

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

28 October 2008

Dear Sir,

2009 BUDGET REPORT

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

Yours faithfully,

C N K Parkinson
Minister
Treasury and Resources Department

2009 BUDGET REPORT

Background to the Budget

- 1.1 In June 2006 the States approved the Future Economic and Taxation Strategy. This is the second Budget to be prepared under the Zero-Ten regime which came into effect on 1 January 2008 and following States approval of the Government Business Plan in September 2007.
- 1.2 2008 has been a time of great change for Guernsey, both in terms of the implementation of the Zero-Ten regime and as a result of the economic turmoil and volatility in the world financial markets. The Treasury and Resources Department is of the view that a period of measured consolidation is appropriate. The 2009 Budget has been prepared on the basis of maintaining the real value of taxes and other income sources in order to fund the existing level of public services and some essential service expansions.
- 1.3 As previously stated, the Department believes that in order to raise revenue it is appropriate to use existing taxes and to raise taxes from the beneficiaries of the tax reforms.

Summary

- 1.4 **The main highlights and proposals contained within this year's Budget Report are as follows:**
 - **A 5.5% increase in Personal Income Tax Allowances for 2009 and a further 4% increase for 2010.**
 - **An 8.5% increase in the rate of duty on tobacco (RPI plus 3%).**
 - **A 5.5% increase in the rate of duty on alcohol.**
 - **Duty on Fuel to increase by 2p per litre.**
 - **Tax on Real Property rates to increase by 5.5% for domestic, commercial, utilities and recreational and sporting buildings and land, 25% for Office and ancillary accommodation (other than regulated finance industries) buildings and land and 50% for Office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land.**
 - **Total Non-Formula Led Cash Limits for 2009 to increase by RPI, but with above RPI increases in priority areas including Health, Education and Law and Order.**
 - **A withdrawal of £8million from the Contingency Reserve Fund in 2009.**
 - **An immediate transfer of £26.4million to the Capital Reserve and a further transfer of £20million in 2009.**

Economic and Taxation Strategy

- 1.5 A two-stage approach to public finances has been adopted under the new strategy. The first stage, which commenced in 2007 includes:
- Measures to promote economic growth.
 - A shift from corporate tax to income tax from individuals (mainly ETI receipts).
 - Public sector expenditure restraint.
 - Increases in indirect taxes.
 - Increased collections from social security contributions.
 - If required, use of up to half of the Contingency Reserve Fund.
- 1.6 It is the intention that Stage Two will come into effect between 2011 and 2013. The actual measures that are necessary and the timing of their implementation will depend on the level of success achieved by the measures introduced in Stage One, with particular emphasis placed on the performance of the economy and the level of public sector income. Stage Two measures will focus on producing a 'package' to sustain Guernsey's competitive economic position, whilst also generating sufficient income to ensure that Guernsey maintains an acceptable level of essential public services and infrastructure.
- 1.7 **The overall objective of the strategy is to ensure that Guernsey remains a good place for businesses to operate and to provide well-paid jobs, therefore enabling wages to remain high and to increase.**

Strategic Economic Plan

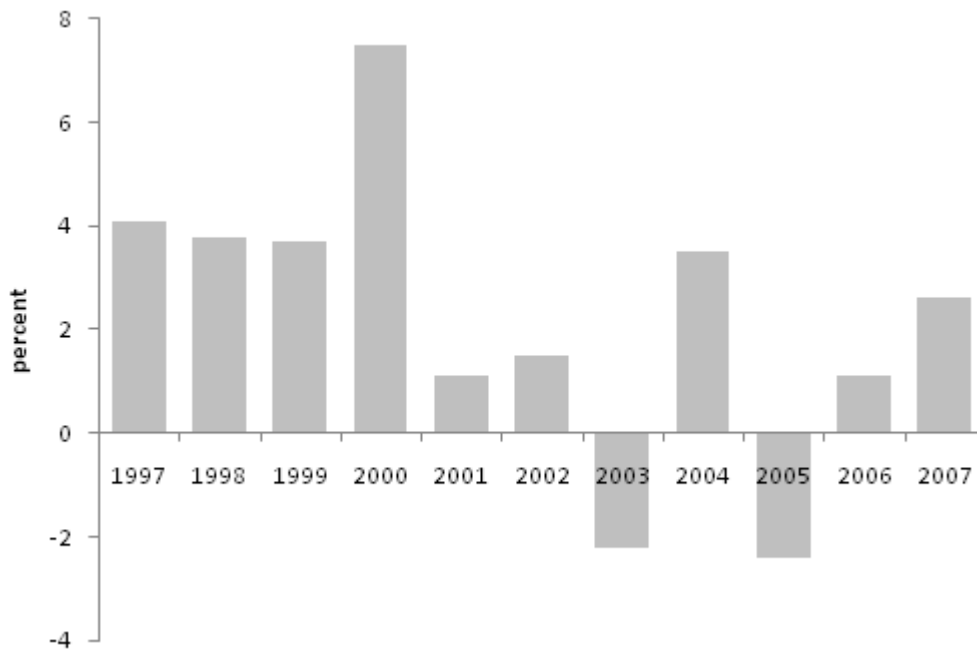
- 1.8 The Strategic Economic Plan, which was approved by the States in September 2007, included Action Point 2 which aimed to achieve a convergence between:
- The aspirations of the community as a whole; and
 - The desired restoration and eventual increases in tax take.
- 1.9 The States also agreed to adopt the following Strategic Economic Objectives:
- Creating and maintaining conditions conducive to achieving the annual levels of economic growth for the next five years as has been experienced on average over the last decade;
 - Increasing the primary and secondary benefits to the community of business activity whilst at the same time increasing the opportunity for the working population to migrate into higher paid jobs;

- Achieving an expansion and diversification of high value exporting activities within both the finance and non-finance sectors where possible through the substitution of low value activities;
- Using the total value of income to individuals from remuneration and other sources as the prime reflection of economic performance;
- Pursuing policies to achieve 3% growth per annum in the total value of income to individuals from remuneration and other sources.

SECTION 2: ECONOMIC POSITION

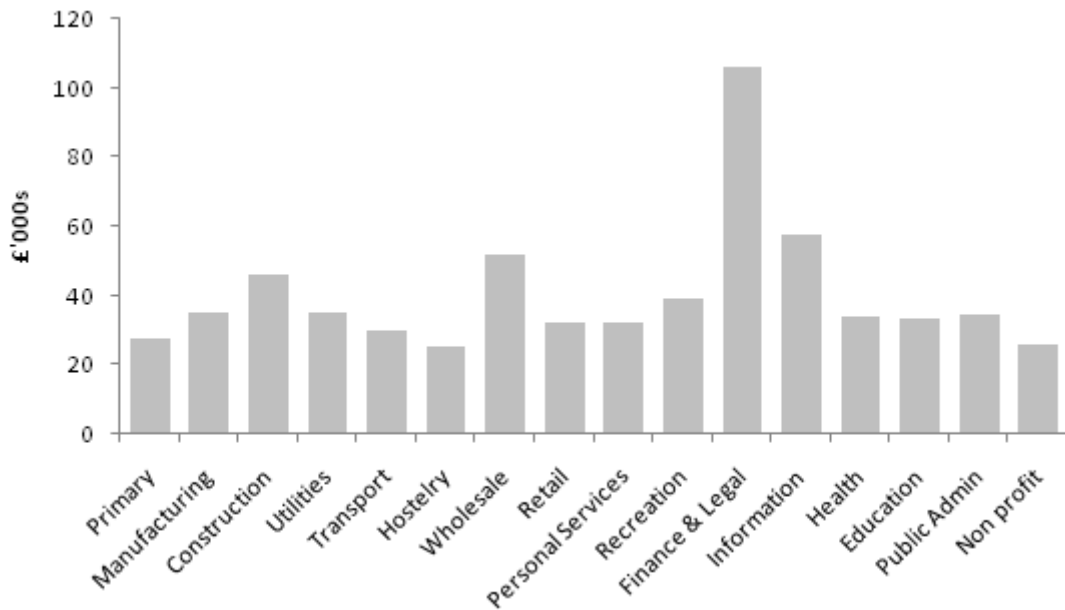
- 2.1 According to the latest figures, Guernsey now possesses a two billion pound economy: National Accounts published in spring of this year demonstrate that Gross Value Added ('GVA'), the international accepted standard measure of output, was £2,070,517 in 2007. Published concurrently, preliminary estimates put real GDP ('gross domestic product') growth in 2007 at 2.6%, slightly above the (2.0%) 10 year annualised average and building on the previous year's weaker growth of 1.1%. Revisions to previous preliminary estimates show that a slight double dip in real growth was experienced following the major bear market of 2001/2002 when global equity markets fell 40% from their peaks.

Figure 1: GDP Growth, 1997 – 2007



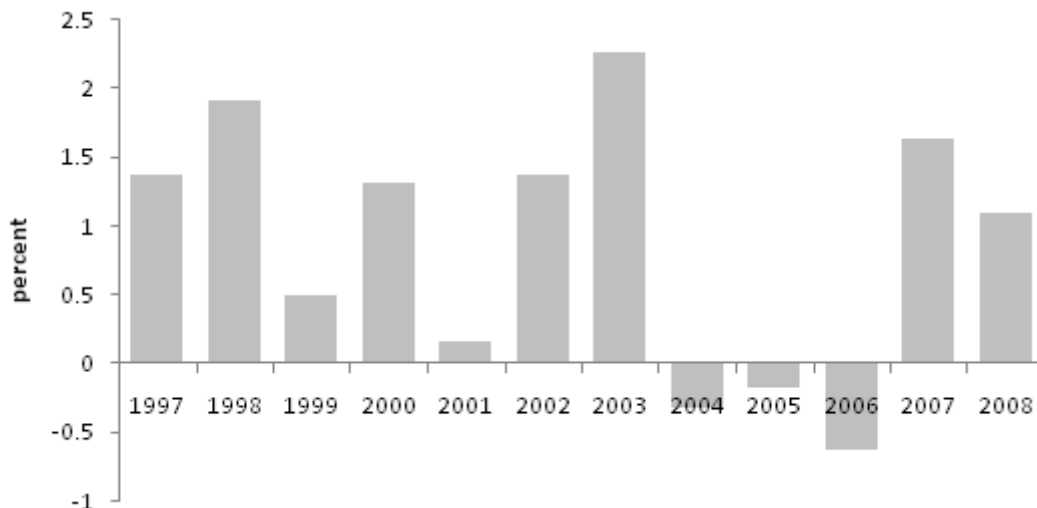
- 2.2 Together, financial services, information and business services and construction accounted for just about all growth during 2007. Given these sectors are either export orientated or service the export sectors this evidence suggests that 'domestic' demand remained broadly flat.
- 2.3 The financial services industry continues to dominate the Island's economy. Its GVA per employee, £106,213, being nearly twice the Island average, £56,086, and contributes over 30% of Guernsey's economic output, over 70% of export earnings and some 24% of employment. Most recent figures reported continued robust growth with some 7% growth in numbers of funds and 16% growth in value of funds under administration during the first half of 2008. Whilst banking deposits stood just over 7% higher at the end of the second quarter than at the end of 2007, significantly they exhibited a decline over the previous (first quarter) figures.

Figure 2: GVA / Capita by Sector, 2007



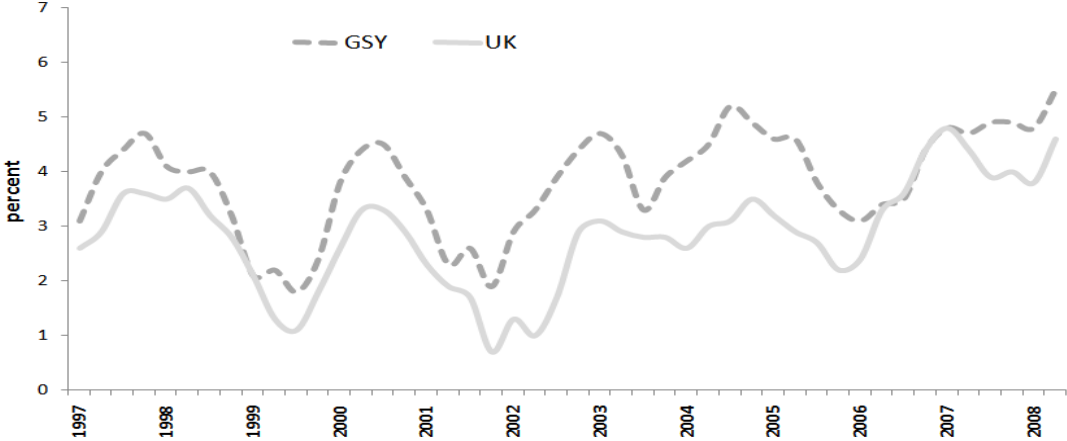
- 2.4 After a number of years of marginal decline, numbers employed in Guernsey rose to 31,664 in 2007, an increase of 1.6% on the previous year and continued to rise in 2008, with summer employment levels being 1.1% higher than the previous year. Unemployment, despite the slightest of rises recently, remains at incredibly low levels, both in historical terms and in terms of international comparisons, at less than one percent.
- 2.5 The rises in employment together with the freezing of personal allowances go a long way to explaining the higher than expected ETI receipts of the recent few quarters. Despite this apparent tightness in the labour market, unit labour costs continue to rise at a slower pace than real growth rates although overall productivity improvements in the economy have been somewhat negligible over the last five years.

Figure 3: Employment Growth, 1997 - 2008



2.6 Inflation resurrected itself as a major policy issue globally in the first half of this year with both the Bank of England and the European Central Bank expressing concerns regarding the recent spike in annual rates due to the significant rises in global food and oil prices experienced at the beginning of the year. Two key factors contribute to the linkage of Guernsey’s inflation rate to that of mainland UK: the parity with Sterling of Guernsey’s pound and the high level of imports of consumer and other goods from the UK. In common with Jersey, Guernsey’s June 2008 annual (retail price) inflation rate is marginally higher at 5.5% (Jersey 5.6%) than that of mainland UK, 4.6%. Since the banking crisis of the summer, concerns about inflation have been replaced by concerns of global recession which recently led to internationally co-ordinated interest rate reductions despite inflation continuing its rise.

Figure 4: Retail Price Inflation, 1997 - 2008



Outlook

2.7 The key to Guernsey’s economic growth during the rest of 2008 will be whether the Island’s financial services industry remains buoyant in the face of continuing credit problems in the global banking and financial system and in the face of the re-emergence of a technical ‘bear’ market for global equities.

2.8 The outlook for the global economy is gloomy. The effects of the first round of the credit crunch have recently begun to feed through to the real economy; the UK’s economy is stagnant and in all probability presently in recession, and the effects of the second round of the credit crunch (this summer’s banking crisis) have yet to feed through. There has been an historically unprecedented contraction in credit throughout the globe; consumer and corporate confidence is severely depressed; house prices continue to fall in the US and the UK; stock markets have returned to the levels of the mid 1990’s; unemployment is rising rapidly in both the US and the UK; and inflation is at 16 year highs.

Whilst any downturn is unlikely to be anywhere near as severe as the UK or US, it is improbable that Guernsey’s economy can be totally immune to the triple whammy of the global credit contraction, a recession in the real economies of the leading developed nations and a global bear market for equities.

SECTION 3: FINANCIAL POSITION

3.1 The financial position can be summarised as follows:

	2009	2008	2008	2007	2006
	Estimate	Current	Budget	Actual	Actual
	£m	£m	£m	£m	£m
Revenue Income	320	327	306	365	325
Revenue Expenditure	<u>(311)</u>	<u>(297)</u>	<u>(294)</u>	<u>(294)</u>	<u>(295)</u>
Revenue Surplus	9	30	12	71	30
Capital Allocations / Routine Capital Expenditure	(17)	(16)	(16)	(18)	(13)
Capital Income	3	5	1	-	1
Transfer from Housing Development and Loan Fund	-	10	-	-	-
Operating Surplus / (Deficit)	<u>(5)</u>	<u>29</u>	<u>(3)</u>	<u>53</u>	<u>18</u>
Transfers:					
Capital Reserve	(23)	(35)	(9)	(17)*	-
Contingency Reserve	8	-	-	(15)	-
Strategic Property Purchase Fund	-	(1)	(1)	-	-
Transfer to / (from) General Revenue Account Reserve	<u>(20)</u>	<u>(7)</u>	<u>(13)</u>	<u>21</u>	<u>18</u>

* £5million transfer approved in Budget Report 2007 and £12million transfer approved in Budget Report 2008.

3.2 Income can be summarised as follows:

	2009	2008	2008	2007	2006
	Estimate	Current	Budget	Actual	Actual
	£m	Estimate	Estimate	£m	£m
	£m	£m	£m	£m	£m
Income Tax					
Individuals - ETI	160	152	147	137	124
Individuals - other	50	45	48	38	38
Companies (excl. Banks)	3	25	3	81	70
Banks	17	20	15	40	38
Distributed Profits	11	9	2	-	-
Transitional Company Tax	<u>8</u>	<u>4</u>	<u>18</u>	<u>-</u>	<u>-</u>
	249	255	233	296	270
Indirect Taxes					
Customs Duties	30	28	28	18	16
Document Duty (conveyancing)	15	15	20	24	18
Company Fees / Duty	8	8	8	8	8
Tax on Rateable Values / Tax on Real Property	12	10	10	6	4
Motor Tax	-	-	-	5	6
Miscellaneous Income	6	11	7	8	3
Total Income	<u>320</u>	<u>327</u>	<u>306</u>	<u>365</u>	<u>325</u>

3.3 **The total anticipated income for 2008 of £327million is £21million more than the amounts previously projected.** This is mainly due to one-off receipts of tax from companies relating to prior years (pre-2008). The reduction in income from conveyancing Document Duty has been offset by increases in income from other sources.

3.4 Whilst ETI receipts are predicted to be £15million more in 2008 than in 2007, part of this (approximately £3.5million) relates to the reduction in reliefs (relating to mortgage / loan interest and life assurance policies) and approximately £3million due to the effect of 'freezing' personal income tax allowances. Therefore, ETI receipts are anticipated to show little, if any, real terms growth in 2008.

3.5 The 2008 Revenue Income original estimate included £18million of 'transitional income tax'. This amount reflects the fact that, for income tax assessment purposes, all companies have been deemed to have ceased trading on 31 December 2007. Therefore, income tax in respect of profits generated in 2007 (relating to the period from the last accounting date to 31 December 2007) will be assessed in 2008 and future years. The timing of the receipt of this income is

dependent on the submission and assessment of company income tax returns. It is now anticipated that most of the transitional tax will be received in 2009 and later.

- 3.6 Non-ETI income tax receipts in 2008 and future years will be somewhat volatile as, to some extent, they will be dependent on the timing of distributions.
- 3.7 Capital expenditure, funded from individual Departments' allocations or from the Capital Reserve is expected to be as follows:

	2009 Estimate £m	2008 Estimate £m	2007 Actual £m	2006 Actual £m	2005 Actual £m
Capital Expenditure	<u>42</u> *	<u>55</u>	<u>49</u>	<u>42</u>	<u>50</u>

* This is prior to the capital prioritisation process.

- 3.8 This significant level of expenditure has sought to redress the lack of investment in the Island's infrastructure in previous years and is considerably in excess of the annual surpluses. Therefore, it has been largely funded by monies put aside previously in the Capital Reserve.

Capital Reserve

- 3.9 In October 2006, the States agreed a capital prioritisation programme for the period to 2009, which identified the Health and Social Services Department's Clinical Block as the key capital expenditure priority for the States of Guernsey. Subject to adequate funding being available, it was also decided that the following capital projects would receive the highest priority for funding from either the Capital Reserve or existing capital allocations:
- Belle Greve Wastewater Disposal (Phases I and II approved in October 2007, phases III and IVa to be considered in November 2008).
 - Electronic Health and Social Care record.
 - Alderney Commercial Quay – additional funding of £2million.
 - Network Extension Plan – Creux Mahie Connection.
 - Fire Station essential repairs.
 - States Residential Homes - renovation and upgrade (not yet commenced).
- 3.10 Furthermore, in October 2007, the States approved a Requête to construct foul water sewers in the vicinity of the new schools at Les Nicolles, at a maximum cost of £850,000 funded from the Capital Reserve.

- 3.11 In accordance with Priority 3 of the Government Business Plan to “*Invest £20million per year in capital expenditure*”, **it is recommended that £11.5million (in addition to the £8.5million approved as part of the 2008 Budget Report) is immediately transferred to the Capital Reserve.**
- 3.12 The Treasury and Resources Department, as part of its role in managing the States’ extensive property portfolio, has identified a number of major States properties which it considers should be disposed of (by either sale or lease). In June 2008, Belvedere House was sold by public auction. **As previously indicated, the Department is recommending that the net sale proceeds of £4,942,805 are immediately transferred to the Capital Reserve.**
- 3.13 Nelson Place is currently on the market with a guide price of £3.25million. **It is recommended that the sale proceeds are transferred to the Capital Reserve.**
- 3.14 In addition, as the Education and Health and Social Services Departments progress their development plans, a number of services will be transferred to new or redeveloped buildings and existing properties, some of which are not fit for the purpose for which they are currently being used, will be disposed of.
- 3.15 The Treasury and Resources Department has, in conjunction with the Housing Department, reviewed the future funding arrangements of the Housing Development and Loan Fund. This review has identified that the sum of £10million is ‘surplus to requirements’ and has been returned to General Revenue. A similar review of the finances of the overall Corporate Housing Programme Fund will be carried out in 2010. **As previously indicated, the Department is recommending that £10million is immediately transferred to the Capital Reserve.**
- 3.16 **In 2008, a total of £50million will be added to the Capital Reserve** (including £12million transfer approved in the 2008 Budget Report funded from 2007 increased income).
- 3.17 **In accordance with Priority 3 of the Government Business Plan, the Department is recommending that £20million is transferred to the Capital Reserve on 1 January 2009.**

Capital Prioritisation

- 3.18 In the November 2007 Budget Report, it was stated that “*During the latter part of 2008, a further capital prioritisation process will be undertaken which will identify those projects which should be progressed during the period up to 2012 (i.e. during the life of the next House)*”. The Treasury and Resources Department intends to submit a States Report for consideration at the March 2009 States Meeting.
- 3.19 Appendix I provides a summary of the movements on the Capital Reserve since the beginning of 2008 and the anticipated movements up to 31 March 2009. It is

estimated that the capital prioritisation process will have an available Capital Reserve Balance of £66.7million.

- 3.20 The capital prioritisation process will not be a simple allocation of Capital Reserve Funds to General Revenue projects as was the case in 2006. Instead, it will also cover the capital funding requirements of trading entities (mainly the Ports), the issue of borrowing to enable more projects to be undertaken, the available routes for any borrowings and an analysis of the consequential impact on the construction industry, general economy and States Finances of progressing the top priorities. All capital project submissions will be subjected to the recently introduced rigorous and objective strategic review process to enable the Treasury and Resources Department to give direction to the States on the relative merits of each project.
- 3.21 The Treasury and Resources Department intends to present a comprehensive capital prioritisation States Report and believes it is essential that every States Department had sufficient time to determine their capital (and other) priorities and to subject these to the strategic review process. Notwithstanding this approach, a States Report on capital prioritisation will be delivered within the first year of the new States term of office.

Contingency Reserve Fund

- 3.22 The purpose of the Contingency Reserve Fund is to provide protection against major emergencies including significant economic downturns having a severe adverse effect on the Island.
- 3.23 In June 2006 the States resolved that up to half of the Contingency Reserve (interest and capital) may be used to fund the shortfall in public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy. At that time the Contingency Reserve had a balance of approximately £200million. It is therefore intended that £100million of that balance, plus any new monies transferred into the Reserve, plus the interest accumulated on such sums may be used to fund public services during the first phase.
- 3.24 As a result of the stronger than originally projected outturn for 2005 and 2006, and the phased introduction of increased indirect taxes and social security contributions in 2007, as approved in the 2007 Budget Report, a transfer of £15million to the Contingency Reserve was made on 1 January 2007. It will not be necessary to make a withdrawal from the Contingency Reserve in 2008.
- 3.25 The balance on the Contingency Reserve as at 30 September 2008 was £226million with £120.7million being available to fund the shortfall in public sector expenditure during stage one of the Economic and Taxation Strategy. It is emphasised that transfers into or out of the Contingency Reserve can only be made with a specific resolution of the States.

3.26 A transfer of £8million from the Contingency Reserve Fund on 1 January 2009 is recommended to part fund the 2009 operating deficit and transfer to Capital Reserve.

Restructuring and Reorganisation Fund

3.27 As part of the 2006 Budget, the Restructuring and Reorganisation Fund was established, by transferring £5million from the Contingency Reserve Fund. The balance of the Fund at 30 September 2008 was £0.9million. Major uses of the Fund have been:

- Redundancy Costs £1.4m
- Electronic Health and Social Care record £0.8m
- Housing Control – IT system £0.7m
- Environment – Planning and Building IT System £0.3m

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

- Redundancy costs - Provided long term savings are made, i.e. the post is permanently deleted or replaced by a significantly more junior post with resultant salary savings.
- Improvements to systems (usually IT) - A pay-back must be available through the reduction of revenue expenditure or the introduction / increase of fees and charges.
- Termination of contracts / leases – Provided the equipment / property is no longer required and where the cost of terminating the contract will be offset by the consequent savings.
- Investigations / feasibility studies - Initiatives for which there is a high probability that their implementation will result in reduced expenditure or increased income.

Strategic Property Purchase Fund

3.29 As part of the 2008 Budget Report, the States approved the establishment of a Strategic Property Purchase Fund with an initial balance of £1million. The purpose of this Fund is to purchase land or property that may be of future strategic importance to the States but no funding for its purchase is readily available.

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

- 3.30 In March 2008, a property known as “Misty Isles” situated at the junction of Les Banques and Victoria Avenue was purchased for £250,000. The acquisition of this site could, in the long-term, improve the road safety at this junction and assist in resolving access difficulties for other developments in the area. The property is currently tenanted at a full market rent.

General Revenue Account Reserve

- 3.31 Appendix II sets out the movements on the General Revenue Account Reserve which is anticipated to have a balance of £25million (net of Unspent Balances) at 31 December 2008 (compared to £5million predicted in the 2008 Budget Report). This improvement will be used to partially fund the 2009 operating deficit and transfers to reserves.
- 3.32 A balance of approximately £5million is maintained within the General Revenue Account Reserve to fund minor variations in income receipts and any unanticipated / ‘emergency’ expenditure.

Ports Holding Account

- 3.33 The Ports Holding Account was established by States Resolution in the 1960s with the basic principle that any capital expenditure in these areas should be funded out of the trading surpluses of the Ports (Harbours and Airport).
- 3.34 The Commerce and Employment Department is the lead Department for progressing Action Point 26 of the Strategic Economic Plan which states that *“The financial structure of the airport should be reviewed to confirm if it is purely a self-funding trading operation whose costs require charges some 3 to 4 times that of other regional airports or if it is to be considered as a gateway to the island which merits general revenue support as a strategic asset thus permitting charges to be reduced.”* This is being progressed by a cross-departmental working group. The findings of this review will inform the investigations currently being carried out into the options for funding the significant capital investment required to maintain and upgrade the runway.
- 3.35 In light of the future capital funding requirements of the Ports, the Treasury and Resources Department considers that it is an appropriate time for the overall funding model of the Ports as a separate trading operation to be examined and this will be addressed as part of the capital prioritisation States Report.
- 3.36 The Ports Holding Account’s reserves are used to fund major projects. At the beginning of 2003, the Ports Holding Account had a balance of £24.4million but by the end of 2007 this had reduced to £9.9million (projected to be £1.9million at 31.12.2008 and £0.5million overdrawn at 31.12.2009). The annual operating

surplus, including interest income, is projected to be £3.4million in 2008 and £2.3million in 2009.

- 3.37 During the past few years the Ports Holding Account has funded several significant projects including the new Airport Terminal, St Peter Port New Jetty major refurbishment and St Sampson's Marina.
- 3.38 The Airport Terminal project is now complete. The original budget for this project was £19.5million including consultants fees. In March 2007 a settlement was agreed with the contractor, which was significantly less than the amount being claimed, and the final account has now been paid. At 30 September 2008, total expenditure on this project including consultants and other costs was £25.9million. The Public Services Department is exploring the possibility of taking legal action to recover some of the amounts expended on this project.
- 3.39 The St Peter Port New Jetty major refurbishment project is now substantially complete. The original estimate for this work was £3.3million and the final settlement with the contractor of £9.0million was agreed through mediation. The contractor's claim was for a total contract sum of £27.3million and significant costs were incurred to defend the claim. As at 30 September 2008, total expenditure on this project including consultants, legal and other costs was £14.2million. As part of the mediation settlement, and at no additional cost to the States, the contractor is currently undertaking remediation work to the New Jetty.
- 3.40 The St Sampson's Marina project has now been completed and the final certificate issued by the Engineer. The project had a contract value of £3.4million. The amount certified by the Engineer and contractual payments had a contract value of £4.0million. The contractor made a claim for a further £3.1million which has been rejected by the Engineer. No formal proceedings have been commenced although there is still a possibility that the contractor may seek arbitration. The Marina is now generating £300,000 of income per annum.
- 3.41 The project overspends are charged to the Ports Holding Account. As a matter of best practice, full post implementation reviews will be carried out on all of the above projects. In addition, the Public Services Department will be required to submit States Reports requesting that the overspends are sanctioned.

Superannuation Fund

- 3.42 The November 2008 Billet d'État contains a Report placing before the States the latest triennial Actuarial Valuation (as at 31 December 2007) of the Superannuation Fund.
- 3.43 In respect of Public Servants the Actuaries' Report can be summarised as follows:
- As at 31 December 2007, there was a past service deficit of £43,994,000 (which corresponds to a funding ratio of 94.9%). The Treasury and

Resources Department is recommending that a policy for funding past service liabilities at a level of 90% of the benefits accrued is adopted.

- In view of the valuation results, and taking into account funding targets and assumptions on the patterns of membership and employee turnover, pay and pension increases, mortality, inflation and future investment returns, the Actuaries are recommending that the base level employer contribution to be paid to the Fund is increased to 14.1% of members salaries (from 7.85% for Public Servants and 13.5% for Teachers).

3.44 Ordinarily, the Budget Report would include a recommendation to implement the revised employer contribution rates at the start of the next financial year – i.e. 1 January 2009. However, during 2009 an exercise to rebase all Departments' Cash Limits will take place, as part of the Fundamental Spending Reviews. Therefore, the States Report accompanying the Actuarial Review includes a recommendation that, in respect of 2009 only, employer contribution rates remain at existing levels with the revised rates to apply from 1 January 2010.

SECTION 4: INCOME PROPOSALS

Personal Income Tax Allowances

- 4.1 The annual Budget Report usually includes recommendations for personal income tax allowances for the year of charge which is two years hence – i.e. last year's (November 2007) Budget Report included proposals for the 2009 personal income tax allowances.
- 4.2 **The Department is strongly of the view that the value of the personal income tax allowances should be maintained in real terms, at least until a system of 'tax credits' or marginal income tax relief is investigated.**
- 4.3 Therefore, as an exceptional measure, it is recommending that the **2009 basic personal income tax allowances are increased by 5.5% (June 2008 RPI) compared to 2008. Similar percentage increases will be made to the supplementary allowances.** It is recognised that an across-the-board increase in personal income tax allowances will benefit all taxpayers.
- 4.4 Therefore, it is recommended that:

- The personal allowances for 2009 shall be as follows:

Single persons	£8,700	(2008 : £8,250)
Single entitled to age relief	£10,300	(2008 : £9,750)
Married persons	£17,400	(2008 : £16,500)
Married one entitled to age relief	£19,000	(2008 : £18,000)
Married both entitled to age relief	£20,600	(2008 : £19,500)

- The supplementary allowances for 2009 shall be as follows:

Dependent relative *	£2,800	(2008 : £2,640)
Housekeeper *	£2,800	(2008 : £2,640)
Infirm Persons *	£2,800	(2008 : £2,640)
Charge of Children	£5,900	(2008 : £5,615)

- * In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, as approved as part of the 2008 Budget, no new claims will be admitted for the Year of Charge 2009 or any subsequent year of charge. Existing claims, however, will continue to be allowed, so long as they continue to meet the conditions.

- For 2009 the Wife's Earned Income Allowance shall remain in line with the Single Person's Allowance, i.e. £8,700. It should be noted that the Married Persons' Allowance is reduced by the sum of £1 for every £1 of Wife's Earned Income Allowance.
- For 2009 the income limit of a dependent relative before the Dependent Relative Allowance is reduced be increased from £5,615 to £5,900.

4.5 These increases will result in a fall in States revenues of approximately £4million per annum.

4.6 **In respect of 2010, it is recommended that basic personal income tax allowances are increased by 4.0% compared to 2009. Similar percentage increases will be made to the supplementary allowances.** These increases would result in a further fall in States revenues of approximately £3million per annum.

4.7 Therefore, it is recommended that:

- The personal allowances for 2010 shall be as follows:

Single persons	£9,050
Single entitled to age relief	£10,700
Married persons	£18,100
Married one entitled to age relief	£19,750
Married both entitled to age relief	£21,400

- The supplementary allowances for 2010 shall be as follows:

Dependent relative *	£2,900
Housekeeper *	£2,900
Infirm Persons *	£2,900
Charge of Children	£6,150

* In respect of claims for dependent relatives (other than for children in higher education), housekeepers and infirm persons, as approved as part of the 2008 Budget, no new claims will be admitted for the Year of Charge 2009 or any subsequent year of charge. Existing claims, however, will continue to be allowed, so long as they continue to meet the conditions.

- For 2010 the Wife's Earned Income Allowance shall remain in line with the Single Person's Allowance, i.e. £9,050. It should be noted that the Married Persons' Allowance is reduced by the sum of £1 for every £1 of Wife's Earned Income Allowance.
- For 2010 the income limit of a dependent relative before the Dependent Relative Allowance is reduced be increased from £5,900 to £6,150.

Excise Duty on Tobacco

- 4.8 In March 2008 (Billet d'Etat III) the States directed that increases in the rate of excise duty on tobacco and tobacco products should be "*a minimum of RPI plus 3% annually for the five years 2009 - 2013.*"
- 4.9 There is strong world-wide evidence that the demand for tobacco is price-sensitive, i.e. a 10% rise in overall price will generally result in around a 5% drop in consumption. Furthermore, the continuing real-terms increases in the duty on tobacco are a powerful motivator for smokers to quit and to deter young people from starting smoking.
- 4.10 The Treasury and Resources Department is recommending **an increase in excise duty in respect of tobacco of 8.5%** (being 3.0% plus the increase in the Guernsey Retail Prices Index as at June 2008 of 5.5%) as follows:

Description of Goods	Present Rate of Duty Per Kilogram	Proposed Rate of Duty Per Kilogram
Cigarettes	£168.86	£183.21
Cigars	£156.79	£170.12
Hand rolling tobacco	£146.01	£158.42
Other manufactured tobacco	£126.65	£137.42
Tobacco leaf – unstemmed	£140.58	£152.53
Tobacco leaf – stemmed	£142.00	£154.07

- 4.11 The excise duty on an average packet of 20 cigarettes would increase from £2.48 to £2.69 (compared to £3.14 in Jersey and £3.32 plus VAT in the UK). It is estimated that this proposal will raise approximately an additional £400,000 per annum.
- 4.12 Although it appears that less tobacco is being consumed, the decrease in import volume also indicates that there is an increasing amount of tobacco products that are being consumed in the Island on which no duty has been paid. The Treasury and Resources Department (and the Home Department) will continue to monitor the situation and take any necessary steps to ensure that States Revenues are protected.

Excise Duty on Alcohol

- 4.13 As part of the Bailiwick Alcohol Strategy, as agreed by the States in October 2005, the Treasury and Resources Department is required to take into account the aims and objectives of the Strategy when making recommendations to the States on the rates of duty on alcohol. As part of the 2005 and 2006 Budgets, the rate of duty on alcohol was increased by 10% and, for fiscal reasons, as part of the 2007 and 2008 Budgets the rate of duty on alcohol was increased by 20%.
- 4.14 In view of the above Strategy, and to maintain their real values, **an increase of 5.5% in the duty on alcohol is being recommended.** This measure will increase the duty on a pint of beer by less than 2p, on a bottle (750ml) of wine by 7p and on a litre of spirits by 44p.

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

Description of Goods	Present Rate of Duty Per Litre	Proposed Rate of Duty Per Litre
Beer – small independent brewery	36p	38p
Other beer	56p	59p
Cider – small independent cider-maker	36p	38p
Other cider	56p	59p
Spirits (25% to 50% volume)	£7.97	£8.41
Light wines (5.5% to 15% volume)	£1.70	£1.79

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

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

Excise Duty on Motor Spirit

4.18 The Department believes that there are sound environmental, social and fiscal reasons for increasing the duty on motor spirit. It is therefore recommended that **excise duty on motor spirit is increased by 2p per litre (6.9%) to 31p per litre.** The concessionary rate of duty on petrol for marine use will be 17p per litre. This would raise approximately an additional £700,000 per annum.

4.19 As part of its consideration of this matter, the Department took account of the recent significant falls in oil price. Therefore, it expects that the resulting decrease in the ‘pump-price’ should more than compensate for this small duty increase.

Tax on Real Property (TRP)

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

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

4.22 As part of the 2008 Budget, TRP rates were not increased for Guernsey domestic, horticultural or agricultural buildings and land. In respect of Alderney properties, buildings were charged at the same rate as Guernsey buildings. As agreed by the States in June 2007, Alderney land and Herm building and land are zero-rated for TRP purposes. In respect of commercial, utilities and recreational and sporting buildings and land, rates were increased by 100% apart from for Office and

ancillary accommodation (regulated finance industries) buildings and land and approved development site land which were increased by 400% as they are the main beneficiaries of the Zero-Ten regime.

- 4.23 However, due to the levels of subjectivity applied to property measurements under the TRV system over the years, and the fact that a number of properties did not have up to date measurements, there were a number of properties that, as a result of the introduction of the new TRP tariffs in 2008, faced a greater or lesser level of increase.
- 4.24 **In respect of domestic properties and land (approximately 20,000), it is proposed that rates are increased in line with RPI (5.5%). In respect of commercial, utilities and recreational buildings and land, increases of 5.5% are proposed apart from for Office and ancillary accommodation and approved development site land. An increase of 50% is proposed for regulated finance industries office and ancillary accommodation and approved development site land and an increase of 25% for other office and ancillary accommodation.**
- 4.25 **The Department is also recommending that the TRP rate per unit for glasshouses is reduced from 8p to 5p – the same level as other Horticultural buildings.**

4.26 The following table details the 2008 TRP rate per unit, the proposed change and the proposed 2009 TRP rate per unit.

	2008 TRP rate per unit	Proposed increase / (decrease)	Proposed 2009 TRP rate per unit
<u>Buildings (all zero-rated for Herm)</u>			
Domestic (whole unit) Local Market	54p	5.5%	57p
Domestic (flat) Local Market	54p	5.5%	57p
Domestic (glasshouse) Local Market	8p	(37.5%)	5p
Domestic (outbuildings) Local Market	27p	5.5%	28p
Domestic (whole unit) Open Market	54p	5.5%	57p
Domestic (flat) Open Market	54p	5.5%	57p
Domestic (glasshouse) Open Market	8p	(37.5%)	5p
Domestic (outbuildings) Open Market	27p	5.5%	28p
Domestic (whole unit) Social Housing	Zero	-	Zero
Domestic (flat) Social Housing	Zero	-	Zero
Domestic (glasshouse) Social Housing	Zero	-	Zero
Domestic (outbuildings) Social Housing	Zero	-	Zero
Hostelry and food outlets	£3.40	5.5%	£3.59
Self-catering accommodation	£2.10	5.5%	£2.22
Motor and marine trade	£2.88	5.5%	£3.04
Retail	£6.28	5.5%	£6.63
Warehousing	£3.10	5.5%	£3.27
Industrial and workshop	£2.48	5.5%	£2.62
Recreational and sporting premises	£1.44	5.5%	£1.52
Utilities providers	£24.30	5.5%	£25.64
Office and ancillary accommodation (regulated finance industries)	£15.95	50%	£23.93
Office and ancillary accommodation (other than regulated finance industries)	£6.38	25%	£7.98
Horticulture (building other than a glasshouse)	5p	-	5p
Horticulture (glasshouse)	8p	(37.5%)	5p
Agriculture	5p	-	5p
Publicly owned non-domestic	Zero	-	Zero
Exempt (Buildings)	Zero	-	Zero
Buildings – Penal Rate	Zero	-	Zero

Land (all zero-rated for Alderney and Herm)

Communal (flat) Local Market	9p	5.5%	9p
Communal (flat) Open Market	9p	5.5%	9p
Hostelry and food outlets	18p	5.5%	19p
Self-catering accommodation	18p	5.5%	19p
Motor and marine trade	18p	5.5%	19p
Retail	18p	5.5%	19p
Warehousing	18p	5.5%	19p
Industrial	18p	5.5%	19p
Recreational and sporting premises	18p	5.5%	19p
Office and ancillary accommodation (regulated finance industries)	45p	50%	68p
Office and ancillary accommodation (other than regulated finance industries)	18p	25%	23p
Utilities providers	18p	5.5%	19p
Approved development site	45p	50%	68p
Domestic Local Market	9p	5.5%	9p
Domestic Open Market	9p	5.5%	9p
Horticulture	9p	5.5%	9p
Agriculture	9p	5.5%	9p
Domestic Social Housing	Zero	-	Zero
Publicly owned non-domestic	Zero	-	Zero
Exempt (Land)	Zero	-	Zero
Land – Penal Rate	Zero	-	Zero

- 4.27 These proposals will raise approximately an additional £1.9million per annum.
- 4.28 There has been some concern expressed that different tariffs have been set for different categories of business premises and there is no relationship between the performance of businesses operating from such premises or any other relevant factor. This is a legacy from the TRV system as initial TRP rates were set to raise an equivalent rate from each category as was raised under the TRV system.
- 4.29 Whilst the Treasury and Resources Department is firmly of the view that Tax on Real Property is significantly more transparent, objective, equitable and simpler to administer than the Tax on Rateable Value system, it recognises that there are some shortcomings in the current tariff structure.
- 4.30 However, whilst at current levels TRP is not a major element of business expense, it is recognised that this may become an issue in future years if Tariffs are significantly increased to generate more income. Therefore, the Department will, in consultation with the Commerce and Employment Department, review the appropriateness of the current structure of TRP categories and rates and investigate the desirability and practicality of moving to a more unified structure.

Impact of Indirect Taxation Proposals

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

Implementation of Budget Proposals

4.32 Under its existing powers, the Treasury and Resources Department will make an Order bringing the recommended changes in the rates of excise duty into effect on the date of publication of the Billet d'Etat containing this Report.

4.33 The Order will cease to have effect at the conclusion of the States Budget meeting and the Department accordingly **recommends the States to approve by Ordinance that from that date the rates of excise duty shall be varied as set out in this Report.** These arrangements are the same as in previous years.

SECTION 5: EXPENDITURE PROPOSALS

- 5.1 The objective set out in the Government Business Plan is to contain increases in revenue expenditure to RPI or less. It is anticipated that, during 2009, RPI will fall to 4.0%.
- 5.2 In September 2007 the States agreed to continue with the existing formula for calculating the grants to the Social Insurance Funds which is anticipated to result in an increase which is significantly in excess of RPI.
- 5.3 In reflecting upon that decision, the Treasury and Resources Department concluded that it had no choice but to extend the same treatment (i.e. exclude from the “*contain increases in revenue expenditure to RPI or less*” constraint) to all other areas of Formula Led expenditure.
- 5.4 **Therefore, the Department is recommending that 2009 revenue expenditure Cash Limits are set on the basis of only containing increases in Non Formula Led revenue expenditure to RPI or less.** The total Cash Limit of £328.8million has been calculated as follows:

	£m
2006 Actual Non Formula Led Revenue Expenditure	229.8
Plus 2007 RPI (June 2007 : 4.7%)	<u>10.8</u>
	240.6
Plus 2008 RPI Allowance (June 2008 : 5.5%)	13.2
Plus 2009 RPI Allowance (4.0%)	<u>10.2</u>
2009 Non Formula Led Revenue Cash Limits	264.0
2009 Formula Led estimates	47.4
Routine Capital Expenditure	17.4
2009 Recommended Cash Limits	<u>328.8</u>

5.5 Within their agreed Cash Limits, Departments have to consider very carefully their own priorities. The Treasury and Resources Department does not seek to 'micro-manage' individual Department's budgets as it considers that this is the responsibility of the Departments concerned.

5.6 The recommended Cash Limits for 2009 are:

	Non- Formula Led £'000	Formula Led £'000	Revenue Cash Limit £'000	Routine Capital £'000	Total Cash Limit £'000
Policy Council	5,900	1,325	7,225		7,225
Treasury and Resources					
General	14,850	1,875	16,725	1,200	17,925
Courts and Law Officers	6,450		6,450	200	6,650
States of Alderney	1,570		1,570	200	1,770
Commerce and Employment	11,350		11,350	100	11,450
Culture and Leisure	3,400		3,400	250	3,650
Education					
General	59,750		59,750	1,000	60,750
Higher and Advanced	6,500		6,500		6,500
Grants to Colleges and Libraries	6,375		6,375		6,375
Environment	7,900		7,900	250	8,150
Health and Social Services					
General	95,900		95,900	3,000	98,900
St John Ambulance & Rescue	2,100		2,100		2,100
Home	29,100	300	29,400	1,000	30,400
Housing	1,580		1,580	8,000	9,580
Public Services	8,400		8,400	2,150	10,550
Social Security	2,285	43,900	46,185		46,185
Public Accounts Committee	275		275		275
Scrutiny Committee	200		200		200
States Assembly and Constitution Committee	115		115		115
	<u>264,000</u>	<u>47,400</u>	<u>311,400</u>	<u>17,350</u>	<u>328,750</u>

5.7 Full line-by-line details of the 2009 Budgets of the individual Departments and Committees are included in the (blue) Budget Billet d'Etat accompanying this Report. However, following are brief commentaries on each proposed Cash Limit:

Policy Council

- 5.8 The Non-Formula Led Cash Limit includes £2.54million in respect of the Overseas Aid Commission (2008: £2.305million). This represents an additional £140,000 in real terms which, as agreed by the States in June 2007, increases Guernsey's contribution as a percentage of its national income. The recommended Cash Limit also includes £200,000 for the introduction of Planning Appeals (there is a commensurate reduction in the Environment Department's Cash Limit as part of the fees it collects for planning applications, etc will fund the Appeals) and £150,000 to fund Energy Policy Initiatives.
- 5.9 In recent years, the Policy Council has underspent its Budget and accumulated a significant level of Unspent Balances. However, it is anticipated that these Unspent Balances will be substantially exhausted in 2009 (nearly £1million are budgeted to be used in 2009).

Treasury and Resources Department - General

- 5.10 A number of States Departments have transferred responsibility and budget for the management of properties to the States Property Services section of the Treasury and Resources Department. A recent example is the transfer from the Policy Council of its responsibilities and budget (£800,000) for maintaining and administering Sir Charles Frossard House (includes utilities, maintenance and upkeep and central administrative, reception and communication services).
- 5.11 The 2009 Budget includes the use of the majority of its remaining Unspent Balances (£1.3million) to fund approximately £800,000 of recurring expenditure which has historically been met from Unspent Balances plus the following additional items:
- £100,000 to fund the costs of Guernsey hosting the 2009 regional Commonwealth Parliamentary Association conference.
 - £350,000 of additional Information and Communication Technology costs including measures to improve IT security.
 - £50,000 to fund an Energy Efficiency Officer.

Treasury and Resources Department – Courts and Law Officers

- 5.12 There have been significant necessary additional staff resources allocated to the Courts and Law Officers in recent years. Furthermore, many of the processes have been modernised, particularly in the area of IT, improving the service provided to users and it has been necessary to introduce an increased level of security arrangements. However, these additional costs have been largely offset by a thorough review of the level of charges for the services (non-criminal) provided by the Courts which had not been reviewed for a number of years. The 2008 Budget included a budgeted use of £450,000 of Unspent Balances but, due to delays in staff appointments, this is unlikely to be fully required.

- 5.13 However, there is a requirement for further additional resources in the Law Officers Chambers due to significant increases in workloads. This is partly driven by international developments and pressures which are resulting in new and additional legal obligations being placed upon the Bailiwick. This includes the investigation and prosecution of economic crime which is a relatively new and developing area for Guernsey but is likely to see considerable growth in the future. There are ongoing increases in the civil litigation work of St James' Chambers, in criminal prosecutions and in contract and commercial work.
- 5.14 There also continues to be a significant backlog in legislative drafting which attracts frequent attention and criticism from States Members, the media and general public. The Treasury and Resources Department is supporting the employment of four additional members of staff at the Law Officers' Chambers.
- 5.15 The 2009 Budget for Courts and Law Officers includes the use of £1million of Unspent Balances. This is an ongoing commitment and, as Unspent Balances are anticipated to be exhausted in 2009, a substantial increase in Cash Limit for 2010 onwards will be required.
- 5.16 The 2009 Cash Limit also includes an adjustment of £700,000 in respect of the net operating income that was previously generated from the formation and registration of companies. This function has now transferred to the newly created Company Registry whose annual surplus will be transferred to General Revenue. Therefore, the net effect on States finances is neutral.

Treasury and Resources Department – States of Alderney

- 5.17 The States of Alderney revenue Cash Limit of £1,570,000 is an increase of 4.7% over the 2007 Limit. However, this Cash Limit had been frozen for several years with small increases of 1.6% in 2007 and 3.5% in 2008.
- 5.18 Although the States of Alderney has submitted its 2009 Revenue Budget within the recommended Cash Limit, it has had to use all of its available Unspent Balances (£40,000) in order to do so. In addition, expenditure on refuse collection and disposal has been capped at £500,000, the same level as 2007 and 2008. Any increases in Guernsey tip charges and shipping costs will need to be offset by increased recycling and efficiencies in other areas of the collection and disposal process. However, its financial position should improve in future years once it has implemented an on-island waste disposal solution which should be significantly cheaper than the current arrangement of exporting waste to Guernsey.
- 5.19 The States of Alderney receives an annual allocation for routine capital expenditure of £200,000 but the majority of their capital expenditure is funded by income from Congé and other property transfer duties and surpluses from the Alderney Gambling Control Commission. In addition, the Capital Reserve is contributing £6.0million of the total cost (estimated at £9.5million) of renovating the Alderney Commercial Quay.

Commerce and Employment Department

- 5.20 In 2004, the Commerce and Employment Department stated its aim to annually reduce its Cash Limit by £300,000 for a period of four years. Therefore, the 2008 proposed Cash Limit was £11,200,000 (which specifically included additional funding of £100,000 in respect of the Competitions Office) which was £1.1million less than the 2004 Cash Limit (a real terms reduction of approximately £3million).
- 5.21 The recommended 2009 Cash Limit of £11,350,000 includes partial allowance for RPI only as expenditure in 2007 was £10.4million and the Commerce and Employment Department commenced 2008 with in excess of £3.5million of Unspent Balances.

Culture and Leisure Department

- 5.22 Following the redevelopment of Beau Sejour Centre, the budget of the Culture and Leisure Department was reduced in real terms. Furthermore, following a professional review of energy use at Beau Sejour Centre, a number of energy saving initiatives with short pay-back periods have been introduced (start-up costs were funded from the Restructuring and Reorganisation Fund) resulting in reduced energy bills.

Education Department – General

- 5.23 This recommended Cash Limit for 2009 is a small increase in real terms compared to 2008. The proposed revenue Cash Limit is an increase of £3.5million (6.2%) compared to the 2008 Budget and a 13.3% increase over 2007 actual expenditure.

Education Department – Higher and Advanced Education

- 5.24 This Cash Limit is set at £6.5million, i.e. the same as 2008 and in line with the most recent projections. Any adjustment to the 2009 Cash Limit will be dependent on the number of students, parental contributions and courses studied and would be made retrospectively as part of the November 2009 Budget Report. A similar arrangement had been put in place in respect of 2008 but will not be required as the Cash Limit and Unspent Balances will be sufficient.

Education Department – Grants to Libraries and Colleges

- 5.25 In June 2005 (Billet d’Etat IX), the States approved a new model of funding for the Colleges (Blanchelande College, Elizabeth College and Ladies College) from September 2005. The Treasury and Resources Department was directed to “*take into account these proposals when recommending to the States revenue allocations for 2006 and subsequent years*”. The proposed Cash Limit which largely relates to Colleges funding (£4.57million) is in line with this direction.

Environment Department

5.26 The proposed 2009 revenue Cash Limit for the Environment Department includes a reduction in respect of the anticipated surplus on planning application fees which will be used to fund the Planning Appeals process which is the responsibility of the Policy Council. There has been no adjustment in respect of the introduction of paid parking as the revenue will be used to fund administration and collection costs and the Island's Road Transport Strategy.

Health and Social Services Department - General

5.27 This proposed revenue Cash Limit is £95.9million which is £6.2million (7.0%) more than the 2008 Budget and an increase of £10.9million (12.9%) compared to the 2007 actual expenditure. Overall, the Health and Services Department proposed revenue 2009 Cash Limit represents 36.3% (2008: 36.0%) of the total Non-Formula Led revenue Cash Limits.

5.28 In respect of Out of Island Treatment (previously Out of Island Placements and Reciprocal Health Agreements), this portion of the Health and Social Services Department's Cash Limit is 'ring-fenced' and the 2008 revenue Cash Limit included provision of £11.75million which is the same level as the 2007 budget plus an RPI allowance.

5.29 However, the Health and Social Services Department has advised that 2008 expenditure will be significantly in excess of this provision as the need for unanticipated and expensive treatment can occur without warning and budgeting for these areas is difficult. The most recent estimate is that expenditure will be in the region of £15million; some £3million more than the amount budgeted. **Therefore, it is recommended that the Treasury and Resources Department is given delegated authority to increase the 2008 revenue expenditure budget of the Health and Social Services Department to fund the additional costs of Out of Island Treatment.**

5.30 As part of the Fundamental Spending Reviews, an external review will be undertaken, in consultation with the Health and Social Services Department, to examine, in detail, the appropriateness of the criteria for deciding on off-island referral, how these criteria are applied in practice and whether the most cost-effective options are followed, including whether it would be feasible, in the long term, and represent better value for money for some of the specialist facilities to be provided on-island.

5.31 The review will also recommend the most appropriate long-term funding mechanism for these areas taking into account the conflicting objectives of providing high quality health and social services (both on and off-island) and, at the same time, the need to control public sector expenditure.

5.32 The 2009 budget for Out of Island Treatment is £14.2million. Although this is less than the 2008 Probable Outturn, it is anticipated that costs may reduce following the change in the Reciprocal Health Agreement arrangements and the Health and Social Services Department will realise Unspent Balances in 2008

following a substantial receipt of prior year income from the United Kingdom which could be used to 'top up' this heading. In addition, the Health and Social Services Department is undertaking a number of on-island initiatives that will reduce off-island expenditure.

Health and Social Services Department – St John Ambulance and Rescue Service Grant

5.33 This grant is calculated in accordance with a formula and the proposed Cash Limit is in line with this mechanism and includes provision for the additional costs associated with pay reviews arising from 'Agenda for Change'.

Home Department

5.34 The Department has historically had a high level of Unspent Balances (nearly £3.5million at the beginning of 2008), mainly due to not being able to recruit to full establishment, especially police officers. However, its budget submissions for 2008 and 2009 have both anticipated use of approximately £1.5million of Unspent Balances per annum.

5.35 The 2009 recommended Cash Limit includes specific additional funding for two areas of service development. Firstly, as a formula-led budget heading, £300,000 has been allocated to fund payments awarded under a Criminal Injuries Compensation Scheme.

5.36 Secondly, Financial Crime legislation has been brought into force to ensure that the Bailiwick is compliant with the international anti money laundering standards (as laid down by the the Financial Action Task Force and the International Monetary Fund). The Bailiwick is to be reviewed by the International Monetary Fund in January 2009 which will focus on regulation, compliance and legislation in place as well as the implementation and effect of law enforcement in response to financial crime legislation.

5.37 Therefore, the 2009 recommended Cash Limit for the Home Department includes £600,000 to establish a "civil forfeiture regime" and to develop law enforcement in respect of anti-money laundering and combating the funding of terrorism. This will fund ten additional members of staff including a Financial Crime and Fraud Prosecution Lawyer. This measure is in accordance with level two of priority seven of the Government Business Plan – *"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"*.

Housing Department

5.38 The Housing Department has, for a number of years, used its Unspent Balances to fund ongoing expenditure and these are anticipated to be exhausted in 2009. However, the introduction of fees for housing control services in 2009 will result in an income stream that will fund this shortfall together with the costs of an improved housing control service. The net surplus following the introduction of fees for housing control services is anticipated to be £300,000 per annum and the recommended Cash Limit has been reduced by this amount.

Public Services Department

- 5.39 As in previous years, some of the revenue stream from the increased waste disposal charges will be used by the Public Services Department to fund interim waste processing facilities and services to support the recycling initiatives which were agreed by the States in February 2007.
- 5.40 The Public Services Department is planning to use £1million of Unspent Balances in 2009 including £500,000 to expand the roads resurfacing and reconstruction programme and £100,000 to fund the anticipated increase in the Alderney Airport deficit. The capital allowance includes £1million specifically to continue the Network Extension Plan.

Social Security Department

- 5.41 The large majority of this Cash Limit relates to Formula Led Services (Grants to Social Insurance and Health Service Funds, supplementary benefit, family allowance, etc) where expenditure is anticipated to increase by in excess of RPI. The Non Formula Led budget includes provision for increased grants to some charities.

Public Accounts Committee

- 5.42 The proposed Cash Limit is the same as the 2008 Cash Limit but the Public Accounts Committee is anticipating commencing 2009 with approximately £97,000 of Unspent Balances.

Scrutiny Committee

- 5.43 The proposed Cash Limit is the same as the 2008 Cash Limit but the Scrutiny Committee is anticipating commencing 2009 with approximately £211,000 of Unspent Balances.

States Assembly and Constitution Committee

- 5.44 Following the appointment of a dedicated staff member, this Committee now has a separate budget. In addition to the administrative costs, this Committee's main expenditure relates to the election of States Members.

SECTION 6: EXPENDITURE OUTLOOK

- 6.1 In the 2008 Budget Report, the Treasury & Resources Department announced plans for Fundamental Spending Reviews to be commenced during 2008.
- 6.2 **The Department is of the view that if these Reviews are undertaken effectively and adopted by all Departments as a ‘corporate’ tool, this will result in more efficient and effective Spending Plans that focus on the States’ and hence Departments’ priorities.** The key objectives of the Reviews are to ensure that:
- Departments’ spending plans provide for the most efficient and effective delivery of essential services.
 - Departments’ services (including corporate services and initiatives) are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan.
 - Departments are only engaged in delivering essential services and those services that cannot or should not be provided by the private sector.
- 6.3 In March 2008, the Treasury and Resources Department approved the appointment of Sector Projects to develop a framework for the Fundamental Spending Reviews who undertook a large amount of consultation with States Members and senior staff in preparing the framework.
- 6.4 This Framework has been used as the basis for tendering a separate contract for the delivery of the Fundamental Spending Reviews. The appointment will be made in early November 2008, with the reviews planned to start during December with the results informing the preparation of the 2010 Budget.
- 6.5 All aspects of States expenditure will, in time, be subject to scrutiny as part of the Reviews. They will also look at sources of operational income for States Departments; considering means of generating greater income from existing or new sources, and ensuring current income collection is maximised.
- 6.6 It is intended that a Service Review Group will be established, which would offer support and challenge to the process, seeking to ensure that the Reviews contain the rigor necessary so that the appropriate level of resource is established for the future. They also need to be satisfied that alternative mechanisms for delivery have been assessed.
- 6.7 Difficult decisions will have to be made by the States to realise the efficiency savings that are required to help create the financial headroom to fund the new priorities and essential services.

- 6.8 The involvement of private sector providers to deliver States services, ceasing or reducing current offerings or reallocating budgets from one line of provision to another may not be particularly appealing or politically popular. However the elimination of waste, avoidance of duplication and identification of cashable savings that will fund future and more pressing priorities provides a counter balance to what is a strong argument.
- 6.9 A key priority for the early stages of the Fundamental Spending Reviews will be to analyse and ‘rebase’ each Department’s Cash Limit; an exercise that has not been carried out for many years and is vital to ensure that Cash Limits are set at the correct levels and that any budget ‘slack’ is eliminated.
- 6.10 This exercise will also examine the level of Unspent Balances that are held by Departments and formulate a policy for their future retention and use. The Treasury and Resources Department is of the view that the States Financial Procedures should be changed so that savings on pay budgets are returned to General Revenue instead of being retained by Departments as Unspent Balances.
- 6.11 For a number of years, Departments have been able to ‘top up’ their Cash Limits by using Unspent Balances to fund non-recurring items. During times of buoyant States income and annual Cash Limit increases of significantly in excess of RPI, this was an acceptable method of funding States expenditure, particularly as difficulties in the recruitment and retention of staff led to large budget underspends and delays in progressing projects.
- 6.12 However, following several years of restraint in public sector expenditure growth resulting in increased budgetary pressures, Unspent Balances are increasingly being used to fund ongoing revenue commitments including staff. This is not a sustainable position and it is estimated that approximately £6million of the £10million budgeted use of Unspent Balances in 2009 relates to ongoing expenditure. This will be addressed as part of the Fundamental Spending Reviews.
- 6.13 Furthermore, additional expenditure commitments are likely to include increased employer contributions to the Superannuation Fund (£7million), any increase in Social Security Fund contributions (employers and States Grants) and funding strategies and initiatives that have been approved by the States but no funding source as yet identified.
- 6.14 **This real increase in expenditure could total in excess of £15million which, unless real terms growth in income receipts exceeds the Government Business Plan target of 3% would result in a requirement to transfer £35-£40million from the Contingency Reserve to ‘balance the budget’.**
- 6.15 The Treasury and Resources Department has, on a number of occasions, been concerned about the limited amount of detail concerning resource implications included in States Reports. It is intending to request that all Departments and Committees that are compiling States Reports discuss their proposals with the

Treasury and Resources Department at an early stage, in order that the effect on the overall financial position and resource implications can be assessed and sufficient detail included in the States Report so that a fully informed decision can be made.

SECTION 7: OTHER MATTERS

Operations of the States Treasury

- 7.1 The following loans, with interest payable at the States Treasury rate have been made as at 30 September 2008:
- Commerce and Employment Department – Guernsey Dairy: £NIL (30.04.08: £89,000) of a £150,000 overdraft facility.
 - Health and Social Services Department Accommodation Fund: £2.8million (30.04.08: £2.8million).
 - Health and Social Services Department MRI Scanner Fund: £0.7million (30.04.08: £0.8million)
 - Public Services Department Energy from Waste: £NIL (30.04.08: £0.6million).
- 7.2 It is emphasised that, as a general principle, loan arrangements are only entered into where there is an income stream which can be used to support the repayment of the loan and associated interest charges.
- 7.3 The interest and capital associated with the loan for the Energy from Waste Plant is, as originally envisaged, being repaid out of increased waste disposal charges. As part of the package of waste handling measures, part of the additional revenue stream arising from the increased waste disposal charges is allocated to the Public Services Department to fund interim waste processing facilities and services to support the recycling initiatives which were agreed by the States in February 2007. It is anticipated that £230,000 will be used in 2008 and £350,000 in 2009.

Dwellings Profits Tax

- 7.4 The Treasury and Resources Department will, in the early part of 2009, submit a States Report recommending that the Dwellings Profits Tax (Guernsey) Law, 1975 is suspended. The Department considers that, in its present form, the Dwellings Profits Tax Law is not effective, either in terms of achieving its objective (as an anti-property speculation measure) or in administrative costs (for both the Income Tax Office and advocates' offices).
- 7.5 The income from Dwellings Profits Tax is not significant – in the fourteen years, 1994 to 2007 inclusive, the total amount of tax collected has been £58,843, with seven of these years generating no tax at all.

Document Duty Review

- 7.6 As set out in the 2008 Budget Report, the Treasury and Resources Department intends to undertake a fundamental review of the present Document Duty Law and Ordinances including examination of the following areas:
- The current thresholds and rates of Document Duty on conveyances and the rate of Document Duty on registration of bonds.
 - The relative merits of taxing property ownership by Document Duty (payable when property is sold or secured loans are taken out) as against Tax on Real Property (payable every year by all property owners) and whether the relative levels of each of these taxes should be adjusted.
 - The possibility of levying a charge on the transfer of beneficial ownership of real property by share transfer.
- 7.7 A working group, which is chaired by HM Procureur and includes representatives from the Guernsey Bar, is currently reviewing the existing Law.
- 7.8 The current Document Duty regime includes that a property conveyed within a year and a day of its purchase attracts relief from the 'congé element' (2%) of Document Duty (up to 3%) on the original transaction. There does not appear to be any reason for retention of this relief, especially if Dwellings Profits Tax is suspended. Therefore, it is recommended that an Ordinance is approved to remove this relief, coming into force on 1 January 2010 (thereby not affecting any properties that are sold in 2009). There are very few property transactions that benefit from this relief so the additional revenue raised would not be significant.

Income Tax Initiatives

- 7.9 In the 2008 Budget Report, it was announced that the Department would be investigating the feasibility of introducing income tax relief on non-covenanted donations over a certain minimum sum made to registered Guernsey charities.
- 7.10 The Income Tax Office is currently consulting with the Association of Guernsey Charities to investigate whether a practical scheme could be introduced which, whilst encouraging charitable giving, would not create an administrative burden for either the charities or the Income Tax Office.
- 7.11 In respect of initiatives to increase the economically active population, the Treasury and Resources Department has undertaken some preliminary analysis of a number of suggested measures and concluded that further research and investigation, including consultation with other States Departments – particularly the Commerce and Employment and Education Departments - is necessary before any proposals are formulated.

- 7.12 The 2008 Budget Report included *“The Treasury and Resources Department is investigating proposals for incentivising private pension savings through income tax relief on modest sums paid into a designated bank account to build a capital sum to be used for purchasing a personal pension. It is intended that this facility would be made available to those taxpayers who do not have sufficient income to access a regular contribution personal pension scheme”*. Consultation is currently being undertaken to determine whether such a scheme is attainable and meritorious.
- 7.13 In early 2009, the Treasury and Resources Department intends to submit a States Report which, inter alia, will include the following recommendations:
- The suspension of the Dwellings Profits Tax Law.
 - Exempting Premium Bond prizes from income tax.
 - Exempting the income derived from micro-generation of electricity from income tax.
 - A number of changes which arise from experience of the Zero-Ten regime so far, in order to address anomalies.

Shareholding in States Trading Companies

- 7.14 The Treasury and Resources Department acts as sole shareholder, on behalf of the States of Guernsey, for Guernsey Electricity Ltd, Guernsey Post Ltd and the Cabernet Group (comprising Aurigny Air Services Ltd and Anglo-Normandy Aero Engineering Ltd). As defined in the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 the States may give guidance to the Department in its role as shareholder, but only of a general nature, on the policies they wish the Department to pursue in exercising its functions under the Ordinance.
- 7.15 The Treasury and Resources Department has only limited guidance from the States when carrying out this role for Guernsey Electricity Ltd and Guernsey Post Ltd and no such guidance exists for the Cabernet Group. Therefore, the Department commissioned an independent review of how it currently undertakes its role as sole shareholder, including how this role can be clarified, detailing its corporate governance role and proposals on how this could be carried out. The Department has subsequently developed Memoranda of Understanding with each of the three companies detailing the expectations for the relationship on both sides and the required flow of information.
- 7.16 A States Report will be submitted during the early part of 2009 to consider minor changes to the guidance in respect of Guernsey Electricity Ltd and Guernsey Post Ltd and to introduce guidance in respect of the Cabernet Group.

Aurigny Group

- 7.17 In June 2005, the States agreed the Treasury and Resources Department's recommendations that "*the retention of the Aurigny Group is in the overwhelming public interest, and represents the best strategic option for the Island at the present time.*" and the Treasury and Resources Department was authorised to "*facilitate (if necessary by providing guarantees) the Aurigny Group's borrowing from third parties*". The Department was very pleased to report, in the 2008 Interim Financial Report that the overall Group achieved a 2007 profit of £240,000 (2006: £255,000).
- 7.18 In July 2005 Cabernet Limited (the holding company of Aurigny and Anglo-Normandy Engineering) obtained a loan facility from a local financial institution at normal commercial terms and rates. The Treasury and Resources Department, acting on behalf of the States in accordance with the above Resolution, is the guarantor of that facility up to £4.2million. As at 30 September 2008, the amount borrowed under that facility was £4.2million (30.04.08: £4.2m).
- 7.19 Appendix VII sets out the most recent (unaudited) financial results of the Cabernet Group. Due to adverse trading conditions including record fuel prices and an unexpectedly high and costly aircraft maintenance schedule, it is anticipated that the Group will record a significant loss in 2008. Therefore, in order to continue trading, the Group has entered into a short-term borrowing arrangement with Royal Bank of Scotland International of up to £1.75million until 31 March 2009, guaranteed by the Treasury and Resources Department. As previously committed, the Treasury and Resources Department referred this additional borrowing requirement to the Policy Council who unanimously supported the Department's actions. As at 30 September 2008, the amount borrowed under that facility was £750,000.
- 7.20 Whilst it is naturally disappointed that such a step has been necessary, the Department is cognisant of the difficult economic and trading conditions that the Group is facing. However, the Group Directors are predicting that the financial position will improve following the arrival of the two new ATR72-500 aircraft in early 2009 as they will result in increased capacity and lower maintenance costs. **The Treasury and Resources Department is recommending that the States notes its necessary actions in guaranteeing the Group's short-term borrowing facility with Royal Bank of Scotland International.**
- 7.21 The future funding arrangements (recapitalisation, refinancing, etc.) of the Cabernet Group will be considered as part of the Treasury and Resources Department's Report to the States on 'capital prioritisation' which it is intended to submit for consideration at the March 2009 States Meeting.

7.22 Any decision to recapitalise the Cabernet Group would, of course, impact on the availability of funding for other States capital projects. Therefore, the Directors of Cabernet Limited will be commissioning a wide-ranging independent review which will lead to the preparation of a comprehensive business case. This, in turn, would provide the essential underpinning of any recommendation made by the Department to the States to refinance the Group. The proposed review will encompass the following:

- Five Year Business plan interrogation and risk / sensitivity analysis
- Detailed review of profitability and cash-flow forecasts
- Analysis of contribution for each route (and any measure that could increase income or decrease costs)
- Risk profile of each route (including price-elasticity)
- Recommended future funding model (including requirement for recapitalisation or refinancing)
- Whether (and how) the value of the Gatwick runway slots could be included on the Balance Sheet
- Efficiency and effectiveness of the utilisation of aircraft and other assets.

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

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

Use of Delegated Authority

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

7.26 The Department is required to report on the use of delegated powers to the States twice a year (Appendix VIII).

7.27 The Treasury and Resources Department has delegated authority to approve the following:

- An increase in an individual Department's revenue expenditure budget by the greater of £250,000 or 2% in any one financial period.
- Capital votes for straightforward replacements.
- Capital overspends up to £250,000.
- Property purchases and sales.

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

7.29 In addition, as approved as part of the 2008 Budget Report, with effect from 1 January 2008, all States Departments have delegated authority to "*approve capital votes up to £250,000*".

7.30 The Department also has the delegated authority to allow Departments to borrow temporarily by way of overdraft from banks or from the States Treasury and to make loans or grants to registered charities and similar organisations.

APPENDIX I

MOVEMENTS ON THE CAPITAL RESERVE

	£m	£m
Balance 1 January 2008		14.4
2008 Budget Appropriation		20.5
2008 Withdrawals		
Alderney Commercial Quay – additional	(2.0)	
Clinical Block 2 nd Tranche	<u>(17.1)</u>	
		(19.1)
Anticipated 2008 Withdrawal		
Belle Greve Wastewater Disposal 2 nd Tranche		(3.0)
November 2008 appropriation		26.4
2008 Interest		3.2
Anticipated Balance at 31 December 2008		<u>42.4</u>
2009 Budget appropriation		20.0
Anticipated sale proceeds from Nelson Place		3.3
2009 Interest – up to 31 March 2009		1.0
		<u>66.7</u>
Anticipated amount available for capital prioritisation		66.7

APPENDIX II

MOVEMENTS ON THE GENERAL REVENUE ACCOUNT RESERVE

	Total £m	Unspent Balances £m	Net Reserve £m
Balance at 1 January 2008	55.3	23.2	32.1
Add: Anticipated Revenue Surplus	30.4		30.4
Add: Capital Income	4.9		4.9
Add: Transfer from Housing Development and Loan Fund	10.0		10.0
Less: 'Routine' Capital Expenditure	(16.5)		(16.5)
Less: Appropriations	(35.9)		(35.9)
	<hr/>	<hr/>	<hr/>
Anticipated Balance at 31 December 2008	48.2	23.2	25.0
	<hr/>	<hr/>	<hr/>
Add: Anticipated Revenue Surplus	(1.0)	(10.0)	9.0
Add: Capital Income	3.3		3.3
Add: Transfer from Contingency Fund	8.0		8.0
Less: 'Routine' Capital Expenditure	(17.4)		(17.4)
Less: Appropriations	(23.3)		(23.3)
	<hr/>	<hr/>	<hr/>
Anticipated Balance at 31 December 2009	17.8	13.2	4.6
	<hr/>	<hr/>	<hr/>

2008 Appropriations:

Capital Reserve: £34.9m
Strategic Property Purchase Fund: £1.0m

2009 Appropriations

Capital Reserve: £23.3m

APPENDIX III**FORMULA LED EXPENDITURE**

	Estimate 2009 £'000	Estimate 2008 £'000	Actual 2007 £'000
Legal Aid Scheme	1,325	1,250	1,516
Payments to States Members *	1,875	1,850	1,819
Criminal Injuries Compensation Scheme	300	-	-
Social Insurance Grant	12,900	12,020	23,473
Health Service Grant	4,150	3,830	7,301
Supplementary Benefit	14,800	14,150	13,008
Family Allowance	9,000	8,620	8,233
Attendance and Invalid Care Allowance	2,525	2,345	2,193
Concessionary TV Licences	525	510	464
TOTALS	47,400	44,575	58,007

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

APPENDIX IV

SUMMARY OF RECENT BUDGET PROPOSALS - INDIRECT TAXATION

Duty on Tobacco

2008	7.7% increase	(RPI plus 3%)
2007	6.5% increase	(RPI plus 3%)
2006	6.8% increase	(RPI plus 3%)
2005	8.2% increase	(RPI plus 3%)
2004	6.3% increase	(RPI plus 3%)

Duty on Alcohol

2008	20% increase
2007	20% increase
2006	10% increase
2005	10% increase
2004	No change

Duty on Fuel

2008	7.4% increase
2007	91.1% increase
2006	No change
2005	No change
2004	No change

Document Duty

2008	No change
2007	No change
2006	No change
2005	No change
2004	No change

Tax on Rateable Value / Tax on Real Property

2008	100% increase – commercial, utilities and recreational and sporting buildings and land 400% increase – office and ancillary accommodation (regulated finance industries) buildings and land and approved development site land
2007	25% increase - Domestic 100% increase - Commercial
2006	No change
2005	No change
2004	No change

APPENDIX V

SUMMARY OF 2009 BUDGET PROPOSALS – INDIRECT TAXATION

	Revenue Raised	Impact on Individuals	Impact on RPI
Motor Spirit Duty increased by 2p per litre	£0.7m	Average motorist less than 50p per week more	0.05%
Tobacco Duty increased by RPI plus 3%	£0.4m	20 cigarettes increase by 21p	0.07%
Alcohol Duty increased by 5.5%	£0.5m	Pint of beer up by less than 2p, bottle of wine (750ml) up by 7p, litre of spirits up by 44p	0.02%
TRP increased by 5.5% on domestic and commercial, 25% on office and ancillary accommodation (other than regulated finance industries) and 50% on office and ancillary accommodation (regulated finance industries)	£1.9m	Less than £5 per annum for an average sized domestic property	0.01%

APPENDIX VI

GENERAL REVENUE PAYROLL COSTS

	2009 Estimate £'000	2008 Estimate £'000	2007 Actual £'000	2006 Actual £'000	2005 Actual £'000
Policy Council	2,676	2,561	2,079	2,192	2,127
Treasury and Resources	9,480	9,170	7,731	7,925	8,112
Commerce and Employment	3,876	3,740	3,213	3,145	3,512
Culture and Leisure	4,638	4,372	4,154	3,914	3,932
Education	47,210	45,045	42,822	41,257	39,396
Environment	4,131	3,584	3,135	3,067	3,273
Health and Social Services	65,054	60,324	56,723	54,960	52,939
Home	24,052	22,315	20,641	19,248	18,785
Housing	2,585	2,325	2,115	2,040	1,996
Public Services	2,616	2,446	2,407	2,245	2,011
Social Security	1,283	1,284	1,223	1,025	972
Public Accounts Committee	161	145	77	97	77
Scrutiny Committee	192	187	163	162	110
States Assembly and Constitution Committee	80	89	-	-	-
Legal Services	6,820	6,218	5,476	4,834	4,333
TOTALS	174,854	163,805	151,959	146,111	141,575
% Increase (Cash Terms)	6.7%	7.8%	4.0%	3.2%	7.7%
% Increase / (Decrease) (Real Terms)	2.7%	2.3%	(0.9%)	(1.2%)	4.4%

APPENDIX VII

AURIGNY & ANGLO NORMANDY: TRADING POSITION (TO AUGUST 2008)

Aurigny Air Services Limited

	Year to Date Actual 2008 £'000	Year to Date Budget 2008 £'000	Full Year Actual 2007 £'000
Revenue	16,362	16,609	24,940
Direct Costs	<u>(10,874)</u>	<u>(10,529)</u>	<u>(19,169)</u>
Operating Result	5,488	6,080	5,771
Overheads	(6,397)	(6,520)	(5,033)
Other Operating Income	<u>51</u>	<u>53</u>	<u>79</u>
Operating Profit / (Loss)	(858)	(387)	817
Net Interest Payable	(150)	(119)	(181)
Exceptional costs	-	-	(447)
Profit / (Loss)	<u>(1,008)</u>	<u>(506)</u>	<u>189</u>

Anglo Normandy Aero Engineering Limited

	Year to Date Actual 2008 £'000	Year to Date Budget 2008 £'000	Full Year Actual 2007 £'000
Revenue	4,912	3,595	6,068
Direct Costs	<u>(4,187)</u>	<u>(2,963)</u>	<u>(4,813)</u>
Operating Result	725	632	1,255
Overheads	(610)	(592)	(1,202)
Operating Profit	<u>115</u>	<u>40</u>	<u>53</u>
Net Interest Payable	-	-	(2)
Profit	<u>115</u>	<u>40</u>	<u>51</u>

APPENDIX VIII

USE OF DELEGATED FINANCIAL AUTHORITY

The States Financial Procedures require the Treasury and Resources Department to report periodically on the use of delegated financial authority. The Department last reported to the States on these matters as part of the 2008 Interim Financial Report, since that time:

No increases in 2008 revenue budgets have been approved.

The following capital projects have been approved:

	£
Treasury and Resources Department	
Town seafront lighting replacement phase II	75,000
Royal Court / Law Officers IT equipment replacement	44,000
Law Officers network cabling replacement	25,000
Royal Court public seating	15,000
Candie Gardens public conveniences demolition	15,000
States of Alderney	
Hooklift vehicle replacement	50,000
Le Banquage / Fort Doyle sewer replacement	40,000
Sheltered Housing / Residential Home Care consultants	37,000
Works Department vehicle replacement	11,000
Commerce and Employment Department	
Leopardess refit – additional	15,135
Culture and Leisure Department	
Beau Sejour Centre bar refurbishment	32,000
Beau Sejour Centre theatre disabled access	21,000
Beau Sejour van replacement	11,000
Education Department	
EDP St Sampsons School alterations	244,000
Castel School heating system replacement	220,000
Amherst School heating system replacement	180,000
EDP La Mare de Carteret temporary accommodation	172,000
Minibus replacements	101,000
Grammar School fire detection system upgrade	20,000
College of Further Education fire detection system upgrade	10,000

Environment Department	
L'Eree seawall repairs	250,000
New buses	250,000
Baubigny traffic calming measures	214,000
Bus ticket machines	120,000
Candie Gardens upper greenhouse repairs	70,000
IT servers replacement	20,000
Health and Social Services Department	
Hospital and other equipment additional / replacement	1,055,500
Victoria Wing wet rooms	86,000
Accident and Emergency monitoring system	77,000
Medical Records alterations	50,000
IT upgrades	42,020
St Julian's House upgrade	40,000
Les Alouettes minor works (additional)	7,500
Home Department	
Alderney Police Station refurbishment	495,000
Scene of Crimes Office relocation	230,000
Fire water carrier replacement	150,000
Customs car hall roof replacement	123,000
IT equipment replacement	100,000
Police vehicles replacement	52,000
Customs equipment replacement	40,000
Customs ionscan machine replacement	25,000
Public Services Department	
Sewage tankers replacement	245,250
Cesspit emptying software	146,000
Emergency pumps	139,000
Alderney Airport hangar reroofing	115,000
IRIS system modifications	14,000
Eurobins replacement	10,000
Ports	
Guernsey Airport	
Fire appliances replacement	1,050,000
St Peter Port Harbour	
Queen Elizabeth II Marina dredging	120,000
TOTAL	6,674,405

The following property purchases and sales have been approved:

	£
<u>Purchases</u>	
Education Department	
Area of land next to Amherst School	1,000
<u>Sales</u>	
Treasury and Resources Department	
Belvedere House	5,000,000
Fontaine Vinery substation site	53,560
Housing Department	
Victoria Avenue – area of land (To Guernsey Housing Association LBG)	1
<u>Wayleave</u>	
Land at Les Sages, St Pierre du Bois	2,000

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2008

THE STATES, in pursuance of their Resolution of 26th November 2008 and in exercise of the powers conferred on them by sections 23B(3) and 23C(3) of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972 as amended^a, hereby order:-

Increase in excise duties

1. In the Fourth Schedule to the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972, as amended, for the tables in paragraphs 1 to 6 under “GOODS LIABLE TO EXCISE DUTY; & RATES OF EXCISE DUTY” substitute the following:

"1. Tobacco and tobacco products

- | | |
|-------------------------------|------------------|
| a. Cigarettes | £183.21 per kilo |
| b. Cigars | £170.12 per kilo |
| c. Hand rolling tobacco | £158.42 per kilo |
| d. Other manufactured tobacco | £137.42 per kilo |
| e. Tobacco leaf – unstemmed | £152.53 per kilo |
| f. Tobacco leaf – stemmed | £154.07 per kilo |

2. Petrol and Gas oil –

- | | |
|--|---|
| a. Petrol other than any fuel used for the purpose of air navigation (and subject to b.) | 31p per litre |
| b. Petrol used for the purpose of marine navigation | 17p per litre where supplied by an approved trader except where supplied to an approved trader in which case 31p per litre ^b |
| c. Gas oil | 31p per litre |

3. Beer

- | | |
|--|---------------|
| a. Beer brewed by an independent small brewery | 38p per litre |
| b. Other beer | 59p per litre |

^a Ordres en Conseil Vol. XXIII, p.573; Vol. XXIV, p.87; No XIII of 1991; No.X of 2004; Ordinance Nos. XXXV and XLVIII of 2007.

^b The circumstances in which the different rates may apply shall be specified by the Board by Order.

4. Spirits
 - a. Spirits not exceeding 5.5 per cent volume 44p per litre
 - b. Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume £6.33 per litre
 - c. Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume £8.41 per litre
 - d. Spirits exceeding 50.0 per cent volume In the extra proportion to 50.0 per cent volume

5. Cider
 - a. Cider produced by an independent small cider-maker 38p per litre
 - b. Other cider 59p per litre

6. Wines
 - a. Light wines not exceeding 5.5 per cent volume 44p per litre
 - b. Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines) £1.79 per litre
 - c. Other wines £2.86 per litre”.

Extent

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

Repeal

3. Section 1 of the Excise Duties (Budget) Ordinance, 2007^c and section 1(d) of the Customs and Excise (General Provisions) (Amendment) Ordinance, 2007^d are repealed.

Citation

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2008.

Commencement

5. This Ordinance shall come into force on 26th November 2008.

^c Ordinance No.XXXV of 2007.

^d Ordinance No.XLVIII of 2007.

Draft Ordinance Entitled

The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2008

THE STATES, in exercise of the powers conferred upon them by sections 1 and 2 of the Taxation of Real Property (Enabling Provisions) (Guernsey and Alderney) Law, 2005^a and the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007^b, and in pursuance of their Resolution of 26th November 2008, hereby order:-

Rates of Property Tax

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

Repeal

2. The Taxation of Real Property (Guernsey and Alderney) (Amendment) Ordinance, 2007^d is repealed.

Extent.

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

Citation and Commencement

4. This Ordinance may be cited as the Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2008 and shall come into force on 1st January 2009.

^a Order in Council No. X of 2006.

^b Ordinance No. XXXIII of 2007.

^c Ordinance No. XXXIII of 2007; No. X of 2008.

^d Ordinance No. X of 2008.

SCHEDULE

RATES OF PROPERTY TAX

TABLE (A)

GUERNSEY REAL PROPERTY

GUERNSEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff Reference	4 Tariff
B1.1	Domestic (whole unit) Local Market	C	57p
B1.2	Domestic (flat) Local Market	C	57p
B1.3	Domestic (glasshouse) Local Market	C	5p
B1.4	Domestic (outbuildings) Local Market	C	28p
B2.1	Domestic (whole unit) Open Market	D	57p
B2.2	Domestic (flat) Open Market	D	57p
B2.3	Domestic (glasshouse) Open Market	D	5p
B2.4	Domestic (outbuildings) Open Market	D	28p
B3.1	Domestic (whole unit) Social Housing	F	Zero
B3.2	Domestic (flat) Social Housing	F	Zero
B3.3	Domestic (glasshouse) Social Housing	F	Zero
B3.4	Domestic (outbuildings) Social Housing	F	Zero
B4.1	Hostelry and food outlets	H	£3.59
B4.2	Self-catering accommodation	H	£2.22
B4.3	Motor and marine trade	E	£3.04
B4.4	Retail	E	£6.63
B4.5	Warehousing	E	£3.27
B4.6	Industrial and workshop	E	£2.62
B4.7	Recreational and sporting premises	E	£1.52
B5.1	Utilities providers	H	£25.64
B6.1	Office and ancillary accommodation (regulated finance industries)	E	£23.93
B6.2	Office and ancillary accommodation (other than regulated finance industries)	E	£7.98
B7.1	Horticulture (building other than a glasshouse)	C	5p
B8.1	Horticulture (glasshouse)	A	5p
B9.1	Agriculture	C	5p
B10.1	Publicly owned non-domestic	F	Zero
B11.1	Exempt (Buildings)	F	Zero
B12.1	Buildings – Penal Rate	G	Zero

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff Reference	4 Tariff
L1.1	Communal (flat) Local Market	E	9p
L1.2	Communal (flat) Open Market	E	9p
L1.3	Hostelry and food outlets	E	19p
L1.4	Self-catering accommodation	E	19p
L1.5	Motor and marine trade	E	19p
L1.6	Retail	E	19p
L1.7	Warehousing	E	19p
L1.8	Industrial	E	19p
L1.9	Recreational and sporting premises	E	19p
L1.10	Office and ancillary accommodation (regulated finance industries)	E	68p
L1.11	Office and ancillary accommodation (other than regulated finance industries)	E	23p
L1.12	Utilities providers	E	19p
L2.1	Approved development site	E	68p
L3.1	Domestic Local Market	A	9p
L3.2	Domestic Open Market	A	9p
L3.3	Horticulture	A	9p
L3.4	Agriculture	A	9p
L3.5	Domestic Social Housing	F	Zero
L3.6	Publicly owned non-domestic	F	Zero
L4.1	Exempt (Land)	F	Zero
L5.1	Land – Penal Rate	G	Zero

TABLE (B)**ALDERNEY REAL PROPERTY****ALDERNEY BUILDINGS**

1 Property Reference	2 Property Description/Usage	3 Tariff Reference	4 Tariff
B1.1A	Domestic (whole unit)	C	57p
B1.2A	Domestic (flat)	C	57p
B1.3A	Domestic (glasshouse)	C	5p
B1.4A	Domestic (outbuildings)	C	28p
B2.1A	Domestic (whole unit) Social Housing	F	Zero
B2.2A	Domestic (flat) Social Housing	F	Zero
B2.3A	Domestic (glasshouse) Social Housing	F	Zero
B2.4A	Domestic (outbuildings) Social Housing	F	Zero
B3.1A	Hostelry and food outlets	H	£3.59
B3.2A	Self-catering accommodation	H	£2.22
B3.3A	Motor and marine trade	E	£3.04
B3.4A	Retail	E	£6.63
B3.5A	Warehousing	E	£3.27
B3.6A	Industrial and workshop	E	£2.62
B3.7A	Recreational and sporting premises	E	£1.52
B4.1A	Utilities providers	H	£25.64
B5.1A	Office and ancillary accommodation (regulated finance industries)	E	£23.93
B5.2A	Office and ancillary accommodation (other than regulated finance industries)	E	£7.98
B6.1A	Horticulture (building other than a glasshouse)	C	5p
B7.1A	Horticulture (glasshouse)	A	5p
B8.1A	Agriculture	C	5p
B9.1A	Publicly owned non-domestic	F	Zero
B10.1A	Exempt (Buildings)	F	Zero
B11.1A	Buildings – Penal Rate	G	Zero

ALDERNEY LAND

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

TABLE (C)**HERM REAL PROPERTY****HERM BUILDINGS**

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

HERM LAND

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

The Document Duty (Amendment) Ordinance, 2008

THE STATES, in exercise of the powers conferred upon them by sections 1 and 6 of the Document Duty (Guernsey) Law, 1973, as amended^a, and in pursuance of their Resolution of 26th November 2008, hereby order:-

Conveyances within one year and one day.

1. In the Document Duty Ordinance, 2003^b:
 - (a) section 3(3),
 - (b) the words “or is subject to reduced document duty by virtue of any of subsections (1) to (3) of this section” in section 3(4); and
 - (c) section 6(1),are repealed.

Extent.

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

Citation and Commencement.

3. This Ordinance may be cited as the Document Duty (Amendment) Ordinance, 2008 and shall come into force on 1st January, 2010.

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

^b Recueil d’Ordonnances Tome XXIX, pp. 284 and 406; Ordinance No. XVIII of 2006; No. XXXVII of 2007.

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To immediately transfer the sum of £26,442,805 to the Capital Reserve.
2. To transfer the sum of £20,000,000 to the Capital Reserve on 1 January 2009.
3. To agree that the net proceeds of the sale of Nelson Place will be transferred to the Capital Reserve.
4. To transfer the sum of £8,000,000 from the Contingency Reserve Fund on 1 January 2009.
5. To approve the cash limits for ordinary revenue and capital expenditure for 2009 for individual Departments and Committees totalling £328,750,000 as set out in paragraph 5.6 of this Report.
6. To authorise the Treasury and Resources Department to increase the 2008 revenue expenditure budget of the Health and Social Services Department to fund the additional costs of Out of Island Treatment.
7. To note that the Treasury and Resources Department has guaranteed the Aurigny Group's borrowing facility of £1.75million with the Royal Bank of Scotland International.
8. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

Cigarettes	£183.21 per kilogram
Cigars	£170.12 per kilogram
Hand rolling tobacco	£158.42 per kilogram
Other manufactured tobacco	£137.42 per kilogram
Tobacco leaf – unstemmed	£152.53 per kilogram
Tobacco leaf - stemmed	£154.07 per kilogram
Petrol other than any fuel used for the purpose of air navigation	31p per litre
Petrol used for the purpose of marine navigation where supplied by an approved trader	17p per litre
Gas oil	31p per litre
Beer brewed by an independent small brewery	38p per litre
Other beer	59p per litre
Spirits not exceeding 5.5 per cent volume	44p per litre
Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£6.33 per litre
Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£8.41 per litre
Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume

Cider produced by an independent small cider-maker	38p per litre
Other cider	59p per litre
Light wines not exceeding 5.5 per cent volume	44p per litre
Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£1.79 per litre
Other wines	£2.86 per litre

9. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2008” and to direct that the same shall have effect as an Ordinance of the States.
10. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2009 shall be as set out in paragraph 4.26 of this Report.
11. To approve the draft Ordinance entitled “The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2008” and to direct that the same shall have effect as an Ordinance of the States.
12. To approve the abolition, with effect from 1st January 2010, of the 2% reduction in document duty payable on registration of a further conveyance within one year and one day.
13. To approve the draft Ordinance entitled “The Document Duty (Amendment) Ordinance, 2008” and to direct that the same shall have effect as an Ordinance of the States.
14.
 - (a) That, subject to the provisions of the Income Tax (Guernsey) Law, 1975 and to the provisions of this Proposition:
 1. For the year of charge 2009 the allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in Part A of the First Schedule to this Proposition; and
 2. For the year of charge 2010 the allowances claimable by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in Part B of the First Schedule to this Proposition.
 - (b) That the allowances specified in Parts A and B of the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey) Law, 1975, and who has proved that the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.
 - (c) That “Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950, as amended; and “the Income Tax (Guernsey) Law, 1975” means that Law as amended, extended or applied by or under any other enactment.

FIRST SCHEDULE

A. Year of Charge 2009

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

<u>Nature of Allowance</u>	<u>Amount of Allowance</u>
1. Personal Allowance.	
(i) for married persons.	Tax at the individual standard rate on £17,400. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(ii) for married persons where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.	Tax at the individual standard rate on £19,000. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iii) for married persons where, at the commencement of the year of charge both he, and his wife living with him, were of the age of 64 years or over.	Tax at the individual standard rate on £20,600. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iv) for single persons.	Tax at the individual standard rate on £8,700.
(v) for single persons aged 64 years or over at the commencement of the year of charge.	Tax at the individual standard rate on £10,300.

2. **Dependent Relative Allowance.** In respect of each dependent relative – tax at the individual standard rate on £2,800 or on the amount of the contributions whichever is less:
- Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £5,900 the allowance shall be reduced to tax at the individual standard rate on such sum as remains after subtracting from £2,800 the sum of £1 for every pound by which the dependent relative’s income exceeds £5,900.
- Provided further that if any Family Allowances are payable in respect of the dependent relative, the allowance shall be further reduced to tax at the individual standard rate on such sum as remains after subtracting from £2,800, or such lesser sum as remains after deducting from £2,800 the sum of £1 for every pound by which the dependent relative’s income exceeds £5,900, the sum of £233 for every month in the year of charge for which such Family Allowances are payable.
3. **Infirm Person’s Allowance.** Tax at the individual standard rate on £2,800.
4. **Housekeeper Allowance.** Tax at the individual standard rate on £2,800.
5. **Wife’s Earned Income Allowance.** Tax at the individual standard rate on a sum equal to the amount of the claimant’s wife’s net qualifying income but not exceeding tax at the standard rate on £8,700.
6. **Life Assurance Allowance.** Tax at the individual standard rate on a sum equal to one-eighth of the allowable premiums or payments or deductions.
7. **Charge of Children Allowance.** Tax at the individual standard rate on £5,900.
8. **Retirement Annuity Allowance.** Tax at the individual standard rate on a sum equal to the qualifying premiums or contributions.

B. Year of Charge 2010

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

<u>Nature of Allowance</u>	<u>Amount of Allowance</u>
1. Personal Allowance.	
(i) for married persons.	Tax at the individual standard rate on £18,100. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(ii) for married persons where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.	Tax at the individual standard rate on £19,750. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iii) for married persons where, at the commencement of the year of charge both he, and his wife living with him, were of the age of 64 years or over.	Tax at the individual standard rate on £21,400. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iv) for single persons.	Tax at the individual standard rate on £9,050.
(v) for single persons aged 64 years or over at the commencement of the year of charge.	Tax at the individual standard rate on £10,700.

2. **Dependent Relative Allowance.** In respect of each dependent relative – tax at the individual standard rate on £2,900 or on the amount of the contributions whichever is less:
- Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £6,150 the allowance shall be reduced to tax at the individual standard rate on such sum as remains after subtracting from £2,900 the sum of £1 for every pound by which the dependent relative’s income exceeds £6,150.
- Provided further that if any Family Allowances are payable in respect of the dependent relative, the allowance shall be further reduced to tax at the individual standard rate on such sum as remains after subtracting from £2,900, or such lesser sum as remains after deducting from £2,900 the sum of £1 for every pound by which the dependent relative’s income exceeds £6,150, the sum of £242 for every month in the year of charge for which such Family Allowances are payable.
3. **Infirm Person’s Allowance.** Tax at the individual standard rate on £2,900.
4. **Housekeeper Allowance.** Tax at the individual standard rate on £2,900.
5. **Wife’s Earned Income Allowance.** Tax at the individual standard rate on a sum equal to the amount of the claimant’s wife’s net qualifying income but not exceeding tax at the standard rate on £9,050.
6. **Life Assurance Allowance.** No Allowance.
7. **Charge of Children Allowance.** Tax at the individual standard rate on £6,150.
8. **Retirement Annuity Allowance.** Tax at the individual standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule.

1. Personal Allowance

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

(a) for married persons -

(i) that in the year of charge his wife is living with him or is wholly maintained by him; and

(ii) that in computing his assessable income for that year he is not entitled to make any reduction on account of any payment made for his wife's maintenance.

Provided that if any question arises as to whether a wife is or is not wholly maintained by her husband, the question shall be determined by reference to the financial circumstances of the wife.

(b) in other cases, that the conditions in paragraph (a) of this provision are not fulfilled.

2. Dependent Relative Allowance

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

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

(i) is the child of the claimant, or

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

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

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

(3) Where a man and a woman are cohabiting as husband and wife and either has a child in respect of whom a dependent relative allowance is claimable the man or woman as the case may be, and by a notice in

writing addressed to the Administrator, may elect that, for the purposes of the said allowance, the child shall be treated as if it were the child of the cohabitee.

- (4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.
 - (5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.
- B. (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:-
- (a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and
 - (b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself; and
 - (c) that the claim relates to a dependent relative in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.

3. Infirm Person's Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an infirm person's allowance are:-
- (a) that the claimant is by reason of old age or infirmity or by reason of the old age or infirmity of the claimant's spouse compelled to maintain or employ an individual solely for the purpose of having care of the claimant or the claimant's spouse;
- Provided that the allowance shall not be granted by reason of infirmity unless throughout the year the claimant or the claimant's spouse was permanently incapacitated by physical or mental infirmity;*
- (b) if such an individual is a relative of the claimant or of the claimant's spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that individual, that the claim has been relinquished;

- (c) that the claim relates to an infirm person in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) Not more than one allowance shall be allowed to any claimant for any year.

4. Housekeeper Allowance

- (1) The conditions to be fulfilled to entitle the claimant to a housekeeper allowance are:-
- (a) that the claimant is a widow or widower;
 - (b) that in the year of charge a person is employed or maintained by the claimant solely for the purpose of acting in the capacity of a housekeeper for the claimant;
 - (c) if such person is a relative of the claimant or of the claimant's deceased spouse and if the claimant is entitled to any other allowance in the First Schedule in respect of that person, that the claim has been relinquished;
 - (d) that the claim relates to a housekeeper in respect of whom a claim has already been made for a year of charge prior to the Year of Charge 2009.
- (2) A housekeeper allowance shall not be granted to any individual for any year in respect of more than one person.
- (3) A housekeeper allowance shall not be granted to any individual for any year if such individual is entitled for that year to a personal allowance for married persons, or to an infirm person's allowance.
- (4) "Housekeeper" means a person who is responsible by delegation for the management of the household, including arrangements for food, housekeeping expenditure and the care of linen and laundry.

5. Wife's Earned Income Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a wife's earned income allowance are that the claimant is entitled to the personal allowance for married persons and that there is included in the claimant's assessable income some earned income arising or accruing to the claimant's wife.
- (2) "Earned income" has the meaning assigned to it by section 148 of the Income Tax (Guernsey) Law, 1975.

6. Life Assurance Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an allowance in respect of life assurance are:-
 - (a) that the claimant has effected an assurance on his own life or on the life of his wife; or
 - (b) that the claimant has contracted for a deferred annuity on his own life or on the life of his wife; or
 - (c) that the claimant is, under the provisions of any Law or under the terms or conditions of his employment, liable to the payment of any sum or to the deduction from his emoluments of any sum, for the purpose of securing a deferred annuity to his widow or provision for his children after his death not being a sum which may be claimed as an authorised deduction under the provisions of sub-section (3) of section 8 of the Income Tax (Guernsey) Law, 1975; and
 - (d) that the claim relates to a policy effected prior to 1 January 2008.
- (2) Subject to the provisions of the next succeeding paragraph the allowable premiums, payments or deductions shall be the amount of any premium paid, payments made or deductions suffered by the claimant in the year of charge in respect of any such assurance, contract or liability.
- (3) Notwithstanding the provisions of the preceding paragraph:-
 - (a) No allowance shall be made in respect of any premium payments or deductions to the extent to which they exceed in the aggregate one-sixth of the assessable income of the claimant;
 - (b) No allowance shall be made in respect of any premium or other payment on any policy for securing a capital sum on death (whether in conjunction with any other benefit or not) to the extent that the premium or other payment exceeds an amount equal to seven per cent of the actual capital sum assured, and in calculating any such capital sum no account shall be taken of -
 - (i) any sum which is payable on the happening of any contingency other than death; or
 - (ii) the value of any premium agreed to be returned; or
 - (iii) any benefit by way of bonus, share of profits, or otherwise which is not the sum actually assured.

- (c) No allowance shall -
- (i) be made in respect of policies of insurance or contracts for deferred annuities except in respect of premiums payable on policies for securing a capital sum on death, whether in conjunction with any other benefit or not; or
 - (ii) be made in respect of premiums payable during the period of deferment in respect of a policy of deferred assurance:

Provided that this sub-paragraph shall not affect premiums payable on policies or contracts made in connection with any bona fide pension scheme for the benefit of the employees of any employer or of persons engaged in a particular business or for the benefit of the wife or widow of any such employee or person or of his children or other dependants.

- (4) Where a premium is paid by a wife out of her separate income in respect of an insurance on her own life or the life of her husband or a contract for any deferred annuity on her own life or the life of her husband, the same allowance shall be given as if the premium were a premium paid by her husband for an insurance on his own life or for a contract for a deferred annuity on his own life and all the conditions to be fulfilled to entitle a claimant to an allowance in respect of life assurance and for the purpose of determining the amount of the allowable premium payments or deductions shall apply accordingly.

7. Charge of Children Allowance

- (1) The conditions to be fulfilled to entitle a claimant who is also entitled to the personal allowance for married persons to a charge of children allowance are:-
- (a) that in the year of charge the claimant, or the claimant's spouse, is in receipt of Family Allowances in respect of one or more children, and
 - (b) that the claimant proves that throughout the year either he or his wife is totally incapacitated by physical or mental infirmity and that a person is maintained or employed by him for the purpose of having the charge and care of the child, and
 - (c) that neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained, or if he or any other individual is so entitled, that the claim has been relinquished.

- (2) The conditions to be fulfilled to entitle a claimant who is entitled to the personal allowance appropriate to persons other than married persons to a charge of children allowance are that in the year of charge:
- (a) the claimant is in receipt of Family Allowances in respect of one or more children, and
 - (b) the claimant is not cohabiting with another person, except where -
 - (i) the claimant proves that throughout the year either he or his cohabitee is totally incapacitated by physical or mental infirmity, and that a third person is maintained or employed by him for the purpose of having the charge and care of the child, and
 - (ii) neither the claimant nor any other individual is entitled to a dependent relative allowance in respect of the person so employed or maintained or if he or any other individual is so entitled that the claim has been relinquished.

Provided that where the recipient of a family allowance is not entitled to claim the charge of children allowance because he is cohabiting with another person, he may, in respect of the year of charge, by notice in writing addressed to the Administrator elect that the whole, or any unused part of, the personal allowance to which he would otherwise be entitled shall cease to be his and shall become an additional personal allowance of the person with whom he is cohabiting, such election, once made, to be irrevocable in respect of that year of charge.

For the purposes of this paragraph "cohabiting" means living with another person as that person's husband or wife throughout the year of charge.

- (3) The claimant shall have relinquished any claim to a housekeeper allowance or to an infirm person's allowance for that year.
- (4) Where an individual is entitled to claim a dependent relative allowance in the case of a child receiving higher education he shall, for the purposes of the preceding paragraphs numbered (1) to (3), be treated as if he were in receipt of a Family Allowance in respect of the said child.

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

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

8. Retirement Annuity Allowance

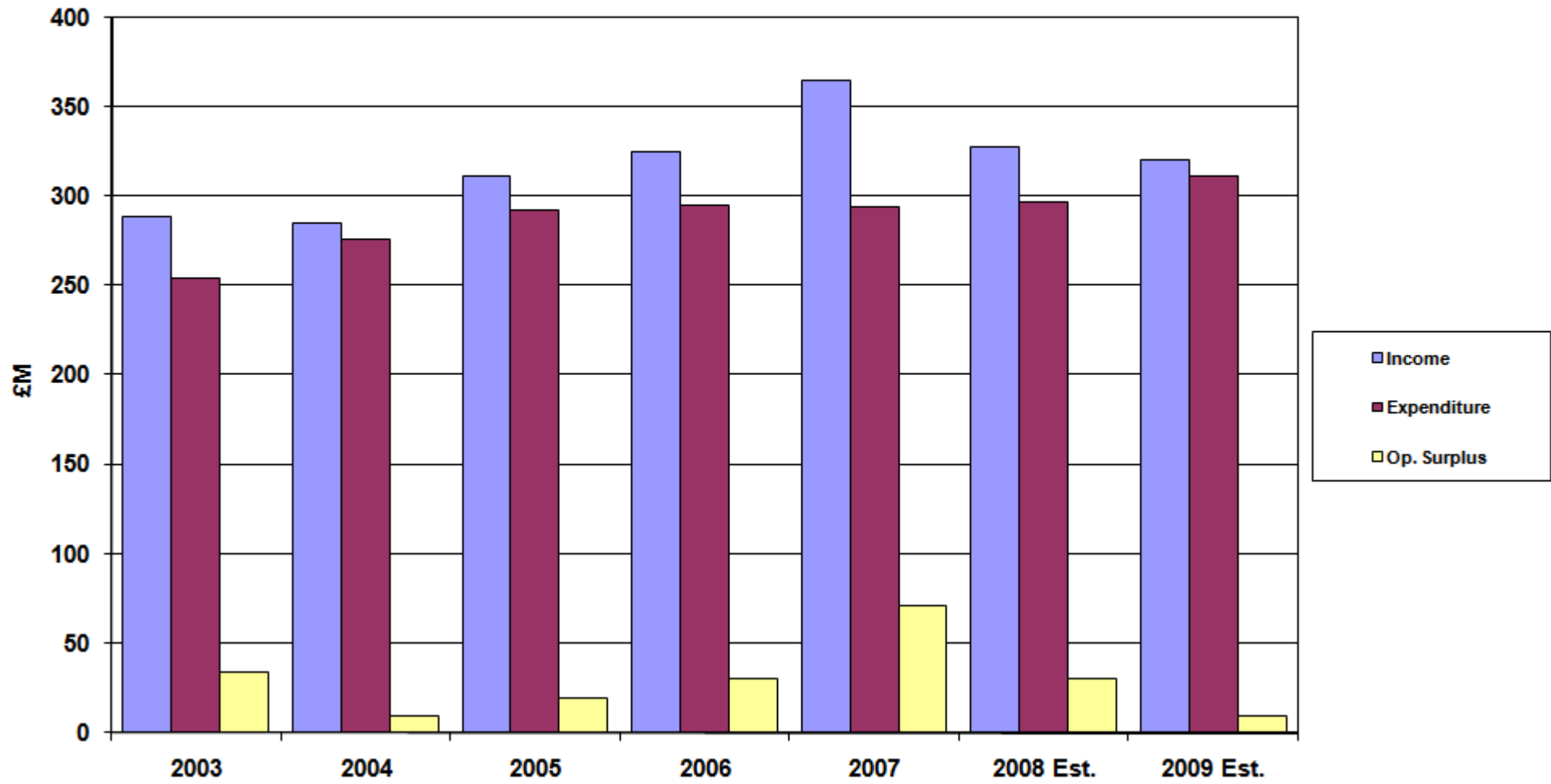
- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance are that the claimant or his wife pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and that the claimant or his wife as appropriate is in receipt of relevant earnings.
- (2)
 - (a) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant or his wife during the year of computation of the relevant earnings of the claimant or his wife assessable for the year of charge.
 - (b) The expression "relevant earnings" in relation to any individual has the meaning assigned to it by sub-section (9) of section 157A of the Income Tax (Guernsey) Law, 1975.
- (3) Notwithstanding the provisions of the preceding paragraph no allowance shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed an amount equal to fifteen per cent of the relevant earnings of the claimant or the claimant's wife, as the case may be, or 25% of those earnings if the claimant, or the claimant's wife as the case may be, is aged 40 or over at any time during the year of computation referred to in subparagraph (a) of the preceding paragraph and is not also a member of an occupational pension scheme approved under section 150 or a scheme which is deemed to be such a scheme for the purposes of section 153 of the Income Tax (Guernsey) Law, 1975.

Provided that if an individual has contributed to a pension scheme approved under section 150 of the Income Tax (Guernsey) Law, 1975, or a States scheme or a Statutory scheme, during the year of computation referred to in subparagraph (a) of the preceding paragraph, and the aggregate of his contributions to that scheme and the aforesaid premium or contributions exceed fifteen per cent of the income of the individual from any office or employment held or exercised by him, the qualifying premium or contributions shall be reduced by the amount of that excess.

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

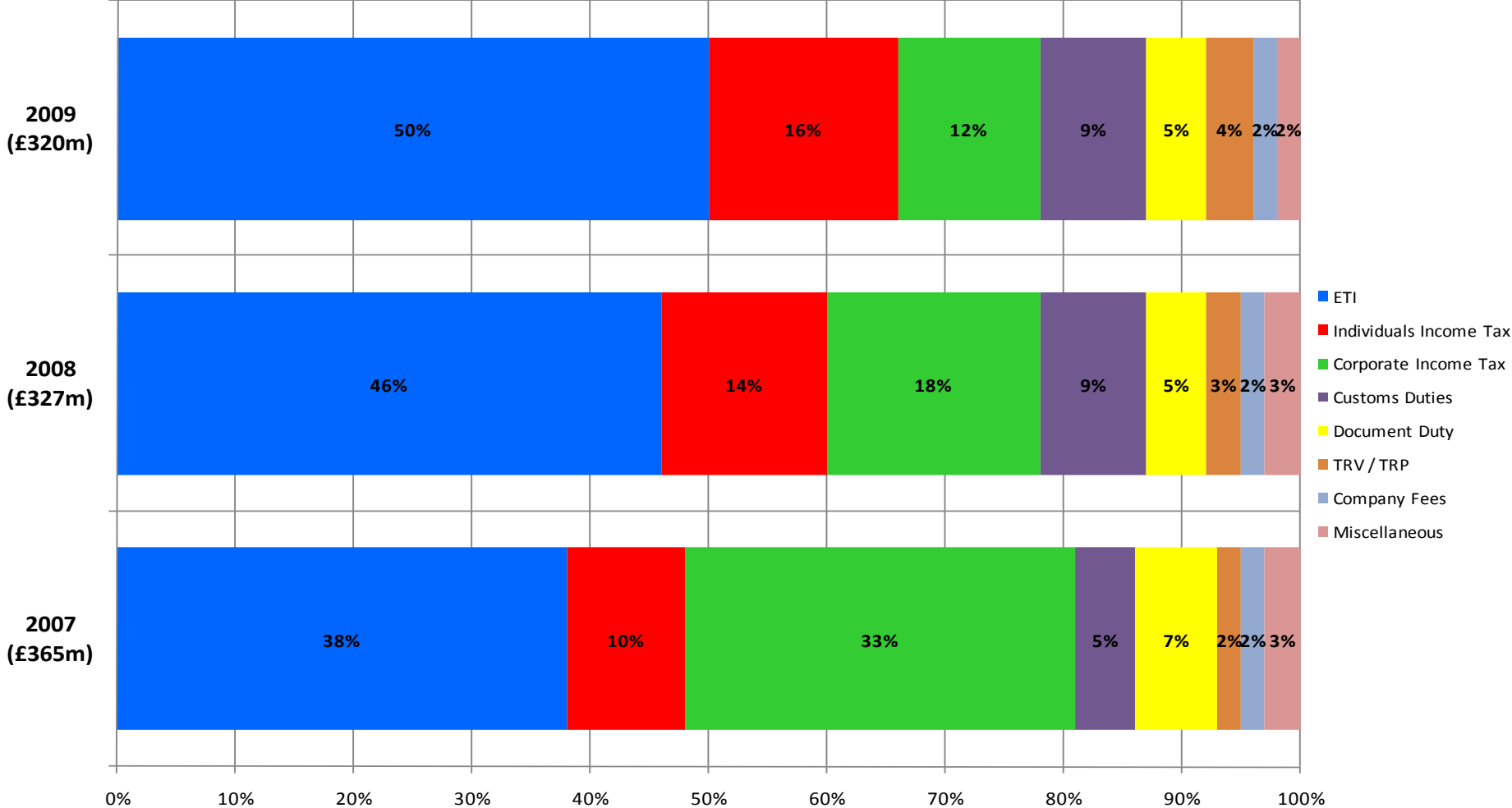
REVENUE OVERVIEW

75

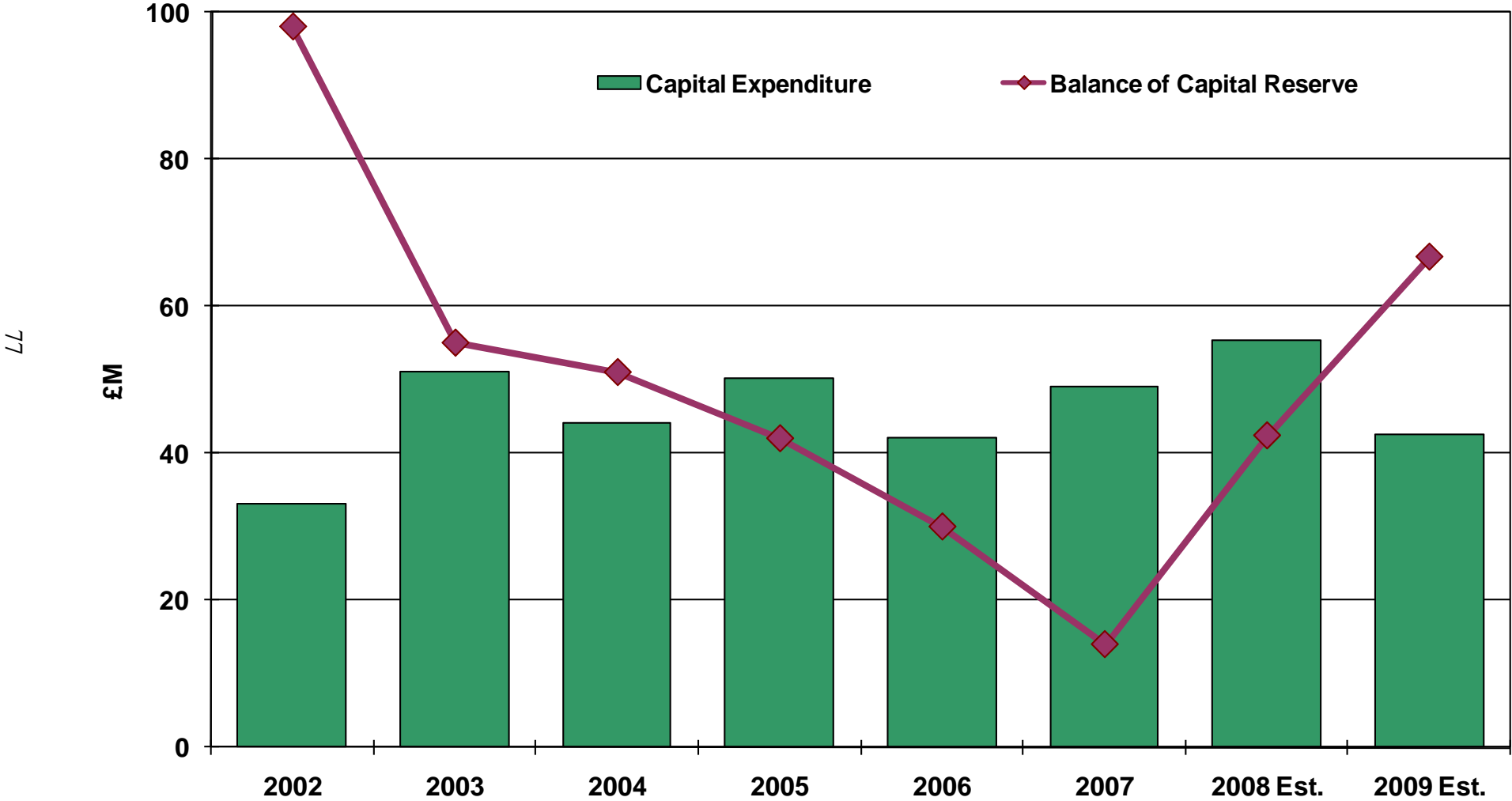


REVENUE INCOME ANALYSIS

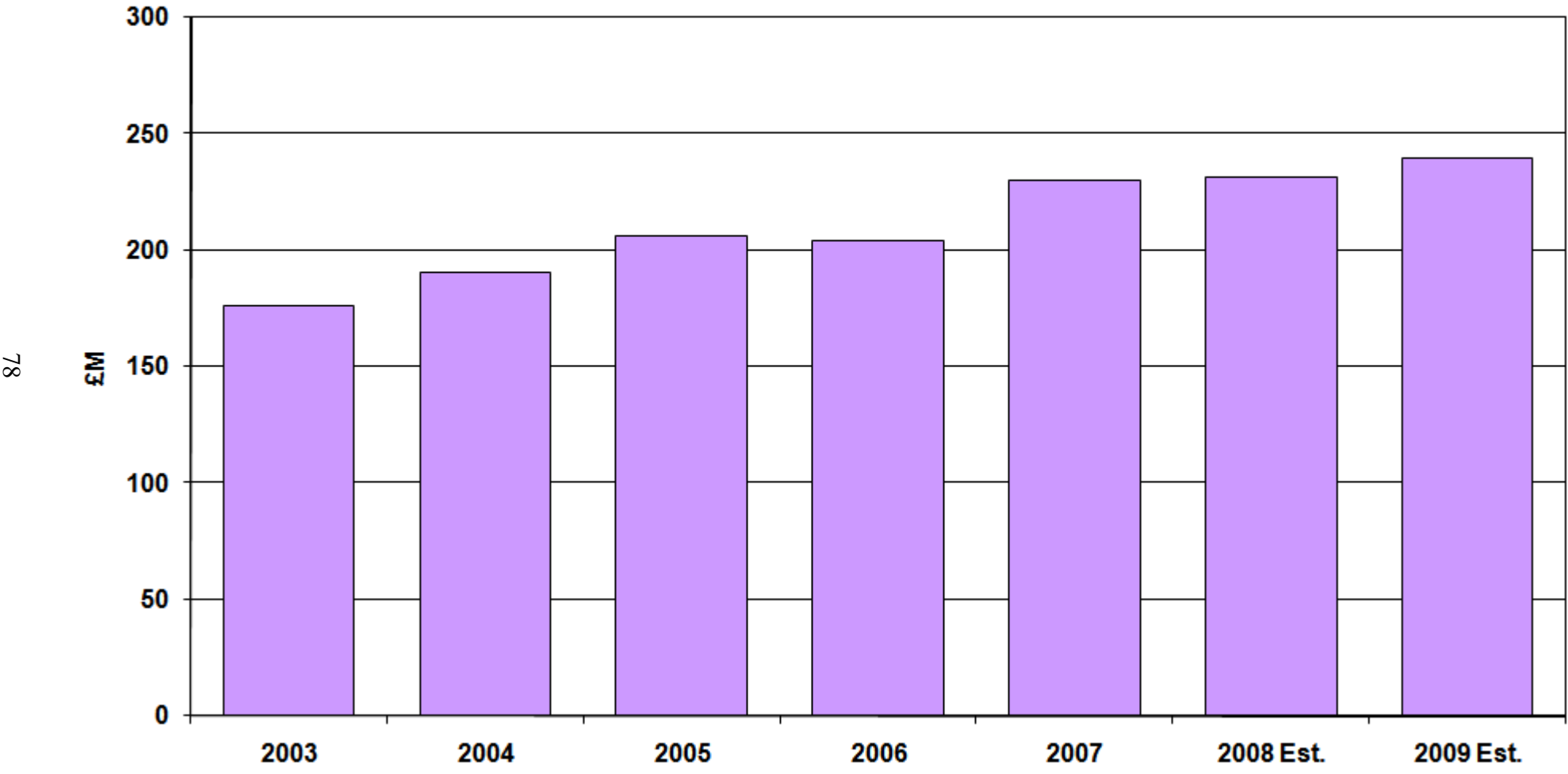
76



CAPITAL EXPENDITURE



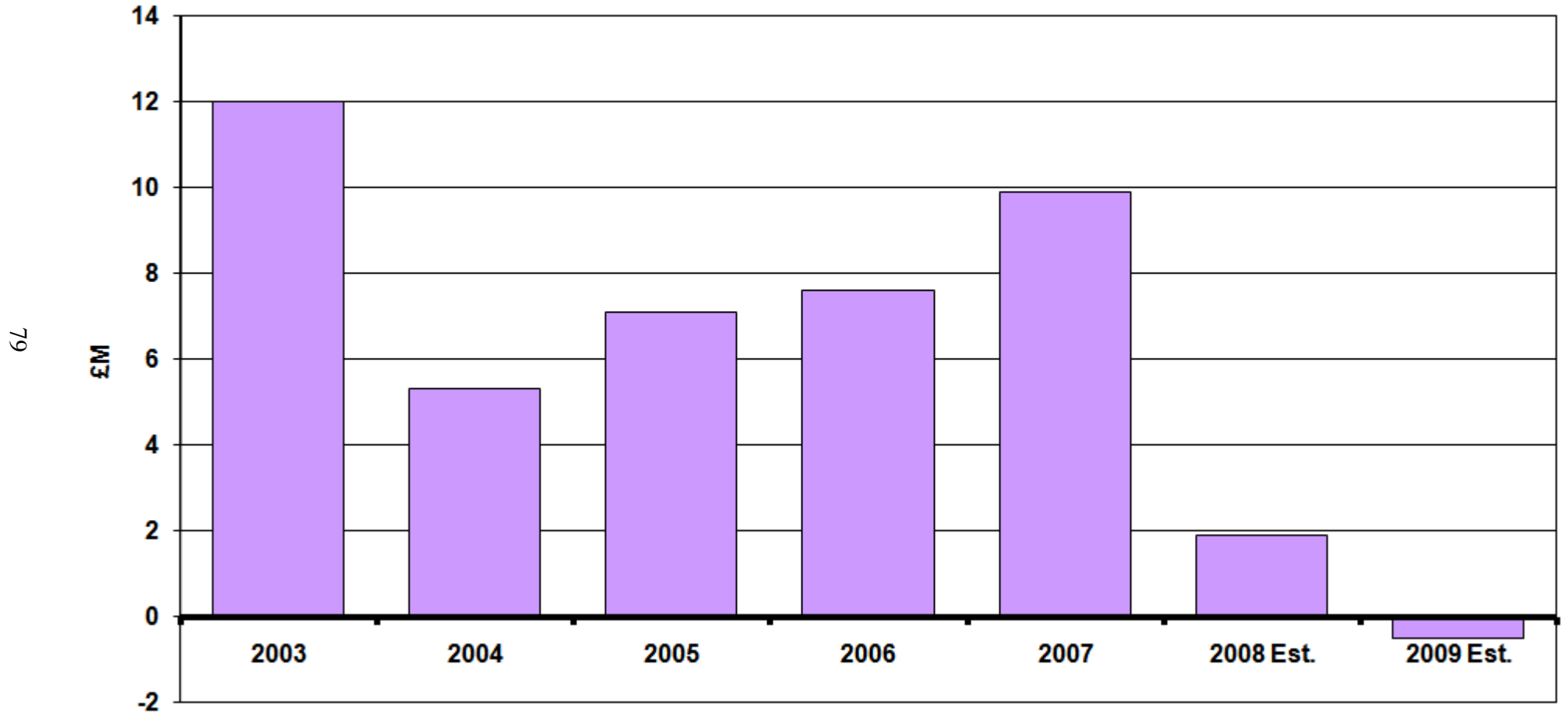
CONTINGENCY RESERVE



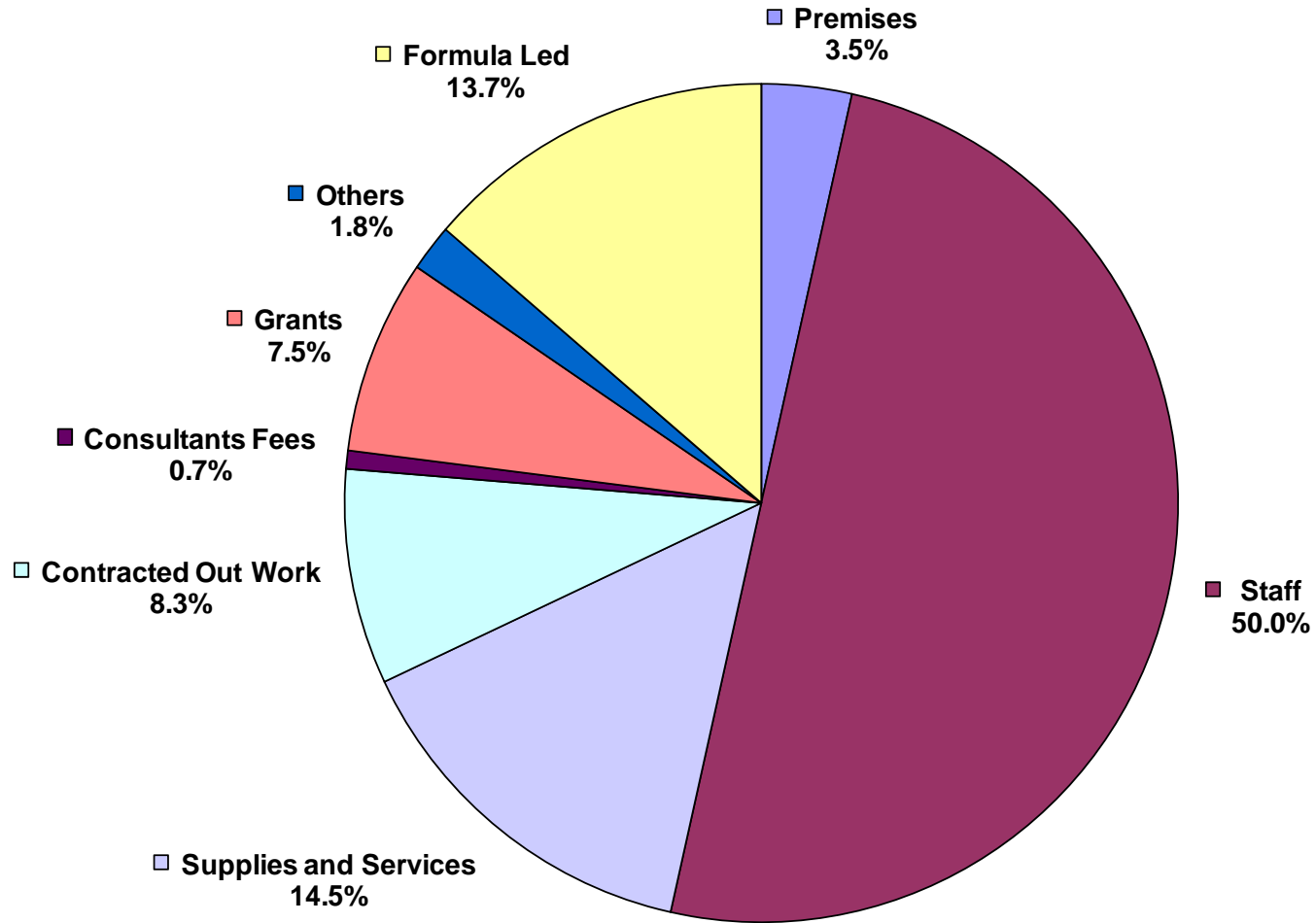
78

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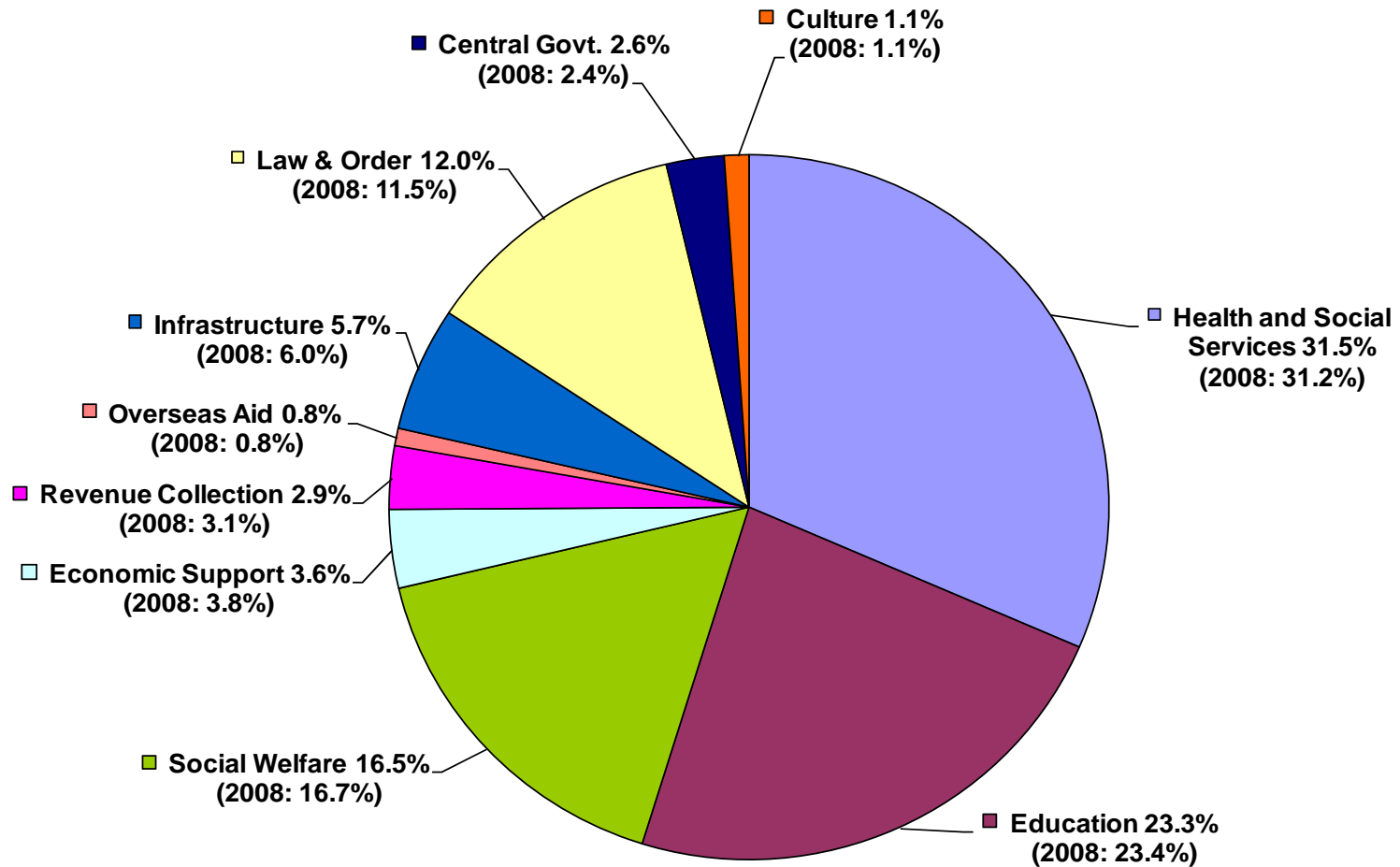
PORTS HOLDING ACCOUNT



2009 GENERAL REVENUE EXPENDITURE BY STANDARD HEADING



2009 GENERAL REVENUE EXPENDITURE BY TYPE



The analysis shown in this chart does not depict Departmental responsibilities, it is a cross-Departmental illustration of the broad categories of States expenditure.