



OFFICIAL REPORT

OF THE

STATES OF DELIBERATION

OF THE

ISLAND OF GUERNSEY

HANSARD

Royal Court House, Guernsey, Tuesday, 29th October 2013

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Present:

Richard J. Collas, Esq., Bailiff and Presiding Officer

Law Officers

Miss M.M.E. Pullum, Q.C., (H.M. Comptroller)

People's Deputies

St. Peter Port South

Deputies P. A. Harwood, J. Kuttelwascher, B. L. Brehaut,
R. Domaille, A. H. Langlois, R. A. Jones

St. Peter Port North

Deputies M. K. Le Clerc, P. A. Sherbourne,
R. Conder, E. G. Bebb, L. C. Queripel

St. Sampson

Deputies G. A. St Pier, K. A. Stewart, P. L. Gillson,
P. R. Le Pelley, S. J. Ogier

The Vale

Deputies M. J. Fallaize, D. B. Jones, L. B. Queripel, M. M. Lowe,
A. R. Le Lièvre, A. Spruce, G. M. Collins

The Castel

Deputies D. J. Duquemin, C. J. Green, M. H. Dorey,
B. J. E. Paint, J. P. Le Tocq, S. A. James, M.B.E., A. H. Adam

The West

Deputies R. A. Perrot, A. H. Brouard, A. M. Wilkie
D. de G. De Lisle, Y. Burford, D. A. Inglis

The South-East

Deputies H. J. R. Soulsby, R. W. Sillars, P. A. Luxon,
F. W. Quin, M. P. J. Hadley

Representatives of the Island of Alderney

Alderney Representatives L. E. Jean, E. P. Arditti

The Clerk to the States of Deliberation

J. Torode, Esq. (H.M. Greffier)

Absent at the Evocation

H.E. Roberts, Q.C., H.M. Procureur;
Deputies J. A. B. Gollop (*relevé à 10h 42*), M. J. Storey (*indisposé*),
L. S. Trott (*relevé à 9h 35*) and M. G. O'Hara (*indisposé*)

Business transacted

Evocation	1485
Convocation of Budget Meeting	1485

Billet d'État XXI

The States of Guernsey Budget 2014 – Debate commenced	1485
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*The Assembly adjourned at 12.33 p.m.
and resumed its sitting at 2.30 p.m.*

The States of Guernsey Budget 2014 – Debate continued – Amended Propositions carried	1527
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The Assembly adjourned at 4.20 p.m.

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States of Deliberation

The States met at 9.30 a.m.

[THE BAILIFF *in the Chair*]

PRAYERS

The Greffier

EVOCATION

CONVOCAATION OF BUDGET MEETING

5 **The Greffier:** To the Members of the States of the Island of Guernsey, I hereby give notice, pursuant to Rule 1(4) of the Rules of Procedure of the States of Deliberation, that a Special Meeting of the States of Deliberation will be held at the Royal Court House on Tuesday, 29th October 2013 at 9.30 a.m. to consider the States of Guernsey Budget for 2014 which has been submitted for debate.

The Bailiff: Deputy Trott, do you wish to be *relevé*?

10 **Deputy Trott:** Thank you, sir.

The Bailiff: Thank you.

 Members of the States, as you heard, Deputies Gollop, Storey and O'Hara are all *indisposés* and I am sure you would wish to join me in wishing them a full and speedy recovery.

15 **Members:** Hear, hear.

Billet d'État XXI

TREASURY AND RESOURCES DEPARTMENT

The States of Guernsey Budget 2014

Debate commenced

The Treasury and Resources Department recommends the States:

- 20 1. To rescind resolution 2 of Billet d'État XXVI of 13th December 2012 and to authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £27,000,000 during 2013.
2. To authorise the Treasury and Resources Department to transfer from the Contingency Reserve (Tax Strategy) to General Revenue a maximum sum of £14,000,000 during 2014.
- 25 3. To transfer the sum of £35,350,000 from General Revenue to the Capital Reserve on 1 January 2014
4. To approve the cash limits for ordinary revenue and capital expenditure for 2014 for individual Departments and Committees totalling £363,200,000 as set out in paragraph 3.27 of this Report.
- 30 5. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

	<i>Cigarettes</i>	<i>£265.44 per kilogram</i>
	<i>Cigars</i>	<i>£246.49 per kilogram</i>
	<i>Hand rolling tobacco</i>	<i>£229.54 per kilogram</i>
	<i>Other manufactured tobacco</i>	<i>£199.10 per kilogram</i>
35	<i>Tobacco leaf – unstemmed</i>	<i>£221.01 per kilogram</i>
	<i>Tobacco leaf – stemmed</i>	<i>£223.24 per kilogram</i>
	<i>Petrol other than any fuel used for the purpose of air navigation</i>	<i>48.8p per litre</i>
	<i>Petrol used for the purpose of marine navigation where supplied by an approved trader</i>	<i>33.6p per litre</i>
40	<i>Gas oil</i>	<i>48.8p per litre</i>
	<i>Beer brewed by an independent small brewery</i>	<i>43p per litre</i>
	<i>Other beer</i>	<i>68p per litre</i>
	<i>Spirits not exceeding 5.5 per cent volume</i>	<i>60p per litre</i>
	<i>Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume</i>	<i>£8.39 per litre</i>
45	<i>Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume</i>	<i>£11.15 per litre</i>
	<i>Spirits exceeding 50.0 per cent volume</i>	<i>In the extra proportion to 50.0 per cent volume</i>
50	<i>Cider produced by an independent small cider-maker</i>	<i>43p per litre</i>
	<i>Other cider</i>	<i>68p per litre</i>
	<i>Light wines not exceeding 5.5 per cent volume</i>	<i>50p per litre</i>
	<i>Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)</i>	<i>£2.07 per litre</i>
55	<i>Other wines</i>	<i>£3.30 per litre</i>

6. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2013” and to direct that the same shall have effect as an Ordinance of the States.
7. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2014 shall be as set out in paragraph 2.34 of this Report.
8. To approve the draft Ordinance entitled “The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2013” and to direct that the same shall have effect as an Ordinance of the States.
10. As regards Document Duty for the period 29 October 2013 to 31 October 2014 inclusive: That the Document Duty payable on a conveyance of realty, not being a gift of realty inter vivos, an exchange of realty, partage or conveyance of realty involving an increase in the value of the transaction, shall be:
- 1% of the value of the transaction where the value of the transaction is £250,000 or less;
 - 2% of the value of the transaction where the value of the transaction exceeds £250,000 but does not exceed £400,000;
 - 3% of the value of the transaction where the value of the transaction exceeds £400,000.
11. As regards Document Duty for the period from 1 November 2014: That the Document Duty payable on a conveyance of realty, not being a gift of realty inter vivos, an exchange of realty, partage or conveyance of realty involving an increase in the value of the transaction, shall be:
- 2% of the value of the transaction where the value of the transaction is £250,000 or less;
 - 2.5% of the value of the transaction where the value of the transaction exceeds £250,000 but does not exceed £400,000;
 - 3% of the value of the transaction where the value of the transaction exceeds £400,000.
12. To approve the draft Ordinance entitled “The Document Duty (Amendment) Ordinance, 2013” and to direct that the same shall have effect as an Ordinance of the States.
13. As regards conveyances of realty registered in the period between the publication of the Budget Report and the Budget debate that the Treasury and Resources Department be required to make a repayment in respect of any prescribed document registered between 9 October 2013 and 28 October 2013 inclusive of an amount equal to any difference between the Document Duty then payable and that which would have been payable if the Document Duty (Amendment) Ordinance, 2013 had then been in force:

- 95 14. To authorise the Treasury and Resources Department, pursuant to Section 2(4) of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, to agree to and implement the Board of Guernsey Post Limited's proposal to repurchase £3.5 million of shares reducing the shareholding of the States accordingly, and subject to Guernsey Post Limited complying with its obligations under the Companies (Guernsey) Law, 2008.
15. That the sum of £3.5million received from Guernsey Post Limited for the repurchase of shares shall be transferred to the Capital Reserve.
- 100 16. To amend section 8 of the States Trading Companies Ordinance, 2001 so that the Treasury and Resources Department is required to submit for consideration by the States the annual report and accounts of Guernsey Electricity and Guernsey Post Ltd, as soon as is practicable.
17. To approve the permitted investment rules of the States General Investment Pool as set out in Appendix IV to this Report.
- 105 18. To endorse the intention of the Treasury and Resources Department to increase the Benefit in Kind charges with effect from 1 January 2014, by 3% per annum, compounded, for 2014, 2015 and 2016, as set out in paragraph 2.15 of this Report, by regulation under powers conferred by section 8(2A)(b) of the Income Tax (Guernsey) Law, 1975.
- 110 19. (a) That, subject to the provisions of the Income Tax (Guernsey), Law 1975 and to the provisions of this Proposition, the allowances claimable for the Year of Charge 2014 by an individual solely or principally resident in Guernsey by way of relief from income tax at the individual standard rate, shall be the allowances specified in the First Schedule to this proposition.
- (b) That the allowances specified in the First Schedule to this Proposition shall only be granted to an individual who has made a claim in accordance with the provisions of the Income Tax (Guernsey), Law 1975, and who has proved the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.
- 115 (c) That:
- "Family Allowances" means Family Allowances payable under the Family Allowances (Guernsey) Law, 1950 as amended; and
- 120 "the Income Tax (Guernsey) Law, 1975" means that Law as amended, extended or applied by or under any other enactment.

FIRST SCHEDULE

Year of Charge 2014

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

NATURE OF ALLOWANCE

AMOUNT OF ALLOWANCE

130 1. Personal Allowance

(i) for married persons

Tax at the standard rate on £19,350.

135 Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce, or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge.

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155 *For the purposes of this paragraph and paragraphs (ii) to (v) below, "divorce" means that the Court for Matrimonial Causes has made a Final Order on a decree of divorce or of nullity of marriage in respect of the marriage in question or that the courts of another jurisdiction have made a corresponding order in respect thereof.*

160 *(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.*

165 *Tax at the standard rate on £21,125. Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge.*

180 *(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.*

185 *Tax at the standard rate on £22,900. Provided firstly that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted. Provided secondly that, should a divorce or separation occur in the year of charge, the allowance shall be reduced accordingly, and shall be calculated on the basis of the number of days in the year of charge which precede that event. In such a case each spouse shall receive a reduced share of the appropriate allowance for single persons specified in (iv) or (v) below for the remainder of the year of charge, which shall be calculated on the basis of the number of days remaining in the year of charge (including the day of the divorce or separation). Provided thirdly that in the case of the death of a husband, the deceased shall be entitled to the allowance for the full year of charge, reduced by the amount of the appropriate allowance for single persons specified in (iv) or (v) below granted to the widow for the remainder of the year of charge from (and including) the husband's date of death; and in the case of the death of a wife, the husband shall be entitled to the allowance for the full year of charge.*

200 *(iv) for single persons.* *Tax at the standard rate on £9,675, but subject to the second and third provisos relating to divorce, separation or death set out in (i), (ii) or (iii) above.*

210 *(v) for single persons aged 64 years or over at the commencement of the year of charge.*

- 215 *Tax at the standard rate on £11,450, but subject to the second and third provisos relating to divorce, separation or death set out in (i), (ii) or (iii) above.*
- 220 *2. Dependent Relative Allowance*
- In respect of each dependent relative - tax at the standard rate on £3,125 or on the amount of the contributions whichever is less:*
- Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £6,550 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £3,125 the sum of £1 for every pound by which the dependent relative's income exceeds £6,550.*
- 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 standard rate on such sum as remains after subtracting from £3,125, or such lesser sum as remains after deducting from £3,125 the sum of £1 for every pound by which the dependent relative's income exceeds £6,550, the sum of £260 for every month in the year of charge for which such Family Allowances are payable.*
- 235 *3. Infirm Person's Allowance* *Tax at the standard rate on £3,125.*
- 4. Housekeeper Allowance* *Tax at the standard rate on £3,125.*
- 5. Wife's Earned Income Allowance* *Tax at the 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 £9,675.*
- 240 *6. Charge of Children Allowance* *Tax at the standard rate on £6,550.*
- 7. Retirement Annuity Allowance* *Tax at the standard rate on a sum equal to the qualifying premiums or contributions.*

245 **SECOND SCHEDULE**

Conditions applicable to the allowances specified in the First Schedule

- 250 *1. Personal Allowance*
- (1) The conditions to be fulfilled to entitle the claimant to the personal allowance are:*
- (a) in respect of the allowance specified in paragraph 1(i), (ii) or (iii) of the First Schedule ("married persons") -*
- (i) that at the commencement of the year of charge the claimant's wife is living with him or is wholly maintained by him; and*
- (ii) that in computing his assessable income for that year the claimant is not entitled to make any reduction on account of any payment made for his wife's maintenance.*
- 255 *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 respect of the allowance specified in paragraph 1(iv) or (v) of the First Schedule ("single persons")-*
- 260 *(i) that the claimant is not entitled to an allowance specified in paragraph 1(i), (ii) or (iii) of the First Schedule ("married persons"); or*
- (ii) that the claimant is subject to the second or third proviso relating to divorce, separation or death set out in the said paragraph 1(i), (ii) or (iii).*
- 265 *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 -*
- 270 *(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.
- 275 (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.
- 280 (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.
- 285 (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.
- 290 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
- 295 (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.
- 300
3. *Infirm Person's Allowance*
- 305 (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;
- 310 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;
- 315 (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*
- 320 (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;
- 325 (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.
- 330

(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.*

335 (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

340 (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.*

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6. 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:*

350 (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*

355 (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:*

360 (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*

365 (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.

370 *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.*

375 *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.*

380 (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.*

385 *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.*

7. Retirement Annuity Allowance

390 (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.*

- 395 (2) *Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions, as the case may be, shall be the amount of any premium paid or contribution made by the claimant or his wife during the year of computation of the income of the claimant or his wife assessable for the year of charge.*
- (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:*
- 400 a) *100% of the income of the claimant, or of the claimant and the claimant's wife, as the case may be, during the year of computation referred to in the preceding paragraph.*
- b) *any retirement annuity contribution limit for the time being prescribed by Regulations made by the Department.*
- 405 (4) *For the avoidance of doubt, where the claimant and the claimant's wife both make qualifying premiums or contributions, the claimant's wife is entitled to an allowance in respect of her qualifying premiums or contributions, for which an allowance has not already been granted to the claimant, subject to the provisions of paragraph (3).*

II. *To approve the following Expenditure Budgets for the year 2014:*

- 410 1. *Policy Council*
2. *Treasury and Resources Department*
3. *Commerce and Employment Department*
4. *Culture and Leisure Department*
- 415 5. *Education Department*
6. *Environment Department*
7. *Health and Social Services Department*
8. *Home Department*
9. *Housing Department*
10. *Public Services Department*
- 420 11. *Social Security Department*
12. *Public Accounts Committee*
13. *Scrutiny Committee*
14. *States Review Committee*
15. *Royal Court*
- 425 16. *Law Officers*
17. *Capital Reserve*

III. *To approve the following Budgets for the year 2014 and Probable Outturns for 2013:*

- 430 1. *Corporate Housing Programme*
2. *Guernsey Registry*
3. *Ports*
4. *Guernsey Water*
5. *States Works*
6. *Guernsey Dairy*
- 435 7. *Superannuation Fund Administration*
8. *Social Security Department – Contributory Funds Administration*

IV. *To note the Budget for the States of Alderney for 2014.*

440 **The Bailiff:** So, the Minister for the Treasury and Resources Department will open the debate on the States of Guernsey Budget for 2014.
Deputy St Pier.

Deputy St Pier: Thank you, sir.

445 Mr Bailiff, I am pleased to present the States of Guernsey Budget for 2014. This is, of course, the first time that the States has considered the Annual Budget in October, and so far ahead of the start of the year, and I am pleased that we have been able to achieve this.

In addition it is, of course, the first time that the States is considering all of its spending decisions – that is, both general revenue and social security – in the same month. At some point in the future, it may be an aspiration to deliver these in one report.

450 My Board recognises that this has meant a much more challenging timetable than normal for all involved, and we would like to thank all departmental boards and officers for helping to achieve this.

I would also like to pay a particular thanks to the States Assistant Chief Accountant whose hard work on the Budget does deserve recognition.

455 Sir, for the reasons which I will spell out in the debate, the Department will be opposing Deputy Burford's amendments and we are happy to support Deputy Bebb's amendment.

I do not intend to go through the Budget Report in detail, Members have it before them and they have also had the opportunity of the Department's presentation, but it is worth spending a little bit of time to highlight some key points.

460 Our first objective is, of course, balancing the books, and this remains our highest priority. However, as I said in last year's Budget debate, that must be done in a controlled, considered and sustainable manner. There are no radical changes in direction in this Budget, just a gentle touch on the tiller, recognising the weak state of our economy.

The Budget Report before us today recommends a real terms reduction in budget expenditure of 2.6%. In cash terms, that equates to an overall reduction in base of £6 million.

470 Sir, I would like to take Members through some of the key elements involved in arriving at this overall budgeted expenditure. Overall base line cash limits were compiled, as set out in the table at the top of page 20 of the Report. Departments were then allocated individual cash limits based on their 2013 allocation, with recognition and adjustment for material specific cost pressures or cyclical items. Notably an additional allowance in respect of medical inflation and the cost of off-Island treatment were made for the Health and Social Services Department of £1.05 million, which is almost 2.5% of its non-paid budget.

475 Further savings targets were then applied to these cash limits. 2014 is, of course, the final year of the Financial Transformation Programme which, as we all know, is intended to permanently remove a minimum of £31 million from the base-line general revenue budget.

In fact if all budgetary targets for the programme are achieved a total exceeding £33 million will actually be delivered, because Policy Council has agreed an additional target for the Social Security Department and an increased target for the Public Services Department.

480 Since the time of drafting the Report, additional measures have now been signed off, meaning that the amount left to find is £14 million, compared to the £15.8 million at the time of writing, which is set out in the table at the top of page 23. My hope and expectation is that this will have reduced by a further £2 to £3 million by the end of this year. Sir, it is imperative that the momentum to deliver the agreed target is maintained through the final year so that we can all deliver on our promise of reducing public expenditure.

485 In recognition that the incentive to deliver sustainable saving, rather than merely staying within budget, will diminish as 2014 progresses, the Treasury and Resources Department is intending to introduce a system of incentivisation for Department who exceed their FTP target in 2014. This will allow them to retain a proportion of any realised savings for future use within that Department. This is intended as a one-off measure in 2014, in advance of any future States transformation programme that we shall all come back to shortly and the development of the Government Service Plan.

I recognise that some Members hold a different view as to the efficacy of such a measure which we will of course discuss when Deputy Burford's amendment on this topic is laid.

495 However, my Department is of the view that with the right controls in place this sort of incentivisation can be a win-win, allowing Departments to retain some savings for the progression of their initiatives for which there is no mechanism at present, whilst helping to achieve and even exceed our efficiency targets and also encouraging closer working between Departments and with our sister island.

500 While some Departments look likely to exceed their savings targets, others still face a significant challenge in meeting theirs. This is particularly true for the Education and Health and Social Services Departments who for different reasons still have significant savings to be found.

505 Given that we are now entering the final year of the Programme, my Department recognises that they, in particular, may identify and initiate projects during 2014 which have ongoing benefits, but which may not enable spending to be fully reduced until 2015 or beyond. We are therefore recommending a further £4 million is added to the budget reserve to manage this potential cash flow problem.

510 Having allowed for this additional £4 million, the total size of the budget reserve has grown to £19.5 million. The establishment of this reserve and its subsequent growth reflects a recognition that budgets are dynamic and need to change throughout the year. They need to be able to respond to decisions and events, and the States gets the greatest efficiency out of holding this contingency centrally.

In 2014, the Budget reserve contains allowances for any pay awards; an additional 0.5% employer contributions, should the Social Security Department proposals be successful; the

515 established staff vacancy factor, which recognises the reality that Departments rarely run with a full complement of staff; capital allocations and, of course, unanticipated or emergency expenditure; and changes to formula-led estimates and the FTP timing already referred to. This comprehensive reserve should enable us to manage within the cash limits that are being recommended.

520 Sir, it is worth spending a moment explaining the changes that are being made from 2014 to the Corporate Housing Programme Fund and the Housing Department's Budget. These are set out on pages 20 and 21 of the Report. These changes mean that in future the Corporate Housing Programme Fund will only be used to hold the capital values available for funding initiatives such as the Housing Stock Modernisation Programme and the Housing Development Programme. All other day-to-day income and operating expenditure on the housing stock and the grants to the
525 Guernsey Youth Housing Project will go through general revenue. This means that income will increase overall by £6.2 million and revenue expenditure will increase by £8.4 million. But the transfer to the Corporate Housing Programme will decrease by £6 million. This change increases transparency and provides greater clarity on the true general revenue position, and I would like to reiterate our thanks to the Housing Department for initiating this beneficial change.

530 My Department's second initiative is nurture and growth, within which there are two main initiatives, which I would like to discuss. Members will recall that as part of the Capital Prioritisation Programme which was debated at the end of last month, my Department had identified that additional funding of £17 million per annum would need to be made available to the capital reserve, if we are to fund the required levels of capital investment for this programme
535 period and beyond. As an interim measure, this Budget recommends increasing the appropriation to the capital reserve in 2014 by £10 million in order to start to close the gap. This ensures that nearly £80 million of funds will be available to enable us to commence work on the States capital investment portfolio leading to increased spending in the local economy.

540 Furthermore, to encourage further growth, we are proposing that document duty thresholds are reflated to reflect the movement in property prices, since they were last reviewed and also that document duty rates are temporarily reduced for one year for lower value properties. The Treasury and Resources Department believes that this measure will stimulate the property market by accelerating purchase decisions, which should lead to wider economic benefits without having an inflationary impact, due to the temporary nature of the measure. Using conservative calculations
545 the States Economist has advised that the benefit to the economy is likely to be more than double the cost of this temporary measure.

The Treasury and Resources Department is working with the Social Security Department on the Personal Tax, Pensions and Benefits Review with the main objective of providing long-term sustainability of public finances, pensions, benefits and services. It is the expectation of the two
550 Boards that, as part of the second phase of this work, a joint report will be prepared during 2014 outlining the findings of the review and detailing recommendations regarding the wider issues and more significant long-term structural changes that may be required. My Board therefore believes that in advance of the findings of that review no significant changes to personal taxation should be proposed as part of this Budget. However, my Department is recommending that personal
555 allowances are increased by the same rate as that proposed for all benefits by the Social Security Department.

Turning now to other matters discussed in the Report that merit further attention this morning, I am often asked about FTP 2 or, in other words, what happens when we get to the end of 2014. It is clear, and I have made the point many times, that we will not go back to what we considered
560 normal prior to 2009. We cannot. It is also clear that there remains work to be done on driving through efficiencies that have the potential to save more but, for one reason or another, has not been completed within the five-year timescale of this particular programme.

However, it is also apparent that any future transformation should not be financially driven. As I have said many times before the original recommendation was for a States Transformation
565 Programme but the States chose to start with a Financial Transformation Programme. To embark on just another round of efficiency drives, cost savings and cash limit reductions simply will not deliver the required results. This is because the States, like any organisation, must first be ready to deliver the changes required and focusing on the finances without looking at the wider organisation transformation would inevitably lead to the easy approach of service cuts being
570 considered ahead of necessary but difficult transformation.

The Treasury and Resources Department therefore intends to initiate and facilitate investigations into the design of future organisational transformation, which would need to be shaped by all interested parties. This will need to take account of lessons learnt through delivery of

575 the FTP and not be financially driven. My Board and I are pleased that the Policy Council intends to submit a report on the matter for consideration by the States during 2014.

Sir, 2014 is shaping up to be another extremely busy year for my Department, in addition to the Personal Tax, Pensions and Benefits Review, this Budget Report announces reviews of duty on alcohol, taxing of biodiesel and the Government's use and operation of the seized assets fund, all of which Treasury and Resources Department will work collaboratively with other interested parties or Departments on.

580 In addition, my Department also intends to review the rules around donations, grants and subsidies with a view to ensuring that all such expenditure by the States is, in future, accompanied by clear objectives for the expected outcomes, reporting arrangements and, if appropriate, a service level agreement, and this is, of course, a logical extension of the recognition of the need for service level agreements between Departments in the amended resolutions in the Bebb Requête last month.

585 It is also a further step in ensuring that the States leverages best value in all of its spending, and it is vital as the States develops further relationships with the third sector. For example, the Supported Employment Trust has developed a proposal for cohesively delivering some of the services currently provided by various Departments in promoting a return to work. This has the potential to save considerable sums for the States but would have to be accompanied by very clear guidelines around objectives and service levels before any money is transferred.

590 Before I move on to summarise the Report, I would just like to take a moment to talk about derelict glass houses and empty properties. My Board and I have been asked on numerous occasions why the TRP system is not used to discourage instances of empty property and decaying glass houses by applying the penal rate which exists in the legislation but is not used. The Treasury and Resources Department has considered this and does not believe that any such charge would be warranted for fiscal reasons alone. However, we would be supportive of using the TRP system to this effect, should another States Department propose doing so for other policy reasons, and as an aside we would be similarly happy to explore the use of fiscal measures to support any initiatives by the Housing Department to assist first time buyers.

595 Sir, this Budget Report recommends a General Revenue Budget for 2014 which is balanced and realistic, it concentrates once again on working towards financial balance by reducing our budget deficit but this must not be at any cost. To rush to eliminate the deficit when the economy is in a state of weak recovery would be to jeopardise its sustainability, if these economic conditions are not taken into account.

600 Professor Geoffrey Woods commented in his annual independent fiscal policy review that the seventh successive year of deficit in 2014 represents a breach of the Fiscal Framework Rule requiring that any deficit position be removed within five years. Although, he also quite correctly notes that the criteria of the framework makes no allowances for economic conditions. The well understood difficult economic conditions over recent years and the review of the Corporate Tax Strategy both contributed to the extension of the period of the deficit. But 2014 is a critical year and one where choices will be required. (A Member: Hear hear.)

605 During the year, we will know the likely outcome of the Financial Transformation Programme and have a clearer picture of the economic conditions both globally and locally and whether we are indeed in recovery. Importantly, it will also be the year in which we will have the outputs from the Personal Tax, Pensions and Benefits Review and we will need to make decisions that deliver a long term sustainable tax system which supports our sound fiscal policy aims of long run fiscal balance.

620 Sir, I commend this Budget to the States. (*Applause*)

The Bailiff: Members of the States, may I say that ladies and gentlemen who wish to do so may remove their jackets.

625 We have five amendments. I propose that they be taken in the conventional order with the two technical amendments proposed by the Minister and the Deputy Minister taken first, followed by the other amendments in the order of the Propositions to which they relate.

So the very first one will be the shorter of the two amendments proposed by the Minister and then the slightly longer amendment, followed by Deputy Burford's amendment seconded by Deputy Le Clerc, then Deputy Bebb's amendment, and finally Deputy Burford's amendment seconded by Deputy Dorey.

630 So Deputy St Pier, do you wish to open the debate on your first amendment?

Amendment:

635 To insert 'which includes a dwelling' immediately after 'Document Duty payable on a conveyance of realty' in both Propositions 10 and 11.

Deputy St Pier: Sir, as you say the first amendment is just a technical amendment. The explanatory note gives the background to it. I have nothing further to add, sir.

640 **The Bailiff:** Then, Deputy Kuttelwascher, do you formally second the amendment?

Deputy Kuttelwascher: I do, sir.

The Bailiff: Is there any debate?

645 No, we go straight then to the vote on the amendment proposed by Deputy St Pier and seconded by Deputy Kuttelwascher, to insert the words 'which includes a dwelling' immediately after 'Document Duty payable on a conveyance of realty', in both Propositions 10 and 11. Those in favour; those against.

650 *Members voted Pour.*

The Bailiff: I declare it carried.
Your second amendment, Deputy St Pier?

655 *Amendment:*

To replace Paragraph 7 of the Second Schedule to Proposition 19 with the following:

'7. Retirement Annuity Allowance

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

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

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

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

(b) *any retirement annuity contribution limit for the time being prescribed by regulations made by the Department.*

(4) *In the case of a married couple:*

675 (a) *for the avoidance of doubt, the allowances specified in this paragraph apply in respect of each party to the marriage, and each party to the marriage may be considered to be the claimant for the purposes of this paragraph, irrespective of whether the couple are jointly assessed or separately assessed by virtue of an application under section 46 of the Income Tax (Guernsey) Law, 1975, and*

680 (b) *for the purposes of this paragraph, and notwithstanding subparagraph (1), either party to the marriage may also pay (and an allowance may be granted in respect of) qualifying premiums or contributions to a retirement annuity scheme or retirement annuity trust scheme of which the other party is a beneficiary, provided that the maximum allowance granted in respect of any individual may not exceed the limit prescribed in subparagraph (3).'*

685 **Deputy St Pier:** Sir, Proposition 19 seeks to give married couples the same tax treatment as unmarried couples in relation to contributions to retirement annuity trust schemes. I should say at this point that, because both Deputy Adam and I make contributions to such schemes, neither of us participated in the Department's consideration of this Budget measure.

690 This amendment is a technical amendment to give effect to that measure and is one which I am slightly irritated to have to bring. I say irritated because I questioned several times the wording of the Proposition in the draft Budget Report and queried whether it actually delivered what was

intended, and it was only after the Report had been printed that St James Chambers conceded that it did not and hence the need for this amendment.

695 So, the long and short of it is that this amendment is necessary in order to correct a perceived inequity and ensure that married couples have the same tax treatment as unmarried couples, sir.

The Bailiff: And again, Deputy Kuttelwascher, you second that?

700 **Deputy Kuttelwascher:** I do sir.

The Bailiff: Any debate?

We go straight to the vote then on the second technical amendment. Those in favour; those against.

705

Members voted Pour.

The Bailiff: I declare it carried.

710 The next amendment, in that case, is the one proposed by Deputy Burford and seconded by Deputy Le Clerc.
Deputy Burford.

Amendment:

1. To delete proposition 10 and substitute therefor:

715 '10. As regards Document Duty for the period 29 October 2013 to 31 October 2014 inclusive:
That the Document Duty payable on a conveyance of realty which includes a dwelling, not being a gift of realty inter vivos, an exchange of realty, partage or conveyance of realty involving an increase in the value of the transaction, shall be:

720 a) *For first time buyers of dwellings (that is where HM Greffier is satisfied that none of the purchasers has ever held an ownership interest in any dwelling situated in Guernsey):*

- *1% of the value of the transaction where the value of the transaction is £250,000 or less;*
- 725 • *2% of the value of the transaction where the value of the transaction exceeds £250,000 but does not exceed £400,000;*
- *3% of the value of the transaction where the value of the transaction exceeds £400,000;*

b) *Where any purchaser is not a first time buyer:*

- 730 • *2% of the value of the transaction where the value of the transaction is £250,000 or less;*
- *2.5% of the value of the transaction where the value of the transaction exceeds £250,000 but does not exceed £400,000;*
- *3% of the value of the transaction where the value of the transaction exceeds £400,000.'*

735 2. To insert immediately after "The Document Duty (Amendment) Ordinance, 2013" in Proposition 12: ", subject to the substitution for the table in clause 1 (on page 52 of the Budget Report) of the following table:

<p>1. Conveyance of realty other than a conveyance within item 2, 3, or 5:</p> <p>(a) (a) where the realty is, or includes, a dwelling and the value of the transaction does not exceed £250,000</p> <p>(b) where the realty is, or includes, a dwelling and the value of the transaction exceeds £250,000 but does not exceed £400,000</p> <p>(c) where the realty does not include a dwelling, and in any case where the value of the transaction exceeds £400,000</p>	<p>For conveyances registered on or before 31st October 2014 where HM Greffier is satisfied that none of the purchasers has ever held an ownership interest in any dwelling situated in Guernsey, 1.0% of the value of the transaction; for other conveyances within paragraph (a), 2.0% of the value of the transaction</p> <p>For conveyances registered on or before 31st October 2014 where HM Greffier is satisfied that none of the purchasers has ever held an ownership interest in any dwelling situated in Guernsey, 2.0% of the value of the transaction; for other conveyances within paragraph (b), 2.5% of the value of the transaction 3.0% of the value of the transaction</p>
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740 3. To insert immediately after “the Document Duty (Amendment) Ordinance, 2013” in Proposition 13 “, as originally published in the Budget Report,”.

Deputy Burford: Thank you, sir.

Let me begin by saying that I am supportive of T&R’s proposal to reflate the Document Duty Bands and this measure alone will afford a benefit to all those buying property in the sub-£400,000 price bracket, with savings up to £2,000. However, the proposals for a further time limited reduction do run the risk of increasing the attractiveness of lower priced homes to the buy to let market.

745 In my amendment to the Budget last year, I outlined my concerns that first-time buyers are at risk of being priced out of their first home due to the suspension of the Law which means being a landlord has become much less of a long-term commitment. Let me say, I have nothing against landlords, the rental sector is very necessary and a vital part of the overall housing market. However, the very fact that we have tiered bands and that T&R are proposing a temporary cut to the lower end shows we are happy to tailor these taxes to favour a certain outcome. I favour the first-time buyer over the landlord.

750 In terms of who would qualify as a first-time buyer, it is simple, no party to a purchase can have held an ownership interest in a dwelling in Guernsey previously. So, if a couple wish to buy and one of them has owned a property in Guernsey previously, the purchase does not qualify for the discount. But realistically, they are likely to be better placed as a result of that previous ownership. Fears that this might be exploited by such couples by buying in one name and subsequently transferring to both names are unlikely to be realised as mortgage providers generally require both names on all the paperwork. If someone comes from the UK who has owned a property there, they would be eligible, but realistically, while we have our current housing controls in place, it is likely that many would be barred by housing restrictions from purchasing in the sub-£400,000 bracket. Similarly, a first-time buyer could buy and then choose to let, but I would suggest that this particular cohort of first-time buyers is vanishingly small.

755 I am not suggesting that my proposal is not slightly blunt in places, out of a desire to keep it simple, just that it is a lot less blunt than T&R’s.

The Bailiff: And Deputy Le Clerc, you formally second the amendment and reserve your right to speak, do you?

Deputy Le Clerc: I do, sir.

The Bailiff: Is there any debate? Yes, Deputy Soulsby and then Deputy Kuttelwascher.

775 **Deputy Soulsby:** Sir, I do understand the sentiments behind this amendment, but I also understand and support Treasury and Resources proposals to reduce document duty to stimulate demand. By not reducing it for the majority of home owners, I believe this amendment will result in the initiative being stillborn. I also believe that this amendment assumes those who have bought before are in a better financial position than those who have not. Clearly this is not the case, there could be a variety of reasons why people sell their property; relationship breakdowns or the birth of a new baby being just two. Frankly, the problem for first-time buyers is not the Document duty, so much as being able to afford to buy a home due to lack of supply. You can just about get a one-bedroom apartment for under £250,000 and doing a trawl of the estate agents, which I did before this debate, showed that the number of such properties currently on the market does not even reach double figures.

780 This Island needs more housing particularly for first-time buyers, across every Parish, not in ghettos that isolate the rich from the poor, but such that we retain communities across this Island. (**Several Members:** Hear, hear.) There is a Corporate Housing Programme Fund designed to build for the most part affordable housing. It is expected to stand at £61 million at the end of this year. I think it is appalling that this fund exists with no significant development taking place, at a time we are cutting front-line services.

790 Remember that for that amount of money in this fund, we can keep a successful school and its community alive for the best part of a century. (*Interjections*) Sir, I call on the Environment Department and whoever else needs to be, or wants to be involved, to work with the Housing Department as a matter of urgency to get things moving. I will be attending a meeting on 14th November arranged by Deputy Brouard to try to do that, and I urge other Members to do likewise. (**Several Members:** Hear, hear.)

800 Therefore, because it does not address a fundamental problem we have at the moment, and works against what Treasury and Resources are trying to do, even if it is scratching at the edges, I am afraid I cannot support this amendment.

The Bailiff: Deputy Kuttelwascher.

805 **Deputy Kuttelwascher:** Thank you sir, Members.

The issue I have with this Amendment is the term ‘first-time buyer’, because it is not defined, and I think that is significant. Is it a first-time buyer in Guernsey or a Guernsey resident, or is it somebody coming to the Island for the first time? You could have a consultant coming here on a substantial salary and technically, he would be a first-time buyer in Guernsey. (*Interjection*) You could have somebody in Guernsey winning the UK lottery with £7 million, £8 million or £10 million who up to that point was renting accommodation. He would then become a first-time buyer and he could buy a house for £5 million and that is the main issue.

810 If the amendment had specified the bottom rung of the property ladder by having some sort of limit on the value, it would make more sense, but I think one would not be able to effectively deliver this if it is successful, because I am not sure what is meant by first time buyer.

815 Thank you, sir.

The Bailiff: Deputy Le Tocq.

820 **Deputy Le Tocq:** Sir, I will not be supporting this amendment, because although I recognise that it is well meaning, and recognise those whom it seeks to help, I believe it will not actually help those who it seeks to help, and in fact as such it illustrates the problems we have got with seeking to help first-time buyers, however you define that, but how most of us I think would want to define it in this sort of way, this is not the way to do it. We need to build more appropriate housing and that it a different debate.

825

The Bailiff: Deputy Bebb.

Deputy Bebb: Thank you, *Monsieur le Bailli*.

830 I am very attracted to this amendment, because I think that we do need to recognise the deficit that we are facing and whether we need to, and how we actually address that issue.

The question of a millionaire coming over from the UK and purchasing a house for less than £400,000, I would question whether that is a possibility. As Deputy Burford said in her opening speech, it is perfectly possible that you would get someone coming from the UK, and they would be a first-time buyer and that would be an unfortunate side effect.

835 But the question I really have is that do we honestly believe that by extending this discount to all of the housing market, we would see a sufficient growth within sales in order to recoup what would be lost by the discount? To my mind, I do not see the housing market being affected to such a large extent by document duty and therefore, realistically, what Deputy Burford is trying to do is trying to address the balance in relation to first-time buyers, where such a discount would make a significant difference, but not to include the rest of the market, where I would argue it is fairly healthy already in its transaction – maybe less than it was in the past, but surely that is as a result of the economic situation at this point in time and is no reflection of the actual document duty.

840 I do not see any particular reason from the T&R Department in order to support the Proposition in the first place to reduce it, and therefore see this increase in the market activity. Therefore, to my mind, unless I am assured by the Minister of Treasury and Resources that we realistically will see an increase in the turnover and upward market that would therefore give us the returns that we expect, I think that we are in a position of capping our liabilities in relation to non-first-time buyers and giving first-time buyers a real advantage that would make a difference, especially given that it is very difficult at this moment in time, for them to gain that capital – initial capital in order to start on the housing marking.

845 Thank you.

The Bailiff: Deputy Le Clerc, and then Deputy Hadley.

855

Deputy Le Clerc: Sir, thank you.

I am sure Deputy Burford will elaborate further on the definition of a first-time buyer, but we were anticipating using the criteria that were applied for the first-time buyer grants some time ago when we approached T&R for a definition of that.

860 Our amendment will ensure that benefit for the proposal will help for at least one year those first-time buyers who want to get on the first rung of the housing ladder. Any buyers who only wish to purchase property for buy to let or second time purchasers will under our proposal be excluded from the reduced document duty rates, and will need to pay the full rates as outlined in Proposition 11. In this proposal, we aim to assist first-time buyers as well as protecting some of
865 the income from document duty that we would have otherwise forgone with the original proposal. With this proposal we will still be able to assist approximately half of those people buying houses in the £400,000 and below bracket, based on the January 2013 to date sales.

I have undertaken some research on the sales and during this period there were approximately 312 properties sold in that bracket, and again from the research I have undertaken, I anticipate that
870 half of those were actual first-time buyers. So we would still be able to help at least a half of those people purchasing properties in that bracket, but not foregoing the additional document duty.

Thank you.

The Bailiff: Deputy Hadley.

875

Deputy Hadley: Mr Bailiff, the reason why I joined the Housing Board was because when I was campaigning in the last election one of the issues that was brought up in my electoral district was the difficulty that people had in getting on the housing ladder and buying houses. It seems to me that if we had a number of empty houses available for people to buy at the bottom end of the
880 market then these initiatives would be worthwhile, but because we have not got a number of empty houses, what these initiatives will do, if it does enable people to purchase houses more easily, is to push the price of houses up even further, so that after a period of time, it will be even more difficult for young people, on lower incomes, on this Island to buy houses.

I am well aware that the Housing Department is continually being criticised for not building enough houses, and I assure you, sir, that right at the beginning of my time on the Housing
885 Department, I wanted to know what the Department were doing, what we could do, to provide more accommodation on the Island, and it all comes down to the fact that we have not got any land within our portfolio to build upon.

I have raised the issue such as using existing policy to try and build on land that we have. The Department has been working hard to get the release of housing targeted areas for building. One of the housing targeted areas is as a number of Members continually keep pointing out to me is within the ownership of the States. But there are tremendous difficulties on building on that, because of the cost of the infrastructure and the type of housing that we would be able to put there, and of course that is the Belgrave Vinery.

890 As far as we are concerned, our officials have been going out trying to purchase land as recently as a few months ago the Department was trying to acquire land to build houses, unfortunately we were unable to do that, and I think partly because of the bureaucracy which we have had to go through as a Department to try and get permission to buy that land.

But essentially, all of these initiatives are bound to fail, they will actually make it more
900 difficult for people to buy houses in the long term, and we will probably end up in a similar situation to the United Kingdom, where a Government initiative to help people to buy houses has caused the housing boom raising the price of houses by 10%, and that is not something I want to see on this Island, so I urge Members to reject not only this amendment but also to vote against T&R's initiative to have a relaxation of document duty.

905 Thank you, sir.

The Bailiff: Does anyone else...? Yes, Deputy Lester Queripel.

Deputy Lester Queripel: Thank you sir.

910 I am in favour of any proposal or amendment that boosts the morale of fellow Islanders, sir, and to vote in favour of Deputy Burford's amendment would do just that. There is nothing more frustrating or demoralising than thinking something you need to happen probably will not happen.

Now, 15 years ago we had a vibrant first-time buyers' market, and that market is rapidly diminishing. It is getting extremely difficult for first-time buyers to get on the property ladder.
915 Therefore, I believe our first-time buyers need support and they need encouragement. They also need a sign that their own Government recognises the difficulties and is prepared to address them.

We all hear reports of young people, some with families, having to leave Guernsey against their will, because they desperately want to buy their own home but they cannot afford to do so in the place of their own birth. So I believe voting in favour of Deputy Burford's amendment would

920 through a much needed lifeline to our fellow Islanders looking to buy their first property and I
urge my colleagues to support it.

Thank you sir.

The Bailiff: Does anyone else wish to speak? Nobody is rising, nobody is standing. Deputy St
925 Pier do you wish then to exercise your right to speak immediately before Deputy Burford closes
the debate?

Deputy St Pier: Yes please, sir. Thank you.

930 **The Bailiff:** Deputy St Pier.

Deputy St Pier: Deputy Bebb asked for some reassurance that this measure would be
stimulative of the market, and of course that would require a crystal ball. However, the States
Economist's estimate is that if there is a 5% increase in the number of transactions, it would have a
935 payback of approximately £1 million for the £500,000 cost, and in addition to that the multiplier
effect, which I referred to in my speech of twice the cost, is also based on the estimate of about 3%
of purchase cost goes on transaction costs whether that is estate agents and so on, and then the
spending on goods and works after acquisition, so the whole measure is, in a sense, within the
spirit of the Budget of being a cautious attempt to stimulate the market. We cannot be sure of its
940 outcome until after the event, and even then, we will not know which transactions have been
brought forward as a result of the measure.

Deputy Lester Queripel is asking for a sign, well that, of course, is precisely why we have
moved this Proposition in the first place, and I wish to give him some reassurance that even
without Deputy Burford's amendment, of course, first-time buyers will benefit from this reduction
945 in document duty.

But just responding to Deputy Burford's and Deputy Le Clerc's speeches, of course, this whole
measure is far broader than just first time buyers, which I think is the point which Deputy Soulsby
was making.

If we wish to address the first-time buyer issue, which again I referred to in my speech at the
opening of the debate sir, then there are plenty of other things we can, and should, do and that this
temporary measure for one year, just trying to aim it at first-time buyers in the blunt way which
Deputy Burford has conceded, will I suggest be ineffective, and it is not the right way to deal with
that challenge. And we are very, very happy to sit down with Deputy Hadley, Deputy David Jones
and other members of the Housing Department to work out what fiscal measures we can use, to
955 deploy, that will assist in their objectives.

The question of really what happens if this amendment goes through and Deputy Burford has
acknowledged some of the weaknesses in the amendment if somebody does have equity in a
property elsewhere – in other words, if they have been a home owner outside Guernsey – then they
can still benefit from this amendment. If they subsequently choose to let it the following week, the
960 following month, six months later, a year later and themselves become a buy-to-let, then they can
do so.

There is no prohibition here on first-time corporate buyers, as far as I can tell. The requirement
simply is that the Greffier is satisfied that none of the purchasers has ever held an ownership
interest in any dwelling. It would be very simple for every corporate buyer to create a special
purpose vehicle to acquire a property, as far as I can see, and that would get round... drive a coach
965 and horses through this measure.

So all in all, it is a flawed amendment. I sympathise with the rationale for bringing it, but it is
not the right response to the problem, and we are very happy to tackle that problem in a considered
way with other interested Departments, sir, and therefore we do encourage Members to oppose
970 this amendment sir.

The Bailiff: Deputy Burford.

Deputy Burford: Thank you.

975 Deputy Soulsby, I sympathise with a lot of the points that she has made, but I do think she is
possibly rather expecting too much of this amendment, which really is simply a response to T&R's
proposals and trying to target it towards first-time buyers.

Deputy Kuttelwascher, the definition of the first-time buyers is in the amendment, but also it is
simply a case that if someone wants to come and buy a £1 million house they are not going to be
980 falling into the sub-£400,000 bracket that this applies to.

Deputy Hadley – I sympathise with the points that Deputy Hadley is making, and in fact I am inclined to agree with him, on the point that if the amendment is not successful in terms of limiting this to first-time buyers, I too will be voting against Treasury and Resources' proposal on this one, because I am just concerned about the possibility of prices being pushed up and that is why I am looking to limit it to a smaller cohort.

985

Deputy St Pier, I am afraid 'blunt' was your word originally, when I contacted you about this and you admitted your proposals were blunt. I am just saying, as I did in my speech, that this is a little less blunt.

990

I am also a touch sceptical about the multiplier effect, I wonder if it is like the magic trickle-down effect. (*Laughter and interjection*)

Finally, the group of people who could set up special purpose vehicles, or come in from outside, I do think that they are a vanishingly small group, and I still think that this has the proposal to help first-time buyers.

Thank you.

995

The Bailiff: We will vote now Members on the amendment –

Deputy Fallaize: Before we vote, may I just –

1000

The Bailiff: Deputy Fallaize.

Deputy Fallaize: – declare an interest, because I think I am going to have to pay document duty during the period covered by the amendment and the original Proposition and at the rate covered by it, and I know I do not have to abstain, but I would rather, in those circumstances, abstain.

1005

The Bailiff: Thank you.

So, is there anybody else who wishes to declare an interest? Deputy Spruce, thank you. Deputy Domaille (*Laughter*) and Deputy Dave Jones did you say that you are – ?

1010

Deputy Fallaize: It is working already – (*Laughter*)

The Bailiff: Deputy Dave Jones.

1015

Deputy David Jones: Yes, similarly my property is on the market at the moment and it is in that price bracket, so I intended to abstain anyway. (*Laughter*)

The Bailiff: We will vote then on the amendment proposed by Deputy Burford and Deputy Le Clerc. Nobody has requested a recorded vote – Deputy Bebb?

1020

Deputy Bebb: Sorry, could we possibly have a recorded vote? Thank you.

The Bailiff: Deputy Bebb would like a recorded vote. Greffier.

1025

There was a recorded vote.

The Bailiff: While the votes are counted, Members, we will move on to the next amendment which is proposed by Deputy Bebb and seconded by Deputy Brehaut.

Deputy Bebb.

1030

Deputy Bebb: Thank you, *Monsieur le Bailli*.

Members, I shall just start by reading the amendment. It is:

To insert an additional proposition as follows between Proposition 13 and 14:

1035

'13A. To approve that, with effect from the year of charge 2014, the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 shall be amended to impose a cap on the amount of interest paid on money borrowed in connection with land or a building in the circumstances set out in section 1 or section 2 of that Ordinance, of no more than £25,000 per person; and to direct the preparation of such legislation as may be necessary to give effect to that decision.'

1040

Members, I think it is fairly obvious that the intention of this amendment, and the result of it should it be carried, is that another cap would be introduced into our mortgage interest relief, and that is in relation to the interest that people can claim upon.

1045 I have been discussing this with the Treasury and Resources Department and I am advised that a £25,000 per person cap would affect 13 people on our Island, who currently claim interest in excess of £25,000 per annum but have – on a capital of no more than £400,000. The current cap is in relation to the capital, and of course the biggest risk that we have to that is that interest rates could go up, and therefore the liability to the revenue of the States of Guernsey is quite considerable.

1050 Interest rates are currently at historic lows. We have not seen such a sustained... well, we have not seen interest rates this low for such an immense amount of time, even since the beginning of the Bank of England, and for them to be at this level for the length of time that they have, is truly a phenomenon that is unusual within sterling. Therefore, were interest rates to increase, it is fair to assume that the revenue of the States of Guernsey would be adversely impacted.

1055 I have been in discussion with the Treasury and Resources Department in order to try and gain more information, and an understanding of exactly how much we are looking at. Currently the mortgage interest relief means that we do not collect tax to the tune of £7 million per annum.

1060 Now then, I am not saying that, of course, nobody is avoiding; it is just simply that that is the extent of the benefit that is derived from the current interest rates. It is understood that, should interest rates increase, the average on Guernsey is currently about 3% that is paid on mortgage interest, and should they increase to 4% then it is expected, though obviously certain people are on fixed mortgages so the number is not completely clear, but it is expected that that figure would jump from £7 million to £9 million, that we would not collect in revenue, and therefore as I indicated the risk in terms of revenue is substantial.

1065 The difficulty with laying this amendment is that the Ordinance currently has a cap in relation to the capital, and therefore to try and create this different cap that would be on the amount of interest, is very difficult to define and that is why unfortunately it is £25,000 per person. The Ordinance itself makes it very difficult to try and address the joint ownership question and I accept, that in this regard, it does not address that particular issue but I would fully accept that should this proposition be accepted by the States today, that the Tax and Benefit Review would look at this particular Proposition and would refine it in order to deal with that, because they would have more time than the small amount of time afforded to anybody wishing to lay an amendment on the Budget. (*Interjections*)

1070 I therefore suggest that it is a cap on our liability and should we see interest rates increase next year, and I know that some people will say we will not, some people will say that we will – none of us know is the truthful answer, and therefore I do not really want to enter into a debate as to the likelihood of an interest rise, but if we do not see an interest rise then of course we would not see an increase in. We simply would not see any other effect other than those 13 people that would be initially affected by this. But if we do see an increase, we at least introduce a cap on our liabilities and the risk that we have to our income.

1075 I feel that this is actually progressive. I feel that it is in the spirit of the responses that we have had to the Tax and Benefit Review, to all of you who I am sure have read the documents relating to that. I feel that it is fully in line with that, and I feel that it is a better way of addressing some of the risks that we face to our revenue.

1080 Thank you.

The Bailiff: Deputy Brehaut, do you formally second the amendment?

1090 **Deputy Brehaut:** Yes, please, sir.

*Amendment proposed by Deputy Burford, seconded by Deputy Le Clerc.
Not carried – Pour 10, Contre 30, Abstained 4, Not Present 3*

POUR

Deputy Le Clerc
Deputy Conder
Deputy Bebb
Deputy Lester Queripel
Deputy Ogier
Deputy Dorey
Deputy Brouard
Deputy Wilkie
Deputy Burford

CONTRE

Deputy Sherbourne
Deputy St Pier
Deputy Stewart
Deputy Gillson
Deputy Le Pelley
Deputy Trott
Deputy Laurie Queripel
Deputy Lowe
Deputy Le Lièvre

ABSTAINED

Deputy Fallaize
Deputy David Jones
Deputy Spruce
Deputy Domaille

NOT PRESENT

Deputy Gollop
Deputy Storey
Deputy O'Hara

Deputy Brehaut
Deputy Collins
Deputy Duquemin
Deputy Green
Deputy Paint
Deputy Le Tocq
Deputy James
Deputy Adam
Deputy Perrot
Deputy De Lisle
Deputy Inglis
Deputy Soulsby
Deputy Sillars
Deputy Luxon
Deputy Quin
Deputy Hadley
Alderney Rep. Jean
Alderney Rep. Arditti
Deputy Harwood
Deputy Kuttelwascher
Deputy Langlois
Deputy Robert Jones

1095

The Bailiff: Just before we move on, the result of the vote on the amendment proposed by Deputy Burford and seconded by Deputy Le Clerc is that there were 10 votes in favour and 30 against with 4 abstentions. I therefore declare the amendment lost.

Yes, Deputy Fallaize.

1100

Deputy Fallaize: Thank you, sir.

I do not know who these people are, who are paying interest of £25,000 per person on a mortgage that is no more than £400,000, but they must be borrowing from someone like the Bank of Zimbabwe, I think. If they want to get in touch with me, I am happy to arrange something at a slightly more competitive interest rate.

1105

The issue really with this amendment, I have a lot of sympathy with what Deputy Bebb is proposing but last year when we debated the Budget, Members will recall that Treasury and Resources made proposals in respect of mortgage interest tax relief, and the States did not accept those proposals and instead resolved that no changes to mortgage interest tax relief would be made in advance of the conclusions of the Personal Tax and Benefits Review, and I think that that is still the best way to proceed.

1110

T&R will report on all aspects of the Personal Tax and Benefits Review in conjunction with Social Security in 2014, and if they feel the need to make amendments to mortgage interest tax relief at that time, either in the way Deputy Bebb is proposing, or in other ways then they will propose those changes and I suspect, in the fullness of time, the States will either withdraw or heavily amend mortgage interest tax relief, but wrap up those changes in a package of proposals rather than in isolation.

1115

So, I think what Deputy Bebb is proposing here is effectively a sort of one-year interim measure in advance of T&R reporting with some more coherent or comprehensive proposal.

1120

There is one argument that would make me think that it was worth voting in favour of the amendment for this one-year interim period, and that is if there was a real realistic possibility of interest rates rising quite significantly, to the extent that the liability of the States would be materially impacted – but actually, that is highly unlikely. It may be the case that interest rates will start to rise very moderately in the early months of next year, but we would need to see rates rise quite significantly in the period of the next 12 months, before there was any sort of material impact in relation to Deputy Bebb's amendment.

1125

So for all of those reasons, I think the best approach here is to await the outcome of the Personal Tax and Benefits Review, wait for T&R to come forward with comprehensive coherent proposals related to the future of mortgage interest tax relief and not to put in place effectively a one year interim measure. Thank you sir.

1130

The Bailiff: Deputy Hadley.

Deputy Hadley: Mr Bailiff, I had in fact considered putting an amendment along these lines myself, and in fact some time ago the Housing Board did discuss the issue of interest rates, and I think although I am sure my Minister will jump to correct me, I think the Department were in favour of phasing out of interest tax relief, because we felt that this discriminated in favour of the more wealthy people in our society.

1135

1140 What I do find strange about the amendment though is, as Deputy Fallaize has pointed out, with interest rates at round about 3% at the moment, you would be paying £12,000 interest at the most on the maximum sized mortgage you claimed relief on. Interest rates would need to double before this cap were actually exceeded, by which time as Deputy Bebb has pointed out, the States would lose about £14 million a year and interest rates are... I think, the last estimate I had was that
1145 interest rates would possibly rise by a quarter per cent in the second half of next year. So perhaps there is not a rush to do anything about it yet, but it is a worry that if interest rates do go up the States will lose even more income.

So I think the amendment realistically does not actually achieve anything within the next 12 months.

1150 **The Bailiff:** I see no one else standing, so Minister, if you wish to speak? Deputy St Pier.

Deputy St Pier: Thank you, sir.

I think it is probably worth just starting with some information and statistics about mortgage interest relief, in other words where we presently are, and the last information which I have got
1155 which is up to date is 2011. As has already been identified, of course, we presently have a cap on the level of the loan of £400,000 per property and we have in 2011, 9,000 taxpayers claiming tax relief on interest amounting to £45 million, so that is tax relief given of £9 million. Sixty per cent of those taxpayers are claiming less than £5,000 a year interest; 86% are claiming less than £10,000 per year; so there are only 1,250 who are claiming more than £10,000 a year interest. The
1160 median claim is £3,750 and the mean is just a little over £5,000.

So, as has already been identified, there are very, very few cases that would be affected by this: 13 in 2011 were claiming more than £25,000, which of course is an implied interest rate of 6.25% on a loan of £400,000, and indeed, if it were per person, as is set out here, then of course that is £50,000 of interest which would be an implied interest rate of 12½%. Now the maximum claimed
1165 in 2011 for one taxpayer was £34,150, so that is an interest rate of 8½% and again, quite how that has happened is, I guess, a matter for the Income Tax to reconsider.

The Jersey position is that mortgage interest relief is given on £300,000 of loan but, of course, it is then withdrawn for high earners under the '20% means 20%' mechanism which exists there.

1170 In the Isle of Man, the Isle of Man for a number of years have had an interest rate cap, which was £15,000 a year, which was reduced to £7,500 with effect from 6th April 2010.

This measure actually which Deputy Bebb is presenting is one which the Department did consider as part of its Budget measures, and indeed we did take account of Deputy Fallaize's amendment, which of course we accepted last year. The amendment actually... the resolution actually says that no changes shall be proposed by the Treasury and Resources Department in
1175 respect of the cap, the £400,000, so this is not actually caught by that resolution.

However, we did consider it and we decided, pending the Personal Tax and Benefits Review, that it would not be appropriate to bring it forward as a Department measure and that was the position that we took. But nonetheless, we could see the merit in the mechanism existing, because
1180 of course it does not currently exist, and that is what this amendment seeks to do.

So on balance, pending and irrespective of the outcome of the Personal Tax and Benefits Review, because of course that has to come back and whatever is recommended has to be accepted by this Assembly, even though very few are affected, actually it probably is prudent for the public finances to have the mechanism on the Statute Book, to have a mechanism to cap the level of interest claimed, rather than just the level of loan balance per property to deal with the situation
1185 when interest rates rise. It is for that reason that the Board are happy to support Deputy Bebb's amendment, sir.

The Bailiff: Deputy Bebb will reply to the debate.

1190 **Deputy Bebb:** Thank you, *Monsieur le Bailli*.

The two references were, first of all, in relation to the Tax and Benefit Review and I accept what Deputy Fallaize says, although as I think Deputy St Pier has pointed out in his speech, the amendment that was carried in relation to mortgage interest, when we referred to T&R, I am, as Deputy St Pier has pointed out, trying to introduce another mechanism that I think would be an effective one and there is merit in that happening.
1195

The other question that was raised was in relation to the amount of interest that would need to be raised in relation to the amount of money that would be lost. Just for information, unfortunately our Treasury and Resource Department does not keep data in relation to the capital, nor the interest rates that people currently have, and therefore it is only the amount of interest that they

1200 pay on the mortgage loans available. But, there are 79 people at this point in time who do have
interest payments between £20,000 and £25,000 and therefore I would suggest that this
amendment, were there to be even a moderate increase in interest rates, could... because of course
once again, we do not know whether those mortgages are tracker or whether they are fixed, but
1205 as stated by Deputy St Pier, and I would expect there to be a refinement of it within the Tax And
Benefit Review.

Members, I feel that it is a very moderate amendment. It does not have a large impact at this
point in time, but it does make a difference that I believe would be of great benefit to our tax
system, and I therefore urge you to support the amendment in order to try and introduce a new cap
1210 on the liabilities that we face in relation to the revenue of the States.

Thank you.

The Bailiff: Well, Members, we will vote then on the amendment proposed by Deputy Bebb
and seconded by Deputy Brehaut.

1215

Deputy Bebb: Could I ask for a recorded vote, at the fear of facing people's...?

The Bailiff: We have a request for a recorded vote.

1220 *There was a recorded vote.*

The Bailiff: Well again, while the votes are counted, we will move on to the next and last
amendment, proposed by Deputy Burford, seconded by Deputy Dorey.

Deputy Burford.

1225

Amendment:

To insert a further proposition between Propositions 18 and 19 as follows:

*'18A. To direct the Treasury and Resources Department not to implement the proposals in
Paragraph 3.26 of that Report regarding the incentivisation of Departments to exceed their
1230 FTP targets for 2014.'*

Deputy Burford: Sir, I was really uncomfortable with the proposals in paragraph 3.26 of the
Report regarding how Departments might be incentivised to save money over and above the FTP.
I should say that I have no aversion to saving more than the FTP if it can be reasonably found, but
1235 rather the method of going about it. At the very least, I thought Members should have a vote on the
matter.

I have never been a fan of behaviourism, which is essentially what this proposal is based on.
The idea that rewards, incentives, bribes, monetary coercion – call it what you will, it is all the
same – are the way to get the best out of people is fundamentally flawed.

1240 Time and again, research shows that rewards do not work to promote long-term change or to
enhance one's level of performance. That is fine, you say this is only for 2014, but rewards
actually decrease personal motivation and result in poorer performance. Moreover, research shows
that when we are working for a reward, we tend to do exactly what is necessary to get it and no
more; whereas when we are working for an ideal we believe in, we do not apply such limits.

1245 I am not saying that incentives do not sometimes work, but I am saying they do not always
work in the way we might hope. The outcomes can be quite unexpected, perverse even. It is
interesting too that study after study on incentives and rewards schemes show that once the
incentive is removed, people are less motivated in their work than before it was introduced.

1250 What does this idea in the Budget imply about the political and staff members of Departments?
It implies that without a dangling carrot, Departments will not come up with further money-saving
or money-making initiatives. But the truth might be that after four years of cutting back, of
rationalisation, of staff reductions there is not the fat in the system for thinking up such schemes.

Google reputedly gave their employees 20% paid time to work on their own ideas. I am not for
one moment suggesting that this is a route that the States should follow, but what I am saying is
1255 that if this scheme brings forth ideas from an already fully employed workforce, what might be left
undone?

The higher level of reward offered for working with other Departments indicates that T&R
consider cross-departmental working more desirable than silo... I mean, solo working. It says that
Departments will only venture outside their own walls if paid extra to do it, and under this scheme

1260 if they do, then they will be promptly rewarded with cash to use entirely inside their own silo. If that is not mixed messages, I do not know what is.

1265 What happens if a Department finds that working with another jurisdiction on a certain issue is better than working with Jersey? Will they be tempted to pick the Jersey option because it lines their cash limit? The same applies to a situation where working alone might produce a better outcome than working with Jersey, but the latter is better for the Department's budget.

You might say that T&R trust the Departments to do the right thing in these cases, but if that is the case, why is this scheme deemed to be necessary in the first place?

The Report also states that:

1270 'The Department believes there are many opportunities for cross departmental working which have not yet been fully explored...'

When I was reading this I did rather wonder if they had left off the words, 'but we are not going to tell you what they are.'

1275 But maybe the research on incentivisation is wrong. In that case, let us assume that a Department comes up with a scheme that it would not have otherwise have come up with and claims its cut. Why should that money be spent in that Department when there may well be a more pressing need elsewhere? As Members will know, I am not averse to ring fencing of funds, but this is not ring fencing.

1280 When the Departmental FTP targets were finally settled upon, perhaps it was not adequately assessed what the ability of each Department was, in terms of its revenue-raising capability. Perhaps that was because back then, we wistfully hoped that savings would come more from efficiencies than from charges. And therefore it seems quite wrong to me, even if this questionable scheme is successful, that a Department which has had an easier time of the FTP process, and manages to find a million pounds would be able to keep £600,000 of it, when we are hobbling bus services and potentially closing schools.

1285 They say that desperate times need desperate measures, and there is certainly more than a whiff of desperation about this one. After all, from Nick Leeson to Lehman Brothers, bonuses have been shown to be very effective – unfortunately, however, not in the way that was envisaged. This scheme smacks of casino banking and I do not believe it has any place in Government. *(Laughter)*

The Bailiff: Deputy Brehaut, you formally second the – sorry, I am getting my Members confused.

1295 Deputy Dorey, you formally second the amendment?

Deputy Dorey: Yes, sir, I do and reserve my right to speak.

Amendment proposed by Deputy Bebb, seconded by Deputy Brehaut.

Carried – Pour 35, Contre 8, Abstained 0, Not Present 4

1300

POUR	CONTRE	ABSTAINED	NOT PRESENT
Deputy Le Clerc	Deputy Fallaize	None	Deputy Gollop
Deputy Sherbourne	Deputy Le Lièvre		Deputy Storey
Deputy Conder	Deputy Green		Deputy O'Hara
Deputy Bebb	Deputy Paint		Deputy Laurie Queripel
Deputy Lester Queripel	Deputy Luxon		
Deputy St Pier	Alderney Rep. Jean		
Deputy Stewart	Deputy Domaille		
Deputy Gillson	Deputy Robert Jones		
Deputy Le Pelley			
Deputy Ogier			
Deputy Trott			
Deputy David Jones			
Deputy Lowe			
Deputy Spruce			
Deputy Collins			
Deputy Duquemin			
Deputy Dorey			
Deputy Le Tocq			
Deputy James			
Deputy Adam			
Deputy Perrot			
Deputy Brouard			
Deputy Wilkie			
Deputy De Lisle			
Deputy Burford			

Deputy Inglis
Deputy Soulsby
Deputy Sillars
Deputy Quin
Deputy Hadley
Alderney Rep. Arditti
Deputy Harwood
Deputy Kuttelwascher
Deputy Brehaut
Deputy Langlois

The Bailiff: Yes, what I had in front of me was the Deputy Bebb–Deputy Brehaut amendment because there were 35 votes in favour and 8 against. So I declare the Deputy Bebb amendment carried.

1305 Then I will call Deputy Luxon and then Deputy Hadley.

Deputy Luxon: Sir, thank you.

Desperate times, desperate measures: we still have an awful big hill to climb to be able to achieve the £31 million FTP savings by the end of next year.

1310 Deputy Burford made the point that when you remove an incentive scheme, it can often be dysfunctional. This scheme lasts for one year, it falls away at the end of 2014, so I do not think we need to worry about the demotivation, if the scheme is removed at the end of that period.

1315 Sir, I did not like this Proposition when the Treasury and Resources Minister shared it, when he briefed the Policy Council on his Budget Report. I did not like it because I wished that it was not necessary, but frankly if it is necessary to encourage members of a Department, whether politically or at staff level, to try and look again and see if they can come up with initiatives that will help the States of Guernsey to deliver these savings which the taxpayer of Guernsey wants to see, then I am happy to support it.

1320 For that reason, sir, I would support this amendment. I think it is important that we give ourselves every opportunity and every tool to try and hit the FTP savings in an effective way.

Thank you, sir.

The Bailiff: Deputy Gollop, welcome to the meeting. Do you wish to be *relevé*? (*Interjection by Deputy Gollop*) Thank you.

1325 Deputy Hadley is standing, then Deputy Fallaize.

Deputy Hadley: Five years ago, Mr Bailiff, when the States endorsed its Financial Transformation Programme, it was supposed to be efficiency savings, and as we all know, it has morphed into cuts of front-line services. One of the things that we should be seeing in all our Departments is that they should be working as efficiently as possible. We needed the change of culture, so that we did not waste money.

1330 So I do support Deputy... (**A Member:** Burford.) (*Laughter*) Burford in this amendment. What we want is efficient working Departments, a change of culture, not perverse incentives to help Departments along.

1335

The Bailiff: Deputy Fallaize, then Deputy Bebb.

Deputy Fallaize: Thank you, sir.

1340 Deputy Luxon referred to T&R's proposal as a desperate measure. Now, this is meant to be a cautious Budget and I am not sure that desperate measures should form part of cautious Budgets.

I will vote for this amendment for two reasons. First of all, because there is a presumption in T&R's proposal that the concept of Departments working with their counterparts in Jersey must always be a good thing, because if that is not the presumption, then why would we want to incentivise it in all cases?

1345 Now, I cannot be certain that States Departments working with their counterparts in Jersey is always necessarily beneficial. I think there may be examples where there have been attempts made by Departments to work with their counterparts in Jersey which have not been beneficial.

1350 How much time did Commerce and Employment spend, trying to get a... what was it? – (*Interjection*) aircraft registry? (*Laughter*) Sorry Deputy Hadley, it is just it is contagious. (*Laughter*) How long did they spend trying to get a joint aircraft registry off the ground? Excuse the pun. (*Laughter and interjections*)

Now, quite conceivably, that proved to be a waste of time, and there must have been resources employed in trying to work towards that and Jersey were not playing ball. So I cannot be

1355 convinced that working with counterparts in Jersey is always necessarily a good thing, and what
will happen, if we try to incentivise that in all cases, is we could divert resources from working in
other ways to trying to work with counterparts in Jersey, even though that may not be proved to be
beneficial.

So I do not oppose incentivisation in the way that Deputy Burford does in all cases, but I do
only want to incentivise those things where there is a proven benefit, and I think it is highly
1360 dubious that there is a proven benefit in every case to working with counterparts in Jersey.

I accept the second part of T&R's proposal, that there is a proven benefit to States Departments
working with each other, I think there is enough evidence over the years to suggest that that is
almost always beneficial, but that is quite different to incentivising working with the States of
Jersey.

1365 The second problem I have with T&R's proposal, and why I will support this amendment, is
that it is really a historical T&R proposal, because we used to have a system where Departments
who did not spend all of their allocated budget were able to retain their unspent balances, roll them
over from one year to the next. That was a way of incentivising Departments not to exceed, or
even reach their cash limit. But that was abandoned because it was thought to have provoked very
1370 odd, unusual and probably unhelpful behaviour, and this is the problem with incentives. You have
to be absolutely certain that what you are incentivising is the sort of behaviour that you want to
provoke.

And we do not permit Departments to retain unspent balance now, but if T&R's proposal goes
through un-amended, we will actually be reintroducing a form of unspent balances by allowing
1375 Departments to carry over money which they have saved in previous years. That flies completely
in the face of what the Financial Transformation Programme was meant to be about. It was meant
to be about Departments saving money and then returning that money to the centre, and the money
then being allocated according to need.

I do not want the Environment Department to save a quarter of a million pounds a year and be
able to roll over that balance, if that money is better spent in Education or Health. That is
completely contrary to the corporate way in which the States is meant to be working and was the
very reason why unspent balances were abandoned in the first place.

So for those two reasons, sir, I do not think T&R's proposal in this respect is sensible and I
would urge the States to support the amendment.

1385

The Bailiff: Deputy Bebb.

Deputy Bebb: Thank you, *Monsieur le Bailli*.

I have to say that I am attracted to this amendment and what I would ask of the Treasury and
1390 Resources Minister is to understand why he feels that this amendment at this point in time is
appropriate.

I would be quite happy to see an amendment... I am not a fan of such schemes in order to keep
unspent balances, for the very same reasons that Deputy Fallaize has eloquently said, so I will not
repeat those points, but I do also have a pragmatic side to me that realises that human behaviour is
1395 such that it is frequently unattractive and I do believe that there are benefits to such a scheme as
what is being proposed.

But I have two very real concerns with the scheme. First of all, next year, we all recognise, will
be quite a challenge for a number of Departments to meet the existing FTP targets and if any
Department feels that they are able to contribute more than their FTP target, I would say, for them
1400 not to do so because they felt that once they have met their target, 'That is it, we have done our
job, we will go home and rest easy', is a despicable type of behaviour that I could not condone
because we know that other Departments are going to struggle greatly to meet their existing
targets.

So I would expect next year that simple decent behaviour of every single Member here would
be to meet those targets and if possible to exceed them, and I would be quite happy to see such a
scheme introduced in 2015, but I am uncertain as to why it is thought that it is appropriate to
introduce such a scheme in 2014, and therefore I would ask the Minister if he could respond to
those points, when he responds to this debate.

1410

The Bailiff: Deputy Dorey.

Deputy Dorey: Sir, I am very pleased to second this amendment, I was opposed to the idea of
incentivisation when it was originally proposed to Policy Council in June this year, I opposed
again when the Budget was sent to the Policy Council.

1415 I notice Deputy Luxon says it is necessary. Well, if it is necessary to have incentivisation to encourage Departments to make savings, why just do it for one year? Surely if that is the way we need to do it, we should be doing it on a permanent basis, otherwise why do it just for one year? To me, it does not make sense.

1420 Deputy Fallaize has covered a lot of the points that I was going to cover, but as he said it seems to me to be back a step in time to unspent balances, albeit with some modifications and that failed and was scrapped.

1425 It was October 2009 in the States Strategic Plan Report one of the resolutions was to agree that the current system of unspent balances being retained by Departments or Committees is unsustainable and to direct T&R to review this process as part of the 2009 Budget and report back to the States accordingly.

In the 2011 Budget Report, to emphasise it in bold text, T&R said that it was recommending that any underspends by Departments, Committees should no longer be treated as unspent balances, but returned to general revenue.

1430 My view is that T&R should be analysing Departments' spending and recommending appropriate budgets. They should not be proposing rewards for Departments for making savings, when their budget should have been lower in the first place – particularly when we have a deficit.

1435 We all know that Departments started the Financial Transformation Programme from different positions in terms of pressure on their budgets. All Departments have had to make changes to meet the FTP targets, but some Departments have had to make more painful and controversial changes, as for example we know from debate we will be having later this week.

The point I am trying to make is that different Departments have had different degrees of pain. We have had different targets and we have finished in different places when we finish the FTP programme. It is unfair to start a new system with Departments in very different places.

1440 Let me give some examples: the water consumer pays the full cost of capital and revenue for delivering fresh water; but we subsidise people's holidays by funding some of the capital for the airport, subsidising the airline; yet we fail to fully fund an obesity strategy. We do not increase charges to Aurigny users; we have a report saying we should do, because of the lobbying from the users.

1445 I am not saying decisions are right or wrong; I am just trying to illustrate the different positions that Departments are in.

1450 We are currently predicting a deficit for 2014. Surely it is the responsibility of all of us who are Members of Departments, and civil servants, to ensure we do not waste public money and to make savings. It is wrong to spend money saved on that Department's pet projects, as I read it, in 2014 and 2015, when there is no evaluation of those projects against other Departments' possible projects. Most importantly, it is wrong to spend money on new projects when we are running a deficit, particularly when we have the successful Deputy Storey's amendment.

Eliminating the deficit must be our priority, particularly when as a result of the Tax and Benefits Review, we might be even increasing taxes or reducing benefits.

1455 We have tried an incentivisation scheme, when Departments kept 100% of their savings: it was considered unsustainable. So why is T&R proposing a system of incentivisation when Departments keep either 60% or 40% of their savings? Surely, we must learn from history this proposal is fundamentally wrong. It has been tried; it failed. The right thing to do is for T&R to put pressure on Departments that have got potential savings within their budget to deliver those savings and return that money to general revenue; put those savings then towards reducing our deficit so we do not have to increase taxes. If we have a surplus, that money should be used to fund new services which have been properly evaluated and will be of benefit to our community.

Please support this amendment.

1465 **The Bailiff:** Deputy Perrot.

Deputy Perrot: Thank you, sir.

1470 This may be what is described as behaviourism, trying to induce a certain behaviour, but so far as I am concerned, as a Member of the T&R Board, I make no apologies for that. I think that after the burdensome programme for all of us of the Financial Transformation Programme, if Departments are left without incentives, there simply will not be a pressure to be more efficient to make further savings. What we will do metaphorically, I think, is just cast off our shoes, ease our corsets, and hope that we are going to have a slightly more comfortable future – and corporate memory is short. I think that we have to keep it in the forefronts –

I beg your pardon.

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The Bailiff: I think Deputy Bebb is asking you to give way.
Deputy Bebb.

Deputy Bebb: Thank you, Deputy Perrot.
1480 Would he agree with me, for any Department that rested on their laurels, that he would support a motion of no confidence in any Department that were to behave in that manner next year?

The Bailiff: Deputy Perrot.

1485 **Deputy Perrot:** I think that might have been a valuable contribution, but I – (*Laughter*) I think I would need to think that through. Motions of no confidence, if we are talking about blunt instruments, do several things. They divert the States and bring the States, I think, into gross disrepute. I think it is much better to have a system of pressure, albeit perhaps a soft pressure. This is just an inducement to keep trying to make savings.

1490 I think that we have a duty during this parliament, given all that was said during the lead-up to the last election, of bringing Guernsey back into the black. I know that is a very easy phrase. What we are trying to do is to bring it back into the black for the end of next year. But it is not just once; we have got to do that permanently. Guernsey has got a history of paying for its capital projects out of a surplus on revenue account, and that, it seems to me, is what we have got to get back to. (**A Member:** Hear, hear.)

1495 Now, there was a remark earlier on, questioning whether this was a desperate measure. I do not think it is a desperate measure, but what it is is a rather gentle inducement to try to find efficiency and to try to find savings – but let us be in no doubt about it, we are still in desperate times. The recovery is there, I think, but that recovery is frail, and we could easily tip that recovery back into no recovery at all.

1500 Now Ms Burford has referred to casino banking. That is simply exaggerated and silly language. (*Interjection*) That is not what we trying to do at all. We are trying to find continued savings. What we are trying to do is to keep Guernsey, as I say, in the black, and let us remind ourselves, shall we, about the Capital Prioritisation Programme about which there was probably more heat than light in the recent debate? We are talking about capital requirements of £225 million. We have got to fund that, if we can, from surplus on revenue account. We must not keep raiding the contingency fund. (**Several Members:** Hear, hear.) I know that the contingency fund was there for desperate times such as these, but there comes a time when we have got to say enough is enough.

1510 Now, Deputy Fallaize was talking about working with Jersey, and saying that that might not always be beneficial – quite right of course, not everything is always beneficial – but then he gave as an example the work which was done by Commerce and Employment so far as an aircraft register was concerned. Actually, I am glad that he used that example, because that is a jolly good example of where one was genuinely trying to do something with Jersey. Unfortunately, Jersey, given its predisposition occasionally to make mistakes, (*Laughter*) made a mistake about this one and threw the towel in, notwithstanding all of the first-class work which had been done by Commerce and Employment.

1515 But my joke about that – I do not wish to make jokes at the expense of Guernsey – I will admit this to you, but I would not want it to go beyond this Chamber – that my father was a Jerseyman, (*Laughter*) so I do have certain sympathies with Jersey, but the point is here, that if that work had eventuated in success, that success would have been something operated over here in Guernsey, more efficiently and more cheaply, and I hope the Minister of Commerce and Employment would agree with me about that, and it was actually rather silly of Jersey, I think, not to go ahead with a combined registry with us in Guernsey.

1525 I do not agree that we are going back to a culture of unspent balances. Unspent balances result from a vote which people hold on to and then hold over from one year to another. What we are talking about here is much more than that. It is examining our conduct, being more efficient and finding new savings, not holding back on something which has already been voted on.

1530 Deputy Dorey asked the question of ‘Well, if this is such a brilliant idea, why are we only doing it for 2014 and why not do it in perpetuity?’ Well, why not? I think eventually that would be a good idea, and in fact if you read the whole of paragraph 3.26, you will see that it will translate into the cash allocations for 2015, and I can quite see a future Budget from Treasury and Resources wanting to perpetuate this, certainly as far as I am concerned – I do not see my Minister nodding at me, (*Laughter*) but anyway, that is my own view.

1535 In the past, the States have said one thing and have done something entirely different, so far as efficiency and savings are concerned. There has been a lip service observation of the idea that we

1540 have got to have savings, that we have got to be more efficient, but historically the States have spent money like a drunken sailor on a Friday night. It was only when the Financial Transformation Programme came in that we did bring ourselves into the discipline of more efficiency and more savings.

I think that this is a reasonable proposal – I would say that, would I not? I am a Member of the Treasury Board – but I cannot see it as being the malign sort of proposal which is being bruited by some of my colleagues in this Chamber.

1545 **Deputy Trott:** Sir, on a point of correction.

The Bailiff: Deputy Trott.

1550 **Deputy Trott:** I was fortunate enough to attend, along with other Members, a Treasury and Resources presentation on the Budget, where a graph prepared by Deputy Perrot's Department clearly showed the expenditure constraint was, *at its best*, two terms ago, sir. It is not a recent aberration.

1555 **The Bailiff:** Deputy Brehaut. (*Interjection and laughter*)

Deputy Perrot: On a point of order, sir.

Would that have been at a time when Deputy Trott had a different position from the one he has today?

1560 **Deputy Trott:** That is true, sir, and can I say that at no time, either as Treasury Minister or as Chief Minister, have I ever loosened or tightened a corset belonging to me, sir. (*Laughter*)

The Bailiff: Deputy Brehaut.

1565 **Deputy Brehaut:** Well, that's Velcro for you, isn't it? (*Laughter*)

I stand to support this amendment and I thought Deputy Burford delivered a particularly good proposing speech. I agreed with about 96% of that. I think that realigning Education is a good FTP project, making the same system more efficient. I do not see it as a cut in services.

1570 When I read 3.25, it offended me. It says:

'...incentive to deliver sustainable savings by the end of the year will undoubtedly diminish...'

1575 Well why would it undoubtedly diminish? If I was a civil servant working at a senior level or a relatively senior level, or perhaps at any level, I might be offended at that. It is rather patronising; it is rather insulting; the idea that we walk into the boardroom of Commerce and Employment, the Housing Department and T&R and find staff with their feet on the table, having kicked their shoes off, with a full inbox, saying, 'Well, we are on the downhill slope now. We may as well cruise it, we may as well take it easy, we have reached the target'... Any of us working in any States Department or Committee know that the pressure is there! It is constant, it is unremitting, it is the reality of politics and will be for some years yet.

1580 So I do not think you need to incentivise. We should not be incentivising in this way, because what does it say about performance management? What does it say about the mechanisms that we say we have in place to guard against this type of thing?

1585 So no, I will be supporting this amendment and, again, I remain offended by the way that that paragraph was constructed.

Thank you.

The Bailiff: Nobody else is standing. The Minister then will speak, Deputy St Pier.

1590 **Deputy St Pier:** Thank you, sir.

Desperate measure or gentle inducement? I have to say, I do agree with the latter description of this being a gentle inducement. This is for one year only.

1595 The reality that we have to face is that Departments have no real reason or incentive or inducement to go above and beyond. PSD have contributed another £250,000, which is an excellent result, but in particular working with your full in-trays that Deputy Brehaut referred to and the full day jobs that people have, that the reason to work with other Departments and to work with the other island is limited, frankly, and we have certainly seen that.

1600 Now, Deputy Fallaize said that he would not want to induce or divert resources from working with Jersey if it was not beneficial. Well, of course that is the case, and of course Departments would only benefit if it would produce savings, and no doubt the political Boards would only sanction working with Jersey if it was going to produce savings. They would not want to divert resources if that was unlikely to be the case.

1605 The fact is this is about – as Deputy Hadley said, although he was speaking against the amendment – encouraging, inducing cultural change. It is part of our transformation, thinking beyond just our own Departments, and it is just a gentle inducement to do that.

1610 I would prefer it if it was not required. It may in fact have no effect whatsoever. There may be no Departments that benefit from this mechanism. They will had to have achieved their own FTP target in order to do that, but we must recognise that we currently, and for the last few years, have no mechanism at present for any new money to be spent on any new initiatives and this is part of the safety valve which I have described as needing to have, to allow some pressure to be released from the system, if Departments do indeed deliver.

1615 So it is just a practical measure, to get us over the FTP in the last year, and I think what Deputy Fallaize was really describing was that need for the Government Service Plan to properly allocate resources between Departments, and in the absence of that, as Deputy Duquemin spoke very clearly on in the GSP debate, resources are allocated where they have previously been allocated, and we have to recognise that that is the reality until such time as we have a better system of allocating resources.

1620 As Deputy Perrot has said, this is very different from unspent balances, which were all about keeping what you had not spent. This is about setting future years' budgets, and we are doing what we can to bear down on unspent balances. We have done that with the vacancy factor this year, in setting Departments' budgets. So yes, as Deputy Dorey said, all Departments do have a duty to bear down on the budget deficit and of course that again is what this measure delivers, because it will only kick in when the Departments have gone above and beyond their own targets.

1625 So it is a gentle inducement, it is not a radical change in direction, but I would encourage Members to support this initiative and therefore to reject the amendment, sir.

Thank you.

The Bailiff: Deputy Burford will now reply to the debate.

1630 **Deputy Burford:** Thank you, sir.

Starting with Deputy St Pier, he says Departments have no inducement to go over their FTP target, and promptly followed that up by said PSD have gone £250,000 beyond their... How did PSD do it without inducement? How?

1635 He says that this proposal may have no effect, but what the Minister fails to appreciate I think is that it may have a negative effect.

I thank Deputy Fallaize for his comments and highlighting the issues over working with Jersey and unspent cash balances.

1640 Deputy Bebb – rewards can work, but we have to ask, 'work to do what?' But Deputy Bebb is right that some Departments struggle and well-off Departments should not be keeping money that other Departments may need.

I thank Deputy Dorey for seconding this amendment and I agree that analysing budgets is a much better way to go about things.

I hear what Deputy Perrot says about the necessity for incentives, unfortunately as it seems, research disagrees with him on their effectiveness.

1645 Deputy Perrot and I want to get to the same place, particularly over capital spending. We will just have to disagree about the best way to get there.

Sir, I would just urge all Members, please, to support this amendment.

Thank you.

1650 **The Bailiff:** We will vote now on the amendment proposed by Deputy Burford, seconded by Deputy Dorey with a recorded vote.

There was a recorded vote.

1655 **The Bailiff:** We move now into general debate on the Budget and Deputy Soulsby, the Chair of the Public Accounts Committee, will speak first.

Deputy Soulsby: Sir, I will be speaking firstly on behalf of the Public Accounts Committee and subsequently as an individual Deputy.

1660 I should just advise that the Committee have identified a number of areas within the Budget that may be worthy of review, and will be considered as part of its forward work programme.

The comments that I make now focus on a few points that the Committee believes should be brought to the attention of Members at this stage.

1665 We note that the Treasury and Resources Department have taken into account the forecast in the Guernsey Economic Overview, issued by the Policy Council in September, which predicts growth during the second half of 2013 and into 2014 based on the projected increase in confidence within the market.

1670 However, the Committee would question whether an anticipated RPIX of 3.3% for the whole of 2014 is overly optimistic, especially bearing in mind that RPIX has not reached this figure in the last four years and it would require a significant jump in a very short period of time from the current 2% to enable the average to be maintained at 3.3% for the next year. Therefore, whilst not wishing to be pessimistic, the Committee would like to express a certain amount of caution.

1675 In addition, there appears to be no explanation as to why an estimated figure has been used, when referencing increases in taxes and duties for next year at the same time that Social Services Department has used the RPIX figure of June 2013 and indeed, the Treasury and Resources Department have used that same figure for personal income taxes. Whilst this may be consistent with previous years, the Committee is concerned that the disparity between the two rates highlights the shortcomings of the current system of determining taxes, pensions and benefits.

1680 Now, turning to the income forecast within the Budget, the Committee is concerned that the forecasted increase in revenue through income tax may be overly optimistic. The fact that our overall position is £10 million worse than predicted, can primarily be explained by the drop in income. Much of which is attributed to the fact that the extension of the Zero-10 band to fiduciaries has failed to reach the level expected. However, there is no explanation given as to why this is the case.

1685 The Committee is pleased to see that the Treasury and Resources Department believes that a review of grants, subsidies and loans is required. This has been an area of concern already identified by the Public Accounts Committee within its future work programme. And we would welcome the opportunity to discuss the scope of this review with the Department.

1690 On a related matter the Committee would like to acknowledge and thank the Treasury and Resources Minister for the commitment to amend section 8 of the States Trading Companies (Ordinance) 2001 to enable the accounts of Guernsey Post and Guernsey Electricity to be debated, rather than placed as an appendence to the Billet.

1695 Both the review of the terms for which grants, loans and subsidies are provided, and the need to ensure the accounts of States trading entities can be fully debated, are necessary to ensure that there is an appropriate level of oversight to all those parties, including the third sector, who receive funds from the public sector.

1700 Finally, it was evident to the Committee that beyond the headline changes to taxes and duties this Report is at best difficult to navigate, and at worst completely impenetrable. Incentivisation is considered within the section on expenditure proposals, whereas future transformation is considered under a heading of financial position. There are various headings relating to reserves with budget reserve and capital reserve considered in one section, and contingency reserve and strategic development fund, effectively a reserve, in another.

1705 The Committee therefore requests that the Treasury and Resources Department consider the need to make future reports more accessible to the general user, to ensure greater transparency, and help taxpayers better to understand how the States of Guernsey uses their money.

The Public Accounts Committee intends to play a key role in this process by questioning the Treasury and Resources Minister on matters of concern to the Committee in a public forum from 2014. (*Interjections*)

1710 Now sir, there are certain aspects of this Report I would like to comment on as an individual Deputy.

I have been considering placing an amendment to reduce the TRP being proposed on commercial premises from 5% to RPIX. However, I did not, because as a Member of the Commerce and Employment Board, I know we have been pressing on the Treasury and Resources Department about the need to review the rates and will work with that Department to progress the changes that we think are necessary.

1715 The current structure makes little sense. For example, why does a café only have to pay half the TRP of a retail shop – and I speak as someone with both, by the way – and why is a motor trade able to pay less than a garage?

1720 A review of TRP is long overdue and is another example of how Zero-10 has been a killer for local businesses. Local businesses are being milked dry on all levels by indirect taxes (A **Member:** Hear, hear.) which take no account of their profitability. (A **Member:** Hear, hear.)

1725 Now, with regard to tobacco duty, I welcome the RPIX plus 3% increase, although why the June RPI figure has been used, I do not know. I also look forward to seeing HSSD's revised tobacco strategy and hearing how they have spent the funds raised from the extra 1% on duty, that was ring-fenced for tobacco prevention and education last year, a result of Deputy Burford's successful amendment.

1730 On an associated matter, Members may also recall the Medical Officer of Health's recent report which requested Government consider the taxation of sugary drinks. In his report, he stated taxes on tobacco have been an important method to control consumption, as well as raising money for Governments. Therefore, there is a growing depth of opinion that taxation should also be used as one means to control sugary drinks. He went on to say that the tax should discourage consumption of sugar sweetened drinks – (*Laughter*) sorry, Deputy Gollop (*Interjections*) – and promote consumption of healthier beverages, such as water and low fat Guernsey milk. I would like to know whether the Treasury and Resources Department have considered this potential revenue stream.

1735 Finally, I would like to comment regarding fuel duty the issue having been raised by Deputy Dave Jones recently, when he was considering an amendment to reduce it.

1740 Whatever the merits of raising or lowering duty, it is important to consider the facts. The cost of a litre of petrol can vary widely. I recently drove round the Island and recorded the prices of unleaded petrol. It ranged from 113.9 pence per litre to 121.5 pence per litre, which shows we have competition in the market place, but which gives an average of 117.9. Now the average in the UK is 137.7 and taking account of VAT which brings it down to 114.5, so does that mean that it is the States of Guernsey that is fleecing the consumer? Is our duty too high?

1745 Well clearly not, with duty in Guernsey being 46.5, compared with 57.95 in the UK. If you take this out of the equation, you are left with a base cost of 71.5 pence in Guernsey and 56.55 pence in the UK. That means we are paying the fuel importers and retailers over 26 more in Guernsey than the UK. Now that may be because it is more expensive to bring petrol in, which I totally understand, as well as a higher cost of doing business in Guernsey, but the fact that we have so many garages in Guernsey, with planning permission being requested for more, this leads me to suppose that someone is doing okay here. We have far more garages than we need for such a small Island. There are four in the less than one and a half miles from the Ville au Roi to the Co-op in St Martin – which in itself means – (*Laughter and applause*) Well, it will be when they close St Andrews because everybody is going to have to go that way, Deputy Fallaize. (*Interjections*)

1755 Which means itself that the lack of economies of scale are serving to keep prices high. I therefore look forward to SICRA undertaking a market study on road fuel in Guernsey, similar to that produced in Jersey a couple of years ago.

The Bailiff: Deputy Jones and then Deputy... [*Inaudible*]

1760 **Deputy David Jones:** Thank you –

Amendment proposed by Deputy Burford, seconded by Deputy Dorey.

Not carried – Pour 14, Contre 30, Abstained 0, Not Present 3

POUR	CONTRE	ABSTAINED	NOT PRESENT
Deputy Sherbourne	Deputy Le Clerc	None	Deputy Storey
Deputy Bebb	Deputy Gollop		Deputy Ogier
Deputy Lester Queripel	Deputy Conder		Deputy O'Hara
Deputy Fallaize	Deputy St Pier		
Deputy Laurie Queripel	Deputy Stewart		
Deputy Lowe	Deputy Gillson		
Deputy Collins	Deputy Le Pelley		
Deputy Duquemin	Deputy Trott		
Deputy Green	Deputy David Jones		
Deputy Dorey	Deputy Le Lièvre		
Deputy Brouard	Deputy Spruce		
Deputy Burford	Deputy Paint		
Deputy Hadley	Deputy Le Tocq		
Deputy Brehaut	Deputy James		
	Deputy Adam		
	Deputy Perrot		
	Deputy Wilkie		
	Deputy De Lisle		

Deputy Inglis
Deputy Soulsby
Deputy Sillars
Deputy Luxon
Deputy Quin
Alderney Rep. Jean
Alderney Rep. Arditti
Deputy Harwood
Deputy Kuttelwascher
Deputy Domaille
Deputy Langlois
Deputy Robert Jones

1765

The Bailiff: Just one moment, Deputy Jones. I can announce the result of the vote on the amendment proposed by Deputy Burford, seconded by Deputy Dorey. There were 14 votes in favour, 30 against. I declare the amendment lost.

I will now call Deputy Dave Jones, to be followed by Deputy Gillson.

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Deputy David Jones: Thank you, Mr Bailiff, Members of the States.

Just to take Deputy Soulsby's point first, before we get on to her attack on the CHP fund, I did consider moving an amendment on fuel, but I could not get the support from Deputies for it. That is simply because I believe that it has an ongoing cost for lots of other things, such as food and transport. I think Deputy Soulsby has done a good analysis on it, except of course the mileage you get for a litre of fuel in the UK is far greater than you will get in Guernsey, and distances –

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Deputy Soulsby: It certainly will be the case when they close the schools and everybody has got to go up to St Martin's.

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Deputy David Jones: Well, that is a point of view I suppose.

The point is that if I had laid the amendment, it would have clearly been heavily defeated, so there did not seem any point in wasting the States' time with it. If I had got a response back from Deputies – and I have to say to all of you, I thank you for your very polite responses and *(Laughter)* on the internal e-mail, so none of them ended up on the front of the press, which could have been... *(Laughter)* So we are making progress, but certainly if I had got the 40% that were thinking about it, it might have been worth a punt, but it clearly was not. So I thank you for that.

1785

But the other point that Deputy Soulsby made is a valid one. Indirect taxation is the dullest form of taxation in terms of fairness that there is. It takes into no account people's ability to pay. It is a 'one slap fits all'. This is my same speech that... Deputy St Pier is looking at me funny – 'did he not say that last year?' – I did, and the year before and the year before that, but I keep thinking, if you repeat anything for long enough, the message might eventually get through. So it is a very unfair form of taxation, although I do understand why Governments use it, so I make that point again this year.

1790

Just going on to Deputy Soulsby's points. Deputy Soulsby was at the recent presentation to States Members on the relationship between the States and the GHA and therefore I am surprised at what she said this morning, that she knows very well why the Housing Department is currently hampered in meeting housing needs as quickly as we would like. You may think this is not a Budget, but it is pertaining to the Budget, sir.

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As far as the capital prioritisation, we submitted a bid for a 10-year programme from 2013 to 2022 to meet affordable housing needs and that means paying capital grants from the Corporate Housing Programme to fund to enable the GHA to build; new social rental housing; new partial ownership housing; new extra care housing; new sheltered housing; new housing to accommodate staff working for HSSD and Education.

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So currently, there are 249 new homes under construction as we speak: 28 houses and flats at Rue Jamouneau; 54 extra-care flats at Maison Maritime; 63 at St Martin's, Le Grand Courtil; 40 houses and flats at the Grammar School in Brock Road; 14 sheltered flats at South Legion Site, in Route des Coutures; and 54 flats at Cour du Parc.

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But of course it does not stop there, Deputy Soulsby. It is our plan to build at least 100 new properties per year for the next 10 years, but we need land to be able to do that, and we have run out of sites in States ownership to do that.

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Now, the Deputy Minister this morning said that when we say that, some Deputies would say 'well, what about Belle Greve?' Well, Belle Greve is basically a swamp. It is five metres below sea level and anybody thinking about building homes for people – we know that sea levels are rising; who would build on that site without raising it? – is simply not feasible. Eventually it will

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probably have to be done, but the infrastructure costs of just getting the site raised and draining the area, putting in roads and the other infrastructure, we believe is already, I have quoted, round about £30 million just to do that. Now we believe there are other sites that are better suited –

I will give way to Deputy Fallaize for once and only –

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Deputy Fallaize: I thank Deputy Jones, (*Laughter*) it only needs once.

Is the Minister able to advise the States...? The list he is reading out is very interesting, but the points that Deputy Soulsby made were about first-time buyers. Is the Minister able to advise the States which developments are ongoing at the moment and what proportion of the Corporate Housing Fund is currently being spent to build new homes for first-time buyers and young couples, please?

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The Bailiff: Deputy Jones.

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Deputy David Jones: Sir, those questions are pertaining partly to the housing target areas, but I will continue and try to answer at least some of his question.

So, with some limited exception, it is not possible at this time to say exactly which sites will be developed over the next four years, or indeed for what tenure of the market they will be developed for, over the next four years, let alone the next ten.

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However, where additional land will need to be acquired, it is certain that it will fall into one of four categories: the housing target areas set aside by the States to provide strategic reserves for housing development, when other opportunities for development are not available, we are currently in discussion with Housing Target Area land owners and Environment with a view to asking the States early next year to release one or more of the HTA's; States-owned land released through rationalisation of States land and property identified through Strategic Asset Management Plan; sites in the rural area where limited development on greenfield land is permitted; and privately owned sites identified through Environment's new development plan.

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The development of all these sites will cost large sums of money. At the beginning of 2014, we anticipate there will be £61 million in the CHP fund, but our capital prioritisation bids envisage spending around £50 million on affordable housing projects by the end of 2022 and all from the CHP funds. So we are making no call at all on the capital reserve for housing at this time.

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In addition, we are intending to spend a further £5 million finishing off the modernisation of our own housing stock, hence the reason the Budget Report highlights that in ten years the fund will be depleted, and then we will be presumably in a queue like everybody else and once again housing will fall behind, as it has done, as history has shown in my view.

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Plus let us remember that all capital monies – sorry, let us remember that these are all capital monies – so what is in the fund is irrelevant to keeping two schools open, Deputy Soulsby – are you seriously suggesting for instance, that we should use the CHP to pay the revenue costs of two schools rather than to pay for new affordable housing? We still have a housing crisis on this Island, and I am tired now of the fund being attacked, as if it is just sitting there to be used by people for all sorts of projects that they have in mind. Give us the land and we will use that fund up very quickly.

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Going back to Deputy Fallaize's question about first-time buyers, we are always discussing better ways of how to help first-time buyers. Some of the HTAs and some of what comes out of that, you might be surprised at some of the forward thinking we are having with Environment and what type of housing needs to be built. But we have to keep all these plates spinning, we have got demands for more and more partial ownership and shared equity, which has been hugely popular. We have got about 150 people waiting to come into that scheme, but again we have to balance that. If you take Cour du Parc actually as a microcosm of that, we have got demands in there for key worker housing. We have got demands in there for partial ownership and shared equity to help wash the £6 million face of that project and demands for single people and couples without children.

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Now very shortly we are going to collapse our waiting list, to take on board all people, single people, couples without children who will need accommodation. I have resisted doing that for five or six years, simply because it is inhumane to put people hanging on a list, when there is no realistic opportunity of them having the properties that we need, because we have tried to address our priorities first, that is younger occupation of family homes. We have had good progress on that, with the small properties that the older people have moved into; addressing the social rental property, and that is getting harder and harder, because more and more people want to migrate from private rental, because of its cost, into social rental. We have also been dealing with people with special needs, the extra care issues and of course with the first-time buyer issue.

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So all these plates have been kept spinning for 10 years and if you give us the land, then we will continue with that programme. But if you want to decimate the fund for other reasons, then you will have no more housing in the future, because there simply will not be any money to do it.

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The Bailiff: Deputy Soulsby.

Deputy Soulsby: [*Inaudible*]... can we please use it? That is why I said in my speech earlier that I would be prepared to actually do that and actually get involved with the Housing Department and work with others to try and get things moving.

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I was not saying use it for anything else, but it is sat there doing nothing at the moment and it should be used.

Deputy David Jones: It is not sitting there doing anything. We have got the money, we have got the plans to use the money for building homes, but we cannot build them out to sea. We need the land in order to do that. I think we probably spent more time than you would have liked on that.

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I am not unhappy with the Budget. I am unhappy, as always, with the indirect taxation. I believe the Treasury and Resources Department has an impossible task. They have to balance the Island's books with Departments who want to complete their programmes and spend their budgets as they see fit. It is not in a happy place. Health, again, suffers every year, because health inflation outstrips the budget that the moneys they have to run the Health Service. I have a lot of sympathy for Health in that regard. But, it is what it is.

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I am really looking forward to the tax and benefit report when it is finally presented to the States, and I might be able to support some of that, but perhaps not other parts of it.

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Thank you.

Deputy Brehaut: Excuse me sir.

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The Bailiff: Deputy Gillson, then Deputy –

Deputy Brehaut: Just for clarification, I did not want to use the give way provision, just to let Deputy Jones finish, but he used the expression twice 'affordable housing' which some people may read as first-time buyers'. By 'affordable', do you mean social housing?

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Deputy David Jones: Deputy Brehaut, no I do not. Social housing is affordable in terms of rent, but we will see in the next two days whether that is still going to be affordable.

But, no, I do not; I mean we have to seriously tackle the issue of local housing that is priced out of the market of many people. Now, that could envisage having some quite draconian rules at the Environment Department about what you can do to small properties in the future. In my 37 years driving JCBs, I have done any number of extensions on small Guernsey cottages that turned a £300,000 Guernsey cottage into a £550,000 home, pushing that cottage way beyond the reach of local people, just by adding a dowager wing on one side and a something else on the other. I know people are doing that for all kinds of reasons, but there may be some ways that we will have to look at that, Deputy Brehaut, to see what we can do.

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The Bailiff: Deputy Gillson, then Deputy Dorey.

Deputy Gillson: Sir, I support the Budget. I think it is a good Budget. I commend T&R for the Budget and it is as has been said very much a holding Budget.

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There are three aspects I would like to refer to, and they relate to the FTP.

The first is an observation about the way it has been reported in section 3, and it is an openness and transparency observation, that reference is made to the target of £31 million, but nothing is mentioned about the second target that we approved when we approved the FTP. I look and see some blank faces as to what was the second target. Actually, resolutions were to endorse what was the Fundamental Spending Review Phase 2 Report, and part of those recommendations were the expectation of not only achieving a £31 million base-line saving, but cumulative £70 million saving by the end of 2014.

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If I could just quote for Members who were not around in 2009:

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'The FSR recommendations are deliverable and offer the prospect of releasing a net revenue saving of at least £70m over a 5 year period.'

1940 I just think, since there was an expectation, our reporting should really report on how we are doing against that target.

The second area is a question that has been on my mind for a long time now, and it is relation to the Capita fees, and their fees being at risk. This has been said a number of times. It was mentioned when we had a presentation last year, I think in the January debate it was mentioned that Capita fees are at risk, and I would just like confirmation of how this is, because I am getting to doubt whether they truly are. I am questioning whether they truly are at risk. What makes me think that is this way that there is almost a desperation to shoehorn every possible saving into the £31 million into the FTP, and I wonder whether that is... It just seems odd.

1945 If Members go back to the original FTP, that was done on the basis that Capita would receive an incentive fee. There were 107 projects, they would work on them: those which proved a benefit, they would have 6 ½% of it. If they did not get benefit, they would not receive anything, so their work was at risk. That is great, absolutely right, actually a very good deal for us, no question about the 6 ½% good deal.

1955 There was one exception to that. The exception was if Capita came up and proved there was the potential saving, but we as an Assembly said, or the Department said for political reasons, ‘We accept this saving, but we are not going to implement it’, then Capita would still get their fee and I think that is right. I have got no problem with that, but I do wonder if something has been missed in the way when we morphed the FTP from 107 separate savings to one total, whether we have now created a situation where they are in effect guaranteed their fee, because we have created a situation where there is a £31 million target. I wonder if the only reason we are not going to hit that target is for political decisions, because Departments are under instructions to hit them. I just wonder if nothing was done to the original contract, just maybe the structure means that Capita will guarantee their fee. The contract may say it is at risk, but I wonder whether it really is.

1960 I use a comparison that if I were to buy, or anyone were to buy, a Ferrari, it contractually means that specification-wise, it can go to 200 miles an hour, but driving it in the environment of Guernsey, with the speed limit and the size of roads, it is not going to get to that. So in that environment... I just wonder, in the current environment that we have structured the FTP, are Capita’s fees truly at risk? Perhaps the Minister could explain what sort of circumstances could occur in which their fees are at risk. That is the question.

1965 The third part of my speech, sir, is really a plea for Members to be consistent. This is an FTP Budget. The FTP is not an add-on, it is not an optional extra. The FTP is an integral part of this Budget. It is an integral part of departmental budgets, and I support it.

1970 In approving this Budget, we are all affirming this Assembly’s commitment to the FTP. We are approving this Budget is reaffirming instructions to Departments to make difficult decisions to progress the FTP. This is particularly relevant, given the forthcoming debate on education. If Members are not willing to support difficult decisions, they need to think seriously about whether they are going to support this Budget.

1975 You could think about HSSD, 2012, they had £111 million to spend; 2014, their normal budget is £110 million, so they are being instructed to spend £1 million less. They are also being instructed to spend another £6 million less. So if we approve this Budget, collectively, we Members are telling the HSSD – and I am using them as an example, not anything in particular, just as a good example – to save £6 million. The effect of supporting this Budget is saying to HSSD to save that money.

1980 Therefore, in supporting this Budget, we need to be willing to make decisions and we need to be willing to support Departments who come forward to make those difficult decisions. The bottom line, this is an FTP Budget. Supporting this Budget and voting for it is supporting the FTP and I urge Members to be consistent.

1985 I am going to support the Budget. I am going to vote in favour of the Budget, and I urge all Members to support it, but they have to remember to support it, if they are willing to make the difficult decisions to support Departments to hit their FTP targets. Because otherwise if people support the Budget and are not willing to support Departments, you are just kicking the problem down the road. Face it now and not just next year or at the end of next year.

So I urge Members to think carefully about how they vote, but I commend this Budget, I support it, I support the FTP.

1995 **Several Members:** Hear, hear.

The Bailiff: Deputy Dorey.

Deputy Dorey: Thank you, Mr Bailiff.

2000 There will be two parts to my speech: one will be in relation to HSSD and I will pick up some other matters as well.

Before this Budget Report was published, the Treasury and Resources Minister gave a statement in the September debate in which he informed States Members of a probable £1.3 million overspend by the Health and Social Services Department. In the Budget Report, T&R has confirmed that it is encouraged by the work HSSD is doing to achieve a financial turnaround, and has said that it will use its delegated authority to approve a budget increase to cover the 2013 overspend if necessary.

2005 However, given the degree of public and political interest in HSSD's finances, it is my intention to use this speech to give States Members a fuller picture of my Department's financial position, the circumstances leading up to this year's forecast overspend and the steps we are taking to bring the Department back into financial balance and achieve next year's ambitious savings target, which has already been referred to.

2010 In September, Deputy Hadley asked the T&R Minister on HSSD finances, asked questions, which I will seek to address in the course of this speech.

2015 Deputy Hadley asked, first of all, why a forecast overspend at HSSD was to be approved by delegated authority, when I had given an undertaking when I was first elected as HSSD Minister to revert to the States with a report, if my Board and I could not bring this Department back within its budget.

2020 I take very seriously the commitments that I made to this Assembly, I said, 'I will do my utmost to work with the staff and the new Board to maximise efficiency, and to ensure that spending is kept under control, without affecting vital frontline services.' We have done this through a detailed financial recovery programme, which I shall return to later.

2025 I then said in that speech, 'If this cannot be achieved, I will aim with the help of T&R staff and the Board to bring a report to the Assembly with a budgetary model that works for the Health and Social Services.' I had in mind the fact that much of HSSD expenditure is driven by patient need, which means that some element of formula led budgeting might be appropriate in future.

2030 This is not an issue which the current Board has yet explored, because we have been focusing on the first part of my commitment to maximise efficiency and keep spending in control without affecting vital frontline services. I believe we are beginning to achieve this and there is not a pressing need to consider an alternative model of budgeting for HSSD.

2035 Although it appears that we are not within budget for 2013, we have made great strides forward, particularly in the second half of the year, and I am pleased that T&R has also signalled its confidence in the steps my Department is taking. I will draw Members' attention to paragraph 3.21 of the Budget Report, which says that:

2040 '... the Treasury and Resources Department is encouraged by the Financial Recovery Actions that have now been agreed that aim to deliver a balanced budget in 2014 including the delivery of FTP measures. The Treasury and Resources Department will continue to work closely with the Health and Social Services Department, at both political and staff level, to support delivery of these actions and monitor progress with the realisation of benefits during 2014.'

I offer my thanks to the Treasury and Resources Department, particularly the Minister and his staff for the close working that we have worked with during this year.

2045 I believe there are already clear benefits from the closer joint working between Departments, both at officer and political level. Although the action taken by HSSD in November 2012 has had some far-reaching and unfortunate consequences, it did reduce last year's overspend from a forecast £2.5 million to an actual £2.2 million, but it still meant that Department staff this year having to reduce expenditure in the wake of a significant overspend and the additional challenge of funding a further £3.3 million in savings to meet FTP target for 2012 and 2013 combined.

2050 Since then the Health and Social Services Department has embarked on a wide-ranging programme of financial recovery actions. While this is largely aided by the appointment of a short-term consultant adviser to the Department in June, staff across of HSSD has contributed to identification of meaningful savings opportunities, and the Board and management team are fully committed to pursuing these opportunities.

2055 We have identified potential saving opportunities with a full year value of £8.2 million, some of which have begun this year and some of which will be put in action in 2014. Some of these are FTP savings and some are cost reduction in areas which are prone to overspend.

In the context of the Budget debate, it would be helpful for me to set out HSSD's position in relation to FTP. At the start of 2013, our savings target was £3.3 million. This included £0.9 million carried forward from 2012.

2060 By August 2013, we had banked savings of £1.8 million. This meant that the remaining £1.5 million of our 2013 FTP target was added to our 2014 target, making £6.1 million to achieve

between August 2013 when the Budget Report was written and the end of next year. In September, we banked another £0.2 million, taking our achievement for 2013 to £2 million.

2065 We have identified FTP projects worth between £3.9 and £4.8 million which will start this year or early next year. This leaves us with an overall target of between £1.1 million and £1.9 million still to find. While we have identified a number of opportunities, we have not yet fully examined or costed and we are working through these at present.

2070 Next year's FTP target is undoubtedly a major challenge for HSSD and we recognise that there is still some way to go before we can have the confidence that we can achieve it fully. But we are not standing still. The Department continues to identify new opportunities, and to set aside those which on close examination turn out not to be viable. The Board and management team are keeping the savings opportunities under constant review and trying to ensure that all avenues are explored.

2075 This approach is not, however, about cutting vital frontline services. This is primarily about seeking efficiencies in delivery costs and staffing. It is about producing effective controls on highly variable expenditure and where service cuts or new charges are considered, it is about taking decisions that weigh up the clinical evidence and taking account of the impact on the people involved.

2080 For example, at the end of the summer, we withdrew the subsidy for GP visits to residents in the Lighthouse Wards. This put them on a par with all other people in long-term care, both in HSSD facilities and the private sector. It did not jeopardise their well being, as they continue to receive care from HSSD's staff and Medical Specialist Group consultants free of charge, but it was not good news. It was a fair decision. It did not withdraw an essential service.

2085 At the same time, my Board and the Social Security Department supported the development of age-related macular degeneration service on-Island. We should begin in early 2014. This means that older Islanders with eye conditions will no longer have to travel to Southampton on a monthly basis for treatment. It is expected to result in a net savings to the States, and will be a considerable improvement for many Islanders who struggle with the off-Island travel.

2090 Although it has taken much longer than I and my Board would have hoped, Sausmarez Ward is now on the verge of re-opening. From Monday, the Ward will be up and running again, and patients have already been booked in. This will reduce the number of postponed operations and allow Victoria Wing to return to its primary function as a private ward, which will also increase our income.

2095 We are also looking at further short term reconfiguration in 2014, which will allow the hospital to make better use of the existing space and remove the risk of forced closure of Divette Ward before the full PH re-profiling is undertaken.

2100 On that note, I should emphasise that HSSD also has a capital programme which is supported for frontline services, and enables the Department to respond to changing needs. We have an additional £1 million capital allocation from T&R specifically to allow us to replace high priority for aging medical equipment in 2014. This will enable us to mitigate risk and continue to provide high quality safe service to the Island.

2105 As I mentioned earlier, we are seeking to introduce appropriate cost controls where they are needed. We are beginning to see improvements regarding off Island expenditure and HSSD and MSG have both worked together to improve the referral process for off Island acute services. An HSSD commissioning team continue to negotiate better rates for long term off Island placements.

The Budget Report notes that an allocation of £0.7 million has been made to the budget reserve in 2013 to cover the costs of certain exceptional cases which fall outside the ordinary scope of our budget, and I thank T&R for that support.

2110 In all other aspects, however, we are working to introduce rational processes to ensure that appropriate decisions are made about off-Island care from both financial and more importantly a clinical point of view.

2115 One area that is mentioned in the Budget Report is St John Ambulance. I can confirm as stated in the Report that a full review of the service has now been carried out, and HSSD is due to release this next week. As stated in the Budget Report, we will return to the States with a report concerning the future financial and contractual arrangements and any significant service changes as soon as we are able.

Financial recovery at HSSD will be a long journey and not without difficulty. The Board and staff of HSSD are fully committed to an approach which seeks to maximise efficiency and control costs without damaging those vital frontline services. We are also committed to open approach.

2120 Where our decisions might have wide-ranging consequences, we will revert to the States with a report on those issues before we move ahead. Where decisions might impact on our contractual obligations we are working closely with our partners Social Security, MSG and Primary Care.

2125 Next year's budget is ambitious, especially in terms of the size of the FTP target. There is still some way to go before we can feel wholly confident that we can achieve it. But I am confident that we are taking the right approach.

We will, of course, continue to liaise closely with T&R and the Policy Council during 2014 and if issues arise which we cannot resolve between us we will report back to the States as necessary.

2130 Finally in this part, I would like to take the opportunity to properly commend the staff at HSSD for their hard work this year. It has been a difficult year with much uncertainty and with some serious challenges to face. Our staff across the whole organisation have continued to do their jobs with commitment, dedication and professionalism and have participated fully and constructively in the Department's financial turnaround. Although next year's budget is tight, and there is much work to be done, I am proud of the Health Care and Social Care Services which HSSD provide to people of Guernsey and Alderney and I am certain that we will do our best to meet the challenge.

2135 I would now like to pick up a point made by Deputy Soulsby about the budget of last year and the £50,000 that was allocated to additional funding. We have been in correspondence with Deputy Burford, who was a proposer of the amendment, and said how the money has been spent, and I am quite happy to outline it now.

2140 A healthy lifestyle worker has been used for part of the money which should work to promote tobacco education in school years age 6 to 11. We have regulated the establishing of Quitline, which has not been properly regulated since it had been transferred to HSSD, which has cost part of the money, and we have also partly funded a Personal, Social, Health and Citizen Education (PSHCE) co-ordinator, and HSSD plans to use that money of the ring fenced allocation in order to establish that co-ordinator role, recognise its importance in equipping young people with the skills to recognise and avoid risky behaviours which include smoking.

2145 I would also like to pick up a couple of other things from the Budget. Mention was made of TRP. I remind Members that TRP is not always considered to be fair, but that was part of the Zero-10 proposals. The Zero-10 proposals were never going to be fair and they were always going to hit local businesses, because that was the only way we could hit non-local businesses. The argument, which I still think was right, of the day that local businesses benefit from prosperity that the Island gets from Zero-10, and I think a comment which I was disappointed with was used this morning was a desperate situation. I think we should be very proud of our economy. Yes we have had better times, but our unemployment rate compared to almost everywhere else in the world is something to be very proud of; our standard of living; the fact that we have a contingency fund, which we could draw on to finance the deficits we currently have; our pension funds both for public employees and social security; I think that we have got a lot to be very proud of in terms of our economy, (**Several Members:** Hear, hear.) and I do not think the word 'desperate' is valid to be used.

2160 In relation to the Budget, I am going to vote against Propositions 10 and 11. Proposition 10 is to increase document duty for one year and Proposition 11 is to increase the thresholds. Each Proposition will cost £500,000 each, making a total of £1 million. What effect will that have on our housing market, with existing supply and demand? Well, the recent report, I accept it was a few years ago, but in the February 2003 Billet, which also proposed setting up a Corporate Housing Fund, was a report that Mike Parr did on the operation of the housing market in Guernsey, and I will quote to you, and this relates to the changes in document duty which happened in 2001 and 2002:

2170 'The recent simplification and reduction of document duty and the planned abolish of treizieme will have exerted some upward influence on prices, but may have acted chiefly as a signal about the States intentions towards rising prices. This may have an unintended consequence, but is a policy error...'

2175 So that is his comment on the previous attempts to reduce document duty. It will have an unintended signal about intention towards rising prices and is a policy error. I believe that the proposals from T&R are a policy error, and I will urge people to vote against them. We will have a reduction of £1 million in revenue, we are still running a deficit and I believe it will just send a signal in the current demand in housing market to increase prices. Surely that is not what we want.

2180 T&R are rightly concerned about reduced income from document duty, but the answer is simple. We should remove taxes from property transactions which are subject to the ups and downs of the property market and place them on property, i.e. increase TRP. This will ensure that all property equally, fairly contribute. Currently, if a property is frequently sold, there will be a contribution towards document duty frequently. For property like for example I live in, which has been inherited for many generations and has not been sold, there is no contribution over a long period of time.

2185 There is also the avoidance of it by share transfer, and I know T&R are working on that, but many previous T&Rs have tried to do something and hit a major challenge, and I still wait to see if people do not find work-arounds.

So I would urge the House to follow what Frontier Economics said, when they did review the TRP proposals, that we should increase taxes on property. The major thing that this does, it gives a certainty of that income, as property is unmoveable, and it far better to do that than tax property transactions because of the ups and downs of the market.

2190 So going back to the point I made before, I would ask people to vote against Propositions 10 and 11, so that we do not lose £1 million worth of income when we are still running a deficit, because the outcome, I believe, will be higher prices and that is not what we want, is it?

2195 Thank you.

The Bailiff: I will call next Alderney Representative Jean, to be followed by Deputy Trott and then Deputy De Lisle.

2200 **Alderney Representative Jean:** Thank you, sir.

I am going to take up on Deputy Soulsby's remarks about TRP. I really agreed with everything that she had to say. TRP going up 5%, many people in Alderney have made contact with myself, the Chamber of Commerce have put out a big piece in one of our local magazines and they have spoken against this 5% rise. One business in Alderney who asked for an appointment with me explained that the TRP bill he was paying for his small rental, an electrical hire business, meant he had little money left to pay for maintenance on his shop.

2205 I am careful to declare my own interest, as I am a landlord in Alderney and my TRP bill is not small, but what I do, I tend to keep the TRP away from my tenants and I only actually have one of my tenants who volunteered themselves to pay the TRP bill.

2210 Deputy Soulsby's remarks concur with my own and I have also spoken to shop owners here in Guernsey who feel they have been picked on, got at, and are paying more than the rest. A winter in Alderney, for a business to survive on depleted profits, and shrinking income that is made in the summer carries these shops and businesses through the winter, people in the town in Alderney are fairly close to me and tell me that the way that TRP is applied in Alderney needs to change, and it needs to reflect Alderney's difficulty to obtain anywhere near the same income as the same business in Guernsey. In Alderney, the rate of TRP needs to come down, and when there is a review, please consider the different income streams and our own lack of footfall and the difficulties that Alderney businesses face.

2215 I have to say as well, I did not agree with Deputy Dorey's remarks about putting TRP up even more on businesses or property in Alderney. The property market itself is in dire straits in Alderney with a plummeting in price and properties now being obtained for often much, much less than they would once have raised.

Thank you sir. Thank you.

2225 **The Bailiff:** Deputy Trott:

Deputy Trott: Thank you, sir.

Following on from Alderney Representative Jean's speech, it is becoming increasingly clear to most, if not all, in this Assembly that Alderney's economy is in a desperate need of a shot in the arm, (A **Member:** Hear, hear.) and hopefully that issue can be dealt with in the months ahead. (A **Member:** Hear, hear.)

2230 Sir, there is not a great deal wrong right now with these numbers that a little bit of growth would not put right.

2235 Deputy Soulsby stated that Zero-10 has been a killer for local businesses. Well, I do not think that is true. In fact there is no doubt in my mind that Zero-10 was the lesser of two evils. Without Zero-10, I doubt we would have many local businesses left at all, because of the consequences of the wrong policy decision back then.

Sir, Deputy Soulsby also advised us that she recently drove around the Island recording the price of fuel. (*Laughter*) Now, I am well known for my strong environmental credentials and (*Laughter*) can I recommend that in future, sir, she gets on her bike. (*Laughter and interjections*).

2240 Sir, on page... and I thank you for taking that in the manner in which it was delivered. (*Laughter and interjections*)

2245 Sir, page 7 of the Budget Report – I ask Members to turn to it – it tells... for me it has a very heart-warming story. We are told that our 2014 Budget estimate is, after a very significant appropriation to the capital reserve of £35 million, a deficit of £14 million, which will be funded

by a transfer from the contingency reserve. Give and take a little bit of rounding sir, that is the interest on the contingency reserve, the interest, we are not really eating much into capital at all next year, and I think most would agree, these numbers are potentially conservative, so there is certainly a sun on the horizon.

2250 Sir, on page 32, paragraph 4.2 we are told that taxation income in 2014 is anticipated to be £367 million, and that is a little over 18% of the 2012 GDP estimate of £2,009 million – just over £2 billion GDP compared to the fiscal framework assumed norm for taxation of an average of 21% of GDP. In other words, give and take a bit of loose change, we are about 2½% short.

2255 Now, we can raise that in a variety of ways. We can either raise taxes, which would potentially have a negative impact on local businesses, a fear that Deputy Soulsby and others have, or we can stimulate economic growth, or both, and I much prefer to stimulate economic growth, and I will explain why in a moment.

2260 Sir, on page 37 under paragraph 4.27, we are reminded of a decision that we made this time last year at Budget time, when we set up a £3 million Strategic Development Fund. I know that there are moves afoot in the months ahead to ask the States to tap into some of that, although I have to tell you I am disappointed a year on, with an economy that is softer now than it has been for some time, that there have not been more initiatives coming forward to utilise this Strategic Development Fund and the criteria are very clear. The fund is intended to facilitate the delivery of fiscal, economic, social and environmental policy objectives, including of course, cost-effective, efficient public services in a sustainable and diversified economy. It is all about efficiency and it is all about growth.

2265 Now sir, what a difference a year makes for T&R, because a year ago the Budget was a bit of a dog's breakfast (*Laughter*) and they lost a significant number of amendments. This year, by contrast, no unsupported successful amendments – very well done indeed. That said, the Treasury Minister and his departmental Members have been very eager to trail, that next year will be very different. So a job well done this year, but a very difficult Budget next.

2270 Sir, our economy is under pressures like it has never experience before, and some of them have been of our own doing. This latest issue to grab the front pages regarding the CISX has not done our reputation the world of good, but is being managed it appears well.

2275 International regulatory scrutiny will not go away, competition is getting harder and harder, what we need is a really big push to get this economy growing again. That is what we need and that is what I hope that we will achieve next year.

Thank you sir.

2280 **The Bailiff:** Deputy De Lisle, I was going to call next, then Alderney Representative Arditti.

Deputy De Lisle: Yes, thank you, sir.

2285 At a time when balancing the books and reducing the deficit is the highest priority, I agree with the Minister of T&R that the Report provides a disappointing picture, with Income Tax and document duty receipts down £11 million, as the economy failed to grow as quickly as predicted and the Island now faces a total deficit of £27 million and has to draw down £10 million more than expected from the savings fund.

2290 Now, given the circumstances we find ourselves in, I welcome the recommended measure to raise personal tax allowances, as Islanders are being squeezed by spiralling living costs, and pay freezes, job uncertainty and unemployment. But the substantial jump in the appropriation to the capital reserve of £35 million, above the £25 million generally expected, which has left the drive to eliminate the deficit contingent on modest real terms, increases in indirect taxes, is hitting the individual taxpayer again, and I do not think that we can replenish reserves and deal with the deficit and invest more funds in the capital programme.

2295 If austerity means cutting spending, then it must work on both counts, revenue and capital, to be effective, and that is particularly appropriate at the moment, with a projected seventh successive year of deficit in 2014 which would see a breach in the framework that T&R adopted, or that the States have adopted in 2009. With the introduction of Zero-10 in 2008 already nearly 80% of everything Government spends is taken from individuals, through personal taxation, having accounted for 60% before Zero-10. The retention of the Zero-10 regime surely will require further expansion of the 10% band to reduce the deficit and lighten the burden on the individual taxpayer. I was expecting to see some broadening of the 10 within the Zero-10 Tax Strategy again in this Budget to make amends, rather than taken more again from individual taxpayers in TRP and other indirect taxation. This is not fair on the ordinary taxpayer already burdened by the change in tax policy.

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2310 The financial services sector has recorded its third successive annual drop in numbers working there and the Policy Council economic overview reports domestic conditions continue weak, in terms of finance and confidence. There are no guarantees of a turnaround in the near term, and therefore I feel that we should be looking at the deficit reduction and moving money, more money into the capital account is not the way we are going to reduce the deficit.

I also think at the moment that it is important that we look after what we have. With tax receipts down, unemployment up, the financial services sector has recorded its third successive annual drop in numbers working there, and a number of people have called me with regard to outsourcing operations, which I think has become a major issue. Are we to be reduced to just a nameplate on the door, with jobs outsourced and work done in India and South Africa and other jurisdictions? How many more jobs are we to lose?

2315 Do investors know about Guernsey outsourcing operations in the third world? I call on the Minister to exert pressure here, perhaps changing with the changes that are going on with GFSC legislation and so on, and the review that is taking place, to close the door on the leakage of jobs from our finance industry to other jurisdictions, which is hitting our banking industry hard and putting stress on people losing their jobs here as a result.

2320 So, in all, balancing the books has to be highest priority. I agree with T&R there, we have to stop raiding the contingency fund, we have to return Guernsey to the black, and I think by that, I would encourage the Minister particularly in the next budget to be looking at deficit reduction, rather than more appropriations into the capital account.

2325 Thank you sir.

A Member: Hear, hear.

2330 **The Bailiff:** Alderney Representative Arditti.

Alderney Representative Arditti: Thank you, sir.

2335 I am grateful to Deputy Trott for words which will be very much appreciated in Alderney. There are a lot of people in Alderney who listen to these proceedings on the radio and just at this time for him, on behalf, I know, of many Deputies in this Assembly, to express to them the fact that it is understood that Deputies here do recognise that there is a serious situation in Alderney at the moment. So I thank Deputy Trott very much.

2340 It was Deputy Dorey who brought me to my feet. I am not really very well suited for budget debates and I... well, other lawyers may be, but this lawyer, I do not think he is, (*Laughter and interjections*) but it was Deputy Dorey who persuaded me to say just a few words. Would he please remember the Alderney end of the economy? It is one economy, there is an Alderney end to it, and when he said that the *quid quo pro* for Zero-10 was increased footfall for local businesses, I understand what he is saying, but that Zero-10 footfall does not happen in Alderney. There is a one-size-fits-all problem, just at the moment, in Alderney about TRP and sir, I am grateful to Deputy Dorey for mentioning that, because it gives me the opportunity to ask the Treasury and Resources Minister and his Board if they would please give consideration to the fact, just at the moment, that Zero-10 footfall, the payback for a higher TRP does not work in Alderney. In fact, it is having the opposite effect in Alderney just at the moment.

2345 Thank you.

2350 **The Bailiff:** Deputy Bebb.

Deputy Bebb: Thank you, *Monsieur le Bailli*.

2355 In his opening speech, the Minister of Treasury and Resources made reference to the donations, and regulation of donations that are made and service level agreements also to be put in place and of course, I welcome that wholeheartedly, but could I also ask him in those considerations to consider the situation where things are gifted to Departments, and I will use one particular example.

2360 HSSD frequently receive gifts, and one of those gifts as we well know, was the MRI scanner and previously there was a CT scanner. Those gifts have now become presumed as being matter of course services that HSSD should deliver. Anybody now proposing that either of those initial gifts be discontinued because they do not meet with what we would expect of our services, obviously would be in a very difficult position. We need to understand the measures of disinvesting within these services, the measures that we need to terminate them and how that works. I am not at this point in time saying that that is what should happen to the MRI scanner, but if a gift is received

and we then take it on and provide a service with it, how long should that service be considered an essential part of what the Government delivers, and I therefore would ask him to consider that.

I did have a consideration in relation to this Budget of laying another amendment, and that was in relation to tobacco costs, currently we estimate the amount of money that we spend related directly to tobacco to be in the region of £14 million per annum – (**Deputy Dorey:** Fourteen?) 14, yes, Deputy Dorey. (*Laughter*)

Deputy Brehaut: He is behind you!

2375 **Deputy Bebb:** We estimate the costs that we spend primarily within HSSD in addressing issues as a result of tobacco consumption to be in the region of £14 million, but this Budget will bring us a revenue of £8.35 million.

Now, that is an estimate, and I recognise that it is problematic, but I spoke to the Minister of the Home Department in relation to this question and I asked him what merits there would be in raising tobacco duty and staggeringly the amount of people that currently bring tobacco in, smuggle tobacco in, use their duty free allowance as such, and of course the opportunity for our residents to use duty free far more than in many other countries within Europe, because there is no duty free between the EU borders, that realistically any measure of increasing taxation on tobacco beyond what is already in place would have a detrimental effect on the revenue that we receive. Therefore I recognise that it may not be within the immediate remit of the Tax and Benefit Review, but could I ask the Minister to undertake discussions with the Home Department that they give consideration as to the amount of duty free allowance that we have in relation to tobacco, because it does have a very significant effect on our tax benefits that we derive from tobacco duty. I will fully support any person's right to smoke, but I think that we should be collecting in duty in relation to that particular habit, the equivalent amount to the amount that we spend on resolving the issues that this raises.

Similar types of work needs to be done by HSSD and the Home Department in particular in relation to alcohol. Because whereas we have an estimate of how much money we spend at this point in time in relation to tobacco, we do not have such a clear idea of how much we spend in relation to alcohol. And despite enjoying a tippie myself, I have to say that I would be wholly supportive of the same measure that we should be collecting in revenue the same amount of money as we actually spend in resolving the issues that alcohol has on our society.

Moving on, I have heard a couple of people suggest that financial stimulus is actually what is regarded. I have to say that I am very sceptical of any such stimulus being suggested from the States of Guernsey. Too frequently, when we hear of stimulus, the immediate effect primarily is upon our buildings industry, and anybody who has tried to contact and get hold of a plumber or an electrician recently will notice that... it might be anecdotal, but I doubt that they are actually suffering to the same extent as certain other parts of the economy. I am sure that the Minister of Commerce and Employment will correct me if I am wrong on that measure.

2405 But we need to be careful that if we are talking about stimulus, we need to actually think very carefully about targeting stimulus to where we would want it to happen within our economy, and not just a scattergun approach. I am very sceptical about any measure of the Government trying to stimulate economy. I personally do not agree with it, but I do understand that Members here will be attracted to such an idea.

2410 TRP has been mentioned on a regular basis in this debate and I would be very disappointed if next year we did not see some form of complete reconsideration of TRP. I recognise that there is no financial reason for raising TRP on vacant properties and on disused greenhouses, that was never the argument, and I fully agree with the Minister of Treasury and Resources stating that it is therefore not for him to propose that measure simply on a fiscal basis. The argument has always been behavioural and I think that we would all agree that some very perverse behaviour is currently happening in relation to property, in a market that is demanding more properties and there are other unpleasant behaviours. Therefore, I would fully expect the Minister of the Housing Department and the Minister of the Environment Department to once again work in order to give proposals and due consideration as to how TRP could be used in order to remove some of that perverse behaviour and that we would also see that introduced next year, within our Tax and Benefit Review. (*Interjection*) There is an awful lot going in to that basket at this point in time.

2425 The other thing is the financial incentives. The question laid by Deputy Burford in that amendment which was lost; the one other question I would ask of the Treasury and Resources Department is that they ascertain what has been achieved in order to have that money retained within the Department as savings and not simply raising fees. It is all too easy for us to simply raise fees and claim them to be savings. They are not; they are additional fees. They are a burden

on our economy, they are a burden to the individuals and I do not think that raising fees as a means of trying to increase people's, Departments' budgets is appropriate. I am sure that the Treasury and Resources Minister would agree with me on that point, but I would ask him to address how he

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In relation to Alderney, we have also heard a number of questions relating to Alderney, and all I would say is that, in the Tax and Benefit Review, is it time for us to revisit the question of the common purse? I think that there are merits in reconsidering how the common purse actually works and whether at this point in time, due to the very differing economies in the two Islands, is it time to break that taboo and remove the common purse? I would leave that comment there.

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My final point is not really directed at the Treasury and Resources Department; it is more directed at the States Review Committee. At this point in time, I think that we have a Budget that is introduced into the States in the way that it is with a very limited timescale for any amendment... a very small amount of time for proper scrutiny of it. And I realise that that is actually partially the intention of having such a short period of time and that is to make it more difficult for amendments to be passed. (*Interjections*) It may not be wholly incorrect, (*Interjections*) but if we were to consider that, at this particular debate, we have other very pressing matters, I would ask how good has been each and every single one of us in our ability in order to scrutinise such an important document as the Budget. I would ask the States Review

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Thank you.

The Bailiff: It has been suggested to me that it might be possible to wind this debate up fairly quickly. I know that Deputy Langlois still wishes to speak. May I just have an indication how many other people wish to speak? Oh, we have got several other speakers. No, we will rise now and resume at 2.30.

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*The Assembly adjourned at 12.33 p.m.
and resumed its sitting at 2.30 p.m.*

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The States of Guernsey Budget 2014 – Debate continued – Amended Propositions carried

The Bailiff: Members, we resume general debate on the Budget, and I call next Deputy Langlois.

Deputy Langlois: Thank you very much, sir.

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Sir, I think I can speak on behalf of the Department – we have not in a meeting discussed all of this – but by and large SSD welcomes this moderate and holding operation Budget. Certainly I do as Minister.

When I first read the Budget, I think some of us in Policy Council received it, possibly even during a States meeting or even round about. I remember sending a note to the Minister with a somewhat backhanded compliment: I said, 'what a brilliant Budget – absolutely boring, well done!' I think that has been summed up this morning by various people, and subject to various detailed reservations, some of which we have heard about from other people, any one of us could pick through it and say, 'Well, I am not sure if I would do that, and I am not sure if I would do that', but it makes total sense, for the point of time where we are.

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Now, we have heard some fairly dramatic language this morning, some fairly extreme, even more extreme expressions than what this is about, and what situation we face. Probably not as dramatic as some of the language we will hear over the next couple of days, but where we are as an Island and as an economy, but the simple thing is that we have got two overriding factors in management on States business going on: one is the FTP; and the second one is the Personal Taxation, PTR it has become to be known as by the people handling it. But there are two work streams going on which are very important. Now, in each of those, they have a bearing on why this is the right Budget.

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The FTP is well on its way, but there is still a lot to do. I think, for the sake of the public's view of what is going on, we must acknowledge what has been done. Sir, we beat ourselves up all the time, we keep on reminding people that we are not going to make the £31 million target, or we might not, or whatever, and of course, we have got to keep on doing that internally, to remind

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ourselves that it still matters, and not get complacent. But my information is that, as of today, £18.5 million has been signed off, and there is full expectation from Treasury that that could be nearly £20 million within weeks, within a couple of weeks.

2485 Now, sir, all of us have been round the States long enough: if you had said to us five years ago, that the States will succeed in dropping £20 million a year off its expenditure, you would take a sort of football manager view of it, that is like being offered a point when you are playing the champions. It is so, it is impressive already, we must not be complacent, we have got to get to the £31 million, but let us not keep on reminding people of the failure bit, and at least acknowledge what has been done.

2490 With the PTR, Personal Tax and Pensions Review: again, that is well under way. It is a very important piece of work, but I am getting concerned about some of the unrealistic expectations for it. It asks, and it will ask – it has asked already, and will continue to ask – some very, very big questions. There is no magic wand. If all of us knew and other economies knew how to crack that equation, then we would be following other formulae, but there is no magic wand. There are some very hard decisions to be made regarding some fundamental questions, that a number of us will have quite diverse opinions about.

2495 The next stage will make huge demands on the two Departments that are running that project, and not least political demands on team work, and the willingness to compromise, to find the right solution for the Island and the economy, and I particularly think that compromise is going to be the name of the game.

2500 So, sir, in light of both of those timing issues, I think this is a good Budget, and I think it deserves our support.

2505 **The Bailiff:** Deputy Hadley, then Deputy Kuttelwascher.

Deputy Hadley: Mr Bailiff, before lunch, Deputy Dorey spoke at some length about the efforts that he was making at HSSD to keep within budget, without cutting frontline services, and I have to take issue with some parts of his speech. Now to start with, I do sympathise with the difficulties he has, because he has become Minister of a Department that needs a fairly radical cultural change, and I do not believe that he has enough money to deliver the services that Islanders want and deserve. Now, they have got some of it, because T&R is using its delegated authority, as it says in this Budget, to increase the Department's budget by £1.3 million following an earlier overspend of £750,000. My problem is that there is no report to justify that to this Assembly.

2510 A year ago, I probably made the biggest mistake that I have made as a politician, when I moved a vote of no confidence against the then Board of the Health and Social Services Department, and I did this because they were going to cancel elective surgery for a month, and close a ward to save money. I still feel, passionately, that they were wrong to do that, but the consequences have been far worse, because instead of a one-month closure, we have had a one-year closure and despite that, the overspend is worse.

2520 Now a year ago, Deputy Dorey told this Assembly that the knowledge that he had gained would enable him to fulfil his role as Minister effectively from the start. He said that at the forefront of everyone's mind was the importance of staying in budget and meeting the FTP targets, while delivering frontline services in the most effective and economic manner, and he also said, 'I will do my utmost to work with the staff and the new Board to maximise efficiency, and to ensure that spending is kept under control, without affecting frontline services. If this cannot be achieved, I will aim with the help of T&R staff and the Board to bring a report to this Assembly with a budgeting model that works for Health and Social Services.'

2525 So I ask the T&R Minister, why have we not got the report? Why have we not got the budgeting model that works? Why has this broken electoral promise been unchallenged by the Treasury and Resources Department?

2530 Now, the new Minister, when he stood for election, said that there was an expectation that he would rapidly reopen the closed ward. It has not happened. A year ago, we were promised that recruitment would be improved so that agency staff would be reduced. It has not happened. We have a Health and Social Services Department without a permanent Chief Officer which does not appear to be dealing with the problems, and which is not reporting to this Assembly as promised. So the Government is funding the Department's overspend with no explanations about the way this has happened, and how we will cope in the future, and that is what worries me, because if the Department is underfunded, then we need to do something about it.

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As a Government, I do believe that we are underspending on a whole raft of public services, and we do know that we need to invest £200 million for capital expenditure. Yet, this Budget is still avoiding the difficult decisions, on the basis that it is waiting for a review.

2545 In fact, instead of increasing the revenue of the Department, one of the proposals, and here I do agree with Deputy Dorey, is the one on document duty, and I deplore the loss of £1 million in revenue that will be caused at this time, thus reducing the income of the States. And again if T&R are correct, and the housing market is stimulated, this will almost inevitably cause an increase in the value of houses and make it even more difficult for the young and less well off to enter the market. I must say that this has caused some irritation with the Housing Department, because the
2550 Housing Department have never been consulted on this issue. We should have been, and we should have expressed our views to Treasury and Resources, so I do urge Members to vote against this measure, so that we retain a £1 million of income that would otherwise be lost.

2555 Mr Bailiff, this is a Budget that is ducking the issues, and I would have liked to have seen some more modest further increases across a range of issues, to mitigate against the inevitable rises that we will have to deal with in the future.

We cannot continue to underfund public services and have too little in the way of income.

I do feel that increasing our income is extremely important, and that, however difficult it might be, we have to find a measure other than Income Tax which produces 75% of our revenue, and is too dependent on the vagaries of the economic situation at the time. I think it most likely that we
2560 will have to consider the Goods and Sales Tax, however unpopular this is electorally. (*Interjections*)

The Bailiff: Deputy Kuttelwascher.

2565 **Deputy Kuttelwascher:** Thank you sir, Members.

This Budget has been otherwise described as boring and all the rest of it. I would like to describe it as realistic, which is slightly different.

We are forecasting a possible withdrawal of £14 million from the contingency reserve next year. It would have been very easy to produce a Budget that showed a surplus, and I give you the
2570 first example, which has been mentioned already. We have increased the amount available to the capital reserve by £10 million. If we had not done that, and we could have said we are just following existing policy, we would have a withdrawal forecast of £4 million – sounds better, does it not?

The Strategic Development Fund, £3 million that has not been drawn upon: we could have said we will scrub it, nobody wants it, suddenly we are another £3 million better off. We could
2575 have been showing a deficit of just £1 million and it would have been even easier to show a surplus, so we could say we have got rid of our budget deficit, our black hole as people call it. (*Interjection*) You could... ah, there is a reason be patient. (*Laughter*)

2580 There is £2.5 million in the Budget which has been transferred from the routine capital allocations of Departments into the budget reserves, we could easily have just taken that away and binned it, saying, ‘you cannot have it, period’, and we would have been in surplus. The problem with that is, in a way it is creative accounting, and it would not be sustainable, in the sense that it would not be a base for future budgets which are sustainable.

2585 And sustainability is the whole issue. If we took away the Strategic Development Fund now, that would be a one-off benefit. It certainly would not be a recurring benefit, so why have we done this? The main reason, and that is why I call it realistic, is that we have taken due account of our current financial and economic situation, and believe you me, any increases in taxation will have some degree of effect on our economy, and the actual increases in our Budget are quite modest, quite mild.

2590 If you just look at fuel, if you look at last year’s fuel prices, in spite of this year’s increases in the duty, they are actually cheaper now than they were a year ago, so I would put to you that that in itself is not going to be a big burden really on anybody. If fuel prices are cheaper now than they were last year, I would have thought that is good news. And I remember last year fuel prices were well over 120 for a while, and whatever.

2595 I would just like you to turn to Professor Wood’s analysis because (**A Member:** Sir –) he mentioned that –

A Member: Are you going to give way?

2600 **Deputy Kuttelwascher:** No, I will not. I have just got a last bit, because what I have to say may answer the question – (*Laughter and interjection*) Well, it might not be a question, it might just be a rant, I do not know! (*Laughter and interjection*)

Professor Wood criticised us for not having removed the deficit. If one goes back to the 2009 Billet which had the fiscal framework in it, the word ‘removed’ was not in it; it was ‘addressed’. I maintain we are addressing the deficit, albeit it has not been removed.

2605 Now, he also said there was no allowance for economic conditions, and I am to blame for that as I have been recently reminded, because at the time I placed an amendment to remove that, because I felt that if the economic deficit, or should I say the structural deficit, had not been addressed in the timeframe over which it was to be addressed, it would have to come back to this Assembly for approval, which is exactly what is happening. It is coming back not only in the last Budget but in this Budget for approval.

2610 And the reason why we are in this comfortable position is that originally our share of the contingency reserve... the contingency reserve tax strategy was half, it was about £102 million, and we were charged with, or we were authorised to spend up to half of it in the five years. Well, we have not spent it. In fact, there is more than half of it left, so we have that cushion to extend the period over which we address the fiscal deficit, and in our current financial conditions, I suggest that is a very sensible thing to do.

2620 So, Members, I think the whole fiscal situation has actually been very well managed with due regard to everybody. The biggest risk really, or the two biggest risks are the Financial Transformation Programme not delivering on its forecast savings, and indeed the economic issue, but at the moment in the UK and elsewhere in the world, there appears to be rather a rapid pick-up in the economy, and to me, this Budget half relies on that. It is a Budget in which an underlying message is one of some hope, and indeed confidence in the future, particularly next year.

2625 So I would hope Members support this Budget, not just support it, but enthusiastically support it, because the one thing that has been missing is the economic growth, and I think the indications are now that that is certainly on its way.

Thank you, sir.

2630 **The Bailiff:** Deputy Jones?

Deputy Jones: May I ask a point of clarification, sir?

The Bailiff: Well, if it is a point of correction or a point of order, then –

2635 **Deputy Jones:** It is a point of clarification of something that Deputy Minister –

The Bailiff: That is not permissible under our Rules.

2640 **Deputy Jones:** All right then, it is a point of information.

The Bailiff: That is not permissible, either. (*Laughter*) Points of order and points of correction are, so the answer I think to your question is no, Deputy Jones. (*Laughter*)

2645 **A Member:** Is it a point of frustration, sir?

The Bailiff: These are the new Rules that the Assembly voted on a few months ago. (*Interjections*)

Deputy Laurie Queripel.

2650 **Deputy Laurie Queripel:** Thank you, sir.

Sir, I note on page 39 and paragraph 5.12, I note that the Procurement Rules are under review, with the intention hopefully of gauging the benefits of keeping work and contracts local, and seeing how the multiplier effect can be applied.

2655 Sir, I am fairly confident that it can, that it will deliver benefits, and benefits will be derived for on-Island industries and the Guernsey economy.

Sir, the fact of the matter is you could probably award the vast majority of contracts to off-Island traders, because they simply work from a lower cost base. The cost of doing business in Guernsey is going up all the time, and this Budget will play its part in continuing that trend.

2660 Sir, to continue to award contracts, or so many contracts, off Island would be counterproductive. The results might well be local traders and suppliers downsizing, perhaps

reducing staff numbers, not having the confidence to invest in their businesses and to grow their businesses, not offering training and apprenticeship positions. Sir, these are the dangers of looking beyond these shores too frequently. Thankfully, sir, T&R and SPS, States Property Services, have listened to these concerns, but I will not be jumping for joy just yet.

2665 As such, sir, my eyes have been drawn to page 64 of the Budget Report, and I see a list, ‘The following capital projects have been approved’, and there is a long list including repair work and refurbishments and replacements and consultants. I would like to know – I do not want specifics, I do not want names – to what extent have locally based companies, suppliers, contractors, consultants etc been involved in these works? A percentage figure would do, if it is 60% or 70%, I
2670 would be very interested to know that, sir.

Once the new Procurement Rules are in place, I would be very interested to see the list that follows the year after, to see if that percentage figure has been improved upon.

2675 Sir, I am going to jump from one hobby horse onto another. I have spoken to the Minister about this before, and I just wonder are we any further in the work, in progressing the work, where we can identify ETI receipts from all the different sectors, within our economy, all the different business sectors. I think this would be excellent data to have to hand not only to provide a good measure to see how all the different sectors are performing, but a way to gauge if Government policy in regard to those sectors is right. I actually think it will be a really important piece of work, or data, to have in regard to economic forecasting. So I just wonder if the Minister could give us
2680 an update on that.

Thank you sir.

The Bailiff: Deputy Adam, then Deputy Ogier.

2685 **Deputy Adam:** Thank you sir.

I find this a very interesting debate, because we go from one extreme on the right hand side – increase taxes, we need more revenue – to the other extreme on the left hand side – I think that is the wrong way round, is it not? (*Laughter*) On the left hand side, saying we do not want so much indirect taxation – it is not fair – it targets those who can afford it – and then it tends to upset or hit
2690 those people who can least afford it.

Personally, I think this is a good sensible Budget in view of our overall financial situation. Yes, it is boring, but it is not too upsetting to anyone. TRP has gone up slightly, petrol has gone up by 1.77% in real terms –

2695 **The Bailiff:** Deputy Dave Jones is asking you to give way.

Deputy David Jones: Can I ask the Member of Treasury if it is to be T&R’s policy in the future, that as fuel prices go down, taxes will go up? Which was the question I was going to ask the Deputy Minister. (*Laughter*)

2700 **Deputy Adam:** Sir, we have to have income from somewhere. Deputy Jones is very good at telling us we should not be doing this and should not be doing that, but I would like to know what we should be doing. How is Guernsey going to increase revenue take to provide all the services that people wish?

2705 Deputy Hadley suggested these terrible three letters – ‘G-S-T’ – and there are murmurings around this Assembly (*Interjections and laughter*) as if it is a terrible thing – (**Several Members:** It is!) Actually, that is what the questionnaire that was sent out by T&R considered as well. But in some ways, we may have to look at such a drastic move to see if, on balance, it has to be assessed.

2710 Sir, the other reason for standing up was Deputy Bebb. He mentioned the MRI scanner, and the replacement of MRI scanner, and he did not quite go so far as to say, ‘Is it really necessary?’, but he was suggesting that. The problem is when one receives a gift then that piece of equipment has to be replaced.

2715 Now the original business plan for the MRI scanner plus the building it was put up in was that money was borrowed from T&R for the building, the MRI was from the fantastic generosity of the people of Guernsey, who raised the money in a record time (**A Member:** Hear, hear) and provided us with, what now you would have to say is an essential tool for investigating cancer, bone injury, etc, and you have not got any choice. And the idea was that the time put aside for private patients after routine sessions – there were to be two a week – that money achieved was put in a separate account to pay off the building and it could have continued and actually collected monies, because
2720 we know we are going to require one. Instead, we have got a CT scanner, MRI scanner in group A of capital prioritisation – and yes, they are necessary.

2725 Then, he went on to talk about tobacco costs, the problem of putting up the – I should not be saying this should I? (*Laughter*) The problem of putting up tobacco is that there is a balancing point whereby the tax take will actually start to fall. Now, unfortunately this does not necessarily mean the amount of smoking is going down, unless you get your patches in time, but it may certainly mean that there is more illegal importing and there are more people bringing back excess duty free tobacco. So if you increase the tax on tobacco too much that is what happens, not necessarily help the health.

2730 He then went on to mention alcohol. Yes, alcohol can be a problem, anything in excess is a problem, and as is presented in the Budget Report, there are going to be discussions about what is the best way to tax alcohol in future, should we be changing the methodology for that – whether it should be percentage of alcohol or not. But I would like to remind the Deputy that one of the biggest problems that is coming along and probably here is obesity, and someone has already mentioned, should we be taxing sugary drinks? (*Laughter*) Especially if they have got type 2 diabetes, then they should not be taking sugary drinks at all, (**Several Members:** Hear, hear.) (*Laughter*) but...

2740 Therefore, what I would like to see long term is actually Departments depreciating equipment, year on year, so that they know what is going to come round the corner. HSSD an extra £1 million for equipment that was bought seven years ago, we knew that it needed replacing after that length of time, yet suddenly have to come along and say, ‘Please may I have more?’, that is bad planning, and it not just HSSD – other Departments do exactly the same thing. PSD, the trucks and lorries: are they depreciated? No. But they can axe their income.

Sorry sir, it would appear that Deputy Luxon is nodding to me, to indicate his Department is really up to speed and depreciates everything.

2745 So, I think T&R must look at this problem within Departments, and address it so there is proper assessment on the true financial situation, and true expenditure, because again if we are using buildings and properties, that should be assessed, and put against the budget of that Department. But these are things for the future, as is the result of the Personal Taxation Benefits and Pensions Review, which will be a lot of work. It has to try and produce a long-term sustainable tax system that is going to meet the pensions problem, and also meet the wealth of problems that have been brought forward both by SSD, and the alternatives by the Housing Department. Combined, that works out at about £7 million or £8 million. We have got a lot of problems to address.

2755 At the present time, let us stick with this Budget. Let us support this Budget, and let T&R, SSD get on with the work on doing the reviewing, to try and get a sustainable method, which will not be agreeable to all – nothing ever can be, when you have got the left wanting no tax, and the right wanting to tax more, therefore we cannot all agree, so we must get a balance.

So, I trust you will think about that when that is being brought forward.

2760 Thank you sir.

The Bailiff: Deputy Ogier.

Deputy Ogier: Thank you, sir.

2765 I want to talk about one discrete matter in this Budget, being the use of the Contingency Reserve Tax Strategy.

2770 As you know, this is a reserve account for use during Phase 1 of the Zero-10 tax regime, the period in which it becomes clear whether this Island can grow its way out of the structural deficit, or whether it can use the efficiency drive to eliminate the budget deficit. Failing those two saviours, we would need to look at increasing our income, undoubtedly through increased taxation, in order to return to overall budget surpluses.

This reserve fund is made up from half the Contingency Reserve Fund and has been set aside for the purposes of smoothing the transition to a post-corporate tax world.

2775 Now, I remember voting for this Proposition, and it was not here; it was in the other Court building, at the end of the Zero-10 taxation regime debate, and I voted for the Proposition, not because I wanted to spend the States’ savings, but because Zero-10 would not work without it, and I was determined when I voted to allow us to use up to half the contingency reserve, to ensure that its use was minimised.

2780 We had the Contingency Reserve Fund, it was around £200 million: we were proposing to use half of it. I did not want to use a penny more than we needed to, and I still do not. So I am in favour of measures which mean we do not need to use those savings; and I am in favour of us meeting our FTP targets; and I am in favour of us meeting them early. I am in favour of actions

which minimise withdrawal on the Contingency Reserve Tax Strategy and what I do not like to see in this Budget is a proposal to increase withdrawal on the Contingency Tax Reserve.

2785 We are being asked to transfer around an extra £10 million this year to the capital reserve by transferring £35 million rather than the normal £24 or £25 million. This creates a larger deficit with needs a greater transfer from the contingency reserve to fill. T&R are asking us to do this every year from 2014 to 2017 throughout the life of the capital infrastructure programme which would put an extra £40 million from savings into the capital reserve to spend.

2790 We read this is because we have a lot of capital expenditure and, in simple terms, not enough money. Now this is not what I agreed, and not what this Assembly agreed, when we permitted the use of this contingency reserve. This reserve was to be used, while we sorted out our deficit, we did not say, 'Ooh hey, we can spend now, let us increase our deficit. We are allowed into the contingency reserve fund, let us draw more out of it than we initially anticipated, because it is there and we are a bit short.'

2795 This Proposition is turning the idea of having to use the contingency reserve on its head. We are no longer saying we are going to use some of our savings, because we have to; we are saying, 'Well, we are using our savings anyway, so while we are doing that, here are some other things we can use those savings on. Let us have another £40 million out of it, while the lid is off.' That is not why I voted to allow the contingency reserve to be used, and I will not support its use in this way.

2800 As Deputy Trott explains, the deficit next year is predicted to be £14 million. Were we not to transfer an additional unanticipated £10 million to the capital reserve, our deficit next year would be estimated to be £4 million.

2805 Now, Deputy St Pier tells me I say something every year on the contingency reserve around this, and yes I do. I made a promise to the people of Guernsey, I would use only the minimum required of our savings, and I am going to do this next year, and probably the year after too. It is part of my job to have that view and to represent that view at the appropriate time. (**A Member:** Hear, hear.)

I did not vote for the contingency reserve to be used to transfer £40 million into capital reserve, because we were a bit short, or because we thought it would be useful. I voted to use it to avoid knee jerk and reactionary jumps in our taxation which could cause harm.

2810 Now, there may be a case, in a period of economic stagnation, there could be a case for dipping further than anticipated into our reserves to fund essential capital. But that case has not been made, the arguments for and against are unheard. Someone who should remain unnamed trotted out the old adage (*Laughter and interjections*) that Government investment in the economy is to be welcomed. Well yes, sometimes that is true, but not always.

2815 It is by no means certain, in a £2 billion economy, that the addition of an extra £10 million into capital in any one year will have any measurable effect – nor would it, if such a capital project were to be awarded to a Jersey company, or to a UK company. I simply do not believe the assertion that, increasing Government spending in this way is guaranteed to benefit the local economy, nor benefit the economy in the appropriate way, gaining full value for the value of the investment.

For me, the argument has not been made that a £52 million fund set aside for deficit smoothing should have a further £40 million transferred from it, over the life of the current capital infrastructure programme.

2825 If we are going to do this, what is the Contingency Reserve Tax Strategy going to look like in 2017? Those figures are not in this Budget Report. This is beyond the term where we should be using this fund, as we agreed to use this fund, during Phase 1 of Zero-10. That is nearly over, or should be. We now have to keep using it until 2017, to fund additional capital requirements – that was not the aim. That was not what we agreed, and it changes the purpose and the timescale of the use of the fund, by having to transfer additional £10 million every year as is recommended in this Budget, over the lifetime of the current capital infrastructure programme.

2830 Now we hear from Deputy Kuttelwascher that we are nearly out of the woods. This seems to me to make a last minute dash for cash before we screw the lid back on the jar.

2835 The Report itself, this Budget Report, is not structured to permit States Members to vote tidily against this proposal either, without bringing an amendment. There is no single Proposition we can vote against, which I think is a regrettable situation. If you are proposing something so fundamental as to extend the life of the Contingency Reserve Tax Strategy by a few more years, and take an extra £40 million out of it. States Members should be able to vote against that in the Propositions, rather than having to bring an amendment to the Budget. States Members should be aware of the ramifications of this decision, a decision based on little evidence, or economic impact, an extra £40 million from our reserves, a time extension of the use of those reserves and an expansion on the reasons to use those reserves.

2840

T&R are asking Members to agree a fundamental change, and they have not given us the ability to do that in a single Proposition, or to turn it down.

2845 As a result, I will have to vote against the Proposition to transfer £35 million to the capital reserve, because I want to transfer only the usual amount, of what would be around £25 million. I do not want to dip into our reserves for an extra £10 million to put in the capital reserve. I will have to vote against at least Propositions 1 and 2 and 3 to avoid giving this Assembly's assurance it would do this next year. So voting against Proposition 1 will leave the existing resolution from
2850 last year of £17 million in place, so we will transfer £17 million from the Contingency Reserve Tax Strategy, which is sufficient, if we vote against Proposition 3, not to put the extra £10 million into capital reserve. Unfortunately, a result of voting for these will leave us without a transfer to capital reserve, so T&R will have to come back with a proposal to make a transfer to capital reserve, if other people, other Members follow my lead.

2855 I cannot bring myself, on the basis of the evidence proposed, to take an extra £40 million out of a £52 million fund, without understanding the ramifications and the benefits, because for me there just is not the evidence.

The Bailiff: Deputy Kuttelwascher.

2860

Deputy Kuttelwascher: Sir, point of correction, if I may?

On a number of occasions, Deputy Ogier has mentioned that we are proposing a transfer over four years of £40 million to the capital reserve. I am not aware of that. There is a single one-off transfer this time round, and I think it is a presumption, assuming it is going to go on and on and on indefinitely, or at least for the next four years.

2865

The Bailiff: Deputy Ogier.

Deputy Ogier: I thought I had read in the Budget Report that this was anticipated throughout the life of the capital programme. I will try and find it.

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The Bailiff: Deputy Brehaut.

Deputy Brehaut: Thank you.

2875 At the beginning of the Budget debate, Deputy Jones referred to the Corporate Housing Programme, and it is something that we have not paid a great deal of attention to in previous Budget debates, and I did contemplate an amendment to bring the Corporate Housing Programme under the same controls and restraints that all other spending has.

I think there is a use, however, for the Corporate Housing Programme, outside of what Housing may have in mind for it. When we discuss the operating report later, and when we have done in the past, we have seen amendments from Deputy Lester Queripel with regard to the fuel allowance. We do not do homes... well, they used to be called, what were they? They were 'homes for worker' loans, then they became first-time buyer loans. There could be a facility, possibly for people to insulate their homes through the Corporate Housing Programme, so rather than pay for more coal and more wood for people, and give them more for their electricity, why not try and keep the house warm in the first instance, and perhaps have a mechanism of grants, or even a loan through the Corporate Housing Programme?

2885

I know with all these things the problem is the assessment, and the means test, and do we give it to the private sector, and are they landlords and all the rest of it, but this is something that could be – there is potential in the Corporate Housing Programme perhaps beyond the scope of what Housing have in mind.

2890

Just a remark Deputy Hadley made, regarding having an acting Chief Officer. He is absolutely right, we do have an acting Chief Officer, at HSSD that is, and I think personally that was a stroke of genius, I think, if not a panacea, a tonic for HSSD, and a very close working relationship between Mr Nutley and Deputy Dorey has been hugely beneficial to HSSD. I think it has worked very, very well.

2895

Just touching on De Sausmarez Ward, we could have opened De Sausmarez Ward before now, but that would cost more and our overspend would go up, because we would be totally dependent on agency staff, so that is why it has taken longer, but it has taken longer because it is cheaper in the long term.

2900

The question I would ask of the Assembly is one I have posed before: as a group, as representatives of the community, are we simply too timid to tax? Are we too timid to tax? Because Deputy Hadley spoke of Goods and Services Tax, and there were the obligatory groans,

2905 but I think as did Deputy Dorey raised this, sir, I think there is a case to increase TRP because what concerns me is if... I was hearing the type of speech from Deputy Kuttelwascher, who was here before, which was ‘the green shoots of recovery are just around the corner’, but what if they are not? Then what you end up with, is effectively, a tax shock that you have to do something. You have got spending under control, but what do you do with revenue, and do we then see in that ground rot effect, do we start ratcheting up, lifting taxes heavily? I think there has been the potential, to slowly ratchet up, more than it has been, TRP and I think that TRP is a good measure of where people are – their income, the house they have chosen to buy are a test of means perhaps in itself. So I would support an increase in TRP.

2910 I know the Alderney Representative Mr Arditti has an issue with that, but I do remember supporting an amendment from the then Alderney Representative Richard Willmott, I think it was, who had the Alderney TRP element stripped out of the Guernsey element, if I am correct. But there was some amendment or proposal where the two could be differentiated, but I cannot remember exactly what element what issue that was.

2920 Just in closing, sir, the last Budget debate, HSSD came to this Assembly with a £2.2 million overspend, and it was requested that we brought a report to this Assembly, and there were repercussions to that report. I actually believe HSSD should have brought a report to this Assembly again, because if you have a 2% tolerance and you have the discretion... Well discretion perhaps, but you need to be consistent in that. What has fundamentally changed between HSSD last time round and HSSD this time round? I overspent £2.2 million. You re-elected me and I overspend £1.3 million. What has changed?

2925 So if we have this 2% discretionary element, let us be consistent, and I think because of the real constraints on Departments, if there are overspends in the future, that it should not be down to whether you *like* a committee or not; it should be down to the taxpayers’ pound is precious. If you are going to overspend, bring a report to this Assembly every single occasion.

Thank you.

2930

The Bailiff: Deputy Ogier.

Deputy Ogier: On a point of order, sir.

2935 If one were to look at... It is in relation to a query raised by the Deputy Minister of Treasury and Resources. On 3.43 of the Budget Report, it says:

‘Therefore, the Treasury and Resources Department is recommending that £35.35 million is transferred to the Capital Reserve on 1 January 2014. It is the intention of the Treasury and Resources Department that at least this level of appropriation is maintained throughout the period of this States Capital Investment Portfolio.’

2940

which is from 2014 to 2017 and would mean using the Contingency Reserve Tax Strategy not for its original purpose and long after it was supposed to be collapsed.

The Bailiff: Deputy Kuttelwascher.

2945

Deputy Kuttelwascher: Another point of...

2950 It does not say that, in the future, it will come from the contingency reserve, because we are doing a Personal Taxation Review and the funding, or increasing of general revenue from which future appropriations would come, would come. This £10 million is a one-off appropriation from the contingency reserve for this year. What happens in future years will depend on the Personal Taxation Review, and depending on what funding is available. And it may not be available, and we do not know.

2955 **Deputy Ogier:** The Budget does say to ‘transfer this year, and make an allowance for a transfer for next year’, so that is at least two years, so it cannot be a one-off.

The Bailiff: Deputy Adam:

Deputy Adam: Sir, point of –

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Deputy Kuttelwascher: Sorry, the £10 million this year refers to 20... the year of the Budget Report. We are not making an extra £10 million for 2013; it is for 2014. ‘This year’ refers to the 2014 Budget.

2965

The Bailiff: Deputy Adam.

Deputy Adam: Thank you sir. Point of information, sir.

Deputy Brehaut said that the overspend of HSSD to be granted on page 33 was £1.3 million. He forgot to say that we had already allowed £726,000, therefore the total overspend for this year, although not finalised, is over £2 million.

2970

Deputy Brehaut: That is if we can rely on SAP, presumably.

The Bailiff: Does anyone else wish to stand to speak? Deputy Gollop.

2975

Deputy Gollop: Yes sir, thank you sir.

Apparently I cannot stand too long, so that could be an advantage.

The Bailiff: You may deliver your speech from a seated position, if that is the case.

2980

Deputy Gollop: Yes, but – I am certainly interested to hear today in the debate people speaking about the nature of taxation. I think, maybe this morning we had a bit of a detour around housing sites on the Island, which is a separate issue, but I do recall the Chief Minister saying at the close of the Population and Housing Law debate that finding new sites for housing was a priority for this Assembly, but in a sense it is not specifically a budgetary question.

2985

Deputy Hadley raised the question of GST and the whole business of Government spend and whether we should tax people more or tax people less – of course I am aware that the Tax and Benefits Review is looking at these questions, but it is not as straightforwardly simplistic as that, because it is about the overall level of taxation may rise or fall, but the way in which it is collected is a factor.

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Guernsey, I suspect, disproportionately taxes people in the lower middle of the strata of the economic earnings, and that, of course, is a consideration, and you have to weigh up an equation of how much public services people take, at the expense of others.

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Deputy Dorey, for example, raised the issue about raising TRP, but of course, taken to its extremes, it will mean that local people who have been resident in an area, maybe for centuries, would suddenly find that they were taxed additionally, on their residential requirements, whereas newcomers to the Island, who we want to attract and, for the sake of argument, are very successful licence holders, or open market people, would not pay an entry charge, if you could call document duty that. Because the way the figures are structured, if we abolished document duty, we would lose between £13 and £18 million a year, so as TRP, after all the howls of outrage at its gradual rise, is only bringing in £16 million, it is logical to assume that it would have to at least double, at least double. If it was going to bring in more revenue, for the reasons Deputy Hadley and others have outlined, it would have to treble, and that would be a cost that would disproportionately affect aspirational home owners, elderly people in traditional properties, and also the less successful businesses – and we have had a lot of dialogue this morning on Alderney, from the various representatives, but the truth of the matter is, that the TRP framework in Alderney is unjust to the economy of that particular community, because it does not share in the scale of economic activity that Guernsey enjoys, especially in the winter months. I believe Mr Birmingham, one of their States Members, raised this issue at their States meeting last week, and sir, I think it is an issue, that perhaps, virtually the entire States are united on, that the area needs to be reconsidered.

3000

As regards the incentivisation of schemes, that we have discussed with Jersey, I think that Deputy Fallaize is theoretically right, that not every scheme will be sensible, or practical. May be having a common bus service across the Islands is not the greatest example of that.

3015

But there are opportunities, and I am actually a believer in incentivising Departments, as Deputy Perrot outlined, and I think there is a lot to be said for moving away from ‘one size fits all’ corporatist mind-set, and encouraging Departments to think of themselves as successful little businesses, that to a degree fund themselves, and become more efficient, as a process therein. If that is turning back the clock, well it is, but I do not think that everything that the States did in the early Post-War period was necessarily wrong.

3020

I would like a different vote, not just on Propositions 1, 2 and 3, as Deputy Ogier referred to, but also Proposition 4, taken separately about the budgets to the Departments.

3025

Finally, when this debate began, I was actually still in hospital, so it seems like a long time, but I take on board all of the points made about Health and Social Services Department. There are, of course, efficiencies that could be made, but I personally have nothing but praise for the services and care that they give, and maybe we will have to look at taxation, not just on sugar pops, but on

Werther's (*Laughter*) and other sweetmeats that people around me seem to be having. (*Laughter*)
A jelly babe tax might raise a few dozen... (*Interjections*)

3030 If we believe in taxation as a penalty for, I do not know, naughty activity, whether it be smoking, or drinking alcohol, then it follows that the less healthy kind of food could be subject to a tax as well.

The Bailiff: Deputy Dorey.

3035 **Deputy Dorey:** Sir, I would just like one point of correction to what Deputy Adam said about overspends. If people look at page 64, delegated responsibility, there is Policy Council, T&R, Health and Social Services, and Public Service Department, so they are not overspends; they are specifically where delegated and actual authority has been used by T&R.

3040 In fact, if you go back to 2013 Budget, it specifically mentioned that the Budget reserve was because the Treasury and Resources Department is also aware that Health and Social Services face some unique challenges in 2013, including unpredictable spending on the Children Law. So it was specifically money put aside in there to cover that. That is not an overspend in my view.

The Bailiff: Deputy Harwood, then Deputy Lester Queripel.

3045 **The Chief Minister (Deputy Harwood):** Thank you, sir.

First of all, can I congratulate the Treasury Minister and Members of his Department for this Budget? It has been described as boring, it has been described as balanced, it has been described as realistic. I think at the end of the day it is a good Budget, for the time in which we are operating.

3050 It is disappointing, that it is clearly projecting a deficit for next year, and reference has already been made to the Fiscal Rules that the States set for itself in 2009, and clearly we are in breach of those Rules.

3055 Hopefully, the matter of the deficit will have to be addressed, I believe next year. I agree with Deputy Ogier, it is not feasible to keep drawing on the contingency reserve. Yes it is there, it is set aside for that purpose, but I agree with him, that we should not necessarily just regard it as a fund that we should draw on year on year. We should try to minimise the amount that we have to rely upon that fund. So I would urge the Treasury, and SSD as the outcome of the TPR, to begin... hopefully, we will begin to address how we can sustainably deal with the deficit, and remove the deficit.

3060 Can I also, I think sir, agree at this stage with Deputy Trott, and can I congratulate Deputy Trott on his being appointed to the Board of Guernsey Finance, because through that I think he will (*Interjection*) be able to assist in encouraging economic growth, which is a point he has made, absolutely right.

3065 If we are to tackle this deficit, we need to create growth in the economy, but like the old excuse of British Rail, in the old days when explaining the reason why trains were late, we have to encourage the right type of growth. We measure growth purely in GDP terms. Oddly, we can have a wonderful growth in GDP terms that does not translate directly to a benefit for our ETI receipts. And one of the matters that the Policy Council is keen to pursue, during the course of the next 12 months, is actually looking at the methodology that will be used to calculate GDP, and in particular, also the sources, the information, that we can get to produce that.

3070 I would just urge that growth measured purely in GDP terms, will not necessarily benefit the income of the States. I think that is something we have to bear in mind, but I do agree, if we are to increase our taxable revenue, which I believe, at the end of the day, we are going to have to, it would be better if we could do it over a period of time, when the economy is growing, we are not sucking too much money out of the economy, in order to address the deficit.

3075 So I commend the Budget, I do encourage Treasury and Resources and SSD on the outcome of their review to face up to... to bring back to this Assembly proposals that can deal with the deficit in a realistic playing field and that we should not necessarily regard the contingency tax reserve part of the fund... well, the tax reserve part of the contingency fund, as a bottomless pit which we can continue to draw on year after year.

3080 But I do commend this Budget to the Assembly.

The Bailiff: Deputy Lester Queripel.

3085 **Deputy Lester Queripel:** Thank you, sir.

Sir, there are two things in life we can all be sure of – (*Interjection*) one of them is taxes (*Interjection and laughter*) and the other one is death. Everyone knows sir, that it was Benjamin

Franklin who said that. He was absolutely right, of course, because by the time I got to the end of this Budget Report, I had lost the will to live, sir. (*Laughter and interjection*) That did not surprise me, of course, because let us be honest, when has a Budget ever contained any good news? I may
3090 be moving in the wrong circles, sir, but I have never heard anyone say, 'Let us raise our glasses and toast the Budget.'

Our T&R Minister is on record as referring to this as a cautious budget, but the fact of the matter is that even when most governments are experiencing good times, they still produce cautious budgets and at the risk of upsetting my good friend, Deputy Trott, who was an excellent
3095 Treasury Minister overall, (**A Member:** Hear, hear.) (*Laughter*) even he produced cautious budgets and that was in the good times. So saying this is a cautious Budget because times are tight is really a claim without foundation.

In fact, an extremely successful local businessman told me many years ago that it is when times are tight that you invest, you speculate to accumulate, and with that in mind, I would like to
3100 have seen some generous tax allowances, for our low earners, to give them some encouragement. Also, some financial relief given to our pensioners, who are currently struggling to make ends meet. Because what that would do, sir, is boost their morale, and give them a little bit of hope, and I know I am not the only Member of this Assembly who wants to give fellow Islanders a bit of hope.

So it disappoints me greatly that this Budget is so predictable, instead of being a little bit more adventurous. Because budgets always hit the same people the hardest – the people who smoke, and the people who drink – and that kind of approach has always been far too dictatorial, in my view. It is very much a 'We know what is best for you, and you should not be smoking or drinking' kind
3105 of approach. But the fact of the matter is that people still smoke and drink, they simply resort to duty frees if need be. And even though the dictatorial approach does not work, we still labour under the illusion that one day it might.

Well, as I said during the September debate sir, I am rooted in reality. I do not inhabit the world of illusion, neither do I inhabit the world of the dictator. I am more in favour of giving people credit for having the sense to know what they are doing with their lives. If someone wants
3115 to smoke or drink, even though they know it is bad for them, then that is their choice. And to some people, it is their only pleasure – but of course, budgets are never really about people.

Deputy Kuttelwascher tells us that in his view, an increase in the cost of fuel will not have a detrimental effect on the people of Guernsey. Well sir, I am about to prove him wrong.

3120 **Deputy Kuttelwascher:** Point of order, sir.

I did not say that. All I said was the actual cost of fuel now in spite of the increase is actually less than it was a year ago. That is all I said.

3125 **The Bailiff:** Deputy Lester Queripel.

Deputy Lester Queripel: I apologise, if I misheard sir, but I could have sworn that Deputy Kuttelwascher said an increase in fuel will not have a detrimental effect on the people of Guernsey, and perhaps we can look that up in *Hansard* at some later stage.

But some of our pensioners, sir, are telling me they may have to sell their cars, because they
3130 cannot afford to run them any more. And while some people may think, it will be a good thing to get some of our pensioners off the road, (*Laughter*) I say that that kind of attitude is an insult to all pensioners who drive, because where is the evidence to prove that our pensioners are more of a danger than any other motorist? There is no evidence, sir (*Laughter*) and it is great shame that Deputy Dave Jones did not get the support he needed from this Assembly to lay the amendment he
3135 wanted to lay, to freeze the cost of fuel, because I certainly would have supported that amendment.

But now, as they say, we are where we are – and where are we exactly? (*Laughter*)

Deputy Brehaut: Where we are, is where we are.

3140 **Deputy Trott:** We're here to! (*Laughter*)

Deputy Lester Queripel: Well, the reality is that some of our pensioners may have to sell their cars, and either rely on friends or family for lifts, which will take away their independence, or they will be housebound, and have no social life whatsoever. Some of them will not be able to
3145 travel on the bus, because the bus stop is too far away from where they live, and even if they could get to a bus stop, there is very rarely a shelter, so they are forced to stand in the rain.

3150 So, increasing the cost of fuel will severely impact on our pensioners, who are already struggling to run their cars, and not only will it impact on pensioners, sir, but it will also impact on charities, like meals on wheels, who provide a vital service to members of our community, who for whatever reason, simply cannot get to the shops, or cook for themselves. Yet T&R tell us in paragraph 2, on page 14, that someone using 20 litres of fuel a week will only have to find another £24 a year to cover the increase. Well, try telling that to charities like meals on wheels, who will have to pay a lot more than that, possibly hundreds of pounds, if this Proposition is successful –

3155 **Deputy Perrot:** Point of correction, sir.

The Bailiff: Point of correction, Deputy Perrot.

3160 **Deputy Perrot:** If that is the new buzzword.

The Bailiff: That is.

3165 **Deputy Perrot:** Yes. (*Laughter*) In respect of meals on wheels, I am a ‘meals on wheels lady’, (*Laughter and interjections*) and I am not aware of any potential danger of our not delivering meals, and I do not think that Mr Queripel should scare our customers (**Several Members:** Hear, hear.) by speculating about that.

The Bailiff: Deputy Queripel.

3170 **Deputy Lester Queripel:** Thank you, sir. (*Laughter and interjections*)

Sir, we will have the same problem with Age Concern, because we operate five mini-buses, and our dedicated team of drivers, who drive them all over the Island, several times a week, every week of the year. So, any increase in the cost of fuel will severely impact on all charities, at a time when several charities are struggling, and need all the support they can get.

3175 Yet another unintended consequence of this increase will be the impact it has on our fellow Islanders who deliver milk and newspapers’ the detrimental impact on our window cleaners, and other trades people, post office and the St John Ambulance; the detrimental effect on businesses, who employ delivery drivers; also on our disabled people, who encounter enough obstacles in a day as it is, and we must not forget our taxi drivers, who are engaged, on a regular basis, by HSSD, to transport some of our disabled people to places of work and events all over the Island.

3180 Plus, we must not forget the small garages, who were only telling us, there was a danger they will be put out of business, if this increase comes in. Yet T&R do not seem to have taken any of that into consideration, sir. And it would have been extremely beneficial, I believe, to the whole community, if T&R had displayed some understanding and some compassion, when they compiled this Budget – but of course, the words ‘understanding’ and ‘compassion’ are not the kind of words one associates with any Treasury Department, anywhere in the world. (*Interjections*)

3185 In fact, a classic example of such a lack of compassion is to be found in the history books, in the late 1700’s. (*Interjections*) That was when Thomas Paine devised a budget that would have eliminated poverty throughout the whole of England. It still retained the divide between rich and poor, but it eliminated poverty. He was arrested, charged with treason and put in prison –

The Bailiff: Are you straying from the present Budget, Deputy Queripel? (*Laughter*)

3195 **Deputy Brehaut:** By several centuries, sir.

Deputy Lester Queripel: Well in my view, sir, I am speaking in relation to budgets and this Budget primarily in general.

3200 **The Bailiff:** Well, if you could speak on just this Budget perhaps, rather than budgets generally, or we could be here for –

Deputy Lester Queripel: Well, in that case, sir, I will dispense with the next two pages of my speech. (*Interjections and laughter*)

3205 **The Bailiff:** You may speak if it is relevant to the debate, and the debate is on this Budget, but if it is not relevant to this Budget, then...

Deputy Lester Queripel: Yes sir. I see nothing in this Budget sir, to kick start the economy, and I see very little to give any real hope to fellow Islanders.

3210 In fact, sir, on a recent Sunday phone-in, our Treasury Minister was likened to the Sherriff of Nottingham. The caller asked the Minister to tell them where he thought our Robin Hood was going to come from. (*Interjection and laughter*) Well, I was so amused by the question sir, I missed the answer, (*Laughter*) so I hope the Minister can remember his reply, because my question to him is, where does he think our Robin Hood is going to come from?

3215 As I said earlier, sir, the Minister is on record as referring to this as a cautious Budget, so my next question is, cautious until when exactly? What will need to happen for T&R to be less cautious, and more adventurous?

The Minister also stated that radical changes may have to be made in the next Budget. Now presumably, the Minister must have an idea what those radical changes might be. So can he give us a clue when he sums up, please?

3220 When he spoke of the changes to document duty, in the media, the Minister said, the intention was to try to improve sentiment, and at least make people feel wealthier. Well, as commendable as making our Islanders feel wealthier sir, I would much rather see some actual wealth materialise. So, can the Minister at least give us a clue whether or not that will happen, or do we have to content ourselves with merely feeling wealthier?

3225 Just returning to the Robin Hood analogy, for a moment sir, at first, I thought T&R had made a genuine attempt at playing the part, because they were recommending a 2.1% increase, in personal tax allowance. Yet further on in this document, they are recommending increasing duty on alcohol, tobacco and fuel, of between 3% and 5%. They are giving a little in one hand and taking a lot more in the other. Well, Robin Hood never did that, sir, (*Laughter*) and that is more in line with Dick Turpin, so my question to the Minister is: which character would he say his Board aligns with more, Robin Hood or Dick Turpin?

3230 There is one piece of good news to report, regarding this Budget, sir, and that is in relation to printing costs. (*Laughter*) Apologies to listeners on the radio who cannot see this – this is what we had last year, full colour gloss, at great expense to the taxpayer – and at a recent presentation the Minister told Members who were present that printing this Budget in black and white, instead of the colour, saved approximately £5,400 worth of taxpayers' money, and for members of the public, the media, and my colleagues who were not at that presentation, can the Minister please confirm that £5,400 of taxpayers' money was saved by printing this Budget in black and white?

3240 And can the Minister assure me that every effort will be made to print future T&R documents in black and white, in an attempt to save taxpayers' money? Because £5,400 may not sound like a lot of money, sir, but if every Department were to print documents in black and white for a year, I believe we could save £100,000 of taxpayers' money, and that is a considerable sum of money.

3245 Surely, we should be doing things like that, instead of cutting vital services. At home on my desk, sir, I have 16 examples of colour documents produced by the States over the last two years, but which display to me a flagrant misuse of taxpayers' money. These are all produced at a time when, we are told, we cannot afford to upgrade vital pieces of medical equipment at the hospital.

I think there is a real danger, sir, that many of our Departments and Committees may feel they have identified all areas where efficiency savings can be made under the FTP, but if that is the case, I would ask Departments and Committees to review their approach to the FTP, because I really do think there are areas where we could all consider further savings.

3250 As an aside, sir, Guernsey Electricity saved £12,000 by producing their accounts, this year, in black and white, as opposed to – and again apologies to people listening on the radio – this version last year, totally superfluous, and a total waste of consumers' money.

3255 To conclude, sir, (*Interjections*) Members may not want to hear what I have got to say, but I am entitled to say it, and I will say it, I have been elected to speak in this Chamber, on behalf of the people of Guernsey and regardless of what some of my colleagues might think, that is what I intend to do.

3260 If I may be allowed to finish, sir, yesterday in the *Guernsey Press*, I was accused of being a major political let-down by a writer of a letter in the letters page. I sincerely hope that all that I have said in this speech proves to the writer that of that letter that I take my political responsibilities very seriously, and I will always and have always either proposed or supported recommendations to improve the quality of life of our fellow Islanders.

3265 With that uppermost in my mind, I will finish by urging my colleagues to reject Proposition 5 of the Budget proposals, on the grounds that if successful, they will not only damage the morale of our fellow Islanders, but they will also damage the economy.

Thank you, sir.

The Bailiff: Does anyone else wish to speak? Deputy Collins.

3270

Deputy Collins: Thank you, sir.

It is always a pleasure to follow Deputy Lester Queripel. Perhaps just a note for future, Deputy Queripel, if you inform the Assembly of how many pages you have got, we can all intensely sit there, waiting for your words to come out...

3275

But I will be very brief, sir. I did not want to say very much, because I know there is not much will to live after that.

3280

As a previous T&R member, I do very much support my previous colleagues, in what they had done. It is not easy to put a Budget together and there are many things you could have done. We have already heard some of them. You could have removed allowances, mortgage relief, child allowance, £9 million or £7 million. A lot of things could be done, sir. It will be very interesting, the next day, when we start talking about schools, when we start thinking that we lost £80 million to £100 million-worth of revenue from the corporate taxation and would we be closing schools, if that was the case. But we are where we are.

3285

There is one thing, I do find very, very interesting coming from someone sitting on PSD, Deputy Ogier commenting about the corporate tax... not the corporate tax, the capital, saying he has his hands out saying 'Give me, give me, give me some money.' Sir, I wonder where that money is going to come from. (*Interjection*) Exactly, well, it has got to come from somewhere first, so...

3290

But that is not really the reason why I stood, sir, the main reason was to talk about proposal 17, which is the investment rules that are being proposed. Hopefully, the Minister will touch on this, because as a Member we talked about this, on a couple of occasions, about looking at actually – some of the investments we have about bringing those back home.

3295

A good example would be the property: at the present moment, anything that is invested in property is not within Guernsey and I think there is a great opportunity there, for some of that to be invested in Guernsey in the infrastructure. So hopefully the Minister can update us, maybe if there are any plans coming forward about that, because it certainly was a topic that was very hot when I certainly sat on the investment sub-committee.

3300

Apart from that, again I thought my previous colleagues in the Budget... which is a bit boring, but as we have not got any cash to do anything, I think it is pretty good.

Thank you very much, sir.

The Bailiff: Anyone else? No? Oh, Deputy Sillars.

3305

Deputy Sillars: Sir, my Board has not discussed this Budget, but I am sure that I speak for my Board, regarding my next point.

My Board and I feel we will hit our FTP target, with the help of all of you Deputies, which is £7.2 million, without affecting the educational outcome of all our children, and students, but, we have a very challenging cash limit, a reduction of £4.425 million next year, 2014. As a Department, we know we cannot operate with this cash limit.

3310

We have been having extensive talks with Treasury and Resources, who fully understand our position, and we have agreed together, subject to this Budget being approved, to have access to funds set aside in the Budget reserve. The education issues are that the savings we have made will not all be fully realised by the end of 2014, in cash terms.

3315

Two examples, the college grant funding and higher education grants. These two alone, add up to more than £1 million in cash that the Department will not receive by the end of next year. I quote from the Budget:

3320

The Treasury and Resources Department understands these difficulties and will work closely with the Education Department, including regular monthly ministerial meetings, to monitor progress with the delivery of benefits during 2014. In the 2013 Budget Report, the size of the Budget Reserve was increased, inter alia, in recognition that there may be some pressures on departmental Cash Limits simply as a result of the timing of the delivery of benefits through the FTP.'

3325

In other words, access to the budget reserve is contingent upon demonstrating to Treasury and Resources that we will meet our FTP.

I will be voting for this Budget. Thank you.

3330

The Bailiff: If there is no one else wanting to speak, it will be for the Minister to reply to the debate.

Deputy St Pier.

Deputy St Pier: Thank you, sir, and thank you to all Members who have spoken, and particular thanks to members of my Board who have also spoken during the debate.

I will not, obviously, respond to every point made by every Member, but I do wish to pick up on quite a number.

3335 Deputy Soulsby began the debate expressing some concern about the RPI figure which had been used for next year, and perhaps whether it was the right number to pick. I think it is consistent with us taking the cautious approach. It may be that she is right, that inflation will prove to be less than that, but on the other hand if the economy does pick up, as is anticipated, and as is forecast, then inflation may move ahead. I think the approach we have taken to all our forecasts and estimates is to take the most cautious and prudent estimate. She also queried why we used RPIX for June 2013 of 2.1%, and again, the point there was to use the same reference point as Social Security had used, given the particular recognition of the fact that we are presenting the Report in the same month as Social Security, and recognising that allowances are, in effect, a form of universal benefit, and therefore it seemed appropriate to be consistent.

3340
3345 The £200 per individual taxpayer... sorry, £200 of taxable income, £400 for a married couple, representing tax saved of £40 per annum and £80 per annum respectively: I think we just need to keep that in mind, particularly as we go into the Social Security debate with the proposal to increase employees contributions, which was one of the amendments, by 0.5% because for somebody earning £40,000 a year, that measure would cost £200 a year for them, so that would completely eliminate the tax saved, by the proposal that we have put before you today.

3350 The estimates of income we have used, which again Deputy Soulsby has questioned, not unreasonably, given the performance of income this year, we have tested those, on a number of occasions, within the Department, we do believe that they are prudent estimates.

3355 We would welcome PSD's involvement in looking at the Report, and making it, as she describes, more accessible, and look forward to that engagement with the Public Accounts Committee.

I thank Deputy Soulsby also for her comments on our move in relation to section 8, for the publication of the utility accounts, and the scope of the review for grants, loans and subsidies. Again, I would be very happy to engage with the Public Accounts Committee on that review.

3360 Deputy Gillson had raised the question of the second target for the Financial Transformation Programme, and the fact that the Budget Report is silent on that. I can advise the Assembly that the best estimates presently are that we have accumulative savings from the FTP, to date, of £30 million, and we would estimate that if we do deliver the programme, then we will have delivered £63 million by the end of 2014. So that is a little shy of the £70 million second target that Deputy Gillson referred to, but that, no doubt, reflects the slow start to the programme, and I do undertake that in the annual report on the FTP, which the Policy Council is committed to presenting to the Assembly, we will specifically review and address that point, which Deputy Gillson quite rightly referred to.

3370 Deputy Gillson also questioned whether Capita's fee was at risk, and whether it was really a guaranteed fee. Well, I can confirm that their fee very much is at risk if we do not deliver £31 million of sustainable recurring savings. They will not receive their fee if that is not the case.

3375 Deputy Dorey referred to the closer working relationship between our Departments this year, there is clearly still much to do, and indeed in the Report also, we have referred to, in paragraph 3.19, the need for a similar working relationship with Education as we go through 2014, given the particular pressures on Education.

Deputy Dorey however, I think, was a little inconsistent in urging the Assembly to vote against the document duty measures, on the basis that they would be inflationary, and he referred to the previous report, but then at the same time he actually, in essence, was urging that document duty be abolished entirely, and it be placed on TRP. You cannot have it both ways.

3380 In relation to, paragraph – I am sorry –

The Bailiff: Deputy Dorey is asking you to give way.

3385 **Deputy Dorey:** Just, the point I was making about your proposal to reduce document duty without increasing TRP. I was saying that you needed to reduce document duty and increase TRP so the overall effect is neutral. But your proposals are not neutral.

The Bailiff: Deputy St Pier.

3390 **Deputy St Pier:** No, I agree they are not neutral, sir. I was merely referring to the effect on the property market, which was one of the points which Deputy Dorey had made.

Deputy Trott's support is always welcome, although I do not agree with his characterisation of last year's Budget as a 'dog's breakfast'. (*Laughter*) Nonetheless, thank you for the support.

3395 Deputy De Lisle had referred to the raising of personal allowances, and again, I just want to make that point in relation to... we do need again, thinking about the impact of social security contributions, and that the amendment to change those will increase those by ½% would effectively negate the increase in personal allowances.

3400 Deputy De Lisle also referred to extending the 10 in corporate taxation, and expressing some frustration that perhaps that had not been done further, but at the same time, he also referred to, highlighted the fact that this has been the third successive year where there had been weakness in the financial services sector, which I would suggest would be a very good reason why we should not be hasty in rushing to extend the 10 further, when the financial services sector is under pressure. But I have said that it does remain under review, and it does indeed remain under review. It is not a completely closed position, and if a suitable opportunity does arise then we will very much keep that in mind.

3405 Deputy De Lisle also said we cannot continue raiding the contingency fund, a point very much made by Deputy Ogier, and also the Chief Minister, and absolutely, I think that is very much a point which we do recognise. Again, I have referred to the measures which are likely to be necessary in 2014 to ensure that we do not continue to run a deficit indefinitely.

3410 Alderney Representatives Arditti and Jean quite rightly referred to the position in Alderney, again, I do hope that the document duty measure will assist in the Alderney market, and also the 'one size fits all' problem which Alderney Representative Arditti referred to, I think that point was well made by him, it has also been made through the Personal Tax, Pensions and Benefits Review, and it is something that I think we will certainly give serious consideration to, as that process continues. To some extent, there is a precedent for it because of course land is zero rated in Alderney, unlike in Guernsey, so there is, to that extent, a precedent for a different treatment.

3415 Deputy Bebb referred to the policy on gifts. He is quite correct, we do not have a policy on gifts received. We have a policy on gifts made, if you like. I think the situation he described very much was one that needs to be considered by the Departments in question, and of course, the examples he gave were in his own Department, and I think he is quite right, that the impact of receiving gifts and the long running costs of maintaining those... I know that Education have experienced that, perhaps with some of the swimming pools which have been gifted to them over the years, by the work of PTAs and so on.

3420 Deputy Bebb also referred to duty free. Certainly, one estimate I have seen is that perhaps 30% of tobacco is duty free tobacco, and is imported that way. Deputy Adam also referred to this issue. Clearly, on £8 million or nearly £9 million a year of revenue coming through excise duty on tobacco, that would suggest we are losing around £3 million a year through duty free. So I think it is something that is worthy of looking at, and I am happy to give this Assembly an undertaking that we will engage with the Home Department to consider that whole question in 2014.

3430 Fees and charges, Deputy Bebb was looking for assurance that that would not be the solution to all our ills. I think he is correct to point that out, but also would remind him that fees and charges is very much part of the FTP, in the sense of ensuring that we do actually charge an appropriate fee, and charging guidance has been given, and that is being deployed by a number of Departments including Environment who I think have found it very helpful, in ensuring that they are not providing services at less than an appropriate cost, which has been historic practice.

3435 But I agree with the essential point which Deputy Bebb was making, that fees and charges should not just be ramped, in order to fill or achieve a target. There must be a sound basis to that and that is very much the policy, and the guidance, which has been given, and I know, as I say, which Departments have appreciated.

3440 Deputy Langlois, I thank him for his support, and I very much agree with him that there is a considerable amount to do on the Personal Tax Benefits and Pensions Review in 2014 between our two Departments and there will be quite a bit of compromise required, I suspect, between the two Departments, to get to a consistent position perhaps.

3445 Deputy Hadley said that we are just waiting for a review. I think that is a simple characterisation, the point that we have made is that we do not wish to be too hasty in this Budget, because not only do we have the review going on, but also we do know the state of the economy is weak, and we will have a much better idea on whether a recovery is firmly established, and we will also know whether the FTP has, is, does or does not, is or is not going to deliver what has been asked from it.

3450 Deputy Laurie Queripel referred to the Procurement Rules and I can confirm that Treasury and Resources have moved on with that project, to include appropriate recognition for local tenderers,

and the next phase of that is consultation with Department, so I would expect him to have input to that through his Department representation.

3455 I am unable to answer him today, sir, on the question he asked of breakdown of local tenders, in the information he sought on the Budget Report before you. If we are able to readily provide that information, then we will do so to him, but I am unable to do so here and now. I am not sure how much work would be required to do that, so we will perhaps deal with Deputy Laurie Queripel on that issue, outside this meeting, sir.

3460 In relation to ETI receipts, this is a point which he has raised several times, whether we are able to break that down by sector. That is something that we will continue to look at, it may well be possible but again is a question of the resource required to do that. But I understand the significance of the point he is asking, which is well made.

3465 Deputy Ogier makes his point very well, as indeed he always does. Capital spending is of course just funded, like any other spending, from general revenue, and the contingency reserve is no more really than deferred general revenue, and in that sense it is no different from any other spending we have. We have to judge it, and make a call on how much we are going to spend. The £10 million, that I think he referred to this year, and next year, of course, the £10 million in this year's additional transfer this year came from the buyback of shares on Guernsey Post Limited. That is not an additional transfer from general revenue, I just wanted to clarify that point.

3470 Deputy Brehaut asked the question, are we too timid to tax? Indeed, I think that is a valid question to ask. That is, in essence, the purpose of the Personal Tax, Pensions and Benefits Review, and again we feel our judgement was that was not the appropriate question for this year, for this Budget, but we do feel, for all the reasons I have said, that next year it might need to be a year in which that question has to be answered.

3475 I would just point out, Deputy Brehaut again made the point about the difference between this year and last year for HSSD spending. I would say there is a significant difference, and that is the fact that the Department does have its financial recovery action plan, which has been in place, and the dialogue between the two Departments, and that is a significant change between this year and last year.

3480 Deputy Lester Queripel – sir, I do think it is a shame that he has used the platform of this debate to characterise my Department as lacking in compassion. (**Several Members:** Hear, hear.) It is a caricature which I think is unworthy, and unnecessary.

3485 He has asked what the radical changes will be, and can I advise this Assembly... well, I cannot; that is the purpose of the review. He has questioned the term of seeking to improve sentiment, through the document duty measures that we are proposing. I am not sure that I understand the subtlety of the difference between improving sentiment and giving hope, which is the phrase which he uses. That is precisely what we were seeking to do with this measure.

3490 He also asks which characters our Department would like to be most closely associated with, Robin Hood, Dick Turpin, Sheriff of Nottingham. Well, I would say to him sir, that we are rooted in reality, and not in fiction. (**Several Members:** Hear, hear.) (*Interjections and applause*)

3495 And finally, in relation to printing costs, he makes a valid point there. Clearly all Departments can and must do what they can, in relation to their own spending decisions, but of course, the choice of whether to use colour or not use colour, and all the rest of it, that again is a question about how you communicate and the most effective way to communicate, which of course is one of Deputy Lester Queripel's points that he often makes.

3500 Deputy Collins referred to Proposition 17, that is in essence a tidying up of the investment rules, for the general investment pool, and to give the flexibility and the discipline of having rules specifically for that pool, and I think it does provide the flexibility, in relation to the making of investments locally, and all the rest of it, but we will only do so under advice from investment managers, and giving due recognition to a sensible diversification of assets, including geographic, of course.

3505 Deputy Sillars' point is very well made, in relation to the FTP, in the sense that clearly if his Department are unable to achieve their FTP target, that is the premise on which there will be access, if you like, for a well founded request to the budget reserve, in order to meet their cash flow needs for 2014. So if they are unable to meet their targets, then they will have to find savings elsewhere in order to stay within their cash limit, they would be unable to rely on the budget reserve in order to get them through the cash crunch which may well happen next year.

3510 Sir, I hope I have addressed the key points raised by most Members. Forgive me for those Members who I have not acknowledged. I do thank everyone for the debate, and I will now give way to Deputy Hadley.

Deputy Hadley: [*Inaudible*] Sorry, I did ask the Minister to explain why we have not had the report. My worry as far as HSSD is concerned is, it is no good to brush this under the carpet as an overspend, if we have not got the money given to that Department to provide the right level of service. It is something that this Assembly should be discussing.

The Bailiff: Deputy St Pier.

Deputy St Pier: Sir, I apologise to Deputy Hadley for not addressing that point, he did raise it. I have little to add, frankly, to the statement which I previously made to the Assembly, that it was a decision of our Board – by a majority – to exercise our discretion. We did not feel that at this stage in the year, requiring the HSSD to come back, to prepare a report and focus all their energies on doing that would significantly assist the process of controlling their spending, that the effort should be on delivering the Financial Recovery Plan, that we would continue to meet with them regularly.

I met with the Minister and his team last week. We very much hope that the underspend may turn out to be less than previous forecast, if we can stick to that, so it was simply a judgement call, but I understand there are contrary arguments, including those that were expressed within my own Board, that the Department should have been required to come back with a report but that was our decision.

Sir, I was just about to conclude, to say I commend the Budget to the Assembly, sir.

The Bailiff: Members, the Propositions start on page 109. There have been a number of requests for separate votes, so Deputy Harwood.

Deputy Harwood: Just before we move on to the Propositions, could I declare an interest in Proposition 5, if it could be taken separately. I am a director and shareholder of a wine company.

The Bailiff: There have been a number of requests to take Propositions separately. Deputy Ogier asked for a separate vote on Propositions 1, 2 and 3. Are you happy for all three to be taken together or would you like 1, 2 and 3 each to be voted on separately?

Deputy Ogier: I personally do not mind taking them together. I have not heard any other reasons why people would not support those, so far as I am concerned, I am happy for them to be taken as Propositions 1, 2 and 3.

The Bailiff: Right, thank you. Well, if nobody else requests otherwise we will go to the vote on Propositions 1, 2 and 3. 1, 2 and 3 altogether. Those in favour; those against.

Members voted Pour.

The Bailiff: I declare them carried.

Deputy Gollop has requested a separate vote on Proposition 4, so Proposition 4: those in favour; those against.

Members voted Pour.

The Bailiff: I declare it carried.

Deputy Lester Queripel asked for a separate vote on Proposition 5. Proposition 5: those in favour; those against.

Members voted Pour.

The Bailiff: I declare it carried.

Proposition 6, to approve the draft Ordinance, ‘The Excise Duties (Budget) Ordinance’, I will put to you as a separate item anyway. So Proposition 6: those in favour; those against.

Members voted Pour.

The Bailiff: That is carried.
Proposition 7: those in favour; those against.

Members voted Pour.

3575 **The Bailiff:** I declare it carried.
Proposition 8, which is again legislation: those in favour; those against.

Members voted Pour.

3580 **The Bailiff:** I declare that carried.
There is no Proposition 9, but I understand that is intentional for some reason. (*Laughter*) It is not that anything has been omitted, I am told; it is intentional there is no 9.

3585 Propositions 10 and 11, there is a request to have those voted on separately, but is it acceptable to take 10 and 11 together? I cannot remember who requested it now, was it Deputy Dorey? (**Deputy Dorey:** Yes.) Can we take 10 and 11 together? Nobody is requesting otherwise, so we vote on Propositions 10 and 11, which I would remind you have been amended, as a result of the successful technical amendment from Deputy St Pier and Deputy Kuttelwascher, just to include words 'which includes a dwelling' after the words 'on a conveyance of realty'. So voting on Propositions 10 and 11 those in favour; those against.

3590 *Some Members voted Pour, others voted Contre.*

The Bailiff: I declare those carried.
Proposition 12 is an item of legislation. Those in favour; those against.

3595 *Members voted Pour.*

The Bailiff: I declare it carried.

3600 Now the remaining Propositions 13 through to 19, I do not think anybody has requested any of those be taken separately. I remind you that 13A has been inserted as an additional Proposition, as a result of the Deputy Bebb/Deputy Brehaut amendment, and in Proposition 19, there has been an amendment as a result of the amendment to the second schedule, to which that relates, the technical amendment proposed by Deputy St Pier/Deputy Kuttelwascher. So I will put to you all of Propositions 13 and 19 together. Those in favour; those against.

3605 *Members voted Pour.*

The Bailiff: The result is I declare all the Propositions as amended to have been carried. (*Applause*)

3610 And that, Members of States, concludes the business for this special Budget meeting and we will resume tomorrow at 9.30 on the regular October meeting.

The Assembly adjourned at 4.20 p.m.