[a] Ordres en Conseil Vol. XXIII, p.573; as amended by Vol. XXIV, p.87; Vol. XXXI, p. 278; Vol. XXXIII, p. 217; Order in Council No. X of 2004; No. XIV of 2007; No. II of 2010; No. XV of 2012; Recueil d'Ordonnances Tome XXIX, p. 406; Tome XXXII, pp. 607 and 668; Tome XXXIII, p. 38; Ordinance No. XLIII of 2013; Nos. IX and XXXI of 2016; No. XXXI of 2017; No. XXX of 2018.

2. Petrol and gas oil -

(a)	Petrol other than any fuel used for the purpose of air navigation (and subject to b.)	71.2p per litre (until the 31st December 2019) and 72.3p per litre (thereafter)
(b)	Petrol used for the purpose of marine navigation	48.1p per litre (until the 31st December 2019) and 49.2p per litre (thereafter) where supplied by an approved trader except where supplied to an approved trader in which case 71.2p per litre (until the 31st December 2019) and 72.3p per litre (thereafter)[b]
(c)	Gas oil	71.2p per litre (until the 31st December 2019) and 72.3p per litre (thereafter)

3. Other fuels -

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

Biodiesel	71.2p per litre (until the 31st December 2019) and 72.3p per litre (thereafter)

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

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

(b) where any colouring matter or substance commonly added for the purpose of improving or modifying the quality or characteristics of biodiesel as a fuel is added to biodiesel prior to its delivery, then the volume of that biodiesel shall be determined by reference to the total volume including such additives.

4. Beer –

(a) Beer brewed by an independent small brewery exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	26p per litre

(b)	Beer, other than beer brewed by an independent small brewery, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	54p per litre
(c)	Beer brewed by an independent small brewery exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	43p per litre
(d)	Beer, other than beer brewed by an independent small brewery, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	87p per litre
(e)	Beer brewed by an independent small brewery exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	55p per litre
(f)	Beer, other than beer brewed by an independent small brewery, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.09 per litre
(g)	Beer exceeding 7.5 per cent volume	£1.26 per litre

5. Spirits -

Spirits	£39.31 per litre of alcohol contained in the liquor, calculated in accordance with section 23D

6. Cider -

(a)	Cider produced by an independent small cider-maker exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	26p per litre
(b)	Cider, other than cider produced by an independent small cider-maker, exceeding 1.2 per cent volume but not exceeding 2.8 per cent volume	54p per litre
(c)	Cider produced by an independent small cider-maker exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	43p per litre
(d)	Cider, other than cider produced by an independent small cider-maker, exceeding 2.8 per cent volume but not exceeding 4.9 per cent volume	87p per litre
(e)	Cider produced by an independent small cider-maker exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	55p per litre

(f)	Cider, other than cider produced by an independent small cider-maker, exceeding 4.9 per cent volume but not exceeding 7.5 per cent volume	£1.09 per litre
(g)	Cider exceeding 7.5 per cent volume	£1.26 per litre

7. Wines -

(a)	Light wines not exceeding 5.5 per cent volume	68p per litre
(b)	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.77 per litre
(c)	Other wines	£4.42 per litre".

Extent.

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

Repeals.

3. The Excise Duties (Budget) Ordinance, 2018[c] is repealed.

Citation.

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2019.

Commencement.

5. This Ordinance shall come into force on the 5th November, 2019.

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c Ordinance No. XXX of 2018.

The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2019

THE STATES, in pursuance of their resolution of the 5th November, 2019[a] and in exercise of the powers conferred upon them by sections 1 and 2 of the Taxation of Real Property (Enabling Provisions) (Guernsey and Alderney) Law, 2005[b], hereby order:-

Rates of property tax.

1. For the tables in Part I of Schedule 1 to the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007[c] substitute the tables in the Schedule to this Ordinance.

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[a] Article I of Billet d'État No. XXI of 2019.

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

[c] Ordinance No. XXXIII of 2007, as amended by No. XXXII of 2018; there are other amendments not material to this Ordinance.

Consequential amendments.

2. In section 3 -

(a) immediately after subsection (1), insert the following subsection -

"(1A) Where a calendar year is specified in column 3 of Part I of Schedule 1, the rate specified in that column shall have effect for that calendar year.", and

(b) immediately after subsection (3), insert the following subsection -

"(4) Where the Committee has a power to approve whether a property falls into a particular property reference, this includes the power to remove the approval if the relevant requirements of that property reference are not met.".

3. In section 1A of the Wastewater Charges (Guernsey) Ordinance, 2014[d], for the words "property reference B1.1.5, B1.2.5, B.2.1.5 or B2.2.5", substitute "any of property references B1.1 to B1.1.5, B1.2 to B1.2.5, B2.1 to B2.1.5 or B2.2 to B2.2.5".

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d No. XLIII of 2014; as amended by Ordinance No. IX of 2016 and No. XXXII of 2018.

Definitions.

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

(a) immediately after the definition of "**atrium**", insert the following definition -

""**buildings for other use**" means any shed, barn or any other similar building, whether attached to or detached from a dwelling house, which -

(a) is not used in connection with the enjoyment of that dwelling house (which enjoyment includes use for domestic storage or garaging), and

(b) does not fall within any of property reference B4.1 to B12.1 or B13.2, B4.1A to B12.1A or B13.2A, B4.1H to B12.1H or B13.2H, and

(c) on application by the owner, has been approved by the Committee as falling into this property description/usage,",

(b) in the definition of "**domestic**" immediately after subparagraph (c), insert "and includes any property which falls into property reference B1.6, B2.6, B3.6, B1.6A, B3.6A, B1.6H, or B3.6H, and any glasshouse which falls into property reference B1.3, B2.3, B3.3, B1.3A, B3.3A, B1.3H or B3.3H, ",

(c) in the definition of "**glasshouse**", for paragraph (c), substitute the following paragraph -

"(c) in relation to a domestic dwelling house, means a glasshouse attached to a dwelling house which -

(i) is not used for the purposes of a business, trade or undertaking, and

(ii) on application by the owner, has been approved by the Committee as falling into property reference B1.3, B2.3, B3.3, B1.3A, B3.3A, B1.3H or B3.3H (as the case may be),",

(d) the definition of "**outbuildings**" is deleted, and

(e) in the definition of "**whole unit**" –

(7) in subparagraph (b)(iii), immediately after the words "exceed 1 vergée,", insert the word "and", and

(ii) immediately after subparagraph (b)(iii), insert the following item –

"(iv) any shed, barn or other building, whether attached to or detached from a dwelling house, which is used in connection with the enjoyment of a dwelling house, including use for domestic storage and garaging,".

Extent.

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

Citation.

6. This Ordinance may be cited as the Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2019.

Commencement.

7. This Ordinance shall come into force on the 1st January, 2020.

SCHEDULE

Section 1

GUERNSEY REAL PROPERTY

TABLE A1

GUERNSEY RESIDENTIAL BUILDINGS

1	**2**	**3**					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
B1.1	Domestic (whole unit) Local Market with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.1.2	Domestic (whole unit) Local Market with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B1.1.3	Domestic (whole unit) Local Market with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64
B1.1.4	Domestic (whole unit) Local Market with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07
B1.1.5	Domestic (whole unit) Local Market with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48
B1.2	Domestic (flat) Local Market with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.2.2	Domestic (flat) Local Market with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B1.2.3	Domestic (flat) Local Market with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64
B1.2.4	Domestic (flat) Local Market with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07

GUERNSEY RESIDENTIAL BUILDINGS (continued)

1	2	3					
Property Reference	Property Description/Usage	2020 Tariff	2021 Tariff	2022 Tariff	2023 Tariff	2024 Tariff	2025 Tariff
B1.2.5	Domestic (flat) Local Market with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48
B1.3	Domestic (glasshouse) Local Market	5p	5p	5p	5p	5p	5p
B1.5	Domestic (garaging and parking) (non-owner-occupied) Local Market	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.6	Domestic (buildings for other use) Local Market	93p	£1.01	£1.10	£1.20	£1.31	£1.43
B2.1	Domestic (whole unit) Open Market with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B2.1.2	Domestic (whole unit) Open Market with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B2.1.3	Domestic (whole unit) Open Market with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64
B2.1.4	Domestic (whole unit) Open Market with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07
B2.1.5	Domestic (whole unit) Open Market with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48
B2.2	Domestic (flat) Open Market with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B2.2.2	Domestic (flat) Open Market with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B2.2.3	Domestic (flat) Open Market with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64
B2.2.4	Domestic (flat) Open Market with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07
B2.2.5	Domestic (flat) Open Market with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48

GUERNSEY RESIDENTIAL BUILDINGS (continued)

1	2	3					
Property Reference	Property Description/Usage	2020 Tariff	2021 Tariff	2022 Tariff	2023 Tariff	2024 Tariff	2025 Tariff
B2.3	Domestic (glasshouse) Open Market	5p	5p	5p	5p	5p	5p
B2.5	Domestic (garaging and parking) (non-owner-occupied) Open Market	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B2.6	Domestic (buildings for other use) Open Market	93p	£1.01	£1.10	£1.20	£1.31	£1.43
B3.1	Domestic (whole unit) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.2	Domestic (flat) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.3	Domestic (glasshouse) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.5	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.6	Domestic (buildings for other use) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B13.1	Development buildings (domestic)	93p	£1.01	£1.10	£1.20	£1.31	£1.43

TABLE A2

GUERNSEY COMMERCIAL BUILDINGS

1	2	3
Property Reference	**Property Description/Usage**	**Tariff**
B4.1	Hostelry and food outlets	£6.40
B4.2	Self-catering accommodation	£4.00
B4.3	Motor and marine trade	£5.40
B4.4	Retail	£11.05
B4.5	Warehousing	£5.85
B4.6	Industrial and workshop	£4.65
B4.7	Recreational and sporting premises	£2.70
B4.8	Garaging and parking (non-domestic)	£5.85
B5.1	Utilities providers	£45.70
B6.1	Office and ancillary accommodation (regulated finance industries)	£42.65
B6.2	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	£19.95
B6.3	Office and ancillary accommodation (legal services)	£42.65
B6.4	Office and ancillary accommodation (accountancy services)	£42.65
B6.5	Office and ancillary accommodation (NRFSB)	£42.65
B7.1	Horticulture (building other than a glasshouse)	5p
B8.1	Horticulture (glasshouse)	5p
B9.1	Agriculture	5p
B10.1	Publicly owned non-domestic	Zero
B11.1	Exempt (buildings)	Zero
B12.1	Buildings – Penal Rate	Zero
B13.2	Development buildings (non-domestic)	£6.10

TABLE A3

GUERNSEY RESIDENTIAL LAND

1	2	3					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
L1.1	Communal (flat) Local Market	24p	26p	28p	30p	33p	36p
L1.2	Communal (flat) Open Market	24p	26p	28p	30p	33p	36p
L3.1	Domestic Local Market	24p	26p	28p	30p	33p	36p
L3.2	Domestic Open Market	24p	26p	28p	30p	33p	36p
L3.5	Domestic Social Housing	24p	26p	28p	30p	33p	36p

TABLE A4

GUERNSEY COMMERCIAL LAND

1	2	3
Property Reference	**Property Description/Usage**	**Tariff**
L1.3	Hostelry and food outlets	46p
L1.4	Self-catering accommodation	46p
L1.5	Motor and marine trade	46p
L1.6	Retail	46p
L1.7	Warehousing	46p
L1.8	Industrial	46p
L1.9	Recreational and sporting premises	46p
L1.10	Office and ancillary accommodation (regulated finance industries)	£1.52
L1.11	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	70p
L1.11.2	Office and ancillary accommodation (legal services)	£1.52
L1.11.3	Office and ancillary accommodation (accountancy services)	£1.52
L1.11.4	Office and ancillary accommodation (NRFSB)	£1.52
L1.12	Utilities providers	46p
L2.1	Approved development site	£1.52
L3.3	Horticulture	23p
L3.4	Agriculture	23p
L3.6	Publicly owned non-domestic	Zero
L4.1	Exempt (Land)	Zero
L5.1	Land – Penal Rate	Zero
L6.1	Garaging and parking (non-domestic)	46p

ALDERNEY REAL PROPERTY

TABLE B1

ALDERNEY RESIDENTIAL BUILDINGS

1	2	3					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
B1.1A	Domestic (whole unit) with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.1.2A	Domestic (whole unit) with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B1.1.3A	Domestic (whole unit) with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64
B1.1.4A	Domestic (whole unit) with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07
B1.1.5A	Domestic (whole unit) with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48
B1.2A	Domestic (flat) with a plan area of less than 200 assessable units	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.2.2A	Domestic (flat) with a plan area of 200 or over up to (and including) 299 assessable units	£2.12	£2.31	£2.51	£2.73	£2.97	£3.23
B1.2.3A	Domestic (flat) with a plan area of 300 or over up to (and including) 399 assessable units	£2.39	£2.60	£2.83	£3.08	£3.35	£3.64

ALDERNEY RESIDENTIAL BUILDINGS (continued)

1	2	3					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
B1.2.4A	Domestic (flat) with a plan area of 400 or over up to (and including) 499 assessable units	£2.67	£2.90	£3.16	£3.44	£3.74	£4.07
B1.2.5A	Domestic (flat) with a plan area of 500 and over assessable units	£2.94	£3.20	£3.48	£3.79	£4.12	£4.48
B1.3A	Domestic (glasshouse)	5p	5p	5p	5p	5p	5p
B1.5A	Domestic (garaging and parking) (non-owner-occupied)	£1.84	£2.00	£2.18	£2.37	£2.58	£2.81
B1.6A	Domestic (buildings for other use)	93p	£1.01	£1.10	£1.20	£1.31	£1.43
B3.1A	Domestic (whole unit) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.2A	Domestic (flat) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.3A	Domestic (glasshouse) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.5A	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.6A	Domestic (buildings for other use) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B13.1A	Development building (domestic)	93p	£1.01	£1.10	£1.20	£1.31	£1.43

TABLE B2

ALDERNEY COMMERCIAL BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B4.1A	Hostelry and food outlets	£6.40
B4.2A	Self-catering accommodation	£4.00
B4.3A	Motor and marine trade	£5.40
B4.4A	Retail	£11.05
B4.5A	Warehousing	£5.85
B4.6A	Industrial and workshop	£4.65
B4.7A	Recreational and sporting premises	£2.70
B4.8A	Garaging and parking (non-domestic)	£5.85
B5.1A	Utilities providers	£45.70
B6.1A	Office and ancillary accommodation (regulated finance industries)	£42.65
B6.2A	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	£19.95
B6.3A	Office and ancillary accommodation (legal services)	£42.65
B6.4A	Office and ancillary accommodation (accountancy services)	£42.65
B6.5A	Office and ancillary accommodation (NRFSB)	£42.65
B7.1A	Horticulture (building other than a glasshouse)	5p
B8.1A	Horticulture (glasshouse)	5p
B9.1A	Agriculture	5p
B10.1A	Publicly owned non-domestic	Zero
B11.1A	Exempt (buildings)	Zero
B12.1A	Buildings – Penal Rate	Zero
B13.2A	Development building (non-domestic)	£6.10

TABLE B3

ALDERNEY RESIDENTIAL LAND

1	2	3					
Property Reference	Property Description/Usage	2020 Tariff	2021 Tariff	2022 Tariff	2023 Tariff	2024 Tariff	2025 Tariff
L1.1A	Communal (flat)	Zero	Zero	Zero	Zero	Zero	Zero
L3.1A	Domestic	Zero	Zero	Zero	Zero	Zero	Zero
L3.5A	Domestic Social Housing	Zero	Zero	Zero	Zero	Zero	Zero

TABLE B4

ALDERNEY COMMERCIAL LAND

1	2	3
Property Reference	**Property Description/Usage**	**Tariff**
L1.3A	Hostelry and food outlets	Zero
L1.4A	Self-catering accommodation	Zero
L1.5A	Motor and marine trade	Zero
L1.6A	Retail	Zero
L1.7A	Warehousing	Zero
L1.8A	Industrial	Zero
L1.9A	Recreational and sporting premises	Zero
L1.10A	Office and ancillary accommodation (regulated finance industries)	Zero
L1.11A	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	Zero
L1.11.2A	Office and ancillary accommodation (legal services)	Zero
L1.11.3A	Office and ancillary accommodation (accountancy services)	Zero
L1.11.4A	Office and ancillary accommodation (NRFSB)	Zero
L1.12A	Utilities providers	Zero
L2.1A	Approved development site	Zero
L3.3A	Horticulture	Zero
L3.4A	Agriculture	Zero
L3.6A	Publicly owned non-domestic	Zero
L4.1A	Exempt (Land)	Zero
L5.1A	Land – Penal Rate	Zero
L6.1A	Garaging and parking (non-domestic)	Zero

HERM REAL PROPERTY

TABLE C1

HERM RESIDENTIAL BUILDINGS

1	2	3					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
B1.1H	Domestic (whole unit) with a plan area of less than 500 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.1.2H	Domestic (whole unit) with a plan area of 200 or over up to (and including) 299 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.1.3H	Domestic (whole unit) with a plan area of 300 or over up to (and including) 399 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.1.4H	Domestic (whole unit) with a plan area of 400 or over up to (and including) 499 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.1.5H	Domestic (whole unit) with a plan area of 500 and over assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.2H	Domestic (flat) with a plan area of less than 500 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.2.2H	Domestic (flat) with a plan area of 200 or over up to (and including) 299 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.2.3H	Domestic (flat) with a plan area of 300 or over up to (and including) 399 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.2.4H	Domestic (flat) with a plan area of 400 or over up to (and including) 499 assessable units	Zero	Zero	Zero	Zero	Zero	Zero
B1.2.5H	Domestic (flat) with a plan area of 500 and over assessable units	Zero	Zero	Zero	Zero	Zero	Zero

HERM RESIDENTIAL BUILDINGS (continued)

1	2	3					
Property Reference	Property Description/Usage	2020 Tariff	2021 Tariff	2022 Tariff	2023 Tariff	2024 Tariff	2025 Tariff
B1.3H	Domestic (glasshouse)	Zero	Zero	Zero	Zero	Zero	Zero
B1.5H	Domestic (garaging and parking) (non-owner-occupied)	Zero	Zero	Zero	Zero	Zero	Zero
B1.6H	Domestic (buildings for other use)	Zero	Zero	Zero	Zero	Zero	Zero
B3.1H	Domestic (whole unit) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.2H	Domestic (flat) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.3H	Domestic (glasshouse) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.5H	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero
B3.6H	Domestic (buildings for other use) Social Housing	Zero	Zero	Zero	Zero	Zero	Zero

TABLE C2

HERM COMMERCIAL BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B4.2H	Self-catering accommodation	Zero
B4.3H	Motor and marine trade	Zero
B4.4H	Retail	Zero
B4.5H	Warehousing	Zero
B4.6H	Industrial and workshop	Zero
B4.7H	Recreational and sporting premises	Zero
B4.8H	Garaging and parking (non-domestic)	Zero
B5.1H	Utilities providers	Zero
B6.1H	Office and ancillary accommodation (regulated finance industries)	Zero
B6.2H	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	Zero

TABLE C3

HERM RESIDENTIAL LAND

1	2	3					
Property Reference	**Property Description/Usage**	**2020 Tariff**	**2021 Tariff**	**2022 Tariff**	**2023 Tariff**	**2024 Tariff**	**2025 Tariff**
L1.1H	Communal (flat)	Zero	Zero	Zero	Zero	Zero	Zero
L3.1H	Domestic	Zero	Zero	Zero	Zero	Zero	Zero
L3.5H	Domestic Social Housing	Zero	Zero	Zero	Zero	Zero	Zero

TABLE C4

HERM COMMERCIAL LAND

1	2	3
Property Reference	**Property Description/Usage**	**Tariff**
L1.3H	Hostelry and food outlets	Zero
L1.4H	Self-catering accommodation	Zero
L1.5H	Motor and marine trade	Zero
L1.6H	Retail	Zero
L1.7H	Warehousing	Zero
L1.8H	Industrial	Zero
L1.9H	Recreational and sporting premises	Zero
L1.10H	Office and ancillary accommodation (regulated finance industries)	Zero
L1.11H	Office and ancillary accommodation (other than regulated finance industries, legal services, accountancy services and NRFSB)	Zero
L1.11.2H	Office and ancillary accommodation (legal services)	Zero
L1.11.3H	Office and ancillary accommodation (accountancy services)	Zero
L1.11.4H	Office and ancillary accommodation (NRFSB)	Zero
L1.12H	Utilities providers	Zero
L2.1H	Approved development site	Zero
L3.3H	Horticulture	Zero
L3.4H	Agriculture	Zero
L3.6H	Publicly owned non-domestic	Zero
L4.1H	Exempt (Land)	Zero
L5.1H	Land – Penal Rate	Zero
L6.1H	Garaging and parking (non-domestic)	Zero

SUMMARY OF BUDGET PROPOSALS - INDIRECT TAXATION

Duty on Tobacco

2020	6.9% increase 9.4% increase	Cigarettes and cigars (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2019	7.4% increase 7.9% increase 9.9% increase	Cigarettes (RPIX plus 5%) Cigars (RPIX plus 7.9%) All other tobacco products (RPIX plus 7.5%)			
2018	7.8% increase 10.3% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2017	5.6% increase 8.1% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2016	6.5% increase 9% increase	Cigarettes (RPIX plus 5%) All other tobacco products (RPIX plus 7.5%)			
2015	5.5% increase	(RPI plus 3%)	2011	4.6% increase	(RPI plus 3%)
2014	5.7% increase	(RPI plus 3%)	2010	15% increase	
2013	6% increase	(RPI plus 3%)	2009	8.5% increase	(RPI plus 3%)
2012	6.5% increase	(RPI plus 3%)	2008	7.7% increase	(RPI plus 3%)

Duty on Alcohol

2020	5% increase	2013	3% increase
2019	5% increase	2012	3% increase
2018	5% increase	2011	3.5% increase
2017	5% increase	2010	15% increase on spirits only
2016	5% increase	2009	5.5% increase
2015	5% increase	2008	20% increase
2014	5% increase		

Duty on Fuel

2020	3.1% (to maintain the real value of income received)		
2019	4.6% (to maintain the real value of income received)		
2018	5.5% (to maintain the real value of income received)		
2017	8.5% increase		
2016	12.9% increase (to restore the real value of the motor tax element)		
2015	6.1% increase	2011	10.8% increase
2014	5% increase	2010	15% increase
2013	3.3% increase	2009	6.9% increase
2012	9.8% increase	2008	7.4% increase

Document Duty

2020	No change
2019	Duty on bonds set to 0% with compensatory increases in rates for conveyances; introduction of a higher band for conveyances for the proportion of the property value which exceeds £2million
2018	No change
2017	Change to a graduated based system of calculating duty
2015-2016	No change
2014	Increase in thresholds and temporary rate reductions for lower bands
2008-2013	No change

Tax on Rateable Value / Tax on Real Property

2020	10.2% increase 5% increase	Domestic Commercial
2019	10% increase 5% increase	Domestic Commercial
2018	10.2% increase 5% increase	Domestic Commercial
2017	10.5% increase 5% increase	Domestic Commercial
2016	10% increase 2.5% increase 5% increase	Domestic Retail Commercial (other than retail)
2015	15% increase 5% increase 10% increase	Domestic Retail Commercial (other than retail)
2014	5% increase	
2013	3% increase	
2012	20% increase 3% increase	Domestic Commercial
2011	20% increase 3.5% increase	Domestic Commercial
2010	10% increase	
2009	5.5% increase 25% increase 50% increase	Domestic and Commercial Office and ancillary accommodation (other than regulated finance industries) Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land
2008	100% increase 400% increase	Commercial, utilities and recreational / sporting buildings and land Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land

TAX LIABILITY AND THE COST OF SERVICE PROVISION

Individuals in the local community pay a proportion of their gross income in taxes and contributions and also pay other taxes and duties. These in turn are used to pay for public services and benefits including schools, hospitals, roads, police and fire services, contributory and universal benefits.

This appendix is intended to illustrate the extent of the taxes an individual might be expected to pay both on an annual and lifetime basis.

It also illustrates the average value of services consumed by households.

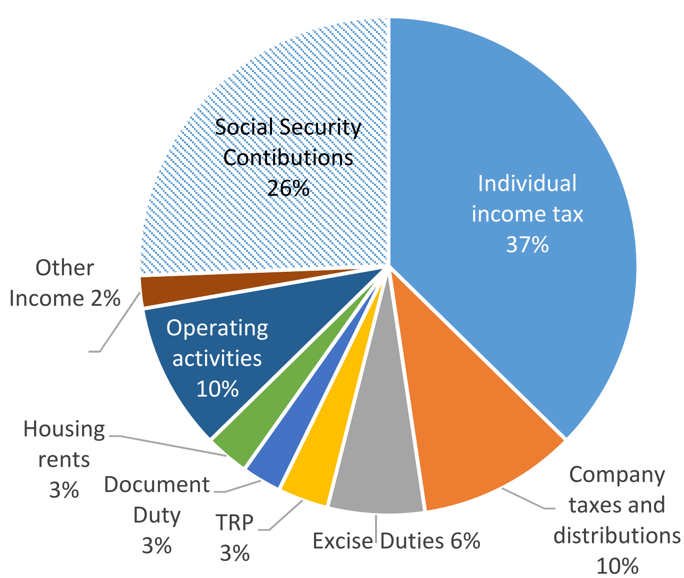
The analysis has been simplified given that tax liabilities and service use can vary hugely depending on personal circumstances.

REVENUES RAISED

The government collects approximately £700million in revenues (or 21% of GDP) each year including income tax, social security contributions and other taxes and duties. Approximately 63%[a] of this revenue is generated from income taxes and contributions that are charged against people's income made up of 37% from income tax and 26% from social security contributions (including contributions paid by employers).

The remaining income is generated from a variety of sources. 10% is gained from income taxes charged on company profits (compared to 7% in the UK) and on the distribution of profits and 6% from excise duties. TRP and document duty each comprise 3% of total revenues as summarised in the chart below:

Source of States' Revenues



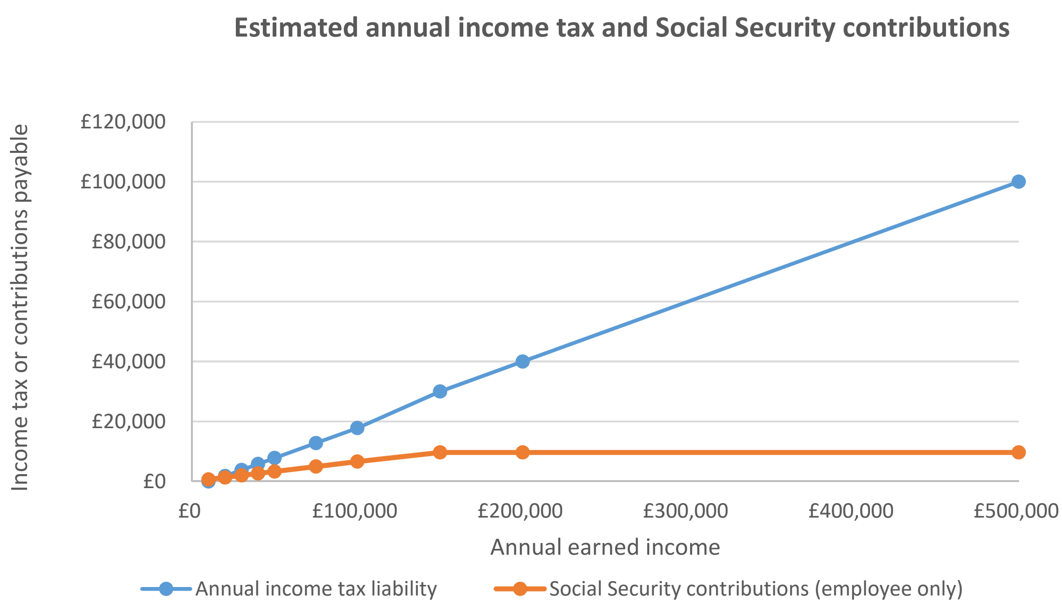
Guernsey's tax take is unusually small relative to the size of the economy. Guernsey collects aggregate revenues (excluding investment return) of 21% of its GDP. Jersey collects revenues equal to 26%[b] of their GDP while the UK collects 38% and France 53%.

[a] Calculated from published consolidated revenues and published GDP for 2018 available at www.gov.je
[b] Calculated from published consolidated revenues and published GDP for 2018 available at www.gov.je

The table and chart below show the total amount of income tax and social security contributions a single individual might pay in the course of a year depending on their level of income. The estimates presented assume an individual receives their income from employment, are under the States' pension age and are entitled to only the basic personal tax allowance. In practice, many people are entitled to other allowances such as relief on mortgage interest or pension contributions which would reduce their tax liability.

Illustrative tax liability for Guernsey resident individuals

Individual annual income	Annual income tax liability	Social Security contributions (employee only)	Other taxes	Estimated total taxes paid	% of gross income
£10,000	£0	£660	£770	**£1,430**	14%
£20,000	£1,800	£1,320	£770	**£3,890**	19%
£30,000	£3,800	£1,980	£780	**£6,560**	22%
£40,000	£5,800	£2,640	£800	**£9,240**	23%
£50,000	£7,800	£3,300	£820	**£11,920**	24%
£75,000	£12,800	£4,950	£875	**£18,625**	25%
£100,000	£17,800	£6,600	£930	**£25,330**	25%
£150,000	£30,000	£9,658	£970	**£40,628**	27%
£200,000	£40,000	£9,658	£1050	**£50,708**	25%
£500,000	£100,000	£9,658	£1,200	**£110,858**	22%



Over the course of a lifetime annual payments can total a very significant amount.

Example 1:
A low income working couple who each enter the workforce in jobs paying below the median for their age group. One member of the couple leaves the workforce to care for the couple's two children for a period of ten years, returning to work part time when their youngest child begins school and increasing their working hours over time. Their combined gross household income before benefits peaks at about £40,000.

If we assume both members of the couple live to average life expectancy, between them a couple in these circumstances might pay in the region of £260,000 in income taxes, social insurance contributions and other taxes over their lifetime.

Example 2:
A similar couple with a shorter break from the workforce and an income closer to the median household income, peaking at around £55,000, would be expected to pay in the region of £440,000 over the course of their lifetime.

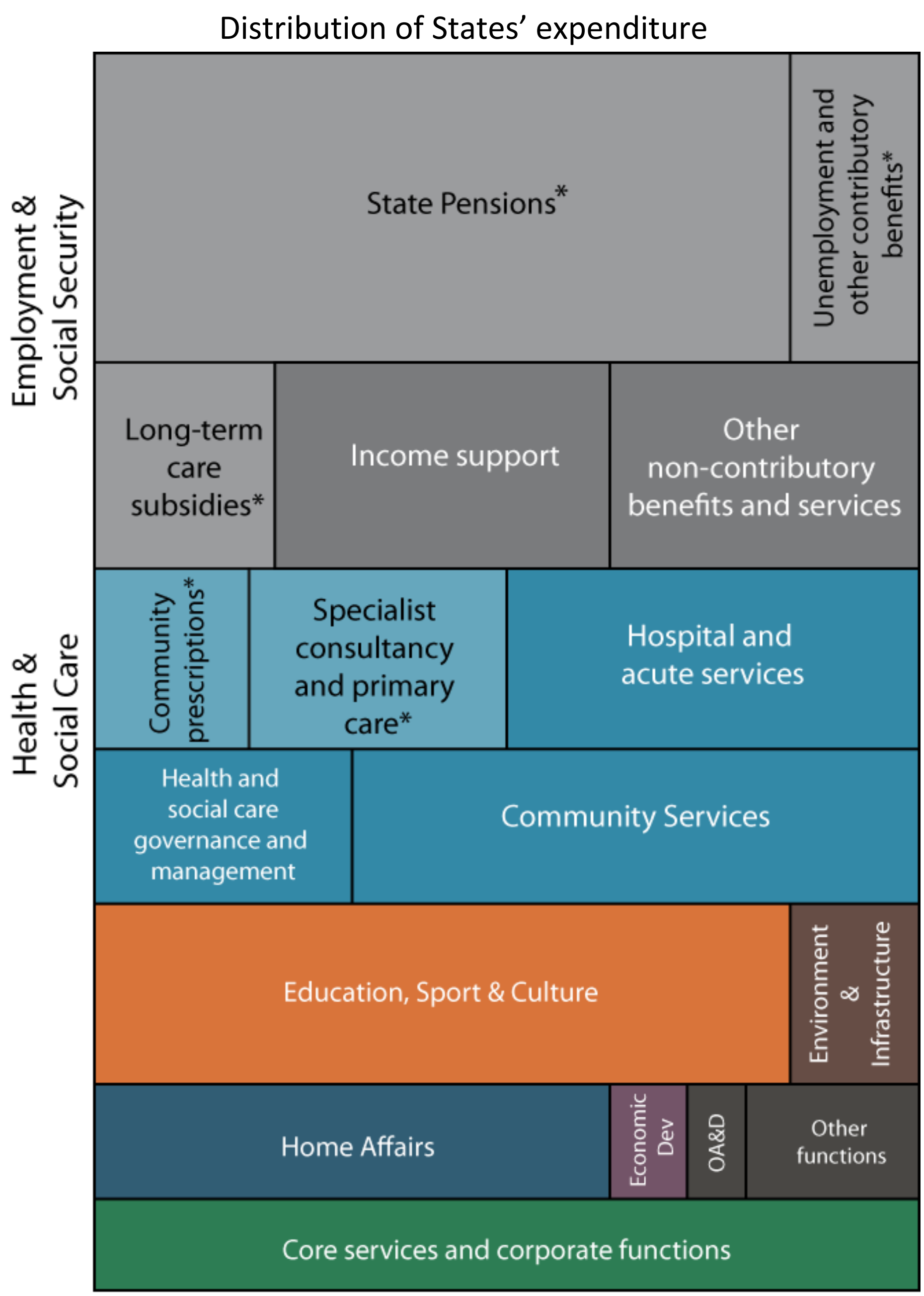
Example 3:
A couple in more affluent circumstances peaking at a gross household income of £100,000, might have a total lifetime contribution in terms of taxes and contributions of £920,000.

Example 4:
A very high income couple, with a joint income peaking at around £750,000 could make a total lifetime contribution of as much as £5,000,000 if they were resident in Guernsey for their whole working life.

SERVICE PROVISION

The revenues collected through taxes and duties is used to provide the community with public services. The diagram below shows how the money collected from the community is spent each year, with *the size of each box proportional to the annual spend* in that area.

In total, 38% of the total amount of money spent on services each year is on Social Security benefits of which the largest item (more than £120m in 2019) is the payment of pensions. 21% of total spending is dedicated to health and social care services. **This means that in total almost 60% of States' expenditure is in areas that are highly sensitive to the ageing of the population.**



* These benefits and services are funded from the Social Security System and are not directly funded from general revenue
OA&D = Overseas Aid & Development

The table below provides estimates of the cost of providing some public services on an annual basis, both *per capita* for entire service areas and the unitary cost of specific services:

Health and Social Care services (including long term care)	
Total *per capita* cost per annum	£3,000
One year of nursing care subsidies	£44,200
One year of residential care subsidies	£23,700
One year of insulin prescriptions	£1,300
One year prescription of a rare cancer drug	£530,000
Standard knee replacement surgery (provided off island)	£7,300-£8,800
Education services	
Total cost *per capita* per annum	£1,100
One year of primary education per pupil[c]	£4,800-£6,300
One year of secondary education per pupil[c]	£8,100-£8,900
One year grant to Student at university in South of England on a standard course at high level of subsidy[d]	£14,000
Pensions and contributory benefits	
Total *per capita* cost of pensions and contributory benefits	£2,300
One year's state pension at full rate	£11,300
One year of severe disability benefit	£5,532
Universal benefits (including legal aid)	
Total *per capita* cost of all universal benefits	£900
Family allowance for a family with two children for one year	£1,500
Average annual cost of an income support claim for a pensioner household	£7,400
Average annual cost of an income support claim for a working family	£12,700
Law and order	
Total *per capita* cost of policing, fire and rescue, prison, probation and border services	£400
Cost of prison services per prisoner[c]	£45,000
Border costs per passenger[c]	£2.25

Across the course of a person's life time they may benefit from a significant level of public services. Some of these, like education provision, they might benefit from directly. Others, like the provision of law and order provide a more indirect benefit to the community as a whole.

[c] States costing and benchmarking report, BDO, May 2017

[d] Committee *for* Education, Sport & Culture guidance for students

The analysis below outlines the direct services an average couple with two children might be expected to utilise across their lifetime. This assumes that they attend school on the island to the age of 18, require a fairly typical amount of health care and require, between them, approximately five years of long term care services.

Some of the most costly services provided are used by only a very small minority of households. Such services include the provision of care and support services for very vulnerable children, treatment of rare or complex health conditions or off island placements for individuals with complex long term care needs. Lifetime costs for households requiring such services could significantly exceed the upper estimates presented.

Estimated cost of education:	£190,000
Estimated receipt of family allowance for 2 children:	£27,000
Estimate cost of free pre-school:	£7,000
Estimated health care costs[e]:	£200,000-£600,000
Estimated long term care costs:	£150,000
Estimated pension receipt:	£261,000
Estimated total cost of direct services:	**£835,000 - £1,235,000**

Households are also able to access financial support for periods of their life when their income is insufficient to meet their needs. A low income working family, who require an income support top-up to their income while their children are at home, and again in their retirement, might claim an estimated £430,000 across their lifetime.

A household closer to the median might be expected to claim for periods when their income might be restricted. For example they may need assistance while they have young children, if one member of the household were to find themselves temporarily unemployed or to support them during retirement if they have insufficient savings or if they need to continue paying rent after they retire. A median income household such as that described earlier might claim in the region of £150,000 of financial support during their lifetime.

[e] These are very broad estimates derived from aggregate accounting data cross checked against estimates made in other jurisdictions. Insufficient data is available to make accurate estimates of lifetime healthcare cost in Guernsey.

SUMMARY OF DELEGATED AUTHORITIES

The Policy & Resources Committee has delegated financial authority to:

- Approve expenditure on progressing to capital vote request stage those projects in the States approved capital portfolio (Capital Prioritisation, Billet d'État XIX, September 2013);

- Approve opening capital votes for any project with a value not exceeding £2million, funded from the Capital Reserve (Policy & Resource Plan Phase 2, Billet d'État No XII, June 2017);

- Approve opening capital votes for urgent capital projects of up to £2million (States Capital Investment Portfolio, Billet d'État XVI, July 2014);

- Approve opening capital votes for emergency capital projects without limit;

- Make transfers from the Budget Reserve approved by the States (up to the amount available within the Reserve) (Budget 2015, Billet d'État XXII, 2014);

- Decide whether to transfer the real-terms investment returns from the Core Investment Reserve to the Capital Reserve (Budget 2018, Billet d'État XX, 2017);

- Approve use of the Future Guernsey Economic Fund (Budget 2015, Billet XXII, 2014). It has onwardly delegated authority of up to a maximum of £100,000 per project / £500,000 per annum to the Committee *for* Economic Development (as authorised in Budget 2019, Billet d'État XXIV,2018);

- Approve use of the Transformation and Transition Fund up to the following authority levels:

    - Public Service Reform portfolio - £2.1million;
    - Social Policy Development - £750,000;
    - Transforming Education & Training Services - £3.5million;
    - Transforming Health & Care Services - £5.3million;
    - Transforming Justice & Equality Services - £750,000;
    - Transforming Other Government Services - £750,000;
    - Civil Service Reform - £750,000;
    - Development of the People Plan - £750,000;
    - Organisational and Service Design - £8million;
    - Development of an Energy Policy - £375,000;
    - Introduction of resource accounting and budgeting - £1.3million;
    - Population Management - £1million;
    - Operating model for land and property - £1million;
    - Implementation of States Review Committee proposals - £530,000;
    - Fundamental Spending Review Fund commitments - £817,000; and
    - Up to a maximum of £250,000 per initiative for any transformation initiative for which it doesn't have specific delegated authority (Budget 2016, Billet d'État XIX, 2015);

- Increase Committee budgets to fund redundancy costs where a business case demonstrates, inter alia, a net financial saving to the States and consequential reduction in an ongoing cash limit;

- Undertake strategic property purchases and sales;

- Approve loans from the States of Guernsey Bond to States owned entities, trading accounts and funds, the Guernsey Housing Association, the Alderney Housing Association, the Ladies College and Alderney Electricity (2015 Budget Billet d'État XXII, 2014);

- Approve investments in the Overseas Aid & Development Impact Investment Fund (2019 Budget, Billet d'État XXIV, 2018);

- Approve uses of the Participatory Budgeting Fund (2019 Budget, Billet d'État XXIV, 2018);

- Approve uses of the Brexit Transition Fund (2019 Budget, Billet XXIV, 2018).

Principal Committees have delegated authority in respect of revenue expenditure within their authorised budgets.

The Committee *for* Employment & Social Security has delegated authority of up to £250,000 for capital expenditure from the Social Security funds.

The States' Trading Supervisory Board has delegated authority for capital expenditure of up to £2million by the unincorporated trading assets (Guernsey Water, Guernsey Waste, States Works, Guernsey Dairy, Ports) (Ports - Policy & Resource Plan Phase 2, Billet d'État No XII, June 2017).

Capital Reserve Projects

The States have delegated the following specific authorities to the Policy & Resources Committee in respect of projects funded from the Capital Reserve:

- **Airport Pavement Rehabilitation** – up to £80.4million[1]
    - Billet d'État No XIII, States Meeting on 27th July 2011
        - Resolutions:
            - *"To authorise the Treasury and Resources Department to accept tenders and/or to authorise expenditure for the items identified in lines 15 to 22 in Appendix A to this Report and to approve an increase in the capital vote for the project to a maximum sum of £80.4 million in respect of these works.*
            - *To authorise the Treasury and Resources Department to transfer a maximum sum of £78.2 million from the Capital Reserve to Guernsey Airport in respect of this project."*
- **Bus Fleet** – up to £4,745,000 (Phase 1 up to £1,840,000; Phase 2 up to £2,905,000)
    - Billet d'État No XVI, States Meeting on 29th September 2015
        - Resolution:
            - Phase 1: "*To delegate authority to the Treasury and Resources Department to approve the Full Business Case at a cost not exceeding £1.84 million to be funded by a capital vote charged to the Capital Reserve."*
    - Billet d'État No X, States Meeting on 21st March 2018
        - Resolution:
            - Phase 2: "*To authorise the Committee for the Environment & Infrastructure to finalise contractual arrangements with Wrightbus for the supply of 22 Euro VI Diesel StreetVibe buses as Phase 2 of the Bus Fleet Replacement Programme, as detailed in section 9 of the Policy Letter, to be funded by a capital vote of a maximum of £2,905,000, charged to the Capital Reserve.*
- **Inert Waste** – up to £1.6million (funded from the Solid Waste Trading Account).
    - Billet d'État No XXIV, States Meeting on 13th December 2017
        - Resolution:
            - "*To delegate authority to the Policy & Resources Committee to approve expenditure on the 'Analysis and Design' stage of the Inert Waste project, as identified in paragraphs 7.1 to 7.6 of the policy letter and including the simultaneous conduct of two detailed Environmental Impact Assessments (one for each of the two sites identified), up to a maximum of £1.6 million, funded from the Solid Waste Trading Account."*

[1] There is currently approximately £7million remaining on this delegated authority relating to the removal of the bund.

- **Revenue Services** – up to £5million (split equally between the Capital Reserve and the Guernsey Insurance Fund)
    - Billet d'État No XI, States Meeting on 18th April 2018
        - Resolution:
            - "*To delegate authority to the Policy & Resources Committee to approve a Capital vote of a maximum of £5m to fund the next phase of the Revenue Service programme. £2.5m of which is to be charged to the Capital Reserve and £2.5m to the Guernsey Insurance Fund and which will be released in phases and on approval of the necessary business cases.*"

- **Waste Strategy** – up to £32million
    - Billet d'État No XI, States Meeting on 19th April 2018
        - Resolution:
            - "*To approve a capital vote of a maximum of £32million, charged to the Capital Reserve, to fund a grant to the Solid Waste Trading Account of the capital costs of new solid waste management facilities and services required for the implementation of the island's solid waste strategy as referred to in Resolution 4 of 16th February, 2017 on Article III of Billet d'État V of 2017; including the repayment of any amounts advanced from the loan from the States of Guernsey Bond issue (of December 2014) together with any interest accrued and associated charges.*"

- **Replacement Cremator** – up to £3,880,000
    - Billet d'État No XVI, States Meeting on 6th June 2018
        - Resolution:
            - "*To authorise the States' Trading Supervisory Board to approve tenders for the other works required to deliver the preferred option, subject to prior approval of a full business case by the Policy & Resources Committee and to authorise the Policy & Resources Committee, upon its approval of such a full business case and the approval of the relevant tenders by the States' Trading Supervisory Board, to increase the Capital Reserve vote to a maximum of £3.88m.*"

- **Alderney Airport Runway Rehabilitation** – up to £12.2million
    - Billet d'État No I, States Meeting on 30th January 2019
        - Resolution:
            - "*Subject to the Policy & Resources Committee's approval of the Final Business Case, to direct that Committee to increase the existing capital vote for the Alderney Airport Project, funded from the Capital Reserve, to a maximum of £12.2 million to fund the construction of the runway pavement rehabilitation scheme, in accordance with Option 3, including the design stage, professional fees and contingencies.*"

- **Hospital Modernisation** – up to £44.3million
    - Billet d'État No V, States Meeting on 27th March 2019
        - Resolution:
            - "*To delegate authority to the Policy & Resources Committee, following approval of the necessary business cases, to open capital votes of a maximum of £44.3million, charged to the Capital Reserve, to fund Phase 1 of the Hospital Modernisation Programme, as set out in section 7 of the Policy Letter.*"

- **Future Digital Services** – up to £43.6million
    - Billet d'État No X, States Meeting on 12th June 2019
        - Resolutions:
            - *"To approve funding from the Capital Reserve of a maximum of £26.9m for the improvement of business as usual IT services by the Strategic Partner, including transition, transformation, and major asset investment, and to delegate authority to the Policy & Resources Committee to open capital votes for the individual projects after consideration of the appropriate project business cases."*

            - *To approve funding from the Capital Reserve of a maximum of £16.7m for a programme of digital transformation, and to delegate authority to the Policy & Resources Committee to open capital votes for the individual projects after consideration of the appropriate project business cases."*

- **Transforming Education Programme** – up to £157.2million
    - Billet d'État No XVI, States Meeting on 6th September 2019
        - Resolutions:
            - *"To note that the capital costs of the policy of organising secondary education in one 11-18 school operating in two colleges, which was agreed by the States on the 19th of January 2018, will be up to a maximum of £77.9 million; and to delegate authority to the Policy & Resources Committee to approve expenditure up to a maximum of £77.9million charged to the Capital Reserve (in respect of the total project costs comprising building, transformation and transition, and the accommodation of services to children and their families which would benefit from working in closer partnership with the school and colleges) subject to the approval of appropriate business cases submitted by the Committee for Education, Sport & Culture which must demonstrate that the financial resources requested for the construction and operation of the preferred option balance cost and outcomes and therefore represent value for money, in the development of the 11-18 school and colleges on the sites of the current Les Beaucamps High School and St Sampson's High School as part of the Transforming Education Programme."*

- *" To note that the capital costs of the policy of organising further and higher education in purpose-built facilities on a single site, which was agreed by the States on the 19th of January 2018, will be up to a maximum of £51.1 million; direct the Policy & Resources Committee to add this project to the capital portfolio 2021 – 2025; and delegate authority to the Policy & Resources Committee to approve expenditure up to a maximum of £51.1 million charged to the Capital Reserve (in respect of the total project costs comprising building; transformation and transition) subject to the approval of appropriate business cases submitted by the Committee for Education, Sport & Culture which must demonstrate that the financial resources requested for the construction and operation of the preferred option balance cost and outcomes and therefore represent value for money in the development of The Guernsey Institute at Les Ozouets as part of the Transforming Education Programme."*

- *"To note that the capital costs of redeveloping La Mare de Carteret Primary School will be in the range of £13.4 million to £22.4 million; and to delegate authority to the Policy & Resources Committee to approve expenditure, subject to the submission of appropriate business cases by the Committee for Education, Sport & Culture, of up to £22.4 million, which may be drawn down over a period of two years from 2022, for the capital redevelopment of La Mare de Carteret Primary School as part of the Transforming Education Programme; and to note that the business cases associated with this project will include the results of a review of capacity in the primary phase across the Island."*

- *"To delegate authority to the Policy & Resources Committee to approve expenditure, subject to the submission of appropriate business cases by the Committee for Education, Sport & Culture, of up to £5.8 million on the Digital Roadmap, which is intended significantly to improve digital services across the education estate as part of the Transforming Education Programme."*

IMPACT ANALYSIS OF CHANGES TO DOMESTIC TRP TARIFFS

This appendix examines the impact of changes to the domestic TRP system. This covers both the impact of the implementation of a more progressive tiered structure of TRP tariffs and the aggregate impact of the real increases in TRP tariffs (first increase applied in the 2016 budget). Analysis is presented by equivalised income decile[a] in term of both the average monetary value of the impact and the impact relative to a household's gross income.

The analysis covers three levels of changes:

1) the impact of the increase in the baseline TRP tariffs in real terms of 7.5% per annum between 2015 and 2020 (including the increase proposed in this budget);
2) the impact in real-terms of the introduction of a tiered system of TRP tariffs; and
3) the aggregate impact of all changes between 2015 and 2020.

TRP is calculated based on the size of a property. Generally speaking the TRP value of a property is a good indicator of the owner's *wealth*, but the relationship with annual *income* is imperfect. In part this is because of the extent to which property in Guernsey is owned by those in retirement. Between 45% and 60% of property with a TRP rating of more than 500 is owned and occupied by households aged over 65, compared to only 26% to 32% of those properties with a TRP rating of below 200.

Retired households are far more likely than those of working age to be supplementing their income by expending their capital and own a home disproportionately large relative to their income. As a result tiered TRP measures look less progressive than might be expected, or than might be apparent were it possible to analyse its effects relative to wealth rather than income.

There is some uncertainty about the position of those households in the first decile. Many of these households have little or no reported income and, based on the available information, would appear to be eligible for Income Support but not in receipt of it. It may be that some of these have savings which exclude them from means tested benefits and which they draw down to support their lifestyle; they may have a source of income not captured in the E-census or are choosing not to claim benefits for reasons of their own. This means that there is a small group of people in the lowest income decile for whom their recorded income may not represent an accurate picture of their available resources and for whom even a small increase in taxation would appear to comprise a very significant portion of their income.

[a] Equivalised household income is a way of grouping households by income. First a household's income after the receipt of any benefits and the payment of taxes, contributions and any housing costs is calculated. This income is then adjusted to reflect the number of people that income must support. For example a couple without children would be able to live more comfortably on an income of £50,000 than a couple with children, so the income of the couple with children is adjusted downwards to reflect this.

Households are then grouped into ten deciles which represent households of similar incomes. The first decile represents the 10% of households with the lowest income, the tenth decile represents the wealthiest. Income deciles take no account of how much capital wealth a household might own (for example a family home).

Domestic TRP as a tax

Immovable property taxes such as TRP are highly efficient and cause a minimal distortion in behaviours. They are difficult to avoid because they relate to a physical and immovable object. They are easy to assess, particularly in Guernsey where the tax is directly related to the size of the property as measured from aerial photography.

Arguably they provide an incentive towards smaller property, but given the relative value of the annual TRP charge to the frictional cost of buying and selling property, the impact on consumer behaviour is likely to be small. However, the introduction of tiered TRP tariffs may have added more incentive to 'down-size' at the top of the market where there are a small number of extreme examples of people who are 'asset rich and cash poor'. There has been no evidence of a significant increase in very large properties on the market since the first phase of tiered TRP tariffs was introduced in January 2019.

As a result, domestic TRP is one of the most stable and predictable revenue streams within the States' Budget. It is also the only domestic tax which (indirectly) taxes wealth as opposed to income.

1) **The impact of the increase in the baseline rate of TRP tariffs in real-terms of no more than 7.5% per annum between 2015 and 2020**

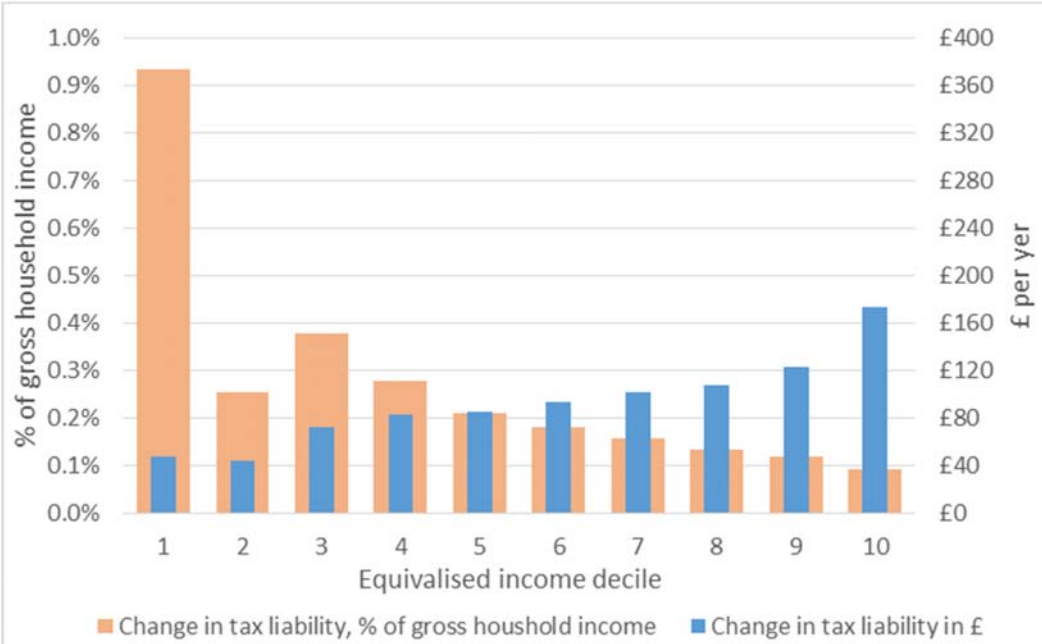
This analysis represents the impact of the implementation of the resolution contained in the Personal Tax, Pension and Benefits Review to date, including the increase proposed for 2020. The aim of this resolution was to double the real value of domestic TRP over ten years by increasing the TRP tariff by no more than 7.5% per annum in real-terms.

The graphs below demonstrate the average impact that this has on households. As one might expect, the impact in monetary terms increases with income. The wealthiest 10% of the population typically pay more than other groups since they typically own larger properties.

When considered relative to income, the pattern is less clear. There are a collection of households with little income but resident in large properties. For these households even small increases in TRP can be large relative to their income. A very small number of extreme examples of 'asset rich cash poor' households has a significant impact on the overall average impact relative to income for households in the first decile. However, what is not clear from the available data is the extent to which these households are actually reliant on their capital to support their lifestyle.

There is a small peak in the relative impact in the third decile. In part this is because those living in social rental accommodation or in receipt of income support are assumed to be compensated for any increase in their TRP bills. Since these households predominantly sit in deciles 1 and 2 it has the effect of decreasing the average impact on these deciles. It also reflects the distribution of property ownership in the population. In Guernsey, ownership of property is more common in the retired population than the working age population. Further, the proportion of property owned by those aged over 65 increases as property size increases. Because most households have a lower income in retirement than in their working lives and many rely more on the drawdown of capital to supplement their income, the result is that the relationship between the TRP and income is looser for households aged over 65 then it is for working age adults.

Impact of the increase in impact of the increase in the baseline TRP tariffs in real terms of 7.5% per annum between 2015 and 2020



2) The impact in real-terms of the introduction of a tiered system of TRP tariffs

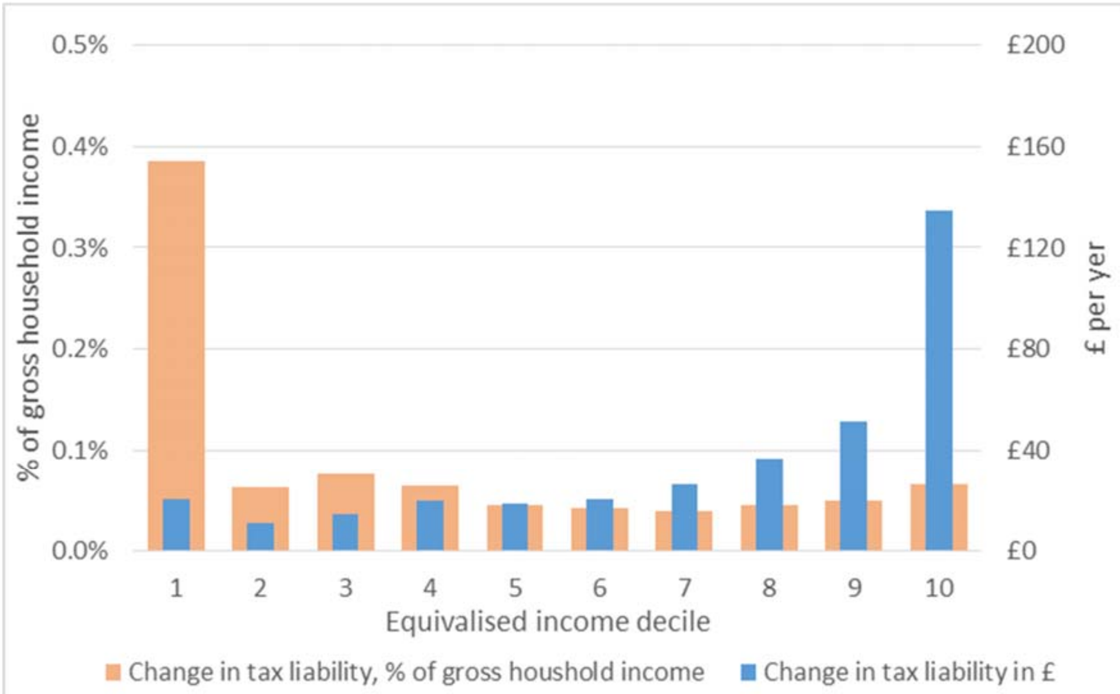
This section examines the impact of the tiered TRP tariff structure. The tiered structure affects the largest 30% of properties. The majority, 71%, of properties will remain chargeable at the baseline tariff. Banding is applied as follows:

Band[b]	Tariff charged	% of units
TRP <200	Base tariff	70.8
200-299	+15%	18.4
300-399	+30%	5.9
400-499	+45%	2.5
>500	+60%	2.4

The overall impact of this scheme is less than the increases made to the baseline. In monetary terms the average impact is highest among the highest income households and more progressive than the increases in the baseline TRP tariffs. Allowing for the challenges associated with those in the lowest income decile, the tiered structure is broadly proportional in impact with deciles 2 to 10 paying on average less than 0.1% of their gross household income in additional taxes as a result. This reflects a general tendency for people to increase the size of their property in proportion to their income, although as previously stated, the relationship is not perfect, particularly for older households.

[b] Additional tariffs in respect of properties over 500 units were introduced from 1 January 2019. It is proposed that those for properties between 200 and 499 are introduced from 1 January 2020.

Impact of the implementation of tiered TRP tariffs by equivalised income decile

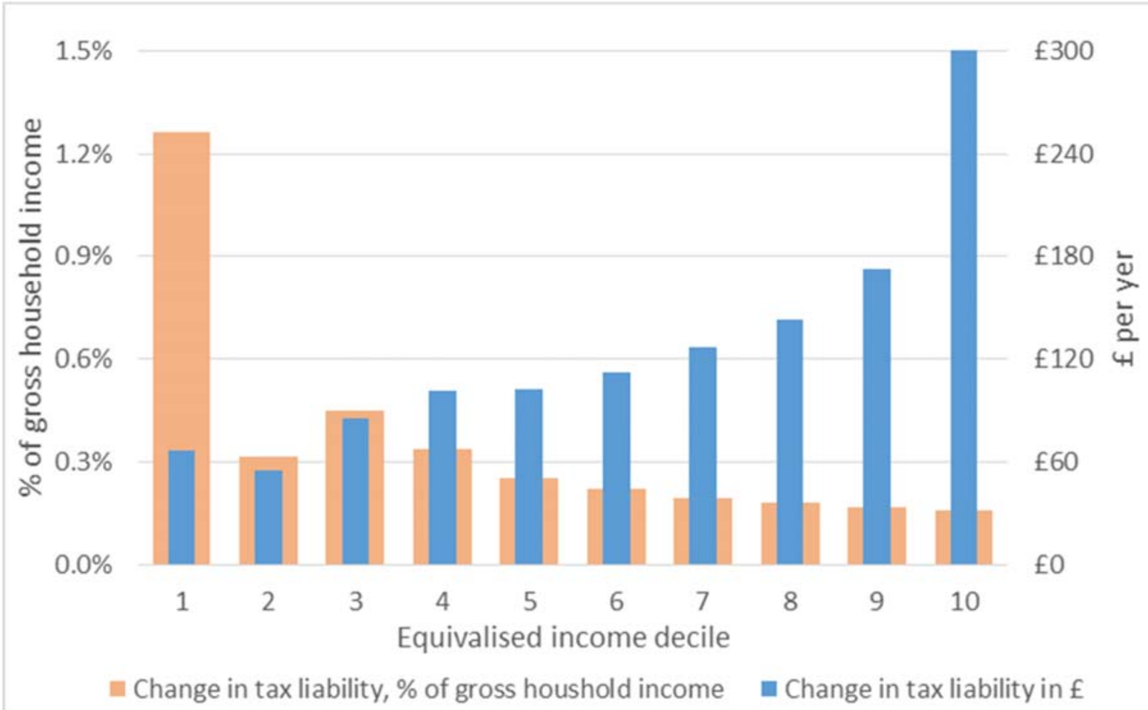


3) The aggregate impact of all changes between 2015 and 2020

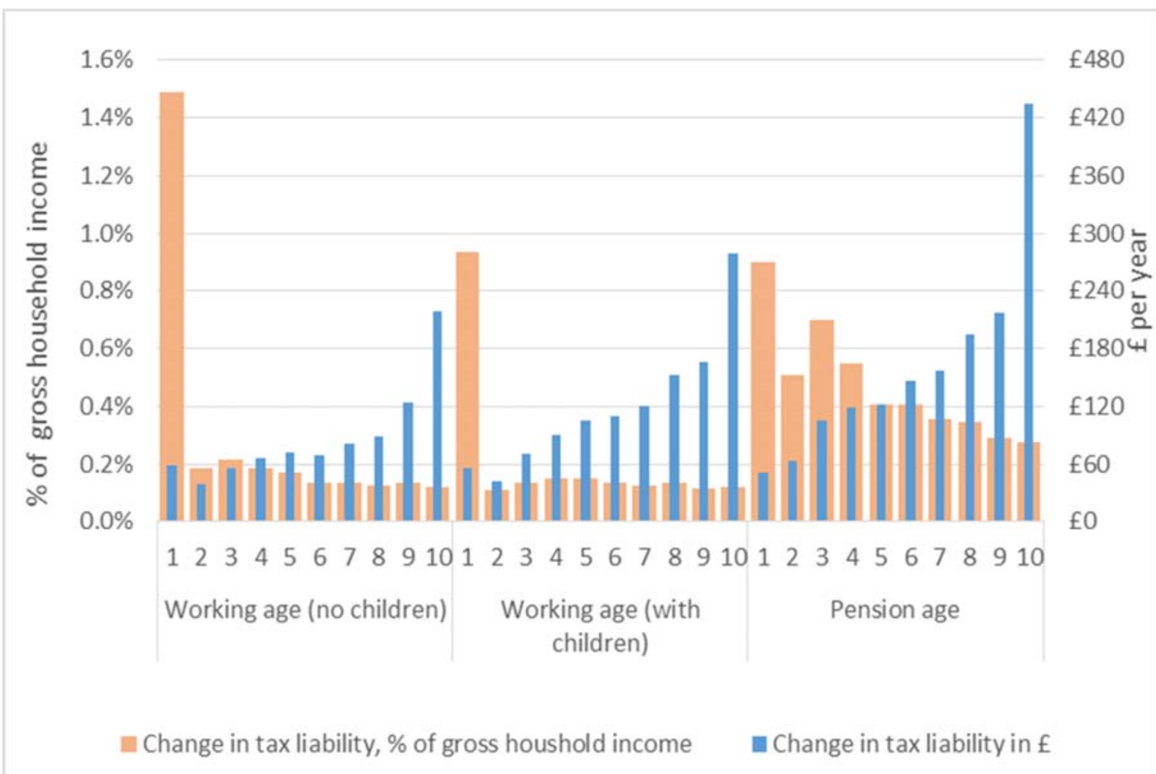
The analysis below presents the cumulative impact of all the changes applied to domestic TRP tariffs since 2015 including those proposed for 2020. This analysis additionally shows the impact of the changes broken down by income decile and by those: above States pension age, of working age with children and of working age without children.

For working age adults, particularly those with children, the cumulative average effect of the changes are close to proportional. For pensioner households the different distribution of property ownership, and the tendency for pensioner households to own larger properties relative to working age adults of similar equivalised income means that the changes are more regressive in nature.

Impact of all measures implemented between 2015 and 2020 by equivalised income decile



Impact of all measures implemented between 2015 and 2020 by equivalised income decile and household composition – With children, working age adults only, pensioner households



BUDGET MEASURES: RESPONSE TO SUGGESTIONS FROM STATES MEMBERS

In February 2019, all States Members were invited to submit *"any suggestions on particular measures that you would like the Policy & Resources Committee to consider as it compiles the 2020 Budget proposals. This is being done now to ensure that any suggestions can be researched at staff level and then considered by the Committee in time for incorporation in the budget proposals, if appropriate. It is intended that feedback will be given on all suggestions."*

There were two responses received (one from a group of States Members) and the suggestions submitted together with the Policy & Resources Committee's response are summarised below:

SUGGESTION	**RESPONSE**
Budget should address charges for utilities (including water, waste, post, electricity and gas).	This is primarily a matter for the States' Trading Supervisory Board to consider in setting charges.
The policy requiring States' Trading Assets to make a return to General Revenue should be revoked.	This is addressed in the 2020 Budget Report (paragraph 5.51).
A "tax on luxury goods" should be introduced.	The introduction of a wholly new tax is beyond the scope of this Budget Report, it would require: definition of a "luxury good"; design of a collection process; a formal consultation on its introduction; and an economic impact analysis. It is intended that the revised "Review of the Fiscal Policy Framework" policy letter will include terms of reference for a review to examine options to raise further revenues from corporate taxes and for the introduction of new taxes in areas such as a ring-fenced health tax, consumption taxes, etc. This suggestion would be incorporated in such a review.
Taxes on property transactions should be removed to be replaced by increasing TRP.	Document Duty on conveyancing is expected to generate income of approximately £18million in 2020, mainly from domestic property transactions. Raising the equivalent income from domestic TRP (anticipated to be £9.6million in 2020) would require a nearly three-fold increase in domestic TRP tariffs. This is beyond the scope of this Budget Report, it would require careful consideration of the economic impact and public consultation.

SUGGESTION	RESPONSE
Increase TRP on corporate parking.	The Committee has previously considered charging TRP on parking at the same rate as the building it services but this would be complex to introduce and administer as there are multi-use car parks which are used by buildings in various categories. Given the real-terms' increases in commercial TRP rates being proposed in this Budget Report, including a substantial increase in the general Office and Ancillary Accommodation category, a further increase to the car parking tariffs is not recommended.
Change document duty on conveyancing to be paid by the seller instead of the buyer.	This is currently being considered in the United Kingdom; consideration will be given if it would be suitable for adoption in Guernsey.
Consider introduction of an 'internet shopping tax' to be paid on goods that come in from off-island.	A tax of this nature would risk breaching international trade rules and could threaten Guernsey's objective of achieving associate membership of the World Trade Organization.
Consider introduction of a congestion charge.	This would be a policy initiative for consideration by the Committee *for the* Environment & Infrastructure rather than a fiscal measure. The investigation into the introduction of a pilot distance charging mechanism could be extended to consider the feasibility of applying higher rates at particular times or in particular locations.
Consider further substantial increases in excise duty.	The Policy & Resources Committee recommends excise duty increases in line with the policy direction set by the States.
Consider a tax on planning gains.	An individual or company who purchases land or buildings with the intention to resell for a profit after obtaining planning permission is currently subject to income tax at 20% of the profit realised.

SUGGESTION	RESPONSE
Continue to explore ways to get a higher return from the corporate sector.	As set out in paragraphs 6.1-6.9 of the 2020 Budget Report, the efforts already taken to maximise corporate income tax within the current structure mean that it is only possible to recommend minor further amendments to the present regime. The further expansion of both the intermediate rate to cover Aircraft Registries and the higher rate to cover the cultivation and uses of cannabis demonstrates that this is a priority for the Policy & Resources Committee. It is intended that the revised “Review of the Fiscal Policy Framework” policy letter will include terms of reference for a review to examine options to raise further revenues from corporate taxes and for the introduction of new taxes in areas such as a ring-fenced health tax, consumption taxes, etc.
Introduce a lower tax band for lower earners, paired with further reductions in allowances for higher earners.	This has been explored in the 2020 Budget Report (paragraphs 6.26 to 6.33) but the lower tax band does not target those individuals on lower-middle incomes and is also prohibitively costly. It is estimated that lowering the threshold for the Withdrawal of Personal Allowances from £100,000 to £80,000 would raise additional income tax revenues of £1.6million and affect a further 1,000 taxpayers.
Review level of savings required of Committees to deliver the MTFP.	This is addressed in the 2020 Budget Report (paragraphs 5.28 to 5.44).
States should spend more on maintaining its own properties.	The bulk of property maintenance is funded through minor capital votes and there is a substantial unspent balance available. The allocation can be increased if it can be demonstrated that additional funding is required but this has not been the case to date.
Convert a proportion of the Capital Reserve into an “Accessibility Fund” available to both private businesses and the public sector, who wish to retrofit buildings or spaces that are open to the public with greater physical accessibility.	As set out in paragraphs 1.19-1.25 of the 2020 Budget Report, the intention to collapse States’ Funds into a single Fund will give the opportunity for outcomes for such investment to be defined and included in a scheme of uses, subject to States’ approval.

SUGGESTION	RESPONSE
Reintroduce contingency spending at Committee level.	As set out in paragraphs 4.10-4.11 of the 2020 Budget Report, the allocation of contingency budgets to individual Committees is not considered to be the most effective allocation of funding.
Create Funds around a number of social and environmental policy objectives.	As set out in paragraphs 1.19-1.25 of the 2020 Budget Report, the intention to collapse States' Funds into a single Fund will give the opportunity for outcomes for such investment to be defined and included in a scheme of uses, subject to States' approval.
If allocating a surplus, give priority to positive climate-related initiatives.	There is not anticipated to be a budget surplus in 2019 or 2020. However, as set out in paragraphs 1.19-1.25 of the 2020 Budget Report, the intention to collapse States' Funds into a single Fund will give the opportunity for outcomes for such investment to be defined and included in a scheme of uses, subject to States' approval. The Committee *for the* Environment & Infrastructure is producing a Climate Change Action Plan which will include any funding requirements for its implementation.
Personal Income Tax Allowances should at least keep pace with inflation.	The 2020 Budget Report includes a recommendation to increase the Personal Income Tax Allowance by £575, which is a 5.2% increase (approximately double inflation).

SERVICE DEVELOPMENT REQUESTS

The following table details the service development requests that the Policy & Resources Committee is recommending that funding is made available for. **However, it is important to note that individual Committees will be able to allocate funding to the initiatives which *they* consider are of the highest priority.**

	£
Corporate Services (£225,000)	
Additional Recruitment Officer	50,000
Expanding finance project team to support policy development	175,000
Committee *for* Education, Sport & Culture (£715,000)	
Le Murier School - additional teacher	70,000
Les Voies School - additional teacher	70,000
Le Rondin School - additional teacher	70,000
Secondary Schools – development of literacy support provision	120,000
Individual Pupil Support – increase in provision	180,000
Communication & Autism Support – develop and enhance provision	205,000
Committee *for* Employment & Social Security (£70,000)	
Equality & Inclusion Policy Officer	70,000
Committee *for the* Environment & Infrastructure (£100,000)	
Climate Change Action Plan development	100,000
Committee *for* Health & Social Care (£2,000,000)	
Adoption support initiative	145,000
Respiratory service improvement	105,000
Anaesthetic review	500,000
Diabetic Retinopathy screening programme	125,000
Increasing CAMHS capacity	55,000
Recovery and rehabilitation service increase	170,000
Community paediatrician	200,000
Support Officer – Employment and Housing for Looked After Children	50,000
Critical care staffing	275,000
Mental Health & Wellbeing Centre	180,000
Urology service improvement	50,000
Intravenous Therapy lead nurse	55,000
Psychological interventions for personality based difficulties	90,000
Committee *for* Home Affairs (£55,000)	
Additional Guernsey Border Agency Officer (compliance role)	55,000
Policy & Resources Committee (£155,000)	
External Affairs Treaties Officer	70,000
International Relations Evaluation Officer	85,000
Royal Court (States' Assembly & Constitution Committee) (£55,000)	
States Members' training	55,000
Computer Emergency Response Team (Committee *for* Home Affairs) (includes £260,000 of set-up costs)	725,000
Countering economic crime, money laundering and terrorist financing	1,300,000
TOTAL	**5,400,000**

The following are the service development requests which it has not been possible to recommend funding for:

	£
Corporate Services (£110,000) – miscellaneous	110,000
Committee *for* Economic Development (£265,000)	
Civil Aviation Office	225,000
Marketing and Tourism	40,000
Committee *for* Education, Sport & Culture (£705,000)	
Dyslexia Day Centre – enable more children to be supported	* 70,000
Pupils with Social, Emotional and Mental Health needs – increase in support	40,000
Primary and voluntary schools – additional staffing	135,000
Active and Sporting Community Plan (Sports Strategy) (indicative funding requirement – this Strategy has not yet been considered by the States)	460,000
Committee *for* Employment & Social Security (£160,000)	
Disability & Inclusion Strategy initiatives	* 75,000
Financial Coach	25,000
Housing Health and Safety Manager	60,000
Committee *for* Employment & Social Security – Formula Led (£340,000)	
Income Support – real-terms' increase in benefit limitation	* 275,000
Income Support – increase in personal allowances to residents of residential or nursing homes	65,000
Committee *for the* Environment & Infrastructure (£100,000)	
Biodiversity Strategy development	100,000
Committee *for* Health & Social Care (£1,075,000)	
Children's Dental Service – increase in provision	40,000
Advanced Transfusion Practitioner	45,000
Community Speech and Language Specialist	35,000
Children's Dental Service – receptionist	30,000
Health and Care regulation	145,000
District Nurse and Health Visiting Specialist Practice training	120,000
Alderney Community Nurses	125,000
Specialist Occupational Therapist - Stroke and Acquired Brain Injury patients	35,000
St Martin's Day Centre – increase in provision	160,000
Falls Practitioner	40,000
Pharmacy Discharge Service	50,000
Operating Department Practitioner training	30,000
Tissue viability and lymphoedema – service improvement	30,000
Emergency Department – additional staffing	190,000
Committee *for* Home Affairs (£105,000)	
Law Enforcement - additional training	105,000
Policy & Resources Committee (£55,000) - miscellaneous	55,000
States' Trading Supervisory Board (£5,000) – Alderney Airport - miscellaneous	5,000
Royal Court (£5,000) - staff training	5,000
Law Officers (£415,000) – additional staff	* 415,000
Pooled Budgets (£10,000) - miscellaneous	10,000
TOTAL	**3,350,000**

* However, as set out in paragraph 6.74, there is an opportunity to raise additional revenues of £850,000 per annum which would enable additional funding to be made available for service developments by the following Committees:

- Committee *for* Education, Sport & Culture - £70,000;
- Committee *for* Employment & Social Security - £75,000;
- Committee *for* Employment & Social Security (Formula Led) - £275,000; and
- Law Officers - £415,000.

INCOME AND EXPENDITURE ACCOUNT

2018 Actual £'000s	2019 Original Budget £'000s	Income and Expenditure by Category	Note	2020 Budget £'000s
		Income		
332,535	339,570	*Income Taxes*	1	347,700
85,731	84,970	*Other Taxes*	2	92,400
22,289	35,460	*Miscellaneous Income*	3	36,125
440,555	460,000	General Revenue Income		476,225
45,931	39,681	Committee Operating Income (including transfers)		42,473
486,486	499,681	**Total Income**		518,698
		Less Expenditure		
227,510	228,260	*Pay*	4	234,843
128,200	130,628	*Non-Pay*	5	138,468
66,373	77,820	*Formula-Led*	6	79,705
-	(625)	*Balance of Budget Reduction*		(465)
-	(3,920)	*Transfer from General Reserve*		(3,340)
-	(4,620)	*Savings Target*		(2,700)
422,083	427,543	Revenue Expenditure		446,511
-	12,238	Budget Reserve		19,987
-	-	Service Developments		5,400
64,403	59,900	**Revenue Surplus**		46,800
1,970	7,000	Capital Income		3,450
66,373	**66,900**	**Net Surplus**		**50,250**
		Transfers		
(56,670)	(61,500)	*To Capital Reserve*		(43,450)
-	(4,400)	*To States Trading Entities Reserve (States' Trading Supervisory Board Provision for Aurigny Loss)*		(6,800)
9,703	**1,000**	**Transfer to General Reserve**		**-**

INCOME AND EXPENDITURE ACCOUNT

2018 Actual £'000s	2019 Original Budget £'000s	Income and Expenditure by Service Area	2020 Budget £'000s
440,555	460,000	Revenue Income	476,225
1,970	7,000	Capital Income	3,450
442,525	467,000	**Total Income**	479,675
		Net Revenue Expenditure	
39,142	39,815	*Policy & Resources Committee*	44,960
6,204	6,040	*Committee for Economic Development*	5,985
77,413	74,730	*Committee for Education, Sport & Culture*	76,705
75,943	87,955	*Committee for Employment & Social Security*	89,600
12,281	12,255	*Committee for the Environment & Infrastructure*	12,535
118,028	119,470	*Committee for Health & Social Care*	124,665
32,002	31,100	*Committee for Home Affairs*	31,225
511	531	*Scrutiny Management Committee*	531
1,259	1,410	*Development & Planning Authority*	1,290
2,960	2,960	*Overseas Aid & Development Commission*	3,080
24	-	*Transport Licensing Authority*	-
1,239	6,210	*States' Trading Supervisory Board*	5,940
2,571	2,570	*Royal Court*	2,540
4,820	5,055	*Law Officers*	5,300
-	506	*Pooled Budgets*	507
1,755	1,875	*States of Alderney*	1,875
-	-	*Service Developments*	5,400
-	12,238	*Budget Reserve*	19,987
-	(4,620)	*Savings Target*	(2,700)
376,152	400,100	**Total Cash Limits**	429,425
66,373	**66,900**	**Net Surplus**	**50,250**
		Transfers	
(56,670)	(61,500)	*To Capital Reserve*	(43,450)
-	(4,400)	*To States Trading Entities Reserve (States' Trading Supervisory Board Provision for Aurigny Loss)*	(6,800)
9,703	**1,000**	**Transfer to General Reserve**	**-**

Note: The Budget for the States of Alderney for 2020 will be considered at the 16 October meeting of the States of Alderney.

NOTES

1. Income Taxes

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
260,790	267,440	Individuals	278,000
60,713	62,130	Companies (including Banks)	59,700
11,032	10,000	Distributed Profits	10,000
332,535	**339,570**	**Income Taxes**	**347,700**

2. Other Taxes

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Customs - Excise and Import Duties	
3,722	3,755	*Beer*	3,950
920	950	*Cider*	975
20,287	20,300	*Motor Fuel*	20,850
3,707	3,900	*Spirits*	3,900
7,908	7,600	*Tobacco*	7,200
5,433	5,775	*Wine*	5,925
2,089	1,800	*Import duties*	2,100
44,066	44,080		44,900
22,920	25,160	Tax on Real Property	28,150
17,583	14,550	Document Duty - Conveyancing and Bonds	18,200
1,162	1,180	Vehicle First Registration Duty	1,150
85,731	**84,970**	**Other Taxes**	**92,400**

NOTES

3. Miscellaneous Income

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
11,587	18,275	Housing Rental Income	18,785
10,345	9,900	Company Fees	9,725
-	3,000	Property Rental Income	3,065
(1,879)	2,100	Surplus on Notes and Coins Trading Account	2,100
(957)	1,500	Net Investment Return	1,450
2,100	250	States' Trading Companies' Dividends	550
464	250	Royalties	300
629	185	Other Income	150
22,289	**35,460**	**Miscellaneous Income**	**36,125**

4. Pay Costs by Pay Group

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
86,810	89,811	Established Staff	87,315
54,967	54,323	Nurses and Medical Consultants	61,038
42,887	43,004	Teachers, Lecturers and Learning Support Assistants	44,540
16,320	15,930	Public Service Employees	16,726
9,207	8,707	Police Officers	9,292
3,715	3,551	Border Agency Officers	3,705
3,486	3,437	Prison Officers	3,485
3,402	3,422	Fire Officers	3,402
2,237	2,107	Home Support Staff	2,164
1,859	1,653	Crown Officers and Judges	1,748
2,620	2,315	Other Pay Groups	1,428
227,510	**228,260**	**Pay Costs by Pay Group**	**234,843**

NOTES

5. Non-Pay Costs by Expenditure Category

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Staff Non Pay Costs	
2,279	2,041	*Recruitment*	2,577
2,048	2,165	*Training*	2,217
799	567	*Other Staff Costs*	497
5,126	4,773		5,291
		Support Services	
1,905	2,112	*Advertising Marketing and PR*	1,994
270	247	*Audit Fees*	214
325	185	*Bank Charges*	290
10,987	10,373	*Communications and IT*	19,228
1,994	2,303	*Consultants Fees*	2,335
13,668	13,087	*Contracted Out Work*	11,926
82	-	*Incidental and Other costs*	-
1,416	1,159	*Postage, Stationery and Printing*	1,107
3,115	3,038	*Risk Management and Insurance*	3,028
33,762	32,504		40,122
		Premises	
867	887	*Equipment, Fixtures and Fittings*	671
2,857	2,716	*Rents and Leasing*	2,785
15,765	16,584	*Repairs, Maintenance and Servicing*	16,130
5,281	5,183	*Utilities*	5,156
24,770	25,370		24,742
		Third Party Payments	
244	311	*Benefit Payments*	301
25,687	27,235	*Grants and Subsidies*	28,585
25,931	27,546		28,886
		Transport	
1,496	1,452	*Vehicles and Vessels*	1,314
		Supplies and Services	
23,967	23,772	*Services*	22,582
13,148	15,211	*Supplies*	15,531
37,115	38,983		38,113
128,200	**130,628**	**Non-Pay Costs by Expenditure Category**	**138,468**

NOTES

6. Formula-Led Costs by Expenditure Category

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Policy & Resources Committee	
1,895	1,935	*Payments to States Members*	2,080
		Committee *for* Employment & Social Security	
30,796	41,327	*Supplementary Benefit/Income Support Scheme*	42,482
16,135	16,643	*Guernsey Insurance Fund Grant*	17,151
8,332	8,540	*Family Allowance*	8,540
6,260	6,630	*Severe Disability Benefit and Carers' Allowances*	6,715
2,486	2,442	*Legal Aid*	2,440
469	303	*Concessionary TV Licences for the Elderly*	297
66,373	**77,820**	**Formula-Led Costs**	**79,705**

POLICY & RESOURCES COMMITTEE

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Category	2020 Budget £'000s
5,692	4,528	**Operating Income**	7,522
		Non Formula-Led Expenditure	
24,009	24,441	Pay costs	23,610
		Non Pay costs	
2,675	2,336	*Staff Non Pay costs*	2,718
14,113	13,773	*Support Services*	22,219
403	417	*Premises*	257
978	965	*Third Party Payments*	970
18	9	*Transport*	6
743	837	*Supplies & Services*	747
-	(370)	*Balance of Budget Reduction*	(125)
18,930	17,967		26,792
37,247	37,880	**Net Non Formula-Led Expenditure by Category**	42,880
		Formula-Led Expenditure	
1,895	1,935	Third Party Payments	2,080
1,895	1,935	**Formula-Led Expenditure by Category**	2,080
39,142	**39,815**	**Total Net Expenditure by Category**	**44,960**

POLICY & RESOURCES COMMITTEE

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Service Area	2020 Budget £'000s
		Non Formula-Led Expenditure	
		Core Services	
506	599	*Central Services*	165
1,451	1,151	*External Affairs*	1,130
4,072	4,271	*Revenue Service*	4,337
917	1,262	*Policy & Strategy*	1,035
845	818	*Treasury*	609
-	(180)	*Balance of Budget Reduction*	(43)
7,791	7,921		7,233
		Corporate Functions	
-	-	*Chief Executive's Office*	1,555
462	492	*Assurance & Risk*	548
367	463	*Communications & Media*	586
513	544	*Data & Analysis Services*	326
430	414	*Data Protection*	422
2,492	2,362	*Finance*	2,362
5,961	5,745	*Human Resources*	5,913
11,130	11,538	*Information Systems & Services*	16,674
2,650	2,700	*Insurance*	2,800
648	879	*Procurement*	858
3,856	3,931	*Shared Services Centre*	2,697
114	172	*Tribunals & Reviews*	131
-	(190)	*Balance of Budget Reduction*	(82)
28,623	29,050		34,790
44	120	Commonwealth Parliamentary Association	58
789	789	HE Lieutenant Governor	799
37,247	37,880		42,880
		Formula-Led Expenditure	
1,895	1,935	Payments to States Members	2,080
1,895	1,935		2,080
39,142	**39,815**	**Net Expenditure by Service Area**	**44,960**

COMMITTEE *for* ECONOMIC DEVELOPMENT

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Category	2020 Budget £'000s
859	1,113	**Operating Income**	1,167
		Non Formula-Led Expenditure	
2,539	2,743	Pay costs	2,754
		Non Pay costs	
22	21	*Staff Non Pay costs*	49
2,974	2,759	*Support Services*	2,743
35	34	*Premises*	36
1,217	1,269	*Third Party Payments*	1,219
43	72	*Transport*	67
233	255	*Supplies & Services*	284
4,524	4,410		4,398
6,204	**6,040**	**Net Non Formula-Led Expenditure by Category**	**5,985**

COMMITTEE *for* ECONOMIC DEVELOPMENT

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		<u>Net Expenditure by Service Area</u>	
		Non Formula-Led Expenditure	
265	397	Central Services	319
-	-	Civil Aviation Office	(7)
		Finance & Economic Development	
603	700	*Finance Sector Development*	623
422	510	*Business Innovation & Skills*	598
1,025	1,210		1,221
1,189	1,217	Grant & Support Schemes	1,217
		Marketing & Tourism	
1,372	1,301	*Consumer & Communications*	1,312
83	83	*Guernsey Information Centre*	80
54	69	*Quality Development*	63
640	640	*Strategic Marketing*	642
448	461	*Trade & Media Relations*	461
2,597	2,554		2,558
479	52	Office of the Public Trustee	47
312	351	Sea Fisheries	342
337	259	Strategic Projects	288
6,204	**6,040**	**Net Expenditure by Service Area**	**5,985**

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Category	2020 Budget £'000s
6,047	5,971	**Operating Income**	6,244
		Non Formula-Led Expenditure	
58,304	57,897	Pay costs	59,769
		Non Pay costs	
698	619	*Staff Non Pay costs*	614
1,486	1,020	*Support Services*	985
5,104	5,287	*Premises*	5,298
14,090	14,883	*Third Party Payments*	14,698
286	110	*Transport*	228
3,492	4,610	*Supplies & Services*	4,662
-	(105)	*Balance of Budget Reduction*	(240)
25,156	26,424		26,245
77,413	78,350		79,770
-	(3,620)	**Transfer from General Reserve**	(3,065)
77,413	**74,730**	**Net Non Formula-Led Expenditure by Category**	**76,705**

COMMITTEE *for* EDUCATION, SPORT & CULTURE

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Service Area	
		Beau Sejour	
616	667	*Net expenditure*	659
(616)	(667)	*Less transfer from Channel Islands Lottery (Guernsey) Fund*	(659)
-	-		-
4,055	4,739	Central Services	4,093
419	403	Cultural Activities & Events	423
		Further Education	
7,911	8,014	*College of Further Education*	8,254
703	703	*Guernsey Training Agency*	703
1,175	1,254	*Institute of Health & Social Care Studies*	1,254
9,789	9,971		10,211
3,695	4,300	Higher Education	4,188
		Museums & Libraries	
1,558	1,550	*Grants to Libraries*	1,550
298	302	*Island Archive Service*	292
1,086	1,188	*Museums Service*	1,168
2,942	3,040		3,010
4,483	4,718	School & Pupil Support Services	4,583
		Schools	
4,351	4,313	*Grants to Colleges*	4,001
2,060	2,075	*Pre-School*	2,215
16,329	16,067	*Primary Schools*	16,813
774	773	*School Music Service*	799
19,699	19,067	*Secondary Schools*	20,011
6,321	6,406	*Special Schools*	7,014
2,056	1,932	*Voluntary Schools*	1,995
51,590	50,633		52,848
440	651	Sports	654
-	(105)	Balance of Budget Reduction	(240)
77,413	78,350		79,770
-	(3,620)	**Transfer from General Reserve**	(3,065)
77,413	**74,730**	**Net Expenditure by Service Area**	**76,705**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
31	20	**Operating Income**	21
		Non Formula-Led Expenditure	
4,041	4,309	Pay costs	4,279
		Non Pay costs	
22	52	*Staff Non Pay costs*	51
445	455	*Support Services*	463
5,544	5,696	*Premises*	5,643
1,323	1,441	*Third Party Payments*	1,415
29	37	*Transport*	42
92	100	*Supplies & Services*	103
7,455	7,781		7,717
11,465	12,070	**Non Formula-Led Expenditure by Category**	11,975
		Formula-Led Expenditure	
61,992	73,443	*Third Party Payments*	75,185
2,486	2,442	*Supplies & Services*	2,440
64,478	75,885	**Formula-Led Expenditure by Category**	77,625
75,943	**87,955**	**Total Net Expenditure by Category**	**89,600**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure by Service Area	
2,046	2,287	Administration of Social Security & Legal Aid	2,205
1,190	1,309	Benefits & Allowances	1,266
481	644	Central Services	633
69	54	Disability & Inclusion	57
255	289	Employment Relations Service	289
368	380	Health & Safety Executive	380
713	662	Housing Strategy & Planning	586
5,839	5,969	Social Housing Buildings Maintenance	5,969
504	476	Social Housing Tenancy Management	590
11,465	12,070	**Net Non Formula-Led Expenditure by Service Area**	11,975
		Formula-Led Expenditure	
		Legal Aid	
1,697	1,622	*Civil Legal Aid*	1,620
789	820	*Criminal Legal Aid*	820
2,486	2,442		2,440
469	303	Concessionary TV Licences for the Elderly	297
8,332	8,540	Family Allowance	8,540
6,260	6,630	Severe Disability Benefit & Carers' Allowances	6,715
16,135	16,643	Social Insurance Fund Grant	17,151
30,796	41,327	Supplementary Benefit/Income Support Scheme	42,482
64,478	75,885	**Formula-Led Expenditure by Service Area**	77,625
75,943	**87,955**	**Total Net Expenditure by Service Area**	**89,600**

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
3,013	3,042	**Operating Income**	3,348
		Non Formula-Led Expenditure	
2,963	2,951	Pay costs	3,161
		Non Pay costs	
32	25	*Staff Non Pay costs*	36
7,968	8,114	*Support Services*	8,412
2,228	2,370	*Premises*	2,389
1,367	1,092	*Third Party Payments*	1,193
51	35	*Transport*	36
685	710	*Supplies & Services*	656
12,331	12,346		12,722
12,281	**12,255**	**Net Non Formula-Led Expenditure by Category**	**12,535**

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Service Area	2020 Budget £'000s
513	526	Central Services	465
103	81	Alderney Breakwater	85
		Agriculture, Countryside & Land Management	
1,977	1,814	*Agriculture & Veterinary Services*	1,796
844	882	*Coastal Services*	907
833	852	*Parks, Gardens & Nature Trails*	868
342	481	*Other Environmental Services*	459
3,996	4,029		4,030
125	-	Energy & Infrastructure	167
		Traffic & Highway Services	
2,678	2,646	*Highway Services*	2,673
729	714	*Integrated Transport Strategy*	929
(395)	(496)	*Licensing & Traffic Services*	(488)
4,532	4,755	*Passenger Transport*	4,674
7,544	7,619		7,788
12,281	**12,255**	**Net Expenditure by Service Area**	**12,535**

COMMITTEE *for* HEALTH & SOCIAL CARE

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
15,273	14,905	**Operating Income**	15,714
		Non Formula-Led Expenditure	
90,087	90,287	Pay costs	96,297
		Non Pay costs	
607	634	*Staff Non Pay costs*	659
3,127	2,809	*Support Services*	2,462
6,802	6,767	*Premises*	7,000
2,972	3,472	*Third Party Payments*	4,370
641	802	*Transport*	640
29,065	29,604	*Supplies & Services*	28,951
43,214	44,088		44,082
118,028	**119,470**	**Net Non Formula-Led Expenditure by Category**	**124,665**

COMMITTEE *for* HEALTH & SOCIAL CARE

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Service Area	
		Central Services	
1,261	1,413	*Clinical Governance*	1,423
714	884	*Contract Management & Procurement*	849
1,816	1,907	*Corporate & Strategy*	1,742
14,062	13,628	*Estates & Facilities*	14,767
1,203	1,225	*Systems & Performance*	1,250
19,056	19,057		20,031
		Acute Services	
29,211	30,714	*Acute Hospital Services*	30,843
8,997	8,545	*Acute Off Islands Treatment*	8,829
997	1,029	*Health Care Management*	1,070
750	780	*Institute of Health and Social Care Studies*	770
2,350	2,392	*St John Ambulance & Rescue*	2,469
42,305	43,460		43,981
		Community Services	
14,704	13,285	*Adult Services*	17,406
11,989	12,304	*Childrens Services*	13,263
6,170	6,760	*Complex Placements*	5,257
170	284	*Social Care Management*	110
19,515	19,098	*Specialist Services*	19,828
52,548	51,731		55,864
		Public Health & Strategy	
1,463	1,597	*Community Health & Wellbeing*	1,589
638	631	*Drug and Alcohol Strategy*	670
816	1,363	*Medical Public Health*	1,139
482	820	*Public Health Management*	592
3,399	4,411		3,990
720	811	Office of the Children's Convenor	799
118,028	**119,470**	**Net Expenditure by Service Area**	**124,665**

COMMITTEE *for* HOME AFFAIRS

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Category	2020 Budget £'000s
2,749	2,585	**Operating Income**	2,377
		Non Formula-Led Expenditure	
28,303	27,422	Pay costs	28,419
		Non Pay costs	
761	840	*Staff Non Pay costs*	855
1,670	1,378	*Support Services*	1,297
1,449	1,404	*Premises*	1,358
571	1,125	*Third Party Payments*	106
219	219	*Transport*	225
1,778	1,747	*Supplies & Services*	1,717
-	(150)	*Balance of Budget Reduction*	(100)
6,448	6,563		5,458
32,002	31,400		31,500
-	(300)	**Transfer from General Reserve**	(275)
32,002	**31,100**	**Net Non Formula-Led Expenditure by Category**	**31,225**

COMMITTEE *for* HOME AFFAIRS

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Service Area	2020 Budget £'000s
1,064	1,119	Administration and Central Services	1,139
734	998	Data Protection	-
416	432	Domestic Abuse Strategy	433
123	151	Emergency Planning	167
(25)	(26)	Gambling Control	(20)
3,783	3,781	Guernsey Fire and Rescue Service	3,766
1,055	916	Joint Emergency Services Control Centre	917
18,310	17,347	Law Enforcement	18,247
(243)	(261)	Liquor Licence Fees	-
(364)	(95)	Population Management	(165)
5,635	5,699	Prison Service	5,560
1,514	1,489	Probation Service	1,556
-	(150)	Balance of Budget Reduction	(100)
32,002	31,400		31,500
-	(300)	**Transfer from General Reserve**	(275)
32,002	**31,100**	**Net Expenditure by Service Area**	**31,225**

Note: With effect from 2020, Liquor Licence Fees income is received by the Committee *for* Health & Social Care.

SCRUTINY MANAGEMENT COMMITTEE

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
446	426	Pay costs	426
		Non Pay costs	
7	6	*Staff Non Pay costs*	6
45	79	*Support Services*	76
3	4	*Premises*	4
10	16	*Supplies & Services*	19
65	105		105
511	**531**	**Net Non Formula-Led Expenditure by Category**	**531**

DEVELOPMENT & PLANNING AUTHORITY

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		<u>Net Expenditure by Category</u>	
1,182	1,086	**Operating Income**	1,257
		Non Formula-Led Expenditure	
2,330	2,351	Pay costs	2,345
		Non Pay costs	
53	53	*Staff Non Pay costs*	72
25	54	*Support Services*	91
-	1	*Premises*	1
18	19	*Transport*	19
15	18	*Supplies & Services*	19
111	145		202
1,259	**1,410**	**Net Non Formula-Led Expenditure by Category**	**1,290**
		<u>Net Expenditure by Service Area</u>	
191	163	Building Control	150
50	183	Planning Control	113
437	482	Planning Support	429
581	582	Policy & Conservation	598
1,259	1,410		1,290
1,259	**1,410**	**Net Expenditure by Service Area**	**1,290**

OVERSEAS AID & DEVELOPMENT COMMISSION

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
-	-	Pay costs	40
		Non Pay costs	
2,960	2,960	*Third Party Payments*	3,040
2,960	2,960		3,040
2,960	**2,960**		**3,080**

STATES' TRADING SUPERVISORY BOARD

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
7,064	2,555	**Operating Income**	2,724
		Non Formula-Led Expenditure	
4,113	4,290	Pay costs	4,377
		Non Pay costs	
75	63	*Staff Non Pay costs*	110
1,041	1,160	*Support Services*	1,051
2,492	2,634	*Premises*	2,527
38	41	*Transport*	43
544	577	*Supplies & Services*	556
4,190	4,475		4,287
1,239	**6,210**	**Net Non Formula-Led Expenditure by Category**	**5,940**
		Net Expenditure by Service Area	
1,223	896	Alderney Airport	917
403	509	Central Services	340
37	39	Shareholder Executive	-
(1,574)	-	Solid Waste	-
1,150	4,766	States Property Services	4,683
1,239	6,210		5,940
1,239	**6,210**	**Net Expenditure by Service Area**	**5,940**

ROYAL COURT

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
1,884	1,858	**Operating Income**	1,936
		Non Formula-Led Expenditure	
3,817	3,719	Pay costs	3,739
		Non Pay costs	
6	8	*Staff Non Pay costs*	26
254	272	*Support Services*	247
171	198	*Premises*	205
5	8	*Transport*	7
202	223	*Supplies & Services*	252
638	709		737
2,571	**2,570**	**Net Non Formula-Led Expenditure by Category**	**2,540**
		Net Expenditure by Service Area	
962	859	Bailiff's Office	945
386	454	Client Services	321
921	980	Court Services	929
302	277	Parliament	345
2,571	2,570		2,540
2,571	**2,570**	**Net Expenditure by Service Area**	**2,540**

LAW OFFICERS

2018 Actual £'000s	2019 Original Budget £'000s	Net Expenditure by Category	2020 Budget £'000s
180	180	**Operating Income**	163
		Non Formula-Led Expenditure	
4,762	4,952	Pay costs	5,120
		Non Pay costs	
40	34	*Staff Non Pay costs*	95
53	82	*Support Services*	76
17	23	*Premises*	24
1	1	*Transport*	1
127	143	*Supplies & Services*	147
238	283		343
4,820	**5,055**	**Net Non Formula-Led Expenditure by Category**	**5,300**

POOLED BUDGETS

2018 Actual £'000s	2019 Original Budget £'000s		2020 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
-	506	Pay costs	507
-	**506**	**Net Non Formula-Led Expenditure by Category**	**507**
		Net Expenditure by Service Area	
		Children and Young People's Plan	
-	506	*Multi-Agency Support Hub*	507
-	**506**	**Net Expenditure by Service Area**	**507**

GUERNSEY AIRPORT

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Expenditure by Category	
12,319	12,552	12,898	Operating Income	13,279
(7,421)	(6,939)	(7,283)	Pay costs	(8,054)
			Non Pay costs	
(163)	(224)	(182)	*Staff Non Pay costs*	(193)
(1,275)	(1,284)	(1,830)	*Support Services*	(1,467)
(1,271)	(1,249)	(1,338)	*Premises*	(1,399)
(107)	(97)	(120)	*Transport*	(115)
(1,983)	(1,951)	(2,012)	*Supplies & Services*	(2,206)
(4,799)	(4,805)	(5,482)		(5,380)
99	808	133	**Operating Surplus / (Deficit) before Depreciation**	(155)
(942)	(1,050)	(855)	Depreciation	(1,068)
(843)	**(242)**	**(722)**	**Operating Deficit after Depreciation**	**(1,223)**
			Net Income / (Expenditure) by Service Area	
			Income	
393	373	412	*Advertising, picketing etc*	414
727	726	745	*Airport Development Charge*	760
737	771	786	*Car Parking Fees*	821
2,080	2,194	1,901	*Rents*	2,048
8,382	8,495	8,867	*Traffic Receipts*	9,045
183	183	187	*Recovery From Alderney Airport*	191
12,502	12,742	12,898		13,279
			Operational Expenditure	
(1,322)	(1,431)	(1,350)	*Administration*	(1,846)
(2,322)	(2,067)	(2,236)	*Aerodrome Fire Service*	(2,300)
(2,782)	(2,655)	(2,743)	*Airport Infrastructure*	(2,995)
(1,854)	(1,768)	(2,373)	*Airport Security*	(2,101)
(4,123)	(4,013)	(4,063)	*Navigational Services*	(4,192)
(12,403)	(11,934)	(12,765)		(13,434)
99	808	133	**Operating Surplus / (Deficit) before Depreciation**	(155)
(942)	(1,050)	(855)	Depreciation	(1,068)
(843)	**(242)**	**(722)**	**Operating (Deficit) after Depreciation**	**(1,223)**

GUERNSEY AIRPORT

2018 Actual £'000s	2019 Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Capital Expenditure	
(168)	(2,782)	(475)	Miscellaneous Capital Works	(1,304)
-	(325)	(70)	IT Projects and Equipment	(981)
(526)	(970)	(1,201)	Equipment, Machinery and Vehicles	(3,344)
(694)	(4,077)	(1,746)	**Routine Capital Expenditure**	(5,629)
(61)	-	(5)	Airport Pavements Project	-
(24)	-	-	Airport Radar	-
85	-	5	Transfer from Capital Reserve	-
(694)	**(4,077)**	**(1,746)**	**Net Capital Expenditure**	**(5,629)**

GUERNSEY HARBOURS

2018 Actual £'000s	2019 Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Expenditure by Category	
9,465	9,658	9,812	Operating Income	9,662
(3,451)	(3,498)	(3,500)	Pay costs	(4,178)
			Non Pay costs	
(63)	(113)	(125)	*Staff Non Pay costs*	(116)
64	(2)	(80)	*Peripheral Activities*	-
(1,041)	(862)	(1,113)	*Support Services*	(1,157)
(1,105)	(1,402)	(1,509)	*Premises*	(2,110)
(78)	(122)	(133)	*Transport*	(98)
(298)	(420)	(458)	*Supplies & Services*	(563)
(2,521)	(2,921)	(3,418)		(4,044)
3,493	3,239	2,894	**Operating Surplus before Depreciation**	1,440
(1,117)	(1,606)	(1,169)	Depreciation	(1,291)
2,376	**1,633**	**1,725**	**Operating Surplus after Depreciation**	**149**

GUERNSEY HARBOURS

2018 Actual £'000s	2019 Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Income / (Expenditure) by Service Area	
3,328	3,155	3,307	Commercial Port Operations	2,446
174	103	60	Property	(83)
1,166	1,242	1,065	Leisure	751
(1,136)	(1,237)	(1,504)	Non-Commercial Port Operations	(1,650)
(39)	(24)	(34)	Ships Registry	(24)
3,493	3,239	2,894	**Operating Surplus before Depreciation**	1,440
(1,117)	(1,606)	(1,169)	Depreciation	(1,291)
2,376	**1,633**	**1,725**	**Operating Surplus after Depreciation**	**149**
			Capital Expenditure	
-	(1,605)	(196)	Miscellaneous Capital Works	(2,616)
(256)	-	(304)	IT Projects and Equipment	-
(114)	(784)	(1,182)	Equipment, Machinery, Vehicles and Vessels	(2,650)
(370)	**(2,389)**	**(1,682)**	**Net Capital Expenditure**	**(5,266)**

PORTS HOLDING ACCOUNT

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Operating Surplus before depreciation	
99	808	133	Guernsey Airport	(155)
3,493	3,239	2,894	Guernsey Harbours	1,440
3,592	4,047	3,027		1,285
(96)	-	60	Investment Return	-
-	-	(91)	Interest Expense	(214)
(28)	-	-	Loss adjustment on asset disposal	-
			Capital Expenditure	
(694)	(4,077)	(1,746)	Guernsey Airport	(5,629)
(370)	(2,389)	(1,682)	Guernsey Harbours	(5,266)
(1,064)	(6,466)	(3,428)	Total Capital Expenditure	(10,895)
2,404	**(2,419)**	**(432)**	**Surplus / (Deficit) for the Year**	**(9,824)**
2,815	**1,948**	**5,314**	**Balance at 1st January**	**5,632**
2,404	(2,419)	(432)	Surplus / (Deficit) for the year	(9,824)
-	-	(3,000)	Contribution to Capital Reserve	-
95	-	-	Contribution from Capital Reserve	-
-	4,130	3,831	Loans Drawdown	6,000
-	(434)	(81)	Loans Repaid	(192)
5,314	**3,225**	**5,632**	**Balance at 31st December**	**1,616**

GUERNSEY WATER

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Income by Service Area	
			Income	
			Water Supplies	
7,594	3,651	4,141	*Measured*	3,692
3,668	1,773	1,945	*Unmeasured*	1,743
			Waste Water	
2,358	6,074	5,708	*Measured*	6,228
1,305	3,106	3,023	*Unmeasured*	3,102
1,176	1,192	1,211	*Cesspit Emptying Charges*	1,192
269	269	58	*Grant from General Revenue*	39
253	312	287	Surplus on other trading activities	275
16,623	16,377	16,373		16,271
			Expenditure	
			Operating Expenses	
(408)	(481)	(437)	*Asset Management*	(464)
(1,232)	(1,305)	(1,280)	*Pumping Stations*	(1,296)
(3,548)	(3,557)	(3,388)	*Sewers*	(3,469)
(436)	(429)	(406)	*Water distribution*	(432)
(1,667)	(1,924)	(1,874)	*Water production*	(1,973)
			Management Expenses	
(537)	(611)	(538)	*Water Quality and Risk Management*	(653)
(755)	(843)	(952)	*Customer services*	(836)
(1,179)	(1,339)	(1,339)	*Management and general*	(1,560)
(994)	(1,026)	(1,014)	*Support Services*	(1,028)
(10,756)	(11,515)	(11,228)		(11,711)
5,867	4,862	5,145	**Operating Surplus before Depreciation**	4,560
(5,351)	(4,620)	(4,672)	Depreciation/impairment of assets	(4,644)
-	-	1	Gain on disposal of fixed assets	-
516	242	474	**Operating (Deficit) / Surplus for the Year**	(84)
(388)	(289)	(176)	Net Interest payable	(328)
128	**(47)**	**298**	**(Deficit) / Surplus for the Year**	**(412)**

GUERNSEY WATER

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Capital Expenditure	
-	-	(35)	Land	-
(4,572)	(4,314)	(5,500)	Infrastructure	(4,114)
(220)	(150)	(9)	Buildings	(100)
-	(50)	(112)	Motor Vehicles	-
(65)	(55)	(198)	Office Equipment	(513)
(111)	(100)	(22)	Intangibles	(130)
(4,968)	**(4,669)**	**(5,876)**	**Net Capital Expenditure**	**(4,857)**

GUERNSEY WASTE

2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
		Net Income by Category	
		Income	
		Operating Income	
4,718	2,000	*Bag Charges*	2,068
50	50	*Bulk Refuse*	50
1,303	1,000	*Commercial Gate Fees*	1,132
54	75	*Glass Waste*	54
8	8	*Hazardous Waste*	8
2,289	2,279	*Household Fixed Charge*	2,300
1,100	1,250	*Inert Waste*	1,334
1,733	1,731	*Mont Cuet Waste Site*	1,053
-	94	*Other*	-
-	83	Investment Return	-
11,255	8,570		7,999
		Expenditure	
(517)	(500)	Pay costs	(445)
		Non Pay costs	
(4)	(4)	*Staff Non Pay costs*	(4)
(8,211)	(7,493)	*Support Services*	(7,595)
(332)	(337)	*Premises*	(338)
(2)	(2)	*Transport*	(2)
(2,092)	(1,374)	*Supplies & Services*	(1,433)
(10,641)	(9,210)		(9,372)
97	**(1,140)**	**Operating Surplus / (Deficit) before depreciation**	**(1,818)**
(1,600)	(1,600)	Depreciation	(1,622)
(1,503)	**(2,740)**	**Operating Deficit after depreciation**	**(3,440)**

GUERNSEY WASTE

2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
		Capital Expenditure	
(397)	-	Miscellaneous Capital Works	-
(10)	(10)	IT Projects and Equipment	-
(100)	(100)	Equipment, Machinery and Vehicles	(270)
(507)	**(110)**	**Total Capital Expenditure for the Financial Year**	**(270)**

NOTES:

1. Guernsey Waste was established, from 1 January 2019, as a trading business unit, forming part of the States' Trading Supervisory Board, to carry out operational functions of the Waste Disposal Authority including administering the Solid Waste Trading Account which had a balance of £1.345million at 31 December 2018.

2. The combined success of the new household waste and recycling collections, introduced in 2018, and the new pay as you throw requirement for general refuse, introduced in 2019, has seen a much higher increase in recycling and much lower number of 'black bags' than was originally forecast at this early stage in the new waste strategy. Therefore the Guernsey Waste 2020 budget has been prepared to reflect the current income from sales of the pay as you throw stickers, which is lower than previously anticipated.

   However the Waste Strategy financial model is based on a 20 year timeframe, for which increased recycling and decreasing general waste is forecast over the medium term. The island is essentially "ahead of the curve" compared to what was anticipated immediately post-implementation. Ongoing analysis of the different waste streams, along with potential cost benefits from declining waste volumes, will result in an evolving price strategy to ensure the strategy breaks even over the full 20 years. Key pricing decisions are expected in 2020 that will be reflected in the 2021 budget.

   The Policy & Resources Committee has agreed in principle to make an overdraft facility of £2.5million available to Guernsey Waste until the end of 2020, with substantive approval being subject to the States' Trading Supervisory Board demonstrating that it is putting in place appropriate measures to ensure that the Waste Strategy breaks even over its twenty year life.

STATES WORKS

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Income by Service Area	
			Income	
1,387	1,406	1,386	Engineering	1,441
3,190	2,952	3,027	Highways	3,102
2,086	2,040	2,060	Land Management	2,112
2,585	2,617	2,618	Sewage Collection	2,683
1,138	1,198	1,182	Stores, Fleet and Garage	1,329
4,782	2,979	3,269	Waste Management Services	3,623
-	3,059	2,838	Household Waste Recycling Centre and Waste Transfer Station	2,982
438	343	344	Other	312
15,606	16,594	16,724		17,584
			Expenditure	
			Management Expenses	
(748)	(693)	(699)	Administration expenses	(716)
(1,741)	(2,031)	(1,906)	Salaries, wages and superannuation	(2,114)
			Operating Expenses	
(6,603)	(6,316)	(6,448)	Labour	(6,884)
(3,950)	(4,688)	(4,899)	Materials	(4,721)
(469)	(422)	(392)	Transport and plant	(401)
(220)	(248)	(210)	Building maintenance	(216)
(13,731)	(14,398)	(14,554)		(15,052)
1,875	2,196	2,170	**Operating Surplus Before Depreciation**	2,532
(1,227)	(1,580)	(1,467)	Depreciation	(1,654)
115	-	-	Gain on Disposal of Fixed Assets	-
30	-	-	Fair Value Movement on Investment Property	-
793	616	703	**Operating Surplus for the Year**	878
(75)	-	157	Net Interest (Payable)/Receivable	-
718	**616**	**860**	**Surplus for the Year**	**878**

STATES WORKS

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Capital Expenditure	
(21)	(191)	(103)	Office Equipment	(238)
-	-	(100)	Site Developments	(290)
(1,575)	(1,800)	(1,672)	Vehicles, Plant, Tools and Equipment	(2,390)
(1,596)	**(1,991)**	**(1,875)**	**Total Capital Expenditure for the Year**	**(2,918)**

GUERNSEY DAIRY

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			<u>Net Income by Service Area</u>	
			Sales	
1,877	1,967	2,043	*Dairy products*	2,163
6,305	6,714	6,599	*Liquid milk*	6,805
16	28	23	Sundry Income	23
8,198	8,709	8,665	**Total Income**	8,991
			Cost of Sales	
(33)	(41)	(46)	*Dairy product ingredients*	(42)
(4,553)	(4,717)	(4,777)	*Milk*	(4,759)
(112)	(100)	(118)	*Milk working loss*	(110)
(96)	(84)	(93)	*Freight*	(99)
(663)	(591)	(654)	*Packaging materials*	(658)
(957)	(942)	(907)	*Production wages*	(942)
(6,414)	(6,475)	(6,595)		(6,610)
			Expenses	
(39)	(70)	(65)	*Advertising and promotion*	(44)
(52)	(62)	(47)	*Cleaning materials*	(47)
(348)	(298)	(323)	*Fuel, light, power, water and rates*	(330)
(62)	(52)	(58)	*General administration costs*	(58)
(97)	(92)	(100)	*Laboratory expenses*	(100)
(32)	(25)	(32)	*Motor vehicle expenses*	(32)
(67)	(48)	(62)	*Other expenses*	(62)
(342)	(409)	(369)	*Professional fees*	(396)
(274)	(170)	(250)	*Repairs, maintenance and insurance*	(251)
(606)	(586)	(653)	*Salaries and wages*	(700)
(1,919)	(1,812)	(1,959)		(2,020)
(8,333)	(8,287)	(8,554)	**Total Expenditure**	(8,630)
(135)	422	111	**Operating Surplus / (Deficit) Before Depreciation and Interest**	361
(314)	(371)	(275)	Depreciation	(314)
(449)	51	(164)	**Operating Surplus / (Deficit) for the Year**	47
(37)	(36)	19	Net Interest (Payable)/Receivable	(32)
(486)	**15**	**(145)**	**Surplus / (Deficit) for the Year**	**15**

GUERNSEY DAIRY

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Capital Expenditure	
-	-	(1,000)	Miscellaneous Capital Works	-
-	(50)	-	IT Projects and Equipment	-
(299)	(1,750)	(316)	Equipment, Machinery and Vehicles	(852)
(299)	**(1,800)**	**(1,316)**	**Total Capital Expenditure for the Year**	**(852)**

CORPORATE HOUSING PROGRAMME FUND

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Income and Expenditure by Category	
			Income	
152	-	-	Sale of Incompatible Housing Stock	-
152	-	-	**Total Income**	-
			Expenditure	
-	-	(28)	Pay Costs	(103)
			Non Pay Costs	
-	-	(2)	*Support Services*	-
(600)	(3,885)	(1,650)	*Premises*	(1,596)
(2,118)	(801)	(10)	*Third Party Payments*	(260)
(2,718)	(4,686)	(1,662)		(1,856)
(2,566)	**(4,686)**	**(1,690)**	**Net (Deficit) for the year**	**(1,959)**
			Net Income / (Expenditure) by Service Area	
152	-	-	Sale of Incompatible Housing Stock	-
(600)	(885)	(500)	Modernisation	(885)
(448)	(885)	(500)		(885)
			Corporate Initiatives & Strategies	
(1,028)	(3,801)	(1,190)	*Social Housing Development Programme*	(1,074)
(1,090)	-	-	*Supported Living*	-
(2,118)	(3,801)	(1,190)		(1,074)
(2,566)	**(4,686)**	**(1,690)**	**Net (Deficit) for the year**	**(1,959)**
27,090	26,506	24,524	Balance of Fund at 1st January	22,834
(2,566)	(4,686)	(1,690)	Net (Deficit) for the year	(1,959)
24,524	**21,820**	**22,834**	**Balance of Fund at 31st December**	**20,875**

GUERNSEY REGISTRY

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Income by Category	
			Income	
10,211	10,199	10,199	Operating Income	10,042
			Expenditure	
(298)	(415)	(415)	Pay costs	(600)
			Non Pay costs	
(1)	(12)	(9)	*Staff Non Pay costs*	(38)
(253)	(387)	(348)	*Support Services*	(324)
(162)	(155)	(162)	*Premises*	(180)
(11)	(30)	(30)	*Supplies & Services*	(25)
(427)	(584)	(549)		(567)
9,486	**9,200**	**9,235**	**Surplus transferred to General Revenue**	**8,875**
			Net Income by Service Area	
			Company Registry	
10,041	10,037	10,037	Income	9,945
(714)	(955)	(933)	Expenditure	(1,154)
9,327	9,082	9,104		8,791
			Intellectual Property Office	
170	162	162	Income	97
(11)	(44)	(31)	Expenditure	(13)
159	118	131		84
9,486	**9,200**	**9,235**	**Surplus transferred to General Revenue**	**8,875**

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s	Net Expenditure by Category	2020 Budget £'000s
			Pay costs	
269	595	312	*Established Staff*	825
269	595	312		825
			Non Pay costs	
22	50	7	*Staff Non Pay costs*	50
108	18	5	*Support Services*	17
9	215	199	*Supplies & Services*	221
139	283	211		288
408	**878**	**523**	**Total Expenditure by Category**	**1,113**

SUPERANNUATION FUND ADMINISTRATION

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Expenditure by Category	
			Pay costs	
369	419	397	*Established Staff*	390
369	419	397		390
			Non Pay costs	
333	240	327	*Consultants Fees*	435
88	86	117	*Support Services*	91
421	326	444		526
790	**745**	**841**	**Total Expenditure by Category**	**916**
			Capital Expenditure	
-	53	33	ICT System	63
-	**53**	**33**	**Routine Capital Expenditure**	**63**

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY
CONTRIBUTORY FUNDS

2018 Actual £'000s	2019 Original Budget £'000s	2019 Probable Outturn £'000s		2020 Budget £'000s
			Net Income / (Expenditure) by Category	
			Income	
178,826	184,500	183,730	*Contribution Income*	188,139
16,135	16,643	16,643	*States Grants*	17,151
194,961	201,143	200,373		205,290
			Benefit Expenditure	
(144,918)	(149,486)	(149,766)	*Social Insurance*	(154,319)
(42,188)	(42,389)	(43,833)	*Health Insurance*	(46,223)
(19,632)	(20,600)	(20,410)	*Long-term Care Insurance*	(21,290)
(206,738)	(212,475)	(214,009)		(221,832)
			Administration	
(3,784)	(4,145)	(4,145)	*Pay Costs*	(3,845)
(12)	(20)	(20)	*Staff Non Pay costs*	(23)
(2,497)	(2,711)	(2,673)	*Support Services*	(2,836)
(57)	(39)	(75)	*Premises*	(75)
(2)	(1)	(2)	*Transport*	(2)
(111)	(159)	(159)	*Supplies & Services*	(124)
(6,463)	(7,075)	(7,074)		(6,905)
(78)	(120)	(120)	Depreciation	(120)
(18,318)	**(18,527)**	**(20,830)**	**Operating Deficit Before Investing Activities**	**(23,567)**
			Net Income / (Expenditure) by Service Area	
(23,630)	(24,759)	(25,575)	Guernsey Insurance Fund	(26,682)
(2,786)	(1,788)	(3,378)	Guernsey Health Service Fund	(4,776)
8,098	8,020	8,123	Long-term Care Insurance Fund	7,891
(18,318)	**(18,527)**	**(20,830)**	**Operating Deficit Before Investing Activities**	**(23,567)**
			Routine Capital Expenditure	
(146)	(180)	(90)	Miscellaneous Capital Works	(285)
(10)	(280)	(240)	Equipment, Machinery and Vehicles	(77)
(456)	(350)	(1,100)	IT Projects and Equipment	(350)
(612)	**(810)**	**(1,430)**	**Net Routine Capital Expenditure**	**(712)**

THE LADIES' COLLEGE (Senior School)

2017/2018 Actual £'000s	2018/2019 Original Budget £'000s		2019/2020 Budget £'000s
		Net Income by Category	
		Income	
2,516	2,608	Fees	2,920
40	24	Miscellaneous Income	32
1,865	1,821	States Grant	1,621
4,421	4,453		4,573
		Expenditure	
9	8	Art	9
10	8	Audit Fee	6
92	121	Books and Stationery	115
213	248	Depreciation	278
46	50	Examination Fees	51
50	79	Fixed Asset Acquisition Costs	100
53	61	General Administrative Expenses	106
18	17	Laboratory and Design and Technology Expenses	16
112	184	Maintenance of Buildings, Grounds and Equipment	184
17	22	Marketing and Development Expenses	22
20	25	Rates, Taxes and Insurance	25
37	36	Recruitment and Relocation	36
3,256	3,402	Salaries and Wages	3,485
31	43	Sports, conferences, field trips etc.	43
12	20	Staff training	20
88	87	Utilities	90
4,064	4,411		4,586
357	42	**Revenue Surplus / (Deficit) for the year**	(13)
88	50	Fundraising donations received	50
(56)	(46)	Bank Interest payable	(61)
3,654	3,939	Balance b/f from previous year	4,120
4,043	**3,985**	**Balance c/f to next year**	**4,096**