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BILLET D'ÉTAT

WEDNESDAY, 29th OCTOBER, 2014

THE STATES OF GUERNSEY
BUDGET 2015

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BILLET D'ÉTAT

TO
THE MEMBERS OF THE STATES
OF THE ISLAND OF GUERNSEY

I hereby give notice that a Special Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE,** on **WEDNESDAY,** the **29th October, 2014** at **9.30 a.m.**, immediately before the meeting already convened for that day, to consider the States of Guernsey Budget for 2015 which has been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey
8th October 2014

CONTENTS

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

30 September 2014

Dear Sir,

2015 BUDGET REPORT

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

This Budget Report presents proposals for a balanced budget with elimination of the structural deficit and closure of the Contingency Reserve (Tax Strategy). A long-term focus has been taken with: the restructuring of the Contingency Reserve (General); proposed issue of a States of Guernsey bond; the establishment of Funds for investing in economic development and transformation initiatives designed to ensure ongoing sustainability; and the introduction of three-year financial planning.

In order to close the relatively small underlying deficit in the States' finances, the Treasury and Resources Department is recommending the continuation of expenditure restraint and a number of modest changes to taxes, duties and fees for both the corporate sector and individuals. The majority of these increases will be borne by the corporate sector and include an anticipated £3million arising from the extension of the 10% Intermediate Income Tax rate to licensed fund administration business (excluding principal managers).

The recommended base Cash Limits meet the target within the Fiscal and Economic Plan for a real-terms freeze on aggregate States' revenue expenditure. In addition to funding for pay awards, inflation and States Strategic Plan approved projects, there is provision for a number of specific additional funding requirements by a number of Departments. Furthermore, the recommended base Cash Limit for the Health and Social Services Department includes £2.7million of additional funding for expenditure pressures and essential service developments. These real-terms increases in recommended base Cash Limits have meant that the size of the 2015 Budget Reserve is the minimum amount considered necessary to manage the planned release of funding for pay awards and other items. However, the Health and Social Services Department has submitted a 2015 budget which is £1.25million in excess of the recommended Cash Limit.

It is proposed that the Contingency Reserve (General) is replaced by a Core Investment Reserve to recognise its purpose as an enduring reserve designed to generate above inflation returns to be used for investment in capital infrastructure.

The Treasury and Resources Department is recommending that a Guernsey public bond is issued to enable a more strategic and cost effective view to be taken to financing, including the consolidation of existing debt which the States either directly provides or facilitates by way of guarantees and provide better overall value for the taxpayer and customers.

It is recommended that an Economic Development Fund is established to support initiatives designed to stimulate economic growth and increased revenues and a Transformation and Transition Fund is established to support the development and implementation of public service transformation initiatives and to manage possible resultant time-limited transition costs arising from some policy changes (for example, from the work of the Social Welfare Benefits Investigation Committee).

A move to multi-year financial forecasts will strengthen financial governance and enable improved planning within the States. Therefore, this Budget Report includes the first phase of this development with the presentation of a high-level three-year estimate of income and budget for expenditure.

This Budget brings the area of deficit funding to a close and lays firm foundations for our future in terms of enabling economic development, leaner government, forward planning and better financial management of our assets and the public sector's liabilities.

Yours faithfully

G A St Pier
Minister

J Kuttelwascher
Deputy Minister

A Spruce
H Adam
R Perrot
Members

J Hollis
Non-States Member

2015 BUDGET REPORT

Summary

1.1 The Treasury and Resources Department has set two key objectives in compiling its 2015 Budget Report proposals:

- to present a balanced budget following a period of six years of overall deficits; and
- to restructure strategic reserves.

Balanced Budget

1.2 The Economic and Taxation strategy approved in 2006 introduced the zero-ten structure for corporate taxation which, despite leading to a permanent and significant reduction in revenue income, was a necessary measure to maintain competitiveness internationally and with other Crown Dependencies. When the States approved the strategy, they made a policy decision to run deficits for a period of time and to fund this by the use of accumulated funds in the Contingency Reserve. At the time, it was anticipated that the deficit would be run for a period of three to five years in order to understand the full impact of the changes and test whether economic growth would enable organic erosion of the structural deficit created by the corporate tax changes.

1.3 The unprecedented global economic conditions over the period have inevitably meant that local growth has been subdued. However, Guernsey has fared remarkably well with comparatively little contraction in the economy over the period and income tax receipts which, while not showing any real growth, have remained relatively stable. When this is coupled with targeted increases in indirect taxes and the real-terms reduction in revenue expenditure achieved in recent years, the objective of a balanced budget finally becomes achievable.

1.4 In delivering this objective, in addition to the vital continuation of expenditure restraint, there are a number of limited measures proposed to raise additional income in 2015. These measures total £8.95million of additional income, the majority of which will be borne by the corporate sector.

Corporate Sector (£4.65million)

- Extension of 10% Company Intermediate Income Tax rate to licensed fund administration business (£3million);
- Increase in Exempt Company Fee (£0.5million);
- Commercial Tax on Real Property to increase by 10% (apart from 5% for the Retail category) (£1.15million).

Personal Taxes and Duties (£3.35million)

- A freeze in personal income tax allowances (£2million);
- A 3% real-terms increase in the rate of duty on tobacco in line with the Tobacco Strategy (£0.2million);
- A 2.5% real-terms increase in the duty on alcohol, equivalent to 2p on a pint of beer (£0.5million);
- Domestic Tax on Real Property rates to increase by 15% (£0.65million).

Other (£0.95million)

- A 3p increase in the duty on a litre of fuel (£0.95million).

1.5 The following table summarises the States' financial position:

		2015 Budget Estimate £m	2014 Current Estimate £m	2014 Budget Estimate £m	2013 Actual £m
Revenue Income	* #	406	381	384	361
Revenue Expenditure	* #	(366)	(353)	(356)	(346)
Revenue Surplus		**40**	**28**	**28**	**15**
Routine Capital Allocations	* #	(7)	(7)	(7)	(13)
Capital Income		-	1	-	11
Operating Surplus		**33**	**22**	**21**	**13**
Transfer to Capital Reserve (including capital income)	#	(37)	(36)	(35)	(35)
Transfer to Strategic Development Fund		-	-	-	(3)
Transfer from General Revenue Account Reserve		4	-	-	-
Deficit		**-**	**(14)**	**(14)**	**(25)**
Funded by transfer from: Contingency Reserve (Tax Strategy)		**-**	**14**	**14**	**25**

* The funding arrangement for the Corporate Housing Programme was revised with effect from 1 January 2014. The effect of this is to reduce the overall deficit by £3.85million with increased revenue income of £6.25million, increased revenue expenditure of £8.4million and decreased capital allocations of £6million.

The effect of the Integrated On Island Transport Strategy is, in respect of 2015, to increase revenue income by £3.22million, increase revenue expenditure by £1.47million, increase routine capital allocations by £750,000 and increase the transfer to the Capital Reserve by £1million.

Restructuring Strategic Reserves

1.6 The Treasury and Resources Department is making proposals in this Budget Report to ensure that the States' reserves are structured in a way that is fit for the future and enables strategic investment.

1.7 The Department is proposing that:

- A Core Investment Reserve replaces the Contingency Reserve (General). This is an enduring reserve, the core of which is protected in real-terms, with the excess returns invested in capital infrastructure;
- The Contingency Reserve (Tax Strategy) is closed;
- An Economic Development Fund is established to provide investment in initiatives aimed at enabling the stimulation of economic growth and increased revenues; and
- A Transformation and Transition Fund is established to support the development and implementation of service transformation initiatives.

Review of Personal Tax, Pensions and Benefits

1.8 In the 2013 Budget Report, the Treasury and Resources Department announced its intention to undertake a review of all taxes, duties and contributions which government imposes on islanders with a view to providing a greater degree of equity within the system. During early 2013, the Department worked closely with the Social Security Department and jointly launched the Review of Personal Tax, Pensions and Benefits (the Review) which commenced with a public consultation in April 2013.

1.9 In the summer of 2014, the Departments published a 'Principles and Issues' document. This sought to provide more information and inform public debate on the principles adopted by the Joint Boards throughout the Review and the issues encountered which the Joint Boards will seek to address with their proposals.

1.10 At the outset of the review process, the Joint Boards agreed that their prime objective was to present to the States a series of measures that would deliver long-term sustainability of public finances, pensions and benefits, and ensure a greater degree of efficiency and fairness. The Joint Boards developed the following set of principles to guide the design of the future Tax, Pensions and Benefits system:

- the tax and benefits systems should incentivise people to work and support themselves;
- people should be encouraged to take responsibility for their financial wellbeing in later life;
- the tax and benefits systems should be, as far as is possible, simple and easy to understand;
- the personal tax system needs to be competitive on an international stage;
- the States have a duty to ensure that expenditure is controlled and public money is used efficiently.

1.11 It is the intention of the Joint Boards to present a States Report in early 2015 containing detailed recommendations in the areas of changing the tax base; long-term control of government spending; contributory benefits; and universal and welfare benefits. The proposals are being compiled on a 'net neutral' basis taking into account known pressures including demographic change and an ageing population and are designed to ensure that the tax base is robust and sustainable, particularly with reference to economic changes. The Joint Boards are mindful of the need to continue a focus on expenditure restraint and delivery of efficiencies if the States wish to fund prioritised service developments and other cost pressures.

Fiscal Policies

1.12 This Budget has been prepared with due regard to the Fiscal and Economic Plan, in particular to achieve long-run fiscal balance and comply with the following corporate objectives:

- An 'assumed norm' for taxation of 21% of Gross Domestic Product (GDP);
- A real-terms freeze on aggregate States' revenue expenditure;
- The maximum annual operating deficit of the States may not exceed 3% of GDP;
- An 'assumed norm' for capital investment of an average 3% of GDP;
- Overall level of debt within 15% of GDP.

2015 BUDGET REPORT

Section 2: Income Proposals

Corporate Income Tax

Extension of 10% Company Intermediate Income Tax rate to Licensed Fund Administration Businesses

2.1 Following a recommendation from the Policy Council's Fiscal and Economic Policy Group, as part of the 2013 Budget Report, the States resolved to extend the company intermediate income tax rate (10%) to licensed fiduciaries (in respect of regulated activities), licensed insurers (in respect of domestic business) and licensed insurance intermediaries and licensed insurance managers (in respect of the carrying on of business and acting as such) with effect from 1 January 2013.

2.2 It is proposed that, **notwithstanding that the standard rate of corporate income tax will remain at 0%, with effect from 2015, the company intermediate income tax rate (10%) is extended to income from the provision of administration services (as defined under the Protection of Investors (Bailiwick of Guernsey) Law, 1987), to unconnected third parties** (i.e. excluding principal managers). It is considered that this measure will meet the five principles that were set out in the 2010 corporate tax review as it would: be competitive; be simple; be internationally acceptable; promote a sustainable economy and tax the provider, not the product, thus retaining the important tax neutral platform that is key to maintaining Guernsey's international fiscal competitive position. It is prudently estimated that additional income of £3million per annum will be raised.

2.3 Guernsey's removal of the deemed distribution regime (Billet d'État XVI, 2012) ensured Guernsey's zero-10 regime was formally compliant with the Code of Conduct on Business Taxation. Therefore the 2010 corporate tax review was formally concluded in 2012. However, Guernsey will continue to liaise closely with other Crown Dependencies and monitor international tax developments, such as the current trend towards territorial tax systems, to ensure Guernsey remains a sustainable, competitive, jurisdiction.

Exempt Company Fee

2.4 A collective investment vehicle established to enable investment in, manage, or hold assets of such a fund that meets conditions prescribed in the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended, may apply for exemption from tax. A body granted exempt status is exempt from income tax in respect of sources of income from outside Guernsey and may also invest on a tax-free basis in a Guernsey bank deposit and in another body to which an exemption from tax has been granted and may hold shares in a Guernsey company.

2.5 The annual fee payable on application for exempt status is £600, an amount which has remained unchanged since 1998. The Department therefore recommends that **the annual fee is increased to £1,200, with effect from 1 January 2015**. It is anticipated that this will raise an additional £500,000.

2015 BUDGET REPORT

Personal Income Tax

2015 Personal Income Tax Allowances

2.6 The Treasury and Resources Department is reviewing, as part of the implementation of measures emanating from the Personal Tax, Pensions and Benefits Review, the values and structure of personal income tax allowances. The package of measures proposed to deliver on the objectives of the Personal Tax, Pensions and Benefits Review will undoubtedly contain proposals on the level and type of personal income tax allowances. However, in the meantime, the imperative for the Treasury and Resources Department is to recommend a balanced 2015 Budget and is therefore recommending that the **2015 basic personal and supplementary income tax allowances remain at the same level as in 2014.** This will result in an increase in States' revenues of approximately £2million.

2.7 The personal allowances for 2015 are recommended to remain as follows:

Single persons	£9,675
Single persons entitled to age relief	£11,450
Married persons	£19,350
Married persons, one entitled to age relief	£21,125
Married persons, both entitled to age relief	£22,900

2.8 The supplementary personal income tax allowances for 2015 are recommended to remain as follows[a]:

Dependent relative	£3,125
Housekeeper	£3,125
Infirm Persons	£3,125
Charge of Children	£6,550

For 2015, the Wife's Earned Income Allowance will remain in line with the Single Person's Allowance, i.e. £9,675. It should be noted that the Married Persons' Allowance is reduced by the sum of £1 for every £1 of Wife's Earned Income Allowance granted.

For 2015, the income limit of a dependent relative before the Dependent Relative Allowance is reduced will remain at £6,550.

Bank Interest Exemption

2.9 In early 2014, an Income Tax Office Improvement Programme was initiated aimed at providing customer focussed service whilst using modern technology to improve efficiency. As such, a number of initiatives are being considered to remove the requirement for approximately 10,000 taxpayers to file a personal income tax return.

2.10 There are a large number of tax-payers who at present are only required to file a return due to a small amount of bank interest received. Therefore, the Department is recommending that **an exemption from income tax is introduced from 1 January 2015 for the first £50 (£100 for a married couple where each party receives the interest) of the total interest receivable by individuals from bank, building society, national (post office) savings or other savings accounts, no matter where the account is held.** It is estimated that this proposal would cost £150,000 in 2015.

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

2.11 It is the intention that these taxpayers will still receive a notice of assessment and an exercise to notify these customers will commence in 2015. Although the ongoing direct savings resulting from this initiative are not material, the prime purpose is to remove the need for many islanders to file income tax returns and so enable the refocussing of resources to improving customer service.

Mortgage Interest Relief

2.12 Homeowners can claim income tax relief at 20% on the interest paid on the first £400,000 of a mortgage on their principal private residence. As a result of an amendment placed to the 2014 Budget; this relief is now also limited by a £25,000 cap (£50,000 for a married couple where both parties are borrowers) on the amount of interest claimable, although at its current level fewer than ten taxpayers are impacted by it.

2.13 The provision of this relief currently costs the States approximately £9-10million a year. This is low in comparison with historic averages, the cost of the relief being higher in times of high interest rates. The current estimated average rate of interest paid on a Guernsey mortgage is just over 3%; each 1% increase in the average rate would increase the cost to the States of providing this allowance by an estimated £2.5million per annum.

2.14 The current median average interest relief provided on mortgages is between £5,000 and £6,000 per annum and interest rates could increase four to five-fold before homeowners currently paying at this level of interest would be impacted by the current interest cap. As a result, interest rate rises represent a very significant financial risk to the States.

2.15 Therefore, it is recommended that **the cap on the amount of tax relief on interest paid in respect of a principal private residence is reduced to £15,000 per individual borrower (£30,000 for a married couple where both parties are borrowers), with effect from 1 January 2015.** It is estimated that a reduction of the cap will raise approximately £200,000 in 2015, impacting 300 out of nearly 10,000 households. Any recommendations for further reform, if appropriate, will be progressed through the Personal Tax, Pensions and Benefits Review.

Personal Pension Provision

2.16 In light of recent reforms announced by the United Kingdom government with regard to introducing greater flexibility in retirement, the Treasury and Resources Department intends to consult with interested parties in 2015 with a view to encouraging private pension provision through the introduction of greater flexibility. In addition, the Department is also aware that the Social Security Department is considering secondary pension provision and both Departments will continue to work closely together.

2015 BUDGET REPORT

Other Taxes and Duties

Excise Duty on Tobacco

2.17 In March 2008 (Billet d'État III, 2008), the States directed that increases in the rate of excise duty on tobacco and tobacco products should be *"a minimum of RPI plus 3% annually for the five years 2009 - 2013."* The Treasury and Resources Department has consulted with the Health and Social Services Department which has advised that it is shortly planning to submit a States Report recommending a revised tobacco strategy and, in respect of excise duty rates on tobacco and tobacco products, requested that the existing policy be continued.

2.18 Therefore, the Treasury and Resources Department is recommending **an increase in excise duty in respect of tobacco of 5.6%** (being 3.0% plus the increase in the Guernsey RPI as at June 2014 of 2.6%) as follows:

Description of Goods	Proposed Rate of Duty Per Kilogram	Present Rate of Duty Per Kilogram
Cigarettes	£280.30	£265.44
Cigars	£260.29	£246.49
Hand rolling tobacco	£242.39	£229.54
Other manufactured tobacco	£210.25	£199.10
Tobacco leaf – unstemmed	£233.39	£221.01
Tobacco leaf – stemmed	£235.74	£223.24

2.19 The excise duty on an average packet of 20 cigarettes would increase from £3.90 to £4.12.[b] There is strong world-wide evidence that the demand for tobacco is price-sensitive. Furthermore, the continuing real-terms increases in the duty on tobacco are considered to be a powerful motivator for smokers to quit and to deter young people from starting smoking. However, although decreasing import volumes indicate that less tobacco is being consumed; this may be countered by an increase in the amount of tobacco products being consumed on which no duty has been paid. It is estimated that this proposal will still raise around an additional £200,000 per annum (i.e. no real-terms change), increasing the 2015 Budget Estimate to £8.4million.

Excise Duty on Alcohol

2.20 As part of the Bailiwick Alcohol Strategy, as agreed by the States in October 2005, the Treasury and Resources Department is required to take into account the aims and objectives of the Strategy when making recommendations to the States on the rates of duty on alcohol. Therefore, in recent years, in view of the above strategy and for fiscal reasons, duty on alcohol has increased substantially in real-terms.

2.21 The 2014 Budget Estimate for income from excise duty on alcohol is £11.3million (2013: £10.8million). However, due to a slight increase in import volumes, it is estimated that the actual outturn in 2014 may be higher by up to £200,000. It is recommended that the **increase in the duties levied on alcohol is 5%** - a real-terms increase of 2.5%, raising an additional £500,000 per annum (£250,000 real-terms increase).

[b] Compared to £5.23 (plus 5% GST) in Jersey from 1 January 2015 and £5.02 (plus 20% VAT) in the UK.

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

Description of Goods	Proposed Rate of Duty Per Litre	Present Rate of Duty Per Litre
Beer – small independent brewery	45p	43p
Other beer	71p	68p
Cider – small independent brewery	45p	43p
Other cider	71p	68p
Spirits (25% to 50% volume) *	£11.71	£11.15
Light wines (5.5% to 15% volume) *	£2.17	£2.07

* 5% increase will also apply to other spirits and wine categories.

2.23 The effect of these proposed duty changes on the most popular products is detailed below:

Description of Goods	Proposed Duty	Present Duty	Increase in Duty
Beer / cider – small independent brewery – 1 pint	25.56p	24.42p	**1.14p**
Other beer / cider - 1 pint	40.33p	38.62p	**1.71p**
Spirits (25% to 50% volume) – 25mls	29.28p	27.88p	**1.40p**
Light wines (5.5% to 15% volume) – 125mls	27.13p	25.88p	**1.25p**

2.24 As set out in the 2014 Budget Report, the Treasury and Resources Department has reviewed, in conjunction with the Home Department, the current system of charging excise duty on alcohol, including whether to move from the current system of using bands to categorise products to a system based on alcohol by volume (ABV). During June 2014, the Home Department circulated a consultation paper to regular importers of alcoholic drinks, local manufacturers of alcoholic products, representative group for the Bailiwick of Guernsey alcohol trade, the Drug and Alcohol Strategy Group, the States of Alderney, the Chief Pleas of Sark and all States Departments. The consultation paper was also made publicly available on the States of Guernsey website. The existing arrangements are as follows:

Commodity	Band	2014 Rate of Duty per Litre
Spirits (2014 budget: £2.8million)	Exceeding 1.2%ABV but not exceeding 5.5%ABV	60p
	Exceeding 5.5%ABV but not exceeding 25%ABV	£8.39
	Exceeding 25%ABV but not exceeding 50%ABV	£11.15
	Exceeding 50%ABV	In the extra proportion to 50% ABV
Wines (2014 budget: £4.7million)	Exceeding 1.2%ABV but not exceeding 5.5%ABV	50p
	Exceeding 5.5%ABV but not exceeding 15%ABV	£2.07
	Other wines	£3.30
Beer (2014 estimate: £3.1million)	Produced by an independent small brewery	43p
	All other beer	68p
Cider (2014 estimate: £0.7million)	Produced by an independent small cider-maker	43p
	All other cider	68p

2.25 The review has concluded that a system of charging excise duty based, as far as reasonably and administratively possible, on ABV would be fairer than the current system. Therefore, the Treasury and Resources Department intend to include within the 2016 Budget Report proposals to:

- Adopt a method of charging excise duty on beer and cider in bands, structured into four categories to replace the single rate of duty for all beer and cider. The four categories would be:
  i. Exceeding 1.2% ABV but not exceeding 2.8% ABV;
  ii. Exceeding 2.8% ABV but not exceeding 4.9% ABV (plus lower rate for small independent breweries);
  iii. Exceeding 4.9% ABV but not exceeding 7.5% ABV (plus lower rate for small independent breweries);
  iv. Exceeding 7.5% ABV.

- Adopt a method of charging excise duty on spirits based on % ABV to replace the current banding system.

- Continue with the current banding system for charging excise duty on wine. The constantly changing strengths of wine depending on vintage would make charging excise duty on wine by ABV an administratively complicated procedure.

2.26 This framework will modernise the current system and enable the future introduction of excise duty rates on very high strength alcohols which may lead to health and / or social problems. The Customs and Excise Division is currently introducing a new IT system (which includes all duty declarations being made electronically instead of being hand-written) which is due for completion in mid-2015 and will be able to accommodate the new method of charging excise duty. There will be work undertaken during the early part of 2015 to collect detailed statistics on alcohol imports in order that the correct rates can be calculated for the new regime which will raise the same amount of income as the existing regime.

Excise Duty on Motor Fuel

2.27 The 2014 Budget Estimate for income from excise duty on motor fuel is £15.8million (2013: £15.5million). However, due to an increase in import volumes compared with those budgeted, it is estimated that the actual outturn in 2014 may be up to £500,000 higher. The Department is recommending that **excise duty on motor fuel is increased by 3.0p per litre to 51.8p per litre**[c]. This would increase the pump price (based on £1.20 per litre pump price) in line with inflation of 2.5%; i.e. no real-terms increase in pump price and would raise an additional £950,000 per annum (£525,000 of which is as a result of the real-terms increase in duty). The weekly increase in duty payable on the purchase of 20 litres of motor fuel per week would be 60p. Diesel for marine (and other non-road) use would remain exempt from duty and the concessionary rate of duty on petrol for marine use would be 36.6p per litre.

2.28 As set out in the 2014 Budget Report, the Treasury and Resources Department has reviewed, in conjunction with the Home Department, whether excise duty should be levied on biodiesel in the Bailiwick. During June 2014, the Home Department circulated a consultation paper to Guernsey and Alderney fuel importers, known local producers of biodiesel, the Guernsey Motor Traders Association, the States of Alderney, the Chief Pleas of Sark and all States Departments. The consultation paper was also made publicly available on the States of Guernsey website.

[c] Compared to 44.48p (plus 5% GST) in Jersey from 1 January 2015 and 57.95p (plus 20% VAT) in the United Kingdom

2.29 The Treasury and Resources Department intends to include within the 2016 Budget Report proposals to introduce an excise duty at the standard rate on the production and / or importation of biodiesel with conditional concessions which will allow the annual duty-free importation / production of biodiesel up to a maximum of 125,000 litres per producer, subject to the producer holding an excise licence. The production of biodiesel is a potentially hazardous process because of the nature of the chemicals needed and their potentially volatile reaction meaning that there are great risks of fire and explosion if they are not properly handled. The licensing system will ensure that biodiesel production is only carried out in controlled conditions by people with the proper training and experience.

2.30 The limit of 125,000 litres per producer will not endanger the current scheme whereby used cooking oil is collected free of charge from major outlets by a private company and used to produce biodiesel. If this scheme, which contributes towards the waste strategy, were not in place, there would be a charge to collect and export the waste oil off-island for disposal leading to a risk of environmentally unfriendly disposal through the drainage system or through fly-tipping.

Implementation of Excise Duty Budget Proposals

2.31 Under its existing powers, the Treasury and Resources Department will make an Order bringing the recommended changes in the rates of excise duty into effect on the date of publication of the Billet d'État containing this Report. The Order will cease to have effect at the conclusion of the States' Budget meeting and the Department accordingly **recommends the States to approve by Ordinance that, from that date, the rates of excise duty shall be varied as set out in this Report**. These arrangements are the same as in previous years.

Tax on Real Property (TRP)

2.32 The 2014 Budget Estimate for income from Tax on Real Property is £17.2million (2013: £16.3million) and it is estimated that the actual outturn in 2014 will be in line with budget. It is recommended that **domestic and land tariffs are increased by 15%; and commercial tariffs are increased by 10%, apart from retail tariffs where a 5% increase** is recommended because of the difficult economic conditions currently being experienced by the retail sector. It is estimated that this will raise approximately an additional £1.8million per annum (£1.35million in real-terms) comprising domestic and land (£650,000), retail sector (£100,000) and other commercial (£1.05million).

2.33 The following table details the 2014 TRP rate per unit, the proposed change and the proposed 2015 TRP rate per unit (commercial rates are rounded to the nearest 5p):

	Proposed 2015 TRP rate per unit	Proposed increase	2014 TRP rate per unit
Buildings (all zero-rated for Herm)			
Domestic (whole unit) Local Market	£1.14	15.0%	99p
Domestic (flat) Local Market	£1.14	15.0%	99p
Domestic (glasshouse) Local Market	5p	-	5p
Domestic (outbuildings) Local Market	57p	15.0%	49p
Domestic (garaging & parking) (non-owner- occupied) Local Market	£1.14	15.0%	99p
Domestic (whole unit) Open Market	£1.14	15.0%	99p
Domestic (flat) Open Market	£1.14	15.0%	99p
Domestic (glasshouse) Open Market	5p	-	5p
Domestic (outbuildings) Open Market	57p	15.0%	49p
Domestic (garaging & parking) (non-owner- occupied) Open Market	£1.14	15.0%	99p
Domestic (whole unit) Social Housing	Zero	-	Zero
Domestic (flat) Social Housing	Zero	-	Zero
Domestic (glasshouse) Social Housing	Zero	-	Zero
Domestic (outbuildings) Social Housing	Zero	-	Zero
Domestic (garaging & parking) (non-owner-occupied) Social Housing	Zero	-	Zero
Hostelry and food outlets	£5.00	10.0%	£4.55
Self-catering accommodation	£3.15	10.0%	£2.85
Motor and marine trade	£4.25	10.0%	£3.85
Retail	£8.85	5.0%	£8.45
Warehousing	£4.55	10.0%	£4.15
Industrial and workshop	£3.65	10.0%	£3.30
Recreational and sporting premises	£2.15	10.0%	£1.95
Garaging and parking (non-domestic)	£4.55	10.0%	£4.15
Utilities providers	£35.75	10.0%	£32.50
Office and ancillary accommodation (regulated finance industries)	£33.40	10.0%	£30.35
Office and ancillary accommodation (other than regulated finance industries)	£11.15	10.0%	£10.15
Horticulture (building other than a glasshouse)	5p	-	5p
Horticulture (glasshouse)	5p	-	5p
Agriculture	5p	-	5p
Publicly owned non-domestic	Zero	-	Zero
Exempt (Buildings)	Zero	-	Zero
Buildings – Penal Rate	Zero	-	Zero
Development buildings (domestic)	57p	15.0%	49p
Development buildings (non-domestic)	£4.75	10.0%	£4.30

2015 BUDGET REPORT

	Proposed 2015 TRP rate per unit	Proposed increase	2014 TRP rate per unit
Land (all zero-rated for Alderney and Herm)			
Communal (flat) Local Market	15p	15.0%	13p
Communal (flat) Open Market	15p	15.0%	13p
Hostelry and food outlets	30p	15.0%	25p
Self-catering accommodation	30p	15.0%	25p
Motor and marine trade	30p	15.0%	25p
Retail	30p	15.0%	25p
Warehousing	30p	15.0%	25p
Industrial	30p	15.0%	25p
Recreational and sporting premises	30p	15.0%	25p
Office and ancillary accommodation (regulated finance industries)	99p	15.0%	86p
Office and ancillary accommodation (other than regulated finance industries)	33p	15.0%	29p
Utilities providers	30p	15.0%	25p
Approved development site	99p	15.0%	86p
Domestic Local Market	15p	15.0%	13p
Domestic Open Market	15p	15.0%	13p
Horticulture	15p	15.0%	13p
Agriculture	15p	15.0%	13p
Domestic Social Housing	Zero	-	Zero
Publicly owned non-domestic	Zero	-	Zero
Exempt (Land)	Zero	-	Zero
Land – Penal Rate	Zero	-	Zero
Garaging and parking (non-domestic)	30p	15.0%	25p

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

TRP of Property	Proposed TRP Annual	Current TRP Annual	Increase in TRP Annual	Increase in TRP Weekly
75	£85.50	£74.25	£11.25	**22p**
150	£171.00	£148.50	£22.50	**43p**
225	£256.50	£222.75	£33.75	**65p**
300	£342.00	£297.00	£45.00	**87p**
375	£427.50	£371.25	£56.25	**£1.08**

Document Duty

2.35 The 2014 Budget included a permanent increase in the document duty thresholds and a temporary reduction in document duty rates for lower band properties. This temporary reduction ends on 31 October 2014. It is estimated that the 2014 cost (reduction in income) of this temporary reduction in document duty rates is £500,000. The 2014 Budget Estimate for income from Document Duty (which includes conveyancing - £12.8million and bonds - £1.7million) was £14.5million (2013: £15.5million, 2012: £17.1million). It is estimated that the actual outturn in 2014 will be £14million. Therefore, no extension is proposed to the temporary reduction in document duty rates for lower band properties as there is no evidence to suggest that it has facilitated an increase in property conveyances and document duty income.

2.36 The Treasury and Resources Department will continue to consider whether fiscal measures could stimulate the housing market, including working closely with the Housing Department to investigate options for stimulating supply in the housing market in order to meet the States Strategic Housing Target.

Document Duty Anti-Avoidance Provisions

2.37 The States approved a proposal in the 2012 Budget Report to introduce a Share Transfer Duty regime in Guernsey which taxes sales of interests in entities that own either commercial or domestic real property in Guernsey at the same rate as applied under the Document Duty Law for standard conveyances. During the summer of 2014, a public consultation exercise was carried out by the Treasury and Resources Department on draft proposals for the introduction of document duty anti-avoidance provisions and it is anticipated that a States Report containing the detailed policy together with the draft Law will be submitted during early 2015.

2015 BUDGET REPORT

Section 3 Expenditure Proposals

Budgeting Constraints

3.1 A key constraint in compiling the budget for expenditure on public services is the lack of any formal and agreed method for prioritising services and spending. The Policy Council has developed a framework for a Government Service Plan which would be a single integrated approach to business and financial planning and performance management across the public sector. The Government Service Plan would aim to ensure that political priorities have resources directed to them to ensure that the right things are delivered and to give a structure through which the States can monitor progress.

3.2 The States are beginning to face substantial expenditure pressures; both increases in demand for existing services, including as a result of demographic changes and the introduction of new services. The Government Service Plan will ultimately provide the mechanism by which these expenditure pressures are prioritised and the Treasury and Resources Department is proposing a practical approach to progressing this project in paragraphs 5.28 to 5.29. However, in the absence of such a plan, the Treasury and Resources Department is recommending Cash Limits for 2015 for some Departments that include additional funding for existing services or for the introduction of service developments having considered relative priorities.

3.3 The Treasury and Resources Department is required to put together the budget for expenditure on public services with due regard to the policies of the States. One of the key strategies within the States' Fiscal and Economic Plan is the fiscal framework strategy which has a macroeconomic and fiscal objective of a *"Real term freeze on aggregate States revenue expenditure."* Therefore, the Treasury and Resources Department has very limited flexibility in formulating its recommended Cash Limits as effectively any real-terms increases in an individual Department's Cash Limit can only be funded by a real-terms reduction in the allocation to another Department. The only alternative to this would be to decrease the amount held within the Budget Reserve, which is the instrument used to manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures.

3.4 Over recent years, Financial Transformation Programme (FTP) targets have been allocated to all Departments through a reduction to the Cash Limit. Once sustainable benefits have been identified, agreed and signed off, the budget is adjusted for the impact and the FTP target reduced accordingly. Therefore, the outstanding targets are taken into account within Departmental Cash Limits for 2015. Although the Programme is due to close at the end of 2014, there remains an overall balance of FTP targets yet to be delivered of £7.1million (in cash terms). The Treasury and Resources Department considers that since plans were put in place for delivery of these benefits, and in the absence of a successor programme to the FTP, they should not cease at the end of 2014 due to a self-imposed deadline. Further detail on the management of residual FTP targets can be found in paragraphs 3.17 to 3.23.

3.5 For the purposes of this Budget, RPIX of 2.5% has been used as the inflation forecast. The Department is recommending that **2015 total Cash Limits are set at £373.1million calculated as follows:**

	Note	£m
2014 Cash Limits		363.2
Less Budget Reserve one-off allowance for late delivery of FTP Targets	1	(4.0)
2014 'Base' Cash Limits		359.2
Adjustment for 2014 inflation allowance	2	(2.7)
2015 inflation allowance (2.5%)		8.9
2015 'Base'		365.4
Guernsey Integrated On Island Transport Strategy	3	2.2
2015 Recommended 'Base' Cash Limits		**367.6**
Allowance for late delivery of FTP Targets	1	5.5
2015 Recommended Cash Limits		**373.1**

3.6 The 2015 base Cash Limits of £367.6million are £8.4million more than the 2014 base Cash Limits of £359.2million; this real-terms reduction of £0.6million (0.2%) is due to inflation being lower than assumed when setting the Cash Limits (see Note 2 below) offset by additional funding for the Integrated On Island Transport Strategy. Therefore, this complies with the Fiscal and Economic Plan target of a real-terms freeze on aggregate States' revenue expenditure

3.7 **Note 1** – In 2014, an additional sum of £4million was included within the recommended Budget Reserve to recognise that there are cases where a Department will have identified and initiated projects which have certain and ongoing benefits at least equal to the balance of their FTP target by the end of 2014, but a full year's benefit may not be achieved until 2015 or subsequent years. For 2015, an allowance of £5.3million has been included within Department Cash Limits and £0.2million included within the Budget Reserve (paragraph 3.23);

3.8 **Note 2** – The 2014 Cash Limits were set using an RPIX forecast for 2014 of 3.3% whereas this Budget has been prepared on an inflation assumption of 2.5%. Therefore, the base is reduced by £2.7million to reflect the latest inflation assumption being lower than that assumed when setting the 2014 Cash Limits.

3.9 **Note 3** – In April 2014 (Billet d'État IX, 2014), the States approved the Guernsey Integrated On Island Transport Strategy that directed the Treasury and Resources Department to take account of the Strategy funding requirements when recommending Cash Limits and Routine Capital Allocations for the Environment Department. The funding requirement for 2015 is £2.22million (£1.47million revenue and £750,000 routine capital) which is £300,000 higher than indicated in the Minority Report because of the effect of successful amendments.

Financial Transformation Programme

3.10 FTP benefits totalling approximately £5million were realised up to the end of 2011. For 2012 - 2014, Departments were allocated targets, as part of their Cash Limit, in order to incentivise delivery of the balance of £26million of the overall minimum FTP target of £31million. This was designed to ensure that the budget deficit is minimised whilst FTP benefits are being delivered. The targets were allocated to Departments based on the overall FTP savings profiles by Department, rather than simply by reference to the size of their budget.

3.11 In 2013, the Public Services Department advised that its FTP target could be increased by £250,000 since it had identified £250,000 in additional benefits from existing initiatives. During the course of 2013, the Policy Council agreed an increased (by £1.4million) FTP target with the Social Security Department based on its overall General Revenue budget and not purely on the non-formula led element as had previously been the case. This was in recognition that there was significant scope for the Department to affect the total level of supplementary benefit payable by more effective management of benefit payments. The Social Security Department has substantially delivered this target.

3.12 Therefore, the total of benefits realised up to 2011 together with FTP targets allocated to Departments since 2012 totals £33million. However, additional benefits totalling some £2million have subsequently been identified as deliverable up to 2018, mainly from cross-cutting initiatives in property management, procurement and support services. It is anticipated that the FTP will ultimately deliver a recurring £35million per annum in financial benefits against the original target of £31million.

3.13 Delivery of £4million of benefits in excess of the original minimum target would be a significant success by the programme, even if delivered after 2014. The Treasury and Resources Department will continue to monitor and report progress to the States on the delivery of the residual benefits.

2015 BUDGET REPORT

3.14 The following table details, by Department, the residual FTP Target Balance:

	A 2012 - 2014 FTP Targets £'000	B 2015 Value of Projects Delivered £'000	C 2015 Balance Outstanding £'000	D 2016 onwards Value of Approved Projects £'000	E FTP Target Balance £'000
Policy Council	709	(589)	120	-	120
Treasury and Resources	2,167	(2,091)	76	-	76
Commerce and Employment	1,251	(1,243)	8	-	8
Culture and Leisure	938	(873)	65	-	65
Education	7,119	(4,889)	2,230	(1,475)	755
Environment	608	(822)	-	-	-
Health and Social Services	9,336	(5,703)	3,633	-	3,633
Home	2,607	(1,977)	630	-	630
Housing	272	(272)	-	-	-
Public Services	1,292	(1,267)	25	-	25
Social Security	1,720	(1,620)	100	-	100
Royal Court	58	(131)	-	-	-
Law Officers	102	(108)	-	-	-
	28,179	**(21,585)**	**6,887**	**(1,475)**	**5,412**

3.15 The columns in the table above represent:

- Column A - FTP targets for 2012 - 2014;
- Column B - The 2015 value of the recurring benefits arising from projects that have, at this time, been approved and either implemented or in the delivery phase;
- Column C - The 2015 balance, for which measures are yet to be delivered, approved and implemented. A portfolio of projects capable of delivering the target balance was previously compiled but must now be reviewed to ensure there are realistic plans for delivery;
- Column D – The value of benefits which have been signed off and are secure, but which take a period of years to deliver in full;
- Column E – The value of the outstanding, as yet undelivered, FTP targets.

3.16 The Treasury and Resources Department is pleased to report that the Environment Department and the Royal Court have both significantly over-achieved against their FTP targets and are therefore, in line with the incentivisation arrangement approved as part of the 2014 Budget Report, entitled to retain 40% of that excess delivery as part of their ongoing Cash Limit. The Environment Department's 2015 Cash Limit has been increased by £86,000 accordingly. The Royal Court has foregone the additional entitlement of £29,000 as it was not considered necessary.

3.17 The Education Department has identified and initiated projects which have certain and ongoing benefits of £1.475million but have longer term timeframes for full benefit delivery including Primary Education Transformation and changes to the grants to the Colleges and for Higher and Advanced Education. The profile for delivery of the £1.475million is £886,000 in 2016, £305,000 in 2017, £175,000 in 2018 and the balance of £109,000 in 2019.

3.18 The Education Department has a further target of £755,000 for which it has plans in place for delivery over the period 2015 – 2017. The profile for delivery of these benefits is £355,000 in 2015, £375,000 in 2016 and the balance during 2017. These plans have been taken into account in the three year indicative Cash Limits set out in paragraph 6.15.

3.19 The Health and Social Services Department is anticipating that, in 2015, it will still have a gap in delivery of its FTP target of £3.25million, after delivery of some £375,000 over the course of the year. A non-recurring allowance of £3.25million has therefore been included in the Health and Social Services Department's 2015 Cash Limit to recognise the anticipated delay in the delivery of FTP benefits until 2016 and 2017.

3.20 The Health and Social Services Department has put in place plans for the delivery of the remaining benefits. At this point, plans have been put in place for delivery of some £900,000 in 2016 and £650,000 in 2017 in addition to the £375,000 in 2015. This means that a gap remains, between its plans for delivery and the outstanding target, of £1.7million over the period. The Health and Social Services Department and the Treasury and Resources Department are intending to establish a joint working group which will: report to both Boards and be charged with identifying opportunities to deliver the additional £1.7million within the three year period; ensuring that robust plans are in place for delivery of the identified £1.9million; actively monitoring delivery; and ensuring that these transformational saving opportunities result in improved outcomes for those people who use the Department's services.

3.21 The Home Department's outstanding target is currently £630,000. However, the Department expects to be able to sign off further benefits before the end of the year totalling some £340,000 leaving a balance of £290,000 to deliver in 2015 and subsequent years. The Home Department did have projects in its portfolio with values exceeding the target capable of delivery before the end of 2014. However, project delays and the deletion of one significant initiative have resulted in this gap. The Home Department expects to be able to deliver a further £90,000 of benefits in 2015, with the balance in 2016.

3.22 Excluding the Education, Health and Social Services and Home Departments, the FTP Target balances for 2015 total £394,000. A non-recurring provision of £175,000 has been made within the Budget Reserve to, if required, increase other Departments' 2015 budgets due to delay in the delivery of FTP benefits.

3.23 In summary, it has been prudently assumed that £5.5million of the £6.887million of the FTP Target balance may not be delivered until after 2015. Of this, £1.475m relates to the Education Department's projects which have been signed off with long delivery dates, for which a provision has been allocated to the Education Department as part of its 2015 Cash Limit. Provision has also been made, either directly within recommended Cash Limits or within the Budget Reserve, for the remaining balance of £4.025million.

3.24 In addition to these Departmental targets, at least £2million has been identified through the cross-cutting projects dealing with property, procurement and support services which will take longer to deliver than originally envisaged. Delivery of these benefits alongside the Departmental plans has the ability to enable the Programme to reach a total of £35million - £4million higher than the original minimum target albeit over a longer period. The Treasury and Resources Department commends the Policy Council and all Departments on successful delivery which has led to the General Revenue expenditure of the States reducing in real-terms in each of the last three years and delivering cumulative savings to date of some £54million (before the programme delivery costs of £9.5million).

3.25 The Treasury and Resources Department now considers it is essential that support is provided to ensure the successful delivery of these outstanding benefits. There is a requirement for Departments and the cross-cutting workstreams to be assisted in executing their plans for delivery of the remaining projects in a timely manner. It is also critical that delivery of benefits continues to be monitored and reported.

2015 Cash Limits

3.26 The recommended Cash Limits for 2015 include adjustments in respect of the following:

- Inter-Department transfers where responsibility for a service has transferred between States Departments. The major transfers that are reflected in the recommended 2015 Cash Limits are:

    - £1.3million of transfers from various Departments to the Treasury and Resources Department in respect of corporate projects, including to create a single Wide Area Network to support data, telephony and CCTV (Billet d'État III, 2012) and to develop a 'Shared Services' administration model (Billet d'État XVII, 2011). These transfers are additional to the £2.25million included in the 2014 Cash Limits;

    - £340,000 from the Environment Department to the Public Services Department in respect of Meteorological Services;

    - £300,000 from the Treasury and Resources Department to the Policy Council following a change in mandated responsibility for the Internal Audit function.

- An inflation allowance on non-pay costs totalling £2.1million has been applied to all Cash Limits (including £710,000 for the Health and Social Services Department and £515,000 for the Education Department);

- A small number of cyclical, one-off and other low value items.

3.27 Within their agreed Cash Limits, Departments have to consider very carefully their own priorities. The Treasury and Resources Department does not 'micro-manage' individual Departments' budgets, as this is the responsibility of the Departments concerned. The recommended Cash Limits for 2015 are detailed in the following table (Full line by line details of the 2015 budgets are included as Appendix III):

	Note	2015 Revenue Cash Limit £'000s	2015 Routine Capital £'000s	2015 Total Cash Limit £'000s	2014 Total Cash Limit £'000s
Policy Council					
General	1	9,275		**9,275**	8,125
Formula Led		2,485		**2,485**	2,400
Treasury and Resources:					
General	2	18,425	650	**19,075**	17,100
Formula Led		1,930		**1,930**	1,900
Commerce and Employment	3	11,425		**11,425**	10,725
Culture and Leisure		2,925	150	**3,075**	3,000
Education		73,000			
Timing of delivery of FTP Benefits		1,875			
		74,875	250	**75,125**	72,100
Environment	4	9,025	850	**9,875**	7,825
Health and Social Services	5	109,600			
Timing of delivery of FTP Benefits		3,250			
		112,850	1,250	**114,100**	105,300
Home	6	32,225			
Timing of delivery of FTP Benefits		200			
		32,425	400	**32,825**	31,275
Housing		9,975		**9,975**	10,000
Public Services		4,400	350	**4,750**	3,950
Social Security					
General		3,010		**3,010**	2,675
Formula Led		56,110		**56,110**	54,400
Public Accounts Committee		280		**280**	275
Scrutiny Committee		280		**280**	275
States Review Committee		-		**-**	95
Royal Court		2,800		**2,800**	2,800
Law Officers		4,675		**4,675**	4,560
States of Alderney	7	1,875		**1,875**	1,960
		359,045	3,900	**362,945**	341,190
Service Developments *		-	-	**-**	978
Backlog property		-	1,500	**1,500**	1,500
Budget Reserve		6,555	2,100	**8,655**	19,532
		365,600	**7,500**	**373,100**	**363,200**

* The Treasury and Resources Department has now approved business cases for all service developments prioritised within States Strategic Plans and appropriate provision has been made in the recommended 2015 Cash Limits.

3.28 **Note 1** - Policy Council – includes £200,000 for the Planning Inquiry (as it is a statutory requirement for the Policy Council to finance and manage major planning inquiries and to consider and report on the draft Development Plan prepared by the Environment Department) and £620,000 of additional ongoing funding, mainly in respect of new posts including a Chief Information Officer and in the key areas of risk management, international regulatory advisory function and corporate communications.

3.29 **Note 2** - Treasury and Resources Department – the recommended Cash Limit, with the support of the Policy Council, includes an additional £100,000 to fund a new post with responsibility for States-wide Health and Safety and £150,000 to increase network / internet bandwidth provision across the States, including for supporting the Education Department's Guernsey Integrated Learning Environment.

3.30 **Note 3** - Commerce and Employment Department – the recommended Cash Limit includes £200,000 for additional resources for the Financial Services Policy Unit, primarily to develop new and amend existing financial services' legislation in a number of areas, in order to ensure that Guernsey maintains or creates a competitive advantage.

3.31 **Note 4** - Environment Department – the recommended Cash Limit includes £1,470,000 in respect of the net revenue costs associated with the implementation of the Integrated Transport Strategy and an additional £170,000 for maintenance of coastal defences.

3.32 **Note 5** - Health and Social Services Department – the recommended Cash Limit includes £470,000 in respect of a delay to the timing of delivery of the benefits arising from the Extra Care Housing project. In addition, the Health and Social Services Department requested a further allocation of £3.4million to fund expenditure pressures and service developments. The Treasury and Resources Department considered these bids in detail, taking into account not only the request of the Health and Social Services Department but also the cost pressures being experienced elsewhere and the overall fiscal constraints. As a result, an additional amount of £2.2million to fund expenditure pressures and essential service developments has been included in the recommended Cash Limit of the Health and Social Services Department. The Treasury and Resources Department considers that this amount, which brings the total cash limit to £112.9million, in respect of revenue expenditure (an increase of 7.2% over the comparable 2014 adjusted Cash Limit), is affordable overall and covers all identified cost pressures.

3.33 The Treasury and Resources Department is conscious that this leaves the Health and Social Services Department £1.25million short of its requested budget and that not all identified service developments can be funded. The Health and Social Services Department has submitted a 2015 Budget (pages 84-85) that is £1.25million in excess of the recommended Cash Limit. The submitted Budget does not include any allowance for increasing the grant to St John Ambulance and Rescue Service although, the Treasury and Resources Department is aware of the probable requirement for additional funding for this service during 2015. This would necessitate a transfer from the Budget Reserve.

3.34 The Treasury and Resources Department considers that there are only two options for fully funding the Health and Social Services Department's budget request whilst remaining within an overall fiscal constraint of no real-terms growth in revenue expenditure: the first would be through permanently reducing the Budget Reserve and thereby removing the majority of the contingency set aside for the States as a whole; the only other option for making the £1.25million available to the Health and Social Services Department would be to reduce Cash Limits to all other Departments. This would mean a 1% reduction in budget for all other States Departments, excluding formula-led expenditure and the Education Department, which already has a significant FTP target to deliver.

3.35 The Treasury and Resources Department does not believe that the case made by the Health and Social Services Department justifies this investment at the present time. However, without a true understanding of the baseline budget of the Health and Social Services Department which is appropriately benchmarked, it is not possible to say with any certainty whether the Department is over- or under-funded.

3.36 Therefore, the Treasury and Resources Department proposes **to commission, funded from the Budget Reserve, an external assessment of the appropriate baseline budget for the Health and Social Services Department for current service provision and benchmarked to comparable service models in other jurisdictions.** The intention is that this will provide a clear evidence-based picture as to the adequacy or otherwise of the Cash Limit and allow the States to decide how best to fund the Department in the future.

3.37 **Note 6 -** Home Department – a one-off amount of £69,000 is included to fund the charges levied for providing the initial call filtering service for all 999/112 calls to the emergency services, due to a delay in the Joint Emergency Services Control Room project. In addition, £85,000 is included to fund mandatory changes in the issue of passports and £162,000 for Sex Offenders Legislation.

3.38 **Note 7 -** States of Alderney – The recommended Cash Limit includes a reduction of £150,000 in respect of the ongoing financial payback of the Voluntary Severance Scheme, which was funded in 2014 by a transfer of £510,000 from the Budget Reserve.

Budget Reserve

3.39 The Budget Reserve holds the allocation which it is expected will be transferred to individual Departments during the year. It is held centrally instead of being included within Departments' recommended Cash Limits as it is not known, with a sufficient level of detail or certainty, the amount which will be required by each Department. Therefore, each Department's Original Budget will increase during the year as this funding is released, for example, in respect of settled pay awards thus increasing Original Budgets to become Authorised Budgets. Individual Departments do not routinely hold budget contingencies which invariably would not be fully utilised every year but funding is available from the Budget Reserve, if required.

3.40 The 2014 Budget included a Reserve of £19.5million, which included £5million of specific allowances for the timing of delivery of FTP Targets and a provision for an increase in employers' social insurance contributions plus £4million provision for prior years' unsettled pay awards. These specific provisions will not be required in 2015 and, furthermore, the general provisions have been reduced in order to fund the recommended additional funding for the Health and Social Services Department. Therefore, the 2015 Budget Reserve is £8.7million which includes:

- Provision for pay awards for which budgets will be adjusted when the pay awards are settled. The Budget Reserve includes £150,000 for the 2015 effect of 2014 pay awards which have not yet been settled and £3.25million for the effect of 2015 pay awards (largely only part-year effect – eg the Teachers' Pay Award is effective from September);

- Provision for increasing established staff budgets in case the assumed 5% level of vacancies does not occur;

- Allowance for variations in formula-led expenditure;

- Increases to formula-determined grants (e.g. Higher and Advanced Education Awards, grants to Colleges, grant to St John Ambulance and Rescue Service);

- Allowance for unanticipated / contingency / 'emergency' expenditure where there is a clear business case or demand / cost pressures that cannot be met by reprioritising existing budgets;

- Allowance of £175,000 for timing of delivery of FTP benefits (paragraph 3.22);

- Allowance for transfers to Departments' routine capital allocations, as there are a significant number of capital projects that may be progressed in 2015 but, at this stage, their timing or cost is not known with any degree of certainty.

Capital Expenditure

Routine Capital Allocations

3.41 Overall, Departments brought forward into 2014 £5.5million of routine capital allocations and additional allocations of £3.3million were approved in the 2014 Budget Report. Historically, Departments have tended to overestimate their routine capital requirements and, in most cases, fewer projects are carried out and at a later time than was included in the routine capital programme funding requests. Therefore, the recommended Departments' routine capital allocations for 2015 are at a similar level to 2014 but generally lower than in previous years. However, the Budget Reserve includes a provision for transfers to Departments' routine capital allocations. The recommended routine capital allocation for the Environment Department includes £750,000 in respect of implementation of the Integrated Transport Strategy.

3.42 The recommendations for routine capital allocations include a ring-fenced allocation of £1.5million (2014: £1.5million) specifically to fund backlog maintenance of property assets. The Treasury and Resources Department's States Property Services section will, in consultation with Departments, prepare a prioritised plan for carrying out the works. Approval of capital votes for individual projects is subject to the existing procedures (including in respect of the Treasury and Resources Department being able to exercise its delegated authority).

3.43 Since 2012, the Education Department has received a specific amount of £175,000 per annum for funding an ongoing schedule of planned preventative maintenance for elemental refurbishment of Les Beaucamps High School (as set out in the November 2010 States Report [Billet d'État XXIII, 2010]). The Treasury and Resources Department fully supports the Education Department in its plans to ensure that the school is maintained appropriately in order to maximise its useful life and deliver optimum value for money in return for the substantial capital sum expended.

3.44 However, the funding mechanism of a sinking fund is not in accordance with existing States' practice whereby such expenditure is planned and funded at the appropriate time through either routine capital allocation or as a Capital Reserve project. Therefore, the Treasury and Resources Department is proposing that the £525,000 funding is retained within the Education Department's routine capital allocation to fund other projects.

2015 BUDGET REPORT

Section 4 Capital Reserve

States Capital Investment Portfolio

4.1 In September 2013 (Billet d'État XIX, 2013), a Treasury and Resources Department States Report entitled "Capital Prioritisation" was considered and a States Capital Investment Portfolio approach for the delivery of capital projects during the period 2014-2017 was approved. A key objective of this approach is to ensure that an appropriate level of investment is made to maintain and enhance the Island's infrastructure in order to not adversely impact on its economic competitiveness with other jurisdictions.

4.2 In July 2014 (Billet d'État XVI, 2014), the States approved a Treasury and Resources Department States Report entitled "States Capital Investment Portfolio" which gave an indicative cost, for the prioritised portfolio of major capital projects and programmes of £275million. At that time, the Treasury and Resources Department reviewed the outline cost of all projects to ensure that: costs were benchmarked as far as possible against similar projects; all potential project costs had been considered; and that there was an appropriate use of contingencies and optimism bias.

4.3 In May 2014 (Billet d'État IX, 2014), the States agreed to classify the construction of a bus depot as a pipeline project in the States Capital Investment Portfolio at an indicative cost of £20million (however, this has not yet been subject to any validation or review). The Transport Strategy is projected to deliver a revenue surplus of £1million per annum from 2015 which will be transferred to the Capital Reserve to fund the bus depot. However, there could be a timing difference of £17million, as the capital expenditure may be undertaken before all of the funding is received.

4.4 As part of the July States Report, the States noted the intention of the Treasury and Resources Department to work with the Education Department to explore in more depth the possibility of treating the funding of the College of Further Education project differently. The Treasury and Resources Department is pleased to report that, after close and constructive work with the Education Department, a revised plan has been submitted for the short-term partial refurbishment and limited redevelopment of Les Ozouets Campus as part of the longer-term programme to rationalise the College of Further Education onto one site.

4.5 This interim solution, which will also enable master planning for the overall consolidation onto one site to be undertaken, has indicative costs that are £17million lower than those previously included within the portfolio. The funding requirement for the longer term programme will be considered as part of the next capital prioritisation round.

4.6 As part of the States Capital Investment Portfolio States Report, the States also noted the intention of the Treasury and Resources Department to work with the Public Services Department to explore in more depth the possibility of treating the funding of the Belle Greve Long Sea Outfall project differently. The Public Services Department has developed a detailed financial model which examines the impact on Guernsey Water's financial position, the borrowing requirement and any effect on customer charges of the investment required to bring the waste water infrastructure up to standard and the additional impact if it also funds the Belle Greve Long Sea Outfall Project. It became apparent that the funding of the Belle Greve Long Sea Outfall project could not be considered in isolation and that a more fundamental and wide-ranging review of the future funding model of Guernsey Water, taking into account the impact on customers and the wider economy was required.

4.7 As set out in paragraphs 4.25 to 4.29 below, the Treasury and Resources Department is recommending that an external review of the appropriate level of investment return that should be generated from the States' trading assets is carried out. Therefore, rather than consider the funding for this project in isolation, it is intended that, at least until the findings and recommendations of the review have been considered, the Belle Greve Long Sea Outfall Project should be funded from the Capital Reserve.

4.8 Therefore, the revised portfolio value is £278million.

Portfolio Funding

4.9 As part of the 2014 Budget, the States approved a £10million increase in the appropriation to the Capital Reserve in addition to continuing the policy of maintaining its value in real-terms, meaning that the 2014 appropriation was £35.35million. The Treasury and Resources Department is recommending that the real value of the 2014 appropriation is maintained and **£37.25million (including the £1million revenue surplus from the Transport Strategy) is transferred to the Capital Reserve on 1 January 2015**.

4.10 In 2014, part of the Longfield site at Rue Maurepas, St Peter Port was conveyed to the Guernsey Housing Association for social housing development. As part of the overall development costs the purchase was funded by a grant from the Corporate Housing Programme Fund to the Guernsey Housing Association. The sale of properties that are no longer required by the States contributes to the funding for the States Capital Investment Portfolio; therefore, it is recommended that **the net proceeds of £958,472 are transferred to the Capital Reserve with immediate effect.**

4.11 The funding identified in the July 2014 States Capital Investment Portfolio States Report was £218million (including excess Core Investment Reserve investment return – paragraph 5.3) which will increase by £3million to £221million because of the Transport Strategy surpluses:

	£m	£m
Balance at 1 January 2015		
(allowing for completion of projects in previous programme)		80
General Revenue Appropriations		
(including Transport Strategy surpluses):		
2015	37	
2016	38	
2017	39	
		114
Other income (including property sales and investment return)		27
Total estimated funding up to 31 December 2017		**221**
Portfolio Value		**278**
Funding Shortfall		**57**

4.12 In order to address the funding shortfall, the Treasury and Resources Department has reconsidered whether there are any opportunities to increase the amount of funding available in the Capital Reserve.

Addressing the Funding Shortfall

4.13 The Corporate Housing Programme was approved by the States in 2003 as a practical framework for implementing the States Housing Strategy through coordinated action by States' departments, non-governmental organisations, voluntary groups and the private sector. Over the last 11 years, Corporate Housing Programme expenditure has been wide-ranging, and has included the delivery of both major housing programmes and projects through housing associations, as well as the day-to-day expenses of directly providing and maintaining States-owned social housing, together with staff and other costs associated with each of the various Corporate Housing Programme workstreams.

4.14 Since 2003, the Corporate Housing Programme has funded, part-funded (in conjunction with the Guernsey Housing Association's private borrowing) or facilitated 22 housing developments at a total cost to the States of £55million, creating over 750 units of social rented, partial ownership and extra care housing in the process. In addition, it has enabled the Housing Department to bring up to modern standards the majority of its social housing stock – a multiyear process that has involved replacing roofs, windows, kitchens, plumbing, electrics and so on.

4.15 While the Corporate Housing Programme has led to the creation of hundreds of homes, there remains much to be done if the Island's ongoing housing requirements are to be met. The States Strategic Housing Target, which is set partly in response to the Housing Needs Survey and which specifies the number of additional dwellings which need to be created each year, is not being met. The waiting lists maintained by the Housing Department and the Guernsey Housing Association show that demand for social housing and partial ownership housing remains high. Therefore, there is an ongoing need for long-term investment in the development of affordable housing in the Island.

4.16 As set out in the 2014 Budget Report, the funding arrangement for the Corporate Housing Programme was reconfigured with effect from 1 January 2014, with the income accruing directly to General Revenue, the revenue expenditure elements forming part of the Housing Department's budget. Capital expenditure, which comprises the Housing Stock Modernisation Programme and the Housing Development Programme, continues to be met from the Corporate Housing Programme Fund.

4.17 At the start of 2014, the Corporate Housing Programme Fund had a balance of £64million. Anticipated projects over the period 2014 – 2017 (which is the term of the current States Capital Investment Portfolio) total £42million. Therefore, it is anticipated that, at the end of 2017, there will be a balance of £22million in the Corporate Housing Programme Fund. There are no new funds being routinely allocated to the Corporate Housing Programme Fund and the intention is that, once this Fund is exhausted, the Corporate Housing Programme will form part of the States Capital Prioritisation process, with an appropriate level of funding allocated from the Capital Reserve.

4.18 It is therefore proposed that **£20million of the Corporate Housing Programme Fund is transferred to the Capital Reserve in order to supplement the funding currently available for the 2014-2017 States Capital Investment Portfolio.** It is considered that this transfer will not hinder the delivery of the Corporate Housing Programme and will result in future consistency and transparency in the funding arrangements for all General Revenue capital projects. However, it does mean that the Corporate Housing Programme will require funding from the Capital Reserve as part of the States-wide capital prioritisation process earlier than previously anticipated.

4.19 The Treasury and Resources Department is grateful to the Housing Department for the corporate and co-operative approach it is displaying to assist the States in making the most efficient use of its overall assets by agreeing to the transfer of funding that is not required in the short-term from the Corporate Housing Programme Fund to the Capital Reserve, where there is an immediate requirement for additional funding to progress prioritised projects.

4.20 If the affordable housing requirements from the most recent Housing Needs Survey are to be met, expenditure on the Corporate Housing Programme from 2018 is estimated at £16.6million per annum based on 171 units of accommodation with an average grant of £97,000 each (covering both land acquisition and development costs). Therefore, it is clearly acknowledged that the Corporate Housing Programme will require substantial additional funding in the future in order to ensure that it can meet its development plans. However, a major impediment to the progression of the Corporate Housing Programme is the availability of land suitable for development for affordable housing. An outcome of the States Strategic Asset Management Programme will be the freeing up of a number of sites which could be suitable for development and these could be transferred to the Corporate Housing Programme instead of cash funding.

4.21 The Strategic Property Purchase Fund was established in 2008 when the Budget Report included "*The Treasury and Resources Department has delegated authority to approve purchases of land and property provided funding is available. The cost of purchase is charged to the Department on whose behalf it is made. On occasion, land and property can become available that may be of future strategic importance to the States but no funding for its purchase is readily available. The Treasury and Resources Department is recommending that a Strategic Property Purchase Fund is established, by transferring £1million from the General Revenue Account Reserve, with effect from 1 January 2008. When the land or property is transferred to an individual Department it would be required to reimburse the Fund with the full market value of the property.*"

4.22 To date the Fund has been used on only one occasion to purchase a property at Victoria Avenue in order to have flexibility to improve access to Housing Target Area 8. This property is currently rented out. Therefore the Fund has not yet been replenished and currently has a balance of £750,000.

4.23 It is no longer necessary to hold separate funding for the purchase of strategic properties as the Budget Reserve now gives sufficient flexibility to respond to any such opportunities. Furthermore, for any high value opportunities, which are identified through the Strategic Asset Management Plan, funding should be secured through the Capital Reserve. Therefore, it is recommended that **the Strategic Property Purchase Fund is closed and the balance transferred to the Capital Reserve.**

4.24 The transfer of £20million from the Corporate Housing Programme Fund and £750,000 from the Strategic Development Fund to the Capital Reserve will reduce the funding shortfall to £36million.

4.25 There are a number of trading entities which are wholly owned by the States of Guernsey, both incorporated (Guernsey Electricity Limited, Guernsey Post Limited, Aurigny Group and JamesCo750 Limited) and unincorporated, but ring-fenced commercial States' entities (Guernsey Dairy, States Works, Guernsey Water and the Ports) into which the States of Guernsey and customers have significantly invested over a number of years. The Treasury and Resources Department is of the view that these significant investments should generate a return to the States of Guernsey as shareholder, which in turn could be transferred to the Capital Reserve to be reinvested in future capital infrastructure.

4.26 In 2013, Guernsey Post Limited returned £8.5million to the shareholder in the form of a buyback of shares which was appropriated to the Capital Reserve. In 2012, States Works paid a £1million dividend to General Revenue and a further £1million has been approved by the Public Services Department for payment in 2015.

4.27 **Therefore, it is recommended that the Treasury and Resources Department is authorised to commission, funded by a transfer from the Budget Reserve, an external review of the appropriate level of investment return that should be generated from the States' trading assets.** The Treasury and Resources Department envisages reporting back to the States on the findings and recommendations of the review during 2015.

4.28 This review would encompass determining the most appropriate capital structure for each of these businesses including whether a move from predominantly a 'save to spend' focus, with some exceptions, to a more appropriate debt/equity funding structure to enable these businesses to take advantage of lower costs of capital, would provide improved transparency and financial governance, without adversely affecting the charges made to consumers.

4.29 The advantages of borrowing to finance capital investment include flexibility to plan for future investment when it is most needed and in response to changing requirements (rather than having to wait for sufficient cash balance to be accumulated). It is also fairer that the cost of the asset is paid for by the customers over its life, rather than entirely by current consumers.

Managing the Portfolio

4.30 Notwithstanding that there is potential for the Capital Reserve to receive additional funding as an investment return from the States' trading assets, there is currently a significant shortfall of £36million in the funding available for the overall portfolio. Therefore, all projects will be targeted with finding at least 10% reduction in cost as projects develop to the Outline Business Case stage, without adversely affecting the project scope, benefits or outcomes.

4.31 In respect of the operating costs of the portfolio, the States resolved to approve *"in principle expenditure on portfolio resource, such expenditure to be capped at 0.4% of the portfolio value per annum charged to the Capital Reserve and direct the Treasury and Resources Department to recommend a detailed budget and associated benefits annually as part of its Budget Report".* Therefore, this Budget Report includes a 2015 States Capital Investment Portfolio operating budget (page 105) of £865,000 (0.4% of the current portfolio value of £278million is £1.11million) to fund a portfolio administration team and to provide specialist expertise (legal, procurement and financial / benefits management) and training / development in project development, management and review to project teams. This expenditure on portfolio resource should give rise to benefits through reduction in use of external consultants and other advisers, achievement of synergies across projects, more robust challenge of business cases and financial assumptions and increased focus on benefits delivery.

4.32 It is intended that this team will also consider the programme of projects funded from routine capital allocations and review whether there are opportunities to improve governance and value for money by consolidating the process for management and allocation of all capital funds. The Treasury and Resources Department intends to examine all submissions for routine capital allocation to determine whether there are themes or groups of projects across Departments which, if taken together, enable synergies and better use of resources.

4.33 As set out in the July 2014 States Capital Investment Programme States Report, the Treasury and Resources Department intends to *“review the capital prioritisation process with a view to generating the continual development of pipeline projects. This should avoid future rushes as all pipeline projects are required to deliver proposals within short time frames. The Department also intends to examine the possibility of having overlapping portfolio periods to ensure that there are fewer ‘fallow’ periods in future. For instance, the planning period for the next investment round would need to commence in early 2016 if projects are to be ready for final development and delivery from 2018. The options will all be reviewed, considering the timing of elections and proposals brought back to the States for consideration as part of the next States Capital Investment Portfolio report during 2015.”*

4.34 The States Fiscal Framework assumes a ‘norm’ for permanent capital expenditure of 3.0% of GDP (i.e. £66million per annum based on the 2013 GDP of £2,186million). The recommended States Capital Investment Portfolio funded from the Capital Reserve equates to an average of approximately £60million per annum. Therefore, the States Fiscal Framework target will be achieved wholly from General Revenue by the Capital Reserve funded projects and routine capital allocations of £8million per annum.

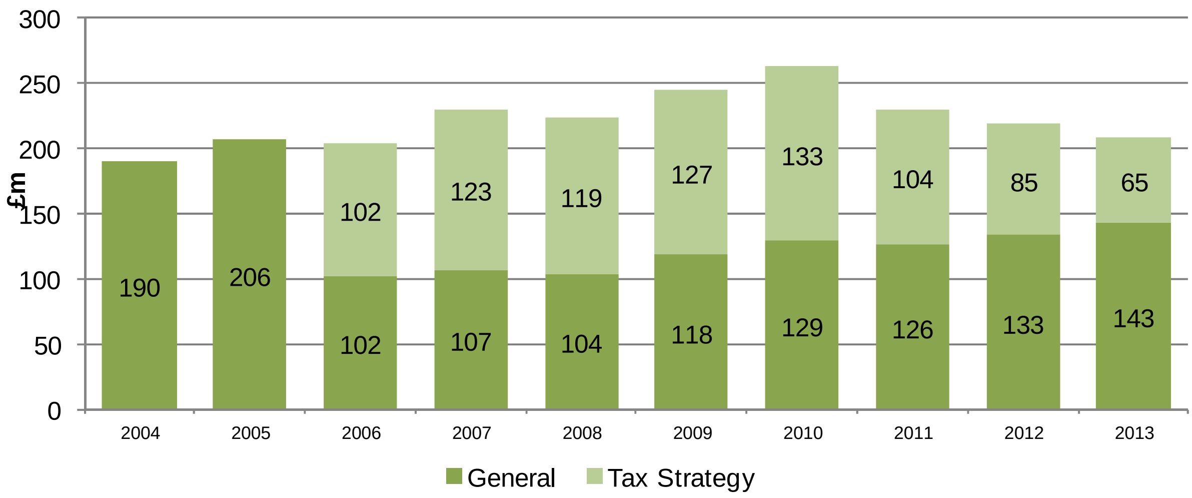
2015 BUDGET REPORT

Section 5: Other Reserves and Funds

Contingency Reserve

5.1 In June 2006 the States resolved that up to half of the Contingency Reserve (interest and capital) may be used to fund the shortfall in public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy. At that time the Contingency Reserve had a balance of approximately £200million. Therefore, it was agreed that £100million of that balance, plus any new monies transferred into the Reserve, plus the interest and investment gain accumulated on such sums, would be available to fund public services during the first phase.

5.2 The following graph shows the balances on the Contingency Reserve (General) and Contingency Reserve (Tax Strategy) at the end of each year:



Contingency Reserve (General)

5.3 The Contingency Reserve was established in 1986 and its purpose was to provide some protection against major emergencies, including significant economic downturns having a severe adverse effect on the Island. The Treasury and Resources Department is concerned that, notwithstanding that use of this reserve was originally intended to be restricted to the exceptional circumstances of an emergency situation or sustained economic downturn, there is increasing expectation that it could be used for other initiatives or projects which should be more properly funded elsewhere. The Treasury and Resources Department is of the view that this reserve should be reclassified as an enduring reserve to ensure that its capital value is preserved in real-terms (at 1 January 2014 value). However, any real returns (i.e. in excess of inflation) should be made available primarily for investment in capital infrastructure.

5.4 The Treasury and Resources Department is recommending that **the Contingency Reserve (General) is renamed as the Core Investment Reserve with effect from 1 January 2014** to recognise its status as the taxpayers' long-term savings account, its 'family silver', the capital value of which is only available to be used in the exceptional and specific circumstances of severe and structural decline or major emergencies. Furthermore, it is recommended that, **with effect from 1 January 2014, the value of the Core Investment Reserve should be maintained in real-terms as at 1 January 2014 with any excess investment returns transferred to the Capital Reserve.**

5.5 When it was established in 1986, the Contingency Reserve had an informal target of 50% of annual expenditure. By 1997, the Fund was approaching this target and in its 1997 Budget Report, the Advisory and Finance Committee said that *"In recent years, the Island has become increasingly dependent on a single source of public income, namely income tax, and in the Committee's view this increases vulnerability in the event of such a downturn. The Committee therefore believes that the present target of 50% of annual expenditure is no longer appropriate and should not be regarded as a limit on the size of the Fund. The Committee considers that it would not be unreasonable to aim for a Fund of 100% of annual expenditure and would intend to recommend further payments to the Fund if and when the 50% target is exceeded and circumstances permit".*

5.6 The projected balance at 31 December 2014 of £150million represents approximately 40% of annual expenditure. In 2006, the value of the Contingency Reserve was approximately 64% of annual expenditure and getting back to that percentage would require appropriations of £90million. The Treasury and Resources Department is of the view that restoration to the 2006 level should be a medium-term objective. The Treasury and Resources Department will, as part of future Budget Reports, recommend appropriations from any future budget surpluses, after having given consideration to the balances required in the General Revenue Account Reserve, to the Core Investment Reserve in order to increase its capital value and hence the percentage of annual expenditure it represents.

5.7 The Contingency Reserve (General) is currently invested as part of the States General Investment Pool, the investment strategy for which has been short-term in nature, partially driven by the requirement to ensure a significant measure of liquidity in the event of an urgent call on the Reserve. However, the returns on the Superannuation Fund, which has a long-term investment strategy, have been significantly higher than those of the General Investment Pool. For example, for the three year period ended 31 August 2014 the investment return on the Superannuation Fund has averaged 9.1% (6.1% in real-terms) compared to 4.8% on the General Investment Pool (a real-terms return of 1.9%). Therefore, the Contingency Reserve (General) could have benefitted by an additional £17million over the last three years had it adopted the same investment approach as the Superannuation Fund. The Treasury and Resources Department will review the investment strategy of the General Investment Pool to reflect the long-term nature of the Core Investment Reserve.

Contingency Reserve (Tax Strategy)

5.8 The 2014 Budget Report authorised the Treasury and Resources Department to transfer a maximum of £14million during 2014 from the Contingency Reserve (Tax Strategy) to fund the operating deficit and transfer to Capital Reserve. Withdrawals are timed to match cash flow requirements in order to maximise the potential for investment return on the Fund.

5.9 The Policy Council's expectation was that the first stage of the implementation of the Economic and Taxation Strategy would run for three to five years (until 2011 / 2013) and then, taking into account international events, economic performance and GST history in Jersey, a second stage would be commenced. However, it was acknowledged that, largely depending on economic conditions, stage two might be delayed or might even be unnecessary. The proposals in this Budget Report present a balanced budget with no underlying deficit so it is not considered that a second stage of the Economic and Taxation Strategy is required for revenue raising purposes. The Personal Tax, Pensions and Benefits Review is focussing on the sustainability and diversification of States' income for the medium to long-term needs of the States and is not designed to raise revenues in itself.

5.10 Whilst States' finances have been in deficit for longer than originally forecast, the requirement for withdrawals from the Contingency Reserve (Tax Strategy) has been less than anticipated. Therefore, it is budgeted that a balance of £54million will be available in the Contingency Reserve (Tax Strategy) at the end of 2014.

5.11 The Fiscal Policy Framework originally included an undertaking to *"ensure that identified deficits will be addressed within 5 years of their appearance".* The proposals in this Budget Report present a balanced budget with no underlying deficit from 2015, which is a considerable achievement given the unprecedented economic conditions that have been faced during the six year period since 2009 (the first year a deficit was funded from the Contingency Reserve) and is largely attributable to real-terms reduction in States' expenditure. The Financial Transformation Programme is expected to have delivered cumulative cash benefits of £54million by the end of 2014. This sum would otherwise have had to be withdrawn from the Contingency Reserve (Tax Strategy) and is similar to the projected balance at the end of 2014.

5.12 The purpose of this Reserve was to fund the shortfall in public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy. As it is projected that there will no longer be an underlying shortfall in public sector expenditure, it is recommended that **the Contingency Reserve (Tax Strategy) is closed on 31 December 2014**. The Treasury and Resources Department considers that, instead of transferring the balance of the Contingency Reserve (Tax Strategy) to the Core Investment Reserve, it would be of greater overall benefit if used to stimulate economic growth and transform the operation of the States in order to move the overall financial position onto a more sustainable footing.

5.13 Therefore, it is recommended that **the balance of the Contingency Reserve (Tax Strategy), estimated to be £54million, is distributed as follows:**

- **£7million to establish an Economic Development Fund** (paragraphs 5.15 to 5.18);
- **£25million to establish a Transformation and Transition Fund** (paragraphs 5.19 to 5.31);
- **The remainder, estimated to be £22million, to the General Revenue Account Reserve** including £10million to fund the delay in delivery of the residual balance of FTP Targets in 2015 - 2017.

5.14 The General Revenue Account Reserve did not include an unallocated balance during the period whilst the States' finances were in a deficit position, as any shortfall was funded by a drawdown from the Contingency Reserve (Tax Strategy). The move to a balanced or surplus budget will mean that a modest reserve is once again required to manage in-year shortfalls in income, short-term cyclical variations and other timing issues.

Economic Development Fund

5.15 The Commerce and Employment Department has, in conjunction with the Policy Council, produced an Economic Development Strategy which sets out the following four objectives relating to the creation of a dynamic and diversified economy:

- Develop the Island's existing economic sectors (including the finance industry, retail sector, visitor economy and eGaming);
- Support emerging economic sectors (such as digital and information communication technologies and creative industries);
- Enable Guernsey to work for businesses and help businesses get the best from Guernsey; and
- Track the development of the Island's economy.

5.16 The Strategy's framework includes twenty seven strategic aims and some of these may require investment or an element of pump-priming in order to stimulate economic activity. Therefore, it is proposed to establish an Economic Development Fund to stimulate and promote the sustainable growth of the Guernsey economy, by the targeted support of initiatives to create job opportunities, raise productivity levels and encourage investment. By way of example, such initiatives might include the promotion and encouragement of growth in the digital and creative industries sectors.

5.17 The Fund would be available to support, for an initial investment period, individual initiatives whose objectives include the stimulation of economic activity resulting in new or enhanced revenue streams for the States of Guernsey. It is recommended that the Treasury and Resources Department is given delegated authority, following approval in principle by the Policy Council, to approve bids for funding from the Economic Development Fund following consideration of an appropriately detailed full business case. The Treasury and Resources Department will, in conjunction with the Policy Council, develop clear criteria for use of the Fund, how applications will be prioritised and assessed and how benefit delivery will be monitored and reported. Business cases for use of the Fund must demonstrate:

- New or enhanced growth for the economy;
- Evidenced and measurable benefits;
- Return on investment by way of revenue for the States of Guernsey.

5.18 The success of the Economic Development Strategy is key to Guernsey's future financial position by growing its tax receipts and real-terms growth in States' revenues will, as long as it is accompanied by a lower growth in expenditure, inevitably result in budget surpluses which will, inter alia, be available to replenish this Fund.

Transformation and Transition Fund

5.19 The Financial Transformation Programme has facilitated an excellent start in the transformation of the States and delivery of public services with a greater focus on evidence based decision making and a culture of cost consciousness. It is vital to take account of the lessons learned through its delivery and build on the substantial progress that has been made with regard to the management of programmes and portfolios by the States.

5.20 However, there is a requirement for continued investment to continue the programme of transforming the delivery of public services in order that they are provided in a sustainable manner. This will include the continued development and implementation of a substantial policy agenda including the Personal Tax, Pensions and Benefits Review, the Social Welfare Benefits Investigation Committee, the Supported Living and Ageing Well Strategy and the Strategic Asset Management Plan initiatives together with the introduction of resource accounting and multi-year budgeting and the consolidation of support services such as IT, property and procurement.

5.21 The longer-term transformation of services in the Health and Social Services Department (through the 20:20 Vision), Education Department (through delivery of its Vision) and Home Department are all designed to lead more efficient working and should also release further savings but may also require short-term transitional funding to facilitate their delivery.

5.22 In addition, the programme being developed by the Chief Executive, as reported by the Chief Minister in his statement to the Assembly in September, to continue and build on the transformation of the public sector will undoubtedly require investment in the early stages. The Treasury and Resources Department welcomes this development as an integrated programme which must, in addition to transforming the way public services are delivered, enable significant future savings.

5.23 The development and implementation of the Government Service Plan is fundamental to ensuring that there is a prioritised programme of policy development and service changes and improvements and that funding is directed towards those areas where the highest benefits can be obtained. This should also enable financial savings to be made in how services are currently delivered in order to fund demographic and social changes in demand. The three-year Budgets (paragraphs 6.10 to 6.18) prudently assume modest initial realisation of such benefits which are expected to increase further in future years as planning matures and initiatives implemented. When the Policy Council submitted its States Report on Developing a Government Service Plan (Billet d'État XV, 2013) it set out that the Plan would:

- Be a multi-year business and financial planning process that embeds and supports effective decision-making for the allocation of scarce States' resources;
- Provide a link between the States Strategic Plan and delivery;
- Highlight the 'golden thread' that flows from the States Strategic Plan overall themes to operational delivery within Departments and the allocation of budgets;
- Be produced initially for debate by the Assembly in 2014 to underpin the 2015 Budget;
- Be updated annually to ensure it is up to date, relevant and accurate and take account of any changes or urgent requirements;
- Mature into a four-year rolling plan as it is developed further to include all services, capital and revenue projects;
- Be updated in full every four years;
- Decide on the expenditure requirements of the States and integrate with the Budget;
- Include major projects and milestones and report on them annually;
- Integrate capital and revenue planning which are currently undertaken in a disjointed fashion;
- Contain a summarised section for each Department setting out its major projects and budget and therefore inform the development of Departmental Business Plans which will flow from it, thus ensuring that Departments are working to deliver agreed objectives of the States;
- Allow States Members to ensure that the right things are being delivered and have sufficient resource directed to them to enable them to succeed.

5.24 The Treasury and Resources Department commented that it was of the firm view that it is absolutely vital that a clear and sound mechanism for the corporate assessment and prioritisation of service delivery and consequential resource allocation in the most efficient manner be introduced as soon as reasonably possible.

5.25 In order to ensure that the best value for money is obtained for government expenditure, it is necessary to ensure that services provided are actually required, are fit for purpose, comply with States' strategic objectives and have been prioritised by the Assembly. This will inevitably mean that the redirection of resources away from lower priority services into new or current but higher priority services could represent best value for money.

5.26 The Treasury and Resources Department acknowledged that it would take a number of years for the Government Service Plan to mature into a focussed multi-year business plan and that its development is integrally linked with the introduction of zero-based budgeting.

5.27 Following that debate the States resolved to approve the development of a Government Service Plan as the corporate mechanism for allocating the resources available to the States. However, the States also resolved not to allocate the funding requested by the Policy Council to develop the Plan until such time as the Council reported back with details of how the mechanics of the support and monitoring team would work.

5.28 The Treasury and Resources Department considers that there has been ample further evidence in the intervening period as to the necessity of such a plan. The prioritisation of the Education Department's proposals for Pre-School Education had to be undertaken in the absence of a coherent programme of policy developments or an understanding as to how it would be funded. The establishment of a Transformation and Transition Fund recognises the significant investment that will be required to deliver the public services of the future and the substantial policy agenda of the States. However, it is important that such investment is undertaken in an orderly, structured and prioritised manner. It is therefore suggested that the Policy Council and Treasury and Resources Department work together in order to create the necessary structure through the incremental development of a Government Service Plan considering, inter alia:

- Collation, monitoring and initial prioritisation of all existing policy development work alongside allocation of appropriate resources to ensure successful delivery (through the Transformation and Transition Fund if necessary);

- Development of priority-based budgeting which will enable funding to be allocated to the area with most need;

- Creating an opportunity pipeline for funding new policy development through the Transformation and Transition Fund;

- Supporting and monitoring the delivery of residual FTP benefits;

- Enhancing the emerging multi-year budgeting approach.

5.29 The development of these elements will allow the incremental development of an inaugural Government Service Plan. This will require resources to support the planning and delivery of the elements listed.

5.30 In relation to the operation of the Fund, it is recommended that the Treasury and Resources Department be given delegated authority, following approval in principle by the Policy Council, to approve bids for individual initiatives, development of the Government Service Plan and the administration of programmes following consideration of an appropriately detailed full business case or suitable resource request. The Treasury and Resources Department will, in conjunction with the Policy Council, develop clear criteria for use of the Fund, how applications will be prioritised and assessed and how benefit delivery will be monitored and reported. Business cases for use of the Fund must demonstrate:

- Significant long-term transformation in the delivery of services;
- Evidenced and measurable benefits;
- Return on investment.

5.31 There may also be a requirement to fund short-term costs associated with the transition from one service delivery model to another although, as far as possible, these will be kept to a short time period and expenditure minimised.

Strategic Development Fund

5.32 As part of the 2013 Budget Report, the establishment of the Strategic Development Fund with an initial balance of £3million was approved. The purpose of this Fund is for funding significant strategic policy developments which have been approved by the States and:

- Are in line with agreed States Strategic Plan objectives and which lead to significant long-term transformation in the delivery of services; or
- Produce substantial new or enhanced growth for the economy and revenue for the States.

5.33 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. The Treasury and Resources Department has, on the recommendation of the Policy Council, used its delegated authority to approve funding from the Strategic Development Fund for:

- Commerce and Employment Department - up to £1.2million over three years for provision of an innovation centre for the creative and digital sectors (in principle approval pending further information);
- Health and Social Services Department - up to £100,000 to fund developing the Children and Young People’s Plan.

5.34 In addition, in December 2013 (Billet d’État XXIV, 2013), the States approved an increase in the grant from the Commerce and Employment Department to Guernsey Finance of £900,000 over three years to fund a programme for the development of new markets for the finance industry.

5.35 Therefore, there is currently an unallocated balance of £800,000. As the proposed Economic Development and Transformation and Transition Funds will be the future funding source of initiatives previously qualifying for funding from the Strategic Development Fund, it is recommended that: **the Strategic Development Fund is closed with effect from 31 December 2014 with the balance of £800,000 transferred to the Transformation and Transition Fund; and the outstanding commitments on the two Commerce and Employment Department projects transferred to the Economic Development Fund; and the outstanding commitment on the Health and Social Services Department project transferred to the Transformation and Transition Fund.**

Fundamental Spending Review Fund

5.36 The Fundamental Spending Review Fund was established with a transfer of £10million from the General Revenue cash pool to be used solely in connection with the delivery of opportunities in connection with the Financial Transformation Programme.

5.37 All net revenue benefits arising from the Programme are credited to the Fund. Annual transfers have been made from the Fund to General Revenue which, prior to 2013, were solely to fund States Strategic Plan approved projects. The balance of the net revenue benefits arising from the Programme remained in the Fund, along with the original £10million, to fund the five year programme and project delivery costs.

5.38 For 2013 and 2014, the total net revenue benefits before any programme and project delivery costs have been or will be transferred to General Revenue in order to fund States Strategic Plan approved projects, repay the £10million transfer and reduce the deficit (i.e. reduce the draw-down from the Contingency Reserve). Therefore, the £10million transferred to the Fundamental Spending Review Fund from General Revenue is being repaid in full during 2013 and 2014.

5.39 Notwithstanding that residual benefits remain to be delivered which the Treasury and Resources Department will continue to monitor, the Financial Transformation Programme ends at the end of 2014. Therefore, the Department is recommending that **the Fundamental Spending Review Fund is closed with effect from 31 December 2014 with the balance and any outstanding commitments transferred to the Transformation and Transition Fund.**

2015 BUDGET REPORT

Section 6: Financial Position

6.1 The financial position can be summarised as follows:

		2015 Budget Estimate £m	2014 Current Estimate £m	2014 Budget Estimate £m	2013 Actual £m
Revenue Income					
Income Tax:					
Individuals		244	236	239	227
Companies		53	48	51	44
Distributions		11	10	9	10
		308	294	299	281
Other Taxes		75	68	68	67
Miscellaneous Income		23	19	17	13
Revenue Income		406	381	384	361
Revenue Expenditure	* #	(366)	(353)	(356)	(346)
Revenue Surplus		**40**	**28**	**28**	**15**
Routine Capital Allocations	* #	(7)	(7)	(7)	(13)
Capital Income		-	1	-	11
Operating Surplus		**33**	**22**	**21**	**13**
Transfer to Capital Reserve (including capital income)	#	(37)	(36)	(35)	(35)
Transfer to the Strategic Development Fund		-	-	-	(3)
Transfer from General Revenue Account Reserve		4	-	-	-
Deficit		**-**	**(14)**	**(14)**	**(25)**
Funded by transfer from:					
Contingency Reserve (Tax Strategy)		-	14	14	25

* The funding arrangement for the Corporate Housing Programme has been revised with effect from 1 January 2014. The effect of this is to reduce the overall deficit by £3.85million with increased revenue income of £6.25million, increased revenue expenditure of £8.4million and decreased capital allocations of £6million.

\# The effect of the Integrated On Island Transport Strategy is, in respect of 2015, to increase revenue income by £3.22million, increase revenue expenditure by £1.47million, increase routine capital allocations by £750,000 and increase the transfer to the Capital Reserve by £1million .

6.2 Taxation income in 2015 is anticipated to be £383million which is 17.5% of the 2013 GDP estimate of £2,186million compared to the Fiscal Framework 'assumed norm' for Taxation of 21% of GDP.

6.3 The Fiscal Framework includes that the annual operating deficit of the States may not exceed 3% of GDP (£66million based on the 2013 GDP estimate of £2,186million). There is an operating surplus projected for 2015.

2014 Probable Outturn

6.4 The 2014 projected deficit of £14million is the same as originally budgeted with income predicted to be less than budgeted by a net £3million offset by an underspend of £3million. This income shortfall is due to a £5million shortfall in income tax compared with the budgeted amount, offset by increased miscellaneous income, mainly investment return. However, the 2014 Probable Outturn of £294million for income tax represents a £13million (4.6%) increase over the 2013 outturn.

6.5 The following table details the anticipated 2014 Probable Outturn for each Department / Committee compared with Budget:

	Original Budget £'000s	Authorised Budget * £'000s	Probable Outturn £'000s	Anticipated (Over) / Underspend £'000s
Policy Council				
General	8,125	8,877	8,877	-
Formula Led	2,400	2,391	2,443	(52)
Treasury and Resources				
General	16,450	17,807	17,800	7
Formula Led	1,900	1,900	1,900	-
Commerce and Employment	10,625	11,082	11,070	12
Culture and Leisure	2,800	2,914	2,740	174
Education	71,400	72,350	74,111	(1,761)
Environment	7,725	8,085	7,959	126
Health and Social Services	104,200	106,330	111,301	(4,971)
Home	31,275	31,933	31,906	27
Housing	10,000	10,080	9,989	91
Public Services	3,950	4,046	4,024	22
Social Security				
General	2,675	2,716	2,669	47
Formula Led	54,400	55,200	54,619	581
Public Accounts Committee	275	281	278	3
Scrutiny Committee	275	281	281	-
States Review Committee	95	97	88	9
Royal Court	2,800	2,879	2,758	121
Law Officers	4,560	4,721	4,721	-
States of Alderney	1,960	2,469	2,469	-
	337,890	346,439	352,003	(5,564)
Service Developments	978	400	-	400
Budget Reserve	17,032	9,190	1,000	8,190
	355,900	**356,029**	**353,003**	**3,026**

* Authorised Budgets include funding for States Strategic Plan projects once the business case has been approved by the Treasury and Resources Department, inter-Department transfers, timing difference re Overseas Aid (£262,000 which is funded by a transfer from the General Revenue Account Reserve). In addition, £7.8 million of funding has been transferred between the Budget Reserve and Departments including £5.5million in respect of settled pay awards.

6.6 The projected net underspend of approximately £3million in 2014 is due to the pay awards being lower than budgeted (£750,000), the unrequired provision for an increase in the employers' social insurance contribution rate (£850,000) and part of the general provision within the Budget Reserve not being required.

6.7 The projected adverse position for the Education Department of £1.76million is entirely attributable to the timing of delivery of identified FTP benefits, partially offset by underspends in other areas.

6.8 In respect of the total forecast overspend by the Health and Social Services Department, £3.75million is due to a shortfall on delivery of FTP benefits, despite significant and targeted resource being provided to the Department from the FTP support team in order to try and maximise the delivery of savings in the year. The Budget Reserve included specific provision of £4million for this reason and the shortfall on this provision of £1.5million will be met from the unused general portion of the Budget Reserve. Therefore, the 2014 revenue expenditure budgets of the Education and Health and Social Services Departments will be increased by £1.76million and £3.75million respectively.

6.9 In respect of the balance of the Health and Social Services Department's projected overspend of £1.2million on 'business as usual' matters, it is clearly disappointing that the commitment given to achieving a balanced budget before the end of 2014 will not be achieved. However, the Health and Social Services Department is advising that it is facing many demands and pressures which are proving difficult to control, in particular relating to off-island expenditure. This projected overspend is compensated for by anticipated underspends by other Departments and the unused portion of the General Budget Reserve.

Three Year Budgets

6.10 The financial planning of the States has evolved in recent years with the introduction of the Capital Prioritisation process, the development of the Fiscal and Economic Plan, the States Fiscal Framework and the evolving multi-year financial planning process contained within recent iterations of the States Strategic Plan.

6.11 The Capital Prioritisation discipline by which the States prioritise the projects for capital investment over a medium term horizon of four years was introduced in 2006. That approach has now matured into the States Capital Investment Portfolio and the intention is (as outlined in Section 4) that this approach is further developed to deliver a rolling portfolio ultimately linked to the draft Island Infrastructure Plan.

6.12 The introduction of the Fiscal Framework and the Fiscal and Economic Plan in 2009 set the financial governance framework within which the Treasury and Resources Department prepares annual budgets for consideration by the States. The Framework has been accompanied by an annual independent Fiscal Policy Review which ensures that independent opinion as to the States' performance against their own objectives is considered.

6.13 For several years, it has been a stated intention of the Treasury and Resources Department to move towards a longer-term planning horizon for income and expenditure. In particular, developing multi-year budgeting for public sector expenditure enhances the effectiveness of planning within Departments and States' wide. This effectiveness brings benefits including greater clarity and operational control and an improved ability to effectively manage risk. Multi-year budgeting helps deliver improved value for money from States' spending since it enables Departments to extend their planning horizon and contract with more certainty for the medium term. A mature medium term financial horizon will also enable Departments to manage flexibility across the planning period.

6.14 Therefore, in order to take a further step on the financial governance and planning journey, the Treasury and Resources Department is using this Budget Report to present a three-year estimate of income and a three-year budget for expenditure. This model illustrates a return to financial surplus using prudent and realistic assumptions:

- No real-terms growth in income tax receipts;
- One further year of freeze on personal income tax allowances;
- Annual real-terms increases in document duty;
- Minimal real-terms growth in duties and TRP;
- New transport related taxes' income as estimated;
- No real-terms growth overall in revenue expenditure;
- Delivery of all identified FTP benefits;
- Departmental Cash Limits adjusted for known cyclical variations and any SSP funding;
- Prudent (1%) general savings target from ongoing transformation for all Departments other than Health and Social Services Department and Education Department;
- Unallocated further savings requirement from ongoing transformation of 0.5% of all revenue expenditure;
- Appropriations to the Capital Reserve maintained in real-terms.

2015 BUDGET REPORT

6.15 The following table details the indicative income and Cash Limits:

	2015 Budget Estimate £'000	2016 Indicative Estimate £'000	2017 Indicative Estimate £'000
Revenue Income			
Income Tax	307,500	317,100	324,900
Other Taxes	75,250	78,850	82,700
Miscellaneous Income	23,600	20,800	19,700
	406,350	416,750	427,300
Revenue Expenditure			
Policy Council			
General	(9,275)	(9,090)	(9,110)
Formula Led	(2,485)	(2,460)	(2,435)
Treasury and Resources			
General	(18,425)	(18,375)	(18,320)
Formula Led	(1,930)	(1,980)	(2,030)
Commerce and Employment	(11,425)	(11,485)	(11,550)
Culture and Leisure	(2,925)	(2,885)	(2,845)
Education	(73,000)	(73,575)	(74,050)
Timing of delivery of FTP benefits	(1,875)	(600)	(300)
Environment	(9,025)	(9,060)	(9,095)
Health and Social Services	(109,600)	(110,355)	(111,100)
Timing of delivery of FTP benefits	(3,250)	(2,500)	(1,000)
Home	(32,225)	(32,135)	(31,790)
Timing of delivery of FTP benefits	(200)	-	-
Housing	(9,975)	(9,785)	(9,840)
Public Services	(4,400)	(4,430)	(4,455)
Social Security			
General	(3,010)	(2,960)	(2,965)
Formula Led	(56,110)	(56,950)	(57,805)
Public Accounts Committee	(280)	(280)	(280)
Scrutiny Committee	(280)	(280)	(280)
Royal Court	(2,800)	(2,765)	(2,730)
Law Officers	(4,675)	(4,635)	(4,590)
States of Alderney	(1,875)	(1,840)	(1,800)
	(359,045)	**(358,425)**	**(358,370)**
Budget Reserve – Pay Awards	(3,400)	(8,500)	(13,700)
Budget Reserve – Other	(3,155)	(3,575)	(4,130)
Targeted Savings	-	1,800	3,600
Anticipated excess FTP	-	-	2,000
Expenditure pressures	-	(3,000)	(6,000)
	(365,600)	**(371,700)**	**(376,600)**
Routine Capital Allocations	(7,500)	(7,700)	(7,900)
Operating Surplus	**33,250**	**37,350**	**42,800**
Transfer to Capital Reserve	(37,250)	(38,150)	(39,100)
Transfer from General Revenue Account Reserve	4,000	800	-
Surplus	**-**	**-**	**3,700**

6.16 The Treasury and Resources Department is estimating that a small underlying balance would remain in 2016 requiring a transfer from the General Revenue Account Reserve while the remainder of FTP benefits are delivered by the Education and Health and Social Services Departments. However, this becomes a modest surplus in 2017, assuming all FTP identified benefits are delivered.

6.17 However, although these figures make an allowance for cost pressures of £3million per annum, the Treasury and Resources Department recognises that pressure for increased expenditure is likely to grow. In addition to known pressures such as Pre-School Education, there are likely to be further demographic pressures and potentially necessary service developments. Should additional cost pressures mount, the only means available of funding these will be through further transformational savings. The Treasury and Resources Department wishes to stress the importance, for the States to continue their focus on delivering meaningful savings. Whilst the Department recognises that these savings must be through sustainable transformation which maintains or improves the services delivered to customers, a focus on delivering value must remain.

6.18 The Treasury and Resources Department believes that the indicative cash limits set out above should give Departments a sound foundation on which to plan for the three year period. As the multi-year budgeting approach is matured, it is expected that three year allocations will be made to Departments offering flexibility across the period. However, this approach is not consistent with the current fiscal constraint of no real-terms growth in revenue expenditure which is calculated on an *annual* basis. The Treasury and Resources Department therefore expects that any change to formal multi-year budgeting will need to be accompanied by a review of the fiscal rules.

Section 7: States of Guernsey Bond

Background

7.1 In April 2009, following the development of proposals by the Treasury and Resources Department to enter into a borrowing arrangement, the States considered and approved a Fiscal Framework (Billet d'État XI, 2009) and decided that:

- Any borrowing to fund temporary mismatches between expenditure requirements and revenue income will be restricted by strict conservative limits to ensure the sustainability of Guernsey's long-term finances and the international credit rating of the States. Gross debt can only be accumulated to fund capital investment; and

- The level of gross borrowing by the States may not exceed 15% of Guernsey Gross Domestic Product.

7.2 The Treasury and Resources Department's proposals in its 2009 Capital Prioritisation States Report (Billet d'État IX, 2009) included that a borrowing arrangement be entered into for a sum not to exceed £175million to fund the Capital Programme of the States, that is those projects funded through the Capital Reserve plus the proposal in respect of the Energy from Waste plant. Following consideration of that Report and the report entitled *"Capital Prioritisation – Funding of Projects – Alternative Proposals"*, the States resolved, inter alia, to adopt an alternative funding model for the Capital Programme and "*to re-affirm the principle that States borrowing (whether internal or external) should be approved only for capital projects with a secure, associated income stream*".

7.3 The Treasury and Resources Department's July 2014 States Capital Investment Portfolio Report set out the following principles for funding capital expenditure:

i. Borrowing should only be considered for capital projects which have a defined and discrete revenue stream and only if it can be demonstrated that this revenue stream would be sufficient to repay any borrowing secured against it within the projected lifespan of the asset; and

ii. If borrowing for any given project is deemed appropriate, both borrowing from a financial institution and the issue of bonds or other alternative mechanisms (such as the issue of government bonds) be considered.

7.4 The Report went on to say "*Therefore, in respect of projects to be funded from the Capital Reserve, the Department does not consider that any borrowing alternatives should be explored, given that they largely relate to social infrastructure funded through general taxation rather than assets which have associated income streams. However, the Department has explored further the possibility of borrowing to fund Category D projects and those undertaken by associated bodies such as the States-owned companies and the Guernsey Housing Association*".

Existing Debt

7.5 In the recent past, the States of Guernsey have facilitated a material amount of borrowing for their owned or associated commercial entities. Borrowing is a necessary and accepted tool in the business models for these companies such as Guernsey Electricity Limited, Cabernet Limited and the Guernsey Housing Association. Quite naturally, the States have generally been asked to act as guarantor in arranging such debt which gives comfort to the lenders and enables the companies to access lower rates than would otherwise be the case. However, the Treasury and Resources Department is of the opinion that taking a more strategic approach to this debt could enable the entities to access even better rates by using the credit standing of the States of Guernsey.

7.6 Further, the States have also, on occasion, agreed to provide 'internal loans'. These loans are provided from the States General Investment Pool which is invested to generate a target investment return of UK RPI +3.5%. Therefore, the recipients of those funds are being asked to make payments which replace the investment return which would otherwise have been received. These rates are not commercial; they are subject to high and floating interest rates which makes planning for the borrowers extremely difficult and does not provide best value.

7.7 The table below shows all of the loans which are either outstanding or approved which the States either directly provide or facilitate by way of a guarantee:

Recipient	Arrangement Type	Amount £m
Guernsey Housing Association	Guarantee	80.5
Alderney Housing Association	Guarantee	5.0
Guernsey Electricity Limited	Guarantee	20.0
Guernsey Electricity Limited	Guarantee	45.0
JamesCo750 Limited	Internal Loan	13.8
Cabernet Limited #	Guarantee	22.0
Cabernet Limited #	Overdraft	3.0
Cabernet Limited	Internal Loan	26.0
Waste Strategy Fund	Pending	29.5
Ladies' College	Pending	4.0
Health & Social Services Department (Accommodation Fund)	Internal Loan	2.2
Total		**251.0**

The States Capital Investment Portfolio contains a project to recapitalise Cabernet Limited. When this project proceeds, a total of £11million of the existing Cabernet Limited debt will be removed.

7.8 All of the agreements in relation to the various companies and their borrowings have been negotiated separately, by each entity, resulting in a variety of different rates and timeframes. The rates achieved are improved somewhat by the existence of a States' guarantee, but many are variable in nature and have therefore involved putting in place complicated swap arrangements which add further cost.

7.9 The Treasury and Resources Department does not believe that the current arrangements are the most cost-effective method of providing finance to the entities in question. By way of illustration, the table below details the indicative savings that would be achieved if alternative financing of £250million results in a lower cost of capital of between 0.5% and 2%. It is for that reason that the Department has explored the options for consolidating this debt, all of which has an income stream to support its repayment.

	0.5% £m	1% £m	1.5% £m	2% £m
1 year	1.3	2.5	3.8	5.0
20 years	25.0	50.0	75.0	100.0
40 years	50.0	100.0	150.0	200.0

7.10 In early 2014, the Department appointed independent advisers to explore the options available to Guernsey if some form of borrowing were to be pursued. That exercise encompassed:

- Reviewing Guernsey's projected debt funding needs, including an assessment of current guaranteed loans, potential future debt financing options and consideration of financing requirements over time;

- Assessing the suitability of various debt markets and funding instruments for Guernsey;

- Providing advice on the state of the debt markets including, but not limited to, the sterling bond market, and providing relevant market updates; and

- Providing advice in relation to possible debt structure, pricing and other matters pertinent to the raising of finance, including price benchmarking, risks associated with each structure and currency considerations.

Proposal

7.11 In order to comply with the limit imposed by the Fiscal Framework, the maximum the States are currently able to borrow is limited to 15% of Gross Domestic Product, or £330million. The Treasury and Resources Department is recommending that **a Guernsey public bond is issued at a minimum of £250million** in order to enable a more strategic view to be taken to financing, to consolidate the existing debt and provide better overall value for the taxpayer and customers. In order to attain the best price for the States and take maximum advantage of the current low interest rate environment, the Treasury and Resources Department recommends that the States issue a long-dated bond of at least 20 years but no more than 40 years.

7.12 The Department is also very conscious that interest rates are at a record low, but are expected to rise soon. The window of opportunity is closing in which the States can lock into and benefit from exceptional market conditions. The States of Jersey issued a 40 year bond during 2014 which has a coupon of 3.75%; market conditions might currently allow the States of Guernsey to achieve a similar rate.

7.13 Therefore, the Treasury and Resources Department has also given consideration as to whether a further sum of up to £80million should be added to any issue in anticipation of other opportunities that might be available to the States and to take maximum advantage of the benefits of issuing a Guernsey public bond. For example, the Treasury and Resources and Housing Departments have given consideration over the past year to numerous options in an attempt to stimulate the housing market. The majority of the options considered have been rejected because of their potential impact on demand, leading to higher prices.

7.14 However, the Treasury and Resources Department considers there may be merit in exploring further the possible options available for helping the young people of Guernsey onto the property ladder by way of some kind of first-time buyers' scheme. Such an initiative could be similar to the UK government's 'Help to Buy' scheme; or it could be a direct loan or a loan deposit guarantee type scheme. In any event, the availability of finance from a public bond issue could facilitate any such scheme, which would have an income stream.

7.15 As set out in paragraphs 4.25 to 4.29 of this Report, the Department also intends to commission a review to determine the appropriate level of return which the States, as 'shareholder', should expect to receive on the capital invested in the commercial entities on behalf of taxpayers. That review will require an analysis of the current position in order to determine the most appropriate capital structures for each of those businesses and could result in further opportunities in relation to those companies.

7.16 Additionally, the Treasury and Resources Department is aware of other financing requirements in the short to medium term:

- Guernsey Water has stated that borrowing will be required in order to bring wastewater infrastructure up to acceptable levels;
- The Guernsey Housing Association will require further loan facilities in order to continue the development of affordable housing;
- Guernsey Electricity Limited will have further requirements in respect of its infrastructure including, potentially, a direct cable to France.

7.17 Lowering the cost of capital available to these companies could result in a significant downstream saving to their customers. By way of illustration, a 1% saving on the cost of capital for funding the £80million additional value would result in a saving of £800,000 per annum (£16million over 20 years) to customers.

7.18 The Treasury and Resources Department will undertake further work on these opportunities to determine whether there is, in fact, merit in taking advantage of the current market conditions to issue a bond up to the maximum allowed within the Fiscal Framework, calculated at £330million, based on 2013 estimated GDP. For the avoidance of doubt, the Department would only consider allocating any additional funds raised to projects backed by a secure income stream. However, due to the relatively high fixed costs in preparing for a bond issue, it may not be cost effective to issue further (relatively small value) bonds at a later date.

7.19 Therefore, it is recommended that **the Policy Council is given delegated authority to approve an increase in the value of the States of Guernsey bond issue by a maximum of an additional £80million**. The Treasury and Resources Department will, if it considers all or part of this additional £80million is justified, present a case for consideration by the Policy Council, comprising proposed use of funds and value for money considerations, including the opportunity for taking advantage of market conditions.

Governance and Repayment

7.20 The Treasury and Resources Department has given consideration to the governance arrangements for managing the receipt of bond proceeds and the onward allocation of these monies to third parties. In the first instance, the Department has resolved that it will **establish a Bond Management Sub Committee** which would be responsible for approving the release of funds to third parties by way of loans, agreeing loan terms, ensuring a Bond Reserve is properly established and managed, overseeing outstanding loans and managing their repayment. The Department intends to appoint two appropriately experienced Non-States Members to sit on this Sub Committee, selected for specific relevant skills.

7.21 The Department is also proposing to **establish a Bond Reserve** which will be used to hold the issue proceeds prior to any onward allocation and accumulate funds for eventual repayment at the end of the life of the bond. The Bond Reserve will also fund the issue costs and any ongoing expenses.

7.22 The Bond Management Sub Committee will agree terms with each of the recipient organisations for repayment of the debt to the States over a suitable period. These repayments will then be deposited in the Bond Reserve which the Treasury and Resources Department would prudently manage, as part of the States General Investment Pool, in order to repay investors at the end of the bond's life.

7.23 The Department's existing Investment Sub Committee will review the investment strategy of the States General Investment Pool in order to ensure that the Bond Reserve is invested in a careful and prudent manner which maximises the opportunity for returns while balancing risk.

7.24 It is possible that there will be significant local interest in any Guernsey bond and the Department has considered whether a retail element to the issue would provide a potential investment opportunity for local investors. However, whilst institutional investors are attracted by a long-term investment which might match the maturity to their future liabilities, individuals will have much shorter timeframes. Therefore, having undertaken focussed research, the Department has concluded that a long-dated bond would not be an attractive investment opportunity for an individual. A long-dated bond will have much greater price volatility and could trade below the issue price, depending on the movement in interest rates which would present a risk that an element of capital would be lost, making it an inappropriate investment for many private retail investors.

7.25 Therefore, given the mismatch in States' interests versus those of individual investors and the inherent investment risks, the Treasury and Resources Department is not recommending that this States of Guernsey bond issue caters for 'retail' investors.

7.26 The Treasury and Resources Department firmly believes that there is a rare opportunity at present to issue a Guernsey bond to consolidate existing public sector debt at a better price and also facilitate the potential for further financing opportunities at attractive interest rates for certain public sector agencies which have income streams to support such funding.

2015 BUDGET REPORT

Section 8: Other Matters

Use of Delegated Authority

8.1 In order to speed up decision-making and to avoid the States having to spend considerable amounts of time on routine financial matters, the Treasury and Resources Department has delegated authority for certain financial matters. The Department is currently required to report on the use of delegated powers to the States twice a year. **It is proposed that this is changed to once a year, with a full list of the use of delegated powers being included as an Appendix to the annual Accounts.**

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

- An increase in an individual Department's revenue expenditure budget by the greater of £250,000 or 2% in any one financial period,
- An increase in budgets to fund redundancy costs where a valid business case demonstrates, inter alia, a net financial saving to the States and a consequential reduction in the ongoing Cash Limit of the Department / Committee concerned;
- Capital votes, without financial limit, for projects funded from routine capital allocations;
- Capital overspends up to £250,000 (to be charged to Departments' routine capital allocations or the Capital Reserve);
- Property purchases and sales.

8.3 The delegated authority in respect of increasing an individual Department's revenue expenditure budget dates from a time when there was no Budget Reserve and hence individual Cash Limits and routine capital allocations included a substantial amount of contingency. Therefore, significant sums from the centrally held Budget Reserve may now be required to be transferred to individual Departments during the year. It is therefore recommended that **the Treasury and Resources Department's delegated authority is revised to enable it to approve *"increases in individual Departments' revenue expenditure budgets and routine capital allocations, funded by a transfer from the Budget Reserve."***

8.4 It is emphasised that, just because the Treasury and Resources Department has delegated authority, this does not mean that it will be used; neither does it mean that the Department cannot, or will not, refer specific instances to the States.

8.5 In addition the Treasury and Resources Department has delegated authority to sanction an overspend on an individual Department's revenue expenditure budget by the lesser of £50,000 or 5%. The clear expectation is that overspends should not occur as procedures exist to enable prior sanction in the form of a request for an increased budget, either through application to the Treasury and Resources Department for funding from the Budget Reserve or by submission of a States Report. Therefore, the Treasury and Resources Department does not intend to exercise its delegated authority to approve an overspend. However, as the expenditure will already have been incurred, there is effectively no choice for the States but to approve overspends. The States Treasurer's Report within the annual Accounts would specifically refer to any overspends and their impact on the overall revenue expenditure limit for the year (i.e. the extent to which they are compensated for by underspends by other Departments and the Budget Reserve) and on the overall States' financial position.

St John Ambulance and Rescue Service

8.6 At the request of the Health and Social Services Department, the Treasury and Resources Department has made available to St John Ambulance and Rescue Service (SJARS) a short-term loan facility of a maximum of £650,000. The most appropriate model and funding mechanism for the provision of emergency ambulance services on the island is currently under consideration which will include arrangements for repayment of this loan.

Financial Ombudsman Scheme

8.7 In November 2013 (Billet d'État XX, 2013), the States approved proposals from the Commerce and Employment Department to establish a Bailiwick of Guernsey Financial Services Ombudsman. There will be a joint Financial Ombudsman Scheme with Jersey with each island paying 50% of the costs.

8.8 As set out in the States Report, the costs will be fully covered by levies on the financial services providers but there is a cash-flow issue in that these will not be raised until the scheme is operational (anticipated to be in early 2015). Therefore, the Treasury and Resources Department has agreed to make available a loan facility of £260,000 (to cover 50% of the establishment costs and 50% of the first six months' operational costs) to be repaid by the end of 2015.

Her Majesty's Receiver General

8.9 As set out in the 2014 Budget Report, the Treasury and Resources Department and Her Majesty's Receiver General are continuing to review the mandate of the Seized Assets Fund (which from time to time receives assets confiscated locally and from foreign jurisdictions, through criminal as well as civil proceedings) with a view to ensuring enhanced transparency, political engagement as appropriate, and sustainable funding for the crucial work of law enforcement. During the past year, a policy for use of the Fund to enhance the resources available for law enforcement has been established.

8.10 In addition, Her Majesty's Receiver General is reviewing the general funds he holds (largely arising from intestate estate assets) with a view to shortly bringing forward proposals to allow a portion of these funds to be made available to support community projects, by way of a loan rather than outright grant, and with the States of Guernsey providing an indemnity in the unlikely event of unforeseen claims made by unascertained heirs having to be met.

Alderney

8.11 The Alderney Gambling Control Commission generates annual surpluses of in the region of £2-3million which, under the existing financial arrangements, should be treated as General Revenue income. However, for a number of years, these surpluses have been used as the major source of funding for the States of Alderney capital programme and is predominantly used to address the back-log of major infrastructure works.

8.12 The States of Alderney have requested that up to £900,000 of the Alderney Gambling Control Submission surpluses are transferred into a newly created Alderney Economic Development Fund. The States of Alderney intends to use this fund for projects which fit within or support the States of Alderney Strategic Development Fund and have at least a reasonable prospect of contributing positively to economic development, population growth or income growth or lead to expenditure reduction. Any uses of the Fund would require the approval of the Treasury and Resources Department, following consideration of a business case.

8.13 Therefore, it is recommended that **a States of Alderney Economic Development Fund is established and authority be delegated to the Treasury and Resources Department to approve transfers of a maximum of £900,000 from the Alderney Gambling Control Commission surpluses to the States of Alderney Economic Development Fund.**

8.14 In order to give certainty to the States of Alderney in planning their capital programme, **it is recommended that the balance of the Alderney Gambling Control Commission surpluses continue to be transferred to the States of Alderney capital allocation up to the end of 2017** (which is the same period as that covered by the States Capital Investment Portfolio).

8.15 The Policy Council will shortly be submitting a States Report in response to the States' Resolutions of January 2014 following consideration of a Requête entitled "The Airfield in Alderney". This States Report will include a recommendation that the Policy Council reports back to the States with the results of a review of the present financial relationship between Guernsey and Alderney. The Treasury and Resources Department is fully supportive of this review and considers that, in light of the substantial progress in recent years in developing the financial control structure within the States of Guernsey including revisions to the States' Financial Procedures and the States' Rules for Finance and Resource Management, consideration should be given to the extent they should apply to the States of Alderney in order to achieve the correct level of corporate governance and assurance, but without being overly administrative or causing duplication of effort. The future treatment of the Alderney Gambling Control Commission surpluses and funding arrangements for the States of Alderney capital requirements will form part of the considerations of the Review.

States Trading Companies

8.16 On behalf of the States of Guernsey, the Treasury and Resources Department holds the entire share capital of the following companies:

- Guernsey Electricity Ltd;
- Guernsey Post Ltd;
- Cabernet Ltd (holding company of Aurigny Air Services Ltd and Anglo-Normandy Aero-Engineering Ltd);
- JamesCo750 Ltd (holding company of the two tankships).

8.17 Under the terms of the States Trading Companies Ordinance, 2001 (as amended), the Department is required to publish as an item for debate in a Billet d'État on an annual basis the accounts and annual reports of both Guernsey Electricity Ltd and Guernsey Post Ltd. The companies' accounts and annual reports for the year ending 30 March 2014 are included in the September 2014 Billet d'État.

8.18 As part of the 2013 Budget Report (Billet d'État XXVI, 2012), the States agreed *"To authorise Guernsey Electricity Limited to borrow, either from the States General Investment Pool or third parties, to finance capital expenditure and to authorise the Treasury and Resources Department to facilitate, if necessary by providing guarantees, any third party borrowings".* Guernsey Electricity has a loan facility for the Normandie 1 and Normandie 3 cable projects between Jersey and France of up to £20million with HSBC at normal commercial terms and rates. The Treasury and Resources Department, acting on behalf of the States in accordance with the above Resolution, is the guarantor of that facility of which, as at 31st August 2014, £6million was drawn-down.

8.19 For reasons of commercial confidentiality, the full Accounts of Cabernet Ltd and JamesCo750 Ltd are not published but summaries and commentary on the financial position of these companies are detailed below.

Cabernet Limited

8.20 In June 2005, the States agreed the Treasury and Resources Department's recommendations that "*the retention of the Aurigny Group is in the overwhelming public interest, and represents the best strategic option for the Island at the present time*." and the Treasury and Resources Department was authorised to "*facilitate (if necessary by providing guarantees) the Aurigny Group's borrowing from third parties*". In September 2009, the States resolved "*to note the delay in the recapitalisation of Cabernet Limited will lead to a requirement to extend guarantees currently given by the States and authorise the Treasury and Resources Department to enter into such arrangements as necessary*."

8.21 Cabernet Limited (the holding company of Aurigny and Anglo-Normandy Engineering) has the following loan facilities:

- A loan facility guaranteed by the States, of up to £10million, with the Royal Bank of Scotland International, at normal commercial terms and rates. As at 31 August 2014, £8million (31.8.13: £9.1million) was drawn-down;
- A loan from the Royal Bank of Scotland International, guaranteed by the States, to purchase two new ATR72-500 aircraft. As at 31 August 2014, £13.2million (31.8.13: £14.1million) was outstanding;
- A loan of £23.58million from the States' General Investment Pool to purchase a new Embraer 195 jet and spare parts and to purchase its existing third ATR72-200 aircraft which was previously leased by the airline and which has been retained for back-up purposes;
- A loan facility of £2million has been made available from the States General Investment Pool to purchase two Dornier aircraft;
- A short-term borrowing facility has been made available from the States General Investment Pool to fund operating expenses. As at 31 August 2014, £3.3million was drawn-down.

8.22 Appendix II details the 2013 financial results of the Cabernet Group and the most recent (unaudited) 2014 position including a forecast of the outturn. In respect of 2013, a loss of £3.9million was incurred which is substantially higher than the £1.4million budget due to significant competitive pressures on the Gatwick route prior to the withdrawal of Flybe, reorganisation costs and an exceptional item of a £0.6million write-down in the value of the Trislander fleet (in anticipation of fleet replacement).

8.23 The 2014 projection is a loss of £3.5million which includes £2million of exceptional items associated with the introduction of the Embraer 195 jet (£1million), start-up costs for the new route to London City (£0.6m) and costs associated with the withdrawal of the Trislander aircraft and the introduction of the Dornier aircraft (£0.4m).

8.24 The Treasury and Resources Department is intending to submit a States Report, during 2015, on the long-term financial, strategic and operating arrangements for the airline, the objectives that are set for it and the recapitalisation of the Aurigny Group.

8.25 In the interim, the Treasury and Resources Department has set the Aurigny Group an objective of reaching a break-even position. Whilst the Department has not set a specific timetable for achievement of this objective, the Aurigny Group is continuing to predict that it will do so in 2015/2016. The financial results set out in Appendix II demonstrate a significant improvement in the Group's underlying performance with the losses before exceptional items forecast to reduce to £1.45million in 2014 compared with £3.3million in 2013.

JamesCo750 Limited

8.26 On 29 January 2009, after consideration of a States Report from the Policy Council (Billet d'État IV, 2009) entitled *"Security of Fuel Supplies and Purchase of Tankships",* the States of Guernsey resolved:

- *"To approve the decision by the Policy Council to secure the supply of fuel oils to the Bailiwick through the purchase of the tank ships Vedrey Tora [later renamed Sarnia Cherie] and Vedrey Thor [later renamed Sarnia Liberty] in the manner set out in that Report;*
- *To approve the actions of the Treasury and Resources Department on behalf of the States in issuing a loan and to authorise that Department to enter into any commercial guarantees or underwriting arrangements that it may consider appropriate in respect of these vessels."*

8.27 As at 30 June 2014, £13.7million (30.06.13: £14.1million) of the loan for the purchase of the vessels was outstanding.

8.28 The Memorandum of Understanding between the Treasury and Resources Department (in its role as shareholder on behalf of the States) and JamesCo750 Limited includes the following strategic guidance to the company:

"The States' intended purpose in forming the company and acquiring the vessels was to secure the fuel supply to the island. This is therefore the primary purpose of the company in the negotiation and management of the contracts. The secondary objective is to secure the best financial return on the company's assets."

8.29 The business case prepared by the States at the time of acquisition demonstrated that over a 20 year period and using a cost of capital of 5%, the purchase of both vessels could result in a positive return for the States. While this was regarded as a bonus, and the basis for a sound commercial venture, nevertheless the principal reason for the purchase of the vessels was of a strategic nature to protect the supply of fuels to the island.

8.30 The principal activity of the company is the bareboat charter[d] of two vessels for the transport of petroleum products. Both vessels are on contract to James Fisher Everard until September 2015 (Sarnia Liberty) and February 2019 (Sarnia Cherie).

8.31 The company made a small loss of £60,000 in 2013 (2012: profit of £170,000) as the States Treasury interest rate was higher than the 5% assumed in the business case.

[d] A bareboat charter means the owner delivers the vessel to the charterer with no crew, stores, moveable equipment, etc. The owner charges a daily bareboat rate that covers their capital and gives an appropriate return. All of the operating costs for the vessel are then picked up by the charterer.

Draft Ordinance Entitled

The Excise Duties (Budget) Ordinance, 2014

THE STATES, in pursuance of their Resolution of 29th October 2014 and in exercise of the powers conferred on them by section 23C(3) of the Customs and Excise (General Provisions) (Bailiwick of Guernsey) Law, 1972 as amended[a], hereby order:-

Increase in excise duties

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

"1. Tobacco and tobacco products

a.	Cigarettes	£280.30 per kilo
b.	Cigars	£260.29 per kilo
c.	Hand rolling tobacco	£242.39 per kilo
d.	Other manufactured tobacco	£210.25 per kilo
e.	Tobacco leaf – unstemmed	£233.39 per kilo
f.	Tobacco leaf – stemmed	£235.74 per kilo

2. Petrol and Gas oil –

a.	Petrol other than any fuel used for the purpose of air navigation (and subject to b.)	51.8p per litre
b.	Petrol used for the purpose of marine navigation	36.6p per litre where supplied by an approved trader except where supplied to an approved trader in which case 51.8p per litre[b]
c.	Gas oil	51.8p per litre

3. Beer

a.	Beer brewed by an independent small brewery	45p per litre
b.	Other beer	71p per litre

4. Spirits

a.	Spirits not exceeding 5.5 per cent volume	63p per litre
b.	Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£8.81 per litre
c.	Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£11.71 per litre
d.	Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume.

[a] Ordres en Conseil Vol. XXIII, p.573; Vol. XXIV, p.87; Vol. XXXIII, p.217; No.X of 2004; Receuil d'Ordonnances Tome XXXII, pp. 607 and 668; Ordinance No.XXVI of 2013.

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

5.	Cider		
	a.	Cider produced by an independent small cider-maker	45p per litre
	b.	Other cider	71p per litre
6.	Wines		
	a.	Light wines not exceeding 5.5 per cent volume	53p per litre
	b.	Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.17 per litre
	c.	Other wines	£3.47 per litre"

Extent

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

Repeals

3. The Excise Duties (Budget) Ordinance, 2013[c] is repealed.

Citation

4. This Ordinance may be cited as the Excise Duties (Budget) Ordinance, 2014.

Commencement

5. This Ordinance shall come into force on 29th October 2014.

c Ordinance No. XXVI of 2013

Draft Ordinance Entitled

The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2014

THE STATES, in pursuance of their resolution of 29th October 2014 and in exercise of the powers conferred upon them by sections 1 and 2 of the Taxation of Real Property (Enabling Provisions) (Guernsey and Alderney) Law, 2005[a], hereby order:-

Rates of Property Tax

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

Repeal

2. The Property Tax Rates (Guernsey and Alderney) Ordinance, 2013[c] is repealed.

Extent.

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

Citation and Commencement

4. This Ordinance may be cited as the Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2014 and shall come into force on 1st January 2015.

[a] Order in Council No. X of 2006.
[b] Recueil d'Ordonnances Tome XXXII, p.504, Ordinance Nos.XLVIII of 2011 and XXVII of 2013.
[c] Ordinance No. XXVII of 2013.

SCHEDULE

Section 1

TABLE (A)
GUERNSEY REAL PROPERTY

GUERNSEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1	Domestic (whole unit) Local Market	£1.14
B1.2	Domestic (flat) Local Market	£1.14
B1.3	Domestic (glasshouse) Local Market	5p
B1.4	Domestic (outbuildings) Local Market	57p
B1.5	Domestic (garaging and parking) (non-owner-occupied) Local Market	£1.14
B2.1	Domestic (whole unit) Open Market	£1.14
B2.2	Domestic (flat) Open Market	£1.14
B2.3	Domestic (glasshouse) Open Market	5p
B2.4	Domestic (outbuildings) Open Market	57p
B2.5	Domestic (garaging and parking) (non-owner-occupied) Open Market	£1.14
B3.1	Domestic (whole unit) Social Housing	Zero
B3.2	Domestic (flat) Social Housing	Zero
B3.3	Domestic (glasshouse) Social Housing	Zero
B3.4	Domestic (outbuildings) Social Housing	Zero
B3.5	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1	Hostelry and food outlets	£5.00
B4.2	Self-catering accommodation	£3.15
B4.3	Motor and marine trade	£4.25
B4.4	Retail	£8.85
B4.5	Warehousing	£4.55
B4.6	Industrial and workshop	£3.65
B4.7	Recreational and sporting premises	£2.15
B4.8	Garaging and parking (non-domestic)	£4.55
B5.1	Utilities providers	£35.75
B6.1	Office and ancillary accommodation (regulated finance industries)	£33.40
B6.2	Office and ancillary accommodation (other than regulated finance industries)	£11.15
B7.1	Horticulture (building other than a glasshouse)	5p
B8.1	Horticulture (glasshouse)	5p
B9.1	Agriculture	5p
B10.1	Publicly owned non-domestic	Zero
B11.1	Exempt (Buildings)	Zero
B12.1	Buildings – Penal Rate	Zero
B13.1	Development buildings (domestic)	57p
B13.2	Development buildings (non-domestic)	£4.75

SCHEDULE

GUERNSEY LAND

1 Property Reference	2 Property Description/Usage	3 Tariff
L1.1	Communal (flat) Local Market	15p
L1.2	Communal (flat) Open Market	15p
L1.3	Hostelry and food outlets	30p
L1.4	Self-catering accommodation	30p
L1.5	Motor and marine trade	30p
L1.6	Retail	30p
L1.7	Warehousing	30p
L1.8	Industrial	30p
L1.9	Recreational and sporting premises	30p
L1.10	Office and ancillary accommodation (regulated finance industries)	99p
L1.11	Office and ancillary accommodation (other than regulated finance industries)	33p
L1.12	Utilities providers	30p
L2.1	Approved development site	99p
L3.1	Domestic Local Market	15p
L3.2	Domestic Open Market	15p
L3.3	Horticulture	15p
L3.4	Agriculture	15p
L3.5	Domestic Social Housing	Zero
L3.6	Publicly owned non-domestic	Zero
L4.1	Exempt (Land)	Zero
L5.1	Land – Penal Rate	Zero
L6.1	Garaging and parking (non-domestic)	30p

SCHEDULE

TABLE (B)

ALDERNEY REAL PROPERTY

ALDERNEY BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1A	Domestic (whole unit)	£1.14
B1.2A	Domestic (flat)	£1.14
B1.3A	Domestic (glasshouse)	5p
B1.4A	Domestic (outbuildings)	57p
B1.5A	Domestic (garaging and parking) (non-owner-occupied)	£1.14
B3.1A	Domestic (whole unit) Social Housing	Zero
B3.2A	Domestic (flat) Social Housing	Zero
B3.3A	Domestic (glasshouse) Social Housing	Zero
B3.4A	Domestic (outbuildings) Social Housing	Zero
B3.5A	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1A	Hostelry and food outlets	£5.00
B4.2A	Self-catering accommodation	£3.15
B4.3A	Motor and marine trade	£4.25
B4.4A	Retail	£8.85
B4.5A	Warehousing	£4.55
B4.6A	Industrial and workshop	£3.65
B4.7A	Recreational and sporting premises	£2.15
B4.8A	Garaging and parking (non-domestic)	£4.55
B5.1A	Utilities providers	£35.75
B6.1A	Office and ancillary accommodation (regulated finance industries)	£33.40
B6.2A	Office and ancillary accommodation (other than regulated finance industries)	£11.15
B7.1A	Horticulture (building other than a glasshouse)	5p
B8.1A	Horticulture (glasshouse)	5p
B9.1A	Agriculture	5p
B10.1A	Publicly owned non-domestic	Zero
B11.1A	Exempt (Buildings)	Zero
B12.1A	Buildings – Penal Rate	Zero
B13.1A	Development building (domestic)	57p
B13.2A	Development building (non-domestic)	£4.75

SCHEDULE

ALDERNEY LAND

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

SCHEDULE

TABLE (C)

HERM REAL PROPERTY

HERM BUILDINGS

1 Property Reference	2 Property Description/Usage	3 Tariff
B1.1H	Domestic (whole unit)	Zero
B1.2H	Domestic (flat)	Zero
B1.3H	Domestic (glasshouse)	Zero
B1.4H	Domestic (outbuildings)	Zero
B1.5H	Domestic (garaging and parking) (non-owner-occupied)	Zero
B3.1H	Domestic (whole unit) Social Housing	Zero
B3.2H	Domestic (flat) Social Housing	Zero
B3.3H	Domestic (glasshouse) Social Housing	Zero
B3.4H	Domestic (outbuildings) Social Housing	Zero
B3.5H	Domestic (garaging and parking) (non-owner-occupied) Social Housing	Zero
B4.1H	Hostelry and food outlets	Zero
B4.2H	Self-catering accommodation	Zero
B4.3H	Motor and marine trade	Zero
B4.4H	Retail	Zero
B4.5H	Warehousing	Zero
B4.6H	Industrial and workshop	Zero
B4.7H	Recreational and sporting premises	Zero
B4.8H	Garaging and parking (non-domestic)	Zero
B5.1H	Utilities providers	Zero
B6.1H	Office and ancillary accommodation (regulated finance industries)	Zero
B6.2H	Office and ancillary accommodation (other than regulated finance industries)	Zero
B7.1H	Horticulture (building other than a glasshouse)	Zero
B8.1H	Horticulture (glasshouse)	Zero
B9.1H	Agriculture	Zero
B10.1H	Publicly owned non-domestic	Zero
B11.1H	Exempt (Buildings)	Zero
B12.1H	Buildings – Penal Rate	Zero
B13.1H	Development buildings (domestic)	Zero
B13.2H	Development buildings (non-domestic)	Zero

SCHEDULE

HERM LAND

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

SUMMARY OF BUDGET PROPOSALS - INDIRECT TAXATION

Duty on Tobacco

2015	5.5%	(RPI plus 3%)
2014	5.7%	(RPI plus 3%)
2013	6.0% increase	(RPI plus 3%)
2012	6.5% increase	(RPI plus 3%)
2011	4.6% increase	(RPI plus 3%)
2010	15% increase	
2009	8.5% increase	(RPI plus 3%)
2008	7.7% increase	(RPI plus 3%)

Duty on Alcohol

2015	5% increase
2014	5% increase
2013	3% increase
2012	3% increase
2011	3.5% increase
2010	15% increase on spirits only
2009	5.5% increase
2008	20% increase

Duty on Fuel

2015	6.1% increase
2014	5% increase
2013	3.3% increase
2012	9.8% increase
2011	10.8% increase
2010	15% increase
2009	6.9% increase
2008	7.4% increase

Document Duty

2015	No change
2014	Permanent increase in thresholds and temporary rates reduction for lower band properties
2008-2013	No change

Tax on Rateable Value / Tax on Real Property

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

CABERNET LIMITED (AURIGNY GROUP): TRADING POSITION (TO AUGUST 2014)

	Projected Outturn 2014 £'000	Year to Date Actual 2014 £'000	Year to Date Budget 2014 £'000	Full Year Actual 2013 £'000
Revenue	39,587	26,183	26,158	31,428
Direct Costs	(32,355)	(21,343)	(21,652)	(27,579)
Operating Result	**7,232**	**4,840**	**4,506**	**3,849**
Overheads	(7,072)	(4,711)	(4,801)	(6,226)
Other Operating Income	8	4	8	9
Net Interest Payable	(1,620)	(938)	(935)	(930)
Operating Profit / (Loss)	**(1,452)**	**(805)**	**(1,222)**	**(3,298)**
Extraordinary Items	(2,048)	(1,015)	(739)	(622)
(Loss)	**(3,500)**	**(1,820)**	**(1,961)**	**(3,920)**

INCOME AND EXPENDITURE ACCOUNT

2013 Actual £'000s	2014 Original Budget £'000s	Income and Expenditure by Category	Note	2015 Budget £'000s
		Income		
281,597	299,000	*Income Taxes*	1	307,500
76,096	77,050	*Other Taxes*	2	84,970
3,564	8,500	*Miscellaneous Income*		13,880
361,257	384,550	General Revenue Income		406,350
35,046	33,818	Departmental Operating Income (including transfers)		32,109
396,303	418,368	**Total Income**		438,459
		Less Expenditure		
203,935	199,208	*Pay*	3	203,398
118,811	128,129	*Non-Pay*	4	129,934
57,998	60,200	*Formula-Led*	5	60,625
-	(15,829)	*Financial Transformation Programme Target*		(1,553)
-	-	*Health and Social Services Department budget submission in excess of Cash Limit*		(1,250)
380,744	371,708	Revenue Expenditure		391,154
-	978	Service Developments		-
-	17,032	Budget Reserve		6,555
15,559	28,650	**Revenue Surplus**		40,750
10,539	-	Capital Income		-
13,362	7,300	Less Routine Capital Expenditure	6	7,500
12,736	**21,350**	**Net Surplus**		**33,250**
		Transfers		
(34,573)	(35,350)	*To Capital Reserve*		(37,250)
(3,000)	-	*To Strategic Development Fund*		-
24,800	14,000	*From Contingency Reserve (Tax Strategy)*		-
37	**-**	**Transfer from General Revenue Account Reserve**		**4,000**

Notes: The Health and Social Services Department has submitted a 2015 revenue expenditure budget that is £1.25million in excess of the recommended Cash Limit of £112,850,000.

The funding arrangement for the Corporate Housing Programme was revised with effect from 1 January 2014. The effect of this was to increase revenue income by £6.25million, increase revenue expenditure by £8.4million and decrease routine capital expenditure by £6million.

INCOME AND EXPENDITURE ACCOUNT

2013 Actual £'000s	2014 Original Budget £'000s	Income and Expenditure by Service Area	2015 Budget £'000s
361,257	384,550	Revenue Income	406,350
10,539	-	Capital Income	-
371,796	384,550	**Total Income**	406,350
		Net Revenue Expenditure	
10,739	10,825	*Policy Council*	11,760
19,141	18,050	*Treasury & Resources Department*	20,355
10,886	10,625	*Commerce & Employment Department*	11,425
2,890	2,800	*Culture & Leisure Department*	2,925
76,750	71,400	*Education Department*	74,875
7,780	7,725	*Environment Department*	9,025
112,152	104,200	*Health & Social Services Department*	112,850
33,223	31,275	*Home Department*	32,425
1,975	10,000	*Housing Department*	9,975
4,023	3,950	*Public Services Department*	4,400
56,687	57,075	*Social Security Department*	59,120
209	275	*Public Accounts Committee*	280
184	275	*Scrutiny Committee*	280
69	95	*States Review Committee*	-
2,443	2,800	*Royal Court*	2,800
4,559	4,560	*Law Officers*	4,675
1,988	1,960	*States of Alderney*	1,875
-	978	*Service Developments*	-
-	17,032	*Budget Reserve*	6,555
345,698	355,900		365,600
		Routine Capital Expenditure	
132	-	*Policy Council*	-
1,318	650	*Treasury & Resources Department*	650
1,794	100	*Commerce & Employment Department*	-
441	200	*Culture & Leisure Department*	150
697	700	*Education Department*	250
468	100	*Environment Department*	850
1,450	1,100	*Health & Social Services Department*	1,250
477	450	*Home Department*	400
6,026	-	*Housing Department*	-
458	-	*Public Services Department*	350
43	-	*Royal Court*	-
58	-	*Law Officers*	-
-	1,500	*Backlog Property Maintenance*	1,500
-	2,500	*Budget Reserve*	2,100
13,362	7,300		7,500
359,060	363,200	**Total Cash Limits**	373,100
12,736	**21,350**	**Net Surplus**	**33,250**
		Transfers	
(34,573)	(35,350)	*To Capital Reserve*	(37,250)
(3,000)	-	*To Strategic Development Fund*	-
24,800	14,000	*From Contingency Reserve (Tax Strategy)*	-
37	**-**	**Transfer from General Revenue Account Reserve**	**4,000**

NOTES

1. Income Taxes

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
227,059	239,500	Individuals	244,000
44,101	50,500	Companies (including Banks)	52,500
10,437	9,000	Distributed Profits	11,000
281,597	**299,000**	**Income Taxes**	**307,500**

2. Other Taxes

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Customs - Excise and Import Duties	
3,031	3,050	*Beer*	3,250
720	750	*Cider*	800
15,494	15,800	*Motor Fuel*	16,300
2,718	2,800	*Spirits*	3,000
7,933	8,350	*Tobacco*	8,400
4,380	4,700	*Wine*	4,900
(210)	(300)	*Duties Collected for Sark*	(300)
1,436	1,350	*Import duties*	1,450
35,502	36,500		37,800
8,843	8,800	Company Fees	9,700
15,468	14,500	Document Duty - Conveyancing and Bonds	14,500
16,283	17,250	Tax on Real Property	19,050
-	-	Vehicle First Registration Duty	3,920
76,096	**77,050**	**Other Taxes**	**84,970**

NOTES

3. Pay Costs by Pay Group

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
83,209	80,736	Established Staff	83,577
16,625	16,993	Public Service Employees	15,523
41,697	39,906	Nurses and Medical Consultants	43,004
42,346	41,339	Teachers and Teaching Assistants	40,788
3,614	3,566	Fire Officers	3,640
9,645	10,009	Police Officers	10,231
3,653	3,286	Prison Officers	3,209
1,609	1,618	Crown Officers, Magistrates and Royal Court Judge	1,627
1,537	1,755	Other Pay Groups	1,799
203,935	**199,208**	**Pay Costs by Pay Group**	**203,398**

NOTES

4. Non-Pay Costs by Expenditure Category

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Staff Non Pay Costs	
1,998	1,993	*Recruitment*	2,271
1,814	2,246	*Training*	2,249
502	680	*Other Staff Costs*	591
4,314	4,919		5,111
		Support Services	
1,984	1,943	*Advertising Marketing and PR*	2,129
290	199	*Audit Fees*	189
104	122	*Bank Charges*	102
10,029	10,399	*Communications and IT*	10,299
2,801	1,946	*Consultants Fees*	2,381
10,091	10,561	*Contracted Out Work*	7,626
85	79	*Incidental and Other costs*	10
2,082	2,120	*Postage, Stationery and Printing*	1,899
2,003	1,998	*Risk Management and Insurance*	2,076
29,469	29,367		26,711
		Premises	
690	607	*Equipment, Fixtures and Fittings*	776
2,723	2,524	*Rents and Leasing*	2,598
8,393	14,093	*Repairs, Maintenance and Servicing*	15,426
6,305	6,614	*Utilities*	6,436
18,111	23,838		25,236
		Third Party Payments	
232	235	*Benefit Payments*	240
27,303	28,911	*Grants and Subsidies*	30,873
27,535	29,146		31,113
		Transport	
1,428	1,430	*Vehicles and Vessels*	1,564
		Supplies and Services	
25,288	25,737	*Services*	26,836
12,666	13,692	*Supplies*	13,363
37,954	39,429		40,199
118,811	**128,129**	**Non-Pay Costs by Expenditure Category**	**129,934**

NOTES

5. Formula-led Costs by expenditure category

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
1,826	1,900	Payments to States Members	1,930
		Third Party Payments	
53,972	55,900	*Benefit Payments*	56,210
2,200	2,400	*Grants and Subsidies*	2,485
57,998	**60,200**	**Formula-led Costs**	**60,625**

6. Routine Capital Expenditure

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
4,707	6,246	Miscellaneous Capital Works	4,183
6,000	-	Transfer to Corporate Housing Programme	-
1,005	1,913	IT Projects and Equipment	2,286
1,623	1,525	Equipment, Machinery and Vehicles	1,773
27	162	Alderney Airport Net Capital Expenditure	245
-	2,500	Budget Reserve	2,100
13,362	12,346		10,587
-	(5,046)	Use of Accumulated Capital Allocation	(3,087)
13,362	**7,300**	**Net Routine Capital Expenditure**	**7,500**

POLICY COUNCIL

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
17	11	**Operating Income**	11
		Non Formula-Led Expenditure	
4,303	4,112	Pay costs	4,754
		Non Pay costs	
227	286	*Staff Non Pay costs*	284
668	554	*Support Services*	732
38	55	*Premises*	51
3,052	3,245	*Third Party Payments*	3,248
1	1	*Transport*	3
267	493	*Supplies & Services*	334
4,253	4,634		4,652
8,539	8,735	**Net Non Formula-Led Expenditure by Category**	9,395
		Formula-Led Expenditure	
2,200	2,400	*Third Party Payments*	2,485
2,200	2,400	**Formula-Led Expenditure by Category**	2,485
-	(310)	**Financial Transformation Programme Target**	(120)
10,739	**10,825**	**Total Net Expenditure by Category**	**11,760**
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure	
1,050	787	*Administration*	813
262	259	*Archive Services*	274
2,692	2,860	*Contribution to Aid Overseas*	2,860
166	-	*Corporate Initiatives*	-
924	1,074	*External Affairs*	1,329
1,787	2,121	*Human Resources*	2,010
276	300	*Internal Audit*	378
321	331	*Legal Aid Administration*	379
961	902	*Policy and Research*	1,250
100	101	*Tribunals*	102
8,539	8,735		9,395
		Formula-Led Expenditure	
1,414	1,535	*Civil Legal Aid*	1,600
786	865	*Criminal Legal Aid*	885
2,200	2,400		2,485
-	(310)	**Financial Transformation Programme Target**	(120)
10,739	**10,825**	**Net Expenditure by Service Area**	**11,760**

POLICY COUNCIL

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Routine Capital Expenditure	
132	247	IT Projects and Equipment	100
-	(247)	Use of Accumulated Capital Allocation	(100)
132	**-**	**Net Routine Capital Expenditure**	**-**

TREASURY AND RESOURCES DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
4,103	3,587	**Operating Income**	3,890
		Non Formula-Led Expenditure	
12,066	11,473	Pay costs	12,129
		Non Pay costs	
917	164	*Staff Non Pay costs*	1,126
5,506	5,414	*Support Services*	5,945
1,811	1,847	*Premises*	1,948
632	638	*Third Party Payments*	654
18	20	*Transport*	20
468	591	*Supplies & Services*	569
9,352	8,674		10,262
17,315	**16,560**	**Net Non Formula-Led Expenditure by Category**	**18,501**
		Formula-Led Expenditure	
1,826	1,900	Payments to States Members	1,930
1,826	**1,900**	**Formula-Led Expenditure by Category**	**1,930**
-	(410)	**Financial Transformation Programme Target**	(76)
19,141	**18,050**	**Net Expenditure by Category**	**20,355**

TREASURY AND RESOURCES DEPARTMENT

Net Expenditure by Service Area

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Non Formula-Led Expenditure	
288	273	Administration	430
3,892	3,285	Central Services	4,203
63	55	Commonwealth Parliamentary Association	55
361	355	Corporate Procurement Services	367
772	782	H.E. Lieutenant Governor	798
4,509	4,438	Income Tax	4,481
3,246	3,137	Information and Communications Technology	3,491
1,609	1,781	States Property Services	1,798
2,575	2,454	Treasury	2,878
17,315	**16,560**	**Net Non Formula-Led Expenditure by Service Area**	**18,501**
		Formula-Led Expenditure	
1,826	1,900	Payments to States Members	1,930
1,826	**1,900**	**Net Formula-Led Expenditure by Service Area**	**1,930**
-	(410)	**Financial Transformation Programme Target**	(76)
19,141	**18,050**	**Net Expenditure by Service Area**	**20,355**

Routine Capital Expenditure

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
672	430	Miscellaneous Capital Works	677
646	559	IT Projects and Equipment	387
-	12	Equipment, Machinery and Vehicles	20
1,318	1,001		1,084
-	(351)	Use of Accumulated Capital Allocation	(434)
1,318	**650**	**Net Routine Capital Expenditure**	**650**

COMMERCE AND EMPLOYMENT DEPARTMENT

Net Expenditure by Category

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
852	777	**Operating Income**	809
		Non Formula-Led Expenditure	
4,289	4,150	Pay costs	4,359
		Non Pay costs	
51	82	*Staff Non Pay costs*	95
2,695	2,916	*Support Services*	3,020
330	253	*Premises*	328
4,052	4,061	*Third Party Payments*	4,005
67	94	*Transport*	97
254	328	*Supplies & Services*	338
7,449	7,734		7,883
10,886	11,107		11,433
-	(482)	**Financial Transformation Programme Target**	(8)
10,886	**10,625**	**Net Non Formula-Led Expenditure by Category**	**11,425**

COMMERCE AND EMPLOYMENT DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Service Area	
		Administration and Central Services	
337	290	*Facilities*	246
25	47	*Human Resources*	58
106	111	*ICT*	115
489	468	*Management and Administration*	525
(8)	20	*Office of Public Trustee*	20
949	936		964
		Client Services	
486	450	*Agriculture and Rural Environment Service*	445
332	332	*Employment Relations Service*	317
339	309	*Farm and Field Services*	269
2,015	2,096	*Grants and Support Schemes*	2,055
437	426	*Health and Safety Executive*	378
183	169	*Management and Administration*	168
167	150	*Plant Protection and Laboratory Services*	161
321	368	*Sea Fisheries*	342
288	295	*Trading Standards Service*	315
4,568	4,595		4,450
		Economic Development	
7	5	*Civil Aviation Office*	3
359	445	*Finance Sector Development*	719
1,858	1,745	*Grants and Support Schemes*	1,775
387	377	*Management and Administration*	383
207	229	*Strategic Projects*	440
2,818	2,801		3,320
		Marketing and Tourism	
893	905	*Consumer Marketing*	945
190	220	*Grants and Support Schemes*	175
375	447	*Marketing Communications*	335
61	70	*Quality Development*	74
628	663	*Strategic Marketing*	656
404	470	*Trade and Media Relations*	514
2,551	2,775		2,699
10,886	11,107		11,433
-	(482)	**Financial Transformation Programme Target**	(8)
10,886	**10,625**	**Net Expenditure by Service Area**	**11,425**
		Routine Capital Expenditure	
1,675	24	Miscellaneous Capital Works	10
119	80	Equipment, Machinery and Vehicles	-
1,794	104		10
-	(4)	Use of Accumulated Capital Allocation	(10)
1,794	**100**	**Net Routine Capital Expenditure**	**-**

CULTURE AND LEISURE DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
4,875	4,271	**Operating Income**	4,628
		Non Formula-Led Expenditure	
4,633	4,276	Pay costs	4,217
		Non Pay costs	
30	31	*Staff Non Pay costs*	30
421	419	*Support Services*	452
1,287	1,301	*Premises*	1,400
577	604	*Third Party Payments*	617
13	14	*Transport*	18
804	988	*Supplies & Services*	884
3,132	3,357		3,401
2,890	3,362		2,990
-	(562)	**Financial Transformation Programme Target**	(65)
2,890	**2,800**	**Net Non Formula-Led Expenditure by Category**	**2,925**
		Net Expenditure by Service Area	
185	175	Arts Commission	177
289	684	Beau Sejour Centre	359
591	662	Central Services	719
78	68	Cultural Activities Inside the Island	67
216	230	Events and Information	212
1,100	1,119	Museums Service	1,047
164	161	Outdoor Sports Facilities	145
267	263	Sports Commission	264
2,890	3,362		2,990
-	(562)	**Financial Transformation Programme Target**	(65)
2,890	**2,800**	**Net Expenditure by Service Area**	**2,925**
		Routine Capital Expenditure	
424	458	Miscellaneous Capital Works	228
17	-	Equipment, Machinery and Vehicles	60
441	458		288
-	(258)	Use of Accumulated Capital Allocation	(138)
441	**200**	**Net Routine Capital Expenditure**	**150**

EDUCATION DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
1,397	1,386	**Operating Income**	1,205
		Non Formula-Led Expenditure	
53,063	50,780	Pay costs	50,799
		Non Pay costs	
702	1,052	*Staff Non Pay costs*	807
4,508	3,879	*Support Services*	3,191
3,900	4,067	*Premises*	4,218
13,327	14,204	*Third Party Payments*	14,038
232	220	*Transport*	223
2,415	3,009	*Supplies & Services*	3,159
25,084	26,431		25,636
76,750	75,825		75,230
-	(4,425)	**Financial Transformation Programme Target**	(355)
76,750	**71,400**	**Net Non Formula-Led Expenditure by Category**	**74,875**
		Net Expenditure by Service Area	
4,808	4,417	Education Office	4,861
10,038	9,046	School & Pupil Support Services	7,921
7,691	7,266	College of Further Education	7,924
41,668	42,190	Schools	41,836
5,760	6,283	Higher Education	5,969
4,871	4,658	Grants to Colleges	4,710
1,914	1,965	Grants to Libraries	2,009
76,750	75,825		75,230
-	(4,425)	**Financial Transformation Programme Target**	(355)
76,750	**71,400**	**Net Expenditure by Service Area**	**74,875**
		Routine Capital Expenditure	
632	1,370	Miscellaneous Capital Works	549
-	-	IT Projects and Equipment	70
65	-	Equipment, Machinery and Vehicles	40
697	1,370		659
-	(670)	Use of Accumulated Capital Allocation	(409)
697	**700**	**Net Routine Capital Expenditure**	**250**

ENVIRONMENT DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
2,122	2,111	**Operating Income**	3,345
		Non Formula-Led Expenditure	
3,784	3,676	Pay costs	3,983
		Non Pay costs	
124	144	*Staff Non Pay costs*	108
1,609	1,632	*Support Services*	1,689
1,710	1,690	*Premises*	1,960
2,549	2,590	*Third Party Payments*	4,488
29	31	*Transport*	34
97	147	*Supplies & Services*	108
6,118	6,234		8,387
7,780	7,799		9,025
-	(74)	**Financial Transformation Programme Target**	-
7,780	**7,725**	**Net Non Formula-Led Expenditure by Category**	**9,025**
		Net Expenditure by Service Area	
1,361	1,449	Planning Services	1,442
322	332	Central Support Services	340
2,097	2,072	Environmental Services	1,972
4,000	3,946	Traffic and Transport Services	5,271
7,780	7,799		9,025
-	(74)	**Financial Transformation Programme Target**	-
7,780	**7,725**	**Net Expenditure by Service Area**	**9,025**
		Routine Capital Expenditure	
445	335	Miscellaneous Capital Works	770
-	15	IT Projects and Equipment	190
23	30	Equipment, Machinery and Vehicles	80
468	380		1,040
-	(280)	Use of Accumulated Capital Allocation	(190)
468	**100**	**Net Routine Capital Expenditure**	**850**

HEALTH AND SOCIAL SERVICES DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s	Net Expenditure by Category	2015 Budget £'000s
9,437	9,716	**Operating Income**	10,735
		Non Formula-Led Expenditure	
77,540	76,184	Pay costs	78,861
		Non Pay costs	
1,346	2,007	*Staff Non Pay costs*	1,718
4,979	4,648	*Support Services*	4,602
6,046	5,776	*Premises*	6,321
2,635	2,620	*Third Party Payments*	2,927
654	607	*Transport*	750
28,389	28,219	*Supplies & Services*	30,031
44,049	43,877		46,349
112,152	110,345		114,475
-	(6,145)	**Financial Transformation Programme Target**	(375)
-	-	**Budget Submission in Excess of Cash Limit**	(1,250)
112,152	**104,200**	**Net Non Formula-Led Expenditure by Category**	**112,850**

Note: The Health and Social Services Department has submitted a 2015 revenue expenditure budget that is £1.25million in excess of the recommended Cash Limit of £112,850,000.

HEALTH AND SOCIAL SERVICES DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Service Area	
		Corporate Services Directorate	
12,685	13,219	*Estates and Facilities Management*	12,676
745	717	*Clinical Governance*	695
1,316	1,956	*Human Resources Management*	1,486
1,601	1,388	*Strategy, Policy and Engagement*	1,581
16,347	17,280		16,438
		Finance & Performance Management	
7,530	6,868	*Acute Off Island Treatments*	7,547
8,641	8,245	*Complex Placements*	9,165
1,262	1,050	*Finance*	1,197
2,153	2,159	*Procurement and Commercial Services*	2,239
2,586	2,779	*Systems and Performance Management*	2,781
2,216	2,200	*St John Ambulance & Rescue Service Grant*	2,287
24,388	23,301		25,216
		Health & Social Care	
21,922	21,127	*Acute Hospital Services*	21,790
12,725	13,097	*Children and Maternity Services*	13,804
12,647	11,589	*Community and Disability Services*	12,187
2,035	1,563	*Health and Social Care Management*	1,479
2,936	3,026	*Institute of Health and Social Care Studies*	3,198
16,290	16,178	*Specialist Services*	16,807
68,555	66,580		69,265
		Public Health & Strategy	
1,138	1,263	*Community Health & Wellbeing*	1,382
842	951	*Medical Public Health*	1,140
350	385	*Public Health Management*	497
2,330	2,599		3,019
532	585	Office of the Children's Convenor	537
112,152	110,345		114,475
-	(6,145)	**Financial Transformation Programme Target**	(375)
-	-	**Budget Submission in Excess of Cash Limit**	(1,250)
112,152	**104,200**	**Net Expenditure by Service Area**	**112,850**
		Routine Capital Expenditure	
141	1,295	Miscellaneous Capital Works	109
96	400	IT Projects and Equipment	875
1,213	737	Equipment, Machinery and Vehicles	1,041
1,450	2,432		2,025
-	(1,332)	Use of Accumulated Capital Allocation	(775)
1,450	**1,100**	**Net Routine Capital Expenditure**	**1,250**

HOME DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
1,223	1,084	**Operating Income**	1,077
		Non Formula-Led Expenditure	
27,271	26,382	Pay costs	26,728
		Non Pay costs	
733	855	*Staff Non Pay costs*	689
2,650	2,850	*Support Services*	2,985
1,677	1,673	*Premises*	1,616
96	93	*Third Party Payments*	93
282	258	*Transport*	251
1,737	1,752	*Supplies & Services*	1,569
7,175	7,481		7,203
33,223	32,779		32,854
-	(1,504)	**Financial Transformation Programme Target**	(429)
33,223	**31,275**	**Net Non Formula-Led Expenditure by Category**	**32,425**
		Net Expenditure by Service Area	
2,118	2,337	Administration and Central Services	2,475
394	416	Bailiwick Drug and Alcohol Strategy	432
30	-	Broadcasting	(1)
100	111	Data Protection	128
146	143	Emergency Planning	145
4,007	3,981	Fire and Rescue Service	4,052
(23)	(25)	Gambling Control	(25)
6,303	5,700	Guernsey Border Agency	5,486
12,595	13,162	Police Force	13,165
5,677	5,175	Prison Service	5,079
1,876	1,779	Probation Service	1,918
33,223	32,779		32,854
-	(1,504)	**Financial Transformation Programme Target**	(429)
33,223	**31,275**	**Net Expenditure by Service Area**	**32,425**
		Routine Capital Expenditure	
222	440	Miscellaneous Capital Works	305
69	282	IT Projects and Equipment	340
186	646	Equipment, Machinery and Vehicles	532
477	1,368		1,177
-	(918)	Use of Accumulated Capital Allocation	(777)
477	**450**	**Net Routine Capital Expenditure**	**400**

HOUSING DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
1,394	1,292	**Operating Income**	829
		Non Formula-Led Expenditure	
2,939	4,342	Pay costs	3,976
		Non Pay costs	
12	38	*Staff Non Pay costs*	27
62	316	*Support Services*	383
194	6,051	*Premises*	5,961
-	354	*Third Party Payments*	357
3	43	*Transport*	28
159	218	*Supplies & Services*	72
430	7,020		6,828
1,975	10,070		9,975
-	(70)	**Financial Transformation Programme Target**	-
1,975	**10,000**	**Net Non Formula-Led Expenditure by Category**	**9,975**
		Net Expenditure by Service Area	
192	7	Housing Control	33
	6,846	Property Management	6,954
	-	Tenancy Management	
1,783	1,786	Residential Homes / Domiciliary Care Service	1,695
	1,431	Strategy and Administration	1,293
1,975	10,070		9,975
-	(70)	**Financial Transformation Programme Target**	-
1,975	**10,000**	**Net Expenditure by Service Area**	**9,975**
		Routine Capital Expenditure	
26	-	IT Projects and Equipment	-
6,000	-	Transfer to Corporate Housing Programme	-
6,026	-		-
6,026	**-**	**Net Routine Capital Expenditure**	**-**

Note: The funding arrangement for the Corporate Housing Programme was revised with effect from 1 January 2014 and Housing Department's Cash Limit funds Housing Services management, Housing Stock repairs and maintenance and the Guernsey Youth Housing Project grant.

PUBLIC SERVICES DEPARTMENT

Net Expenditure by Category

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
6,130	6,452	**Operating Income**	2,374
		Non Formula-Led Expenditure	
2,046	1,992	Pay costs	1,566
		Non Pay costs	
40	53	*Staff Non Pay costs*	40
4,844	5,217	*Support Services*	2,104
311	491	*Premises*	519
21	23	*Transport*	20
2,891	2,940	*Supplies & Services*	2,550
8,107	8,724		5,233
4,023	4,264		4,425
-	(314)	**Financial Transformation Programme Target**	(25)
4,023	**3,950**	**Net Non Formula-Led Expenditure by Category**	**4,400**

PUBLIC SERVICES DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Service Area	
		Alderney Airport	
(635)	(678)	*Income*	(649)
351	367	*Administration*	354
629	661	*Aerodrome Fire Service*	638
90	50	*Airport Infrastructure*	114
293	329	*Navigational Services*	305
728	729		762
248	290	Alderney Breakwater	292
70	74	Emergency Services	72
675	719	Policy and Corporate Services	172
-	-	Meteorological Service	340
		Roads	
1,270	1,208	*Road Cleansing*	1,208
2,221	2,626	*Resurfacing and Reconstruction*	2,638
355	386	*Minor Repairs and Maintenance*	376
3,846	4,220		4,222
(1,544)	(1,768)	Solid Waste	(1,435)
4,023	4,264		4,425
-	(314)	**Financial Transformation Programme Target**	(25)
4,023	**3,950**	**Net Expenditure by Service Area**	**4,400**
		Routine Capital Expenditure	
431	364	Miscellaneous Capital Works	-
-	-	IT Projects and Equipment	134
-	20	Equipment, Machinery and Vehicles	-
27	162	Alderney Airport Net Capital Expenditure	245
458	546		379
-	(546)	Use of Accumulated Capital Allocation	(29)
458	**-**	**Net Routine Capital Expenditure**	**350**

SOCIAL SECURITY DEPARTMENT

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
1,514	1,454	Pay costs	1,760
		Non Pay costs	
5	3	*Staff Non Pay costs*	6
561	535	*Support Services*	568
162	159	*Premises*	163
431	506	*Third Party Payments*	474
7	6	*Transport*	7
35	22	*Supplies & Services*	32
1,201	1,231		1,250
2,715	2,685	**Non Formula-Led Expenditure by Category**	3,010
		Formula-Led Expenditure	
53,972	55,900	Third Party Payments	56,210
53,972	55,900	**Formula-Led Expenditure by Category**	56,210
-	(1,510)	**Financial Transformation Programme Target**	(100)
56,687	**57,075**	**Total Net Expenditure by Category**	**59,120**
		Net Expenditure by Service Area	
		Non Formula-Led Expenditure by Service Area	
2,715	2,685	Non-Contributory Services	3,010
2,715	2,685	**Non Formula-Led Expenditure by Service Area**	3,010
		Formula-Led Expenditure	
4,120	4,630	Severe Disability Benefit and Carers' Allowances	4,600
590	630	Concessionary TV Licences for the Elderly	620
9,800	9,870	Family Allowance	9,800
4,386	4,500	Health Service Grant	4,600
14,439	14,580	Social Insurance Grant	15,050
20,637	21,690	Supplementary Benefit	21,540
53,972	55,900	**Formula-Led Expenditure by Service Area**	56,210
-	(1,510)	**Financial Transformation Programme Target**	(100)
56,687	**57,075**	**Total Net Expenditure by Service Area**	**59,120**

PUBLIC ACCOUNTS COMMITTEE

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
189	205	Pay costs	210
		Non Pay costs	
1	3	*Staff Non Pay costs*	6
16	51	*Support Services*	52
-	1	*Premises*	1
3	15	*Supplies & Services*	11
20	70		70
209	**275**	**Non Formula-Led Expenditure by Category**	**280**

SCRUTINY COMMITTEE

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
166	205	Pay costs	210
		Non Pay costs	
-	3	*Staff Non Pay costs*	6
15	42	*Support Services*	53
-	-	*Premises*	1
3	25	*Supplies & Services*	10
18	70		70
184	**275**	**Non Formula-Led Expenditure by Category**	**280**

STATES REVIEW COMMITTEE

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
		Non Formula-Led Expenditure	
65	73	Pay costs	-
		Non Pay costs	
-	1	*Staff Non Pay costs*	-
-	13	*Support Services*	-
4	8	*Supplies & Services*	-
4	22		-
69	**95**	**Net Non Formula-Led Expenditure by Category**	**-**

ROYAL COURT

Net Expenditure by Category

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
1,787	1,564	**Operating Income**	1,636
		Non Formula-Led Expenditure	
3,567	3,524	Pay costs	3,541
		Non Pay costs	
1	7	*Staff Non Pay costs*	10
219	327	*Support Services*	326
189	251	*Premises*	263
-	10	*Third Party Payments*	10
10	8	*Transport*	8
244	240	*Supplies & Services*	278
663	843		895
2,443	2,803		2,800
-	(3)	**Financial Transformation Programme Target**	-
2,443	**2,800**	**Net Non Formula-Led Expenditure by Category**	**2,800**

Net Expenditure by Service Area

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
831	867	Bailiffs Office	884
496	696	Client Services	713
980	1,077	Court Services	1,038
136	163	Parliament	165
2,443	2,803		2,800
-	(3)	**Financial Transformation Programme Target**	-
2,443	**2,800**	**Net Expenditure by Service Area**	**2,800**

Routine Capital Expenditure

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
38	-	Miscellaneous Capital Works	-
5	230	IT Projects and Equipment	100
43	230		100
-	(230)	Use of Accumulated Capital Allocation	(100)
43	**-**	**Net Routine Capital Expenditure**	**-**

LAW OFFICERS

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
239	197	**Operating Income**	200
		Non Formula-Led Expenditure	
4,480	4,358	Pay costs	4,530
		Non Pay costs	
55	80	*Staff Non Pay costs*	60
125	162	*Support Services*	124
19	38	*Premises*	28
1	-	*Transport*	3
118	139	*Supplies & Services*	130
318	419		345
4,559	4,580		4,675
-	(20)	**Financial Transformation Programme Target**	-
4,559	**4,560**	**Net Non Formula-Led Expenditure by Category**	**4,675**
		Routine Capital Expenditure	
27	30	Miscellaneous Capital Works	35
31	180	IT Projects and Equipment	90
58	210		125
-	(210)	Use of Accumulated Capital Allocation	(125)
58	**-**	**Net Routine Capital Expenditure**	**-**

STATES OF ALDERNEY

2013 Actual £'000s	2014 Original Budget £'000s		2015 Budget £'000s
		Net Expenditure by Category	
1,470	1,370	**Operating Income**	1,370
		Non Formula-Led Expenditure	
2,020	2,022	Pay costs	1,775
		Non Pay costs	
70	110	*Staff Non Pay costs*	99
591	392	*Support Services*	485
437	185	*Premises*	458
184	221	*Third Party Payments*	202
90	105	*Transport*	102
66	295	*Supplies & Services*	124
1,438	1,308		1,470
1,988	**1,960**	**Net Non Formula-Led Expenditure by Category**	**1,875**
		Net Expenditure by Committee	
		Income	
23	12	Building and Development Control Committee	15
227	216	General Services Committee	730
756	731	Policy and Finance Committee	633
1,006	959		1,378
		Expenditure	
100	79	Building and Development Control Committee	114
1,503	1,552	General Services Committee	1,870
1,391	1,288	Policy and Finance Committee	1,269
2,994	2,919		3,253
1,988	**1,960**	Net revenue cash allocation from the States of Guernsey	**1,875**
		Capital Account	
		Capital Income	
234	6	General Services Committee	10
229	250	Policy and Finance Committee	262
2,332	2,000	Transfers from Alderney Gambling Control Commission	1,500
2,795	2,256		1,772
		Capital Expenditure	
2,722	2,469	General Services Committee	2,625
208	643	Policy and Finance Committee	188
2,930	3,112		2,813
(135)	(856)	Decrease in Accumulated Capital Allocation	(1,041)
-	-		-

CORPORATE HOUSING PROGRAMME FUND

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Income and Expenditure by Category	
			Income	
6,000	-	-	Allocation from General Revenue for Rent Rebates	-
7,667	-	-	Net Rents Receivable	-
3,420	-	-	Interest Receivable	-
8	-	283	Sale of Incompatible Housing Stock	250
17,095	-	283	**Total Income**	250
			Expenditure	
			Pay Costs	
(1,549)	-	-	*Established Staff*	-
			Non Pay Costs	
(20)	-	-	*Staff Non Pay Costs*	-
(360)	-	(10)	*Support Services*	-
(6,931)	(1,215)	(424)	*Premises*	(1,200)
(4,042)	(8,795)	(6,111)	*Third Party Payments*	(7,105)
(21)	-	-	*Transport*	-
(4)	-	(4)	*Supplies & Services*	-
(11,378)	(10,010)	(6,549)		(8,305)
4,168	**(10,010)**	**(6,266)**	**Net Surplus / (Deficit) for the year**	**(8,055)**
			Net Income / (Expenditure) by Service Area	
			Operational Expenditure	
3,195	-	-	*Finance & IT*	-
(1,823)	-	-	*GHA Rent Rebates*	-
(148)	(1,215)	(174)	*Modernisation*	(1,200)
(6,730)	-	-	*Property Management*	-
(351)	-	283	*Strategy/Income*	250
12,275	-	-	*Tenancy Management*	-
6,418	(1,215)	109		(950)
			Corporate Initiatives & Strategies	
(711)	(5,100)	(4,964)	*Older People Housing & Support*	(2,110)
(1,212)	(3,695)	(1,411)	*Social Housing Development Programme*	(4,995)
(1,923)	(8,795)	(6,375)		(7,105)
(327)	-	-	Revenue Grant - Guernsey Youth Housing	-
4,168	**(10,010)**	**(6,266)**	**Net Surplus / (Deficit) for the year**	**(8,055)**
60,022	61,538	64,190	Balance of Fund at 1st January	57,924
-	-	-	Transfer to Capital Reserve	(20,000)
4,168	(10,010)	(6,266)	Net Surplus / (Deficit) for the year	(8,055)
64,190	**51,528**	**57,924**	**Balance of Fund at 31st December**	**29,869**

Note: The funding arrangement for the Corporate Housing Programme was revised with effect from 1 January 2014 and the Corporate Housing Programme Fund will fund the Housing Stock Modernisation Programme and the Housing Development Programme.

GUERNSEY REGISTRY

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Net Income by Category	
			Income	
9,464	9,245	9,521	Operating Income	9,509
			Expenditure	
(783)	(571)	(438)	Pay costs	(448)
			Non Pay costs	
(8)	(22)	(24)	*Staff Non Pay costs*	(21)
(280)	(286)	(278)	*Support Services*	(340)
(128)	(133)	(143)	*Premises*	(145)
(19)	(103)	(38)	*Supplies & Services*	(35)
(435)	(544)	(483)		(541)
8,246	**8,130**	**8,600**	**Surplus transferred to General Revenue**	**8,520**
			Net Income / (Expenditure) by Service	
			Company Registry	
9,327	9,124	9,405	Income	9,395
(808)	(879)	(864)	Expenditure	(923)
8,519	8,245	8,541		8,472
			Intellectual Property Office	
137	121	116	Income	114
(410)	(236)	(57)	Expenditure	(66)
(273)	(115)	59		48
8,246	**8,130**	**8,600**	**Surplus transferred to General Revenue**	**8,520**
			Capital Expenditure	
22	-	77	IT Projects and Equipment	-
22	-	77	**Routine Capital Expenditure**	-
(22)	-	(77)	Loans from General Revenue for Capital Expenditure	-
-	**-**	**-**	**Capital Expenditure**	**-**

GUERNSEY AIRPORT

Net Expenditure by Category

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
11,718	11,729	11,804	Operating Income	12,529
(6,937)	(6,820)	(6,729)	Pay costs	(6,889)
			Non Pay costs	
(150)	(181)	(153)	*Staff Non Pay costs*	(193)
(986)	(784)	(797)	*Support Services*	(817)
(1,619)	(1,375)	(1,570)	*Premises*	(1,577)
(54)	(61)	(45)	*Transport*	(48)
(2,047)	(1,916)	(1,881)	*Supplies & Services*	(1,959)
(4,856)	(4,317)	(4,446)		(4,594)
(75)	592	629	**Operating Surplus/(Deficit) before depreciation**	1,046
(1,299)	(1,330)	(1,320)	Depreciation	(1,268)
(1,374)	**(738)**	**(691)**	**Operating (Deficit) transferred to the Ports Holding Account**	**(222)**

Net Income / (Expenditure) by Service Area

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Income	
522	532	504	*Advertising, picketing etc*	569
754	695	695	*Airport Development Charge*	735
658	734	674	*Car Parking Fees*	700
1,925	1,997	2,250	*Rents*	2,460
7,800	7,481	7,516	*Traffic Receipts*	7,900
11,659	11,439	11,639		12,364
			Operational Expenditure	
(1,268)	(1,060)	(1,085)	*Administration*	(1,117)
(2,068)	(2,061)	(1,942)	*Aerodrome Fire Service*	(2,037)
(2,952)	(2,377)	(2,551)	*Airport Infrastructure*	(2,582)
(1,647)	(1,655)	(1,655)	*Airport Security*	(1,705)
(3,964)	(3,864)	(3,942)	*Navigational Services*	(4,042)
(11,899)	(11,017)	(11,175)		(11,483)
165	170	165	Recovery From Alderney Airport	165
(75)	592	629	**Operating Surplus/(Deficit) before depreciation**	1,046
(1,299)	(1,330)	(1,320)	Depreciation	(1,268)
(1,374)	**(738)**	**(691)**	**Operating (Deficit) transferred to the Ports Holding Account**	**(222)**

GUERNSEY AIRPORT

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s	**Capital Expenditure**	2015 Budget £'000s
-	(240)	(120)	Miscellaneous Capital Works	(400)
-	-	-	IT Projects and Equipment	-
(62)	(2,307)	(1,410)	Equipment, Machinery and Vehicles	(2,115)
(62)	(2,547)	(1,530)	**Routine Capital Expenditure**	(2,515)
(24,716)	(2,000)	(2,000)	Airport Pavements Project	-
(637)	(300)	(300)	Airport Radar	-
25,353	2,300	2,300	Transfer from Capital Reserve	-
(62)	**(2,547)**	**(1,530)**	**Net Capital Expenditure**	**(2,515)**

HARBOURS

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s	**Net Expenditure by Category**	2015 Budget £'000s
8,203	8,751	8,684	Operating Income	9,008
(3,463)	(3,652)	(3,586)	Pay costs	(3,918)
			Non Pay costs	
(87)	(153)	(146)	*Staff Non Pay costs*	(167)
-	-	(41)	*Peripheral Activities*	-
(436)	(438)	(687)	*Support Services*	(623)
(1,590)	(2,117)	(1,836)	*Premises*	(2,102)
(63)	(319)	(89)	*Transport*	(45)
(251)	(193)	(231)	*Supplies & Services*	(373)
(2,427)	(3,220)	(3,030)		(3,310)
2,313	1,879	2,068	**Operating Surplus before depreciation**	1,780
(1,033)	(1,235)	(1,027)	Depreciation	(1,027)
1,280	**644**	**1,041**	**Operating Surplus transferred to the Ports Holding Account**	**753**

HARBOURS

Net Income / (Expenditure) by Service Area

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Commercial Operations	
3,808	4,144	4,160	*Shipping Dues - cargo*	4,285
1,182	1,043	1,182	*Passenger Fees*	1,218
8	7	7	*Pilotage Dues*	7
(201)	(85)	(144)	*Premises*	(224)
(461)	(517)	(370)	*Cranes*	(437)
(798)	(887)	(950)	*Quays*	(1,094)
(12)	(53)	(43)	*Beacons and Buoys*	(35)
3,526	3,652	3,842		3,720
1,301	1,245	1,340	Leisure and Moorings	1,532
			Other Operations	
(2,498)	(3,001)	(3,091)	*Central Administration*	(3,444)
(16)	(17)	(22)	*Ships Registry*	(28)
(2,514)	(3,018)	(3,113)		(3,472)
2,313	1,879	2,069	**Operating Surplus before depreciation**	1,780
(1,033)	(1,235)	(1,027)	Depreciation	(1,027)
1,280	**644**	**1,042**	**Operating Surplus transferred to the Ports Holding Account**	**753**

Capital Expenditure

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
-	(515)	(1,000)	Miscellaneous Capital Works	(2,025)
-	(520)	(80)	IT Projects and Equipment	(45)
(98)	(320)	(210)	Equipment, Machinery and Vehicles	(1,035)
(98)	(1,355)	(1,290)	**Routine Capital Expenditure**	(3,105)
(5,381)	(4,224)	(4,224)	Crane Strategy	(682)
-	-	-	Sarnia Work Boat	-
5,381	4,224	4,224	Less transfer from Capital Reserve	682
(98)	**(1,355)**	**(1,290)**	**Net Capital Expenditure**	**(3,105)**

PORTS HOLDING ACCOUNT

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Operating Surplus/(Deficit) before depreciation	
(75)	592	629	Guernsey Airport	1,046
2,313	1,879	2,068	Harbours	1,780
2,238	2,471	2,697		2,826
42	50	40	Investment Return	-
			Capital Expenditure	
(62)	(2,547)	(1,530)	Guernsey Airport	(2,515)
(98)	(1,355)	(1,290)	Harbours	(3,105)
(160)	(3,902)	(2,820)		(5,620)
2,120	**(1,381)**	**(83)**	**Surplus/(Deficit) before depreciation**	**(2,794)**
(2,332)	(2,565)	(2,347)	Depreciation	(2,295)
(212)	**(3,946)**	**(2,430)**	**(Deficit) for the year**	**(5,089)**
3,037	2,699	2,877	Balance at 1st January	2,794
2,120	(1,381)	(83)	Surplus/(Deficit) for the year before depreciation	(2,794)
(2,280)	-	-	Transfer to Capital Reserve	-
2,877	**1,318**	**2,794**	**Balance at 31st December**	**-**

GUERNSEY WATER

Net Income by Service Area

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Income	
			Water Supplies	
6,856	6,824	6,916	*Measured*	7,068
3,604	3,467	3,621	*Unmeasured*	3,701
			Waste Water	
2,074	2,032	2,121	*Measured*	2,168
1,122	1,085	1,160	*Unmeasured*	1,186
1,040	1,072	1,114	*Cesspit Emptying Charges*	1,096
39	-	-	*Grant from General Revenue*	-
149	100	300	Surplus on other trading activities before management expenses and depreciation	153
14,884	14,580	15,232		15,372
			Expenditure	
			Operating Expenses	
(450)	(373)	(437)	*Asset Management*	(395)
(1,076)	(1,221)	(1,377)	*Pumping Stations*	(1,181)
(3,630)	(3,010)	(3,438)	*Sewers*	(3,544)
(581)	(726)	(463)	*Water distribution*	(688)
(1,914)	(2,135)	(2,227)	*Water production*	(2,313)
			Management Expenses	
(559)	(518)	(570)	*Compliance*	(623)
(826)	(817)	(809)	*Customer services*	(917)
(617)	(644)	(645)	*Management and general*	(758)
(905)	(909)	(964)	*Support Services*	(1,105)
(10,558)	(10,353)	(10,930)		(11,524)
4,326	4,227	4,302	**Operating surplus before depreciation**	3,848
(3,172)	(2,500)	(3,200)	Depreciation	(3,200)
1,154	1,727	1,102	**Operating Surplus for the year**	648
639	200	200	Net Interest receivable	175
604	-	41	Surplus on sale of fixed assets	410
2,397	1,927	1,343	**Surplus for the Year**	1,233
(828)	(1,500)	(800)	Transfer to reserve for renewal of assets	(800)
1,569	**427**	**543**	**Retained surplus for the year transferred to Revenue Account Reserve**	**433**

GUERNSEY WATER

Capital Expenditure

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
(5,027)	(5,000)	(400)	Belle Greve Wastewater Disposal Facility	(18,000)
-	-	(1,100)	Demand Management	(1,400)
-	(500)	-	General	-
(225)	(350)	(550)	Management and General - operational	(495)
-	-	(600)	Pumping Stations	(785)
-	-	-	Quality - Environmental Protection	(265)
(1,742)	(4,437)	(1,450)	Sewers	(1,548)
(934)	(750)	(250)	Water distribution	(330)
(1,240)	(1,200)	(1,000)	Water resources	(700)
(306)	(250)	(850)	Water treatment	(550)
(9,474)	(12,487)	(6,200)	**Gross Capital Investment**	(24,073)
662	400	41	Customer contributions and asset sales	490
4,759	5,000	400	Transfer from General Revenue	18,000
(4,053)	**(7,087)**	**(5,759)**	**Net Capital Investment**	**(5,583)**

STATES WORKS

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Net Income by Service Area	
			Income	
112	116	113	Administration	81
185	200	428	Building maintenance	160
1,847	1,836	1,926	Cleansing and Refuse	1,986
351	331	280	Drainage	260
901	1,043	1,050	Electrical and Mechanical	1,040
185	101	170	Emergency Services	160
760	706	740	Fleet Services	730
2,197	2,000	2,200	Grounds Maintenance	2,200
1,747	1,326	1,700	Highway Repairs	1,700
3,106	3,009	3,050	Landfill and Recycling	3,050
209	210	165	Management Services	213
2,367	2,336	2,300	Sewage Collection	2,200
401	380	385	Signs and Lines	395
518	425	410	Stores	410
14,886	14,019	14,917		14,585
			Expenditure	
			Management Expenses	
(330)	(319)	(319)	*Administration Expenses*	(325)
(260)	(289)	(241)	*Building maintenance*	(246)
(821)	(714)	(771)	*Salaries, wages and superannuation*	(721)
			Operating Expenses	
(7,308)	(7,558)	(7,445)	*Labour*	(7,775)
(3,595)	(3,323)	(3,886)	*Materials*	(3,637)
(502)	(479)	(470)	*Transport and plant*	(479)
(12,816)	(12,682)	(13,132)		(13,183)
2,070	1,337	1,785	**Operating Surplus before depreciation**	1,402
(759)	(836)	(815)	Depreciation	(868)
1,311	501	970	**Operating Surplus for the year**	534
13	6	12	Net Interest Receivable	12
1,324	**507**	**982**	**Surplus for the year**	**546**
			Capital Expenditure	
(51)	(105)	(207)	Office equipment	(117)
(46)	(125)	(15)	Site developments	(320)
(524)	(710)	(914)	Vehicles, plant, tools and equipment	(930)
(621)	**(940)**	**(1,136)**	**Total Capital Expenditure for the Financial year**	**(1,367)**

GUERNSEY DAIRY

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s	Net Income by Service Area	2015 Budget £'000s
			Sales of milk and by-products	
1,457	1,390	1,390	*By-products*	1,390
5,558	5,740	5,737	*Liquid Milk*	5,755
13	20	20	Sales of Sundry Trading Items	25
66	15	27	Other Income	30
7,094	7,165	7,174		7,200
			Cost of Sales - Direct	
(43)	(37)	(37)	*Ingredients*	(38)
(3,322)	(3,191)	(3,340)	*Milk*	(3,410)
(108)	(116)	(117)	*Milk working loss*	(119)
(84)	(65)	(65)	*Offshore processing and freight*	(70)
(500)	(590)	(550)	*Packaging materials*	(550)
(853)	(835)	(851)	*Production wages*	(872)
(4,910)	(4,834)	(4,960)		(5,059)
			Expenses	
(73)	(127)	(127)	*Advertising and promotion*	(127)
(68)	(66)	(69)	*Cleaning expenses*	(69)
(228)	(230)	(236)	*Depreciation*	(280)
(348)	(370)	(355)	*Fuel, power, light and water*	(365)
(27)	(25)	(32)	*General administration costs*	(26)
(78)	(105)	(105)	*Laboratory materials and equipment*	(100)
(28)	(26)	(30)	*Motor vehicle expenses*	(35)
(39)	(65)	(45)	*Other expenses*	(53)
(118)	(76)	(120)	*Professional fees*	(125)
			Repairs, maintenance and insurance	
(105)	(112)	(113)	*Plant and machinery*	(116)
(41)	(43)	(45)	*Site and buildings*	(46)
(595)	(597)	(576)	*Salaries and wages*	(596)
(1,748)	(1,842)	(1,853)		(1,938)
(6,658)	(6,676)	(6,813)	**Total Expenditure**	(6,997)
436	**489**	**361**	**Surplus for the Financial Year Transferred to General Reserve**	**203**
			Capital Expenditure	
(47)	(345)	(212)	Miscellaneous Capital Works	(255)
(6)	-	(14)	IT Projects and Equipment	-
(67)	(427)	(751)	Equipment, Machinery and Vehicles	(657)
(120)	**(772)**	**(977)**	**Total Capital Expenditure for the Financial Year**	**(912)**

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

Net Expenditure by Category	2015 Budget £'000s
Pay costs	
Established Staff	694
	694
Non Pay costs	
Staff Non Pay costs	84
Support Services	79
Supplies & Services	8
	171
Total Expenditure by Category	**865**

SUPERANNUATION FUND ADMINISTRATION

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Net Expenditure by Category	
			Pay costs	
342	270	316	*Established Staff*	361
342	270	316		361
			Non Pay costs	
452	200	390	*Consultants Fees*	139
73	70	72	*Support Services*	73
525	270	462		212
867	**540**	**778**	**Total Expenditure by Category**	**573**
			Routine Capital Expenditure	
30	-	-	ICT System	-
30	**-**	**-**	**Routine Capital Expenditure**	**-**

SOCIAL SECURITY DEPARTMENT
CONTRIBUTORY FUNDS

2013 Actual £'000s	2014 Original Budget £'000s	2014 Probable Outturn £'000s		2015 Budget £'000s
			Net Income / (Expenditure) by Category	
			Income	
151,086	154,789	154,080	*Contribution Income*	157,850
18,825	19,280	19,200	*States Grants*	19,650
169,911	174,069	173,280		177,500
			Benefit Expenditure	
(120,245)	(125,410)	(125,050)	*Social Insurance*	(130,545)
(35,070)	(36,921)	(36,443)	*Health Insurance*	(37,193)
(17,214)	(17,345)	(17,750)	*Long-term Care Insurance*	(18,330)
(172,529)	(179,676)	(179,243)		(186,068)
			Administration	
(3,698)	(4,223)	(4,188)	*Established Staff*	(4,547)
(19)	(19)	(19)	*Staff Non Pay costs*	(19)
(1,592)	(1,587)	(1,586)	*Support Services*	(1,738)
(84)	(85)	(90)	*Premises*	(92)
(97)	(106)	(107)	*Supplies & Services*	(110)
(5,490)	(6,020)	(5,990)		(6,506)
(863)	(140)	(140)	Depreciation	(156)
(8,971)	**(11,767)**	**(12,093)**	**Operating Deficit Before Investing Activities**	**(15,230)**
			Net Income / (Expenditure) by Service Area	
(14,551)	(16,314)	(16,698)	Guernsey Insurance Fund	(20,031)
4,895	3,765	4,067	Guernsey Health Service Fund	4,383
685	782	538	Long-term Care Insurance Fund	418
(8,971)	**(11,767)**	**(12,093)**	**Operating Deficit Before Investing Activities**	**(15,230)**
			Routine Capital Expenditure	
-	(50)	(50)	Buildings and Structures	(50)
(1)	(50)	(50)	Plant and Equipment	(200)
(42)	(50)	(50)	ICT Systems - Equipment and Software	(50)
-	(50)	(50)	ICT Systems - Development	(50)
(43)	**(200)**	**(200)**	**Net Routine Capital Expenditure**	**(350)**

THE LADIES' COLLEGE (Senior School)

Net Income by Category

2012/2013 Actual £'000s	2013/2014 Budget £'000s		2014/2015 Budget £'000s
		Income	
1,772	1,847	*Fees*	2,139
49	22	*Miscellaneous Income*	28
1,933	1,952	*States Grant*	1,928
3,754	3,821		4,095
		Expenditure	
(9)	(9)	*Art*	(12)
(5)	(8)	*Audit Fee*	(6)
(86)	(107)	*Books and Stationery*	(107)
(44)	(72)	*Examination Fees*	(84)
(40)	(75)	*Fixed Asset Acquisition Costs*	(95)
(31)	(34)	*General Administrative Expenses*	(37)
(11)	(13)	*Laboratory and Design and Technology Expenses*	(13)
(175)	(177)	*Maintenance of Buildings, Grounds and Equipment*	(180)
(19)	(26)	*Marketing and Development Expenses*	(27)
(13)	(29)	*Rates, Taxes and Insurance*	(29)
(34)	(27)	*Recruitment and Relocation*	(30)
(2,790)	(2,869)	*Salaries and Wages*	(3,037)
(28)	(37)	*Sports, Conferences, Field Trips etc*	(37)
(5)	(13)	*Staff Training*	(15)
(79)	(85)	*Utilities*	(85)
(3,369)	(3,581)		(3,794)
385	240	**REVENUE SURPLUS FOR THE YEAR**	301
(872)	-	Transfer to Maintenance and Improvements Reserve	-
852	784	Balance b/f from Previous Year	605
365	**1,024**	**Balance c/f to Next Year**	**906**

PROPOSITIONS

The Treasury and Resources Department recommends the States:

1. To extend the company intermediate income tax rate (10%) to income from the provision of administration services (as defined in the Protection of Investors (Bailiwick of Guernsey) Law, 1987), to unconnected third parties, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2015.
2. To agree that the annual fee specified in section 5(1) of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended, is increased from £600 to £1,200, and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2015.
3. To direct that section 40 of the Income Tax (Guernsey) Law, 1975 as amended, shall be further amended to introduce an exemption for the first £50 (£100 for a married couple where each party receives the interest), or such other sum as the Department may determine by regulation, of the total interest receivable by individuals from bank, building society, national (post office) savings or other savings accounts, no matter where the account is held, with effect from the 1 January 2015, and to authorise the Department to amend those descriptions of account by regulation should it prove necessary to do so for the purposes of clarification or the avoidance of doubt.
4. To reduce the cap on the amount of tax relief on interest paid in respect of a principal private residence in section 1(2)(b)(ii) of the Income Tax (Tax Relief on Interest Payments) (Guernsey) Ordinance, 2007 as amended, from £25,000 to £15,000 for any individual borrower (or from £50,000 to £30,000 for a married couple where each party to the marriage is the borrower), and to direct the preparation of such legislation as may be necessary to give effect to this decision with effect from 1 January 2015.
5. That the rates of excise duty in Guernsey and Alderney on the under mentioned goods shall be varied as follows:

Cigarettes	£280.30 per kilogram
Cigars	£260.29 per kilogram
Hand rolling tobacco	£242.39 per kilogram
Other manufactured tobacco	£210.25 per kilogram
Tobacco leaf – unstemmed	£233.39 per kilogram
Tobacco leaf – stemmed	£235.74 per kilogram
Petrol other than any fuel used for the purpose of air navigation	51.8p per litre
Petrol used for the purpose of marine navigation where supplied by an approved trader	36.6p per litre
Gas oil	51.8p per litre
Beer brewed by an independent small brewery	45p per litre
Other beer	71p per litre
Spirits not exceeding 5.5 per cent volume	63p per litre
Spirits exceeding 5.5 per cent volume but not exceeding 25.0 per cent volume	£8.81 per litre
Spirits exceeding 25.0 per cent volume but not exceeding 50.0 per cent volume	£11.71 per litre
Spirits exceeding 50.0 per cent volume	In the extra proportion to 50.0 per cent volume
Cider produced by an independent small cider-maker	45p per litre
Other cider	71p per litre
Light wines not exceeding 5.5 per cent volume	53p per litre
Light wines exceeding 5.5 per cent volume but not exceeding 15 per cent volume (including sparkling wines)	£2.17 per litre
Other wines	£3.47 per litre

PROPOSITIONS

6. To approve the draft Ordinance entitled “The Excise Duties (Budget) Ordinance, 2014” and to direct that the same shall have effect as an Ordinance of the States.

7. To note the Treasury and Resources Department’s intention to include within the 2016 Budget Report proposals to introduce a system of charging excise duty on alcohol based, as far as reasonably possible, on Alcohol by Volume, as set out in paragraphs 2.24 to 2.26 of this Report.

8. To note the Treasury and Resources Department’s intention to include within the 2016 Budget Report proposals to introduce an excise duty at the standard rate on the production and / or importation of biodiesel with conditional concessions, as set out in paragraphs 2.28 to 2.30 of this Report.

9. That the rates of Tax on Real Property in Guernsey and Alderney with effect from 1 January 2015 shall be as set out in paragraph 2.33 of this Report.

10. To approve the draft Ordinance entitled “The Property Tax (Rates) (Guernsey and Alderney) Ordinance, 2014” and to direct that the same shall have effect as an Ordinance of the States.

11. To approve the cash limits for ordinary revenue and capital expenditure for 2015 for individual Departments and Committees totalling £373,100,000 as set out in paragraph 3.27 of this Report.

12. To approve the Treasury and Resources Department commissioning, funded by a transfer from the Budget Reserve, an external assessment of the appropriate baseline budget for the Health and Social Services Department for current service provision and benchmarked to comparable service models in other jurisdictions.

13. To transfer the sum of £37,250,000 from General Revenue to the Capital Reserve on 1 January 2015.

14. To approve that the net capital proceeds of £958,472 from the sale of part of the Longfield site, Rue Maurepas, St Peter Port shall be transferred to the Capital Reserve with immediate effect.

15. To transfer the sum of £20,000,000 from the Corporate Housing Programme Fund to the Capital Reserve on 1 January 2015 with, from 2018 onwards, the funding for the Corporate Housing Programme being met through a combination of allocation from the Capital Reserve as part of the States Capital Prioritisation process and the transfer of States-owned sites.

16. To approve the closure of the Strategic Property Purchase Fund with immediate effect with the balance transferred to the Capital Reserve.

17. To approve the Treasury and Resources Department commissioning, funded by a transfer from the Budget Reserve, an external review of the appropriate level of investment return that should be generated from the States Trading assets.

18. To approve the establishment of a Core Investment Reserve by transferring £142,490,550 from the Contingency Reserve (General) with effect from 1 January 2014 and use of this Reserve to require States’ approval and be limited to exceptional and specific circumstances of severe and structural decline or major emergencies.

19. To approve the closure of the Contingency Reserve (General) with immediate effect.

20. To agree that, with effect from 1 January 2014, the investment return on the Core Investment Reserve should be credited to that Reserve up to the level necessary to maintain its real value as at 1 January 2014 and any returns exceeding that level to be credited to the Capital Reserve.

21. To approve the closure of the Contingency Reserve (Tax Strategy) on 31 December 2014 with the balance transferred to the General Revenue Account Reserve.

PROPOSITIONS

22. To approve the establishment of an Economic Development Fund with immediate effect by transferring £7,000,000 from the Contingency Reserve (Tax Strategy) and to delegate authority to the Treasury and Resources Department to approve use of this Fund.

23. To approve the establishment of a Transformation and Transition Fund with immediate effect by transferring £25,000,000 from the Contingency Reserve (Tax Strategy) and to delegate authority to the Treasury and Resources Department to approve use of this Fund.

24. To approve the closure of the Strategic Development Fund on 31 December 2014 with the liabilities and funding equal to the value of the liabilities transferred to the Economic Development Fund or Transformation and Transition Fund as set out in paragraph 5.35 and the balance transferred to the Transformation and Transition Fund.

25. To approve the closure of the Fundamental Spending Review Fund on 31 December 2014 with the liabilities and the balance transferred to the Transformation and Transition Fund.

26. To note the indicative Three Year Budgets set out in paragraph 6.15 of this Report.

27. To authorise the Treasury and Resources Department to issue a States of Guernsey Bond of £250million with a minimum term of 20 years and a maximum term of 40 years at such a time and on such terms as that Department considers to be in the best interests of the States.

28. If recommendation 27 is approved, to delegate authority to the Policy Council to approve an increase in the value of the States of Guernsey Bond issue by a maximum of a further £80million, following consideration of a justification from the Treasury and Resources Department.

29. If recommendation 27 is approved, to note the intention of the Treasury and Resources Department to constitute a Bond Management Sub Committee as set out in paragraph 7.20 of this Report.

30. If recommendation 27 is approved, to approve the establishment of a Bond Reserve, as set out in paragraph 7.21 of this Report, to be invested within the States General Investment Pool.

31. That the Treasury and Resources Department is only required to report once each year, as an Appendix to the Annual Accounts, on the use of its delegated authorities referred to in paragraph 8.2.

32. To delegate authority to the Treasury and Resources Department to approve increases in individual Department's revenue expenditure budget and routine capital allocations, funded by a transfer from the Budget Reserve.

33. To approve the establishment of a States of Alderney Economic Development Fund with effect from 1 January 2014 and to delegate authority to the Treasury and Resources Department to approve use of this Fund.

34. To delegate authority to the Treasury and Resources Department to approve transfers to the States of Alderney Economic Development Fund of a maximum of £900,000 from the surpluses received by the States of Alderney from the Alderney Gambling Control Commission.

35. To agree that the Alderney Gambling Control Commission surpluses received by the States of Alderney continue to be transferred to the States of Alderney capital allocation up to 31 December 2017.

PROPOSITIONS

36. (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 2015 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.

(c) That:

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

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

FIRST SCHEDULE

Year of Charge 2015

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
1. **Personal Allowance**	
(i) for married persons	Tax at the standard rate on £19,350. 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. 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

(ii) for married persons where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.	Tax at the 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.
(iii) for married persons where, at the commencement of the year of charge, both he, and his wife living with him, were of the age of 64 years or over.	Tax at the 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.

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

SECOND SCHEDULE

Conditions applicable to the allowances specified in the First Schedule

1. **Personal Allowance**

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

(a) 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.

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")-

(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).

2. **Dependent Relative Allowance**

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

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

(i) is the child of the claimant, or

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

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

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

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

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

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

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

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

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

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

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

3. **Infirm Person's Allowance**

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

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

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

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

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

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

PROPOSITIONS

4. **Housekeeper Allowance**

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

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

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

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

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

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

(3) A housekeeper allowance shall not be granted to any individual for any year if such individual is entitled for that year to a personal allowance for married persons, or to an infirm person's allowance.

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

5. **Wife's Earned Income Allowance**

(1) The conditions to be fulfilled to entitle a claimant to a wife's earned income allowance are that the claimant is entitled to the personal allowance for married persons and that there is included in the claimant's assessable income some earned income arising or accruing to the claimant's wife.

(2) "Earned income" has the meaning assigned to it by section 148 of the Income Tax (Guernsey) Law,1975.

6. **Charge of Children Allowance**

(1) The conditions to be fulfilled to entitle a claimant who is also entitled to the personal allowance for married persons to a charge of children allowance are:

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

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

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

(2) The conditions to be fulfilled to entitle a claimant who is entitled to the personal allowance appropriate to persons other than married persons to a charge of children allowance are that in the year of charge:

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

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

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

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

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

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

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

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

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

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

PROPOSITIONS

7. **Retirement Annuity Allowance**

(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.

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

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

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

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

(4) In the case of a married couple:

(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

(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).

PROPOSITIONS

37. To approve the following Expenditure Budgets for the year 2015:

(a) Policy Council
(b) Treasury and Resources Department
(c) Commerce and Employment Department
(d) Culture and Leisure Department
(e) Education Department
(f) Environment Department
(g) Health and Social Services Department
(h) Home Department
(i) Housing Department
(j) Public Services Department
(k) Social Security Department
(l) Public Accounts Committee
(m) Scrutiny Committee
(n) Royal Court
(o) Law Officers

38. To approve the following Budgets for the year 2015 and Probable Outturns for 2014:

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

39. To note the Budget for the States of Alderney for 2015.

(NB. The Policy Council supports the proposals contained in the 2015 Budget Report and is pleased to note that the States' finances are returning towards a balanced position).