



BILLET D'ÉTAT

XII
2008

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B I L L E T D ' É T A T

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY, the 24th SEPTEMBER, 2008**, at 9.30am, to consider the items contained in this Billet d'État which have been submitted for debate by the Policy Council.

G. R. ROWLAND
Bailiff and Presiding Officer

The Royal Court House
Guernsey
5 September 2008

**THE HOUSE COMMITTEE
(TRANSFER OF FUNCTIONS) ORDINANCE, 2008**

The States are asked to decide:-

I.- Whether they are of the opinion to approve the draft Ordinance entitled “The House Committee (Transfer of Functions) Ordinance, 2008” and to direct that the same shall have effect as an Ordinance of the States.

**THE FORFEITURE OF MONEY, ETC IN CIVIL PROCEEDINGS
(BAILIWICK OF GUERNSEY) LAW, 2007
(COMMENCEMENT) ORDINANCE, 2008**

The States are asked to decide:-

II.- Whether they are of the opinion to approve the draft Ordinance entitled “The Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 (Commencement) Ordinance, 2008” and to direct that the same shall have effect as an Ordinance of the States.

GUILLE-ALLÈS LIBRARY COUNCIL

NEW MEMBER

The States are asked:-

III.- To elect a sitting member of the States as a member of the Guille-Allès Library Council to fill the unexpired portion of the term of office of Deputy A H Adam, who has ceased to be a member of the Education Department, namely to serve until 31st May, 2009.

(NB Only a sitting member of the States who is also a member of the Education Department is eligible for election.)

LEGISLATION SELECT COMMITTEE

ELECTION OF NON-VOTING MEMBER

The States are asked:-

IV.- To elect as a non-voting member of the Legislation Select Committee, Advocate Simon William Francis Howitt, who has been nominated in that behalf by that Committee, to serve until May 2012 in accordance with Rule 5 (1) (c) of the Constitution and Operation of States Departments and Committees.

(NB The Legislation Select Committee has provided the following profile of Advocate Howitt:

Simon Howitt was called to the English Bar in 1987 and the Guernsey Bar in 1988. He is a partner of Babbé Advocates specialising in property and financial services, including trusts, banking and general company and commercial matters. He is a member of the Council of the Chamber of Commerce and the States of Guernsey Inheritance Law Review Committee and served as a non-voting member of the Legislation Select Committee from 2004-2008. He is also a trustee of the Lihou Charitable Trust and assistant-secretary to the Rotary Club of Guernsey.)

POLICY COUNCIL

BETHANIE CHAPEL

Executive Summary

This States Report seeks States approval for the preparation of legislation vesting the premises of Bethanie Chapel in Bethanie Properties LBG, and including provision should the Chapel cease to be used by ‘Particular or Calvinist Baptists’.

Report

HM Procureur has recently written to the Policy Council in the following terms:-

“By a Conveyance registered on 12th May 1827, Thomas Nant and Marie Nant (née Le Tissier), his wife, transferred to certain *sequestres*, i.e. trustees, premises at La Fosse, St Martins on which there was, and remains, erected Bethanie Chapel. The premises thus transferred were directed to be exclusively held as and for the worship and use of the Church of Dissident (or Dissenting) Protestants called ‘Particular or Calvinistic Baptists’, and not for the use of any other faith, and the premises remain so used and occupied to this day. One condition of the transfer was that if the premises could not be used for those purposes, because of a want of a pastor or for financial reasons, they should be sold and the proceeds applied for the use and benefit of the ‘Particular or Calvinistic Baptists’, as decided by the members i.e. congregation, and no sale of the premises could occur without the consent of the members (i.e. the *sequestres* could not themselves alone sell the premises). I attach a translation of the original 1827 transfer¹.

The original conditions of the transfer required that there should always be eight *sequestres*, and as the original *sequestres* died or ceased to act as such, they were replaced by the members’ appointees; and those replacements took title to the premises on the original terms and conditions as to the use etc. by documentation registered in the ordinary way at the Greffe. However, the last such document recording a change of *sequestres* was registered as long ago as 8th August 1947, whereafter the *sequestres* therein named have died or ceased to act as such without their having been formally replaced or there having being prepared and registered appropriate documentation. Title to the premises now vests in the heirs of the last registered *sequestres*, unless and until title is regularised – either by procuring those heirs to execute and register documentation recording the appointment of eight new *sequestres*, or legislation is enacted.

In August 2007 I was informed by Advocates Collas Day acting for the current

¹ The translation is attached as an appendix to this States Report

members of Bethanie Chapel of the difficulties that had arisen as a result of there being no living *sequestres* of the premises, and requested whether I would support the promotion of legislation regularising the position. I replied affirmatively. Premising the members' request is the undoubted fact that the heirs of the last registered *sequestres* may be difficult to identify and locate, and the expense and inconvenience of so doing, and of dealing with title issues, even if it were possible, would be disproportionate to the benefit and convenience of regularising title to the premises by the means proposed below i.e. legislation.

Accordingly, it is proposed that the premises of Bethanie Chapel should be vested by legislation - a *Projet de Loi* sanctioned by an Order in Council - in a charitable Guernsey company limited by guarantee promoted by the members, to be called Bethanie Properties LBG, it being agreed by the members that corporate ownership would be the most satisfactory way of avoiding the inconvenience attendant on the preparation and registration of documentation reflective of inevitable future successive changes of *sequestres*. The company would hold the premises on identical terms and conditions *mutatis mutandis*, to those of the original and subsequent *sequestres*, but extended to cover any failure of the membership to direct the application of the proceeds of sale if the premises were sold: i.e. not just because of a want of a pastor or for financial reasons: e.g. a want of members.

On 22nd April 2008, at a meeting of a majority of the members of Bethanie Chapel duly convened and held, the incorporation of Bethanie Properties LBG was approved to hold the premises pursuant to the aforementioned legislation. The draft memorandum and articles i.e. constitution of the proposed company have been considered and approved by the members.

In my opinion, the only substantial matter of concern to the States is the vesting of the premises on and subject to the same terms and conditions of the 1827 transfer, *mutatis mutandis*, save that the possibility of any failure by the members (including there being no members) to direct the destination of the proceeds of sale should be covered: as to which see below. In no circumstances would the then remaining members, if any, personally benefit from the proceeds of sale: these should always remain available for Baptist religious purposes.

Importantly, any subsisting and enforceable rentes, rights, obligations and servitudes in respect of the premises would remain unaffected by the proposed transfer, and furthermore any subsisting personal liabilities of the present owners, being the heirs of the last *sequestres*, would be extinguished but would be enforceable as against Bethanie Properties LBG as the new owner.

I should mention that there are a number of precedents for legislative action to correct title in respect of church or chapel premises, the most recent of which relates to Notre Dame Church and Presbytery: see Article 1 of *Billet d'Etat* No XIV of 2005, at page 1390 *et seq.*

Accordingly, I recommend to the Policy Council that approval of the States be sought to the preparation of legislation vesting the premises of Bethanie Chapel in Bethanie Properties LBG, as set out in this letter, and that if that particular faith cannot be carried on there for any reason, the premises should be sold and the proceeds used for the benefit of ‘Particular or Calvinistic Baptists’ as determined by the members i.e. the congregation, for the time being, or – and this was not covered in the original transfer - in default of any such determination, as the Baptist Union of Great Britain, or its successor, should determine.”

The Policy Council has accepted HM Procureur’s recommendation that legislation be prepared vesting the premises of Bethanie Chapel in Bethanie Properties LBG, and including provision should the Chapel cease to be used by ‘Particular or Calvinist Baptists’.

Recommendation

The Policy Council recommends the States that legislation be enacted as set out in this Report

B M Flouquet
Deputy Chief Minister

11th August 2008

Appendix

**LOOSE TRANSLATION OF 1827 CONVEYANCE OF
BETHANIE CHAPEL, LA FOSSE, ST MARTIN**

ON the 12th May 1827 before the undersigned Bailiff and Jurats of the Royal Court of Guernsey, have personally appeared Thomas Nant, son of Eléazar, of the parish of St Peter Port and Marie Le Tissier, his wife, who of their own free will and accord have conveyed for themselves and their heirs for an estate of inheritance to Matthieu De Putron, Jean Le Clerc, Thomas Le Messurier, Samuel Le Page, Pierre Du Chemin, Jean Brehaut, Jean Queripel and to the said Thomas Nant, present and accepting for themselves as Séquestres and for their successor Séquestres on the terms and conditions recited below forever. TO WIT a chapel and adjoining land situate at La Contrée de la Fosse in the parish of St Martin. Lying to the south or thereabouts of a house belonging to Jean Le Ray; to the west or thereabouts of a field belonging to the said Le Ray; to the north or thereabouts of a house and workshop belonging to Jacob Du Putron; and to the east or thereabouts of a garden belonging to James De Lisle, the road between - which chapel will be appropriated in perpetuity to the worship and use of the Church of Dissident Protestants called in English "**Particular or Calvinistic Baptists**" in actual occupation of the said chapel and their successor members of the said church and not for the use of other religious groups and on condition that the said Séquestres or their successor Séquestres can only sell or otherwise dispose of it as is mentioned below and that the said Séquestres, their successors or their heirs, cannot claim or reclaim in any manner whatsoever nor ever prevent the said chapel from being used for the worship and everything which is relevant to the economy and discipline of the said church; but on condition that nothing can be claimed from them for the payment of rente due on the said chapel and land or for the maintenance of the said chapel land and appurtenances or otherwise, the said church being solely liable. And in the event that the worship is not practised in the said chapel for the lack of a competent priest duly recognised or for the lack of necessary funds, the said chapel and land will be sold or otherwise disposed of by the said Séquestres for the time being and the proceeds duly applied for the use and benefit of dissident protestants called Particular or Calvinistic Baptists in accordance with what is then decided by the Antipaedo Baptist members of the said church for the time being, but which sale or other disposal can only be made on condition that the said Séquestres or their successors obtain the previous unanimous consent of the Antipaedo Baptist members of the said church for the time being at a meeting duly assembled for that purpose.

AND it is agreed that on the death of each of the said Séquestres the survivors will choose another in his place and in the same way on the death of their successors forever in order that there are always eight Séquestres. THE said conveyance comprises all right title and interest in the premises hereby conveyed vested in the said vendors. MADE in consideration of the sum of seven quarters three bushels of wheat rente for which sum the said vendors have sold and completely conveyed from themselves and their heirs for estate of inheritance to the said Séquestres accepting on the above stated

conditions forever: that is the sum of seven quarters of wheat rente. THE said sale made for the sum of Two Thousand One Hundred livres tournois for which sum the vendors acknowledge having been fully paid by the said church and consequently the said rente remains redeemed forever. And as for three bushels of wheat rente remaining which are payable to Jean du Putron, the said du Putron undertakes to receive them from the said church on 10 October next and annually thereafter so that the said Séquestres or the said vendors are not in any way liable and to rely on the guarantee due on the said chapel and land only reserving to himself however the right in default of payment to take action against the said Séquestres for the time being in order to seize the said chapel and land which actions will be taken against them. AND the said vendors covenant to guarantee the said conveyance and the said sale and redemption and indemnify against all other rentes except cheffrentes and seigneurial rights on the obligation of all their real and personal property present and future and that of their heirs. AND the said Séquestres shall have enjoyment of the premises from this day. AND the said wife declared on oath to have done what is stated above of her free and frank will without having been forced or constrained by her said husband and has promised never to act contrarily on pain of perjury. AND a congé from Jean Carey Esq Receiver General is produced to make the said conveyance free of trézième the said chapel and land being on fief Le Roi.

(NB The Treasury and Resources Department has no comment on the proposals.)

The States are asked to decide:-

V.- Whether, after consideration of the Report dated 11th August, 2008, of the Policy Council, they are of the opinion:-

1. That legislation be enacted as set out in that Report.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

TREASURY AND RESOURCES DEPARTMENT

A. THE ADMINISTRATION OF INCOME TAX B. CAPITAL EXPENDITURE – ANNUAL AND INITIAL ALLOWANCES

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

2nd July 2008

Dear Sir

1. **Executive Summary**

- A.** The Income Tax Office is responsible for collecting more than 80% of the Island's revenue annually.

As a consequence of the importance of its work to the financial well-being of the Island, the Administrator has carried out a review of those sections of The Income Tax (Guernsey) Law, 1975, as amended, ("the Law"), the main purposes of which are the assessment, collection, enforcement and general administration of income tax, with a view to making these processes more efficient and to clarify those sections that, by experience, have proven not to be wholly clear or where interpretation has been a matter of dispute.

The Administrator's findings and the recommendations of the Treasury and Resources Department ("the Department") are contained in this report.

The opportunity is also being taken to include, in this part of the Report, some minor matters, one relating to the exemption from tax of bereavement payments made by the Social Security Department, and the other to make some consequential amendments following a recent change to the Law, relating to the due dates for payment of tax.

- B.** There is a prohibition in the Law against any deduction for capital expenditure – for example money spent on acquiring buildings, cars, etc. Thus when determining a trader's profits for tax purposes, any depreciation deducted in his trading accounts in respect of capital assets (for example, fixtures and fittings, motor vehicles, buildings and the like) is always disallowed. In its place an annual allowance or an initial allowance may be granted.

The present rules for the granting of such allowances are contained in the Law but they are both rigid and complex.

The 2005 Budget Report (paragraphs 5.29 et seq at page 23) referred to the ongoing simplification of the income tax system. In particular it was indicated that the capital allowances regime would be updated “*to ensure that it is flexible, operated proactively and able to react to prevailing economic conditions and, where necessary, enable specific industries to be given encouragement*”.

The proposals contained in this Report seek to continue the simplification process.

2. **Detailed Proposals**

A. (1) **Notices**

- (a) Section 73 of the Law provides that a notice containing the particulars of an assessment made by the Administrator, is to be sent by post to the person concerned.

In exceptional circumstances, it would be more appropriate, in the interests of efficient tax administration/collection, for a notice of assessment, or any other similar document issued by the Administrator (e.g. a penalty order), to be served by hand, by facsimile or by e-mail, and the Department recommends that the Law be amended to facilitate this. Such an amendment would have the added advantage of facilitating any decision to move to a system of electronic assessment, in the future (which has already been earmarked for investigation, by the Administrator, following the recent introduction of a system for the electronic filing of income tax returns).

(In the case of service by hand, facsimile or e-mail, it is proposed that the Law would provide that certification, by the person making service, would be deemed as proof that service had been duly effected.)

- (b) From time to time it is claimed that a notice of assessment did not arrive at the address to which it was sent. There have been occasions on which the person assessed has claimed that, as he has not received the notice, the assessment should then be invalid.

The Administrator believes that, under the Law as it presently stands, the assessment is still valid in such circumstances but that if the notice was not actually received by the person being assessed then this may constitute a reasonable excuse for not appealing against the assessment within the time allowed by Law. If the appellate bodies (i.e. the Guernsey Tax Tribunal or the

Department) concurred then the taxpayer's late appeal would be admitted.

To avoid doubt, the Department proposes that the Law be amended to make it clear that if a notice does not reach the person assessed, this does not invalidate the assessment.

The Department also proposes that similar revisions should be made to other parts of the Law, to make it clear that other notices, orders, directions or notifications, issued by the Administrator, are not invalidated if not received by the addressee.

- (c) Section 73 of the Law provides that a notice must be sent to the person concerned at his usual or last known place of residence or, in the case of a company, at its principal place of business.

From time to time the Administrator may wish to issue an assessment but be uncertain what address constitutes a person's usual place of residence or what is a company's principal place of business.

In such cases it may be that there is another address that the individual or company being assessed has a connection with and to which, in the opinion of the Administrator, it would be appropriate to send the notice. (An example may be a company registered in another territory which owns a house in Guernsey, or uses a PO Box, or an individual who operates out of premises in the island.)

The Department believes that, in such cases, and if he feels it appropriate to do so, the Administrator should be able to send a notice, (or any orders, directions or notifications) in the name of that individual or company, to the address with which they are connected. The Department recommends that the Law be amended to facilitate this.

- (d) There are occasions when, due to clerical errors or misunderstandings, documents may be issued, by the Administrator, with slightly incorrect names, addresses, descriptions of income etc., and it is sometimes claimed that such errors or mistakes should invalidate the document even though the tax, penalty, etc charged is correct and due or the purpose of the document is otherwise clear.

As the Law is presently silent on this issue, whether or not an error or mistake invalidated any particular document would be a matter for the Courts to decide.

The Department believes it appropriate, however, for the Law to be amended in order to make it clear that an assessment, a penalty

order or other notice, direction or order which may be issued to any person by the Administrator, under the Law, shall not be invalidated by reason of an error, defect or omission if, in substance, it is correct and conforms with, or is according to the purposes of, the Law.

(2) **Agents**

Section 48 of the Law sets down the responsibilities of agents in relation to the collection of tax in respect of payments of income to non-residents. From time to time the question arises as to the meaning of “agent” for these purposes (as the word is presently defined in the Law) and, specifically, whether “agent” properly includes payments made directly by persons resident in Guernsey on their own behalf to non-residents (e.g. rental payments made directly by a tenant to a non-resident landlord) rather than situations where the agent is purely a conduit for payments by some other person pursuant to an agency agreement (e.g. where the tenant pays a property agent who then remits the rent to the non-resident). It has always been the Administrator’s view that the definition of “agent” covers both such situations. The Department proposes, however, that section 48 should be expanded to put it beyond doubt that a person making payments, on his own behalf, to a non-resident, as described above, would have the same responsibilities, for tax purposes, as a person acting in a “purely” agency capacity.

One practical difficulty with section 48 is that it presupposes that there is a person who is resident in Guernsey making a payment to a non-resident from which the tax can be deducted. Section 48 would not apply if the person making the payment (for example, a tenant of a Guernsey property) arranged his affairs so that he is merely an occupier and so never actually makes payment to the non-resident entitled to the income. For example, a Guernsey property may be owned by Mr A, resident in England. The lease on the property is held by Company X, a Jersey based company, which operates a branch of its business from the Guernsey property. Company X makes payment to Mr A direct from its Jersey based business bank account. As a consequence, because there is no person resident in Guernsey making payment to Mr A, the provisions of section 48 would not apply, and difficulties may arise in collection of the tax due from the non-resident.

In order to protect the public purse, the Department proposes that where there is no Guernsey resident agent, the Administrator may, by notice to the occupant of a Guernsey property, direct him to account for the tax due direct to the Administrator, irrespective of whether the rent in respect of which the tax is due actually passes through his hands. The Department also proposes that where the Guernsey occupant pays the tax due, that amount would be recoverable by the occupant, from the non-resident, as a civil debt and that amount would not then be recoverable,

by the Administrator, from the non-resident. These provisions would be very similar to equivalent collection regimes already provided for in the Law under sections 81A(7) (in relation to tax due under the Employees Tax Instalment (“ETI”) Scheme) and 81B(9) (in relation to tax which a company is required to account for on behalf of distributions and deemed distributions to its beneficial members).

This proposal is limited to income arising from the ownership of lands and buildings.

(3) **ETI Exemption Certificates**

Under section 81A of the Law, a person who makes payment to a person who provides manual labour performed, wholly or in part, by someone else can avoid the deduction of tax under the ETI Scheme if the payee has been granted an ETI Exemption Certificate by the Administrator.

The purpose of introducing the ETI Exemption Certificate (commonly known as a “gold card”) was to reduce tax evasion and avoidance, principally in the construction industry.

The administration of the “gold card” scheme has a resource cost, yet there is currently no charge levied for an application for, and the granting of, an ETI Exemption Certificate or the renewal of a previously granted Certificate.

The Department considers it appropriate to introduce provisions which provide, by Regulations, for the levying of fees when granting or renewing Certificates.

The Department proposes that such Regulations would impose the following fees:

- Initial application: £50
- Renewal application, after the expiry of a previously granted certificate: £50
- Application for renewal before expiry of a previously granted certificate: £25.

The appropriate Regulations will in due course be laid before the States for approval.

(4) **Expenditure involving crime**

As part of the evaluation of the island’s level of compliance with the OECD Bribery of Public Officials Convention (which evaluation included the United Kingdom, the other Crown Dependencies and

overseas territories) it was highlighted that the Law contained no, explicit, restriction on the claiming of a deduction for corrupt payments when computing business profits for tax purposes.

The Department proposes that the Law be revised to make it clear that, in computing business profits, no deduction will be allowed in respect of a payment, the making of which constitutes a criminal offence in Guernsey (or would, if made elsewhere, constitute a criminal offence if it had been made in Guernsey) and this would include a payment induced by blackmail or a payment made for a corrupt purpose.

It is also proposed that a similar restriction be placed on any such payment made which is claimed as an expense of management of an investment company.

(5) **Oath of Secrecy**

Under section 206 of the Law, an oath has to be taken by every person who is a member of Treasury and Resources Department, a Member of the Guernsey Tax Tribunal, the Clerk to the Tribunal, the Administrator and Assistant Administrator (all of which have to be dealt with before the Royal Court sitting as an Ordinary Court) and also persons who are employed as Income Tax Office staff, or who are requested to perform any task in the course of which they may obtain access to income tax records (such as States auditors), all of which have to be dealt with by a Member of Treasury and Resources Department.

In recent years, it has become more common for persons who are required to take the oath (because they are going to be engaged to carry out services for the Income Tax Office, such as computer related projects) to be based outside of the island and for whom a visit to the island, simply for the purpose of taking the oath, is often inconvenient, costly and not an efficient use of their time.

The same applies in relation to persons working for the States of Alderney who, from time to time, have to take the Oath of Secrecy because they will be dealing with income tax matters in that island.

In addition, even for those persons required to take the oath who are based in Guernsey, from time to time there can be difficulties in arranging for a Member of the Department to be available on the day that a new employee joins the Department.

In order to alleviate these inconveniences, the Department proposes that the Law be changed to allow an oath, in relation to members of Income Tax Office staff, auditors and consultants, etc, to be sworn before the Administrator, rather than a Member of the Department, if it is considered expedient to do so.

Furthermore, the Department proposes that where the person due to take the Oath is not based on the island, the Administrator may, at his discretion, permit that person to sign a written declaration that contains the words of the oath instead of swearing the oath.

Under the present Law, there is a requirement that where an oath is given before a Member of the Department, an entry is made in the minutes of the Department and also a copy of the oath is provided to HM Greffier. The Department proposes that where an oath is taken before the Administrator, or where a written declaration is given in place of an oath, the Administrator would make a note that this had occurred (in place of the entry in the Department's minutes) and the Administrator would provide a copy to HM Greffier.

The form of the oath to be administered is laid down by Ordinance, the current in force being The Income Tax (Forms of Oath) Ordinance 1992, which provides only that an oath must be sworn (i.e. using the expression "... upon the faith and truth that you owe to God ..."). There are occasions, however, when a person required to take an oath prefers to do so by affirmation (i.e. by promising not to divulge information, rather than swearing not to do so) and, although HM Procureur has advised the Administrator that the Law could be interpreted so as to provide for an affirmation, in such circumstances, the Department proposes that the Law and the Ordinance be revised to put it beyond doubt that an affirmation is, and always has been, valid for the purposes of section 206.

(6) **Bereavement Payments**

Section 27 of the Law exempts from income tax a number of payments made under Social Insurance legislation – for example, sickness benefit, invalidity benefit, death grants, industrial injury, disablement and medical benefits. The Department feels it is appropriate for bereavement payments made under the Social Insurance (Guernsey) (Amendment) Law 2003 to be included as a benefit exempt from income tax.

(7) **Due dates for payment of tax**

When the legislation was prepared for the introduction of Surcharges and Supplements (the Income Tax (Surcharges and Supplements) (Guernsey) (Amendment) Law, 2005 ("the 2005 Law")) the opportunity was taken to regularise the payment of tax and penalties so that the payer always had 30 days in which to pay the amount due (prior to the change there were various periods provided for in the Law – principally 21 days or 30 days).

The principal section which establishes the dates on which tax is due is section 81 of the Law.

Prior to the 2005 Law, subsection (1)(a) of section 81 provided that the first instalment for a year of charge was due on or before 30th June but where the relevant assessment was issued on or after the 10th June (i.e. 21 days or less before the due date) then the tax arising on that assessment was payable 21 days from the date of the assessment. This provision was to ensure that in relation to tax charged in an assessment, taxpayers always had at least 21 days from the date the assessment was issued before the tax had to be paid.

(There was a similar provision in subsection (1)(b) where, in relation to the second instalment, an assessment was issued after 10th December.)

Regrettably, when the legislation was amended to revise section 81 from “21 days” to “30 days”, a similar amendment was not made to revise “tenth day of June” to “first day of June” (and “tenth day of December” to “first day of December”).

As a consequence, an assessment issued, for example, between 1st and 9th June would, in effect, still have a due date of 30th June, which was not intended.

It is proposed, therefore, that the legislation be revised so that section 81 reflects the intended position, i.e. that taxpayers should always have at least 30 days from the date of issue of an assessment before payment was due.

(8) **Title of Administrator**

Under the Law, the care and management of income tax lies with the Administrator. Up until 2004, responsibility for general direction and control of the Administrator lay with the Income Tax Authority.

Since 2004, general direction and control has been with Treasury and Resources Department.

The title of “Administrator” is not reflective of the changes in the responsibilities of the post-holder, which have occurred since the post was created by the Income Tax Law of 1920, nor of the fact that the Income Tax Office has adopted some of the most efficient and modern working practices. Furthermore, the management structure of Treasury and Resources is based on the division of the Department into a number of sections, which are managed by “Directors”, who report to the Chief Officer. In order to clearly identify the Income Tax Office as part of Treasury and Resources and emphasise its modern approach to the way that it discharges its statutory role, the Department proposes that the

titles of “Administrator of Income Tax” and “Assistant Administrator of Income Tax” be amended to “Director of Income Tax” and “Deputy Director of Income Tax” respectively.

B. Capital Allowances

(1) The present position

Annual allowances may be claimed in respect of machinery and plant, buildings or glasshouses which belong to the person carrying on the business and are in use in the business at the end of the relevant period for tax purposes. These allowances are calculated by reference to a percentage of the expenditure incurred (the amount to be granted being dependent on the type of asset involved) and are generally given over the anticipated life of the asset. The following example demonstrates this, based on the general annual allowance rate of 20%:

	£	Tax Value of Relief at 20% £
Cost of asset	10,000	
Annual Allowance year 1	<u>2,000</u>	(400)
Balance carried forward	8,000	
Annual Allowance year 2	<u>1,600</u>	(320)
Balance carried forward	6,400	
Annual Allowance year 3	<u>1,280</u>	(256)
Balance carried forward	5,120	

Another type of allowance, known as an *initial* allowance (which is a “once and for all” investment allowance) may be claimed in respect of certain expenditure on glasshouses, ships, aircraft, and investment in hotel business. An initial allowance is at a higher rate than an annual allowance on the same asset, the effect of which is to accelerate the writing-off process, for example the *annual* allowance rate for hotel buildings is 1.25%, whereas for *initial* allowances it is 30%. The following example demonstrates this:

	£	Tax Value of Relief at 20% £
Qualifying expenditure incurred		600,000
Initial allowance year 1 at 30%	<u>180,000</u>	<u>180,000</u>
	(36,000)	
		420,000

In the case of an hotel, no further allowances would be due.

Some of the anomalies/complexities of the present system may be summarised as follows:

- annual allowances are available to *owners* of all qualifying assets; however
- annual allowances are available to *lessors* only of plant and machinery and glasshouses, but not buildings;
- initial allowances are available in respect of hotel buildings, whether they are *owned* or *leased* by the person running the business; but
- initial allowances in respect of qualifying buildings other than hotels are only available if the premises are *owned*;
- expenditure on improvements to existing qualifying buildings, or the erection of new qualifying buildings (other than hotels) on land belonging to someone else would not qualify for relief; and
- improvements to leasehold premises by a lessee would not qualify for relief unless that lessee was an hotelier.

(2) Reason to Change

A number of representations have been made over the years by organisations such as the Guernsey Society of Chartered & Certified Accountants, the Chamber of Commerce and the Guernsey Hotel & Tourism Association, who have contended that:

- expenditure on all leasehold improvements should qualify for tax relief;
- relief should be extended to encompass expenditure on all qualifying buildings erected on land which is leased; and
- the rate of tax relief should more accurately reflect the useful life of the asset concerned.

The Department recognises the deficiencies in the current system and acknowledges that:

- Changes need to be made, in particular to the inequitable situation whereby relief for expenditure which is otherwise comparable is dependent on whether the business premises are owned or rented by the proprietor of the business.

- In other jurisdictions, annual allowances or initial allowances may be granted on buildings in use for the purposes of a business according to the contribution that the business may make to the economy. Allowances may also be granted to encourage particular industries.
- Other than the granting of initial allowances for ships, aircraft, glasshouses and investment in hotel business, there is little recognition of the varying demands in different sectors of the economy.
- Whereas section 85 of the Law enables the Department to set the rates of annual allowances, it has no such powers in respect of initial allowances, which currently require a States Resolution in order to effect a change in the rate of the allowance. It is not, therefore, possible for the Department to react to changing circumstances without recourse to the States.

(3) The Remedy

The Department would wish to have the power not only to set the rates of annual allowances but also to introduce and vary the rates of initial allowances where necessary.

The Department would also wish to have the ability to correct anomalies, such as the absence of income tax relief on leasehold improvements (see the second bullet point of (1) above) without recourse to the States. In particular, it believes it should be able to make Regulations governing the granting of both annual and initial allowances, and to set the rates of such allowances according to economic demands.

Regulations could only be made pursuant to these proposals with the prior concurrence of the Policy Council.

C. Whilst most of the proposals contained in this Report were under development prior to the States approval of the Government Business Plan (“the GBP”), the Department considers that they are compliant with the principles of the GBP, in that they:

- relate, in paragraph 2A, to revisions to the Law intended, generally, to make it more “administratively efficient to operate” (GBP Priority 2, Level 3);
- redress, in paragraph 2B, a “perceived or real imbalance in the island’s economic base” (GBP Priority 2, Level 2);
- satisfy, in paragraph 2B, the principle of having a tax system “which is able to respond quickly to changing local and international

circumstances” (2nd Key Theme of the Corporate Agenda, which forms part of the GBP); and

- are relevant to the Income Tax Office’s function of “maintaining systems for the assessment and collection of income tax” (one of the Principal Responsibilities contained in the Department’s Operational Plan Summary, which forms part of the GBP).

D. It is intended that, pursuant to section 1 of the Taxes and Duties (Provisional Effect) (Guernsey) Law 1992, a Projet de Loi enacted to implement the proposals contained in part 3 of this Report shall have effect from the date on which it receives States approval as if it were a law sanctioned by Her Majesty in Council and registered on the records of the island of Guernsey.

3. Recommendations

A. The Department recommends the States to agree that legislation is enacted as set out in paragraph 2.A of this Report;

1. To revise the Law to provide that notices of assessment, penalty orders and similar documents issued by the Administrator may be served by hand, facsimile or electronically, as set out in subparagraph (1)(a) .
2. To provide that a notice of assessment, penalty order or other similar document issued by the Administrator is not invalidated notwithstanding that it may not have been received by the person concerned, as set out in subparagraph (1)(b).
- 3 To allow, in appropriate circumstances, for the Administrator to issue notices of assessment, penalty orders and similar documents to an address other than a persons usual or last known place of residence or, in the case of a company, its principal place of business, as set out in subparagraph (1)(c).
4. To provide that notices, directions or orders issued by the Administrator are not invalidated by reason of errors, defects or omissions if, in substance, they are otherwise correct and conform with the Law, as set out in subparagraph (1)(d).
5. To place the same responsibility on a person making a payment, on his own behalf, directly to a non-resident, as would apply to an agency, under the provisions of section 48 of the Law, and to provide a mechanism for the Administrator to serve a notice of liability on the occupant of a Guernsey property, in relation to tax due on rent, irrespective of whether payment of the rent passed through that person’s hands, as set out in subparagraph (2).

6. To provide for charges to be imposed in connection with initial and renewal applications for an Employees Tax Instalment Scheme Exemption Certificate as set out in subparagraph (3).
 7. To prohibit a deduction, for income tax purposes, in respect of payments which would constitute a criminal offence in Guernsey, or would if the payment had been made in Guernsey (including payments induced by blackmail or payments made for corrupt purposes), as set out in subparagraph (4).
 8. To permit the swearing of an Oath of Secrecy, in relation to members of Income Tax Office staff, auditors, consultants etc., to be sworn before the Administrator, if considered expedient to do so or, at the Administrator's discretion, for the oath to be made by written declaration, and to provide for an oath to be taken by affirmation (and, for the avoidance of doubt, to provide that it has always been permissible for an affirmation to be taken) in place of an oath that is sworn, as set out in subparagraph (5).
 9. To exempt from income tax bereavement payments made under the Social Insurance (Guernsey) (Amendment) Law, 2003, as set out in subparagraph (6).
 10. To provide that all taxpayers have at least 30 days from the date of issue of a notice of assessment before payment of tax charged in that assessment becomes due, as set out in subparagraph (7).
 11. To change the titles of "Administrator of Income Tax" and "Assistant Administrator of Income Tax" to "Director of Income Tax" and "Deputy Director of Income Tax" respectively, as set out in subparagraph (8).
- B.** The Department recommends the States to approve, as proposed in paragraph 2.B of this Report, the amendment of Parts IX and X of the Law by the insertion of a section empowering the Department to amend (that is, to modify, add to, repeal and replace) all or any of the provisions of those parts by Regulation. Any Regulation would in the normal way be laid before the States which, under section 203 of the 1975 Law, would have power to resolve to annul them.

Yours faithfully

C N K Parkinson
Minister

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

VI.- Whether, after consideration of the Report dated 2nd July, 2008, of the Treasury and Resources Department, they are of the opinion:-

1. That legislation is enacted as set out in paragraph 2.A of that Report
 - (1) to revise The Income Tax (Guernsey) Law, 1975, as amended, (“the Law”) to provide that notices of assessment, penalty orders and similar documents issued by the Administrator may be served by hand, facsimile or electronically, as set out in subparagraph (1)(a) .
 - (2) to provide that a notice of assessment, penalty order or other similar document issued by the Administrator is not invalidated notwithstanding that it may not have been received by the person concerned, as set out in subparagraph (1)(b).
 - (3) to allow, in appropriate circumstances, for the Administrator to issue notices of assessment, penalty orders and similar documents to an address other than a persons usual or last known place of residence or, in the case of a company, its principal place of business, as set out in subparagraph (1)(c).
 - (4) to provide that notices, directions or orders issued by the Administrator are not invalidated by reason of errors, defects or omissions if, in substance, they are otherwise correct and conform with the Law, as set out in subparagraph (1)(d).
 - (5) to place the same responsibility on a person making a payment, on his own behalf, directly to a non-resident, as would apply to an agency, under the provisions of section 48 of the Law, and to provide a mechanism for the Administrator to serve a notice of liability on the occupant of a Guernsey property, in relation to tax due on rent, irrespective of whether payment of the rent passed through that person’s hands, as set out in subparagraph (2).
 - (6) to provide for charges to be imposed in connection with initial and renewal applications for an Employees Tax Instalment Scheme Exemption Certificate as set out in subparagraph (3).
 - (7) to prohibit a deduction, for income tax purposes, in respect of payments which would constitute a criminal offence in Guernsey, or would if the payment had been made in Guernsey (including payments induced by blackmail or payments made for corrupt purposes), as set out in subparagraph (4).

- (8) to permit the swearing of an Oath of Secrecy, in relation to members of Income Tax Office staff, auditors, consultants etc., to be sworn before the Administrator, if considered expedient to do so or, at the Administrator's discretion, for the oath to be made by written declaration, and to provide for an oath to be taken by affirmation (and, for the avoidance of doubt, to provide that it has always been permissible for an affirmation to be taken) in place of an oath that is sworn, as set out in subparagraph (5).
 - (9) to exempt from income tax bereavement payments made under the Social Insurance (Guernsey) (Amendment) Law, 2003, as set out in subparagraph (6).
 - (10) to provide that all taxpayers have at least 30 days from the date of issue of a notice of assessment before payment of tax charged in that assessment becomes due, as set out in subparagraph (7).
 - (11) to change the titles of "Administrator of Income Tax" and "Assistant Administrator of Income Tax" to "Director of Income Tax" and "Deputy Director of Income Tax" respectively, as set out in subparagraph (8).
2. To approve, as proposed in paragraph 2.B of that Report, the amendment of Parts IX and X of the Law by the insertion of a section empowering the Department to amend (that is, to modify, add to, repeal and replace) all or any of the provisions of those parts by Regulation and to note that any such Regulation would in the normal way be laid before the States which, under section 203 of the Law, would have power to resolve to annul them.
 3. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

TREASURY AND RESOURCES DEPARTMENT

STATES OF ALDERNEY – POTABLE WATER PROJECT

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

5th August 2008

Dear Sir

Executive Summary

The States of Alderney wishes to proceed with Phase One of the Alderney Potable Water project at a total cost of £349,000 funded from their capital allocation.

This phase of the project, which was approved by the States of Alderney at its July 2008 meeting, will increase the amount of water collected, allowing the restrictions currently in place in Alderney to be eased and consequently increase the income collected from water charges.

The Alderney authorities are currently planning Phase Two of this project, which will improve the quality of drinking water in Alderney, at an estimated cost of £650,000 also to be funded from their capital allocation.

The Treasury and Resources Department is satisfied that these works are necessary and because of the current financial position of the Alderney Water Board it is appropriate for them to be funded from the capital allocation of the States of Alderney.

Background

Under the States Financial Procedures when the States of Alderney wishes to undertake a major capital project funded from their capital allocation the prior approval of the States of Guernsey is necessary. In such cases the States Report seeking approval is submitted by the Treasury and Resources Department on behalf of the Alderney authorities.

The States of Alderney's capital allocation is made up of an annual sum of £200,000 for routine capital expenditure (subject to States of Guernsey approval at the annual Budget meeting) and capital income. The main sources of capital income for the States of Alderney are profits from the Alderney Gambling Control Commission (currently

estimated at £1.5million per annum) and Congé on property transactions (2008 Budget Estimate : £452,000).

In recent years the States of Alderney Water Board has been operating at a deficit and despite significant increases in water charges in recent years and further proposed increases of 10% per annum, it is not expected to return to profitability until around 2012.

It should be noted that if the Alderney Water Board was in a better financial position and able to fund the two phases of this project from water charges it would not be necessary for this matter to be referred to the States of Guernsey for approval.

The Alderney authorities have investigated whether the Potable Water project could be funded by a loan to the Alderney Water Board repayable over 20 years. In order to service the loan and return the Board to an operating surplus by 2012/2013, water charges would have to increase by 25% in 2010 with further increases of 10% per annum on top of this. However, even with these increases it is unlikely that the Water Board would be able to make capital repayments on the loan for at least two years unless an overdraft facility is made available.

The second phase of this project, which will improve the quality of drinking water in Alderney, is currently at the planning stage and subject to approval by the States of Alderney is expected to commence during 2009. The cost of these works will be dependant upon which method of treatment is considered the most appropriate and efficient, but it is currently estimated that expenditure will be in the region of £650,000.

To avoid the States having to spend time discussing this matter again the Treasury and Resources Department is recommending it is given delegated authority to approve a capital vote for Phase Two of this project if the States of Alderney subsequently agrees to proceed with it and fund from their capital allocation.

States of Alderney Potable Water Project

The Alderney Policy and Finance Committee has written to the Treasury and Resources Department in the following terms with regards to the Potable Water project:

“Alderney Potable Water Project - Phase One – Installation of Raw Water Rising Main & Three Collection Pumping Stations - Funding

I attach the States of Alderney Billet submission [Appendix 1] in respect of the above Capital project which was approved by the full States of Alderney at yesterdays meeting.

As you are aware, in 2007 the States of Alderney carried out a capital prioritisation exercise, which was subsequently approved in the States, and tabled and discussed at the joint meetings between the Finance Advisory Group and Treasury and Resources Dept. The Water Board capital works was one of

the six “priority A” listed projects approved at that time. Two of the other priority projects, the Courthouse renovation and La Vallee Sewer are nearing completion, and the Commercial Quay Project is well underway, it is essential that the next capital project should proceed in order to ensure a rolling program of capital works.

Although the forecast showed a total of £1million for Phases 1 and 2 (£250K and £750K respectively), on detailed investigation the whole project has evolved, and it has been agreed to include some elements of Phase 2, (collection points etc) into the first phase in order to increase the quantity of water collected and in turn lift the current water restrictions. It is anticipated that this financial adjustment will be reflected in the next stage of the project which deals mainly with water quality.

The Water Board has suffered from under investment for several decades and as a result is now having to rectify the problem albeit with insufficient financial reserves.

Over the last two years the Water Rates have been increased by at least 10% per annum, with approved increases this year (only 9 months since the last increase) of between 10% and 43%, and up to 120% on sundry charges. It has further been agreed that increases of at least 10% per annum will continue to be applied for the foreseeable future. However these increases will reduce the deficit on the operating costs rather than contribute to capital reserves.

In respect of the funding mechanism for the project, we have investigated financing by a loan or alternatively a grant from the Alderney Capital Account. The attached cash flow forecasts [Appendix 2] illustrate the effect of the two options, it should be noted that both scenarios reflect further expenditure of £650,000 in 2009 i.e. total £1million.

Scenario 1 shows that with funding from the Alderney Capital Account, the revenue account would show a surplus by 2012. Scenario 2 shows that with funding by loan over 20 years, a 25% increase in rates would be required in 2010 in order to show a surplus by 2013, furthermore the Board would be committed to annual loan repayments of £85,000 from 2010 onwards.

As you are aware we already have the highest Occupiers Rates in the Bailiwick. We are extremely concerned about the combined effect the necessary increases in occupiers rates in 2009, a possible 25% Water Rate increase, and the extraordinarily high increases in oil and electricity charges and other basic elements of the cost of living will have on our local economy.

We therefore propose to fund the project from the Alderney Capital Account which in practical terms means using receipts from Conge, which as you are aware is a local Alderney tax on property sales, and Gambling Profits. A precedent for this course of action has already been established, as during the

1970's the cost of developing the Water Board infrastructure was funded by States grants etc totalling £86,286, which at present day values would equate to £353,000.

As you are aware the capital allocation contribution from Guernsey amounts to £200,000 per annum and this is primarily used to fund routine replacements of vehicles and smaller items. It is felt that essential improvements to the water supply will benefit each and every member of the Island population, and therefore will be an appropriate use of the Conge Receipts and Gambling Profits which will be credited to Capital Account funds. Similar arguments applied to the funding of the Vallee Sewer project approved last year.

I should be grateful if you could include this item in your September Billet with appropriate propositions.

Yours sincerely

*R.G. Willmott
Chairman, Policy and Finance Committee"*

Recommendations

The Treasury and Resources Department recommends the States to:

- (1) Approve Phase One of the Alderney Potable Water project as set out in this Report at a total cost not to exceed £349,000.
- (2) Authorise the States of Alderney to accept the tender from IC Tugby in the sum of £169,413.94.
- (3) Vote the States of Alderney a credit of £349,000 to cover the cost of the above works, such sum to be charged to the capital allocation of the States of Alderney.
- (4) To delegate authority to the Treasury and Resources Department to approve the acceptance of tenders and a capital vote in respect of Phase Two of the Alderney Potable Water project.

Yours faithfully

C N K Parkinson
Minister

GENERAL SERVICES COMMITTEE

July 2008

The President
States of Alderney
States Office
ALDERNEY

Dear Sir

Alderney Potable Water Project - Phase One - Installation of Raw Water Rising Main & Three Collection Pumping Stations

Over the last few years the potable water supplies to the Island have been subject to continuous restrictions brought about by below seasonal rainfalls, inadequate raw water collection plus gradually failing infrastructure giving rise to increased leakage. In addition to the water shortage, a series of potable water quality failures in recent times has emphasised the limitations of the decaying water system which has suffered a lack of capital funding for the urgently needed upgrades.

The States of Alderney has undertaken a detailed review of the water collection and treatment aspect of the infrastructure and formulated a course of remedial action to improve both quality and quantity of supply. In November 2005 a feasibility study was commissioned from water services consultants Mott MacDonald to review the water infrastructure. This was followed by further reports in March and November 2006. This study and outcome was later verified by the Alderney Water Board (AWB) retained consultant who provided additional ideas on supplementary water collection. The outcome of the whole review process was to identify both a short and long term strategy. Short term gains have been made with improvements to the chlorination and monitoring system following the General Services Committee (GSC) resolution at the meeting of 22nd of Aug 2006. The current objective is to improve the Collection and Filtration of Raw Water and combine this with a resilient Potable Water Distribution and Storage system. This work will be, by operational necessity, phased as follows:

Phase One A new twin 180mm pipe rising main 2.5km long between Bonne Terre catchment and Battery Quarry reservoir & treatment plant, with three Collection Pumping Stations.

Phase Two Centralised Filtration facility at Battery Quarry reservoir

Phase Three New Potable Water Storage facility located at the Trigale site.

Phase Four Replacement of ageing Distribution Network and installation of zone metering with revision of Water Board business model.

A target completion of Phases One and Two by end 2009 will improve both the water quality and quantity enabling restrictions to be lifted. Phase Three will follow on when

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funding permits. Phases One to Three were resolved by the GSC at the meeting of the 14th of December 2006. Phase Four will be a rolling programme funded by Water Board revenue. The revision of the Water Board operational procedures will be ongoing with the aim that that revenue will meet the new water scheme's operational expenditure. The improvement to AWB is enhanced with strengthening relationships with Guernsey Water. The completion of the phase strategy will provide a secure and resilient water infrastructure which will meet the long term needs of the island community.

The strategy of the Potable Water Scheme primarily looks at quantity and quality of potable water. Having implemented short term quality measures, phase one will primarily address the long term quantity objective.

This submission covers Phase One of the work and entails trenching for, and installation of, a dual 180mm HPPE underground pipe system between the existing Bonne Terre catchment and the main storage reservoir at Battery Quarry. This installation will run some 2.5 Kilometres across the Island and will involve several road and rail crossings. The project has been divided into four sections (A–D) which have varying degrees of complexity. There are many existing services along the route, and whilst not technically difficult the work will face some challenges. Included in the scheme are three new collection and pumping installations to be installed in section B and early measurements suggest conservatively that the raw water uplift will be in the order of 1.5 Million gallons per month. The raw water is currently subject to quality analysis and data collection.

Value engineering best practice has been used and an agreement has been made with Guernsey Water to enable AWB to procure all pipes and materials under a joint purchasing arrangement with the Midland Water buying consortium which translates into a materials saving of 40%. Similarly, the catchment pump stations will be sourced with the Guernsey States Works who hold a distribution agreement with the equipment manufacturer. The trenching opportunity is to be shared with Alderney Electricity Ltd (AEL) which wishes to lay cables along 80% of the route. The cost contribution is a £47,000 offset. The engineering support and supervision of the work will be by a qualified engineer employed specifically for the water capital projects. The immediate benefit of stage one is:

1. Improved resilience (The ability of the Island to withstand a shock such as drought).
2. Relaxation of current restrictions.
3. Reduction in Longis Common Borehole pumping, which it is hoped, will enable regeneration of the Longis conservation area and nature reserve.
4. Foundation of Phase Two.

Phase one of the Water Projects will be undertaken by the AWB with the trenching and reinstatement work undertaken by a contractor selected by tender. Expressions of interest were sought within the island and six sets of tender documents were issued to five on island and one UK specialist contractor for the civil engineering work required for the installation of the new rising main from Bonne Terre to Battery Quarry.

GENERAL SERVICES COMMITTEE

Selection and scoring criteria were agreed and tabulated prior to the tender documents return deadline. At the special meeting of the GSC at 16:30 on 18th June 2008, the five returned tenders were opened. Tenders were initially checked for arithmetical accuracy and detail. Those deemed acceptable for further consideration were carried forward and evaluated against the pre-defined criteria. Post arithmetical check the tender figures in numerical order are:

Total £ 105,530.00
 Total £ 169,413.94
 Total £ 271,624.90
 Total £ 297,991.37
 Total £ 316,961.97

The weighting of the criteria within the scoring table was formulated to account for non financial factors within this project. Each factor was weighted for relevance and each tenderer scored on each criterion within the table. The highest score indicated the optimum tenderer once all relevant criteria are taken into account. After due and comprehensive value appraisal, the lowest tender was rejected as not meeting the specification requirements.

This tender process revealed that I.C.Tugby was the optimum choice when all factors were considered. I.C Tugby met all the technical and commercial requirements and scored the highest. The tenderer has worked for the States regularly and this tender is considered the optimum.

The total project costs are:

Civil engineering works	£ 155,000
Purchase of materials – Pumping stations, Pipes, Mechanical & Electrical	£ 137,000
States/AWB labour costs	£ 44,000
Contingency	£ 40,000
Battery Quarry enhancement of electrical supply	£ 20,000
AEL Offset contribution	£ - 47,000

Total Project Cost including AEL offset contribution is: £ 349,000

In 2007 the States of Alderney carried out a capital prioritisation exercise, which was subsequently approved at the States meeting held on 23rd May 2007. The Water Board capital works was one of the six “priority A” projects approved at that time. Three of the other A listed projects are well underway or nearing completion at this stage, and from a timing aspect it is crucial that the next capital project should proceed in order to ensure a rolling program of capital works.

The lifecycle of this project is coincident with a period of increasing world prices and rising inflation. Any delay in Phase One will inevitably lead to increased cost.

The Water Board has insufficient financial reserves to fund this project and it is therefore proposed to fund from the Alderney Capital Account. As mentioned earlier in the report

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the Water Board has suffered from under investment over several decades and as a result now has to rectify the problem. As a direct consequence of under investment the reserves were previously higher, which in turn led to several years when rates were not increased. This is now being addressed and over the last two years water rates have been increased by 10% per annum, with approved increases this year of between 10% and 43%, and up to 120% on sundry charges. However, these increases are purely to reduce the deficit on operating costs, and will not contribute to the capital reserves.

The above recommendations were approved at the Policy and Finance Committee meeting held on 23rd June 2008.

I should therefore be grateful if you would place this matter before the States with appropriate propositions.

Mr. W. Walden
Chairman

The States is asked to resolve, after consideration of the above report from the Chairman of the General Services Committee, and subject to approval by the Guernsey States of Deliberation to:-

- 1. Approve Phase 1 of the Potable Water project as detailed in the above report.**
- 2. Accept the tender from IC Tugby in the sum of £169,413.94 for civil engineering work required for the installation of new rising main from Bonne Terre to Battery Quarry.**
- 3. Approve total expenditure of up to £349,000.00 (including the above tender) to implement Phase One of the Potable Water Scheme.**
- 4. Approve funding the project from the Alderney Capital Account.**

APPENDIX 2

STATES OF ALDERNEY WATER BOARD SCENARIO 1 - SHOWING RECOMMENDED CAPITAL SPEND OF £1M 2008-2013 (WITH STATES GRANT £350K 2008 and £650K 2009)

REVENUE ACCOUNT FOR THE YEARS 2007-2013 - BUDGET FORECAST

(Assuming 10% extra on rates each year from 2010 and 4% increase in costs pa from 2010) (Note: Lifting the Hosepipe ban would increase annual income by about £12K p.a.)

	2007 (Actuals)	2008	2009	2010	2011	2012	2013
	£	£	£	£	£	£	
REVENUE							
Unmetered Supplies	252,782	296,000	320,000	352,000	387,200	425,920	468,512
Metered Supplies	39,770	42,000	46,000	50,600	55,660	61,226	67,349
Service Charges	1,525	2,000	2,000	2,000	2,000	2,000	2,000
		294,077		404,600		489,146	537,861
EXPENSES							
OPERATING & MAINTENANCE EXPENSES							
Salaries & Wages	163,903	165,000	165,000	171,600	178,464	185,603	193,027
Water Treatment Charges	30,640	46,000	48,000	49,920	51,917	53,993	56,153
Fuel & Electricity	51,834	65,000	68,000	70,720	73,549	76,491	79,550
Maintenance	27,129	42,000	35,000	36,400	37,856	39,370	40,945
Superannuation	25,425	26,600	26,000	27,040	28,122	29,246	30,416
Depreciation	20,721	26,200	28,000	55,000	55,000	55,000	55,000
	319,652	370,800	370,000	410,680	424,907	439,703	455,092
ADMINISTRATION & GENERAL EXPENSES							
Wages and Administration Charge	13,127	15,000	15,000	15,600	16,224	16,873	17,548
Rents, Rates & taxes	3,848	4,500	4,500	4,680	4,867	5,062	5,264
Insurance	4,031	5,000	5,000	5,200	5,408	5,624	5,849
Motor Vehicle Expenses	4,428	6,000	6,500	6,760	7,030	7,312	7,604
Postage & Telephone	2,250	2,400	2,500	2,600	2,704	2,812	2,925
Printing & Stationery	621	1,500	1,500	1,560	1,622	1,687	1,755
Accountancy & Audit	2,740	2,900	3,000	3,120	3,245	3,375	3,510
Bank Charges	693	500	500	520	541	562	585
Travelling & General Expenses	1,130	2,200	2,200	2,288	2,380	2,475	2,574
Consultancy Fees & Expenses	14,824	10,000	10,000	10,400	10,816	11,249	11,699
Write off of fixed assets	1,051	0	0	0	0	0	0
Bad Debts Written Off	162	500	500	520	541	562	585
	48,905	50,500	51,200	53,248	55,378	57,593	59,897
		421,300	421,200	463,928	480,285	497,297	514,988
OPERATING SURPLUS/(DEFICIT)		(81,300)	(53,200)	(59,328)	(35,425)	(8,151)	22,872
OTHER INCOME							
Sale of vehicle							
Rents receivable		9000	9000	9000	10000	10000	10000
Interest Receivable / (Payable)		3,000	1,500	1,000	1,000	1,000	1,000
	8,465						
SURPLUS (DEFICIT) FOR THE YEAR		(66,015)	(42,700)	(49,328)	(24,425)	2,849	33,872
BALANCE BROUGHT FORWARD		509,686	374,371	331,671	282,343	257,918	260,767
BALANCE CARRIED FORWARD	£	443,671 £	331,671 £	282,343 £	257,918	260,767	294,640

**Water Board - Capital forecast
With States Grant £350K and £650K in 2009**

	2006	2007	2008	2009	2010	2011	2012	2013
Fixed assets	357717	414587	493063	853063	1503063	1533063	1563063	1583063
Additions	56870	78476	360000	650000	30000	30000	20000	20000
Total	414587	493063	853063	1503063	1533063	1563063	1583063	1603063
Depreciation for the year	15490	12743	26200	28000	55000	55000	55000	55000
Depreciation	139672	152415	178615	206615	261615	316615	371615	426615
Net Book Value	274915	340648	674448	1296448	1271448	1246448	1211448	1176448
Cash at Bank (Loan/Overdraft)* (inc. Stock, Drs & Crs)	321057	189309	(213791)	(528491)	97181	97756	135605	204478
States Grant	595972	529957	810657	1417957	1368629	1344204	1347053	1380926
Financed by								
General Reserve	86286	86286	86286	86286	86286	86286	86286	86286
Revenue Account	509686	443671	374371	331671	282343	257918	260767	294640
Grant from States of Aldy	595972	529957	810657	1417957	1368629	1344204	1347053	1380926

*Overdraft from 2009 to be financed either by further capital grant or by loan

STATES OF ALDERNEY WATER BOARD SCENARIO 2 - SHOWING RECOMMENDED CAPITAL SPEND OF £1M 2008-2013 - WITH SoG LOAN £350K in 2008 and £650K in 2009

REVENUE ACCOUNT FOR THE YEARS 2007-2013 - BUDGET FORECAST

(Assuming 25% extra on rates in 2010 and 10% thereafter, and 4% increase in costs pa from 2010)

(Note: Lifting the Hosepipe ban would increase annual income by about £12K p.a.)

	2007 (Actuals)	2008	2009	2010	2011	2012	2013
	£	£	£	£	£	£	
REVENUE							
Unmetered Supplies	252,782	296,000	320,000	400,000	440,000	484,000	532,400
Metered Supplies	39,770	42,000	46,000	57,500	63,250	69,575	76,533
Service Charges	1,525	2,000	2,000	2,000	2,000	2,000	2,000
		340,000		459,500	505,250	555,575	610,933
EXPENSES							
OPERATING & MAINTENANCE EXPENSES							
Salaries & Wages	163,903	165,000	165,000	171,600	178,464	185,603	193,027
Water Treatment Charges	30,640	46,000	48,000	49,920	51,917	53,993	56,153
Fuel & Electricity	51,834	65,000	68,000	70,720	73,549	76,491	79,550
Maintenance	27,129	42,000	35,000	36,400	37,856	39,370	40,945
Superannuation	25,425	26,600	26,000	27,040	28,122	29,246	30,416
Depreciation	20,721	26,200	28,000	55,000	55,000	55,000	55,000
	319,652	370,800	370,000	410,680	424,907	439,703	455,092
ADMINISTRATION & GENERAL EXPENSES							
Wages and Administration Charge	13,127	15,000	15,000	15,600	16,224	16,873	17,548
Rents, Rates & taxes	3,848	4,500	4,500	4,680	4,867	5,062	5,264
Insurance	4,031	5,000	5,000	5,200	5,408	5,624	5,849
Motor Vehicle Expenses	4,428	6,000	6,500	6,760	7,030	7,312	7,604
Postage & Telephone	2,250	2,400	2,500	2,600	2,704	2,812	2,925
Printing & Stationery	621	1,500	1,500	1,560	1,622	1,687	1,755
Accountancy & Audit	2,740	2,900	3,000	3,120	3,245	3,375	3,510
Bank Charges	693	500	500	520	541	562	585
Travelling & General Expenses	1,130	2,200	2,200	2,288	2,380	2,475	2,574
Consultancy Fees & Expenses	14,824	10,000	10,000	10,400	10,816	11,249	11,699
Write off of fixed assets	1,051	0	0	0	0	0	0
Bad Debts Written Off	162	500	500	520	541	562	585
	48,905	50,500	51,200	53,248	55,378	57,593	59,897
	368,557	421,300		463,928	480,285	497,297	514,988
	(74,480)	(81,300)		(4,428)	24,965	58,278	95,944
OPERATING SURPLUS/(DEFICIT)							
		421,200					
		(53,200)					
OTHER INCOME							
Sale of vehicle		9000		9000	10000	10000	10000
Rents receivable		3000		1000	1,000	1000	1000
Interest Receivable / (Payable)				(85,000)	(85,000)	(85,000)	(85,000)
Loan Repayments - Interest & Capital							
		(69,300)		(79,428)	(49,035)	(15,722)	21,944
SURPLUS (DEFICIT) FOR THE YEAR							
		374,371		301,671	222,243	173,208	157,486
BALANCE BROUGHT FORWARD							
		443,671		222,243	173,208	157,486	179,430
BALANCE CARRIED FORWARD							
		374,371		301,671	222,243	157,486	179,430

**Water Board - Capital forecast
With SoG Loan £350K in 2008, and £650K in 2009**

	2006	2007	2008	2009	2010	2011	2012	2013
Fixed assets	357717	414587	493063	853063	1503063	1533063	1563063	1583063
Additions	56870	78476	360000	650000	30000	30000	20000	20000
Total	414587	493063	853063	1503063	1533063	1563063	1583063	1603063
Depreciation for the year	15490	12743	26200	28000	55000	55000	55000	55000
Depreciation	139672	152415	178615	206615	261615	316615	371615	426615
Net Book Value	274915	340648	674448	1296448	1271448	1246448	1211448	1176448
Cash at Bank (Loan/Overdraft)* (inc. Stock, Drs & Crs)	321057	189309	(213791)	(908491)	(962919)	(986954)	(967676)	(910732)
Loan -20 years			350000	650000				
	595972	529957	810657	1037957	308529	259494	243772	265716
Financed by								
General Reserve	86286	86286	86286	86286	86286	86286	86286	86286
Revenue Account	509686	443671	374371	301671	222243	173208	157486	179430
Loan from States of Guernsey			350000	650000				
	595972	529957	810657	1037957	308529	259494	243772	265716

*Overdraft from 2009 to be financed either by further capital grant or by loan

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

VII.- Whether, after consideration of the Report dated 5th August, 2008, of the Treasury and Resources Department, they are of the opinion:-

1. To approve Phase One of the Alderney Potable Water project as set out in that Report at a total cost not to exceed £349,000.
2. To authorise the States of Alderney to accept the tender from IC Tugby in the sum of £169,413.94.
3. To vote the States of Alderney a credit of £349,000 to cover the cost of the above works, such sum to be charged to the capital allocation of the States of Alderney.
4. To delegate authority to the Treasury and Resources Department to approve the acceptance of tenders and a capital vote in respect of Phase Two of the Alderney Potable Water project.

TREASURY AND RESOURCES DEPARTMENT

APPOINTMENT OF NON-EXECUTIVE DIRECTOR GUERNSEY POST LIMITED

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

5th August 2008

Dear Sir

Advocate Roger Perrot, one of five non-executive directors of Guernsey Post Limited, has resigned from the Board. The Treasury and Resources Department is therefore proposing that a new non-executive director is appointed to replace Advocate Perrot.

Dame Mary Perkins, DBE, who is co-founder and owner of Specsavers Optical Group Ltd. has agreed that her name can be put forward as a non-executive director.

Dame Mary, who has been resident in Guernsey since 1980, is currently a Director of the Guernsey Training Agency and Women's Refuge Guernsey, President of Age Concern Guernsey and a Governor of Ladies' College.

It is considered that Dame Mary's many business attributes and skills will complement those of the existing non-executive Directors and assist in the implementation of Guernsey Post Limited's Business Plan and wider strategy.

Recommendation

In accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the Treasury and Resources Department nominates Dame Mary Perkins, DBE, for appointment by the States as a non-executive director of Guernsey Post Limited.

Yours faithfully

C N K Parkinson
Minister

(NB Only an individual nominated by the Treasury and Resources Department is eligible for election.)

(NB The Policy Council has no comment on the proposal.)

The States are asked to decide:-

VIII.- Whether, after consideration of a Report dated 5th August, 2008, of the Treasury and Resources Department, they are of the opinion:-

In accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, to appoint Dame Mary Perkins, DBE as a non-executive director of Guernsey Post Limited.

HOME DEPARTMENT

AMENDMENT TO THE FIRE SERVICES (GUERNSEY) LAW, 1989, AS AMENDED

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

2nd July 2008

Dear Sir

1. Executive Summary

The purpose of this report is to further amend the Fire Services (Guernsey) Law, 1989, as amended (“the 1989 Law”) to ensure that the Guernsey Fire and Rescue Service (“the Service”) has the appropriate legislative framework to enable it to undertake its role.

The proposed amendments include:

- (a) Fire safety education
- (b) Attendance at road traffic collisions
- (c) Attendance at other “non-fire” emergencies
- (d) Assistance and mutual attendance at incidents outside of Guernsey, including Sark and Jersey and the Maritime Incident Response Group
- (e) Powers in relation to the investigation of fires
- (f) Powers of entry for authorised officers

The proposals are broadly based on the provisions introduced in the UK under the Fire and Rescue Services Act 2004 (“the 2004 Act”) and should ensure that the Service continues to undertake its fire and rescue duties effectively and efficiently and to ensure that the public are protected from death or serious harm from fires and other specified emergency incidents.

Finally, the Report recommends the repeal of the Ordonnance provisoire relative à l'Inspection des Appareils à Incendie dans les Salles Publiques, 1936 as the requirements under this Ordinance for the Chief Fire Officer to undertake six monthly inspections of fire extinguishers in a Salle Publique have become redundant in light of changing technology and working practices. The repeal of the 1936 Ordinance will not compromise public safety in any designated Salle Publique building.

2. Background

In 2004 the UK introduced the 2004 Act which sought to provide the necessary legislative framework to deliver a modernised Fire and Rescue Service that responds to the particular demands of the 21st century. The 2004 Act replaced the Fire Services Act 1947.

The provisions set out under the 2004 Act followed an independent review of the UK Fire Service in 2002 and a Government White Paper, *Our Fire and Rescue Service*, which was published in June 2003. The 2004 Act covers all aspects of the Fire and Rescue Service and is divided into seven Parts:

Part 1 - Fire and rescue authorities: determines which body is the fire and rescue authority for an area, and provides for the combination of two or more fire and rescue authorities by order.

Part 2 - Functions of fire and rescue authorities: sets out the duties and powers of fire and rescue authorities.

Part 3 - Administration: provides for the preparation of a Fire and Rescue National Framework setting out the strategic priorities of the Fire and Rescue Service, and for the supervision of fire and rescue authorities. It makes supplementary provision for the Secretary of State to provide equipment and training centres for fire and rescue authorities.

Part 4 - Employment: deals with employment by fire and rescue authorities, in particular the creation of negotiating bodies to determine the terms and conditions of employees, and pension schemes.

Part 5 - Water supply: imposes duties on fire and rescue authorities and water undertakers to ensure an adequate supply of water for fire-fighting activities.

Part 6 - Supplementary: concerns the powers of fire and rescue authority employees to undertake rescue work and investigations, as well as a number of consequential provisions and repeals, including the abolition of the Central Fire Brigades Advisory Council.

Part 7 - General: makes general provision in relation to pre-commencement consultation, interpretation, statutory instruments, territorial extent etc.

3. Proposed Amendments to the Fire Services (Guernsey) Law, 1989, as amended

(a) Fire Safety Education

The Service already carries out a wide range of activities to promote community fire safety, with the aim of preventing deaths and injuries in the home and reducing the impact of fire on the community as a whole. These include fire safety education, smoke alarm installation and fire safety checks for householders and others.

The Service also works with the Island's schools to promote fire safety awareness and to teach youngsters how to prevent and what action to take in the event of a fire. The Service also undertakes similar work with voluntary groups and employers.

To date this work is currently carried out on a discretionary basis. However, the Chief Fire Officer has recommended that the Department seeks to include a provision under the 1989 Law to:

“Promote fire safety and make arrangements for the provision of information, publicity and encouragement in respect of the steps to be taken to prevent fires and death or injury by fire. The provision of information should include giving of advice on request about how to prevent fires and restrict their spread in buildings and other property, the means of escape from buildings and other property in case of fire.”

The Department supports this recommendation which is broadly based on section 6 of the 2004 Act and would give statutory effect to the current practices.

(b) Attendance at Road Traffic Collisions

The Service works very closely with the Guernsey Police and the Ambulance and Rescue Service in respect of road traffic collisions. Historically, the risk of fire was the trigger for attendance at such an incident. While advances in vehicle design have seen the incidence of fire following a collision decrease, calls to assist with the rescue of people from wreckage and protect them from harm from spillage of hazardous substances have increased.

The Chief Fire Office has recommended to the Department that consideration should be given to amending the 1989 Law to:

“Place a statutory duty on the Fire and Rescue Service to make provision for rescuing persons from road traffic collisions and for dealing with the aftermath of such collisions.”

The Department supports this recommendation which is broadly based on section 8 of the 2004 Act and would give statutory effect to the current practices.

(c) Attendance at Other “Non-Fire” Emergencies

The Service has always sought to work collaboratively with the Island’s other emergency and rescue services. The Department recognises that many roles the Service undertakes, for example flooding, lift rescues, conventional chemical incidents and chemical biological, radiological or nuclear incidents (“CBRN incidents”), fall outside the core role of the Service.

The Chief Fire Officer has recommended to the Department that provisions, broadly based on sections 9 and 58 of the 2004 Act should be introduced locally, namely:

“To enable the Home Department to make provisions for the Guernsey Fire and Rescue Service to carry out functions relating to other emergencies, other than fires and road traffic collisions including to:

- (a) Secure the provision of personnel, services and equipment;*
- (b) Secure the provision of training for personnel;*
- (c) Make arrangements for dealing with calls for help and for summoning personnel;*
- (d) Make arrangements for obtaining information needed for the purpose of discharging this function;*
- (e) Make arrangements for ensuring that reasonable steps are taken to prevent or limit damage to property resulting from discharging the function.*

To provide a definition of the term "emergency" based on section 58 of the 2004 Act, namely:

“Emergency” means an event or situation that causes or is likely to cause:

- (a) One or more individuals to die, be seriously injured or become seriously ill; or*
- (b) Serious harm to the environment (including the life and health of plants and animals).”*

The Department supports this recommendation and believes that the proposals will ensure that the Island’s emergency services are able to pool expertise and equipment to make best use of limited resources whilst maintaining a high level of public protection.

(d) Attendance and Mutual Assistance outside Guernsey

The Service has in place agreements to provide mutual aid and assistance to Sark and Jersey Fire and Rescue Services. Further, it has also a signed Memorandum of

Understanding with the Maritime Coastguard Agency (“the MCA”) to provide a declared response to the UK Maritime Incident Response Group (“MIRG”).

The MIRG was established in 2003 following the launch of the “Sea of Change” project by the MCA. The MIRG comprises 15 Fire and Rescue Service teams strategically located around the country from the Scottish Highlands and Islands to Wales, the South and South West coast of the UK and the Channel Islands.

Each MIRG team has been specially trained to tackle fire in the marine environment and is equipped with the lighter, more compact equipment required when travelling by helicopter to the scene of an incident. The teams will not only fight fires but also deal with chemical hazards and free trapped personnel. Each Marine incident response team has been trained in helicopter familiarisation, sea survival, helicopter underwater escape and helicopter winching as well as additional training in ship construction, stability, communications and ship fire-fighting tactics.

The Chief Fire Officer has recommended that the mutual aid and assistance provided by the Service should be given a statutory basis and recommends that provisions broadly based on section 10 to 12 of the 2004 Act be introduced locally, namely:

“To enable the Home Department to make provisions for the Guernsey Fire and Rescue Service to carry out functions relating to all emergencies, including fires, road traffic collisions, flooding, chemical incidents, CBRN incidents and fires and chemical incidents in the marine environment in:

- (a) Sark*
- (b) Jersey*
- (c) Under the auspices of the MIRG.*

Further, to enable the Home Department to enter into arrangements with other Fire and Rescue Services and the MIRG for securing the provision by that person of assistance for the purpose of the discharge of its duties and responsibilities in times of emergency, including provision as to the terms on which assistance is to be provided.”

The Department fully supports the Chief Fire Officer’s recommendation and is satisfied that these additional duties will not be undertaken to the detriment of the Service’s core role on Guernsey.

(e) Powers in Relation to the Investigation of Fires

The 1989 Law does not include any statutory provision for the Service to investigate fires. However, the Service has always worked closely with the Guernsey Police in the investigation of fire. The Chief Fire Officer has advised the Department that:

“There is merit and a potential public safety benefit for the Service to undertake investigations of fires even where there is no evidence to suggest that the cause of the fire may be suspicious. I anticipate that by adopting a more pro-active approach in the investigation of fires, including small domestic fires, the findings would provide valuable evidence for the development of the Service’s community fire safety role. The availability of evidence as to the cause and origin of such smaller fires would, in my opinion, enable the Service better to target its resources and so better protect the community from harm or damage due to fire.”

The Chief Fire Officer recommends that the Service should have powers of entry that:

“In the event of a fire in the premises, for the purpose of investigating what caused the fire or why it progressed as it did. Such entry cannot be forcible and 24 hours notice must be given to the occupier of a private dwelling.”

The Department fully supports this recommendation as it believes that it will enable the Service better to protect the community from harm or damage due to fire.

(f) Powers of Entry for Authorised Officers

In addition to the recommendations set out in (e) above, the Chief Fire Officer recommends that provisions broadly based on section 45 of the 2004 Act are introduced, namely:

- (1) *An authorised officer may at any reasonable time enter premises:*
 - (a) *for the purpose of obtaining information needed for the discharge of a fire and rescue duty, or*
 - (b) *if there has been a fire in the premises, for the purpose of investigating what caused the fire or why it progressed as it did.*
- (2) *An authorised officer may not under subsection (1):*
 - (a) *enter premises by force, or*
 - (b) *demand admission as of right to premises occupied as a private dwelling unless 24 hours' notice in writing has first been given to the occupier of the dwelling.*
- (3) *An authorised officer may not under subsection (1)(b) enter as of right premises in which there has been a fire if:*
 - (a) *the premises are unoccupied, and*
 - (b) *the premises were occupied as a private dwelling immediately before the fire, unless 24 hours' notice in writing has first been*

given to the person who was the occupier of the dwelling immediately before the fire.

(4) An authorised officer exercising a power of entry under this section must, if so required, produce evidence of his authorisation under subsection (2):

- (a) before entering the premises, or*
- (b) at any time before leaving the premises.”*

In addition the Chief Fire Officer has recommended that provisions similar to those under section 46 of the 2004 Act are also introduced, namely:

“When exercising his power of entry an authorised officer may:

- (a) Take with him any other persons, and any equipment, that he considers necessary.*
- (b) Require any person present on the premises to provide him with any facilities, information, documents or records, or other assistance, that he may reasonably request.*
- (c) Inspect and copy any documents or records on the premises or remove them from the premises.*
- (d) Carry out any inspections, measurements and tests in relation to the premises, or to an article or substance found on the premises, that he considers necessary.*
- (e) Take samples of an article or substance found on the premises, but not so as to destroy it or damage it unless it is necessary to do so for the purpose of the investigation.*
- (f) Dismantle an article found on the premises, but not so as to destroy it or damage it unless it is necessary to do so for the purpose of the investigation.*
- (g) Take possession of an article or substance found on the premises and detain it for as long as is necessary for any of these purposes:*
 - (i) To examine it and do anything he has power to do under paragraph (d) or (f);*
 - (ii) To ensure that it is not tampered with before his examination of it is completed;*
 - (iii) To ensure that it is available for use as evidence in proceedings for an offence relevant to the investigation.*

- (h) *Require a person present on the premises to provide him with any facilities, information, documents or records, or other assistance, that he may reasonably request.”*

An “authorised officer” would be any person employed by or acting on behalf of the Service.

Finally, the Chief Fire Officer has recommended that it should be an offence for any person, if without reasonable excuse:

- (i) *He obstructs the exercise of any power under this provision, or*
 (ii) *He fails to comply with any requirement made under this provision*

The Chief Fire Officer has advised that under the 2004 Act where such an offence is committed and where a person is found guilty he is liable on summary conviction to a fine not exceeding level 3 on the standard scale.

The Department supports this recommendation and recognises that whilst it is prudent to provide the Service with these statutory powers the level of co-operation between the public and the Service is good and therefore it is unlikely that officers will need to rely on their statutory powers properly to investigate the causes of fires.

4. Repeal of the Ordonnance provisoire relative à l’Inspection des Appareils à Incendie dans les Salles Publiques, 1936

Under the Ordonnance provisoire relative à l’Inspection des Appareils à Incendie dans les Salles Publiques, 1936 (“the 1936 Ordinance”) the Chief Fire Officer is required to undertake six monthly inspections of the fire extinguishers in buildings designated as Salles Publique.

The reason for seeking to repeal the 1936 Ordinance is that the requirement for Chief Fire Officer to carry out these 6 monthly inspections has become redundant as the fire extinguishers do not require testing every 6 months. Fire extinguishers are now tested annually by a specialist contractor.

Further, the premises that currently hold Salles Publique Licences are also designated as Controlled Premises under the 1989 Law and therefore repealing the 1936 Ordinance will not compromise fire safety in these premises as under section 6(1)(e) of the 1989 Law there is a requirement for the provision of appropriate means for fighting fire (e.g. portable extinguishers). Further, the 1989 Law requires that they are properly maintained so that they can be safely and effectively used at all material times. The proof of “proper maintenance” is a requirement that all extinguishers are serviced annually by a recognised service engineer with the service date being displayed on the extinguisher. The responsibility for organising these checks rests with the owner/occupier of the premises and as such are self-regulatory.

The Fire and Rescue Service will however continue to inspect all of the fire safety arrangements in higher risk premises that will include popular pubs and night clubs that do hold Salles Publique Licences. Further, where an application is made for an additional premises to be issued with a Salles Publique Licence the Guernsey Fire and Rescue Service will continue to provide reports for the Environment Department and the Royal Court, as well as assisting the applicant in respect of fire safety matters, including the appropriate number, type and location of fire extinguishers.

The Department has consulted with the Environment Department and HM Procureur and neither has raised any objection to the proposal as the repeal of the 1936 Ordinance will not compromise public safety in any designated Salles Publique building.

5. Summary of Recommendations

In summary the Department recommends that the 1989 Law be further amended to include:

- (1) Making it a statutory requirement for the Service to:
 - (a) Provide fire safety education.
 - (b) Attend road traffic collisions to assist in the rescue of people and/or protect people from serious harm.
 - (c) Attend other “non-fire” emergencies to assist in the rescue of people and/or protect people from serious harm
- (2) Providing a statutory framework for the provisions of assistance and mutual assistance at incidents outside of Guernsey, including Sark, Jersey and the Maritime Incident Response Group
- (3) Affording “authorised officers”, including persons acting on behalf of the Service, with statutory powers in relation to the investigation of fires and for these powers to give personnel limited rights of entry to undertake these duties.
- (4) Creating an offence where a person, without reasonable excuse, obstructs an “authorised officer” when undertaking his duties as set out above.
- (5) Repealing the Ordonnance provisoire relative à l’Inspection des Appareils à Incendie dans les Salles Publiques, 1936.

6. Resources

The Department believes that the implementation of proposals set out in this report can be managed from within the Department’s existing resources.

7. Consultation

The Department has consulted with the office of HM Procureur and no objections were raised to the proposals. The Department has also consulted with the Environment Department regarding these proposals and they have raised no objections to the proposal to repeal the 1936 ordinance.

8. Conclusion

The Department recommends the States:

- (i) To approve the Department's proposals for amending Fire Services (Guernsey) Law, 1989, as amended, as set out in this Report;
- (ii) To direct the preparation of such legislation as may be necessary to give effect to the foregoing and as otherwise set out in this Report.

Yours faithfully

G H Mahy
Minister

(NB The Policy Council has no comment on the proposals.)

(NB The Treasury and Resources Department has no comment on the proposals.)

The States are asked to decide:-

IX.- Whether, after consideration of the Report dated 2nd July, 2008, of the Home Department, they are of the opinion:-

- 1. To approve the Department's proposals for amending Fire Services (Guernsey) Law, 1989, as amended, as set out in that Report.
- 2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

COMMERCE AND EMPLOYMENT DEPARTMENT

EMPLOYERS' LIABILITY (COMPULSORY INSURANCE) (GUERNSEY) LAW, 1993

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

22nd July 2008

Dear Sir

1. Executive Summary

- 1.1 In Guernsey, every employer carrying on a business must have insurance with an authorised insurer against liability for any bodily injury or disease sustained by the employee in the course of business. This means that any incorporated company run by its owner, who is also the sole employee of the company, is required by law to take out Employers' Liability Compulsory Insurance (ELCI).
- 1.2. However, it is unlikely that such an owner would consider – or be successful in – claiming compensation against themselves.
- 1.3. Therefore it would make sense to amend the local legislation so as to remove this anomaly, as has already been done in the UK.
- 1.4. A consultation of business representative groups and local insurance providers by the Commerce and Employment Department has revealed unanimous support for such an amendment.
- 1.5. The Commerce and Employment Department recommends the States to amend Guernsey's ELCI legislation, in order to exempt companies consisting of a single owner/employee from taking out ELCI.
- 1.6. The proposals reflect the aims in the Strategic Economic Plan to achieve "*the application of a legislative environment, including regulation, to achieve a balance between encouraging and facilitating business whilst preventing market abuse and avoiding un-necessary bureaucracy*". The Strategic Economic Plan was submitted to the States under Level 4 of Priority 2 in relation to Economic Balance (page 1362 of Billet XVII of 2007).

2. Description of Guernsey's ELCI law as it currently stands

- 2.1 ELCI places a duty on employers to take out and maintain approved insurance

policies with authorised insurers against liability for bodily injury or disease sustained by their employees in the course of their employment in Guernsey, Herm or Jethou.

- 2.2 At present there are no exemptions to the law. Any employer carrying on a business in Guernsey, Herm or Jethou must be insured.
- 2.3 The States has powers to prescribe by Ordinance classes of employers who shall be exempt from the provisions of the law.

3. The recent UK amendment

- 3.1 The Commerce and Employment Department has noted the amendment made to the UK's ELCI law. Specifically, this took the form of the Employers' Liability (Compulsory Insurance) (Amendment) Regulations 2004, which came into force on 28th February 2005.
- 3.2 This amendment consists of the insertion of the following paragraph into Schedule 2 (employers exempted from insurance) of the Employers' Liability (Compulsory Insurance) Regulations 1998: *"(15) Any employer which is a company that has only one employee and that employee also owns fifty per cent or more of the issued share capital in that company"*.
- 3.3 This amendment was introduced in order to remove the requirement for single owner/employee companies to take out the insurance if they do not employ anyone else.

4. Outcome of a consultation with Guernsey business

- 4.1 A consultation of representative business groups and local insurance providers was initiated in December 2007, at the request of the Commerce and Employment Department's Board. The parties consulted were asked if they believed that the Guernsey ELCI law should be amended in order to exempt single owner/employee companies from the requirement of taking out ELCI.
- 4.2 The 5 business representative groups that formulated an opinion were all in favour of amending the Guernsey law. The 6 insurance providers that responded were also unanimous in their support of the amendment.
- 4.3 The main arguments for and against the amendment that emerged from the consultation are summarised in the two sections that follow.

5. Arguments in favour of amending Guernsey's ELCI law

- 5.1 It makes sense to remove the current anomaly in the law which requires incorporated owners/sole employees to take out ELCI even if they have no employees, as it is unlikely that an owner would consider – or be successful in – claiming compensation against themselves.
- 5.2 Previous research carried out by one of the consultation's respondents in

conjunction with other insurance providers has shown that such an amendment could generate savings of £60 to £500 per “one man band” business, depending on the type of trade the individual is involved in.

- 5.3 Economically, any loss of premium income by insurers would be offset by an efficient reallocation of resources, as businesses could redeploy these savings on productive activities.

6. Arguments against amending Guernsey’s ELCI law

- 6.1 One of the respondents expressed concerns that many sole owner companies in Guernsey tend to take out Public Liability Insurance, but not Employers’ Liability Insurance, so they would not benefit from the amendment.
- 6.2 In addition, he pointed out that those who have ELCI under a package policy – such as an office insurance policy, rather than a standalone liability insurance policy – would not achieve any cost savings, as ELCI is simply included automatically within the package cover at no cost.

7. Conclusion

- 7.1 As it is unlikely that any incorporated Guernsey company run by its owner, who is also the sole employee of the company, would consider – or be successful in – claiming compensation against themselves, it would make sense to amend Guernsey’s Employers’ Liability Compulsory Insurance legislation so as to remove this anomaly.
- 7.2 The suggested amendment has the unanimous support of both the island’s business representative groups and its insurance providers.

8. Recommendation

- 8.1 The Commerce and Employment Board recommends the States to direct the preparation of an Ordinance under the provisions of the Employers’ Liability (Compulsory Insurance) (Guernsey) Law, 1993, in order to exempt any employer which is a company that has only one employee – and that employee also owns fifty per cent or more of the issued share capital in that company – from any requirement to take out Employers’ Liability Compulsory Insurance.

Yours faithfully

Carla McNulty Bauer
Minister

(NB The Policy Council has no comment on the proposals.)

(NB The Treasury and Resources Department has no comment on the proposals.)

The States are asked to decide:-

X.- Whether, after consideration of the Report dated 22nd July, 2008, of the Commerce and Employment Department, they are of the opinion;-

1. To enact an Ordinance under the provisions of the Employers' Liability (Compulsory Insurance) (Guernsey) Law, 1993, in order to exempt any employer which is a company that has only one employee – and that employee also owns fifty per cent or more of the issued share capital in that company – from any requirement to take out Employers' Liability Compulsory Insurance.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

SOCIAL SECURITY DEPARTMENT

BENEFIT AND CONTRIBUTION RATES FOR 2009

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

25th July 2008

Dear Sir

Executive summary

1. This report is in five parts:

Part I *Social insurance*

summarises the financial position of the Guernsey Insurance Fund;

recommends increases in the rates of social insurance benefits from 5 January 2009;

recommends increases in the lower and upper earnings limits for contributions and reports on the finances of the social insurance scheme; and

explains the timetable for consultation on the future financing of the social insurance scheme, having regard to variations in contribution rates, the States grant from General Revenue and pensionable age;

reports on the increasing number of people receiving invalidity benefit;

Part II *Health Benefits*

summarises the financial position of the Guernsey Health Service Fund;

reports on the contracts with the Medical Specialist Group and the Guernsey Physiotherapy Group for the delivery of the specialist health insurance scheme;

reports on the pharmaceutical service and recommends an increase in the prescription charge; and

Part III ***Long-term care insurance***
summarises the financial position of the Long-term Care Insurance Fund;

recommends increases in the standard co-payment and benefit rates to take effect from 5 January 2009.

Part IV ***Non-contributory services***
recommends increases in supplementary benefit requirement rates from 9 January 2009;

recommends a winter fuel allowance;

recommends an increase in family allowance from 5 January 2009 and reports on the results of a consultation process regarding income-related family allowance;

recommends an increase in the rates of attendance and invalid care allowances from 5 January 2009;

comments on the Community and Environmental Projects Scheme;

comments on the free TV licence scheme;

Part V ***Recommendations***
sets out a summary of the Department's recommendations.

Introduction

2. The Department has undertaken its annual review of the social security and health benefits paid under the various schemes for which it is responsible and, with the exception of medical benefit grants, will recommend increases in all benefit rates.
3. The most recent RPI figure for Guernsey was 5.5% for the year to 30 June 2008. The Department is recommending general increases of approximately 5.5% in non-contributory benefits funded by general revenue and for the long-term care insurance scheme. But for the contributory social insurance benefits, which include old age pension, the Department is recommending an increase of approximately 6.5%. The proposed increase in the social insurance benefit rates is expected to result in an operating deficit of £0.8m in 2009 for the Guernsey Insurance Fund. This will be covered by the Fund's investment income. The Department will be bringing a consultation paper to the States later this year containing proposals for the sustainability of the contributory social insurance

scheme. Those proposals are being developed in cooperation with the Treasury and Resources Department.

PART I SOCIAL INSURANCE

4. In 2008, the contribution rates and the upper earnings limits and upper income limits for employed, self-employed and non-employed people and for employers are at the levels set by the States in June 2006 (Resolution 9, Billet d'Etat XI of 2006) as a key part of the Future Economic and Taxation Strategy. The rates that apply in 2008 have been reached in two stages, with a significant move towards the required position having taken effect from 1 January 2007 and the remainder taking effect from 1 January 2008.
5. The current upper earnings limit of £64,896 per annum for employed and self-employed people, the upper earnings limit of £108,108 per annum for employers and the upper income limit for non-employed people are very much higher than the figure of £36,036 that applied to all parties in 2006. In accordance with the Economic and Taxation Strategy, the increased contribution income from these higher upper limits, together with the increase in the employers' contribution rate, from 5.5% to 6.5% of earnings, has allowed a compensatory reduction in the States grants to the contributory funds from general revenue. The situation concerning the States grants is explained later in this report, in paragraphs 58 to 67.

Number of people unemployed

6. It is customary in this annual report to refer to current levels of unemployment. As at the end of June, there were 141 people claiming contributory unemployment benefit. This represents just 0.4% of the working population. There were a further 91 people without entitlement to the contributory unemployment benefit but receiving supplementary benefit on the basis that they had no work or that their earnings were insufficient to remove them from benefit support. A further 34 people were temporarily employed on the Community and Environmental Projects Scheme or a training scheme. Adding all of these groups together produces an unemployed total of 266, which is 0.8% of the working population.

More people receiving invalidity benefit

7. While it has been customary to draw attention to unemployment levels, little attention has given to the number of people of working age who are receiving invalidity benefit. There are 788 people currently receiving invalidity benefit, which is 2.5% of the working population. This is a matter of concern to the Department. A report on how the increased number of claimants, the diagnoses of incapacity and the measures being taken by the Department appears at the end of this part of the report (paragraphs 69 to 87).

Proposed Benefit Rates for 2009

8. The Department is recommending increases in the rates of pension and all other social insurance benefits of approximately 6.5% to take effect from 5 January 2009.
9. In 2007, benefit expenditure on old age pensions amounted to £66.6m and constituted 82% of the total expenditure of £80.9m on social insurance benefits. At the end of June 2008, the Department was paying pensions to 14,130 pensioners worldwide. Approximately 9,700 of these pensions were being paid to residents in Guernsey and Alderney.
10. The proposed 6.5% increase in old age pension will add £10.50 per week to the full rate single pension, will add £5.25 per week to the so called 'married woman's pension' and will mean a £15.75 per week increase for a pensioner couple on full rate pension. The increase will be more than £15.75 per week in cases where both spouses were paying full-rate contributions throughout their working lives and they separately receive two full pensions.
11. The term 'married woman's pension', in the paragraph above, is used to describe the pension that a married woman is able to claim based on the contribution record of her husband. It is now approximately 50% of the amount of the pension that her husband receives. It is exactly the same rate as is currently available as an increase to a husband's pension in respect of a wife under 65 years of age. When the woman reaches pension age, the increase to her husband's pension stops and the woman is assessed for a pension in her own right. If she cannot get a better level of pension based on her own record, she will get a 'married woman's pension' at the same rate as was being paid to her husband as an increase to his pension.
12. The married woman's pension has at no time been a 100% old age pension. The most it has ever been is 62% of the amount that the husband is receiving.
13. The 62% proportion has reduced to 50% as a result, in recent years of strengthening the single pension, relative to the combined amount for a married couple, in response to the 2002 findings of the Townsend Centre for International Poverty Research on relative poverty in Guernsey.
14. From 1 January 2004, however, major reforms to the contributory pension scheme took effect. The reforms brought about an individualisation of pension entitlements which, increasingly as time goes on, will improve the pensions of women. The reforms include recognition of time spent bringing up children, as a contribution credit is now available for weeks in which a person, male or female, who is not in gainful employment, is receiving family allowance in respect of a child under 16. The reforms also honour the expectation under the previous rules of receiving pension benefits based on a husband's record. This is achieved by allowing a woman who was married as of 31 December 2003 to be

awarded a pension record equivalent to 62% of her husband's contribution average for each year up to 31 December 2003. From 1 January 2004 onwards, married women are treated the same as single women and all men, being responsible for their own contribution records by either contributions paid in respect of work, family allowance credits or voluntarily paid contributions. If no such contributions are paid, the woman's contribution record, and hence eventual pension entitlement, will be deficient. Overall, however, the future will see more women receiving a full old age pension and many more women receiving pensions better than the married women's pension.

15. In view of the pension reforms which took effect from 2004, the Department does not envisage making further recommendations to strengthen the single pension, but will recommend applying the same annual increase to the single pension and to the married woman's pension.
16. The proposed new rates of pension and other contributory social insurance benefits are shown below:

Weekly paid benefits	2009	(2008)
Old age Pension -		
Insured person	£171.25	(£160.75)
Increase for dependant wife or pension for wife over 65 (marriages pre 01-01-04)	<u>£85.75</u> £257.00	<u>(£80.50)</u> (£241.25)
Widow's/Survivor's Benefits -		
Widowed Parent's Allowance	£180.00	(£169.00)
Widow's Pension/Bereavement Allowance	£154.75	(£145.25)
Unemployment, Sickness, Maternity and Industrial Injury Benefit	£126.00	(£118.30)
Invalidity Benefit	£153.44	(£144.06)
Industrial Disablement Benefit -		
100% disabled	£138.00	(£129.50)
One-off grants		
Maternity Grant	£316.00	(£297.00)
Death Grant	£490.00	(£460.00)
Bereavement Payment	£1,553.00	(£1,458.00)

17. These foregoing rates of weekly benefit and grants apply to persons who have fully satisfied the contribution conditions. Reduced rates of benefit are payable on incomplete contribution records, down to threshold levels.

Restoring proportionality of pension rates

18. In last year's benefit uprating proposals (Billet d'Etat XX of 2007), the Department explained how the rates of pension payable for incomplete

contribution records, particularly at the lower end of the scale, were not proportional to the number of contributions. For example, in 2007, full rate pension, payable on an average of 50 contributions per year was £151.50, but a pension based on an average of 10 contributions per year was £32.00 per week instead of the £30.30 per week that would be proportional to the number of contributions paid.

19. The reason for the distortion was the residual effect of an annual Christmas Bonus that was paid from General Revenue between 1973 and 1990, after which time it was stopped. The 1990 value of the Christmas Bonus, being £20 per pensioner was converted into a £1 per week addition to all pensions, both full and partial records.
20. The Department recommended the States, last year, to restore the true proportionality of reduced pensions within the contributory scheme. The Department reported that more than three-quarters (78%) of small, partial pensions were being paid to pensioners living outside Guernsey, for whom there was no justification for preserving a former general revenue benefit that was intended only for residents. Furthermore, contributors who were now reaching pension age and, unknowingly, receiving a preserved Christmas Bonus within their Guernsey pension were no older than 48 when the Bonus was removed.
21. Having considered the Department's proposals, the States resolved (Billet d'Etat XX of 2007):

'that the strict proportionality in the rates of old age pension for incomplete insurance records shall be restored over a two year period through removal of the residual Christmas bonus element within all pension rates.'

22. In accordance with the above Resolution, from January 2008 the increases that were applied to pensions based on incomplete contribution records were held back below the general percentage increase applied to pensions for complete contribution records. A similar situation will apply from January 2009, when the process will be complete and strict proportionality will be restored.
23. For example, from 5 January 2009, full rate pension, based on a contributions average of 50 will be £171.25 (+6.5%). A pension based on a contribution average of 25 will be £85.63 (+5.8%) and a pension based on a contribution average of 10 will be £34.25 (+3.6%).
24. It should be noted that Guernsey and Alderney residents receiving a partial pension are encouraged to seek assistance from supplementary benefit unless they have significant levels of savings or income from other sources.

Social insurance contributions

25. The Department will not be recommending any changes to the percentage

contribution rates for 2009, which will therefore continue at the current rates shown below. However, as outlined in paragraphs 63 to 67 of this report the Department intends reporting to the States by the end of 2008 with a consultation document concerning the future funding of the contributory social insurance scheme and covering contribution rates, the States grant from general revenue and possible change to pensionable age. The report later in the year may result in changes to the percentage contribution rates from 2010.

Contribution rates for employed persons	2008 and 2009
Employer	6.5%
Employee	<u>6.0%</u>
Total	<u>12.5%</u>

Contribution rates for self-employed persons	10.5%
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Contribution rates for non-employed persons under 65	9.9%
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Contribution rates for non-employed persons over 65	2.6%
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2009 upper earnings limit for employed people

26. Although no immediate changes are recommended in the percentage rates of contribution, the Department does recommend increases of 6.5% in the upper earnings limits for employed people, employers, self-employed people and non-employed people, to match the proposed increases in benefit rates.
27. Accordingly, the Department recommends that, from 1 January 2009, the upper earnings limit for employed people should increase from £64,896 per annum to £69,108 per annum. For people paid weekly, this means an increase from £1,248 to £1,329 per week. For people paid less frequently than weekly, this means an increase from £5,408 to £5,759 per month.

2009 upper earnings limit for employers

28. The Department recommends that, from 1 January 2009, the upper earnings limit for the employers' contribution be increased from £108,108 per year to £115,128 per annum. For people paid weekly, this means an increase from £2,079 to £2,214 per week. For people paid less frequently than weekly, this means an increase from £9,009 to £9,594 per month.
29. The effect of the proposed new upper earnings limit on people who pay a contribution at the new upper earnings limits is as overleaf:

Maximum 2009 contributions (2008 in brackets)

Weekly Earnings	Contributions per week		
	Employer	Employee	Total
	6.5%	6.0%	12.5%
Upper Earnings Limit	£2,214	£1,329	
	(£2,079)	(£1,248)	
Maximum payable	£143.91	£79.74	£223.65
	(£135.13)	(£74.88)	(£210.01)

Number of contributors paying at upper earnings limits

30. In 2006, with an upper earnings limit of £36,036 per year, 23% of employed persons and 35% of self-employed persons were contributing on earnings at that level.
31. In 2007, with an upper earnings limit of £53,664 per year, there were 10% of employed persons and 20% of self-employed persons paying on earnings at that level.
32. In 2008, with an upper earnings limit of £64,896 per year, there were 8% of employed persons and 18% of self-employed persons paying on earnings at that level.
33. In 2008, with an upper earnings limit of £108,108 per year for employers, contributions were being paid at that level of earnings in respect of 3% of employees.

2009 lower earnings limit for employed people

34. The Department proposes to increase the lower earnings limit from £105 per week to £112 per week. The corresponding monthly limit would be £485.33.
35. The effect of the foregoing changes on a contribution at the lower earnings limit is as follows:

Minimum 2009 contributions (2008 in brackets)

Weekly Earnings	Contributions per week		
	Employer	Employee	Total
	6.5%	6.0%	12.5%
Lower Earnings Limit			
£112	£7.28	£6.72	£14.00
(£105)	(£6.82)	(£6.30)	(£13.12)

2009 upper earnings limit for self-employed people

36. The Department recommends that the upper earnings limit for self-employed persons be increased from 1 January 2009 from £64,896 to £69,108 per year.
37. The effect of the proposed new upper earnings limit on self-employed people who pay a contribution at the upper earnings limit is as follows:-

Maximum 2009 contributions (2008 in brackets)

Annual earnings from self-employment	Contributions per week
	10.5%
£69,108 or more	£139.54
(£64,896 or more)	(£131.04)

38. Self-employed people who have applied to pay earnings related contributions, and whose earned income from self-employment was less than £69,108 per year, will pay less than the maximum contribution.
39. The proposed increase in the lower earnings limit from £105 to £112 per week would mean that the lower annual earnings limit for self-employed persons in 2009 would be increased from £5,460 to £5,824 (£112 x 52). The minimum self-employed (Class 2) contribution in 2009 would be £11.76 per week (£11.02 in 2008).

2009 upper income limit for non-employed people

40. The Department recommends that the upper income limit for non-employed persons be increased from 1 January 2009 to £69,108 per year.
41. As with the self-employed, non-employed contributors are liable to pay non-employed, Class 3 contributions, at the maximum rate unless application is made to the Department and authorisation given for the release of the relevant information by the Administrator of Income Tax. This allows an income-related contribution to be calculated
42. There are two categories of non-employed contributions:
- (i) Full percentage rate contributions to cover social insurance, health service and long-term care insurance liabilities. This is the rate of contribution that non-employed adults under the age of 65 are liable to pay, based on their personal income. The contribution rate is 9.9% of income up to the upper income limit;
 - (ii) Specialist health insurance and long-term care insurance contributions. These contributions, which are payable by people aged 65 or over, go

towards funding the specialist health insurance scheme and the long-term care insurance scheme. The contribution rate is 2.6% of income up to the upper income limit.

43. A small number of non-employed contributors aged between 60 and 65 have a preserved right to continue paying non-employed contributions at the reduced rate of 4.2% of income. This concessionary rate closed to new entrants from 1 January 2007. Consequently, the number of non-employed people paying the reduced contribution rate has since been decreasing and will reduce to zero by no later than 31 December 2011, as all such contributors will have reached 65 by that time.
44. The Department recommends that the lower income figure at which non-employed contributions become payable be increased from £13,650 per year to £14,560 per year from 1 January 2009.
45. The following table shows the minimum and maximum weekly contributions payable in 2008 by non-employed people. People with income at some point between the upper and lower limits will pay pro-rata.

2009 non-employed weekly contributions (2008 in brackets)

Annual Income	Full rate (under 65)	Specialist health and long- term care only (over 65)
	9.9%	2.6%
Less than £14,560	zero	zero
(less than £13,650)	(zero)	(zero)
£14,560	£27.72	£7.28
(£13,650)	(£25.99)	(£6.82)
£69,108	£131.57	£34.55
(£64,896)	(£123.55)	(£32.45)

Investigation of allowance for non-employed contributions

46. The Department has received representations from a number of contributors concerning the affordability of the non-employed contribution and, in particular, the fact that when a contributor's income reaches the lower income limit, the contribution is charged on the total income. As can be seen from the forgoing table, a non-employed person under 65 with annual income of £14,559 would pay no contribution, but a person with income of £14,560 would pay £27.72 per week.

47. The Department undertook to examine the merits of an allowance being made on personal income, similar to an income tax personal allowance, in respect of non-employed contributions. This appears as a Level 4 action on the Department under the Government Business Plan Priority 4 - redistribute wealth wisely in the community.
48. In considering this issue, the Department has also had regard to the Level 3 action, also within Priority 4, of '*considering how savings could be made by merging and consolidating the collection, payment and treasury systems ...of the Treasury and Resources Department and the Social Security Department*'. This is a major piece of work, but a positive start has been made in a very good spirit of cooperation between the Departments.
49. The Department is mindful of the need to resolve the issue of allowances for non-employed contributions without undue delay.
50. The Social Security Department considers the collection of income-related contributions from people over 65 as the most obvious example of a function that should be transferred to the Treasury and Resources Department and has corresponded with that Department to put the proposal on a formal footing. More detailed discussions between the two Departments will continue in order to determine the timescale for such a change to be implemented. If this can be achieved within the next 12 months, it would seem sensible to introduce an allowance on income at the same time as a transfer of the collection function to the Treasury and Resources Department. If the timescale is longer than 12 months, the Social Security Department will make changes to its own systems to enable the introduction of an allowance. This will involve some investment in software changes. It will almost certainly also require a report to the States recommending an increase in the percentage rate of non-employed contributions to recoup from people paying on higher levels of income the contribution income forgone in applying an across-the-board allowance on income.
51. One of the main reasons why the collection of contributions from the over 65s could be transferred to the Treasury and Resources Department is that the contributions are being collected only for the specialist health insurance scheme and the long-term care insurance scheme, for which, unlike benefit such as pension, sickness and unemployment, a weekly record of an individual's contributions is unnecessary. A second reason is that non-employed contributions are charged against income from all sources, whereas employed and self-employed contributions are charged against earnings from employment or self-employment. As the Income Tax Office holds the information of people's total income, it makes good sense for the non-employed contributions from over 65s to be collected from that office.
52. While there appears to be an attractive solution to issues concerning non-employed contributions for people over 65, the solution cannot apply in the same way to non-employed contributions for people under the age of 65, where it is

still necessary to record weekly contributions paid or credited for benefit purposes, in particular pension. As the number of non-employed people under 65 who are paying income-related contribution is relatively small, the Department considers that the issue of the affordability of the non-employed contribution may be able to be addressed in a different manner.

Voluntary contributions

53. As shown above, where a non-employed person's annual income is below £14,560, that person will be exempted from the payment of contributions. However, this could affect old age pension entitlement. A voluntary contribution which counts towards old age pension can be paid by or on behalf of non-employed people, resident in Guernsey and under pension age, with personal income below the lower income limit.
54. The voluntary contribution in 2008 is £14.96 per week. The rate is calculated by applying the social insurance element of the non-employed contribution rate, being 5.7% of the total 9.9%, to the lower income limit. With a proposed lower income limit of £14,560 per annum in 2009, the voluntary contribution will increase to £15.96 per week.

Special (minimum) rate Class 3 contributions

55. A special rate non-employed contribution is payable by insured persons who would normally rely upon employed contributor's employment for their livelihood, but have a small gap in their record where they were neither employed nor receiving an unemployment credit. The rate of this contribution is aligned with the rate of the voluntary contribution. The special rate Class 3 contribution will, therefore, be £15.96 per week in 2009.

Income and expenditure on Guernsey Insurance Fund

56. The Guernsey Insurance Fund accounts for 2007 show income from contributions of £65.25m and from the States' Grant of £23.47m, giving a total income of £88.72m, before taking investment income into account. Total benefit expenditure and administration amounted to £84.33m, producing an operating surplus, before depreciation, of £4.39m. Depreciation of £1.16m, mainly comprising the Department's new computer systems, reduced the operating surplus to £3.23m for the year.
57. Within the administrative costs, salary and superannuation costs for all of the Social Security Department's activities amounted to £3.76m, an increase of just 0.5% on the previous year.

States grants from general revenue

58. A key part of the Future Economic and Taxation Strategy has involved reductions in the levels of the States grants to the contributory funds from

general revenue. The original purpose of the grants was to supplement the contributions of people who were earning below the upper earnings limit and, consequently, not paying at the true support rate for the pay-as-you-go contributory schemes.

59. In 2006, the grants from general revenue to the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund amounted to £38.59m, as shown below:

2006	General Revenue grant
Guernsey Insurance Fund	£27,939,152
Guernsey Health Service Fund	£9,194,359
Long-term Care Insurance Fund	<u>£1,454,562</u>
	£38,588,073

60. As the grants are formula-led as a percentage of contributions received, and as contribution income tends to show normal annual increases ahead of RPI, the States grants in 2008, had there been no change from the historic position, would have been at some level more than £42m, being the £38.59m shown above, uprated by RPI for 2006 and 2007.

61. Based on the reduced percentages of the grants that now apply, the Department estimates that the States grants in 2008 will amount to £16.07m, as shown below:

2008 (estimate)	General Revenue grant
Guernsey Insurance Fund	£12,170,000
Guernsey Health Service Fund	£3,900,000
Long-term Care Insurance Fund	<u>£0</u>
	£16,070,000

62. This shows that the revisions to the upper earnings limits and employers' contribution rate, with compensatory reductions in the States grants has produced an annual saving to general revenue of at least £26m (£42m - £16m), thereby meeting the requirements of the Future Economic and Taxation strategy.

Current percentages of States Grants

63. In accordance with the Resolution of the States on 28 September 2007 (Billet d'Etat XX), from 1 January 2008 the States Grants to the Guernsey Insurance Fund and the Guernsey Health Service Fund have been in the amounts shown below.

Fund	2008 States Grant
Guernsey Insurance Fund	15% of contribution income
Guernsey Health Service Fund	12% of contribution income

64. The States further resolved:

'That the Social Security Department should carry out a comprehensive review of the long-term future funding of the Guernsey Insurance Fund, Guernsey Health Service Fund and the Long-term Care Insurance fund in conjunction with the Treasury and Resources Department, and that -

- (a) the Review should, in particular, encompass all possible options for contribution rates, the level of the States Grant and the retirement age and include actuarial advice and wide consultation, and*
- (b) the results of the Review should be reported to the States as part of the Benefit and Contribution Rates Report in September 2008'.*

65. While substantial progress has been made with the financial modelling, including the actuarial projections, the progress has not been such as to enable the Department to report as required at the September 2008 States meeting. In particular, there has to date been no consultation with the community on the merits of increasing retirement age. The Minister of the Social Security Department made a statement to that effect at the June States meeting.

66. The Social Security Department recommends a continuation of the formula-led States grants, at the percentages shown in paragraph 63 above, for a further year, namely for 2009. The Department is preparing a report for the December 2008 States meeting, which will be in the form of a consultation document allowing a full exploration of the funding issues relevant to the sustainability of the contributory social insurance schemes. The Department will ask for early publication of that December report. The Department anticipates that, following the December consultation report and the investigation of ideas that flow from that process, the Department will be in a position to return to the States in May or June 2009 with firm proposals for the level of the States grants to apply in 2010 and beyond.

67. The above approach has the support of the Treasury and Resources Department, which will be closely involved in the process.

Estimated operating surplus/deficit on Guernsey Insurance Fund

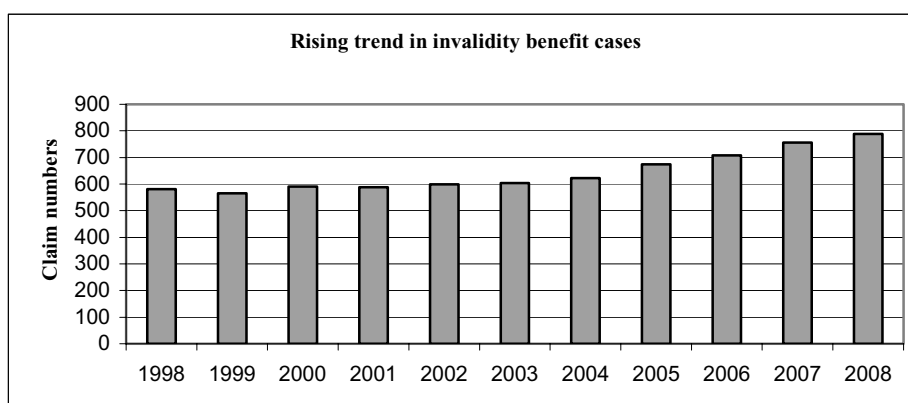
68. Taking into account all of the foregoing including the proposed revised rates of benefits, for the Guernsey Insurance Fund, it is estimated that:

- (1) there will be an operating surplus in 2008 in the order of £1.4m; and
- (2) there will be an operating deficit in 2009 in the order of £0.8m

Report on increasing number of claims for invalidity benefit

69. Invalidity benefit is a long-term sickness benefit for people who have been incapable of work for more than 6 months.

70. There are 788 people currently receiving invalidity benefit, which is 2.5% of the working population. In 1998, there were 581 people receiving invalidity benefit, meaning that over a 10 year period the numbers have increased by 36%. While mindful that a very similar situation has been reported in the United Kingdom, the Department recognises this as a matter of great concern. The Department is keen to increase further its efforts in helping people return to the workforce.
71. In terms of cost to the Guernsey Insurance Fund, invalidity benefit expenditure for 2007 was £5.5m and is expected to be just over £6.0m for 2008.
72. The graph below shows the rising trend in invalidity benefit numbers since 1998.



73. The table below shows the age range and gender of the people currently receiving invalidity benefit.

Age range and gender of invalidity benefit cases as at 31 May 2008			
Age	Gender		Totals
	M	F	
16-19	3	1	4
20-29	25	18	43
30-39	41	43	84
40-49	80	87	167
50-59	146	124	270
60-64	148	72	220
			788

Controlling invalidity benefit claims

74. During the first six months of incapacity for work, when sickness benefit is being paid, the Department employs a number of strategies to monitor and manage the claims in order to improve the chances of people returning to work before invalidity benefit becomes payable. The Department also has strategies in place for monitoring and managing all other existing invalidity benefit claims where a return to work at some stage is still firmly on the agenda. Staff involved in the monitoring process arrange home visits to assess work capacity, discuss

claims with the Department's Medical Adviser who then writes to the GP or Specialist issuing the medical certificates and arrange for some claimants to be medically examined by the Incapacity Advisory Board to establish capacity for any form of work. Although claims came to an end during 2007 for a variety of reasons, the monitoring strategies outlined above accounted for the direct closure of 67 invalidity benefit claims.

75. Approximately 8% of invalidity benefit claimants (64 cases as at 31 May 2008) have left Guernsey to reside in the UK or overseas, which is permitted under the terms of the various reciprocal agreements held with these countries. Where a return to work is still considered feasible, officials of the reciprocating countries assist with the formal review process.
76. The table below shows the claim numbers in respect of the ten most common causes of long-term incapacity.

**Ten most frequent diagnoses on invalidity
benefit claims
as at 31 May 2008**

Diagnosis	Claim Numbers	% of all claims
Mental disorder	125	15.9%
Depression	45	5.7%
Back pain	19	2.4%
Anxiety	18	2.3%
Low back pain	16	2%
Cerebrovascular accident	13	1.7%
Chronic fatigue syndrome	12	1.5%
Neck pain	12	1.5%
Multiple sclerosis	11	1.4%
Surgery	11	1.4%

77. The biggest growth area in terms of reasons for long-term incapacity is in mental health, which mirrors national trends. At the end of May 2008, the principal diagnosis on the medical certificates in approximately 30% of invalidity benefit claims related to mental health conditions. However, in many other cases of long-term incapacity there are underlying mental health problems which also have an impact upon return to work rates.
78. Based on the 30% figure referred to above, incapacity by reason of a mental health issue is costing nearly £2m per year in invalidity benefit alone. On top of that cost will be additional supplementary benefit in some cases. There is the loss to the workforce and productivity. Most important of all, there is the impact on the patients' lives and those of their families.

79. It is worth noting that the Department's figures relate only to people who would normally be in employment and excludes non-employed people such as non-working spouses and partners, parents staying at home to bring up children and retired people, among which groups there will be additional people with mental health issues.
80. Twice-yearly there are formal meetings of the full memberships of the Social Security Department and the Health and Social Services Department. The prevalence of mental health diagnoses among claims for invalidity benefit has been raised and discussed at the last two meetings of the Departments. The Social Security Department receives correspondence from benefit claimants and General Practitioners which refers to very long waiting time before being able to be seen by the psychiatric services. The Department is supportive of increased resources being made available to the Health and Social Services Department in this very important area of health provision.

New initiatives implemented

81. Returning to the general issue of incapacity for work, early intervention is vital in order to maximise the opportunities for work rehabilitation and to reduce the number of sickness claims at risk of becoming long-term. UK Department of Health figures show that people who are on incapacity benefit for one year are likely to stay there for eight. Once they have been there for two years or more, they are more likely to die or retire than work again (Alan Johnson, Health Secretary "sick note culture" 22 February 2008). At the end of July 2008 there were 77 people receiving sickness benefit by reason of a mental health issue. Some of this number will inevitably join those receiving invalidity benefit after 6 months of incapacity.
82. In 2005, the Department introduced the back to work benefits, which provide a range of initiatives aimed at encouraging and supporting people back into work. These benefits are available from the eighth week of incapacity, thereby supporting early intervention policies. One of these initiatives is known as 'gradual return to work' and has enabled some people to hold on to employment which might otherwise have been lost if the employees had been unable to return until fully recovered from their illness. 42 people returned to work on a gradual basis during 2006 and 44 people returned to work gradually during 2007.
83. In 2006 the Department appointed its first work rehabilitation officer to help improve the chances of people returning to work. The primary function of this new role is to work on a one-to-one basis with long-term sick and long-term unemployed claimants to help remove barriers to employment and assist with the transition into work. During 2006 the work rehabilitation officer worked with 67 individuals and 41 entered some form of suitable employment and during 2007 she worked with 108 individuals and 43 entered some form of suitable employment. Due to the success of this appointment a second work rehabilitation officer was appointed on a part-time basis in April 2008. Both posts were appointed by transfers from administrative support posts which the

Department is now having to manage without, in favour of this priority area of work. The Department is reviewing the adequacy of the staff resources engaged in the work rehabilitation area, which it considers a priority.

84. Since May 2006 the Department has been contracting out some of its most complex work rehabilitation cases to a work rehabilitation professional. As a result, during the last two years 27 people with long-term claims for sickness and unemployment entered some form of suitable employment.

Latest developments

85. To maximise opportunities for early intervention, the Department has also been working with the doctors of the Primary Care Committee, which has resulted in a number of strategies being agreed. For example, medical certificates have been redesigned so that doctors can send a message back to an employer that a workplace adjustment might enable an earlier return to work. This new style certificate also makes it possible for doctors to send a clear message to the Department that an individual is ready to attempt a gradual return to work or would benefit from a work focused meeting. Since December 2007 doctors have used the new style medical certificate to bring about meetings with social security staff for 25 people wishing to attempt a gradual return to work and for 53 people who would benefit from a work-focussed meeting.
86. Other strategies for controlling invalidity benefit claims include the abolition of 'continuation' as a diagnosis for second or subsequent medical certificates, which improves the integrity of the statistical information held by the Department and encourages doctors to consider what medical condition is actually preventing a patient from returning to work. Also, as part of their induction process, General Practitioners new to the Island will spend time with social security staff to discuss how claims are monitored and to find out what provisions are available locally to assist with work rehabilitation. The Primary Care Committee is very supportive of the Department's efforts to encourage and support work rehabilitation and as a result, further strategies are to be discussed and implemented in order to maximise return to work options for patients who might otherwise become long-term invalidity benefit claimants.
87. Given that the growth area in long-term incapacity relates to mental health, the Department has discussed its concerns with the Health and Social Services Department. To help facilitate earlier access to treatment for some patients the Health and Social Services Department is taking steps to provide access, at primary care level, to cognitive behavioural therapies (CBT). In the UK there are approximately six million people who suffer from disabling depression and anxiety disorders but only a quarter of them are receiving any treatment (Mental Health Today December 2006). As a result, the UK Government is taking steps to improve access to talking treatments. Not only does this meet the demand from people wanting alternatives to medication for so-called common mental health problems, but the UK Government believes that it could also help cut the numbers of people claiming incapacity benefit primarily or secondarily because

of mental health problems. The Social Security Department is, therefore, very supportive of this local initiative. If enough people can access the talking treatments the Department believes that it will reduce the number of patients at risk of becoming economically inactive through long-term incapacity.

PART II HEALTH SERVICE BENEFITS

88. The health service benefits, costing £29.91m in 2007, were financed by £27.04m from contributions allocated to the Health Service Fund and £7.30m from the States' Grant from general revenue. There was an operating surplus, before investment income, of £4.43m.

Medical Benefit Grants

89. The total benefit expenditure on consultation grants in 2007 was £3.40m. This was the same as the previous year and the first time in the sixteen year life of this particular benefit that there was no year-on-year increase of volume. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.
90. The Department will not be recommending any change in the level of the consultation grants for 2009. The Department included in its operational summary, appended to the Government Business Plan (Billet d'Etat XVIII of 2007) the comment that one of its longer term objectives was to give consideration to abolishing the grant and replacing it with a more targeted, income-related scheme of support.

Pharmaceutical Service

91. Prescription drugs cost a total of £14.52m in 2007, before netting off the prescription charges paid by patients. This was an increase of 3.1% over 2006, which in turn had been only 2.0% over 2005. These are very satisfactory financial outcomes, particularly in view of the number of prescription items continuing to increase each year. While being aware that there will be unending pressures on the pharmaceutical service through the introduction of new drugs, the ageing population and the consequent increase in the number of prescriptions issued each year, the Department believes that pharmaceutical expenditure is at present better controlled than ever before. The Department is very grateful for the excellent cooperation received from prescribing doctors and community pharmacists. This has been facilitated through activities of the Prescribing Support Unit and, in particular, the States Prescribing Adviser. The Department also considers that the decision of the States, in 2003, to move from open-list prescribing to an approved 'white-list' has been shown to be very effective.
92. The total cost to the Health Service Fund for the drugs dispensed was reduced by approximately £1.4m collected in prescription charges.

93. The number of items prescribed under the pharmaceutical service increased by 5.2% in 2007 to 1.25 million items. However, the average cost of a prescription, including the dispensing fee paid to the pharmacist, reduced by 2%, from £11.84 per item to £11.60 per item.

Prescription charge

94. The prescription charge for 2008 is £2.70 per item. For a number of years the States have approved annual increases of 10p in the charge. The Department recommends the same increase this year, with a charge of £2.80 per item effective from 1 January 2009.

Specialist Health Insurance Scheme

95. The cost of the specialist health insurance scheme was £11.94m in 2007. After netting off a recovery of £99,000 from the Health and Social Services Department in respect of reciprocal health expenditure for visitors, the cost to the Guernsey Health Service Fund was £11.84m.
96. 2007 was the fifth year of the 15 year contracts with the Medical Specialist Group and the Guernsey Physiotherapy Group. Both contacts include terms for review of the contact price, within certain parameters, at the five and 10 year points. During 2007, with the Social Security Department and the Health and Social Services Department representing the States, detailed negotiations took place with both Groups and new baseline prices were agreed for the contracts. In accordance with the contractual terms, the new 2008 prices will be increased annually by RPI until 2012, when the 10 year review point is reached.
97. The contract with the Medical Specialist Group is based on a price per consultant, such price to include the consultant's earnings, support staff costs and rent and services costs of the medical practice premises. The 2007 price was £284,711 per consultant. The renegotiated price for 2008 is £325,162 per consultant. The increase of 14.2% is made up of a 4.9% increase for the RPI to September 2007, plus a 9.3% increase arrived at through negotiating within the contract parameters for the five year review. The most significant factor within those parameters was the requirement to have regard to the movement in consultants' earnings in the UK.
98. The contract with the Guernsey Physiotherapy Group is also based on the number of practitioners, but there are a range of prices depending on the grade of the physiotherapist. The contract with the Guernsey Physiotherapy Group cost £1.35m in 2007 and is expected to cost £1.50m in 2008.
99. The contract with the Alderney Medical Practices for treatment in the Mignot Memorial Hospital, due to expire on 31 December 2007, was extended until 28 February 2008. As reported to the States in February 2008 (Billet d'Etat II of 2008) and with States approval of a necessary amendment to legislation, the

Social Security Department and the Health and Social Services Department contracted with a single medical practice in Alderney, namely the Island Medical Centre, for the provision of medical services at the Mignot Memorial Hospital covered by the specialist health insurance scheme. Although this proposal caused some controversy prior to it being implemented, in practice it has proved very satisfactory.

100. The Alderney Hospital contract will cost £62,000 in 2008.

PART III LONG-TERM CARE INSURANCE

101. The Long-term Care Insurance scheme pays benefits to assist with fees in residential and nursing homes. The Department is recommending increases of 5.5% in the benefit rates.
102. Contribution income to the Long-term Care Insurance Fund was £14.34m in 2007. The Fund no longer receives a grant from General Revenue. With benefit and administration expenditure of £11.09m for the year, the Fund had an operating surplus of £3.25m.
103. The operating surplus remains relatively large in proportion to expenditure, but it is reducing year on year. This reflects the strategy for this particular fund, approved by the States prior to commencement of the scheme in 2003. The strategy is to have a front-loaded contribution rate of 1.4%, which should hold good for a minimum of 15 years, assuming no fundamental change in the range of benefits. This strategy involves the accumulation of reserves to provide an investment income to supplement future contribution rates.
104. Benefit expenditure increased by 10.6% in 2007, driven partly by the annual increase in benefit rates, but also by an increased provision of nursing beds during the year. The Department is expecting significant additional numbers of both residential and nursing beds to come on stream in 2008 and 2009, which will impact heavily on expenditure on the Fund and will foreshorten the planned 15 year sustainability of the contribution rate.
105. The long-term care insurance scheme currently has a very simple benefit structure of just 2 rates, one of residential care and the other for nursing care. The Department has been asked by the Health and Social Services Department to consider extending the number of graduations in the benefit structure to allow additional payments to be made in respect of people needing additional levels of care, in particular for mental infirmity. There are instances where the Health and Social Services Department could save on the expenditure of an off-island placement if more money could be paid to a local care home to cover additional care. The Health and Social Services Department is working on proposals for discussion with the Social Security Department.

Co-payment by person in care

106. It is a condition of entitlement to benefit under the long-term care insurance scheme that the person in care should make a co-payment. The 2008 co-payment is £154 per week. The Department recommends a co-payment of £162.40 per week from 5 January 2009.
107. It should be noted that the co-payment to the long-term care insurance scheme also sets the level of fee to be charged for accommodation in the States-run homes including the Castel and King Edward VII hospitals, the Maison Maritaine and the Longue Rue House as well as the long-stay beds in the Mignot Memorial Hospital, Alderney.

Nursing care benefit

108. The maximum nursing care benefit is currently £637 per week. The Department recommends that it should be increased to £672 per week from 5 January 2009.

Residential care benefit

109. The maximum residential care benefit is currently £341.25 per week. The Department recommends that it should be increased to £359.94 per week from 5 January 2009.

Respite care benefits

110. Persons needing respite care in private sector residential or nursing homes are not required to pay a co-payment. The long-term care fund pays instead. This is to acknowledge the value of occasional investment in respite care in order to allow the person concerned to remain in their own home as long as practicable. It also acknowledges that persons having respite care also continue to bear the majority of their own household expenditure. The respite care benefits, therefore, are the sum of the co-payment and the residential care benefit or nursing care benefit, as appropriate. The Department, therefore, recommends a nursing care respite benefit of up to £834.40 per week and a residential care respite benefit of up to £522.34 per week from 5 January 2009.

PART IV**NON-CONTRIBUTORY SERVICES FUNDED FROM GENERAL REVENUE**

111. For the non-contributory benefits contained in this Part of the report, which are funded entirely from general revenue, the Department recommends general increases of 5.5%.

Supplementary benefit

112. Supplementary benefit expenditure amounted to £13.00m in 2007. The expected outturn for 2008 is £13.50m.

113. As of June 2008, there were 620 pensioners receiving weekly financial assistance from supplementary benefit and a further 134 pensioners covered for their medical expenses. There were 435 single parents, 424 people incapable of work through sickness and 182 jobseekers claiming supplementary benefit. None of the foregoing numbers includes the number of adult or child dependants associated with the claim.

Supplementary benefit requirement rates

114. The Department recommends supplementary benefit requirement rates, to take effect from 9 January 2009, as follows:

(a)

Long-term supplementary benefit (after payment of short-term rates for 6 months)	2009	(2008)
Married couple	£213.65	(£202.50)
Single householder	£147.85	(£140.15)
Non-householder:		
18 or over	£114.75	(£108.75)
16 - 17	£97.20	(£92.15)
15	£60.15	(£57.00)
Member of a household -		
18 or over	£114.75	(£108.75)
16 - 17	£97.20	(£92.15)
12 - 15	£60.15	(£57.00)
5 - 11	£43.55	(£41.30)
Under 5	£32.20	(£30.50)

(b)

Short-term supplementary benefit rates (less than 6 months)	2009	(2008)
Married couple	£173.15	(£164.10)
Single householder	£120.25	(£114.00)
Non-householder:		
18 or over	£91.55	(£86.80)
16 - 17	£77.75	(£73.70)
15	£48.10	(£45.60)
Member of a household -		
18 or over	£91.55	(£86.80)
16 - 17	£77.75	(£73.70)
12 - 15	£48.10	(£45.60)
5 - 11	£34.90	(£33.10)
Under 5	£25.45	(£24.40)

A rent allowance, on top of the above short-term or long-term rates, will apply to people living in rented accommodation.

Benefit limitation in community

115. The benefit limitation is the maximum level allowed for the combination of supplementary benefit and income from other sources, excluding family allowances. The benefit limitation for people living in the community was increased substantially from January 2008, from £297 per week to £367 per week. This was primarily aimed at helping families receiving supplementary benefit and living in private sector rented accommodation.
116. The Department will be examining, with the Housing Department, the rent rebate scheme that applies to tenants of the Housing Department and to nominated tenants of the Guernsey Housing Association. This review will examine the interaction of rent rebates and supplementary benefit, and the impact of the benefit limitation on public and private sector rents. It is expected that the Housing Department will report to the States during the first quarter of 2009, or earlier if feasible, with a proposed revision of the rent rebate scheme. It is likely that changes to the supplementary benefit limitation will, in consequence, be required. In view of that work in progress, the Department will, in the meantime, recommend an increase of 5.5% in the benefit limitation from 9 January 2009, taking it to £387.00 per week.

Benefit limitation- residential homes

117. Notwithstanding the existence of the long-term care insurance scheme, there needs to remain a benefit limitation applicable to a person residing in a residential home who does not satisfy the residence requirements for long-term care insurance and may, therefore, need to rely on supplementary benefit assistance. The benefit limitation is currently £430 per week. The Department recommends an increase to £454 per week from 9 January 2009. It should be noted that this particular benefit limitation, and that of the following paragraph, are very seldom called into effect.

Benefit limitation- nursing homes and Guernsey Cheshire Home

118. Being necessary for the reason explained above, the Department recommends that the benefit limitation applicable to a person residing in a nursing home or the Guernsey Cheshire Home be increased from £617 per week to £651 per week from 9 January 2009.

Personal Allowance for residents of residential or nursing homes

119. The amount of the personal allowance for supplementary beneficiaries in residential or nursing homes is currently £25 per week. It is intended to allow modest purchases of, say, newspapers, confectionery, toiletries, small family

presents and so on. The Department recommends that the personal allowance be increased to £26.50 per week from 9 January 2009.

Personal Allowance for Guernsey residents in UK hospitals and care homes

120. The Health and Social Services Department pays for Guernsey and Alderney residents to be placed in UK hospitals and specialized institutions if their mental or physical health needs cannot be met on-island. While the Health and Social Services Department meets the cost of accommodation and care, residents are expected to pay from their own resources for items of personal expenditure. Residents who cannot afford these things can apply to the Social Security Department for a personal allowance.
121. Until 2008, personal allowances for people living in off-island placements were paid at a discretionary rate, which attempted to match the personal allowances that UK residents in the particular establishment were receiving from the Department of Work and Pensions or Local Authority. This proved an unsatisfactory arrangement and, on recommendation from the Department, the States resolved (Billet d'Etat XX of 2007) that a standard UK personal allowance should be introduced. The allowance would become part of the benefit uprating report proposals and the rate would appear in an Ordinance of the States.
122. There is a need for this particular personal allowance to be higher than the rate which applies in Guernsey residential and nursing homes, because the people living temporarily off-island tend to be a much younger age group, more active and with more opportunities for using a personal allowance in the course of their supervised activities and outings.
123. A personal allowance of £42.30 per week was introduced from 11 January 2008. The Department recommends a personal allowance of £44.60 per week to apply from 9 January 2009 for Guernsey residents living in UK hospitals, care homes and similar establishments.

Supplementary Fuel Allowance

124. A supplementary fuel allowance is paid from general revenue for 27 weeks from the last week in October until the last week in April of the year following. The fuel allowance was £19.30 per week for the 2007 to 2008 period.
125. The increasing cost of fuel, in particular oil, has been widely reported through the national media and the impacts are being felt by all islanders. In the year to June 2008, the price of fuel, light and power increased by 17.7%. The Department, therefore, recommends an increase of 17.7% in the supplementary fuel allowance, taking it to £22.70 per week for the winter of October 2008 to April 2009.

126. It is estimated that the fuel supplement will cost £800,000 over the 27 week payment period.

Cost of proposals for Supplementary Benefit

127. The expected outturn for supplementary benefit expenditure for 2008 is £13.60m. It is estimated that benefit expenditure in 2009, taking account of the above proposals, will increase by £1.0m to £14.60m.

Family Allowances

128. Family allowances expenditure amounted to £8.23m in 2007. The allowance is paid at the rate of £13.85 per week per child. The budget for 2008 is £8.53m.
129. The Department recommends that family allowance be increased to £14.60 per week from 5 January 2009. It is estimated that this will increase the expenditure on family allowances in 2009 by £390,000 to £8.92m.

Investigations into an income-related family allowance scheme

130. The Department has been examining the feasibility of a scheme of income-related family allowance, as a replacement for the current flat-rate universal system. A consultation document was issued to all Guernsey and Alderney households in July 2007. The Department has reviewed the findings from the consultation exercise and has done further financial modelling. The Department has concluded that a system of income-related family allowances should not be pursued. The reasons for this conclusion are contained in the paragraphs that follow.
131. Under the proposals, the weekly amount of family allowance paid by the Social Security Department to all families would have increased. Low income families would have kept all of the allowances but higher income families would have had some, or possibly all, of the allowances clawed back through income tax, based on a sliding scale.
132. The example which appeared in the consultation document sent to all households was for illustration purposes. It showed family allowance increasing to £20 per child per week. Family allowance would have started being clawed back through income tax when the gross family income exceeded a lower income threshold. The lower income threshold used in the example was £35,000 per year and a clawback rate of 10% was proposed. This would mean that for every £1 that a family's income exceeded the lower income threshold, 10p of the family allowance payment would have been clawed back by the Income Tax office.

Statistical analysis of the responses on income-related family allowances

133. In total, over 1,000 consultation responses were received. 986 questionnaires were completed and numerous letters were received from the public as well as

from States Members States Departments and Committees. An analysis of the responses in tabular form is appended to this report and are summarised in narrative below.

134. Of the 986 people who completed the questionnaire, 36% were in favour of changing to an income related family allowance system and 61% were against changing. 3% did not provide an answer to the question. This roughly equates to a ratio of 5:3 against change.
135. 63% of the 51 single parent households who responded were in favour of change and 33% were against change – roughly equating to a ratio of 2:1 in favour of change - although it should be noted that this is a relatively small sample of single parents. This reflects the fact that 73% of single parents who responded had a gross family income below the lower income threshold of £35,000, compared to just 24% of all respondents. Respondents with gross family incomes below this level would be better off under the proposals by £6.80 per child per week and so would be expected to be in favour of the proposals.
136. Interestingly, not everyone who would be better off under the proposals was in favour of change. 34% of respondents with gross family incomes of less than £35,000 were against change. This compares with 70% of respondents with gross family incomes of more than £35,000 who were against change. However, not everyone answered with their own personal interests in mind - 28% of people earning over £35,000 were in favour of change, although it is noted that some of these people may be better off under the proposals depending on their precise income and number of children.
137. The majority of people in favour of income related family allowance wanted to see the rate increase substantially (to £20 - £30 per child per week) whereas the majority of people against the proposals were happy for the rate to remain at current levels or increase by only a modest amount.
138. The clear majority view was that clawback should commence higher up the income scale than proposed.
139. 47% of people who were in favour of changing to an income related family allowance system were in favour of a clawback rate of 10%, as proposed. The majority of people who were against the proposals, either did not answer the question about clawback rate or said that it should be 5%, presumably to reduce the impact of the proposals on middle-income earners.
140. 48% of respondents were in favour and 42% were against introducing an upper income limit, above which all family allowance paid by Social Security would be clawed back by income tax, irrespective of the number of children in the family. There was no clear majority view regarding the level of the upper income limit.

Consideration of the main issues for income-related family allowances

141. It was clear from reading the written responses received, that the proposals caused great concern to many islanders. Passionate and forthright views against the proposals were expressed by many respondents. Although concerns were wide-ranging, they tended to fall, on the whole, into the following four broad areas:
 1. *That tax clawback may act as a disincentive for people to maximise their earning potential*
142. Many people believed that the proposals sent out the wrong message. The perception was that if you worked hard to support your family by getting a good education, sought promotion, worked overtime or had a second job, you would lose the one benefit that the States provides to working families. However, if you did not go to work and lived off benefits instead, you would get a higher rate of family allowance, funded by middle-income earners who could not afford to have their level of disposable income reduced.
143. This perception was not completely correct, as a person receiving supplementary benefit would have had their benefit payment reduced by the amount by which family allowance was increased, if their benefit payment was below the benefit limitation.
 2. *The system would be costly and complex to administer*
144. The proposed system would have been costly and complex to administer when compared with the current universal system. Additional staff would have been required, mainly based at Income Tax, to calculate the level of tax clawback payable by all families in receipt of family allowance. This increased administrative burden would have reduced the amount of money available for family allowance payments.
 3. *Basing eligibility on gross income took no account of high mortgage and child care costs*
145. The consultation document proposed that eligibility should be based on 'gross income', defined as all income assessed for income tax. This was essentially total income less deductions and allowances. Mortgage interest repayments are tax deductible but mortgage capital repayments and child care costs are currently not tax deductible.
146. Many respondents suggested that net income, rather than gross income, should be used when determining a family's eligibility. Exactly what would constitute net income was open to debate, although many people suggested that total mortgage repayments and childcare costs should have been taken into account.
147. A number of respondents noted that States house tenants with rebated rents could have been significantly better off than families with approximately the

same level of income living in private sector accommodation and paying high rents or mortgages. A number of female respondents commented that they would be better off if they gave up their jobs and stayed at home to look after their children and lived off their husband's wage as they would then be eligible for a States house and other benefits including income-related family allowance. Basing the income assessment on gross income would have served to increase the divide between the two groups of residents.

148. However, if the income assessment had been based on net income, after mortgage and childcare costs, this would have been even more complex to administer as every family claiming family allowance would have had to provide evidence of their mortgage and childcare payments which would have had to be taken into account by Income Tax when calculating the level of tax clawback.

4. *The lower income threshold was too low*

149. From the feedback received, it became clear that the proposed lower income threshold of £35,000 was far too low. By setting the lower income threshold at £35,000 and clawing family allowance back at a rate of 10%, families with one child and joint earnings in excess of £39,000 would have been worse off under the proposals than at present and families with one child with joint incomes of £46,000 or more would have retained no family allowance at all.
150. The Department received several strongly worded letters from families with gross incomes of £40,000 to £65,000 who said that they were struggling to pay large mortgages and high child care costs and that they relied on their weekly family allowance payments. Mortgage payments of up to £2,000 per month are not uncommon for modest family homes. Child care costs vary from £3.50 to £5.50 per hour depending on the age of the child and the type of care provided. Therefore, full time childcare can cost £600 to £950 per child per month. It was clear that relatively high incomes were largely committed on essential expenses and that people appreciated and, in many cases, relied on, the modest family allowance payments that they currently receive.

Assessment of alternatives for income-related family allowances

151. The feedback from the consultation exercise demonstrated that the proposals outlined in the consultation document were not acceptable, as they impacted too greatly on middle income families.
152. The Department then modelled three other options to establish if the proposals could be modified to make them more acceptable. The conclusions are summarised below:

1. *Increase the lower income threshold*

153. The modelling demonstrated that by increasing the lower income threshold to a level where middle income families would retain all of their family allowance

payments, there would have been insufficient revenue from tax clawback to provide a sufficient increase in the rate of family allowance to warrant the additional effort and complexity that would have been involved in administering an income related system.

2. *Introduce an upper income threshold above which all family allowance paid by Social Security would be clawed back*

154. Nearly half of all respondents were in favour of an upper income threshold above which all family allowance paid by Social Security would be clawed back by the Income Tax Office, irrespective of the number of children in the family. Having modelled a number of scenarios, it was clear that this would not have saved much because the majority of families with high incomes, for example, in excess of £60,000, would not have been eligible to receive family allowance under a clawback system in any case.

3. *Introduce a simple cut-off point below which people would receive a flat rate of family allowance and above which people would not receive any family allowance*

155. The modelling demonstrated that introducing a simple cut-off above which families would receive no family allowance would not have provided sufficient savings to fund an increase in the rate of family allowance large enough to have justified changing the system to what was considered a flawed alternative. A cut-off was considered fundamentally unfair to families with income marginally above the threshold as they would no longer have been entitled to receive any family allowance whereas families with marginally less income would have received more family allowance than at present.

Conclusions on income-related family allowances

156. The Department concluded that it was not possible to design an income related family allowance scheme, on a cost neutral basis, that would not adversely impact upon middle-income families while providing sufficient additional income for low income families to warrant the increased administrative costs and complexities. The Social Policy Group supported the Department's conclusions.
157. The Social Security Department, the Treasury and Resources Department and the Social Policy Group remain of the view that more should be done to assist low income working families. The two Departments have identified the following three main options for future welfare provision and have commenced investigations to determine which option should be pursued:

1. Update the existing supplementary benefit system; or
2. Introduce a income support scheme; or
3. Introduce a tax credits system.

158. It is relevant to note that the UK equivalent of family allowance, called child benefit, continues to be paid to all families in the UK on a non-means-tested basis, even though a comprehensive tax credit system is in place.

Attendance and Invalid Care Allowances

159. Attendance allowance is a benefit paid to people, including children, who are severely disabled, mentally or physically, and who need a lot of care by day or night. Invalid care allowance is paid to the person who is providing the care for a person receiving attendance allowance.
160. The Department recommends that attendance allowance and invalid care allowance be increased with effect from 5 January 2009 as shown below:-

2009 rates (2008 in brackets)

Attendance Allowance - weekly rate	£86.00	(£81.45)
Invalid Care Allowance - weekly rate	£69.50	(£65.75)
Annual income limit for both allowances	£79,000	(£75,000)

161. The annual income limit is the upper limit of income that a family may have, while still being entitled to receive either attendance allowance or invalid care allowance.
162. Benefit expenditure on attendance and invalid care allowances in 2007 was £2.20m. The budget for 2008 is £2.35. It is estimated that the Department's proposals will increase expenditure in 2009 by £140,000 to £2.49m.
163. The Department has embarked on a review of the attendance and invalid care allowances, which have been largely unchanged since their introduction in 1986.

Community and Environmental Projects Scheme

164. The Department administers the Community and Environmental Projects Scheme (CEPS), which offers short-term employment opportunities for unemployed people. The Department contracts with the States Works for the necessary supervision of the work teams and also for the provision of transport, equipment and tools.
165. The CEPS teams have undertaken a remarkably wide range of activities during the last year, including:
- Kerbside Recycling Scheme
 - Longue Hougue Recycling Centre
 - Noxious Weed removal
 - Bulk refuse collections

- Cleaning bring-bank sites
- Fontaine waste segregation site
- Litter picking at nature areas
- Pressure cleaning areas at La Vallette bathing pools

166. The hourly wage rates for the CEPS scheme are set by the Department and do not require a resolution of the States. For the information of States members, the 2008 hourly and standard weekly rates are shown below. The Department will determine the rates for 2009 later this year having regard, among other things, to settlements on public sector pay.

	2008
Under 18	£4.54 per hour
For 36 hours	£163.44
18 and over	£6.18 per hour
For 36 hours	£222.48

Free TV licences

167. In accordance with the resolutions of the States on the 2001 budget (Billet d'Etat XXIV of 2000), the Department administers a scheme to provide free TV licences for Guernsey and Alderney residents aged 75 or over and residents aged 65 or over and in receipt of supplementary benefit. Benefit expenditure under this scheme was £464,000 in 2007. The scheme is expected to cost £500,000 in 2008. The costs in 2009 will depend on the standard charge per TV licence made by the UK Department of Culture, Media and Sport.

**PART V
RECOMMENDATIONS**

168. The Department recommends:
- (i) that, from 5 January 2009, the standard rates of social insurance benefits shall be increased to the rates set out in paragraph 16 of this report;
 - (ii) to note that the increases in the rates of old age pension for incomplete contribution records will be below the headline rate, as the second part of the approved two year plan to restore the strict proportionality in the rates of old age pension is completed;
(paragraphs 18 to 24)
 - (iii) that for employed persons, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2009, shall be £1,329, £5,759 and £69,108 respectively;
(paragraph 27)

- (iv) that for employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2009, shall be £2,214, £9,594 and £115,128 respectively;
(paragraph 28)
- (v) that for employed persons and employers, the lower weekly earnings limit, the lower monthly earnings limit, from 1 January 2009, shall be £112 and £485.33 respectively;
(paragraph 34)
- (vi) that for self-employed persons, the upper earnings limit and lower earnings limit, from 1 January 2009, shall be £69,108 per year and £5,824 per year, respectively;
(paragraph 36 and 39)
- (vii) that for non-employed persons the upper and lower annual income limits, from 1 January 2009, shall be £69,108 per year and £14,560 per year respectively;
(paragraphs 40 and 44)
- (viii) that, from 1 January 2009, the prescription charge per item of pharmaceutical benefit shall be £2.80;
(paragraph 94)
- (ix) that, from 5 January 2009, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £162.40 per week;
(paragraph 106)
- (x) that, from 5 January 2009, care benefit shall be a maximum of £672.00 per week for persons resident in a nursing home or the Guernsey Cheshire Home and a maximum of £359.94 per week for persons resident in a residential home;
(paragraphs 108 and 109)
- (xi) that, from 5 January 2009, respite care benefit shall be a maximum of £834.40 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home and a maximum of £522.34 per week for persons receiving respite care in a residential home;
(paragraph 110)
- (xii) that, from 9 January 2009, the supplementary benefit requirement rates shall be as set out in paragraph 114 of this report;
- (xiii) that, from 9 January 2009, the weekly benefit limitations for supplementary benefit shall be:

- (a) £387 for a person living in the community;
- (b) £454 for a person who is residing in a residential home; and
- (c) £651 for a person who is residing as a patient in a hospital, nursing home or the Guernsey Cheshire Home;

(paragraphs 116 to 118)

- (xiv) that, from 9 January 2009, the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit shall be £26.50 per week;

(paragraph 119)

- (xv) that, from 9 January 2009, the amount of the personal allowance payable to persons in UK hospitals or care homes who are in receipt of supplementary benefit shall be £44.60 per week;

(paragraph 123)

- (xvi) that a supplementary fuel allowance of £22.70 per week be paid to supplementary beneficiaries who are householders from 24 October 2008 to 24 April 2009;

(paragraph 125)

- (xvii) that, from 5 January 2009, family allowance shall be £14.60 per week;

(paragraph 129)

- (xviii) to note that the Department will not be pursuing further a system of income-related family allowances:

(paragraphs 130 to 156)

- (xix) that, from 5 January 2009, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in paragraph 160.

Yours faithfully

M H Dorey
Minister

APPENDIX**RESULTS OF THE INCOME RELATED FAMILY ALLOWANCE
CONSULTATION EXERCISE****No. of questionnaire responses received** 986**PROFILE OF RESPONDENTS****Gender**

Female	616	62.5%
Male	360	36.5%
Blank	10	1.0%

Age

under 20	5	0.5%
20-34	185	18.8%
35-49	507	51.4%
50-64	191	19.4%
65+	87	8.8%
Blank	11	1.1%

Marital status

Cohabiting	83	8.4%
Divorced	47	4.8%
Married	716	72.6%
Remarried	33	3.3%
Separated	22	2.2%
Single (never married)	51	5.2%
Widowed	24	2.4%
Blank	10	1.0%

No. of adults in household

1	114	11.6%
2	786	79.7%
3	54	5.5%
4	17	1.7%
5+	5	0.5%
Blank	10	1.0%

Number of children family is getting allowance for

0	220	22.3%
1	309	31.3%
2	318	32.3%
3	96	9.7%
4	19	1.9%
5	4	0.4%
Blank	20	2.0%

Gross family income

Under £25,000	103	10.4%
£25,001 to £35,000	129	13.1%
£35,001 to £45,000	138	14.0%
£45,001 to £55,000	177	18.0%
£55,001 to £70,000	176	17.8%
£70,000+	199	20.2%
Blank or unspecified	64	6.5%

ANALYSIS OF RESULTS**Should the flat rate for family allowance stay as it is now?**

Yes	571	57.9%
No	384	38.9%
Blank	31	3.1%

Should we change to an income related family allowance?

Yes	358	36.3%
No	602	61.1%
Blank	26	2.6%

Approx 3:2 against change

How much should the full rate of family allowance be per child per week?

£13.20	460	46.7%
£15	165	16.7%
£20	182	18.5%
£25	68	6.9%
£30	35	3.5%
More than £30	31	3.1%
Blank	45	4.6%

For families with two or more children, should the allowance for each additional child be the same, or more, or less than the amount paid for the first child?

Same	488	49.5%
More	247	25.1%
Less	215	21.8%
Blank	36	3.7%

At what level of family income (both partners) should family allowance start to be clawed back by the Income Tax Office?

Less than £25,000	36	3.7%
£25,000	17	1.7%
£30,000	57	5.8%
£35,000	91	9.2%
£40,000	114	11.6%
More than £40,000	349	35.4%
Blank	322	32.7%

What should the clawback rate be?

5%	290	29.4%
7.50%	24	2.4%
10%	202	20.5%
12.50%	10	1.0%
15%	75	7.6%
Blank	385	39.0%

Should there be an upper income limit, above which all family allowance paid by Social Security is clawed back by the Income Tax Office, irrespective of the number of children in the family?

Yes	470	47.7%	No clear preference
No	414	42.0%	
Blank	102	10.3%	

What should the upper income limit be?

£50,000 or less	82	8.3%	No clear preference
£60,000	86	8.7%	
£70,000	118	12.0%	
£80,000	65	6.6%	
£90,000	19	1.9%	
£100,000 or more	104	10.5%	
Blank	512	51.9%	

Is a clawback arrangement the best way to administer an income related system?

Yes	368	37.3%
No	483	49.0%
Blank	135	13.7%

SHOULD WE CHANGE TO AN INCOME RELATED FAMILY ALLOWANCE?

Gender	Yes		No		Blank		Total
Female	212	34.4%	391	63.5%	13	2.1%	616
Male	145	40.3%	209	58.1%	6	1.7%	360
Blank	1	10.0%	1	10.0%	8	80.0%	10

Age	Yes		No		Blank		Total
under 20	3	60.0%	1	20.0%	1	20.0%	5
20-34	57	30.8%	122	65.9%	6	3.2%	185
35-49	156	30.8%	342	67.5%	9	1.8%	507
50-64	83	43.5%	105	55.0%	3	1.6%	191
65+	58	66.7%	29	33.3%	0	0.0%	87
Blank	1	9.1%	2	18.2%	8	72.7%	11

Marital status	Yes		No		Blank		Total
Cohabiting	23	27.7%	57	68.7%	3	3.6%	83
Divorced	36	76.6%	11	23.4%	0	0.0%	47
Married	240	33.5%	465	64.9%	11	1.5%	716
Remarried	8	24.2%	24	72.7%	1	3.0%	33
Separated	8	36.4%	13	59.1%	1	4.5%	22
Single (never married)	26	51.0%	22	43.1%	3	5.9%	51
Widowed	16	66.7%	8	33.3%	0	0.0%	24
Blank	1	10.0%	1	10.0%	8	80.0%	10

No. of adults	Yes		No		Blank		Total
1	70	61.4%	40	35.1%	4	3.5%	114
2	249	31.7%	522	66.4%	15	1.9%	786
3	29	53.7%	25	46.3%	0	0.0%	54
4	8	47.1%	9	52.9%	0	0.0%	17
5+	1	20.0%	4	80.0%	0	0.0%	5
Blank	1	10.0%	1	10.0%	8	80.0%	10

Number of children family is getting allowance for	Yes		No		Blank		Total
0	109	49.5%	106	48.2%	5	2.3%	220
1	111	35.9%	193	62.5%	5	1.6%	309
2	101	31.8%	211	66.4%	6	1.9%	318
3	24	25.0%	70	72.9%	2	2.1%	96
4	8	42.1%	11	57.9%	0	0.0%	19
5	0	0.0%	4	100.0%	0	0.0%	4
Blank	5	25.0%	6	30.0%	9	45.0%	20

Gross family income	Yes		No		Blank		Total
Under £25,000	72	69.9%	30	29.1%	1	1.0%	103
£25,001 to £35,000	77	59.7%	49	38.0%	3	2.3%	129
£35,001 to £45,000	46	33.3%	84	60.9%	8	5.8%	138
£45,001 to £55,000	45	25.4%	132	74.6%	0	0.0%	177
£55,001 to £70,000	44	25.0%	129	73.3%	3	1.7%	176
£70,000+	59	29.6%	138	69.3%	2	1.0%	199
Unspecified/blank	15	23.4%	39	60.9%	10	15.6%	64

How much should the full rate of family allowance be per child per week?	Yes		No		Blank		Total
£13.20	65	14.1%	391	85.0%	4	0.9%	460
£15	56	33.9%	105	63.6%	4	2.4%	165
£20	131	72.0%	49	26.9%	2	1.1%	182
£25	51	75.0%	14	20.6%	3	4.4%	68
£30	24	68.6%	11	31.4%	0	0.0%	35
More than £30	20	64.5%	11	35.5%	0	0.0%	31
Blank	11	24.4%	20	44.4%	14	31.1%	45

For families with two or more children, should the allowance for each additional child be the same, or more, or less than the amount paid for the first child?	Yes		No		Blank		Total
Same	174	35.7%	303	62.1%	11	2.3%	488
More	79	32.0%	167	67.6%	1	0.4%	247
Less	99	46.0%	112	52.1%	4	1.9%	215
Blank	6	16.7%	19	52.8%	11	30.6%	36

At what level of family income (both partners) should family allowance start to be clawed back by the Income Tax Office?	Yes		No		Blank		Total
Less than £25,000	14	38.9%	21	58.3%	1	2.8%	36
£25,000	11	64.7%	5	29.4%	1	5.9%	17
£30,000	49	86.0%	7	12.3%	1	1.8%	57
£35,000	80	87.9%	8	8.8%	3	3.3%	91
£40,000	88	77.2%	24	21.1%	2	1.8%	114
More than £40,000	100	28.7%	245	70.2%	4	1.1%	349
Blank	16	5.0%	291	90.4%	15	4.7%	322

What should the clawback rate be?	Yes		No		Blank		Total
5%	72	24.8%	213	73.4%	5	1.7%	290
7.50%	19	79.2%	5	20.8%	0	0.0%	24
10%	168	83.2%	31	15.3%	3	1.5%	202
12.50%	10	100.0%	0	0.0%	0	0.0%	10
15%	56	74.7%	18	24.0%	1	1.3%	75
Blank	33	8.6%	334	86.8%	18	4.7%	385

Should there be an upper income limit, above which all family allowance paid by Social Security is clawed back by the Income Tax Office, irrespective of the number of children in the family?	Yes		No		Blank		Total
Yes	306	65.1%	158	33.6%	6	1.3%	470
No	40	9.7%	368	88.9%	6	1.4%	414
Blank	12	11.8%	75	73.5%	15	14.7%	102

What should the upper income limit be?	Yes		No		Blank		Total
£50,000 or less	62	75.6%	16	19.5%	4	4.9%	82
£60,000	68	79.1%	16	18.6%	2	2.3%	86
£70,000	83	70.3%	34	28.8%	1	0.8%	118
£80,000	39	60.0%	26	40.0%	0	0.0%	65
£90,000	10	52.6%	8	42.1%	1	5.3%	19
£100,000 or more	38	36.5%	66	63.5%	0	0.0%	104
Blank	58	11.3%	435	85.0%	19	3.7%	512

Is a clawback arrangement the best way to administer an income related system?	Yes		No		Blank		Total
Yes	244	66.3%	120	32.6%	4	1.1%	368
No	86	17.8%	391	81.0%	6	1.2%	483
Blank	28	20.7%	90	66.7%	17	12.6%	135

(NB The Policy Council's Social Policy Group has reviewed the Social Security Department's report on benefits and contribution rates for 2009 and has expressed its support for the recommendations contained therein. On this basis, the Policy Council, by a majority, welcomes the report which it commends to the States.)

(NB The Treasury and Resources Department supports the proposals.)

The States are asked to decide:-

XI.- Whether, after consideration of the Report dated 25th July, 2008, of the Social Security Department, they are of the opinion:-

1. That, with effect from 5th January, 2009, the standard rates of social insurance benefits shall be increased to the rates set out in paragraph 16 of that Report.
2. To note that the increases in the rates of old age pension for incomplete contribution records will be below the headline rate, as the second part of the approved two year plan to restore the strict proportionality in the rates of old age pension is completed.
3. That, with effect from 1st January, 2009, for employed persons, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £1,329, £5,759 and £69,108 respectively.
4. That, with effect from 1st January, 2009, for employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £2,214, £9,594 and £115,128 respectively.
5. That, with effect from 1st January, 2009, for employed persons and employers, the lower weekly earnings limit, the lower monthly earnings limit shall be £112 and £485.33 respectively.
6. That, with effect from 1st January, 2009, for self-employed persons, the upper earnings limit and lower earnings limit shall be £69,108 per year and £5,824 per year, respectively.
7. That, with effect from 1st January, 2009, for non-employed persons the upper and lower annual income limits shall be £69,108 per year and £14,560 per year respectively.
8. That, with effect from 1st January, 2009, the prescription charge per item of pharmaceutical benefit shall be £2.80.
9. That, with effect from 5th January, 2009, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £162.40 per week.

10. That, with effect from 5th January, 2009, care benefit shall be a maximum of £672.00 per week for persons resident in a nursing home or the Guernsey Cheshire Home and a maximum of £359.94 per week for persons resident in a residential home.
11. That, with effect from 5th January, 2009, respite care benefit shall be a maximum of £834.40 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home and a maximum of £522.34 per week for persons receiving respite care in a residential home.
12. That, with effect from 9th January, 2009, the supplementary benefit requirement rates shall be as set out in paragraph 114 of that Report;
13. That, with effect from 9th January, 2009, the weekly benefit limitations for supplementary benefit shall be:
 - (a) £387 for a person living in the community;
 - (b) £454 for a person who is residing in a residential home; and
 - (c) £651 for a person who is residing as a patient in a hospital, nursing home or the Guernsey Cheshire Home.
14. That, with effect from 9th January, 2009, the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit shall be £26.50 per week.
15. That, with effect from 9th January, 2009, the amount of the personal allowance payable to persons in UK hospitals or care homes who are in receipt of supplementary benefit shall be £44.60 per week.
16. That a supplementary fuel allowance of £22.70 per week be paid to supplementary beneficiaries who are householders from 24 October 2008 to 24 April 2009.
17. That, with effect from 5th January, 2009, family allowance shall be £14.60 per week.
18. To note that the Social security Department will not be pursuing further a system of income-related family allowances.
19. That, with effect from 5th January, 2009, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in paragraph 160 of that Report.
20. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

HOME DEPARTMENT

THE FUTURE OF LAW ENFORCEMENT

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

31st July 2008

Dear Sir

1. Executive Summary

- 1.1 The traditional role of law enforcement agencies in the Islands is to serve the needs of the community and to ensure that the Islands are safe and attractive places in which to live, work and conduct business.
- 1.2 The recent (and ongoing) development and expansion of electronic communications and the growing mobility of people, goods, finance and information means, however, that in addition to traditional roles, these agencies increasingly need to combat a range of international crime that is continually growing in sophistication and which can be global in extent.
- 1.3 Taking these developments, and the results of a number of relevant reviews into account, and noting that Priority 7 of the Government Business Plan is to “take firm action against crime and the causes and effects of crime”, the Department believes that it is now necessary to revise law enforcement in the Islands to ensure that local law enforcement agencies can:
 - operate in a flexible manner in order to react quickly to developments in crime and make the most efficient use of resources;
 - efficiently and effectively combat international crime; and
 - continue to serve the needs of the Island communities and provide the services that residents expect, such as community policing.
- 1.4 The Criminal Justice system is firmly based upon three independent and separate functions:
 - investigating alleged criminality,

- prosecution; and
- trying those charged with crimes.

The independence of these three roles must be robustly maintained and must be separate from the legislative and administrative role of the States. This separation must also be transparent and is necessary to provide “checks and balances” that allow one role to limit any other. The role of the States is to set policy and to enable the delivery of it. It cannot be for the States to instigate or be responsible for a criminal investigation and neither is a decision to prosecute one that should be taken by the States or indeed, law enforcement, just as the judiciary must remain completely independent when administering justice.

- 1.5 Taking into account the principles in paragraph 1.4 and in order to achieve the objectives set out in paragraph 1.3 and to give local law enforcement agencies the best opportunity to address the challenges of the future, the Department believes that there is now a need for a greater degree of operational independence and it therefore proposes that;

- **a Law Enforcement Commission be established which would be responsible to the Department and would take strategic direction from the States, through the Department. The Commission would also have independent responsibility for operational oversight of the Police and Customs services to ensure that both services operated together efficiently;**
- **the Customs and Immigration Service should become a statutory cross border crime agency; and**
- **both Police and Customs legislation should be replaced with modern laws.**

2. Introduction

- 2.1 The States has recognised the importance of law and order, and Priority 7 of the Government Business Plan directs that firm action must be taken against crime and the causes and effects of crime (Priority 7, Level 3 is reproduced in full in Appendix A).
- 2.2 The Home Department, as detailed in its Mandate, has responsibility for the oversight and strategic direction of the Police and the Customs and Immigration Service. However, the Department does not, correctly, have statutory powers to direct day to day law enforcement matters as there needs to be an appropriate separation of roles between that of government and law enforcement activity.

A Law Enforcement Commission empowered by statute would allow an appropriate and independent means for this to take place.

- 2.3 It has become clear from a number of relevant reviews that, whilst the work of both services is excellent, they both face a number of challenges in the future that include;
- combating international crime that is growing in sophistication and which can be global in extent, and
 - meeting ongoing public expectations regarding law enforcement in the Islands.
- 2.4 The Department's role is to set policy and strategic direction for law enforcement and it cannot (correctly) direct day to day law enforcement activities. However, in order to meet the challenges described above, it firmly believes that it is now necessary to set up a (statutory) body that will;
- take strategic direction for law enforcement from the Department, but
 - have independent responsibility from the Department for steering the operational delivery of law enforcement in accordance with that direction.
- 2.5 The Department believes that it is now necessary to change the arrangements for the provision of law enforcement in the Islands as set out below.

3. Recent Developments

Customs and Immigration

- 3.1 During the last 30 years Customs and Immigration has evolved largely from a revenue collection service to that of a professional law enforcement service dealing with cross-border crime.

The Service has functions which relate to providing a capability to target top-end criminals (those who are the prime organisers and beneficiaries of crime), using intelligence led covert operations which have become highly specialised. The intricacies of case work for "intelligence led" Royal Court trials, which utilise covert operations to convert intelligence to evidence, have become extremely technical.

- 3.2 It is recognised, locally and internationally, that combating international organised crime and effective border controls are inextricably linked. There is an identified need to extend intelligence techniques, currently used by the Customs and Immigration Service, to identify individuals of interest beyond the present drug trafficking successes, to encompass terrorism, financial crime, other serious crime and illegal immigration.
- 3.3 The Department has also considered the future of the Customs and Immigration Service. HM Procureur supports the view that, for reasons of operational independence, the Service should move out of the Civil Service regime, as is the

case with the Police. The Department has also taken note of the relevant recent changes, taking place in the UK, which has seen the creation of a number of law enforcement and frontier control agencies, including the Serious and Organised Crime Agency, the UK Border Agency and the Identity and Passport Agency.

Police

- 3.4 The public, quite rightly, have high expectations regarding Law and Order, wish to live in a low crime jurisdiction and to feel safe on the Islands streets, that are managed by a visible, proactive and effective Police Force.
- 3.5 There is no doubt that the Islands have a well respected and very professional Police Force which carries out a demanding role, often in difficult circumstances. However, it is also important to note a conclusion of a recent reassessment report of Her Majesty's Inspectorate of Constabulary (HMIC) of the Police that *"the ethos and philosophy of neighbourhood (community) policing should be more effectively promoted and championed despite staffing pressures on the Force"*. This view is endorsed in feedback from a recent community public safety survey and from politicians.
- 3.6 Indeed, the recent UK Review of Policing, by Sir Ronnie Flanagan, states *"The development of Neighbourhood (Community) Policing is a crucial part of the police service's response to the challenges it faces. By creating teams of officers dedicated to building strong links with local communities, responding to their needs and working in partnership with other parts of government, it can build trust and confidence in policing and make a major contribution to tackling problems like anti-social behaviour and vandalism that can blight people's lives. As importantly, by firmly rooting policing in our communities and building better relationships between the police and public, it can play a vital role in creating the support and channelling the information which is needed to tackle serious criminality"*.
- 3.7 However, in 2005, the National Audit Office (NAO), following a review of the operations of the Home Department, noted that, locally, *"community policing has been progressively depleted over the years and that the permanent beat system was suspended in January 2001."* The NAO also highlighted that police numbers have, in recent years, been consistently well below establishment because of the difficulties of recruiting and retaining staff. Much recent good work has been done to address these issues but, unfortunately, the Police still remain below establishment, and a community policing capability has not, as yet, been properly established, despite the fact that the public see it as a priority.
- 3.8 In order to assist in dealing with this issue, the Department, with the support of the Treasury and Resources Department, agreed, at the end of 2007, to the recruitment of eight civilian support posts which are designed to allow operationally trained Police Officers to return to the beat.

4. Proposals for the Way Forward

4.1 In the light of the developments described above, the Department believes that changes are now necessary to;

- Continue to meet the need to develop and increase capabilities and provide skills to prevent and combat cross-border crime, such as drug and people trafficking, identity theft, financial and economic crime and cybercrime, in order to protect the Island's good reputation as a successful and well regulated finance centre.
- Provide an increasingly robust and effective border protection function that includes the enforcement of prohibitions on importation and necessary immigration controls to deal with people attempting to illegally enter the Common Travel Area, which consists of the UK, Ireland, Channel Islands and the Isle of Man.
- To avoid any duplication of effort it is necessary for the Police to be able to concentrate on, and develop in relation to, its core police functions, such as: crime reduction, offences against the person, anti-social behaviour, vandalism, domestic violence, child abuse, theft, robbery, burglary, fraud, commercial crime and other offences of dishonesty, drug possession, alcohol abuse, all manner of traffic offences and to reduce the fear of crime and disorder.
- Identify and confiscate the proceeds of crime to comply with Financial Action Task Force recommendations and requirements of the International Monetary Fund.
- Meet local expectations for a robust and properly resourced neighbourhood (community) policing capability, which would include: foot patrols, community engagement and problem solving.
- Maintain the Island's good law enforcement reputation and ensure compliance with accepted working methods in other jurisdictions.

4.2 To achieve these objectives the Department believes that local law enforcement must have operational independence and that such independence must be secure and transparent.

4.3 Taking into account a number of relevant reviews, Priority 7 of the Government Business Plan, and work undertaken by a Departmental sub-group called the Law Enforcement Steering Group, the Department is firmly of the view that it is now necessary to establish a statutory Law Enforcement Commission. It would have independent responsibility for, and influence over, the operational delivery of both the Police and the Customs and Immigration Service.

(The Law Enforcement Steering Group consisted of the Minister and a non-

political Member of the Department, HM Procureur, the Chief Officer of the Department, the Chief of Police and the Chief Officer, Customs and Immigration).

- 4.4 The Commission would be responsible to the Department from which it will take strategic and policy direction. The Department would develop an accountability framework, which would include the setting of a rigorous law enforcement policy and a statement of strategic direction, which would be subject to States approval.

The Need for Operational Independence - Separating Political and Operational Responsibilities

- 4.5 Policy making and strategic direction are the province of politicians. Operational matters are not the responsibility of politicians. The Department believes that there should be a clear and transparent separation between the two so that law enforcement can be seen to be under overall political direction whilst being operationally free from political influence and interference. Its proposals for the hierarchy of responsibilities and accountabilities are set out in Appendix B.

- 4.6 The Criminal Justice system is firmly based upon three independent functions:

- investigating alleged criminality,
- prosecution, and
- trying those charged with crimes.

The independence of these three roles must be robustly maintained and must be separate from the legislative and administrative role of the States. This separation must also be transparent and is necessary to provide “checks and balances” that allow one role to limit any other. The role of the States is to set policy and to enable delivery of it. It cannot be for politicians to instigate or be responsible for a criminal investigation and neither is a decision to prosecute one that should be taken by the States or indeed, law enforcement, just as the judiciary must remain completely independent when administering justice.

- 4.7 The Department’s view is supported by the Law Enforcement Steering Group, HM Procureur, the NAO report (which highlighted Police accountability issues and recommended that the Home Department consider the case for creating a Police Authority) and it is also worth noting that the HMIC Police re-assessment stated that:

“H.M. Inspector was pleased to be informed that discussions to consider the introduction of a “Commission” along the lines of a UK police authority had commenced...this change to corporate governance arrangements will provide a clear delineation between that of the law enforcement agencies and politicians”.

- 4.8 The scope and nature of operations carried out by the Customs and Immigration Service has evolved considerably over the last three decades, being very heavily weighted towards combating organised drug trafficking, serious international fraud, money laundering and the application of border controls. Much of this work requires the very specialist application of covert working, top level criminal targeting and the confiscation of the proceeds of crime, often working in cooperation with the Police.
- 4.9 The Department believes (and this is a view shared by HM Procurer), that these functions should no longer be carried out by civil servants and that the Customs and Immigration Service, like the Police, should be seen to operate at arms length from the political process. To achieve this independence and to facilitate continuity and efficiencies with UK law enforcement agencies, the Department proposes that the Service be reformed into a Cross Border Crime Agency.
- 4.10 This will ensure that the Islands remain a secure, safe and well “policed” jurisdiction that is an attractive place in which to live, work and conduct business (which can promote itself on that basis) and that it can be seen (from both an internal and external perspective) to have in place robust law enforcement standards that provide a clear separation between political processes and the day to day operational roles of law enforcement agencies.

Creation of a Law Enforcement Commission

- 4.11 Given the Islands economies of scale, the Department considers that it is essential to ensure all law enforcement activities are directed and delivered by the most efficient and cost effective method. It therefore recommends the creation of a statutory Law Enforcement Commission that would take as its general model a Police Authority in the UK.¹
- 4.12 The proposed Law Enforcement Commission would overarch both the Police and a reformed Customs and Immigration Service and whilst the Department sees no change in its own Mandate (in setting policy and strategic direction), it would be for the Commission to implement strategic policies established by the Department and importantly, to ensure that the aspirations of the community were met.
- 4.13 As stated in paragraph 4.5 above, Appendix B sets out the Department’s view on the varying roles and responsibilities of the States of Guernsey, the Home Department, the proposed Law Enforcement Commission and the statutory heads of the law enforcement services (Police and Customs and Immigration).
- 4.14 The Commission would be appointed by the States (on the recommendation of

¹ UK Police Authorities are responsible for the efficiency and effectiveness of the Police Force in their area and for consulting with the public on policing matters.

the Policy Council), but would be independent of government. It would be responsible for implementing policy and strategy set by the Department. The Commission would report regularly to the Department and compile an annual report for submission to the States. The Commission would therefore be tasked with taking such steps as it considered necessary or expedient for the development and effective overall supervision of law enforcement activity. It would also provide the Department, when it requested, with advice and assistance on matters connected with law enforcement in the Islands.

- 4.15 The Commission would consist of a Chairperson, and two appointed members who would not be members of the States. HM Procureur would attend, where appropriate, as an advisor. The Chief Officer of the Home Department would act as a resource for the Commission. The Chairperson and appointed members would be appointed by the States, on the recommendation of the Department, through the Policy Council, and would hold office for a period of three years, which could be extended by a further three years.

Reform of the Customs and Immigration Service

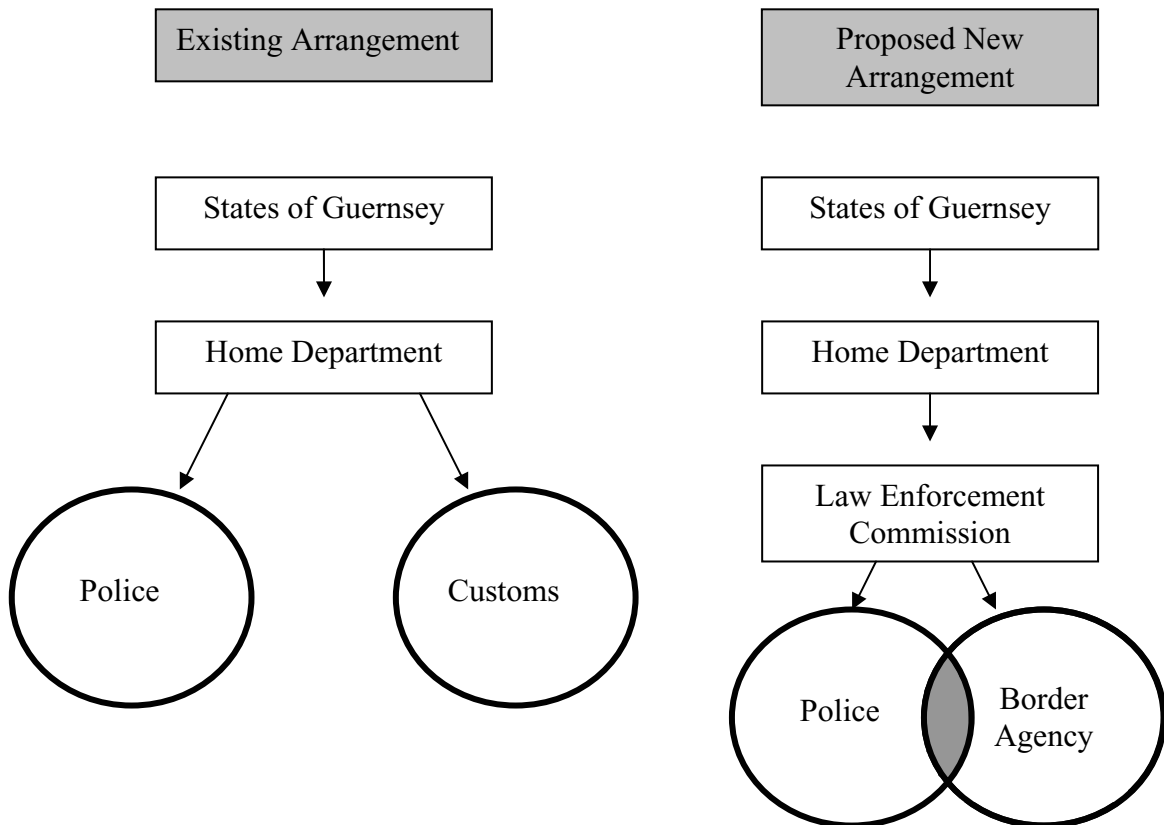
- 4.16 The second key element to these proposals is for the Customs and Immigration Service to be modernised into a new Cross Border Crime Agency. The Agency would be an independent organisation reporting to the Law Enforcement Commission (and thus subject to strategic and policy direction from the Department) and it would have a close working partnership with the Police.
- 4.17 The proposed Agency would also be separate from the Civil Service, and with the relevant underpinning legislation, it would operate in a similar way as the Police (Customs and Immigration conditions of service would also be reviewed). It would be subject to independent review and inspection similar to the Police, and the Prison, Fire and Probation Services.
- 4.18 The senior management team of the Cross Border Crime Agency would be structured in a similar way to equivalent UK bodies such as the Serious and Organised Crime Agency and the UK Border Agency, with senior staff appointed to oversee distinct functions of the organisation and reporting to the head of the Agency. The Department intends that a high ranking Police Officer would be appointed to sit on the senior management team of the new body to facilitate effective cooperation and the efficient coordination of effort between the Agency and the Police.

Accountability

- 4.19 As indicated above, it is important to establish and articulate the appropriate “policy making” role of the Home Department and the hierarchy of accountability. The Department proposes that:

- the Home Department (would be) accountable, through its mandate, to the States for the setting of strategic direction and policy and that this is reviewed and refined as appropriate from time to time (having regard to the Government Business Plan).
- the Law Enforcement Commission would be accountable for the delivery of the Home Department strategy and policy, as set by the Department, also taking account of community expectations. This accountability would include the requirement for the law enforcement organisations and, over time, the Commission itself to be independently inspected. (e.g. by HMIC).
- the statutory heads of the law enforcement organisations (The Chief Officer of Police and the head of the proposed new Cross Border Crime Agency) would be accountable to the Commission for the independent operational delivery of law enforcement and cross border functions, as specified in relevant legislation.
- support services currently provided by the Department's Central Services team to the Police and Customs and Immigration Departments would be provided to the Law Enforcement Commission, without the need for additional resources.

Appendix B sets this out in more detail. The difference between the existing and the proposed new arrangements are shown in the Figure below.



- 4.20 In proposing this “new” structure, the Department stresses the importance (and opportunities provided) via the direct overlap and synergies that will exist between the two agencies, particularly with regard to fully integrated “core” functions. Strong examples exist where the benefits of ring fenced joint working prove to maximise skills and competences, such as the current Financial Intelligence Service. It is felt by the Department that additional “core” functions should be considered for further integration and joint working under the proposed lines of accountability and direction provided by the Commission. Although not exhaustive, these may include custody processes, professional standards development, technical resources and specialist areas such as covert investigation.
- 4.21 Most critically, the Department proposes that the Commission considers the provision of a single, but jointly staffed overarching intelligence structure, incorporating all roles, responsibilities and requirements of the National Intelligence Model (NIM)², similarly as it exists within the UK context, inclusive of robustly managed and wholly accountable “tasking” and coordinating arrangements at all relevant levels of the model³.
- 4.22 Evolving experience within the UK is proving that, over time, such an investment will result in significantly increased intelligence flows from the neighbourhood level (within the context of the Bailiwick via the enhanced intelligence structures as outlined at Para 4.20 above), thereby helping to build a more robust picture of criminality at all levels, but critically reducing the opportunities for criminals to develop their dishonest enterprises at the lowest level (Level 1 of the NIM) and which can then potentially be developed to the higher levels of the model (see Appendix C).
- 4.23 The adoption of this approach should not only ensure much more effective “joint” working between the two agencies but, in addition, minimise the risk of a “gap” developing between the higher and lower levels of criminality that more astute criminals may be able to exploit with relative impunity and which neither of the agencies, acting independently, may be capable of tackling particularly effectively.
- 4.24 In addition to creating opportunities for much more effective and efficient working between the Police and the “new” Cross Border Crime Agency, the Department also believes that any monetary or staff savings created should be re-directed towards the provision of another of it’s strategic priorities, i.e. the introduction of neighbourhood policing and additional resource pressures envisaged as a result of the development of financial crime legislation (see Appendix D).

² See Appendix C

³ Such intelligence and “other” structures would be jointly “owned and managed” by the two “key” law enforcement agencies via the senior management team (see paragraph 4.18 foregoing)

Setting of Policy and Strategic Direction

- 4.25 As outlined above, the Department would be responsible for setting strategic and policy direction and it is proposed that this would be done by means of “Statement of Strategic Direction”, which would be developed taking full account of Priority 7 of the Government Business Plan
- 4.26 Strategic direction would devolve accountability for the lead for “cross border crime” to the proposed Cross Border Crime Agency. However, the expectation of the Department is that the Police would continue to be fully involved in these functions and work in close partnership with Agency staff, especially with regard to criminal intelligence processes and the development of shared services such as custody provision, professional standards and covert intelligence methods.⁴
- 4.27 The Cross Border Crime Agency would continue to have the clear lead and accountability for existing Customs and Immigration responsibilities, such as:
- protecting the border,
 - enforcing customs and excise duties,
 - immigration and nationality,
 - all prohibitions and restrictions and existing statutory responsibilities,
 - all smuggling offences
 - drugs and people trafficking; and
 - the protection of revenue⁵.
- 4.28 The Department believes it is abundantly clear, from all the information available, that the two law enforcement organisations must continue to build on their existing partnership arrangements.
- 4.29 In broad terms, the strategic policy would direct that, whilst acknowledging its existing resource limitations, the Police must prioritise some of its resources toward the needs of the community, through the provision of a robust neighbourhood policing strategy and by concentrating on “core police responsibilities,” including continuing to take ultimate responsibility for the safety of the Islands and responding effectively to the threat posed by terrorism.

⁴ This list is not exhaustive. Other opportunities for more effective and efficient “joint” working are expected to develop as the “new” interlocking law enforcement arrangements become embedded

⁵ This list is not exhaustive. It should be read in conjunction with Paragraphs 3.2 and 4.1, as well as other linked paragraphs such as 4.8 and 5.4.

- 4.30 The NAO review noted the development and expertise in specialist functions and strongly recommended that “lead” should be taken in developing the necessary expertise and technical skills, where that is apparent, and that duplication must be avoided. (The “lead” organisation is accountable for delivery and performance and is responsible for operational decision making).
- 4.31 Nothing in the Department’s proposals would affect the responsibilities of the Law Officers of the Crown.

5. Legislative Requirements

- 5.1 The proposed Law Enforcement Commission and Cross Border Crime Agency will also need to be established in law, and the Department recommends that appropriate legislation be drafted.
- 5.2 HM Procurer has highlighted a number of shortcomings with current Police legislation (which dates from the 1920s), and the Department believes that it is clearly in need of modernisation. Currently, the mandate, duties and functions of the Police are set out in the Police Law which presently allows for the provision, at a cost to the States, of a salaried Police Force, to deal with crime, maintain peace and good order and to carry out its other functions.
- 5.3 The mandate, powers and functions of the Customs and Immigration Service are set out in more recent legislation (The Customs and Excise Law of 1972, Drug Trafficking and Financial Crime legislation 1999 to 2008, various extended Immigration Acts 1971 to 1999 and Nationality legislation) some of which provide similar powers to those of the Police. This legislation also needs to be modernised.
- 5.4 The Department therefore recommends that the existing Police Law be replaced with modern legislation and that the proposed Cross Border Crime Agency be provided with appropriate powers to deal with “modern” crime, as detailed in this Report. This legislation must be “fit” for the 21st century and ensure that the two law enforcement agencies can develop together seamlessly (to avoid duplication of effort), taking account of modern day processes and provide them with the tools to deal with modern day criminality, such as financial and economic crime and cybercrime.
- 5.5 Detailed proposals for new police and customs legislation will be the subject of a further Report from the Department.

6. Staff Issues

- 6.1 In making these proposals, the Department would like to make it clear that it holds the Chief Officer of Police and the officers of the Police Force in high esteem. Despite continuing recruitment pressures, it must be acknowledged that the Force has been extremely effective in achieving a decrease in the levels of

crime being recorded and an increase in detection rates.

- 6.2 Likewise the Department has equal respect for the work undertaken by staff of the Customs and Immigration Service, which has developed as a centre of excellence for surveillance operations and many other aspects of law enforcement which, in the UK, are carried out by a number of agencies.
- 6.3 Clearly these proposals will have a significant effect on the employment status of the officers and staff of both of the law enforcement organisations. The future status of staff needs to be carefully considered, in consultation with the Policy Council, Treasury and Resources Department, the staff themselves and their relevant staff associations.
- 6.4 The Department will bring a further Report with proposals on the future status of officers and staff after such consultation has taken place.

7. Timeline

- 7.1 The proposals in this Report cannot have full effect until necessary legislation is drafted and in place and that is intended to be in 2010. In the interim, the Department believes there is no reason why closer inter-agency collaboration, between the Police and the Customs and Immigration Service, such as NIM developments, covert investigation methods, professional standards and joint custody arrangements⁶ should not be progressed with vigour ahead of the transitional arrangements to the 'new' agency as outlined within this paper.
- 7.2 Initially the Department intends to set up a Cross Border Crime Agency, however, under the proposals outlined in paragraphs 4.11 to 4.15 foregoing, it will propose that delegation of the authority to formally assign "lead status" for the Cross Border Crime Agency should rest with the Law Commission, once this has itself been inaugurated
- 7.3 The Departmental Law Enforcement Steering Group will also undertake the role of a shadow Commission (and hence there will be no need to recruit Commissioners during this early phase).
- 7.4 The Department intends that by establishing shadow bodies, it (and they) will be able to work on putting in place operational procedures and structures that will enable the new arrangements set out in this Report to function with maximum effect and efficiency once necessary legislation is enacted.

8. Consultations

- 8.1 The Department has held detailed discussions with HM Procurer and he supports the proposals in this Report.

⁶ Paragraphs 4.20 – 4.23 refer

- 8.2 Over the last two years the Chief Officers of the Police and the Customs and Immigration Services have been fully involved in discussions leading up to this report and they have given their support to the recommendations. Officers and staff of the Police and the Customs and Immigration Service have also been kept informed of these proposals.
- 8.3 In practical terms, these proposals will have limited bearing on the operational delivery of law enforcement services in Alderney and Sark. However, the Department intends to discuss the implications of the changes proposed in this Report with those Islands' Authorities.

9. Resource Implications

- 9.1 The introduction and implementation of the Law Enforcement Commission and Cross Border Crime Agency will be funded from the Department's existing revenue budget allocation.
- 9.2 Annual budgetary provision for the Commission, Police and Agency will be set and allocated by the Department from funds that the States makes available to it.
- 9.3 The new arrangements are intended to avoid any duplication of effort in the provision of law enforcement and the Department is confident that its proposals will help to mitigate the effects and impacts of some of the pressures which will influence the future with regard to the development of financial crime legislation (see Appendix D).

The Department emphasises that these factors, which will impinge upon law enforcement, will happen in any event.

10. Conclusions

- 10.1 The Department firmly believes that it is essential that there is a real and transparent separation between the operational role of law enforcement agencies and political process to provide independence and flexibility so as to maximise the use of resources in order to
- deliver the law enforcement services the community expects; and
 - effectively combat international crime.
- 10.2 In order to achieve this, the Department recommends the establishment of a Law Enforcement Commission that would have operational responsibility for the Police and a new Cross Border Crime Agency.

11. Recommendations

The Department recommends the States to:-

1. Approve the creation of a statutory Law Enforcement Commission in accordance with section 4 of this report.
2. Approve the creation of a statutory Cross Border Crime Agency in accordance with section 4 of this report.
3. Direct the Department to submit a Report to the States at the earliest opportunity on the necessary legislation.
4. Agree that the Law Enforcement Commission and Cross Border Crime Agency should be established by the Department on a “shadow” basis until they are constituted in law.
5. Note the intention of the Department to submit a Report to the States on the future status of officers and staff of the Police and Customs and Immigration Service.

Yours faithfully

G H Mahy
Minister

APPENDIX A

GOVERNMENT BUSINESS PLAN

The corporate aims of the States are set out in the government business plan of which priority seven states:-

PRIORITY 7

Take firm action against crime and the causes and effects of crime

Level 1

To promote and support policies which keep the Bailiwick a safe and secure place to live. This means taking firm action against crime and tackling the situations which give rise to criminal behaviour through strategies to tackle drug and alcohol abuse and social problems in the community.

Level 2

Law Enforcement

Take firm action by providing an economic, proactive and effective law enforcement resource to combat all levels of crime and confiscate the proceeds of crime. Lead: Home Department.

Criminal Justice

Develop the recommendations of the Criminal Justice Policy Working Group, in consultation with the Judiciary and Law Officers of the Crown, and monitor and measure outcomes. Lead: Home Department.

Drug and Alcohol Strategy

Promote and lead on the delivery of the Drug and Alcohol Strategy, including monitoring and measuring outcomes. Lead: Social Policy Group.

Public Safety

Provide a co-ordinated service, to keep the Bailiwick a secure and safe place to live, and supply an efficient and effective response to any major emergency. Lead: Home Department

Level 3

Law Enforcement

Take firm action by providing an economic, proactive and effective law enforcement

resource to combat all levels of crime and confiscate the proceeds of crime.

- A - Target anti-social behaviour
- B - Combat Volume Crime (e.g.Criminal Damage)
- C - Introduce a proactive street crime unit
- D - Develop Community Policing
- E - Secure Bailiwick borders
- F - Target serious criminal activity including drug trafficking
- G - Increase coordinated Law Enforcement activity
- H - Attack money laundering and confiscate the proceeds of crime

Criminal Justice

Develop the recommendations of the Criminal Justice Policy Working Group, in consultation with the Judiciary and Law Officers of the Crown, and monitor and measure outcomes.

- A - Work with the Judiciary and Law Officers to develop an integrated Criminal Justice System
- B - Develop a comprehensive Community Safety Strategy, integrating policies on drugs and alcohol, domestic abuse and anti-social behaviour
- C - Introduce a Community Service Scheme as an alternative to custodial Sentences
- D - Investigate other sentencing options such as electronic monitoring, curfew orders, weekend sentencing and deferred sentencing
- E - Develop a multi agency offender management programme
- F - Develop schemes to ensure that victims and witnesses are properly cared for and managed throughout the Criminal Justice System
- G - Strengthen links with other social policy areas such as the Corporate Anti-Poverty Programme and Priority 4 of the Government Business Plan (Redistribution of Wealth)
- H - Introduce a system of monitoring and evaluating Criminal Justice initiatives.
- I - Recommend new criminal justice legislation.

Drug and Alcohol Strategy

Promote and lead on the delivery of the Drug and Alcohol Strategy, including monitoring and measuring outcomes.

- A - Reduce the demand for, and acceptability of, drugs and the excessive use of alcohol by raising awareness and increasing knowledge of the consequences of problem use
- B - Prevent and minimise experimentation with drugs and alcohol, enabling young people and families to make positive choices about their lives
- C - Provide treatment services including advice, information, counselling and support for people with drug and alcohol problems
- D - Reduce drug and alcohol related crime, disorder and drink/drug driving
- E - Encourage those who drink to do so safely and within established safe limits
- F - Ensure a joined up approach in delivery of the Drug and Alcohol Strategy, strengthen links with other social policy areas, and provide a monitoring framework to ensure quality and value for money.

Public Safety

Provide a coordinated service, to keep the Bailiwick a secure and safe place to live, and supply an efficient and effective response to any major emergency.

- A - Reduce the public fear of crime
- B - Ensure the effective management of offenders
- C - Develop and implement an appropriate response and maintain essential services to the public, in times of major emergency

APPENDIX B

HOME DEPARTMENT – HIERARCHY OF RESPONSIBILITY AND ACCOUNTABILITY

The Home Department proposes the following hierarchal model of responsibility and accountability to achieve the changes recommended in this Report and to take law enforcement in the Islands forward to meet the challenges and demands of this century.

The States of Deliberation

The States of Guernsey would:

- approve the Statement of Strategic Direction
- appoint the Chairman and Members of the Law Enforcement Commission,
- approve any relevant legislation.

The Home Department

The Department would:

- have political responsibility for the provision of law enforcement in the Islands.
- be the political interface between the States and the operational side of law enforcement.
- set the overall strategic direction and policy for law enforcement which it would direct to the Law Enforcement Commission to implement.
- set clear performance targets for the delivery of each part of the overall strategy and make directions relating to the efficient and effective use of resources (for which the Commission accountable).
- submit revenue and capital budget proposals for law enforcement to the States and be responsible for the allocation of revenue and capital expenditure to the Commission.
- submit an annual report on law enforcement to the States that would include a report from the Law Enforcement Commission covering issues such as any requirements to provide effective and efficient law enforcement and cross border control capabilities.
- present any proposals relating to criminal justice legislation that may be recommended by the Commission to the States.

The Law Enforcement Commission

The Law Enforcement Commission would:

- be accountable to the Home Department for:
 - the implementation of strategic policies on law enforcement,
 - the effective and efficient delivery of law enforcement in the Islands, in accordance with strategic objectives and requirements for the best use of resources; and
 - meeting any performance targets set by the Department.
- allocate resources to the individual law enforcement organisations in a way that ensures maximum flexibility, provides for long term development and avoids any duplication of effort.
- allocate responsibilities and lead status (and accountability) to the law enforcement organisations for statutory law enforcement.
- ensure that law enforcement organisations work in close partnership and together deliver a high quality service
- establish clear performance framework for law enforcement organisations (measured against the strategic directions of the Home Department), review results and submit appropriate reports to the Department.
- submit requests for revenue and capital funding for the provision of law enforcement to the Department.
- submit an annual report to the Department on the provision of law enforcement in the Islands.
- make recommendations to the Department (after consultation with interested parties) on any changes to criminal justice legislation that it considers are necessary in the light of operational experience of the delivery of law enforcement in the Islands.
- engage with key stakeholders and the public, to ensure that the services provided meet the needs and expectations of customers and the demands of the future.

The Law Enforcement Organisations – Statutory Heads of Service

The heads of service would:

- report to the Law Enforcement Commission on the delivery of law enforcement services in the Islands.

- ensure that the delivery of law enforcement (in relation to strategic objectives set by the Home Department) conforms with directions of the Commission.
- be responsible for the delivery of law enforcement in accordance with insular legislation.
- manage and oversee the functions of the law enforcement organisations in an efficient and cost effective manner and in accordance with directions from the Commission.
- be responsible for the effective management and use of resources (within any budgetary constraints) and for meeting any performance targets set by the Commission.
- ensure that the law enforcement organisations work in a close partnership and in consultation with key stakeholders and the public.
- prepare a planning framework for the ongoing development law enforcement organisations.
- provide information and professional advice to the Commission, including proposals on the development of strategy and policy and for any changes to criminal justice legislation.
- inform the Commission of any risks and issues which might have a bearing on law enforcement strategies or reputation of the Islands.
- cooperate with external agencies in combating international crime.
- submit annual reports to the Commission on the practical aspects and operational experience of law enforcement in the Islands.

APPENDIX C

BRIEF OVERVIEW OF THE LEVELS OF CRIME AS DESCRIBED WITHIN THE NATIONAL INTELLIGENCE MODEL (NIM)

The three levels of crime as defined by the National Intelligence Model (NIM) are as follows:

Level 1

This refers to local crime, i.e. that affecting a basic command unit (BCU) or small force area. The scope of this type of crime can vary widely from low value theft to serious offences such as murder. The handling and management of Level 1 crime is normally undertaken locally. This type of crime is sometimes also referred to as volume crime.

Level 2

This type of crime refers to specific problems or the actions of criminals that affect more than one BCU or force area. They are known as cross border crimes and are normally managed by BCUs or forces working together to resolve the matter, sometimes with the support of national agencies such as the Serious and Organised Crime Agency (SOCA) or HM Revenue and Customs (HMRC).

Level 3

This is the highest level of criminality occurring on a national or international basis. Its identification is usually undertaken by proactive means and targeting is managed through dedicated units with access to specialist tactics. Prevention and disruption approaches are sometimes employed to manage this level of criminality. Target operations at this level are, by their nature, protracted.

APPENDIX D

The Department draws attention to statements made in previous States Reports, with regard to the development of financial crime legislation, in which it asked the States to note the following in the December 2007 Billet D'Etat (XXVI 2007):

“As outlined in other recent States reports, the Department is conscious that this [amendment to terrorism and crime provisions] is one of several such reports in just over 18 months which has recommended amendments to the Bailiwick’s drug trafficking and financial crime legislation. Whilst the individual reports may not have significant resources implications, the cumulative effect on the resources of the Guernsey Police and the Customs and Immigration Service are of increasing concern. The Department is conscious that these resources are already stretched.

The Department accepts that the measures set out in this report, as in previous ones, are essential if the Bailiwick is to retain and maintain its international reputation and standing with organisations such as the Financial Action Task Force (FATF) and the International Monetary Fund (IMF). However, it wishes to put the States on notice that it has asked the Chief Officers of Police and Customs and Immigration to undertake a full review of the resources necessary to ensure that this legislation, that which was previously approved by the States, and future proposals to extend civil forfeiture to cover property and high value goods in addition to the provisions relating to civil forfeiture which were approved by the States in July 2006, is enforced robustly and consistently in line with the international standards required by the FATF and the IMF.

The Department will present the findings of this review to the States as soon as practicable. The Department undertakes to ensure that any request for additional resources is proportionate to the need to protect the Island’s international reputation and ensure that the Bailiwick continues to be an attractive place for the types of business the islands are seeking to encourage.”

Furthermore, the Department, on the advice of HM Procureur, will also have to consider whether more legislation is required, with regard to the international effort against serious and organised crime and terrorism. It is also noted that, as the Bailiwick forms part of the Common Travel Area, the Department will have to evaluate its ability to adequately protect the border and is already committed to co-operating with the UK’s “e-border” capability.

These issues will provide additional financial and resource pressures upon the Department’s duty to provide law enforcement with the efficacy to deliver. It is vital therefore, that the Department embarks upon the strategy outlined, in order to set a firm foundation to allow the Islands’ law enforcement organisations to develop and deliver with operational independence and to overcome the clear challenges they face.

(NB The Policy Council acknowledges the need for law enforcement to remain operationally independent from the executive function of Government, whilst at the same time receiving strategic direction from the States through the Home Department. It also appreciates that successful law enforcement in Guernsey depends critically upon cooperation and effective working between its law enforcement agencies.

The Council therefore, by a majority, supports in principle the creation of the Law Enforcement Commission to oversee the implementation of strategic policies on law enforcement. It also in principle supports the modernisation of Police and Customs legislation, and the creation of the new Cross Border Crime Agency.

The staffing issues involved represent a significant change management project. This is recognised within the report, and is a matter that will form the subject of further work and a report to the States, if the broad principles of the report are endorsed.

The Policy Council, by a majority, recommends the States to approve the Report and to note that further work on this matter will be required.)

(NB The Treasury and Resources Department supports the proposals.)

The States are asked to decide:-

XII.- Whether, after consideration of the Report dated 31st July, 2008, of the Home Department, they are of the opinion:-

1. To approve the creation of a statutory Law Enforcement Commission in accordance with section 4 of that Report.
2. To approve the creation of a statutory Cross Border Crime Agency in accordance with section 4 of that Report.
3. To direct the Home Department to submit a Report to the States at the earliest opportunity on the necessary legislation.
4. That the Law Enforcement Commission and Cross Border Crime Agency shall be established by the Department on a “shadow” basis until they are constituted in law.
5. To note the intention of the Home Department to submit a Report to the States on the future status of officers and staff of the Police and Customs and Immigration Service.

REQUÊTE

GRANTS AND LOANS FOR STUDENTS ATTENDING COURSES OF HIGHER AND FURTHER EDUCATION OFF-ISLAND

THE HUMBLE PETITION of the undersigned Members of the States of Deliberation

SHEWETH THAT:

1. On 2nd November 2007 (on Article XI of Billet d'État XXII of 2007) the States, after consideration of the Report dated 30th August 2007 of the Education Department, resolved inter alia:

“1. TO NEGATIVE THE PROPOSITION to approve the additional funds for the Education Department's total Revenue budget, to permit the ring-fenced Higher Education Budget to be increased annually in line with demand.

2. (1) To approve the introduction of the necessary enabling legislation to permit the implementation of student loans at some point in the future by amending the Education (Guernsey) Law, 1970.

3. (2) To approve the establishment of a student loans scheme, as set out in that Report

- (9) That the Education Department be directed to report back to the States on the operation of the student loans scheme not later than five years after implementation in 2009 of the loans system”;

and on 28th May 2008, the States approved the Education (Amendment) Law, 2008 in pursuance, inter-alia, of their Resolution at 2 (1) above

2. In the opinion of your Petitioners, the above resolutions and funding arrangements arising from them are likely to be inappropriate, unreasonable and unnecessary.
3. It is the view of your Petitioners that these resolutions should be revisited with a view to the Education Department conducting a thorough reassessment of all funding options by 2011; and that in the meantime, the present system of States financial assistance should continue until the end of the academic year commencing in September 2011.

THESE PREMISES CONSIDERED, your Petitioners humbly pray that the States may be pleased to resolve:-


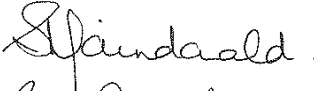
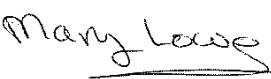


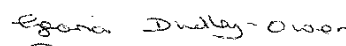

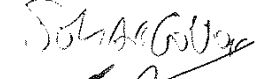

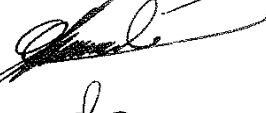
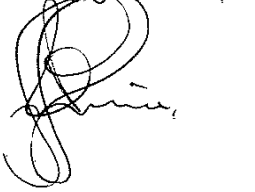


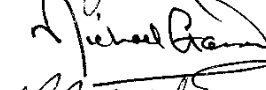
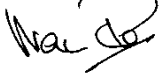


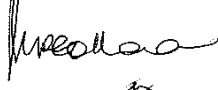


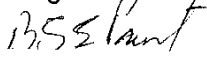
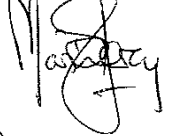


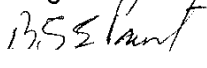
- (a) That the system of States financial assistance towards the tuition and maintenance costs of students attending courses of higher and further education off-island shall continue as at present until the end of the academic year commencing in September 2011.
- (b) To approve the additional funds required for the Education Department's total revenue budget in order that the ring-fenced Higher Education Budget be increased annually in line with demand until the end of the academic year commencing in September 2011.
- (c) To direct the Education Department to review the existing scheme and report back on it to the States in 2011, or sooner if there is significant change in the funds needed for the existing scheme.
- (d) To rescind Resolution 3 on Article XI of Billet d'État XXII of 2007.

AND YOUR PETITIONERS WILL EVER PRAY

GUERNSEY

This 23rd day of June 2008

(NB The Petitioners signatures are shown on next page)

	M J Fallaize		S J Maindonald
	M M Lowe		R Domaille
	P L Gillson		G P Dudley-Owen
	M W Collins		J A B Gollop
	S L Langlois		A H Brouard
	A R Le Lievre		S J Ogier
	S J McManus		M G G Garrett
	I F Rihoy		R R Matthews
	M P J Hadley		M G O'Hara
	M H Dorey		M H Dorey
	M J Storey		M J Storey
			T J Stephens
	D de G De Lisle		
	B J E Paint		

(NB In pursuance of Article 17 of the Rules of Procedure the views of the Departments and Committees consulted by the Policy Council, as appearing to have an interest in the subject matter of the Requête, are set out below.)

EDUCATION DEPARTMENT

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

25th July 2008

Dear Deputy Trott

On behalf of the Board of the Education Department, I am pleased to provide comment on the Requête “Grants and loans for students attending courses of higher and further education off island.” An executive summary in bulleted form is appended.

The Board considered a report on this matter at its meeting held on Tuesday 22nd July. At the meeting, the Board was able to consider the most up-to-date financial information and the latest projections which were based on information only recently available in terms of likely future UK university fee levels.

Our analysis of the updated information has made it apparent that the financial position and, in particular, the whole question of affordability, is now significantly improved.

As a consequence of the improved financial outlook, the Board has agreed the following in terms of its comment to your Committee:

1. The present system of States’ financial assistance is able to continue until the end of the academic year 20011/12 (paragraph (a) of the Requête) without the need to introduce student loans.
2. The Board believes that the present system should continue as now provided that recommendation (3.4)* approved by the States when the report on loans was considered in November 2007 is re-affirmed by the Treasury and Resources Department.

The Department asks for all necessary assurances on this which members of the assembly might require. This would address concerns raised in paragraph (b) of the Requête:-

- “(b) To approve the additional funds required for the Education Department’s total revenue budget in order that the ring-fenced Higher Education

Budget be increased annually in line with demand until the end of the academic year commencing in September 2011.”

3. The proposal to introduce student loans should be reviewed and brought back to the States in 2011 or sooner should the financial position vary to that currently projected.

The Requête also calls for resolution 3 on article X1 of Billet d ‘État XXII of 2007 to be rescinded. Members were of mixed views as to the position to take on this. In considering the States in the round, it was known that some States’ Members were strongly opposed to student loans, whatever the financial position, whilst others took the view that students should contribute something as the potential beneficiaries of future higher earnings through improved career prospects.

The Board, therefore, by a majority, agreed that the principle of student loans being introduced was a matter for the States as a whole to decide whether to reconsider.

The issues considered by my Board, which led to the recommendations now being made, are explored below.

Expenditure 2007 and Projections

Expenditure in 2007 was lower than forecast and new projections of expenditure for the next five years suggest that there is a significant reduction in projected States’ expenditure. - **see attached table**. The current position is improved because:

- income from parental contributions was much higher than expected
- projections show tuition fees are not expected to increase in the short term as much as originally anticipated
- student numbers are not expected to be as high as originally modelled
- the Department made a “saving” on Higher Education in 2007 of £½m. It now has balances of £0.8m in addition to any yearly budget allocation it may be given.

Principal Reason for The Balance In 2007

The principal reason for the favourable balance in 2007 appears to be better income recovery from parents as a result of holding disregard levels while salaries generally rose.

The number of students and fee levels was not significantly different to BWCI’s model.

Parents are required to make a financial contribution to both living costs (maintenance) and course fees. Although the costs of maintenance were more in 2007/08, the actual amount met by the States fell when compared to 2006. The percentage met by the States dropped from 40.78% to 37.57%.

Similarly, the average contribution to fees from parents rose by 14.27%. Despite an increase in students (about 40 overall) States' costs decreased.

2008 Accounts

The 2008 accounts show a similar pattern to 2007. Expenditure in the financial year largely reflects the 2007/08 body of students. The growth in numbers is not significant (+43) and fee levels rose by only 2.7%.

The current cash limit of £6.5 million, in 2008, therefore, appears to be sufficient to meet anticipated costs.

Future Costs

Future costs will largely depend on

1. student numbers
2. fees charged by Higher Education Institutions
3. parental contributions.

1. Student Numbers

The projections considered by the Board, as detailed in the table, assumed growth in student numbers of 5% per annum, but actual figures could be lower or higher. All costs are shown at 2007 prices using a notional cost per student i.e. how much the States spent on each student in 2007.

The projections suggest that the current budget of £6.5m, together with current balances, would be sufficient to fund the increases in student numbers forecast in the model.

If fees increase moderately as is now expected, it is assumed that parental contributions are maintained in the same proportions. If parental contributions, however, fail to keep pace with fee increases, then costs will be more than shown and the budget may need to be increased.

2. Fee Rates

Fee rates are now expected to increase by UK inflation and not vary significantly from those charged at present. This is a better position, again, than originally reported.

The current agreement on tuition fee rates negotiated by the three Islands expires September 2009 i.e. the end of the coming academic year. In June 2008, the three Islands met with Universities UK to ascertain whether the current agreement could be extended. Universities UK has tentatively offered to recommend the current agreement to its members for a further three years, but with a review after two years.

This is a significant development because it means costs are likely to rise only in-line with inflation during this period where previously quite a large increase in fees was expected. However, firm negotiations only take place in February/March 2009.

3. Parental Contributions

Income recovery has been much better than estimated. A freeze on parental allowances against a background of rising salary levels has produced a marked improvement in income recovery. Parental allowances have been increased this year by RPI.

Conclusion

While student numbers are still rising, the significant threat of a major uplift in fees, expected in September 2009, appears to have receded.

The current balance between parental contribution and States' contribution, if it can be maintained, would suggest that the current budget figure of £6.5 million per annum is adequate until 2012.

However, as there are many variables to consider, and the situation is always fluid, the Board will be suggesting to the Treasury and Resources Department that the Higher and Advanced Education Budget remains ring-fenced and that for 2009 and subsequent years, the budget is subject to a maximum Cash Limit of £7 million maintained in real terms.

I trust you will find these comments helpful. I shall be pleased to provide any further information you require.

Yours sincerely

C A Steere
Minister

- *(4) To direct the Treasury and Resources Department to take account of the costs of the new scheme for funding Guernsey and Alderney students attending courses of further and higher education outside the Bailiwick when recommending to the States, Cash Limits for the Education Department- Higher and Advanced Education for 2009 and subsequent years, subject to a maximum Cash Limit of £7 million at 2006 values, maintained in real terms.

Higher Education Issues

Summary

Financial Position

- Expenditure in 2007 is lower than forecast.
- Expenditure is £½ million under budget in 2007.
- Balances of £800k have now accumulated
- 2008 is showing similar pattern to 2007.
- 2008 budget is on track for “underspend”.
- Revised Projections, on basis of current spend, show marked improvement.

Student Numbers

- 2007 Financial Year relates largely to September 2006 students.
- BWCI knew these numbers
- BWCI could only estimate family income - significant “change” here.
- Student numbers rising slowly - approx 40 extra per year
- Numbers are not increasing as modelled by BWCI (i.e. participation levels).

Course Fees

- Fee increases are well below RPI for last two academic years.
- New arrangements with UK on fees is very likely in due course.
- Fees are not expected to rise significantly in short term - i.e. next 3 years.

Parental Contributions

- This is the principal reason for the favourable balance.
- Costs have risen but income from parents has risen even more.
- Trend is likely to continue.

Conclusion

- Significant uplift in fees is now unlikely.
- Student numbers are fairly steady.
- Parental contribution is helping the situation.
- Loans are unnecessary at this time.
- Small increase in Cash Limit is advised.

PROJECTED HIGHER EDUCATION COSTS 2007 - 2012

Financial Year	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	£m	£m	£m	£m	£m	£m
Unspent Balances b/f	0.32	0.83	1.23	1.33	1.10	0.53
Budget Estimate	6.50	6.50	6.50	6.50	6.50	6.50
Expenditure Estimate	5.99 *	6.10	6.41	6.73	7.06	7.30
Unspent Balances c/f	0.83	1.23	1.33	1.10	0.53	-0.26
BWCI Model	6.58	7.40	8.23	8.88	9.09	9.12

Notes:

1. 2007 Expenditure figure (*) is actual
2. Student numbers are projected to increase by 5% each year.
3. All costs are shown at 2007 prices.
4. A budget problem does not arise until 2012

TREASURY AND RESOURCES DEPARTMENT

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

30th July 2008

Dear Deputy Trott

Requete on Grants and loans for students

Thank you for your letter of 26 June 2008 enclosing a copy of a Requete entitled “Grants and loans for students attending courses of higher and further education off-island”.

My Board discussed the Requete earlier this month however we have now had the opportunity to reconsider matters in the light of a letter dated 25 July 2008 addressed to you by the Minister of the Education Department. In her letter Deputy Steere says that her Board’s *“analysis of the updated information has made it apparent that the financial position and, in particular, the whole question of affordability, is now significantly improved”*.

Having regard to this development and the information provided in Deputy Steere’s letter and on the basis that her Department’s assumptions prove to be correct, then my Board accepts the Education Department’s view that *“the present system of States’ financial assistance is able to continue until the end of the academic year 2011/12 without the need to introduce student loans”*.

Against this background, my Board is prepared, as requested by Deputy Steere, to reaffirm its commitment to the States resolution (3.4) arising from the debate on this subject last November.

Yours sincerely

C N K Parkinson
Minister

(NB The Policy Council has considered the prayer of the Requête in the light of the above responses from the Education Department and the Treasury and Resources Department.

In the light of the new information concerning the financial position, student numbers, course fees and parental contributions, the Policy Council, by a majority, considers that

- **the system of States financial assistance towards the tuition and maintenance costs of students attending courses of higher and further education off-island can be allowed to continue as at present until the academic year commencing in September 2011 *provided that the annual cost can be contained within an Education Department budget for higher and advanced education which does not exceed £7 million in 2006 values, maintained in real terms***
- **in addition to the requirement for the Education Department to report back to the States (as set out in proposition 2), the Department should also specifically be directed to report back to the States during 2009 with revised funding proposals for students commencing courses from September 2010 onwards, which would include a reconsideration of funding mechanisms based on the principle of student contributions to fees, if, as a result of the fee negotiations scheduled for the Spring of 2009, the Department considers that the current system cannot be contained within the higher and advanced education budget limited to £7 million in 2006 values, maintained in real terms.**

The Policy Council will propose an appropriate amendment when the matter is debated by the States.)

The States are asked to decide:-

XIII.- Whether, after consideration of the Requête, dated 23rd June, 2008, signed by Deputy M J Fallaize and twenty-two other Members of the States, they are of the opinion:-

1. That the system of States financial assistance towards the tuition and maintenance costs of students attending courses of higher and further education off-island shall continue as at present until the end of the academic year commencing in September 2011.
2. To approve the additional funds required for the Education Department's total revenue budget in order that the ring-fenced Higher Education Budget be increased annually in line with demand until the end of the academic year commencing in September 2011.

3. To direct the Education Department to review the existing scheme and report back on it to the States in 2011, or sooner if there is significant change in the funds needed for the existing scheme.
4. To rescind Resolution 3 on Article XI of Billet d'État XXII of 2007.

ORDINANCES LAID BEFORE THE STATES

**THE EDUCATION (COMPULSORY SCHOOL AGE)
(GUERNSEY) (NO.2) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Education (Compulsory School Age) (Guernsey) (No.2) Ordinance, 2008, made by the Legislation Select Committee on the 11th August, 2008, is laid before the States.

**THE ALDERNEY (APPLICATION OF LEGISLATION)
(EDUCATION) (NO.2) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Alderney (Application of Legislation) (Education) (No.2) Ordinance, 2008, made by the Legislation Select Committee on the 11th August, 2008, is laid before the States.

**THE FORFEITURE OF MONEY, ETC IN CIVIL PROCEEDINGS (BAILIWICK
OF GUERNSEY) LAW, 2007 (AMENDMENT) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, is laid before the States.

**THE PROTECTION OF INVESTORS (BAILIWICK OF GUERNSEY) LAW, 1987
(AMENDMENT) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, is laid before the States.

**THE REGISTRATION OF NON-REGULATED FINANCIAL SERVICES
BUSINESSES (BAILIWICK OF GUERNSEY) LAW, 2008
(AMENDMENT) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, is laid before the States.

STATUTORY INSTRUMENT LAID BEFORE THE STATES**THE WATER CHARGES (AMENDMENT) REGULATIONS, 2008**

In pursuance of Article 17 (5) of the Law entitled “Loi ayant rapport à la Fourniture d’Eau par les États de cette Île aux Habitants de la dite Île” registered on 7th May, 1927, as amended, and “The Fees, Charges and Penalties (Guernsey) Law, 2007” registered on 19th May, 2008, The Water Charges (Amendment) Regulations, 2008, made by the Public Services Department and signed by the Department’s Minister on 17th July 2008, is laid before the States.

EXPLANATORY NOTE

These Regulations prescribe the charges which will be made for the supply of water for 2009. These Regulations come into force on 1st January 2009.

*APPENDIX I***CULTURE AND LEISURE DEPARTMENT****CHANNEL ISLANDS LOTTERY – 2007 REPORT AND ACCOUNTS**

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

12th June 2008

Dear Sir

I am pleased to be able to provide a report on the Bailiwick of Guernsey's performance within the Channel Islands Lottery for 2007. The requirement to report is contained within section 2 (5) of the Gambling Channel Islands Lottery Ordinance. The report is included as an appendix to a Billet d'Etat.

We regret to report that sales continued to fall in 2007 although the Christmas issue once again showed an improvement.

LOTTERY FORMAT

Throughout 2007 the Lottery was run on an instant prize scratch card basis, with the exception of Christmas, which also includes a draw of winning numbers.

Two separate scratch card games are run side by side; both now offer a maximum prize of £20,000.

Changes to the structure of the game and prize structure are routinely monitored after consultation with the Lottery Advisory Panel. The panel meets to review and make recommendations about the Lottery.

SALE OF TICKETS

Five main Agents are appointed to sell Lottery tickets within the Bailiwick of Guernsey, three in Guernsey, one in Alderney and one in Sark. The Agents purchase tickets from the Department who ensure that the tickets are on sale as widely as possible through a chain of sub-agents.

Total ticket sales in 2007 were as follows:-

	Bailiwick of Guernsey	Jersey	Total Sales
Scratch Cards	822,100	1,144,000	1,966,100
Christmas Draw	600,000	900,000	1,500,000
Total	£1,422,100	2,044,000	3,466,100

PRIZES UNCLAIMED

Prizes which are not claimed are forfeited after a given period of time. The total value of prizes unclaimed in the Bailiwick of Guernsey amounted to £57,882 in 2007. £24,600 was transferred to the Christmas Draw to support a minimum guaranteed prize structure for the draw. The balance of unclaimed prizes as at 31 December 2007 stood at £173,694.

TICKETS LOST IN SHIPMENT

A batch of 100 tickets was lost from a ticket issue and was presumed stolen en route from the supplier in Germany. As a result the game was compromised and could not be put on sale and the consignment was rejected. There was no loss to the States of Guernsey.

DONATION TO THE ASSOCIATION OF GUERNSEY CHARITIES

The profits from the Christmas Bumper Draw are paid to the Association of Guernsey Charities for distribution to charitable groups. The amount paid to the association in respect of the 2007 Christmas Draw was £145,262.12.

With the Department's agreement the Association of Guernsey Charities has distributed the funds as detailed on the attached schedule.

ACCOUNTS

The accounts for the Channel Islands Lottery (Guernsey) Fund for 2007 are attached. These reveal that the promotion of the Lottery in the Bailiwick of Guernsey produced a surplus of £287,349 which was shared within the Bailiwick in proportion to the number of tickets sold in each Island as follows:-

Chief Pleas - Sark	£2,224
States of Alderney	£2,926
States of Guernsey	£282,199

Yours faithfully

Mike O'Hara
Minister

Channel Island Christmas Lottery 2007 - Guernsey Charitable Grant Allocation

CHARITY	AGC NO.	PURPOSE	GRANT
Ambulance and Rescue Service	021	Replacement life jackets for Marine Ambulance	8,600.00
Amherst Primary School PTA	295	Playground Equipment	6,000.00
Bailiwick of Guernsey Victim Support	211	Balance of funding for part time assistant	4,000.00
Boys Brigade - 2nd Guernsey Company	114	Buoyancy Aids and life jackets for kayaks	640.00
Citizens Advice Bureau	008	Counsellors salaries and training	10,000.00
Drug Concern	153	Rent and Refurbishment	15,000.00
Guernsey Cardiac Action Group	222	Purchase portable ultrasound device	6,600.00
Guernsey Cheshire Home	035	Heating and vehicle expenses	13,000.00
Guernsey Sports Commission LBG	260	Mobile floodlights	3,000.00
Guernsey Welfare Service Ltd	020	Welfare vouchers / office rent	5,000.00
Guernsey Women's Aid	263	24 hr helpline / liability insurance / publicity / advertising	1,215.00
Guernsey Youth LBG	300	Purchase & renovate property for Youth Centre	15,000.00
La Corbinerie Gateway Club	076	Towards Replacement Minibus	7,500.00
Les Bourgs Hospice	141	Running costs of the Hospice	11,000.00
Les Naftiaux Community Centre	253	Youth Workers pay contribution & PL Insurance	4,000.00
Multiple Sclerosis Society - Bailiwick of Guernsey Branch	011	Provide support for MS sufferers	5,000.00
National Autistic Society Guernsey Branch	293	Training and information	1,600.00
National Childbirth Trust Guernsey Branch	042	Training costs for Ante-Natal Teacher	6,000.00
NSPCC	043	Contribution to ongoing running costs	10,000.00
Phillipi Guernsey LBG	270	Ongoing Professional Development	3,000.00
Pre-School Toy Library	146	Rent and insurance	1,500.00
Relate Guernsey Ltd	024	Training costs for Young People's Counsellor	1,000.00
Sea Cadets Guernsey	096	Insurances (members / property / public liability)	1,060.00
Town Centre Partnership	234	Entertainment in Candie Gardens	3,000.00
WRVS	057	Towards Staffing Costs	5,000.00
		TOTAL	£147,715.00

Note: This distribution includes £2,452.88 from the Association of Guernsey Charities Charitable Fund Account, in addition to £145,262.12 from the 2007 Christmas Lottery.

CHANNEL ISLANDS LOTTERY (GUERNSEY) FUND

	2007 £	2006 £
FORFEITED PRIZES ACCOUNT		
Balance at 1 January	140,412	134,308
Share of forfeited prizes	57,882	31,904
Transfer to Operating Account	(24,600)	(25,800)
	<hr/>	<hr/>
Balance at 31 December	£173,694	£140,412
OPERATING ACCOUNT		
Forfeited prizes	24,600	25,800
Sale of tickets	1,422,100	1,522,768
	<hr/>	<hr/>
	1,446,700	1,548,568
Agents' commission	(189,441)	(202,752)
Contribution to prize fund including forfeited prizes	(853,260)	(918,480)
Printing and stationery	(68,313)	(64,198)
Promotion	(11,222)	(9,861)
Staff costs	(25,921)	(19,866)
States of Jersey administration charges	(10,000)	(10,521)
Other expenses	(1,194)	(975)
	<hr/>	<hr/>
Surplus	287,349	321,915
Chief Pleas of Sark - share of surplus	(2,224)	(2,911)
States of Alderney - share of surplus	(2,926)	(2,910)
States of Guernsey - share of surplus transferred to Appropriation Account	(282,199)	(316,094)
	<hr/>	<hr/>
	£ -	£ -
APPROPRIATION ACCOUNT		
Balance at 1 January	16,168	11,671
Share of surplus transferred from Operating Account	282,199	316,094
	<hr/>	<hr/>
	298,367	327,765
Donation to Association of Guernsey Charities	(145,262)	(131,597)
Transfers to Beau Sejour Centre	(140,000)	(180,000)
	<hr/>	<hr/>
Balance at 31 December	£13,105	£16,168

- Notes: (a) The balance on the Appropriation Account is payable ultimately to the Beau Sejour Centre under States Resolutions I of 27 September 1972 and XXII of 26 February 1998.
- (b) In accordance with the States Resolution of 23 February 1995 (Billet D'Etat V, February 1995), with effect from 2000 any forfeited prize money from expired Draws which remains unused in the current year will be retained for use as a contingency to support the prize funds in future Draws.

APPENDIX II

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY ELECTRICITY LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

31st July 2008

Dear Sir

Under Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, the year end accounts of Guernsey Electricity Limited are required to be published as an appendix to a Billet d'Etat.

I therefore submit the Report and Financial Statements of that company for the year ended 31 March 2008.

As explained in the Director's Report, in a year in which tariffs to customers increased by 14.82%, but against a background of rising energy costs, the profit before dividend for the financial year was £987,000 (2007: £261,000). The company will pay a dividend to the States of £326,000 (2007: £86,000).

I should be grateful if you would include this matter as an Appendix to the September 2008 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Guernsey Electricity Limited

Report and financial statements

31 March 2008

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Profit and loss account	8
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Balance sheet	10
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Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	KA Gregson	(non-executive Chairman)
	I Watson	(managing)
	IJ Limond	(finance)
	SJ Morris	(engineering)
	KJ Guille	(non-executive)
	JR Shaw	(non-executive) – retired 2 April 2008
	RJ Tee	(non-executive) – retired 19 July 2007
	Advocate IH Beattie	(non-executive)
	D Farrimond	(non-executive) – appointed by States of Guernsey 27 September 2007
	MJ Mann	(non-executive) – appointed by States of Guernsey 12 March 2008

Secretary: SB Pattimore

Bankers: Barclays Bank Plc
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Legal advisers: Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

Independent auditor: KPMG Channel Islands Limited
Chartered Accountants
20 New Street
St Peter Port
Guernsey
GY1 4AN

Registered office: PO Box 4
Electricity House
North Side
Vale
Guernsey
GY1 3AD

Company number: 38692

Guernsey Electricity Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2008. These comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and notes to the financial statements set out on pages 12 to 27.

Incorporation

Guernsey Electricity Limited was incorporated on 24 August 2001.

Principal activities

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

Financial performance

During the year ended 31 March 2008, turnover from electricity sales amounted to £34,197,000 (2007: £28,996,000) which represents an increase of 17.94% (2007: 8.88%). Tariffs to our customers increased by 14.82% from 1 April 2007. Our financial performance also reflects excellent control of costs in a very difficult energy market, and generally higher contribution from all parts of the business.

The profit for the year before the dividend paid amounted to £987,000 (2007: £261,000). The retained profit, after the dividend paid in the year, of £901,000 (2007: £81,000) has been transferred to reserves.

Also credited to reserves is the significant actuarial gain this year from the accounting for pensions calculated with assumptions based on financial market conditions at the balance sheet date. However, it should be noted that financial market conditions remain volatile.

Dividend

During the year a dividend of £86,000 was paid (2007: £180,000), being £0.00079 per share (2007: £0.0016).

Future prospects

The global energy market is continuing to give major concerns to governments, customers and companies operating in the energy industry. As directors of Guernsey Electricity Limited we share these concerns. The volatile and rising costs in the global market are a severe risk which the company faces and manages on a daily basis. Although the directors are making efforts to minimise the impact on customers it is somewhat inevitable that charges to customers will have to increase. The price control decision determined by the Office of Utility Regulation in February 2007 covers the four years from 1 April 2007 to 31 March 2011. Within that decision, tariff changes are provided for on 1 April each year starting 1 April 2009, at tariff values yet to be determined. In all other respects our business activities are all making a positive contribution to the services we provide to the community.

Customers

The number of customers as at 31 March 2008 is 28,791 (2007: 28,685).

Directors' report - continued

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 70% (2007: 55%) of the island needs in the year ended 31 March 2008 and 30% (2007: 45%) was generated on the island, as shown by the units analysis below:

	2008	2007
Units imported MWh	257,093	197,020
Units generated MWh	<u>110,655</u>	<u>158,175</u>
Total units imported/generated MWh	<u>367,748</u>	<u>355,195</u>

Average price

The average price per kWh sold in the year ended 31 March 2008 was 10.03 pence (2007: 8.71 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost no minutes due to generation activity (2007: 13.40 minutes). However, 37.19 minutes were lost per customer in respect of distribution and the cable link (2007: 20.72 minutes).


Directors and their interests

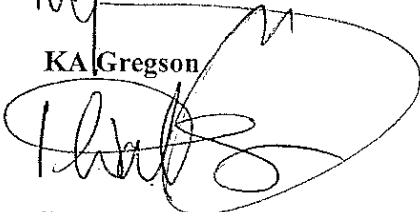
The directors of the company who served during the year and to date are as detailed on page 1. The directors have no beneficial interests in the shares of the company.

Auditors

A resolution for the reappointment of KPMG Channel Islands Limited will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors



 KA Gregson
 

I Watson
Directors

4 June . 2008

Guernsey Electricity Limited

Corporate governance

Directors

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended the non-executive directors are appointed by the States of Guernsey on the nomination of the States of Guernsey Advisory & Finance Committee, now the Department of Treasury & Resources. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

The company is controlled through the Board of Directors, which currently comprises five non-executive and three executive directors. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on running the business and implementing strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board monitors the exposure to key business risks and reviews the strategic direction. It also considers environmental and employee issues. The Board has established a number of standing sub-committees and each operates within defined terms of reference. The principal sub-committees are:

- Audit and Risk
- Land and Property
- Remuneration and Nominations

In addition senior management team meetings are held each fortnight.

Directors' remuneration

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended the remuneration of the non-executive directors is determined by the Department of Treasury & Resources. The remuneration of the executive directors is determined by the company's Remuneration and Nominations Committee, which comprises three non-executive directors.

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended provided for the States of Guernsey Advisory & Finance Committee (now Department of Treasury & Resources) to undertake on behalf of the States the role of shareholder. In accordance therewith the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Department of Treasury & Resources as nominees on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Department of Treasury & Resources on the policies it wishes to be pursued in fulfilling this role. Each year the company submits its forward plan to the Department of Treasury & Resources.

Guernsey Electricity Limited

Corporate governance - continued

Financial reporting

The company has a comprehensive system for reporting the financial performance of the company and each of its business units. Management and the Board of Directors review these monthly. The financial statements for the accounting period ending on the accounting reference date of 31 March are reviewed and signed on behalf of the Board of Directors, and will be presented to the shareholder at the forthcoming annual general meeting.

Internal control

An ongoing process for identifying, evaluating and managing the significant risks faced by the company is in place. The monitoring of this process is one responsibility of the Audit & Risk Sub-Committee and a system of developing the way in which the company captures and assesses its risks is in place.

Compliance

All business units have well established compliance procedures.

IT systems

The company has established controls and procedures over the security of data held on IT systems and has in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by an independent consultant.

Internal audit

Internal audit has a continuing role in monitoring and reporting on business risks. This service is now provided by RSM Bentley Jennison, a leading entity in providing such services. The Finance Director, in association with RSM Bentley Jennison, report on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

Risk management

The Board of Directors has overall responsibility for identifying, evaluating and managing major business risks facing the company. A risk register is in place and this is administered by the Health, Safety & Risk Manager. The Audit & Risk Sub-Committee provides assistance to the Board in these matters.

Guernsey Electricity Limited

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the revenue or deficit for that period and are in accordance with applicable laws and regulations. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Guernsey Electricity Limited

We have audited the financial statements of Guernsey Electricity Limited ("the Company") for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey law and UK accounting standards as set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and Corporate Governance statements and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the Company's affairs as at 31 March 2008 and of its profit for the year then ended; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited

Chartered Accountants
Guernsey

6 June 2008

Guernsey Electricity Limited

Profit and loss account for the year ended 31 March 2008

	Note	2008 £'000	2007 £'000
Turnover	2	38,111	32,505
Cost of sales		<u>(28,799)</u>	<u>(24,319)</u>
Gross profit		9,312	8,186
Net operating expenses		<u>(10,413)</u>	<u>(9,596)</u>
Operating loss	4	(1,101)	(1,410)
Profit/(loss) on disposal of assets		<u>74</u>	<u>(91)</u>
Loss on ordinary activities before interest, other finance income and other income		(1,027)	(1,501)
Interest receivable	5	1,300	1,185
Interest payable	5	(12)	(9)
Other finance income	25	777	653
Other income	6	<u>122</u>	<u>-</u>
Profit on ordinary activities before taxation		1,160	328
Taxation	7	<u>(173)</u>	<u>(67)</u>
Profit for the financial year		<u>987</u>	<u>261</u>

All activities derive from continuing operations.

The notes on pages 12 to 27 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses for the year ended 31 March 2008

	<i>Note</i>	2008 £'000	2007 £'000
Profit for the financial year		987	261
Actuarial gain/(loss) recognised in the pension scheme	25	5,070	(561)
Movement on deferred tax relating to pension (surplus)/deficit	16	(953)	112
		<hr/>	<hr/>
Total recognised gain/(loss) for the year		<u>5,104</u>	<u>(188)</u>

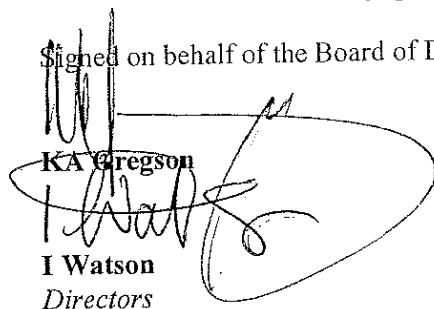
The notes on pages 12 to 27 form an integral part of these financial statements.

Balance sheet
at 31 March 2008

	Note	2008 £'000	2007 £'000
Tangible fixed assets	9	<u>93,263</u>	<u>91,681</u>
Investment	10	<u>1</u>	<u>50</u>
Current assets			
Stocks and work in progress	11	5,405	4,034
Debtors and prepayments	12	6,930	5,444
Balances with States Treasury	13	16,344	19,694
Cash at bank and in hand		<u>169</u>	<u>6</u>
		<u>28,848</u>	<u>29,178</u>
Creditors: amounts falling due within one year	14	<u>(6,435)</u>	<u>(5,954)</u>
Net current assets		<u>22,413</u>	<u>23,224</u>
Total assets less current liabilities		115,677	114,955
Creditors: amounts falling due after more than one year	15	(2,514)	(2,083)
Provision for liabilities and charges	16	(672)	(686)
Net pension surplus/(deficit)	25	<u>2,041</u>	<u>(2,672)</u>
Net assets including pension surplus/deficit		<u>114,532</u>	<u>109,514</u>
Share capital	17	109,209	109,209
Reserves	21	<u>5,323</u>	<u>305</u>
Shareholders' funds	22	<u>114,532</u>	<u>109,514</u>

The financial statements on pages 8 to 27 were approved by the Board of Directors on 2008.

Signed on behalf of the Board of Directors


KA Gregson
I Watson
Directors

The notes on pages 12 to 27 form an integral part of these financial statements.

Guernsey Electricity Limited

Cash flow statement

for the year ended 31 March 2008

	<i>Note</i>	2008 £'000	2007 £'000
Net cash inflow from operating activities	<i>18</i>	<u>913</u>	<u>2,859</u>
Returns on investments and servicing of finance			
Interest received		1,300	1,185
Interest paid		<u>(12)</u>	<u>(9)</u>
Net cash inflow from returns on investments and servicing of finance		<u>1,288</u>	<u>1,176</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(6,420)	(3,925)
Proceeds of disposal of tangible fixed assets		318	2
Customers' contributions towards capital expenditure		717	582
CIEG lease termination payment		<u>-</u>	<u>(769)</u>
Net cash outflow from capital expenditure and financial investment		<u>(5,385)</u>	<u>(4,110)</u>
Dividends paid		<u>(86)</u>	<u>(180)</u>
Net cash outflow before use of liquid resources and financing		<u>(3,270)</u>	<u>(255)</u>
Management of liquid resources			
Net cash movements with States Treasury		3,350	153
Other income	<i>6</i>	<u>122</u>	<u>-</u>
Net cash inflow from management of liquid resources		<u>3,472</u>	<u>153</u>
Increase/(decrease) in cash	<i>19 & 20</i>	<u>202</u>	<u>(102)</u>

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 12 to 27 form an integral part of these financial statements.

Guernsey Electricity Limited

Notes to the financial statements

Year ended 31 March 2008

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Transfer of undertaking

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Company (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002. The transfer value of the assets and liabilities introduced, together with the business undertaken in accordance with the enabling legislation, represents cost to Guernsey Electricity Limited. The directors have reviewed the amounts attributed and are satisfied that fair values have been applied and therefore no adjustment arises on any aspect of the transferred undertaking.

Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

Hire purchase

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

Interest

Interest receivable and payable are accounted for on an accruals basis.

Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted below.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

1. Principal accounting policies - continued

Tangible fixed assets and depreciation - continued

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition or on completion of construction. Any shortfall of depreciation arising on the disposal or write-off of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

	Estimated life in years
Buildings	40
Buildings Equipment	10
Cable Link	25
Plant and machinery - Generation	25 – 30
- Distribution	35
- Street Lights	20
Distribution network comprising:	
Distributors	35
Meters	5 – 10
Cyclocontrol receivers	5
Motor vehicles	5
Furniture and equipment	3 – 10
Minor plant	5 – 10

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of goods held for resale a provision is made based on the time elapsed since the goods were purchased. Provision is made for other stocks relating to strategic plant based upon the remaining useful economic life of the assets to which they relate.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Deferred taxation

Provision for deferred tax is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. The pension scheme surplus/(deficit) shown in the accounts is net of the deferred tax liability/(asset). Deferred tax assets and liabilities are not discounted.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

1. Principal accounting policies - continued

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

Financial instruments

The company enters into forward exchange contracts to mitigate a large percentage of the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. The company does not hold or issue financial instruments for speculative purposes.

Pension costs

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing current service cost and any past service cost is charged to the profit and loss account together with finance costs for the scheme. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with FRS17.

Joint arrangements

The Channel Islands Electricity Grid Limited is a joint arrangement between the Jersey Electricity Company Limited and Guernsey Electricity Limited. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9") these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this joint arrangement where the company's entitlements are fully determined by contracts with the other party to the joint arrangement.

2. Turnover

	2008 £'000	2007 £'000
Sales of electricity	34,197	28,996
Other sales	<u>3,914</u>	<u>3,509</u>
	<u>38,111</u>	<u>32,505</u>

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. With effect from 1 April 2009 the company will recover through tariff increases, non-controllable costs that have arisen over and above the values allowed in the Office of Utility Regulation's final price control decision in February 2007. The estimated value for 2007/08 to be recovered through tariff increases from 1 April 2009 is in the range £4 million to £4.5 million.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

3. Cable link

The company previously had an ongoing obligation to its supplier, Electricité de France, to meet the cost of a minimum amount of electricity. Following the new pricing arrangements entered into with EdF, there is no longer a revenue commitment effective from 1 December 2005. The company remains committed to contribute towards the reinforcement of the French network. This liability is being satisfied by a revenue payment of approximately £110,000 per annum over the period of the contract.

The company was party to arrangements entered into on 29 November 1999 with the Jersey Electricity Company Limited, being a 35 year lease and lease back arrangements in the amount of £70.13 million in respect of the installation and operation of the Interconnector system between France, Jersey and Guernsey. The counterparties in the arrangement were Natwest Offshore Limited and the Royal Bank of Scotland International Limited. A condition of the arrangement was that the Jersey rate of taxation remained at 20% throughout the period of the lease. However, Jersey tax changes have been introduced and the optimum time for the company to terminate its interest in the lease was December 2006. This was concluded with a final termination payment of £770,000.

4. Operating Loss

Operating loss is after charging/(crediting):

	2008 £'000	2007 £'000
Depreciation (note 9)	4,934	4,482
Investment impairment (note 10)	49	50
Rentals under operating leases	71	108
Auditors' remuneration - statutory audit	30	17
- non-audit services	-	18
Bad debts	20	28
Emoluments - non-executive directors	51	46
- executive directors (including pension)	425	437
Regulatory costs - external (excluding audit)	241	372
- internal	85	220
Other operating income	<u>(550)</u>	<u>(564)</u>

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

5. Interest

	2008 £'000	2007 £'000
Interest receivable:		
Deposits with banks and States Treasury	1,152	1,047
Hire purchase	<u>148</u>	<u>138</u>
	<u>1,300</u>	<u>1,185</u>
Interest payable:		
Bank overdraft	2	2
Security deposits	<u>10</u>	<u>7</u>
	<u>12</u>	<u>9</u>

6. Other income

Of the £5,350,000 that the States of Guernsey Electricity Board had on deposit with the Bank of Credit and Commerce International when it ceased trading on 5 July 1991, £5,289,591 has been recovered. £121,646 was received in the current year (2007: £Nil).

7. Taxation

With effect from 1 January 2008, the standard rate of income tax for Guernsey companies has changed. Thereafter, the company will be taxed at a combination of the company standard rate of 0% and the company higher rate of 20%. Therefore the tax charge included in the financial statements is based on these rates. The tax adjusted profits of the company have been apportioned so that the appropriate amount is taxed at 20% and the new rates as applicable. The comparative figures have been prepared using a 20% tax rate.

The company's profits or losses from the activities subject to licence from the Office of Utility Regulation will be chargeable to tax at the 20% rate, as will rental income from Guernsey properties. For all other company activities the zero rate is applicable.

The basis of assessment to Guernsey tax continues to be on an actual current year basis. With the change to the two rates of tax on profits and losses for 2008 and the old basis for 2007 the results for the financial year are apportioned between the nine months ending 31 December 2007 and the three months 1 January to 31 March 2008.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

7. Taxation - continued

The Income Tax (Zero Ten) (Guernsey) Law, 2007 was passed by the States of Guernsey on 26 September 2007 and is subject to approval by UK Privy Council. Under UK GAAP, as the Fifth Schedule of the law clearly sets out the tax rates applying to various classes of income, the new rates are deemed to have been substantively enacted at this date.

Deferred tax in the financial statements is therefore measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. With effect from 1 January 2008, various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate of 0% and the company higher rate of 20%. Deferred tax has been provided at 0% and 20% on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 18.8137% has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2008.

The deferred tax charge in the profit and loss account for the year is:

	2008 £'000	2007 £'000
Timing differences on capital allowances and depreciation	215	413
Short term timing differences (pension)	187	121
Short term timing differences (other)	(23)	(9)
Unrelieved trading losses	<u>(206)</u>	<u>(458)</u>
	<u>173</u>	<u>67</u>

8. Dividend

	2008 £'000	2007 £'000
Paid in the year, £0.00079 per share (2007: £0.0016 per share)	<u>86</u>	<u>180</u>

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

9. Tangible fixed assets

	1 April 2007 £'000	Additions £'000	Written off/ disposals £'000	31 March 2008 £'000
<i>Cost</i>				
Land and buildings	27,261	1,417	274	28,404
Cable link	29,064	35	-	29,099
Plant and machinery:				
Generation	31,812	885	5	32,692
Distribution	7,693	1,090	-	8,783
Distribution network	18,897	2,765	151	21,511
Motor vehicles, furniture and equipment, minor plant	<u>3,121</u>	<u>568</u>	<u>99</u>	<u>3,590</u>
	<u>117,848</u>	<u>6,760</u>	<u>529</u>	<u>124,079</u>
	1 April 2007 £'000	Charge for the year £'000	Written off/ disposals £'000	31 March 2008 £'000
<i>Depreciation</i>				
Land and buildings	4,208	961	48	5,121
Cable link	6,451	1,250	-	7,701
Plant and machinery:				
Generation	8,792	1,457	1	10,248
Distribution	1,063	205	-	1,268
Distribution network	4,019	680	146	4,553
Motor vehicles, furniture and equipment, minor plant	<u>1,634</u>	<u>381</u>	<u>90</u>	<u>1,925</u>
	<u>26,167</u>	<u>4,934</u>	<u>285</u>	<u>30,816</u>
Net book value	<u>91,681</u>			<u>93,263</u>

Included above are assets in the course of construction of £5,988,000 (2007: £4,273,000), which are not depreciated.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

10. Investment

The company invested £250,000 in Marine Current Turbines Limited as part of its initiatives to keep abreast of the research and development of alternative energy sources. This investment is a minority interest and the holding is less than 5%. The benefits of this investment are spread over more than one year, and £49,000 has been charged to the profit and loss account for impairment (2007: £50,000).

11. Stocks and work in progress

	2008		2007	
	£'000	£'000	£'000	£'000
Fuel stocks		3,019		1,754
Purchased goods for resale	346		332	
Provision	<u>(5)</u>	341	<u>(4)</u>	328
Other stocks	2,946		2,714	
Provision	<u>(1,106)</u>	1,840	<u>(1,059)</u>	1,655
Work in progress		<u>205</u>		<u>297</u>
		<u>5,405</u>		<u>4,034</u>

12. Debtors and prepayments

	2008	2007
	£'000	£'000
Estimated value of unbilled units	3,678	3,014
Customer accounts outstanding	2,741	1,798
Other debtors	150	214
Prepayments	<u>361</u>	<u>418</u>
	<u>6,930</u>	<u>5,444</u>

Included in "Customer accounts outstanding" is an amount of £275,000 (2007: £229,000) due after more than one year.

13. Balances with States Treasury

The treasury department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

14. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Bank overdraft	-	39
Trade creditors	1,994	1,789
Customer payments received in advance	2,879	3,020
Employee taxes and Social Security	152	138
Deferred income	83	68
Accruals and other creditors	<u>1,327</u>	<u>900</u>
	<u>6,435</u>	<u>5,954</u>

The company has a £750,000 overdraft facility (2007: £2 million), and interest is payable quarterly at 1% over UK base rate. This facility is unsecured and is repayable on demand and is reviewed and approved by the Board annually.

15. Creditors: amounts falling due after more than one year

	2008 £'000	2007 £'000
Deferred income	<u>2,514</u>	<u>2,083</u>

16. Provision for liabilities and charges

	2008 £'000	2007 £'000
Deferred taxation:		
Balance at 1 April	18	63
Profit and loss account charge	173	67
Statement of total recognised gains and losses	<u>953</u>	<u>(112)</u>
Balance at 31 March	<u>1,144</u>	<u>18</u>
Which comprises:		
Capital allowances in excess of depreciation	7,063	6,848
Short-term timing differences (other)	(76)	(53)
Unrelieved trading loss for tax purposes	<u>(6,315)</u>	<u>(6,109)</u>
Provision for liabilities and charges	<u>672</u>	<u>686</u>
Deferred tax liability/(asset) on pension deficit (note 25)	<u>472</u>	<u>(668)</u>

17. Share capital

	2008 £'000	2007 £'000
<i>Authorised:</i>		
125,000,000 ordinary shares of £1 each	<u>125,000</u>	<u>125,000</u>
<i>Issued and fully paid:</i>		
109,208,844 ordinary shares of £1 each	<u>109,209</u>	<u>109,209</u>

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

**18. Reconciliation of operating loss
to net cash inflow from operating activities**

	2008 £'000	2007 £'000
Operating loss	(1,101)	(1,410)
Depreciation charge	4,934	4,482
Pension service cost	1,481	1,500
Employer's pension cash contributions	(1,487)	(1,454)
Investment impairment	49	50
Deferred income	(92)	(132)
Increase in stocks and work in progress	(1,371)	(89)
(Increase)/decrease in debtors and prepayments	(1,486)	47
Decrease in creditors	<u>(14)</u>	<u>(135)</u>
	<u>913</u>	<u>2,859</u>

19. Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
Increase/(decrease) in cash in the year	202	(102)
Cash used to decrease liquid resources	<u>(3,350)</u>	<u>(153)</u>
Change in net funds	(3,148)	(255)
Net funds at 1 April	<u>19,661</u>	<u>19,916</u>
Net funds at 31 March	<u>16,513</u>	<u>19,661</u>

20. Analysis of changes in net funds

	At 1 April 2007 £'000	Cash flows £'000	At 31 March 2008 £'000
<i>Cash</i>			
Cash at bank and in hand	6	163	169
Bank overdraft	<u>(39)</u>	<u>39</u>	<u>-</u>
	(33)	202	169
Balances with States Treasury	<u>19,694</u>	<u>(3,350)</u>	<u>16,344</u>
	<u>19,661</u>	<u>(3,148)</u>	<u>16,513</u>

Guernsey Electricity Limited

Notes to the financial statements - continued

*Year ended 31 March 2008***21. Reserves**

	2008 £'000	2007 £'000
Balance at 1 April brought forward	305	673
Profit for the financial year	987	261
Dividend	(86)	(180)
Actuarial gain/(loss) recognised in the pension scheme, net of movement in deferred tax relating to pension surplus/(deficit)	4,117	(449)
	<hr/>	<hr/>
Balance at 31 March carried forward	<u>5,323</u>	<u>305</u>

22. Reconciliation of movements in shareholders' funds

	2008 £'000	2007 £'000
Shareholders' funds at 1 April brought forward	109,514	109,882
Profit for the financial year	987	261
Dividend	(86)	(180)
Actuarial gain/(loss) recognised in the pension scheme, net of movement in deferred tax relating to pension surplus/(deficit)	4,117	(449)
	<hr/>	<hr/>
Shareholders' funds at 31 March	<u>114,532</u>	<u>109,514</u>

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

23. Commitments

Capital commitments for which no provision has been made in these financial statements amounted to £4,730,000 as at 31 March 2008 (2007: £4,806,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Operating lease commitments

Commitments to make payments during the next year in respect of an operating lease are as follows:

	2008 £'000	2007 £'000
<i>Land and Buildings</i>		
Lease which expires:		
Within one year	-	5
Within two to five years	11	10
<i>Furniture and equipment</i>		
Lease which expires:		
Within one year	-	56
Within two to five years	<u>-</u>	<u>-</u>

24. Financial instruments

The company's commitment to forward contracts at the balance sheet date was as follows:

	2008 €'000	2007 €'000
Forward contracts to purchase Euro	<u>5,770</u>	<u>12,677</u>
	£'000	£'000
Contracted prices	<u>4,256</u>	<u>8,806</u>
Closing value at 31 March	<u>4,593</u>	<u>8,568</u>
Unrecognised and unrealised gains/(losses)	<u>337</u>	<u>(238)</u>

All forward contracts mature within eighteen months of the balance sheet date.

The sterling/euro rate at 31 March 2008 was 1.2561 (2007: 1.4795).

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

25. Pension Scheme

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme (PSPS). This is a defined benefits pension scheme funded by contributions from both employer and employee to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and therefore the value of the pension fund assets and liabilities attributable to this company. The valuation at 31 December 2004 recommended the increase of employer's contribution from 8.35% to 16.3% from 1 April 2006 and this was approved by the States of Guernsey. In recognising that further contribution was required to reduce the past service deficit, it was resolved by the Board of Directors to reduce the deficit by lump sums over a period of years. An additional sum of £400,000 has been provided for this year (2007: £400,000).

The triennial actuarial valuation of the PSPS as at 31 December 2007 is still in progress and consequently, the results of this latest valuation were not available at the time of reporting.

The total amount of pension contributions for the year ended 31 March 2008 was £1,487,000 (2007: £1,454,000). £Nil was accrued but not yet paid as at 31 March 2008 (2007: £Nil).

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") on Retirement Benefits on the following basis:

Financial Assumptions	31 March 2008 % p.a.	31 March 2007 % p.a.	31 March 2006 % p.a.
Discount rate	6.7	5.2	4.9
Inflation	3.6	3.2	3.0
Increases to deferred benefits during deferment	3.6	3.2	3.1
Increases to pensions in payment	3.6	3.2	3.1
Increases to salaries	5.1	4.7	4.5

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

25. Pension Scheme - continued

Market value of scheme assets

	Market value at 31 March 2008		Expected return on assets	Market value at 31 March 2007		Expected return on assets	Market value at 31 March 2006		Expected return on assets
	£'000	%	% p.a.	£'000	%	% p.a.	£'000	%	% p.a.
Equities	28,929	80.66	8.00	27,999	80.65	8.50	25,706	79.72	8.00
Bonds	6,665	18.58	4.70	6,485	18.68	4.80	6,014	18.65	4.50
Cash and net current assets	<u>274</u>	<u>0.76</u>	5.50	<u>231</u>	<u>0.67</u>	5.25	<u>527</u>	<u>1.63</u>	4.50
Market value of the scheme assets	35,868	100.0	7.4	34,715	100.0	7.8	32,247	100.0	7.3
Present value of the Scheme liabilities	<u>33,355</u>			<u>38,055</u>			<u>35,633</u>		
Surplus/(deficit) in the scheme	2,513			(3,340)			(3,386)		
Related deferred tax (liability)/asset (assuming Guernsey income tax at effective rate)	<u>(472)</u>			<u>668</u>			<u>677</u>		
	<u>2,041</u>			<u>(2,672)</u>			<u>(2,709)</u>		

The asset and liability values on the FRS 17 basis reflect market conditions at the company's year-end date and can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

25. Pension Scheme - continued

<i>Analysis of the amount charged to operating profit</i>	2008	2007
	£'000	£'000
Current service cost	1,481	1,500
Past service cost	-	-
Total operating charge	<u>1,481</u>	<u>1,500</u>
 <i>Analysis of the amount charged to other finance costs</i>	 2008	 2007
	£'000	£'000
Expected return on pension scheme assets	2,742	2,392
Interest on pension scheme liabilities	<u>(1,965)</u>	<u>(1,739)</u>
Net return	<u>777</u>	<u>653</u>
 <i>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)</i>	 2008	 2007
	£'000	£'000
Actual return less expected return on pension scheme assets	(2,515)	(933)
Experience gains and losses arising on scheme liabilities	659	(884)
Changes in assumptions underlying the present value of scheme liabilities	<u>6,926</u>	<u>1,256</u>
Actuarial gain/(loss) recognised in STRGL	<u>5,070</u>	<u>(561)</u>
 <i>Movement in deficit during the year</i>	 2008	 2007
	£'000	£'000
Deficit in scheme at beginning of the year	(3,340)	(3,386)
Movement in year:		
Current service costs	(1,481)	(1,500)
Contributions	1,487	1,454
Past service costs	-	-
Other finance income	777	653
Actuarial gain/(loss)	<u>5,070</u>	<u>(561)</u>
Surplus/(deficit) in scheme at end of the year	<u>2,513</u>	<u>(3,340)</u>

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2008

25. Pension Scheme - continued

<i>History of experience gains and losses</i>	2008	2007	2006	2005	2004
Difference between the actual and expected return on scheme assets:					
Amount (£'000)	(2,515)	(933)	4,000	675	3,313
Percentage of scheme assets	(7%)	(3%)	12%	3%	15%
Experience gains and losses on scheme liabilities:					
Amount (£'000)	659	(884)	791	2,039	(576)
Percentage of the present value of the scheme liabilities	2%	(2%)	2%	7%	(2%)
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	5,070	(561)	1,402	2,521	485
Percentage of the present value of the scheme liabilities	15%	(1%)	4%	8%	2%

26. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

27. Related party transactions

There are no disclosable related party transactions in this financial year.

Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.

APPENDIX III

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY POST LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

31st July 2008

Dear Sir

Under Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, the year end accounts of Guernsey Post Limited are required to be published as an appendix to a Billet d'Etat.

I therefore submit the Report and Financial Statements of Guernsey Post Limited for the year ended 31 March 2008.

As set out in the Chairman's statement, the company has, in this financial year, begun to address the challenge of making efficiencies across the operation alongside improving service to customers. The operational performance of the business has continued the recent trend of improvement with the profit before dividend rising to £1,964,000 (2007: £690,000). The company will pay a dividend to the States of £627,250 (2007: £204,000).

I should be grateful if you would include this matter as an Appendix to the September 2008 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Annual Report & Financial Statements

For the year ended 31st March 2008



Annual Report & Financial Statements

For the year ended 31st March 2008



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Corporate Details

Directors:

Dudley R Jehan (Chairman)
Gordon R Steele (Chief Executive)
Richard J Hemans (Finance)
Andrew Duquemin (Non-Executive)
Steve Hannon (Non-Executive)
Jeff Kitts (Non-Executive)

Auditors:

KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
20 New Street
St Peter Port
GUERNSEY
GY1 4AN

Actuaries:

BWCI Consulting Limited
Actuaries and Consultants
PO Box 68
Albert House
South Esplanade
St Peter Port
GUERNSEY
GY1 3BY

Registered office:

Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Grefe Registration Number:

38693

Chairman's Statement

The financial year 2007/8 was very successful for Guernsey Post as the company exceeded its financial targets and delivered exceptional service compared to both previous years and the targets set by the industry regulator.

At the start of each three-year price control period, Guernsey Post must reinvent itself to take into account the demands of the regulator and changes to the markets in which it operates. The financial year 2007/8 was the start of this three-year cycle and saw the company develop a new strategy for the future and take the first steps in delivering it.

In the last tariff review, the regulator capped prices at a level lower than cost increases and required us to make efficiencies across the postal operation, while improving service to customers. The company has addressed these challenges on a consultative basis to ensure that this can be delivered with the full co-operation of employees and unions. During the financial year 2007/8 the major stepping-stones to efficiency were put in place including a voluntary redundancy agreement, which will allow changes to be made to the operation on a sustainable basis and without disruption. At the same time the company hit 19 of 21 regulated service targets as well as making improvements elsewhere in its operation.

The business has benefited from growth in the island's fulfilment sector, which spans a significant range of products from DVDs and CDs to vitamins and health supplements. We were also able to maintain our historic links with the growing industry by working with the flower growers and plant exporters on the island. The fulfilment sector of the Guernsey economy is a critical one for Guernsey Post both as a source of revenue and profit but also as the volume of despatched items supports the transport network to and from the island.

The uncertain future of EU and UK regulations relating to this trade, specifically Low Value Consignment Relief, is a matter of great concern for the business and its future viability. During the year we have lobbied the States of Guernsey and have worked with the Commerce and Employment department to develop open and constructive working relationships with our customers and their representative bodies. We will continue to promote the work that our customers do in this area, wherever possible highlighting the contribution they make to a diversified economy, their flexible employment terms and their inward investment in the island and its future.

Our long-term postal markets are in decline as consumers and businesses find new ways to communicate and transfer information. While the death knell of the postal industry has been sounded several times before, we are now seeing real declines in letter volumes. This is offset by growth in internet shopping, which has resulted in significant increases in our packet and parcel traffic.

We also operate in increasingly competitive markets in which we must work very hard to keep our existing bulk mail customers from migrating some or all of their operations to other territories such as Jersey, Switzerland and Hong Kong. Aside from facing international competition we also compete in the Bailiwick with the courier companies such as DHL, TNT, and local delivery operations for parcels and packets.

Chairman's Statement - continued

It is clear to us that maintaining the status quo is not sufficient and we have developed a three-point strategy to address this:

- To become a more efficient and effective operator
- To diversify our business and find new profitable revenue streams
- To develop our people

To some extent the first of these aims addresses the requirements of the regulator but has also resulted in a more extensive review of the resources and management structures needed to run our business.

We have also embarked on a plan to diversify the business both in terms of markets and geography. The guidance offered by the shareholder supports growth where new activities can be conveniently combined with the core operation and in the year we made preparations to enter the foreign exchange market, resulting in our subsequent acquisition of the BATIF operation. We also launched new money transfer products and revitalised our retail offer in the two company-owned branches at Envoy House and Smith Street.

And finally we have recognised that the small skill base on the island requires us to compete for people and to develop those who already work for us. I am particularly pleased with this element of the plan and look forward to seeing the results of this investment.

All of this change has been implemented at the same time as delivering a sound financial performance. In 2007/08 we grew revenue by 18% to £37.0m, and turned operating profit from a loss of £0.4m in the previous year to a profit of £0.8m. After adjustments and tax the net profit for the business stands at £2.0m. This is a creditable performance and while the balance between profits and stamp prices is always a difficult one, it is a reasonable return on an operation of this size. The profits from the business will allow us to pay to our shareholder, the States of Guernsey, a dividend of £627,000. Given our current income tax charge of £381,000 this takes our payments to the Treasury to over £1m.

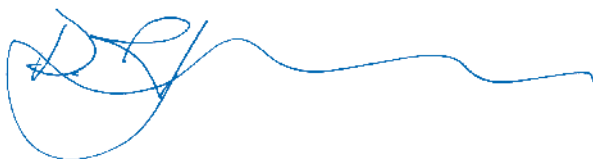
The company's balance sheet remains healthy, particularly so due to management of the Royal Mail creditor and the FRS 17 pension adjustment. The company continues to provide a defined-benefit pension scheme as part of the States Pension Scheme. The company's part of the scheme has been in actuarial deficit since commercialisation in 2001 but is recording a surplus this year-end. The company has already established a prudent stance in its employee longevity assumptions in line with industry best practice. However, this surplus is very much driven by the 'credit crunch' and its effects on the corporate discount rates used by the Actuary rather than reflecting a return to a sustained surplus. Neither management nor employees can afford to be complacent about this position.

The Board has worked with the Executive Team to develop the strategy but has also focused on improving corporate governance during the year. The terms of reference for all three sub-committees, namely remuneration, nominations and audit have been revised. This has been a particularly busy time for the nominations committee as new members of the executive have been recruited to replace those that have left. Our shareholder too has worked with us to revise mutual expectations, to provide greater clarity in our working relationship and a smoother approval process for major decisions.

Chairman's Statement - continued

There have been two changes to the Board over the last 12 months. Advocate Roger Perrot, who has served as a non-executive director on the Guernsey Post Board since the creation of the company in 2001, has retired. Advocate Perrot had, during the 1980's, held the post of President of the Guernsey Post Office Board. This association with the business allowed him to bring continuity and an in-depth understanding of the business to the Board and his colleagues will miss his insight and intellect. The Board has also seen the departure of Joe Domican, Operations Director, who left in September 2007.

Finally, on behalf of the Board of Directors, I would again like to thank all who have contributed to the success of the company and seek their continued support for the future.



Dudley R Jehan
Chairman

Chief Executive's Report

It is very pleasing to be able to report on another successful year for Guernsey Post, a year when much progress has been made in transforming our operation into a competitive commercial business.

Financial performance

During 2007 Guernsey Post improved its financial performance, achieving an operating profit of £0.8m compared to a loss of £0.4m the previous year. When other income is taken into account, profit on activities before pension adjustments and tax grew from £0.4m to £2.0m. This improvement came from a combination of factors, including:

- 18% growth in income following tariff increases and growth in the bulk mail sector
- Better use of our resources, including transport and operational efficiencies, which meant that total expenditure grew by only 14% in spite of significant price increases from Royal Mail
- Falls in headcount from 288 full time equivalents to 279
- An increase in interest received from £0.7m to £0.9m
- The previous year's financial statements included the write off of redundant equipment.

As a result of this performance Guernsey Post will recommend a dividend of £0.6m compared to £0.2m the previous year. In addition £1.8m will be added to reserves for future investment.

Operational Performance

Quality of Service

We met 19 of the 21 targets set by the Office of Utility Regulation (OUR) over the last year, reinforcing our commitment to continuous improvement in service delivery.

Our end-to-end performance, from the time of posting a letter to the time of delivery, is the most important measure for our business. An independent market research company measures our performance over five routes:

- Bailiwick of Guernsey (Bailiwick) to Bailiwick
- Bailiwick to UK
- UK to Bailiwick
- Bailiwick to Jersey
- Jersey to Bailiwick

Mail posted and delivered within the Bailiwick exceeded the OUR target, with over 95% of the items sampled achieving next day delivery. Similarly, the performance for mail posted to both the UK and Jersey exceeded the respective targets.

The two exceptions, where our performance fell just below the target, were mail from the UK to Guernsey, which was disrupted due to industrial action within Royal Mail, and mail from Jersey to Guernsey.

Guernsey Post achieved all of the internal quality of service efficiency targets for the year, with all inbound and outbound mail delivered and despatched on time.

Chief Executive's Report – continued

In accordance with our customer charter we delivered to each local address six days a week, maintaining a 100% record for reliability.

Total mail handled for the year was 68 million items up from 66 million, which reflects growth in the bulk mail sector, and declines of about 8% in the traditional letters business.

Customer Complaints

Reducing the level of complaints and improving customer experience has been another key focus for Guernsey Post over the last twelve months. Total complaints fell by over 35% compared with the previous year. Furthermore all customer complaints were acknowledged and resolved in line with the promises made in our customer charter.

Stamp Prices

Postal prices increased in April 2007, but by less than the increase in charges from Royal Mail. Such increases are never welcomed by either business or social customers but are necessary for our pricing to more closely reflect full commercial rates, as Royal Mail continues to implement its programme of profit maximisation.

It would be beneficial if we could move to a position where prices and contracts with Royal Mail were subject to more modest changes or to other more competitive carriers. At the moment, though, there is no viable alternative to the current arrangements. New competitors to the industry and changes to the UK market are dependent on downstream access arrangements. To date these do not provide the service, pricing and flexibility that would benefit our operation or customers.

Philatelic

Our programme of stamp issues continued to set high standards with subjects including coastal scenes of Guernsey, Formula1 and the Just So stories. During the year four Alderney issues and nine Guernsey issues were released.

Post Office Network

During the year we opened one new agency branch, in conjunction with the Co-Op, in the new market building, reinforcing our commitment to providing a comprehensive service in St Peter Port and our determination to provide ready access to our products and services. We were disappointed not to have relocated our main branch in Smith Street to new premises, as the accommodation is unsuitable for efficient operations and not appropriate for customers or our counter colleagues.

While our Post Office network is loss making, we plan to introduce new products to address this while continuing to control costs. We have launched a MoneyGram® service, a cash2account product and at the end of the financial year a foreign currency service across the network, with the exception of three branches where the Co-Op already provides that service. We have also taken the first steps to introduce a more competitive retail offer at Envoy House and Smith St branches.

This move into new products has been facilitated by our introduction of a retail computer system. The roll-out of this system has taken time but is now live across the Bailiwick and allows us easier product introductions, access to performance information and easier cash balancing for our agents.

Chief Executive's Report – continued

Business Transformation

Following Board agreement to the new business strategy we have begun a programme to improve our performance in all areas. We have reviewed and implemented new processes including credit management and health and safety, automated our activities where possible and set new higher standards in all aspects of our operation. We aim to achieve the same standards as any public limited company. This has resulted in our making changes in a number of key areas.

BATIF

The acquisition of the BATIF foreign exchange business was the first by a States-owned company and came after an extended period of scrutiny by the shareholder and a local accountancy firm. The strategic fit with the existing core operation is very good and sets a platform for growth in other areas. To grow to be market leader organically was not a viable option within reasonable timescales.

Communications

We have invested in our internal communication programmes including a meeting at Beau Sejour where our new business strategy was shared with everyone in the business. This was followed up with a presentation to major customers, regulators, members of Postwatch and subsequently our shareholder.

Industrial Relations

We have made good progress in developing an effective partnership with the CWU both locally and nationally. The union acts as an effective voice, provides constructive challenge and adds value to our plans and programmes. We have been consulting with them and the CMA on changes to a number of our major people-focused policies as well as plans to restructure our operations. These have progressed well and will allow us to deliver an improved working environment and to meet the regulator's efficiency targets.

Learning and Development

In spite of an enthusiasm to train people, very little was done in the previous year to equip people with the skills needed for the future. In 2007 we began a programme of development starting with a Dignity at Work programme, which we regarded as essential as part of the culture change needed to improve the way we communicated with each other. All employees on Guernsey were taken through this training using internal trainers and resources.

We have also recruited new employees to complement our existing team and have put in place a more experienced and commercial executive team.

Guernsey Post in the Community

There can be few other businesses on the island that have as close a connection with their customers across the Bailiwick as we do at Guernsey Post.

It is our colleagues' friendliness and warmth that helps us provide excellent service throughout our business and puts us at the heart of the local community and this was evident in their support for a Postal Worker following his accident last year. Through their hard work over £7,000 was raised to help him and his family during his recovery.

Chief Executive's Report – continued

As an organisation we wanted to focus these efforts by finding a cause that was close to our postal operation but which would also benefit our business. In Headway Guernsey we found such a partner, one that was able to provide colleagues in our business with the opportunity to develop their project planning skills while supporting a good cause, and was a charity with which several of our colleagues at Guernsey Post have a direct or family connection.

For our 12-month campaign we challenged ourselves to raise £15,000 through a number of internal and external fundraising activities including the launch of a posties' calendar in September. The campaign to sell the calendars culminated in an adrenalin-charged challenge styled on the BBC programme, 'The Apprentice', with two teams together raising more than £6,000 for the charity. Other individuals raised money through sponsorship of a London Marathon run and a parachute jump and we have recently held a van-pull competition to take our fundraising over the £15,000 target.

This partnership not only demonstrated our colleagues' creativity and ingenuity but also provided a valuable example of how initiatives that sit outside our core business can be used to benefit individuals' career development.

This safety message and the awareness that our delivery colleagues provide a role model for young cyclists in the island continued with our support for the Road Safety Week's Hi-Vis campaign and was backed up by the rollout of a revised cycle safety policy and the issue of new, improved, cycle helmets.

Children were the focus of our more traditional community activities, with a 'Design a Stamp' competition, a number of schools' visits to Envoy House to see the mail processing operation and visits to pre-school groups.

Our successful year's involvement has shown how beneficial community-focused work can be for both colleagues within our company and our company as a whole and we will be continuing our community focus in 2008 – 2009.

The Future

We will continue to face new challenges but are confident of our ability to meet them while keeping close to our role of providing an excellent postal service for the people and businesses of Guernsey.



Gordon R Steele
Chief Executive

Directors' report

The directors present their annual report together with the financial statements for the year ended 31 March 2008.

Principal activities

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

Results

The results for the year are shown in the profit and loss account on page 15.

Dividend

The directors recommend that a dividend for the financial year of 2.8p (2007: 0.91p) per ordinary share is paid on 29th July 2008 (2007: 31st July 2007) to ordinary shareholders on the register at that date. The total value of the dividend is £627,250 (2007: £203,715). As this dividend is being recommended and will be paid after the year-end no provision has been made in the financial statements.

Fixed assets

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

Post Balance Sheet Events

The Company acquired 100% of the issued share capital of Batif Bureau de Change Limited on 1st April 2008. This acquisition is seen as part of the Company's move to strengthen its retail operations through a growth strategy. The acquisition occurred after the balance sheet date and is not an adjusting event but has been disclosed to provide a full understanding of economically material actions taken by the Company. Details are disclosed at note 18 to the financial statements.

Directors

The directors of the Company, who served throughout the year except as noted below, were as follows:

J A Domican	(resigned 30 th September 2007)
A Duquemin	(appointed 1 st June 2007)
S Hannon	(appointed 1 st June 2007)
D R Jehan	
M Johnson	(resigned 28 th April 2008)
J Kitts	
R A Perrot	(resigned 17 th December 2007)
D T Roberts	(resigned 31 st May 2007)
G R Steele	
R J Hemans	(appointed 28 th April 2008)

Directors' report - continued

No director has an interest either beneficially or non-beneficially in any shares of the Company (2007: no interest beneficially or non-beneficially).

In accordance with the Articles of Association D R Jehan is due to retire by rotation and being eligible offers himself for re-election at the forthcoming AGM.

Statement of responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and are in accordance with applicable laws. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

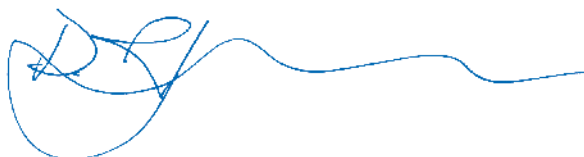
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994 and The Post Office (Guernsey) Law 1969. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution for the reappointment of KPMG Channel Islands Limited as auditors of the Company at a remuneration to be determined by the Board from time to time is to be proposed at the forthcoming Annual General Meeting.



G R Steele
Chief Executive



D R Jehan
Chairman



20 New Street
St. Peter Port
Guernsey
GY1 4AN

Independent auditor's report to the members of Guernsey Post Limited

We have audited the financial statements (the "financial statements") of Guernsey Post Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994 and Section 10(1) of The Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey law and UK Accounting Standards as set out in the Statement of Directors' Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.



Independent auditor's report to the members of Guernsey Post Limited (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the Company's affairs as at 31 March 2008 and of its profit for the year then ended; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994 and Section 10(1) of The Post Office (Guernsey) Law, 1969

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

		31 March 2008	Restated 31 March 2007
Profit and loss account			
<i>For the year ended 31 March 2008</i>			
	Notes	£'000	£'000
Income		36,982	31,209
Expenditure		<u>(36,136)</u>	<u>(31,574)</u>
Profit/(loss) on ordinary activities before other income	2	846	(365)
Other income			
Interest receivable	3	946	738
Rents receivable		<u>67</u>	<u>59</u>
Profit on ordinary activities before net return on pension scheme		1,859	432
Net return on pension scheme	17	<u>590</u>	<u>407</u>
Profit on ordinary activities before taxation		2,449	839
Taxation charge	4	(485)	(149)
Profit for the financial year		<u><u>1,964</u></u>	<u><u>690</u></u>

		31 March 2008	Restated 31 March 2007
Statement of total recognised gains and losses			
<i>For the year ended 31 March 2008</i>		£'000	£'000
Profit for the financial year		1,964	690
Actuarial gain relating to the pension scheme	17	4,224	1,817
Dividend paid		(204)	-
Deferred tax attributable to actuarial gain		(845)	(363)
Unrealised surplus on revaluation of investment properties	8	35	50
Total recognised gains and losses relating to the year		<u>5,174</u>	<u>2,194</u>
Prior year adjustments (as explained in note 6)		182	-
Total gains and losses recognised since last annual report and financial statements		<u><u>5,356</u></u>	<u><u>2,194</u></u>

All activities derive from continuing operations

The notes on pages 18 to 37 form an integral part of these financial statements

Balance sheet
At 31 March 2008

Restated
2007

	Notes	2008 £'000	2007 £'000
Fixed Assets			
Tangible fixed assets	7	13,183	13,901
Investment properties	8	1,325	1,290
Investment in subsidiary	9	-	-
		14,508	15,191
Current assets			
Stock		144	178
Debtors	10	4,477	5,046
Cash at bank and in hand	16	19,398	16,544
		24,019	21,768
Creditors: amounts falling due within one year	11	(11,989)	(12,054)
Net current assets		12,030	9,714
Total assets less current liabilities		26,538	24,905
Provision for liabilities and charges	12	11	62
Net assets excluding pension asset/(liability)		26,549	24,967
Net pension asset/(liability)	17	3,056	(536)
Net assets including pension asset/(liability)		29,605	24,431
Capital and reserves			
Share capital	13	22,386	22,386
Profit and loss account	14	7,139	2,000
Revaluation reserve	14	80	45
Shareholders' funds	15	29,605	24,431

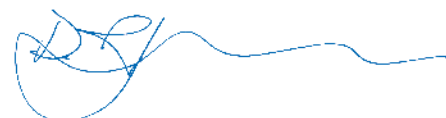
The financial statements were approved by the board of directors and authorised for issue on 30 June 2008

They were signed on its behalf by:

G R Steele
Chief Executive



D R Jehan
Chairman



The notes on pages 18 to 37 form an integral part of these financial statements

Cash flow statement

For the year ended 31 March 2008

		2008	Restated 2007
	Notes	£'000	£'000
Net cash inflow from operating activities	16	2,609	3,451
Returns on investments and servicing of finance			
Interest received		946	738
Rent received		67	59
Dividend paid		<u>(204)</u>	<u>-</u>
Net cash inflow from returns on investments and servicing of finance		809	797
Taxation		(328)	(29)
Capital expenditure			
Payment to acquire tangible fixed assets		(237)	(248)
Proceeds from sales of tangible fixed assets		<u>1</u>	<u>9</u>
Net cash outflow from capital expenditure		(236)	(239)
Increase in cash	16	<u>2,854</u>	<u>3,980</u>

The notes on pages 18 to 37 form an integral part of these financial statements

Year ended 31 March 2008

Notes to the financial statements

1. Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties, and in accordance with applicable United Kingdom accounting standards.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipts of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme surplus shown in the balance sheet is net of the deferred tax liability.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The pension scheme is a defined benefit scheme. The cost of providing benefits is determined using the projected unit credit method, with an actuarial valuation being carried out at the balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the profit or loss and presented in the statement of total recognised gains and losses. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit deficit recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Year ended 31 March 2008

Notes to the financial statements - continued

1. Significant accounting policies - continued

Dividends

Dividends are accounted for when they become obligations of the Company or when paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

The directors have reclassified two non-operational buildings from freehold buildings to investment properties, which has led to a prior year adjustment (please see note 6).

The directors have also reviewed the split between general building elements and major plant costs of the freehold building, Envoy House. This has led to the reclassification of £2,662,447 of cost from freehold buildings to plant and equipment. Furthermore, the directors have determined the useful economic life of the plant and equipment to be 15 years (please see note 7).

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 – 50	2 – 3.3
Plant and equipment	15	6.67
Furniture and fittings, office equipment and postal machinery	3 – 10	10 – 33.3
Transport	5	20

Investment Properties

Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties".

Year ended 31 March 2008

Notes to the financial statements - continued

1. Significant accounting policies - continued

Investment in subsidiary

The investment in subsidiary is stated at cost. The subsidiary has not been consolidated on the basis that it is dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

Year ended 31 March 2008

Notes to the financial statements - continued

2. Profit/(loss) on ordinary activities before other income

Profit/(loss) on ordinary activities before other income is stated after charging:

	31 March 2008	Restated 31 March 2007
	£'000	£'000
Staff costs	11,341	10,832
Auditors' remuneration		
Audit Fees	29	13
Other services	-	6
Loss on disposal of fixed assets	1	169
Depreciation of tangible fixed assets	943	1,021

Average full time equivalent employee numbers for the period were as follows:

	31 March 2008	31 March 2007
Operational staff including postmen and women, post office counter staff and philatelic production staff	213	225
All other staff	66	63
Total	279	288

3. Interest receivable

	31 March 2008	31 March 2007
	£'000	£'000
States Treasury	885	673
Other	61	65
	946	738

Year ended 31 March 2008

Notes to the financial statements - continued

4. Taxation

The actual tax charge differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	Note	31 March 2008 £'000	31 March 2007 £'000
Current taxation			
Expected tax charge		381	312
Current year tax charge		381	312
less: adjustment for prior year		-	(104)
		381	208
Deferred taxation			
Timing differences:	12	104	(59)
Actual tax charge		485	149

With effect from 1 January 2008, the standard rate of income tax for Guernsey companies has changed. Thereafter, the Company will be taxed at a combination of the company standard rate of 0% and the company higher rate of 20%. Therefore the tax charge included in the financial statements is based on these rates. The tax adjusted profits of Guernsey Post Limited have been apportioned so that the appropriate amount is taxed at 20% and the new rates as applicable. This has been disclosed as "Rate differences on current tax" in the financial statements. The comparative figures have been prepared using a 20% tax rate.

	31 March 2008 £'000	Restated 31 March 2007 £'000
Profit on ordinary activities before taxation from the profit and loss account for the year	2,449	839
Tax at 20%	490	168
Effects of adjusting items:		
Timing differences	(17)	119
Profit on disposals of fixed assets	11	28
Rate difference on current tax	(47)	-
Net rental income and expenses	(3)	(2)
Adjustment for pension costs	(53)	(1)
Prior year adjustment	-	(104)
Current tax charge	381	208
Deferred tax - pension deficit	50	1
Deferred tax - losses utilised	-	81
Deferred tax - timing differences	54	(141)
Profit and loss taxation charge	485	149

Year ended 31 March 2008

Notes to the financial statements - continued

5. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	31 March 2008 £'000	31 March 2007 £'000
Final dividend for the year ended 31 March 2007 of 0.91p (31 March 2006 £Nil)	204	-
	<u>204</u>	<u>-</u>
Proposed final dividend for the year ended 31 March 2008 of 2.8p (31 March 2007:0.91p) per ordinary share	<u>627</u>	<u>204</u>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Year ended 31 March 2008

Notes to the financial statements - continued

6. Prior year adjustment

The Company's accounting policy for the recognition of tangible fixed assets was changed during the year to separate freehold buildings and investment properties. Two non-operational buildings have been reclassified from freehold buildings to investment properties. The directors consider that the new policy provides a fairer presentation of the result and the financial position of the company because it differentiates those freehold properties used in the operation of the business and those held as investments. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

This change has resulted in a prior year adjustment of £182,000. The investment properties are not depreciated and are revalued annually, which has led to the reversal of £137,000 accumulated depreciation and the recognition of £45,000 of unrealised gains on investment properties, to 31 March 2007.

Year ended 31 March 2008

Notes to the financial statements - continued

7. Tangible fixed assets

	1 April 2007 £'000	Additions £'000	Written off / disposals / transfers £'000	31 March 2008 £'000
<i>Cost</i>				
Freehold land	2,505	-	-	2,505
Freehold buildings	10,880	9	(2,662)	8,227
Plant and equipment	-	-	2,662	2,662
Furniture and fittings	89	-	-	89
Office equipment	1,036	180	(11)	1,205
Postal machinery	2,796	9	(576)	2,229
Transport	723	38	(16)	745
	<u>18,029</u>	<u>236</u>	<u>(603)</u>	<u>17,662</u>
<i>Depreciation</i>				
Freehold land	-	-	-	-
Freehold buildings	973	167	(238)	902
Plant and equipment	-	254	238	492
Furniture and fittings	100	(16)	-	84
Office equipment	813	114	-	927
Postal machinery	1,827	275	(576)	1,526
Transport	415	149	(16)	548
	<u>4,128</u>	<u>943</u>	<u>(592)</u>	<u>4,479</u>
<i>Net book value</i>	<u>13,901</u>			<u>13,183</u>

Certain items of postal machinery had been written down to £Nil net book value in previous years as the equipment had no economic value for the Company. This equipment has now been dismantled into component parts and is held in storage pending sale as a whole or for spares. Because the equipment is now no longer held for operational use and the dismantling and off-site storage has changed the nature of the asset it has been transferred to current assets at its £Nil carrying value. The transfer value movements in the fixed assets has been a £576,000 transfer out of both cost and accumulated depreciation.

Year ended 31 March 2008

Notes to the financial statements - continued

7. Tangible fixed assets (cont'd)

During the year the company commissioned WT Partnership, a firm of Chartered Quantity Surveyors, to undertake a review of the split between general building elements and major plant costs of the freehold building, Envoy House. Accordingly, the original cost of £10,877,133 has now been reclassified as £8,214,686 relating to freehold building and £2,662,447 relating to plant and equipment. Following this reclassification, the directors undertook a separate review of the useful economic life of the plant and equipment, which they determined as 15 years. This reduction in useful economic life from 50 years to 15 years of the major plant of Envoy House has resulted in an increased annual depreciation charge of £198,000. This is a revision in useful economic life and not a change in accounting policy, and has therefore not been accounted for as a prior year adjustment.

8. Investment properties

	31 March 2008 £'000	31 March 2007 £'000
<i>Market value</i>		
At 1 April	1,290	1,240
Revaluation	35	50
At 31 March	<u>1,325</u>	<u>1,290</u>

Investment properties, which are all freehold, were valued on an open market basis at 1 April 2006, 31 March 2007 and 31 March 2008 by Swoffer Barnes Commercial Limited, independent valuers not connected with the Company. Such properties are not depreciated. The depreciation that would otherwise been charged amounts to £25,000 (2007: £25,000).

Year ended 31 March 2008

Notes to the financial statements - continued

9. Investment in subsidiary

	31 March 2008 £'000	31 March 2007 £'000
Independent Delivery Solutions Limited	<u>-</u>	<u>-</u>

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2007: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

10. Debtors

	31 March 2008 £'000	31 March 2007 £'000
Trade debtors	4,363	4,847
Less: Provision for bad debt	(154)	-
Other debtors	144	101
Prepayments and accrued income	124	98
	<u>4,477</u>	<u>5,046</u>

Year ended 31 March 2008

Notes to the financial statements - continued

11. Creditors

	31 March	31 March
	2008	2007
	£'000	£'000
Amounts falling due within one year		
Trade creditors	10,076	10,645
Other creditors	1,480	998
Accruals and deferred income	170	202
Taxation payable	263	209
	11,989	12,054

12. Provision for liabilities and charges

	31 March	31 March
	2008	2007
	£'000	£'000
Deferred taxation		
As at 1 April	(195)	(499)
Profit and loss account charge	104	(59)
Deferred tax on actuarial gain	845	363
As at 31 March	754	(195)
Unrelieved pension scheme losses & gains	765	(133)
Other		
Capital allowances in excess of depreciation	(11)	(62)
	754	(195)

The Income Tax (Zero Ten) (Guernsey) Law, 2007 was passed by the States of Guernsey on 26 September 2007 and is subject to approval by Privy Council. Under UK GAAP, as the Fifth Schedule of the law clearly sets out the tax rates applying to various classes of income, the new rates are deemed to have been substantively enacted at this date.

Deferred tax in the financial statements is therefore measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. With effect from 1 January 2008, the standard rate of income tax for Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation will remain at 20%.

Year ended 31 March 2008

Notes to the financial statements - continued

13. Share capital

	31 March 2008 £'000	31 March 2007 £'000
Authorised		
40,000,000 ordinary shares of £1 each	<u>40,000</u>	<u>40,000</u>
Allotted, called-up and fully-paid		
22,386,000 ordinary shares of £1 each	<u>22,386</u>	<u>22,386</u>

100% of the shares of the Company are owned beneficially by the States of Guernsey.

14. Reserves

	31 March 2008 £'000	Restated 31 March 2007 £'000
Profit and Loss Account		
Opening reserves at 1 April as previously stated	1,863	(255)
Prior Year Adjustments	<u>137</u>	<u>112</u>
	2,000	(143)
Retained profit for the year	1,964	690
Actuarial gain for the year	3,379	1,453
Dividends paid	(204)	-
As at 31 March	<u>7,139</u>	<u>2,000</u>

Year ended 31 March 2008

Notes to the financial statements - continued

14. Reserves (cont'd)

		Restated
Revaluation Reserve	31 March	31 March
	2008	2007
	£'000	£'000
Opening reserves at 1 April as previously stated	-	-
Prior Year Adjustments	45	(5)
Gain on Investment Properties	35	50
As at 31 March	<u>80</u>	<u>45</u>

The prior year adjustments in the profit and loss account relate to the reversal of accumulated depreciation on the investment properties previously classified as freehold buildings.

The figure of £112,000 relates to the year ending 31 March 2006, and the figure of £137,000 relates to the year ending 31 March 2007.

The prior year adjustments in the revaluation reserve relate to the revaluation of the same investment properties.

The loss of £5,000 relates to the year ending 31 March 2006, and the gain of £45,000 relates to the year ending 31 March 2007.

Year ended 31 March 2008

Notes to the financial statements - continued

15. Reconciliation of movement in shareholders' funds

	31 March 2008 £'000	Restated 31 March 2007 £'000
Profit for the financial year	1,964	690
Other recognised gains and losses relating to the year (net)	3,414	1,504
Dividends paid on equity shares	(204)	-
Net additions to shareholders' funds	5,174	2,194
Opening shareholders' funds as previously stated	24,249	22,131
Prior year adjustments (please see note 14)	182	106
Opening shareholders' funds as restated	24,431	22,237
Closing shareholders' funds	29,605	24,431

16. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	31 March 2008 £'000	31 March 2007 £'000
Operating profit/(loss)	846	(365)
Depreciation charges	943	1,021
Net pension scheme service costs	324	401
Loss on disposal of fixed assets	1	169
Amounts written off fixed assets	12	-
Decrease/(increase) in stock	34	(69)
Decrease/(increase) in debtors	569	(2,017)
(Decrease)/increase in creditors	(120)	4,311
Net cash inflow from operating activities	2,609	3,451

Reconciliation of net cash inflow to movement in net funds

	31 March 2008 £'000	31 March 2007 £'000
Increase in cash balances	2,854	3,980
Net funds at 1 April	16,544	12,564
Net funds at 31 March	19,398	16,544

Year ended 31 March 2008

Notes to the financial statements - continued

17. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the liability to pay out any pension when it is realised lies also with the States.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age (this is an increase of 5 years from the prior year). Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2008 by Mrs D Simon, Fellow of the Institute of Actuaries.

As no statistically valid data is available for the Company's pension scheme members on which to base an appropriate forecast of mortality rates the Company has looked to comparable industries. The pension schemes in place for Royal Mail employees in the UK were considered to be the most comparable. The actuarial mortality assumptions used by the Royal Mail have been applied to the actuarial calculation.

	Men aged 60	Women aged 60	Men aged 40	Women aged 40
Longevity adopted by the Company from 2007	85.8	87.4	88	90

The total amount of superannuation contributions for the 12 months from 1 April 2007 to 31 March 2008 was £958,896 (2007: £885,565). As at 31 March 2008 the amount of contributions due but not paid to the Fund were £88,129 (2007: £82,772).

Financial assumptions:

	2008	2007	2006	2005
Discount rate	6.9%	5.4%	4.9%	4.9%
Inflation	3.7%	3.2%	3.0%	2.9%
Increases to deferred benefits during deferment	3.7%	3.2%	3.0%	3.0%
Increases to pensions in payment	3.7%	3.2%	3.0%	3.0%
Increases to pensionable pay rates	5.2%	4.7%	4.5%	4.4%

Year ended 31 March 2008

Notes to the financial statements - continued

17. Pension Fund - continued

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The tables below set out a summary of the estimated market value of the assets as at 31 March 2008, 2007 and 2006, 30 September 2005 and 2004 together with the expected return

	Market value		Expected return on Assets
	£'000	%	% pa
31 March 2008			
Equities	18,802	80.7	8.00
Bonds	4,331	18.6	4.70
Cash and net current assets	178	0.7	5.50
Total	23,311	100	7.3
31 March 2007			
Equities	17,916	80.7	8.75
Bonds	4,149	18.7	4.90
Cash and net current assets	148	0.6	5.25
Total	22,213	100	8.0
31 March 2006			
Equities	16,199	79.7	8.00
Bonds	3,790	18.7	4.50
Cash and net current assets	332	1.6	4.50
Total	20,321	100	7.3
30 September 2005			
Equities	14,066	78.4	7.25
Bonds	3,611	20.1	4.50
Cash and net current assets	264	1.5	4.50
Total	17,941	100	6.70
30 September 2004			
Equities	11,312	76.5	7.80
Bonds	3,132	21.2	4.90
Cash and net current assets	334	2.3	4.50
Total	14,778	100	7.10

Year ended 31 March 2008

Notes to the financial statements - continued

17. Pension Fund - continued

The fair value of the schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Value of the scheme assets	23,311	22,213	20,322	17,941	14,778
Present value of the scheme liabilities	(19,490)	(22,882)	(22,814)	(20,823)	(20,043)
Resulting surplus/(deficit)	3,821	(669)	(2,492)	(2,882)	(5,265)
Related deferred tax (liability)/asset	(765)	133	498	576	-
	3,056	(536)	(1,994)	(2,306)	(5,265)

Analysis of the amount charged to operating profit	1 April 2007 to 31 March 2008 £'000	1 April 2006 to 31 March 2007 £'000
Current service cost	1,283	1,341
Past service cost	-	-
Contributions	(959)	(940)
Total operating charge	324	401

Analysis of the amount credited to other finance income	1 April 2007 to 31 March 2008 £'000	1 April 2006 to 31 March 2007 £'000
Expected return on pension scheme	1,818	1,519
Interest on pension scheme liabilities	(1,228)	(1,112)
Net return	590	407

Year ended 31 March 2008

Notes to the financial statements - continued

17. Pension Fund - continued**Analysis of the amount recognised in the statement of total recognised gains and losses**

	1 April 2007 to 31 March 31 March 2008 £'000	1 April 2006 to 31 March 31 March 2007 £'000
This provision comprises:		
Actual return less expected return on pension scheme assets	(1,685)	(571)
Experience gains and losses arising on the scheme liabilities	829	1,530
Changes in assumptions underlying the present value of the scheme liabilities	5,080	858
Actuarial gain recognised in the STRGL	<u>4,224</u>	<u>1,817</u>

Movement in surplus/(deficit) during the year

	1 April 2007 to 31 March 31 March 2008 £'000	1 April 2006 to 31 March 31 March 2007 £'000
Deficit in scheme at beginning of the year	(669)	(2,492)
Movement in year:		
Current service cost	(1,283)	(1,341)
Contributions	959	940
Past service costs	-	-
Other finance income	590	407
Actuarial gain/loss	4,224	1,817
Surplus/(deficit) in scheme at end of the year	<u>3,821</u>	<u>(669)</u>

Year ended 31 March 2008

Notes to the financial statements - continued

17. Pension Fund - continued**History of experience gains and losses**

	2008	2007	2006	2005	2004
Difference between the actual and expected return on scheme assets:					
Amount (£'000)	(1,685)	(571)	1,346	1,511	97
Percentage of scheme assets	(7)%	(3)%	7 %	8 %	1 %
Experience gains and losses on scheme liabilities:					
Amount (£'000)	829	1,530	(538)	3,384	465
Percentage of the present value of the scheme liabilities	4 %	7 %	(2)%	16 %	2 %
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	4,224	1,817	559	2,942	563
Percentage of the present value of the scheme liabilities	22 %	8 %	2 %	14 %	3 %

18. Post Balance Sheet Events

The company acquired the whole of the issued share capital of Batif Bureau de Change Limited ("Batif") on 1st April 2008. The consideration for this share purchase was payable on the date of acquisition and further payments are based on achievement of pre-determined levels of profit at the end of the first and second year of ownership by the Company. There is an additional condition precedent of the purchase of Batif for the Vendor to provide consultancy services to the Company for a fixed period following the acquisition. The total charges under this consultancy agreement is payable in tranches during each of the first three months after acquisition and then on the first and second anniversary of the acquisition.

The acquisition is expected to be immediately profitable at the operating level. The rate of amortisation of goodwill arising from the acquisition is not known at this stage because the company has not yet established a basis for assessing the economic life of the goodwill acquired.

Year ended 31 March 2008

Notes to the financial statements - continued

19. Related party transactions

R A Perrot, who was a director of the Company for part of the year (2007: throughout the year), is also a partner in Ozannes, a local law firm. Guernsey Post received legal services from Ozannes on a number of issues during the year transacted on an arm's length basis. The charges incurred by the Company payable to Ozannes during the year ended 31 March 2008 were £27,221 (2007: £10,744).

S Hannon, who joined the Company as a director during the year, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). J A Domican, who was a director of the Company for part of the year (2007: throughout the year), was a shareholder and director of PLCWW until September 2006, a period that includes part of the comparative financial year. Guernsey Post received consultancy and management services from PLCWW during the year transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2008 were £34,748 (2007: £35,945).

G R Steele, a director of the Company, rents a flat at current market rates from the Company and has done so since August 2007. The rent is subject to a triennial revaluation with RPI increases in intervening years to reflect current market rates. The latest revaluation was undertaken in January 2006.

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2008 amount to 1.4% of total turnover (2007: 1.6%). The total value of purchases for the year amounted to 1.8% of total expenses (2007: 2.2%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2008 the balance held was £18,043,940 (2007: £13,759,141).

APPENDIX IV

COMMERCE AND EMPLOYMENT DEPARTMENT

ANNUAL REPORT OF THE PUBLIC TRUSTEE AND AUDITED ACCOUNTS

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

22nd July 2008

Dear Sir

The Public Trustee (Bailiwick of Guernsey) Law, 2002 provides, in Section 6(1), that the Commerce and Employment Department is required to submit the report and accounts to the States on the exercise of the Public Trustee's functions for the preceding year.

I am pleased to enclose a copy of his report and audited accounts for the period 1 January 2007 to 31 December 2007.

Section 6 of the Law also provides that the Department may, at the same time, submit its own report commenting on the activities of the Public Trustee during this period.

The attached report is comprehensive and the Department wishes to make no further comments other than to acknowledge that the expenditure of £8,739 in 2007 represented a reduction in the cost of operations, due to lower audit fees.

I would be grateful if you would arrange to publish this submission as an Appendix to the September Billet.

Yours faithfully

Carla McNulty Bauer
Minister

**REPORT OF THE PUBLIC TRUSTEE TO THE DEPARTMENT OF
COMMERCE AND EMPLOYMENT
FOR THE YEAR TO 31 DECEMBER 2007**

Introduction

1. Under Section 6(1) of the The Public Trustee (Bailiwick of Guernsey) Law, 2002, the Public Trustee is required in each calendar year to submit to the Department of Commerce and Employment a report on the exercise of his functions in the preceding year together with the audited accounts of the Office of the Public Trustee.
2. This report covers the twelve months to 31 December 2007.

Appointments and Assets held in Trust

3. During the period covered by the report, no new appointments of the Public Trustee to act as trustee were made.
4. The Public Trustee remained as trustee of the two trusts to which he was appointed in 2004, as stated in the report for that period.
5. The assets of the trusts were cash deposits (in sterling and US dollars) amounting in total at the end of 2007 to the equivalent of about £211,000. The increase compared with the balances at the end of 2006 (£201,000) is due to the accumulation of interest income less expenses over the period.
6. The fees recoverable from the trusts for 2007 for the services of the Public Trustee amounted to £76.

Accounts and Auditors' Report

7. The accounts of the Office of the Public Trustee for the year to 31 December 2007, together with the auditors' report thereon, accompany this report.
8. They show that the cost of operations of the Office in 2007 amounted to £8,739 (2006: £9,347). Against this, £76 (2006: £675) was recoverable in fees.
9. The reduction in the cost of operations is primarily the result of lower audit fees.
10. Fees recoverable for 2006 were based on an estimate of time to be spent in that year on administration of the trusts. Actual time spent was less than estimated, giving rise to a credit in 2007, reducing the net fees for the year.
11. There was a surplus of income (including the grant from the States) compared with expenditure of £1,989 for the year, compared with a deficit of £2,987 in 2006, increasing the balance on the Public Trustee Fund at 31 December 2007 to £4,685. This sum will be available to meet future expenditure, reducing the amount of grant income needed from the States.

Conclusion

12. The primary function of the Public Trustee is to act as a trustee of last resort. The fact that there have been no appointments and little other call on the services of the Public Trustee during the year reflects the continuing effective, orderly and well regulated conduct of trust business in the Bailiwick.
13. Nevertheless, should further appointments be made, arrangements remain in place to deal with an increased workload, in particular the power of the Public Trustee to delegate trustee functions and the abilities of the professional companies to which such functions would be delegated.

D P Trestain
Public Trustee
Bailiwick of Guernsey

16 May 2008

STATEMENT OF ACCOUNT

31st DECEMBER, 2007

LINCE SALISBURY

Chartered Accountants

Avenue House,

St. Julian's Avenue,

St. Peter Port,

GUERNSEY

OFFICE OF THE PUBLIC TRUSTEE

Statement of responsibilities for the preparation of financial statements

In accordance with The Public Trustee (Bailiwick of Guernsey) Law, 2002 the Public Trustee is responsible for the preparation of a statement of account for each financial year which gives a true and fair view of the state of affairs of the Office of the Public Trustee. He is responsible for selecting suitable accounting policies and, in preparing the statement of account the Public Trustee is expected to:

- * apply suitable accounting policies on a consistent basis;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts; and
- * prepare the statement of account on a going concern basis, unless it is inappropriate to do so.

The Public Trustee acknowledges responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Office of the Public Trustee.

It is the responsibility of the Office of the Public Trustee to identify and install a system of internal controls, including financial control, which is adequate for its own purposes. Thus the Office of the Public Trustee is responsible for safeguarding the assets in its care and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements of the Office of the Public Trustee for the year ended 31st December, 2007 which comprise the income and expenditure account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of office and auditors

The Office is responsible for the preparation of the financial statements in accordance with applicable Guernsey law and United Kingdom Generally Accepted Accounting Practice.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared. We also report to you if, in our opinion, the office has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland), issued by the Auditing Practices Board. An audit includes examination on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Office in the preparation of the financial statements and of whether the accounting policies are appropriate to the Office's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the affairs of the Office at 31st December, 2007 and of its surplus for the year then ended.

15th May 2008
Avenue House,
St. Julian's Avenue,
St. Peter Port,
GUERNSEY

Lince Salisbury Limited
LINCE SALISBURY LIMITED
CHARTERED ACCOUNTANTS

OFFICE OF THE PUBLIC TRUSTEE
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER, 2007

	Note	2007 £	2006 £
Income	1		
Grant from States General Revenue Account		10,652	5,685
Trustee fees		76	675
		<hr/> 10,728	<hr/> 6,360
Expenditure	1		
Audit fees		1,000	1,900
Bank charges		90	95
Public Trustee remuneration		7,156	6,681
Office administration		493	671
		<hr/> 8,739	<hr/> 9,347
Surplus/(Deficit)of income over expenditure for the year		<hr/> £1,989	<hr/> £(2,987)

OFFICE OF THE PUBLIC TRUSTEEBALANCE SHEET AT 31st DECEMBER, 2007

	Note	2007 £	2006 £
Current assets			
Debtors		76	675
Bank		5,579	4,336
		<u>5,655</u>	<u>5,011</u>
Current liabilities			
Creditors	4	65	410
Accruals	4	905	1,905
		<u>970</u>	<u>2,315</u>
Net assets		<u>£4,685</u>	<u>£2,696</u>
The Public Trustee Fund			
Retained excess of income over expenditure	5	<u>£4,685</u>	<u>£2,696</u>

The balance sheet was approved on 15th May 2008



 D Trestain
 Public Trustee

OFFICE OF THE PUBLIC TRUSTEE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 2007

1. ACCOUNTING POLICY

The statement of account is prepared under the historical cost convention and in accordance with UK applicable accounting standards.

Grants

Grants from the States of Guernsey Commerce and Employment Department are included on a cash basis. Grants have been recognised as revenue items.

Other income and expenditure

Other income and expenditure is included on an accruals basis.

2. TAXATION

The Office of the Public Trustee is not subject to States of Guernsey Income Tax.

3. PERIOD OF ACCOUNT

The Public Trustee (Bailiwick of Guernsey) Law, 2002 came into effect on 1st June 2004.

4. CREDITORS AND ACCRUALS

	2007 £	2006 £
Administration and Deputy Trustee charges from Commerce & Employment Department	£66	£410
Audit fee	905	1,900
Bank charges	-	5
	£905	£1,905

5. RESERVES

Balance brought forward	2,696	5,683
Surplus/(deficit) for year	1,989	(2,987)
Carried forward	£4,685	£2,696

*APPENDIX V***COMMERCE AND EMPLOYMENT DEPARTMENT****ANNUAL REPORT OF THE OUR AND AUDITED ACCOUNTS**

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

22nd July 2008

Dear Sir

I enclose a copy of the Annual Report and Accounts 2007 of the Office of Utility Regulation and would be grateful if you would arrange for it to be published as an Appendix to the September 2008 Billet d'Etat.

Operating Costs & Licence Fees

The OUR's 2007 operating costs fell by 21% from £908,593 down to £716,916. The OUR transferred a surplus of £55,724 to its contingency fund and intends to draw down this reserve to a more reasonable level and has lead to reductions in 2008 licence fees across all three sectors:

- Guernsey Electricity and Guernsey Post have both seen their licence fees reduced by 33%; and
- telecom operators fees have fallen by 28%.

The table below shows that the OUR's expenditure has fallen significantly since its establishment in 2001 which was anticipated when the OUR was set up with a mandate to create a regulatory regime for the three utility sectors.

	Expenditure	Index (2002=100)
2001	£101,989	Covered 3 month period October-December
2002	£915,887	100
2003	£905,142	99
2004	£845,862	92
2005	£805,867	88
2006	£908,593	99
2007	£716,916	78

Legal Fees & Appeals

Legal fees have fallen during the year. Appeals however continue to represent the largest external risk in trying to minimise costs in a small jurisdiction, where such costs, if incurred are likely to make up a comparatively high proportion of overall regulatory costs. The Regulation of Utilities (Bailiwick of Guernsey) (Amendment) Ordinance, 2007 came into effect on 28th March 2008 in pursuance of the States Resolution of 1st June 2006 (Article XIV of Billet d'Etat No X of 2006) which now means that appeals of the Director General's decisions are now heard by the Royal Court instead of the Utility Appeals Tribunal. It is believed that the Royal Court will be able to hear future appeals in a more cost effective and timely manner than the Utility Appeals Tribunal.

Corporate Governance

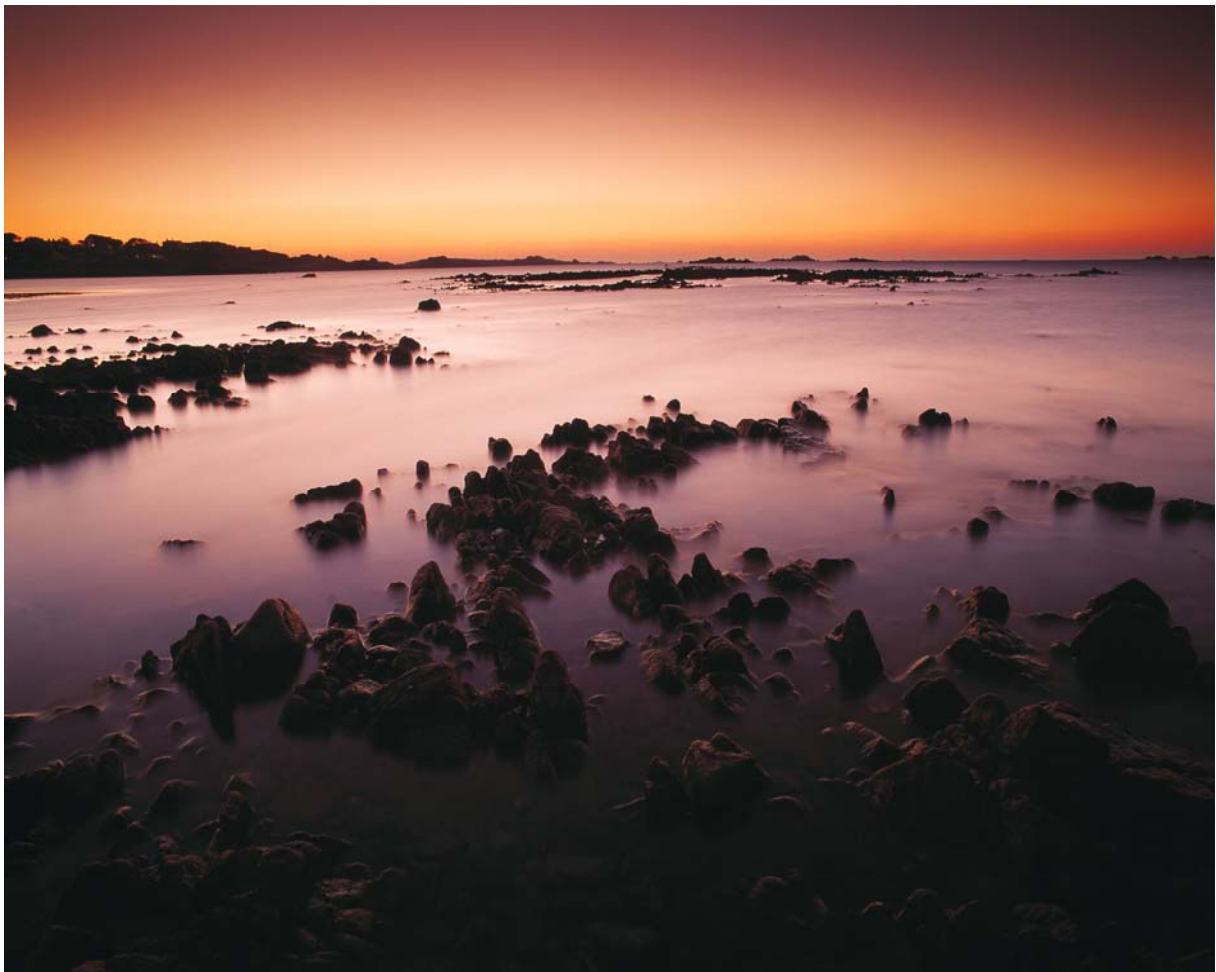
The Audit, Risk and Remuneration Committee, which was established in June 2006, met on four occasions during the year and has contributed to strengthening the corporate governance of the OUR. The OUR's Annual Report includes a report from the ARRC on its activities in 2007.

Yours faithfully

Carla McNulty Bauer
Minister



Office of Utility Regulation



Office of Utility Regulation

Annual Report and Accounts 2007

Office of Utility Regulation



17th July 2008

Deputy Carla McNulty Bauer,
Minister for Commerce and Employment,
Raymond Falla House,
Longue Rue,
St Martins,
Guernsey,
GY4 6AF

Dear Deputy McNulty Bauer,

I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2007 to 31st December 2007.

In accordance with section 8 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, I would be grateful if you would present this report to the States of Guernsey as soon as practicable.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'John Curran', is written over a light blue horizontal line.

John Curran
Director General

Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey GY1 2NH
Tel: +44 7781 711120 Fax: +44 7781 711140 Web: www.regutil.gg

Office of Utility Regulation

Annual Report 2007

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Office of Utility Regulation

Annual Report 2007

Director General's Report

I am pleased to submit the OUR's Annual Report for 2007 to the States of Guernsey.

Through 2007, the OUR looked to ensure that our work, as the economic regulator for the three critical areas of telecommunications, electricity and post, continued to deliver benefits for consumers. Our role is about enhancing consumer welfare through ensuring consumers in the Bailiwick are provided with the most efficient, cost effective utility services possible whilst at the same time ensuring that the utility providers undertake the essential investment in networks and services across all three utilities.

There is a balancing act involved in our work but I believe that by concentrating on getting this balance correct, regulation provides the correct environment to ensure consumers long term interests are protected. Since regulation was introduced in 2001, the OUR's focus has been on ensuring that the three regulated markets work better for consumers and that they deliver better value, better service and where possible, greater choice.

In 2007, the OUR again ensured consumers interests in the monopoly markets of electricity and post are protected by putting in place price controls that cap the charges both Guernsey Post and Guernsey Electricity may charge. Reviews have been undertaken of the efficiency of both companies to ensure consumers are only asked to contribute towards costs that are efficiently incurred. In both companies, our reviews identified significant scope to improve the way the businesses are run and have taken account of such changes when setting tariffs. In April 2007, a new three year price control for Guernsey Post came into effect which will see postal tariffs increase over this period. In allowing these increases, we have sought significant efficiency savings from the company over the three year period of the control. The OUR also undertook, at the request of the Commerce & Employment Department, a review into the operation of the Low Value Consignment Relief (LVCR), a mechanism which is hugely important to the bulk mail sector and as a consequence to Guernsey Post and all postal users.

In the electricity sector, a four year price control was finalised for Guernsey Electricity which took effect from April 2007. The decision includes provision for an interim review at the end of 2008 to allow an assessment to be made of the impact of generation costs given the current economic climate in the energy market generally. The OUR also engaged with the Energy Policy Group on its work in developing a framework for the Island's energy market longer term and we look forward to this work in the future.

Developments in the mobile market in 2007 brought their own challenges. The public debate on the States' approach to supporting deployment of the infrastructure necessary to support the on-going development of competition raised many important issues. Central to it is an issue which runs across economic development in many other areas of business life in Guernsey; how to balance the need for protection of the Island's green spaces with the demand of consumers for enhanced services and the demands of business for support for growth.

In the telecoms market in particular, all operators will need to continue to invest to ensure the Bailiwick's telecoms infrastructure keeps pace with the demands of consumers. Wireless technology, and mobile in particular, is becoming an ever larger part of the telecoms market. This will invariably lead to a need to consider in a much more structured manner how the infrastructure necessary to support such progress can be supported whilst taking account of the wider needs and interests of the Bailiwick.

Office of Utility Regulation

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Director General's Report

Looking forward, we are now turning our attention to reducing the focus of regulation in those parts of the market where competition is starting to have an effect. Our initial focus will be on the mobile market, where the opportunity to reduce regulatory oversight most exists. The existing licence conditions were originally drafted in 2001 and since then there has been a considerable amount of change. The OUR and the operators now both have a better understanding of what is required in terms of oversight and our hope is that as competition develops it, rather than regulation, will ensure consumers interests are protected. Therefore through 2008 we will be commencing a period of consultation on reviewing the licence terms for operators in the telecoms market. It is planned that similar reviews will be undertaken in the post and electricity sectors.

Aside from our direct work in regulating the three utility sectors, the OUR has provided assistance to a number of States Departments on a range of issue covering issues such as with the Commerce & Employment Department on the development of competition law, with Public Services on the economic regulation of any future waste to energy plant, assistance to the Environment Department on mobile issues and to the Home Department on spectrum issues in the Bailiwick. The OUR looks forward to continuing its relationships with these Departments in providing such support as we can on areas where the knowledge and expertise of this Office can benefit the States more widely.

I would like to take this opportunity to thank my colleagues at the OUR for their continue professionalism and support, without whom the successes achieved to-date would not be possible. The OUR is a small team which works extremely diligently to ensure the three utility sectors deliver value for consumers. In March 2008 Jon Buckland left to take up the post of Chief Officer of the Commerce & Employment Department. Jon had been with the OUR from October 2001 an we wish him every success in his new post. I would also wish to acknowledge the sterling work of our Audit, Risk and Remuneration Committee for its assistance and advice over 2007. I would also like to record my thanks to Deputy Carla McNulty Bauer for her work with the ARRC but who has resigned following her appointment as Minister for Commerce & Employment.

The OUR will continue to work towards meeting the objectives set for it by the States in a pragmatic and proportionate manner. Ultimately our efforts will be judged in the impact consumers see in the value for money they get from their utility providers, which to-date have been significant.



John Curran
Director General

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2007 in Brief

January

Consultation paper on reviewing Cable & Wireless Guernsey's wholesale leased line prices;

Information notice published on Guernsey Post's Quality of Service

June

Report on the Consultation and Draft Decision on the review of Cable & Wireless Guernsey's wholesale leased line prices;

October

Report on the Consultation to amend the mobile licences of C&W Guernsey, Wave Telecom and Guernsey Airtel;

Findings issued in Dispute between Wave Telecom and C&W Guernsey over refusal to develop infrastructure at Les Caches and over request to provide 45Mbit Leased Line Tail Circuits;

Final Decision published on Review of C&W Guernsey's Wholesale Leased Line prices;

First register published of Mobile Phone Operator Mast sites in the Bailiwick of Guernsey;

February

Mobile Termination Rates decision paper published;

Guernsey Electricity Ltd's Price Control. Final decision published

August

Statutory Invitation to Comment issued on a proposed amendment to Guernsey Airtel's 2G and 3G Mobile Licences;

Statutory Invitation to Comment issued on a proposed amendment to C&W Guernsey, Wave Telecom and Guernsey Airtel's Mobile Licences;

November

Draft Decision published on C&W Guernsey's Price Control

March

Consultation to review C&W Guernsey's wholesale leased line prices extended;

Consultation document issued on Mobile Number Portability;

Information notice and Direction issued for the maximum resale price of Electricity;

September

Report on the Consultation issued on proposed amendment to Guernsey Airtel's 2G and 3G mobile licences and notice of modification issued.

December

Draft Decision and Information Notice issued on C&W Guernsey's Price Control;

Consultation and Discussion Document issued on Next Generation Networks in Guernsey;

Report on the Consultation issued on proposed amendment to Guernsey Airtel's mobile licences and notice of modification issued.

May

Consultation Document issued to review C&W Guernsey's Price Control

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The Guernsey Regulatory Environment

The States of Guernsey sets out the regulatory framework for telecommunications, post and electricity in various Laws and Orders that were made in 2001 and 2002. The States has also issued a number of Directions to the Director General of Utility Regulation that develop States policy in more detail. The OUR, which was established in 2001, is charged with implementing that policy and regulating in the best interests of the Bailiwick.

Legislation

The principal piece of regulatory legislation is the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (as amended), which establishes the OUR, sets out the governing principles of the Office and allows the States to assign further functions to the Office over time. Three other key laws are:

- The Telecommunications (Bailiwick of Guernsey) Law 2001;
- The Post Office (Bailiwick of Guernsey) Law 2001; and
- The Electricity (Guernsey) Law, 2001.

Each law sets out in more detail the powers and functions of the Director General in the relevant sector. Secondary legislation has been enacted by the States on a number of issues including commencement ordinances for each of the laws and the exclusion of liability ordinance. Where empowered to do so, the Director General has also introduced regulations and orders. Texts of all relevant legislation are available from the OUR website at www.regutil.gg.

States Directions

The Regulation Law provides that the States of Guernsey may give States Directions to the Director General on certain specific issues in each of the sectors. Directions issued to-date have address issues such as the identity of the first licensee in each sector to be granted a licence with a universal service obligation, the scope of a universal service or minimum level of service that all customers in the Bailiwick must receive and any special or exclusive rights that should be granted to any licensee in any of the sectors.

The States debated and agreed policy directions in relation to all three sectors in 2001. The full text of the directions that were in place in 2007 is included in Annex A to this report, in accordance with Section 8 of the Regulation Law.

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OUR Team

John Curran, Director General

John was first appointed by the States as Director General of Utility Regulation in February 2005 and was re-appointed as Director General in May 2006. He previously worked with the OUR when the office was established in 2001. After a period as a regulatory advisor with Australian telecoms incumbent Telstra John returned to the OUR in April 2003 as Director of Regulation.

John has a strong background in regulation. Before joining the OUR he worked for six years in communications regulation in Ireland. He began his career in the Irish Civil Service upon graduating from the Galway Institute of Technology.



Michael Byrne, Director of Regulation

Michael joined the OUR in June 2005 as Director of Regulation. Michael has led the OUR's work on regulating Guernsey Electricity as well as supporting the OUR's work in the postal and telecommunications sectors, particularly in broadband/NGN.

Prior to joining the OUR, Michael was head of Retail Competition at Ofgem in the UK. He led case investigations and reviews within the domestic and non-domestic energy sectors. He has worked in commercial television regulation and as a consultant, specialising in the dairy manufacturing industry. He has a BSc Honours degree in Mathematics, Statistics and Economics from the University of Natal. He also has a post-graduate diploma in Competition Policy and an MBA from the University of Warwick.



Nienke Hendriks, Director of Policy

Nienke joined the OUR in July 2008 having previously worked as head of Gas Transmission at Ofgem in the UK where she led the work on charging Arrangements and implementing price control settlements. Nienke developed regulatory policy (with a focus on incentive design) and financial policy (with a focus on cost of capital and financial ringfencing) both at Ofgem and the Civil Aviation Authority, where she worked before joining Ofgem.

Nienke was also a leading member of the Joint Regulators Price Control Group and set up a similar group at European level and whilst at the CAA of the Eurocontrol Performance review group. Before joining the CAA Nienke worked in consultancy on projects in the telecommunications, manufacturing and pharmaceuticals sectors. She has a BSc Honours degree in Economics and Philosophy from City University (London) and a Masters degree in Economics and Finance from Warwick Business School.



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About the OUR

Cesar Coelho, Regulatory Analyst

Before joining the OUR in April 2008, Cesar worked as an analyst at ANACOM, the Portuguese Telecommunications and Post regulator where he worked primarily on projects in the mobile sector.

Prior to joining ANACOM he worked as for an economic consultancy firm. During his Master degree program he was an assistant at two different universities in Portugal. Cesar holds a BSc Honours degree and a MA degree in Economics, both from the University of Minho, Portugal.



Rosie Allsopp, Office Manager/Case Officer

Rosie joined the OUR team in January 2007. She manages the office and provides administrative support to all the team members. In addition to this, she is a case officer for dispute resolution.

Rosie was educated locally at the Grammar School and was formerly a journalist with the Guernsey Press for more than seven years where she was deputy news editor and business editor and developed a strong interest in local politics and business. Rosie studied for a post-graduate diploma in journalism at the Press Association-affiliated Editorial Centre.



Pui Jee Lai

Pui Jee joined the OUR at the end of June 2007. Pui Jee was awarded the OUR's first student bursary. As part of the bursary Pui Jee has worked with the OUR during her summer holidays for the past number of years and has now joined the OUR on a full-time basis. Pui Jee assists the whole team at the OUR across a spectrum of projects.

Pui Jee was born in Guernsey and educated at The Ladies College and has recently graduated from the University of Nottingham where she studied Management with Chinese Studies.



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Consultants and Communication

It is OUR policy to operate with a small core team of **professional staff** and utilise expert consultants as needed on specific projects. This ensures that the Office works efficiently and effectively and keeps its skills and expertise up to date with knowledge transfer from experts in their fields.

During 2007, the following consultants and **external specialists** worked with the OUR on a range of specific projects, as well as providing general support for the OUR work programme:

- **Power Planning Associates** provided assistance in the Efficiency Review of Guernsey Electricity;
- **Frontier Economics Ltd** assisted the OUR in its work on reviewing C&WG Price Control;
- **GOS Consulting Ltd** advised on a wide range of telecommunication projects across the fixed and mobile sectors; and
- **Direct Input Associates** provided PR assistance;
- OUR's legal advice during 2007 was provided by **AO Hall, Landwell Solicitors** and **McCann Fitzgerald Solicitors**.

OUR Communication

The OUR operates in a transparent and open way, and seeks to consult with as wide a range of stakeholders as possible on all key decisions. The OUR website (www.regutil.gg) is used as a means of communicating with the operators within the regulated industries and with interested members of the public on a fair and open basis. All consultation documents are published on the site as well as being made available in hard copy on request and responses, where not confidential, are also made available. The OUR publishes all decisions with reasons and a commentary on the views received.

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Electricity: Activity Report

Overview

In 2007 the OUR finalised, after a detailed review, a four year price control for GEL which will see electricity tariffs capped until 2011. Included in the review was an assessment of the efficiency of GEL. The Energy Policy Steering Group's work on the development of an energy policy for the Island saw the OUR meet with the group on a number of occasions and the OUR responded to its consultation which was issued in December 2007.

Activity Report

Price Control

In early 2007 the OUR finalised its review of GEL's tariffs by setting a four year price control for the company which came into effect on 1st April 2007 (**OUR 07/04**). The price control decision provided for tariffs to increase by 14.82% over the four year period with provision for a review of pass through of certain identified costs at the end of 2008. The price control also includes a number of initiatives designed to **increase the efficiency of GEL**. These included a review of certain operating cost areas, including staff costs and the rollout of the **Automated Meter Reading (AMR)** scheme, where the OUR formed a view that consumers risked being asked to fund inefficient costs associated with these area. The DG has introduced an incentive scheme as part of the price control to ensure the roll-out of AMR is achieved in a timely manner. The OUR's review of GEL's operating practices identified scope to make **savings in its generation business** and has based the tariffs consumers will be asked to pay on these savings being realised by the company.

Energy Policy

During 2007 the OUR contributed to the work of the States' **Energy Policy Steering Group**. The Policy Group is leading work on the development of an energy policy for the Island that reflects the growing importance of the role energy policy has to play in managing climate change. The OUR's input to the Groups's work concentrated on issues such as the framework for the development of renewables, the possible economic costs associated with various options and the implications for consumers in funding future generation capacity. The Energy Policy Report has now been noted by the States and the OUR looks forward to providing such assistance as the States may seek in the development of this critically important policy.

Other Issues

GEL's licence fee was reduced by 33% for 2007 to £120,000. The licence fee has been reduced for 2008 to £80,000.

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Post: Activity Report

Overview

The OUR's work in the postal market is primarily limited to prices and quality of service. As the OUR had finalised a three year price control in December 2006 (with new tariffs taking effect in April 2007) the OUR's work in the postal market in 2007 was focused on a review of the Bulk Mail sector for the Commerce & Employment Department. GPL has commenced work on **implementing an efficiency programme** to realise savings identified by the OUR during the price control work. The company also continues to monitor its quality of service against the targets set by the OUR.

Review of LVCR

In August 2007, the Minister for Commerce & Employment requested the OUR to undertake a review of the **Low Value Consignment Relief (LVCR)**. The LVCR is a concession that allows for goods below a certain (de minimis) value to be exported into the EU without being subject to the payment of VAT. Bulk Mailers in Guernsey avail of this concession as they are entitled to so do. The aim of the review was to identify the initiatives that might be taken locally to reduce any risk to established local businesses that avail of the LVCR and ensure that such businesses can continue to make the valuable contribution that they make to the Guernsey economy.

The review highlighted the scale of the contribution that bulk mailers make to the Guernsey economy. Aside from accounting for over half of GPL's revenue, over **600 people are employed** by these companies making them a significant part of Guernsey's diversified economy. The OUR estimates that **turnover from the sector amounts to over £200million** and that the **sector contributes some £6m a year to the States** in the form of direct taxes, either through taxable profit, employee income tax or social insurance contributions.

The OUR assessed the various issues associated with the continued utilisation of the LVCR by certain companies within the bulk mail sector and **identified a range of options** that could be considered by the Commerce & Employment Department and the States in ensuring that their continued operation enhance Guernsey's standing. The final report was submitted to the Commerce & Employment Department in December 2007. The OUR would like to again record its appreciation to the various companies that co-operated with the OUR on this work.

Other Issues

GPL's licence fee was reduced by 33% for 2007 to £120,000. The licence fee has been reduced for 2008 to £80,000.

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Telecoms: Activity Report

Overview

During 2007 the OUR's work in telecoms was primarily focused on enhancing the environment for competition. Among the issues addressed include a focus on the wholesale market for telecoms services which was found to be deficient, dealing with industry disputes, work on a new price control for C&W Guernsey and assessing the opportunities for the introduction of Mobile Number Portability (MNP). Forward looking work involved assessing the implications of C&WG's Next Generation Network plans.

C&WG Price Control

The objective of the regulatory regime is to ensure that Guernsey consumers receive the best in price, choice and quality of utility services and that Guernsey has strong vibrant utility sectors that contribute to and underpin the continued economic success of the Bailiwick. The Guernsey telecommunications market is continuing to change as it evolves towards a more competitive market. Since 2002 elements of C&WG's retail product portfolio have been subject to price controls by the OUR with the first price control coming into effect in March 2002 and a further price control was put in place in September 2005 which expired on 31st March 2008.

During 2007 a significant amount of work was carried out on assessing the need for and detail of a new price control on a range of C&WG services. The results of the OUR's analysis were set out in the draft decision paper issued in November 2007. The DG confirmed the final price control decision in February 2008 which will see **prices for a range of services capped** including exchange line prices capped at current levels until 2011.

Leased Lines

Leased lines are a key telecoms service used by both network operators and by large business users and therefore comprise a critical part of the telecoms market. Over 2007 the OUR undertook a detailed review of how leased lines are provided and in particular the pricing approach adopted by C&WG.

Telecoms operators had voiced concerns about the manner in which C&WG set its charges for these services – both the level and structure of the pricing. Following the announcement by C&WG's of its proposed wholesale prices for its HUGO leased lines, the OUR expressed concern at the level of returns forecast by C&WG. The OUR undertook a detailed investigation into the manner in which C&WG set its prices. C&WG subsequently announced a **30% reduction to the price of all wholesale leased lines**, both on and off island, from 1st April 2007. C&WG has also announced reductions in its retail leased lines charges in compliance with its current price control.

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Telecoms: Activity Report



Disputes

The OUR dealt with a number of industry disputes during 2007. A complaint was made to the OUR regarding an alleged refusal by C&WG to develop infrastructure required to provide Wave Telecom with wholesale private circuits at a certain location on the Island. A request for dispute resolution was also made regarding C&WG's alleged refusal to meet a request to provide a particular on-island leased line circuits.

Following separate investigations, **C&WG was found to have breach its licence condition on both occasions**. The OUR noted that these licence condition breaches and the repeated instances of obstructive behaviour by C&WG had resulted in the need for operators to initiate formal disputes to seek a resolution. The OUR believed these disputes were the result of a wider failing on the part of the company to tackle failures in the wholesale business. As a result the **OUR initiated a wider review of C&WG's wholesale business**. Progress continues on this review currently and the Director General is positive about the outcome that can be achieved.

Mobile Number Portability

Mobile Number Portability ("MNP") is a service whereby a customer of one mobile telephone network may change network without having to change their mobile telephone number. It is recognised that mobile subscribers are reluctant to switch between operators if this requires them to also change their mobile number. The inability to retain one telephone number when switching mobile phone networks can therefore be seen as a **possible barrier to promote greater competition** in the mobile market.

In 2007, the OUR consulted on the prospect of developing MNP in co-operation with Jersey as it was also looking at this issue at the same time. Regrettably, the OUR's proposal at that time was not supported by all parties. However the OUR continued to work on the issue and in late 2007 identified a possible solution that might allow MNP to be introduced in a cost-effective manner in Guernsey. Following discussions with the JCRA and the mobile operators, it was agreed to look again at a joint approach between Guernsey and Jersey and work on this is currently well advanced. **MNP is now due to be launched in both Guernsey and Jersey on 1st December 2008.**

Mobile Licence Appeal

In May 2007, following the referral of a legal point by the Utility Appeals Tribunal to the Royal Court, the **Royal Court dismissed the appeal taken by C&WG** against the decision to refuse it a 3G licence and the OUR was awarded costs insofar as they relate to the Royal Court hearing.

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Telecoms: Activity Report

Next Generation Networks

Currently C&WG is part way through its planned investment in upgrading its core network. While this investment is welcomed it does raise certain regulatory issues. These issues are common to regulators in other countries where **investment in Next Generation Networks (NGN)** is currently ongoing. Regulators are faced with the challenge of seeking to lay down broad principles for the transition to NGN networks in advance of the investments taking place.

With this background, operators and regulators around the world are therefore considering how to promote infrastructure investment in NGN while ensuring competition is sustainable in a future NGN environment. Given C&WG's stated intention to invest in a NGN, as part of this process the OUR identified a number of key areas where he believes clarity would be beneficial both in terms of **ensuring ongoing investment and the promotion and sustaining of competition**. The DG is therefore in the process of consulting on the appropriate basis for achieving greater clarity on various regulatory aspects of NGN and ensure that its introduction as a key part of Guernsey's 21st Century communications infrastructure is achieved in a smooth and timely way, **supporting the continuation of a diverse and competitive sector for the benefit of all Guernsey consumers**. Gaining further clarity and providing certainty for investment in this key area will continue through 2008.

Mobile Mast Register and Licences

Following discussions between the Mobile Operators and the Environment Department on issues associated with the development of mobile networks, it was agreed that a full list of antennae locations used by the three mobile operators in Guernsey should be made publicly available. The Environment Department and the mobile operators requested the OUR's assistance in establishing the register. **The first mast register was published in October 2007** and it is planned that this will be updated annually.

In addition the OUR undertook a review of the licence terms of all three mobile operators to strengthen the requirements for mast sharing. As a result almost **50% of mast now utilised by the mobile companies are now shared**, a significant increase on October 2007.

Other Issues

Licence fees for the telecoms industry in 2007 amounted to £495,935 (2006: £863,745). In common with the other two utility sectors, licence fees for the telecoms operators have also been reduced in 2008.

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Report of the Director General and Financial Statements for the Year Ended 31 December 2007 for Public Utilities Regulation Fund

Contents of the Financial Statements for the Year Ended 31 December 2007

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Public Utilities Regulation Fund

Fund Information

For the Year Ended 31st December 2007

DIRECTOR GENERAL:

Mr J Curran

OFFICE ADDRESS:

Suites B1&B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

AUDITORS:

Grant Thornton Limited
PO Box 313
Anson Court
La Route des Camps
St Martin's
Guernsey

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Public Utilities Regulation Fund

Report of the Director General for the Year ended 31 December 2007

The Director General presents his report with the financial statements of the Fund for the year ended 31 December 2007.

PRINCIPAL ACTIVITY

The principal activity of the entity in the year under review was that of a utilities regulator.

REVIEW OF BUSINESS

The results of the year and the financial position of the Fund are as shown in the annexed financial statements.

STATEMENT OF THE DIRECTOR GENERAL'S RESPONSIBILITIES

The Director General is responsible for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the income or deficit of the Fund for that period. In preparing those financial statements the Director General is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director General is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to ensure that the financial statements comply with the applicable accounting standards. The Director General is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 13 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Director General shall keep all proper accounts and records in relation to those accounts and shall prepare in respect of each year a statement of account giving a true and fair view of the state of affairs of the Office of the Director General.

The Law also requires the Director General to have the accounts audited annually by auditors appointed with the approval of the Department of Commerce and Employment. The Director General, with the approval of the Public Accounts Committee, has appointed Grant Thornton Limited as the auditors to the Public Utilities Regulation Fund.

The audited accounts shall be submitted to the Department of Commerce and Employment which shall in turn submit them together with the auditors' report thereon to the States of Guernsey with the Director General's annual report.

AUDITORS

During the year Chandlers Limited resigned as auditors and RSM Robson Rhodes (Guernsey) Limited were appointed in their place. However, following the merger of RSM Robson Rhodes (Guernsey) Limited with Grant Thornton Limited, Grant Thornton Limited were appointed with effect from 6th March 2008.

Office of Utility Regulation

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ON BEHALF OF THE BOARD



.....
Mr J Curran
Director General of Utility Regulation

Dated: 15th July 2008

Office of Utility Regulation

Annual Report 2007

Report of the Independent Auditors to the Members of the Public Utilities Regulation Fund

We have audited the financial statements of the Public Utilities Regulation Fund for the Year ended 31st December 2007 on pages 22 to 27. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Fund's members, as a body, in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Director General and auditors

As described on page 18 the fund's Director General is responsible for the preparation of financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. We also report to you if, in our opinion, the Report of the Director General is consistent with the financial statements, if the Fund has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director General's remuneration and other transactions with the Fund are not disclosed.

We read the Report of the Director General and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director General in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Fund's affairs as at 31st December 2007 and of its surplus for the year then ended; and
- have been properly prepared in accordance with the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001.

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In our opinion the information given in the report of the Director General is consistent with the financial statements.

Grant Thornton Limited

Grant Thornton Limited
PO Box 313
Anson Court
La Route des Camps
St Martin
Guernsey

Date 17 July 2008

Office of Utility Regulation

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Public Utilities Regulation Fund

Income and Expenditure Account for the Year ended 31 December 2007

	Notes	2007 £	2006 £
INCOME			
Licence fees		735,935	1,223,745
Bank Interest		<u>36,705</u>	<u>25,561</u>
		772,640	1,249,306
EXPENDITURE		716,916	908,593
SURPLUS FOR THE YEAR ENDED 31 DEC 2007		55,724	340,713
TRANSFER TO CONTINGENCY RESERVE	7	<u>(55,724)</u>	<u>(340,713)</u>
NET OPERATING RESULT FOR THE YEAR		_____ -	_____ -

The Fund has no other gains or losses for the current or preceding year other than those stated in the Income and Expenditure Account.

The notes form part of these financial statements

Office of Utility Regulation

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Public Utilities Regulation Fund

Balance Sheet 31 December 2007

	Notes	£	2007 £	2006 £
FIXED ASSETS				
Tangible assets	4	15,344		12,303
CURRENT ASSETS				
Debtors	5	11,438		4,158
Cash at bank and in hand		<u>687,510</u>		<u>642,839</u>
		698,948		646,997
CREDITORS				
Amounts falling due in one year	6	<u>74,645</u>		<u>75,377</u>
NET CURRENT ASSETS			<u>624,303</u>	<u>571,620</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>639,647</u>	<u>583,923</u>
RESERVES				
Contingency Reserve	7		<u>639,647</u>	<u>583,923</u>
			<u>639,647</u>	<u>583,923</u>

The financial statements were approved on 15th July and were signed by:



.....
Mr J Curran
Director General of Utility Regulation

The notes form part of these financial statements

Office of Utility Regulation

Annual Report 2007

Public Utilities Regulation Fund

Notes to the Financial Statements for the Year ended 31 December 2007

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared under the historical cost convention.

Income

Income represents net invoiced licence fees and income from organisation of conferences and is accounted for on an annual accruals basis.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	-20% on cost
Fixtures and fittings	-20% on cost
Computer equipment	-20% on cost

2. OPERATING PROFIT

The operating profit is stated after charging:

	2007	2006
	£	£
Depreciation—owned assets	(1,502)	15,524
Auditors and accountants' remuneration	<u>800</u>	<u>2,500</u>

3. TAXATION

Under Section 12 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Fund is exempt from Guernsey Income Tax.

Continued.....

Office of Utility Regulation

Annual Report 2007

Public Utilities Regulation Fund

Notes to the Financial Statements for the Year ended 31 December 2007

4. TANGIBLE FIXED ASSETS

	Plant and Machinery £	Fixtures and Fittings £	Computer Equipment £	Totals £
COST				
At 1 January 2007	41,170	3,675	32,774	77,619
Additions	<u>190</u>	<u>-</u>	<u>1,349</u>	<u>1,539</u>
At 31 December 2007	<u>41,360</u>	<u>3,675</u>	<u>34,123</u>	<u>79,158</u>
DEPRECIATION				
At 1 January 2007	39,378	2,912	23,026	65,316
Charge for year	594	61	1,446	2,101
Charge written back	<u>(3,198)</u>	<u>479</u>	<u>(884)</u>	<u>(3,603)</u>
At 31st December 2007	<u>36,774</u>	<u>3,452</u>	<u>23,588</u>	<u>63,814</u>
NET BOOK VALUE				
At 31 December 2007	<u>4,586</u>	<u>223</u>	<u>10,535</u>	<u>15,344</u>
At 31 December 2006	<u>1,792</u>	<u>763</u>	<u>9,748</u>	<u>12,303</u>

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Trade Debtors	2,377	-
Accrued Interest	625	-
Other Debtors	<u>8,436</u>	<u>4,158</u>
	<u>11,438</u>	<u>4,158</u>

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Trade Creditors	41,371	68,989
Deferred Income	8,563	500
Other Creditors	<u>24,711</u>	<u>5,888</u>
	<u>74,645</u>	<u>75,377</u>

Office of Utility Regulation

Annual Report 2007

Public Utilities Regulation Fund

Notes to the Financial Statements—continued for the Year ended 31 December 2007

7. CONTINGENCY RESERVES

Any surpluses in the Income and Expenditure Account are taken to the Contingency Reserve.

	£
At 1 January 2007	583,923
Movement in the year	<u>55,724</u>
At 31 December 2007	<u>639,647</u>

8. CONTINGENT GAIN

During the year an appeal was dismissed in court and the Fund was awarded costs, the amount is unknown at present.

Office of Utility Regulation

Annual Report 2007

Public Utilities Regulation Fund

Income and Expenditure Account for the Year ended 31 December 2007

	2007		2006	
	£	£	£	£
Turnover				
Post Office revenue	120,000		180,000	
Telecoms revenue	495,935		863,745	
Electricity revenue	<u>120,000</u>		<u>180,000</u>	
		735,935		1,223,745
Other income				
Bank interest		<u>36,705</u>		<u>25,561</u>
		772,640		1,249,306
Expenditure				
General overheads	96,455		75,397	
Salaries & staff costs	373,960		370,994	
Consultancy fees	106,505		297,653	
Legal costs	120,266		146,213	
Auditors & accountancy fees	800		2,500	
ARRC fees	<u>20,292</u>		<u>272</u>	
		<u>718,278</u>		<u>893,029</u>
		54,362		356,277
Finance costs				
Bank charges		<u>140</u>		<u>40</u>
Depreciation				
Office equipment	(2,604)		8,234	
Fixtures and fittings	504		735	
Computer equipment	<u>562</u>		<u>6,555</u>	
		<u>(1,502)</u>		<u>15,524</u>
SURPLUS		<u>55,724</u>		<u>340,713</u>

This page does not form part of the statutory financial statements

Office of Utility Regulation

Annual Report 2007

OUR Corporate Governance

Audit Risk and Remuneration Committee Chairman's Report

On 31st March 2007, the Projet de Loi entitled “The Regulation of Utilities (Bailiwick of Guernsey) (Amendment) Law, 2007 was passed by the States of Guernsey. Section 6 of that Law introduced a new Section 13A to the 2001 Law which set out the formal establishment of the Audit, Risk and Remuneration Committee, the terms of which mirror the Terms of Reference already adopted by said Committee and which are included in this Report.

The current membership of the Committee is as follows:

- Stephen Jones – Chairman
- Deputy Carla McNulty Bauer
- Jane Needham
- Peter Woodward

All members are considered to be independent of the OUR.

The Committee met formally on four occasions in 2007. It worked in accordance with its Terms of Reference and carried out the following specific activities:

- Commissioning on ongoing review of the internal controls in operation at the OUR, reviewing the results thereof and making further recommendations for improvements to key controls.
- Participating with a detailed risk review for the activities of the OUR and reviewing, on an on-going basis, the implementation of the agreed risk management actions.
- Reviewing the Financial Statements of the Public Utilities Regulation Fund for 2007 and discussing the results of the audit thereof with the external auditors.
- Meeting the external auditors to monitor their independence and to confirm the nature, scope, fees and timetable for the audit for 2007.
- Monitoring and approving recruitment and remuneration of staff.
- Recommending improvements to employment contracts and the staff handbook and monitoring their implementation.
- Assisting with the production of a risk-based business plan for 2008-2010.

The Committee were pleased that their reviews, meetings and plans all produced positive results and thank the Director General and his staff for their co-operation and assistance throughout the year. The total annual costs of the Committee were less than £10,000.



Stephen Jones
Chairman

Office of Utility Regulation

Annual Report 2007

OUR Corporate Governance

In 2005, the OUR established an independent Audit, Risk and Remuneration Committee (ARRC) and in May 2006 the States formally agree a Resolution requiring its establishment.

The OUR complies with a very high standard of controls and the OUR's annual accounts are externally audited. The OUR's ARRC provides further independent scrutiny of the controls in place within the OUR.

The members of the ARRC during 2007 were:

- Mr. Stephen Jones, Chairman
- Deputy Carla McNulty Bauer
- Ms. Jane Needham
- Mr Peter Woodward

The following sets out both the instruction to the Audit, Risk and Remuneration Committee.

OUR Audit, Risk & Remuneration Committee - Terms of Reference

The following sets out the terms of reference of the OUR's Audit, Risk & Remuneration Committee (ARRC), as agreed between the Director General and the ARRC.

Role of the Committee

The role of the ARRC will be, as part of the ongoing systematic review of the control environment and governance procedures within OUR, to;

- oversee the external and internal audit function and advise the Director General in relation to the operation and development of that function
- review and advise on the Office's risk management procedures
- review and comment on the financial accounts of the Office
- review and comment on the remuneration policy of the OUR.

Membership

- The ARRC will be appointed by the Director General with the approval of the Commerce & Employment Department and will consist of not more than four people, who shall be external appointees. One of the four will be appointed by Commerce & Employment Department.

Office of Utility Regulation

Annual Report 2007

Duties

The duties of the ARRC shall be:-

- to approve and keep under review the Charter for Internal Audit services so as to ensure that it clearly defines the purpose, authority, roles and reporting relationships for internal audit;
- To review and approve the work programme for internal audit;
- To request the inclusion in the programme of Internal Audit reports as considered appropriate;
- To assess the outcome of the internal and external audit processes having regard to findings, recommendations and management responses;
- To assess the implementation of agreed corrective actions by management having regard to follow up audits;
- Generally to foster the development of best practice in the conduct of internal audit, risk management and external reporting;
- To advise the Director General on all matters relating to risk management, internal control, governance, external financial reporting and remuneration;
- To advise on and review the membership of the ARRC as necessary.

Annual Report of the External Auditors

The ARRC will consider any report issued by the external auditors.

Meetings

ARRC meetings will be held not less than twice each calendar year.

A quorum of two will be required for each meeting. The members shall decide on the appointment of the Chairperson. The Chairperson's appointment shall expire on 31st December 2008. Thereafter the term will be for a period of two years.

The ARRC may request any person who has been contracted to carry out an internal audit assignment to attend a Committee meeting. The Director General shall attend on the invitation of the ARRC. The ARRC will also have the authority to request staff members to attend meetings if necessary.

At least once a year, the ARRC will invite the external auditor to meet them to discuss matters of mutual interest including the audit approach.

The OUR will provide such administrative support to the ARRC as it may require.

Working Procedures

The ARRC will adopt its own working procedures.

Access

Any member of the ARRC will have right of access to the Director General and/or any staff member.

Office of Utility Regulation

Annual Report 2007

Reporting

The ARRC will formally report to the Director General and will offer such advice and recommendations as it may deem appropriate. The ARRC's activities will be recorded and reported in the Annual Report of the Director General.

The ARRC may report to any States Department or States Committee, including the Public Accounts Committee and the Scrutiny Committee.

Access to Independent Advice

The ARRC is authorised to:

- investigate any activity within its terms of reference,
- seek any information that it requires from any employee or external party, and all employees are directed to co-operate with any request made by the Committee, and
- obtain outside legal or other independent professional advice.

Amendment of Charter

This Charter may be amended or updated in joint consultation between the Director General and the ARRC. It shall be reviewed by 31st December 2008 and thereafter as required.

Office of Utility Regulation

Annual Report 2007

Internal Audit Charter

Introduction

This Charter sets out the purpose, authority and responsibilities of OUR's Internal Auditor. It is intended that internal audit assignments will be outsourced to an appropriate, qualified, third party and conducted under contract.

Purpose

The Internal Audit function is an independent appraisal function established to examine, evaluate and report on the adequacy and effectiveness of the OUR's systems of financial internal control. As such, it provides management and stakeholders with assurance over the financial management of the Office of Utility Regulation, and stewardship of the resources entrusted to it.

Authority

Internal Audit is authorised to have:

- Unrestricted access (subject to the comments below) to all functions, records, property and personnel.
- Full and free access to staff, the Audit Committee and the Director General.
- Authority to require and receive such explanations from any employee as are necessary concerning any matter under examination
- Sufficient resources and personnel with the necessary skills to perform the internal audit plan.

Access to confidential commercial information is permitted for the purpose of carrying out an internal audit solely in respect of enabling the auditors to ascertain that the Director General has carried out his functions as provided for within sections 2 and 4 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the various sector specific laws and States Directions to the Director General. Access will not be given to confidential information unless it can be proven that its intended purpose falls within scope of the internal audit role.

Internal Audit is not authorised to perform any operational duties or initiate or approve accounting transactions.

Office of Utility Regulation

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Role and Scope

The primary responsibility for identifying and implementing an adequate system of internal control rests with the Director General. The role of internal audit is to appraise the adequacy and effectiveness of those controls.

In particular, its role is to understand the key financial risks of the organisation and to examine and evaluate the adequacy and effectiveness of the system of risk management and financial control as operated by the organisation so as to ensure that:

- the systems of financial control, and their operation in practice, are adequate and effective:
- follow-up action is taken to remedy weaknesses identified by Internal Audit:
- employees and organisation actions are in compliance with policies, standards, procedures and applicable laws and regulations: and
- the corporate governance arrangements of the organisation are appropriate to the organisation and comply with relevant requirements:

Responsibilities and Reporting

The internal auditor will be accountable to OUR's ARRC and its work programme will be subject to the approval of the ARRC. No work should be undertaken without the prior approval of the ARRC.

All work undertaken should be planned and carried out in accordance with the Standards of Professional Audit Practice set by the Institute of Internal Auditors-UK.

On completion of an assignment, before a final report is issued, the internal auditor will communicate its findings to management and staff of the audited area for their views. These views will be considered and recorded in the final report. Copies of the final report will be provided to the Director General and ARRC.

Office of Utility Regulation

Annual Report 2007

Annex A: States Directions; Telecommunications

Scope of Universal Service Obligation (USO)

The States resolved to give the following direction to the Director General in accordance with Section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

All users in the Bailiwick shall have available to them the services set out below at the quality specified, independently of geographical location and, in the light of local and national conditions, at an affordable price:

Access at Fixed Locations:

- *all reasonable requests for connection to the public telephone network at a fixed location and for access to publicly available telephone services at a fixed location shall be met by at least one operator;*
- *the connection provided shall be capable of allowing users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit Internet access;*

Directory enquiry services and directories:

- *at least one subscriber directory covering all subscribers of direct public telephone service providers shall be made available to users and shall be updated regularly and at least once a year;*
- *at least one telephone directory enquiry service covering all listed subscribers' numbers shall be made available to all users, including users of public pay telephones;*

Public Pay telephones:

- *public pay telephones shall be provided to meet the reasonable needs of users in terms of the geographical coverage, the number of telephones and the quality of services.*

Special measures for disabled users and users with special needs:

- *these provisions shall also apply to disabled users and users with special social needs, and specific measures may be taken by the Regulator to ensure this.*

Identity of First Licensee with USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a telecommunications Universal Service Obligation to Guernsey Telecoms Limited, the company established to take over the functions of the States Telecommunications Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Special or Exclusive Rights

The States resolved to give the following direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

In accordance with section 3(1)(b) of that Law, the States directs the Regulator to decide the duration of any exclusive or special privilege granted to any licensee in relation to the provision of telecommunications networks and/or services with a view to ensuring that competition is introduced into all parts of the market at the earliest possible time.

The Regulator may decide on different terms for privileges granted in different markets or segments of the market. In any case, the States directs that the term of any such rights shall not exceed three years at most from the date of this Direction.

Office of Utility Regulation

Annual Report 2007

Annex A: States Directions; Post

Universal Service Obligation

The States resolved to give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.

“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a postal Universal Service Obligation to Guernsey Post Limited, the company established to take over the functions of the States Post Office Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Post: Special or Exclusive Rights

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Post Office Limited the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure the maintenance of the universal postal service specified by States' directions under section 3 (1)(c) of that Law; and

To request the Director General to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service.

Office of Utility Regulation

Annual Report 2007

Annex A: States Directions; Electricity

Universal Service Obligation (“Public Supply Obligation”)

The States did not make any Directions in relation to a Universal Service Obligation in the electricity markets, as it noted that the provisions of the Electricity Law adequately protected the interests of users by ensuring a Public Supply Obligation would be in place.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain an electricity Universal Service Obligation to Guernsey Electricity Limited, once that company is established to take over the functions of the States Electricity Board.

Special or Exclusive Rights

Conveyance

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited an exclusive electricity conveyance licence in respect of the conveyance of electricity in Guernsey for a period of 10 years once that company has been formed.

Subsequently, the States resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for conveyance activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Generation

The States made no resolution giving a direction to the Director General in relation to the period of exclusivity of any generation licence to be granted under the Electricity (Guernsey) Law, 2001.

Supply

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited (once that company has been formed) an exclusive electricity supply licence in respect of the supply of electricity in Guernsey for a period of one year.

The States also resolved to request the Director General to investigate the impact of the introduction of competition into the electricity supply market further and to provide a recommendation and advice to the Board of Industry on the introduction of such competition.

The States subsequently resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for supply activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Office of Utility Regulation

Annual Report 2007

Annex B: Documents Published in 2007

07/01	Review of Cable & Wireless Guernsey's Wholesale Leased Line Prices: Consultation document
07/02	Guernsey Post's Quality of Service: Information Notice
07/03	Mobile Termination Rates: Decision paper
07/04	Guernsey Electricity Limited: Final Decision
07/05	Extension of the Consultation reviewing Cable & Wireless Guernsey's Wholesale Leased Line prices: Information Notice
07/06	Mobile Number Portability: Consultation Document
07/07	Maximum resale price of Electricity: Information Notice and Direction
07/08	Review of Cable & Wireless Guernsey's Price Control: Consultation Document
07/09	Reviewing Cable & Wireless Guernsey's Wholesale Leased Line Prices: Report on the Consultation and Draft Decision
07/10	Proposal to Modify to Guernsey Airtel's 2G and 3G Mobile Licence: Statutory Invitation to Comment
07/11	Proposal to Modify Cable & Wireless Guernsey, Wave Telecom and Guernsey Airtel's Mobile Licences: Statutory Invitation to Comment
07/12	Proposal to Modify Guernsey Airtel's 2G and 3G Licence: Report on the Consultation
07/13	OUR Bursary Scheme: Information Notice
07/14	Amendment of the Mobile Licences of Cable & Wireless Guernsey, Wave Telecom and Guernsey Airtel: Report on the Consultation
07/15	Refusal to Develop Infrastructure at Les Caches. Dispute between Wave Telecom and Cable & Wireless Guernsey: Finding in Dispute
07/16	Refusal to meet a Request to provide On Island 45MBit Leased Line Tail Circuits. Dispute between Wave Telecom and Cable & Wireless Guernsey: Finding in Dispute
07/17	Reviewing Cable & Wireless Guernsey's Wholesale Leased Line Prices: Final Decision
07/18	Register of Mobile Phone Operator Mast Sites in the Bailiwick of Guernsey
07/19	Review of Cable & Wireless Guernsey's Price Control: Draft Decision
07/20	Extension of Cable & Wireless Guernsey's Price Control: Draft Decision and Information Notice
07/21	Next Generation Networks: Consultation and Discussion Document

Guernsey Retail Prices Index¹²³⁶

Quarter 2 - 30 June 2008



POLICY COUNCIL
THE STATES OF GUERNSEY

Issue Date - 16th July 2008

Introduction

The Guernsey Retail Prices Index (GRPI) is the measure of inflation used in Guernsey. It measures the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. It is published quarterly by the States of Guernsey Policy and Research Unit. The calculation of the GRPI is based on the price change of items within a 'shopping basket'. Whilst some prices rise over time, others will fall or fluctuate and the Index represents the average change in these prices. More detailed information on the RPI and its calculation can be found at the end of this handout.

Headlines

- At the end of June 2008 Guernsey's annual headline rate of inflation was **5.5%**, compared to 4.8% at the end of March. The equivalent figures for the UK and Jersey were 4.6% and 5.6% respectively.
- The **Housing** group, which has the largest weight within the Index, contributed **1.1%** of the headline increase. There were also large increases in the Food, Fuel, Light & Power, Motoring and Alcoholic Drinks groups.
- Guernsey's RPIX (inflation excluding mortgage interest payments) was **5.4%** this quarter, compared to 4.3% at the end of March.
- The Index increased to **141.5** (1999 base).

Overview

The Guernsey RPI increased by 5.5% for the twelve months ending 30th June 2008. This is the highest rate of inflation since December 1991. The increase over the three months ending 30th June 2008 was 1.7%, compared to 2.1% during the previous quarter.

The Housing group continued to be the largest contributor to the annual percentage change (1.1% out of 5.5%). It was also the largest contributor to the quarterly increase (0.4% out of 1.7%), followed by the Food and Motoring Groups, which each contributed 0.3% to the quarterly change.

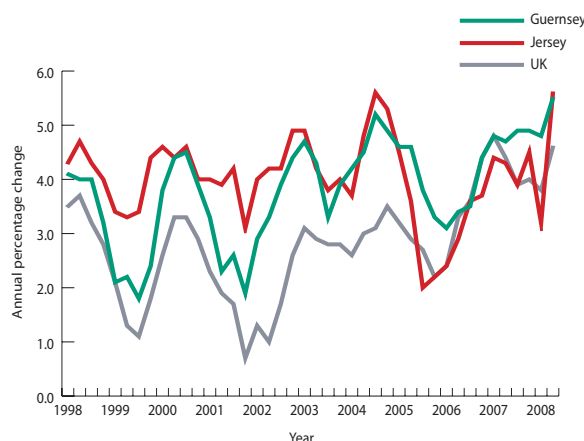
In the Housing group, there were decreases during the quarter due to the Bank of England reducing the interest rate again, which brought down the cost of mortgage repayments. However, these were offset by increases in costs of home improvements and rents.

Clothing & Footwear and Leisure Goods had a downward effect on the annual change (-0.4% in total).

Table 1: Annual Rates of Inflation

Year	March	June	September	December
2002	2.9	3.3	3.9	4.4
2003	4.7	4.3	3.3	3.9
2004	4.2	4.5	5.2	4.9
2005	4.6	4.6	3.8	3.3
2006	3.1	3.4	3.5	4.4
2007	4.8	4.7	4.9	4.9
2008	4.8	5.5		

Figure 1: Annual Rates of Inflation



IN THE STATES OF THE ISLAND OF GUERNSEY ON THE 24th DAY OF SEPTEMBER, 2008

**The States resolved as follows concerning Billet d'État No XII
dated 5th September 2008**

THE HOUSE COMMITTEE (TRANSFER OF FUNCTIONS) ORDINANCE, 2008

I.- To approve, subject to the following amendment, the draft Ordinance entitled "The House Committee (Transfer of Functions) Ordinance, 2008" and to direct that the same shall have effect as an Ordinance of the States.

AMENDMENT

In clause 3 (printed at page 2 of the Brochure) the word "States" was inserted before the words "Assembly and Constitution Committee".

THE FORFEITURE OF MONEY, ETC IN CIVIL PROCEEDINGS (BAILIWICK OF GUERNSEY) LAW, 2007 (COMMENCEMENT) ORDINANCE, 2008

II.- To approve subject to the following amendment, the draft Ordinance entitled "The Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 (Commencement) Ordinance, 2008" and to direct that the same shall have effect as an Ordinance of the States.

AMENDMENT

For clause 1 (printed at page 3 of the Brochure) substitute the following clause -

"Commencement of Law of 2008.

1. The Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 shall come into force on the 24th September 2008."

GUILLE-ALLÈS LIBRARY COUNCIL

NEW MEMBER

III.- To elect Deputy M J Fallaize as a member of the Guille-Allès Library Council to fill the unexpired portion of the term of office of Deputy A H Adam, who has ceased to be a member of the Education Department, namely to serve until 31st May, 2009.

LEGISLATION SELECT COMMITTEE

ELECTION OF NON-VOTING MEMBER

IV.- To elect as a non-voting member of the Legislation Select Committee, Advocate Simon William Francis Howitt, who has been nominated in that behalf by that Committee, to serve until May 2012 in accordance with Rule 5 (1) (c) of the Constitution and Operation of States Departments and Committees.

POLICY COUNCIL

BETHANIE CHAPEL

V.- After consideration of the Report dated 11th August, 2008, of the Policy Council:-

1. That legislation be enacted as set out in that Report.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

TREASURY AND RESOURCES DEPARTMENT

A. THE ADMINISTRATION OF INCOME TAX

B. CAPITAL EXPENDITURE – ANNUAL AND INITIAL ALLOWANCES

VI.- After consideration of the Report dated 2nd July, 2008, of the Treasury and Resources department:-

1. That legislation is enacted as set out in paragraph 2.A of that Report
 - (1) to revise The Income Tax (Guernsey) Law, 1975, as amended, (“the Law”) to provide that notices of assessment, penalty orders and similar documents issued by the Administrator may be served by hand, facsimile or electronically, as set out in subparagraph (1)(a) .
 - (2) to provide that a notice of assessment, penalty order or other similar document issued by the Administrator is not invalidated notwithstanding that it may not have been received by the person concerned, as set out in subparagraph (1)(b).
 - (3) to allow, in appropriate circumstances, for the Administrator to issue notices of assessment, penalty orders and similar documents to an address other than a persons usual or last known place of residence or, in the case of a company, its principal place of business, as set out in subparagraph (1)(c).
 - (4) to provide that notices, directions or orders issued by the Administrator are not invalidated by reason of errors, defects or omissions if, in

substance, they are otherwise correct and conform with the Law, as set out in subparagraph (1)(d).

- (5) to place the same responsibility on a person making a payment, on his own behalf, directly to a non-resident, as would apply to an agency, under the provisions of section 48 of the Law, and to provide a mechanism for the Administrator to serve a notice of liability on the occupant of a Guernsey property, in relation to tax due on rent, irrespective of whether payment of the rent passed through that person's hands, as set out in subparagraph (2).
 - (6) to provide for charges to be imposed in connection with initial and renewal applications for an Employees Tax Instalment Scheme Exemption Certificate as set out in subparagraph (3).
 - (7) to prohibit a deduction, for income tax purposes, in respect of payments which would constitute a criminal offence in Guernsey, or would if the payment had been made in Guernsey (including payments induced by blackmail or payments made for corrupt purposes), as set out in subparagraph (4).
 - (8) to permit the swearing of an Oath of Secrecy, in relation to members of Income Tax Office staff, auditors, consultants etc., to be sworn before the Administrator, if considered expedient to do so or, at the Administrator's discretion, for the oath to be made by written declaration, and to provide for an oath to be taken by affirmation (and, for the avoidance of doubt, to provide that it has always been permissible for an affirmation to be taken) in place of an oath that is sworn, as set out in subparagraph (5).
 - (9) to exempt from income tax bereavement payments made under the Social Insurance (Guernsey) (Amendment) Law, 2003, as set out in subparagraph (6).
 - (10) to provide that all taxpayers have at least 30 days from the date of issue of a notice of assessment before payment of tax charged in that assessment becomes due, as set out in subparagraph (7).
 - (11) to change the titles of "Administrator of Income Tax" and "Assistant Administrator of Income Tax" to "Director of Income Tax" and "Deputy Director of Income Tax" respectively, as set out in subparagraph (8).
2. To approve, as proposed in paragraph 2.B of that Report, the amendment of Parts IX and X of the Law by the insertion of a section empowering the Department to amend (that is, to modify, add to, repeal and replace) all or any of the provisions of those parts by Regulation and to note that any such Regulation would in the normal way be laid before the States who, under section 203 of the Law, would have power to resolve to annul them

3. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

TREASURY AND RESOURCES DEPARTMENT

STATES OF ALDERNEY – POTABLE WATER PROJECT

VII.- After consideration of the Report dated 5th August, 2008, of the Treasury and Resources Department:-

1. To approve Phase One of the Alderney Potable Water project as set out in that Report at a total cost not to exceed £349,000.
2. To authorise the States of Alderney to accept the tender from IC Tugby in the sum of £169,413.94.
3. To vote the States of Alderney a credit of £349,000 to cover the cost of the above works, such sum to be charged to the capital allocation of the States of Alderney.
4. To delegate authority to the Treasury and Resources Department to approve the acceptance of tenders and a capital vote in respect of Phase Two of the Alderney Potable Water project.

TREASURY AND RESOURCES DEPARTMENT

APPOINTMENT OF NON-EXECUTIVE DIRECTOR GUERNSEY POST LIMITED

VIII.- After consideration of a Report dated 5th August, 2008, of the Treasury and Resources Department:-

In accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, to appoint Dame Mary Perkins, DBE as a non-executive director of Guernsey Post Limited.

HOME DEPARTMENT

AMENDMENT TO THE FIRE SERVICES (GUERNSEY) LAW, 1989, AS AMENDED

IX.- After consideration of the Report dated 2nd July, 2008, of the Home Department:-

1. To approve the Department's proposals for amending Fire Services (Guernsey) Law, 1989, as amended, as set out in that Report.

2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

COMMERCE AND EMPLOYMENT DEPARTMENT

EMPLOYERS' LIABILITY (COMPULSORY INSURANCE) (GUERNSEY) LAW, 1993

X.- After consideration of the Report dated 22nd July, 2008, of the Commerce and Employment Department:-

1. To enact an Ordinance under the provisions of the Employers' Liability (Compulsory Insurance) (Guernsey) Law, 1993, in order to exempt any employer which is a company that has only one employee – and that employee also owns fifty per cent or more of the issued share capital in that company – from any requirement to take out Employers' Liability Compulsory Insurance.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

SOCIAL SECURITY DEPARTMENT

BENEFIT AND CONTRIBUTION RATES FOR 2009

XI.- After consideration of the Report dated 25th July, 2008, of the Social Security Department:-

1. That, with effect from 5th January, 2009, the standard rates of social insurance benefits shall be increased to the rates set out in paragraph 16 of that Report.
2. To note that the increases in the rates of old age pension for incomplete contribution records will be below the headline rate, as the second part of the approved two year plan to restore the strict proportionality in the rates of old age pension is completed.
3. That, with effect from 1st January, 2009, for employed persons, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £1,329, £5,759 and £69,108 respectively.
4. That, with effect from 1st January, 2009, for employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £2,214, £9,594 and £115,128 respectively.
5. That, with effect from 1st January, 2009, for employed persons and employers, the lower weekly earnings limit, the lower monthly earnings limit shall be £112 and £485.33 respectively.

6. That, with effect from 1st January, 2009, for self-employed persons, the upper earnings limit and lower earnings limit shall be £69,108 per year and £5,824 per year, respectively.
7. That, with effect from 1st January, 2009, for non-employed persons the upper and lower annual income limits shall be £69,108 per year and £14,560 per year respectively.
8. That, with effect from 1st January, 2009, the prescription charge per item of pharmaceutical benefit shall be £2.80.
9. That, with effect from 5th January, 2009, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £162.40 per week.
10. That, with effect from 5th January, 2009, care benefit shall be a maximum of £672.00 per week for persons resident in a nursing home or the Guernsey Cheshire Home and a maximum of £359.94 per week for persons resident in a residential home.
11. That, with effect from 5th January, 2009, respite care benefit shall be a maximum of £834.40 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home and a maximum of £522.34 per week for persons receiving respite care in a residential home.
12. That, with effect from 9th January, 2009, the supplementary benefit requirement rates shall be as set out in paragraph 114 of that Report;
13. That, with effect from 9th January, 2009, the weekly benefit limitations for supplementary benefit shall be:
 - (a) £387 for a person living in the community;
 - (b) £454 for a person who is residing in a residential home; and
 - (c) £651 for a person who is residing as a patient in a hospital, nursing home or the Guernsey Cheshire Home.
14. That, with effect from 9th January, 2009, the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit shall be £26.50 per week.
15. That, with effect from 9th January, 2009, the amount of the personal allowance payable to persons in UK hospitals or care homes who are in receipt of supplementary benefit shall be £44.60 per week.
16. That a supplementary fuel allowance of £22.70 per week be paid to supplementary beneficiaries who are householders from 24 October 2008 to 24 April 2009.

17. That, with effect from 5th January, 2009, family allowance shall be £14.60 per week.
18. To note that the Social Security Department will not be pursuing further a system of income-related family allowances.
19. That, with effect from 5th January, 2009, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in paragraph 160 of that Report.
20. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

ORDINANCES LAID BEFORE THE STATES

THE EDUCATION (COMPULSORY SCHOOL AGE) (GUERNSEY) (NO.2) ORDINANCE, 2008

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Education (Compulsory School Age) (Guernsey) (No.2) Ordinance, 2008, made by the Legislation Select Committee on the 11th August, 2008, was laid before the States.

THE ALDERNEY (APPLICATION OF LEGISLATION) (EDUCATION) (NO.2) ORDINANCE, 2008

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Alderney (Application of Legislation) (Education) (No.2) Ordinance, 2008, made by the Legislation Select Committee on the 11th August, 2008, was laid before the States.

THE FORFEITURE OF MONEY, ETC IN CIVIL PROCEEDINGS (BAILIWICK OF GUERNSEY) LAW, 2007 (AMENDMENT) ORDINANCE, 2008

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Forfeiture of Money, etc in Civil Proceedings (Bailiwick of Guernsey) Law, 2007 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, was laid before the States.

THE PROTECTION OF INVESTORS (BAILIWICK OF GUERNSEY) LAW, 1987 (AMENDMENT) ORDINANCE, 2008

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, was laid before the States.

**THE REGISTRATION OF NON-REGULATED FINANCIAL SERVICES
BUSINESSES (BAILIWICK OF GUERNSEY) LAW, 2008
(AMENDMENT) ORDINANCE, 2008**

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Registration of Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008 (Amendment) Ordinance, 2008, made by the Legislation Select Committee on the 29th July, 2008, was laid before the States.

STATUTORY INSTRUMENT LAID BEFORE THE STATES

THE WATER CHARGES (AMENDMENT) REGULATIONS, 2008

In pursuance of Article 17 (5) of the Law entitled “Loi ayant rapport à la Fourniture d’Eau par les États de cette Île aux Habitants de la dite Île” registered on 7th May, 1927, as amended, and “The Fees, Charges and Penalties (Guernsey) Law, 2007” registered on 19th May, 2008, The Water Charges (Amendment) Regulations, 2008, made by the Public Services Department and signed by the Department’s Minister on 17th July 2008, were laid before the States.

IN THE STATES OF THE ISLAND OF GUERNSEY ON THE 25th DAY OF SEPTEMBER, 2008

(Meeting adjourned from 24th September 2008)

**The States resolved as follows concerning Billet d'État No XII
dated 5th September 2008**

HOME DEPARTMENT

THE FUTURE OF LAW ENFORCEMENT

XII.- After consideration of the Report dated 31st July, 2008, of the Home Department:-

1. To approve the creation of a statutory Law Enforcement Commission in accordance with section 4 of that Report.
2. To approve the creation of a statutory Cross Border Crime Agency in accordance with section 4 of that Report.
3. To direct the Home Department to submit a Report to the States at the earliest opportunity on the necessary legislation.
4. That the Law Enforcement Commission and Cross Border Crime Agency shall be established by the Department on a "shadow" basis until they are constituted in law.
5. To note the intention of the Home Department to submit a Report to the States on the future status of officers and staff of the Police and Customs and Immigration Service.

REQUÊTE

GRANTS AND LOANS FOR STUDENTS ATTENDING COURSES OF HIGHER AND FURTHER EDUCATION OFF-ISLAND

XIII.- After consideration of the Requête, dated 23rd June, 2008, signed by Deputy M J Fallaize and twenty-two other Members of the States:-

1. That the system of States financial assistance towards the tuition and maintenance costs of students attending courses of higher and further education off-island shall continue as at present until the end of the academic year commencing in September 2011.
2. To approve the additional funds required for the Education Department's total revenue budget in order that the ring-fenced Higher Education Budget be

increased annually in line with demand until the end of the academic year commencing in September 2011.

3. To direct the Education Department to review the existing scheme and report back on it to the States in 2011, or sooner if there is significant change in the funds needed for the existing scheme.
4. To rescind Resolution 3 on Article XI of Billet d'État XXII of 2007.

S M D ROSS
Her Majesty's Deputy Greffier