

STATES OF GUERNSEY

**ADVISORY AND FINANCE
COMMITTEE**

BUDGET REPORT

2004

NOVEMBER 2003

The President
States of Guernsey
Royal Court House
St. Peter Port
Guernsey
GY1 2PB

8 November 2003

Dear Sir,

I enclose a copy of the Budget for 2004 together with a report thereon.

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

Yours faithfully,

L C Morgan
President
Advisory and Finance Committee

BUDGET REPORT FOR 2004

Introduction

- 1.1 The Advisory and Finance Committee sets out in this Report its proposals for the 2004 Budget, together with its comments thereon and on other relevant financial matters.
- 1.2 The proposals in this Report are based on the matters agreed by the States in July as part of the annual Policy and Resource Planning process after taking into account subsequent events and the latest estimates of the financial position.
- 1.3 Section 2 of this Report deals mainly with the financial position of the States, including the latest income and expenditure projections for 2003 and 2004. This section also includes a brief summary of the General Revenue Account, Contingency Reserve Fund and Capital Reserve.
- 1.4 Section 3 deals mainly with the Committee's detailed financial proposals including requests for additional revenue resources for various committees.
- 1.5 Section 4 sets out in detail the Budget proposals relating to changes in taxation.
- 1.6 Section 5 contains an update of various financial matters that the Committee considers appropriate to draw to the attention of the States.
- 1.7 **In addition to the main Budget Report the Committee has also issued a Budget Supplement on capital expenditure.**
- 1.8 The main highlights and proposals contained within this year's Budget Report are as follows:
 - **A 3.5% increase in personal income tax allowances for 2005.**
 - **An increase in the rate of duty on tobacco, as directed by the States.**
 - **No increase in the rates of other indirect taxes.**
 - **A transfer of £7 million to the Capital Reserve, in addition to the £10 million approved as part of the 2003 Policy and Resource Plan.**
 - **A transfer of £5 million to the Contingency Reserve Fund, in addition to the £5 million approved as part of the 2003 Policy and Resource Plan in respect of the second tranche of the sale proceeds of Guernsey Telecoms Limited.**

- **Continuing strong economic performance but with concerns about slowdown in the finance sector and competition from other jurisdictions.**
- **Increasing concern about the levels of States revenue and capital expenditure.**

Background to the Budget

- 1.9 The Island continues to enjoy an extended and enviable period of prosperity. States revenues have been strong and, despite severe pressures on revenue expenditure and unprecedented and increasing demands for capital expenditure, the States finances remain healthy.
- 1.10 However, the Island faces a period of unprecedented challenge. How the Island responds, and the opportunities that will also arise, will determine the future economic and social prosperity of the Island for decades to come. Although the Committee remains very confident in the Island's future, it has to be acknowledged that difficult decisions for all the parts of the community lie ahead.
- 1.11 In framing its detailed budget proposals the Committee has been particularly mindful of the following:

- Inflation

The increase in the Guernsey RPI for the year ended September 2003 of 3.3% is less than that for March 2003 (4.7%). Although levels of inflation of between 3% and 4% are a considerable reduction compared to those in the early 1990's, this is still a matter of great concern because elsewhere inflation rates are much lower. There can be no room for complacency. Any continuation of the higher levels of inflation, much of which is now caused locally rather than imported, will erode the Island's competitiveness.

- Growing Demand for Capital and Revenue Expenditure

The Committee has consistently warned that there is an ever-increasing demand by individual committees for additional expenditure. Although taken individually many of the cases made by committees for additional expenditure, either revenue or capital, are well made and can be justified, this trend cannot be continued. Committees, individually and collectively must exercise self-restraint if the States finances are not to be seriously damaged.

- Corporate Anti-Poverty Programme

The Corporate Anti-Poverty Programme (due to be debated at the November 2003 States meeting) restates the Committee's commitment to addressing the issue of low-income earners and households. It also re-emphasises that this is a long-term process that will require an integrated, targeted approach involving a number of agencies (including States committees, charities and voluntary sector organisations). This process is not just about providing extra

money (through extra or enhanced benefits etc.) but involves increasing self-help opportunities for those in or at risk of relative poverty.

- 1.12 The Committee is therefore recommending that, with the exception of tobacco, existing rates of indirect taxation are not increased as to do so will put further pressure on the Guernsey RPI, which will have a potentially serious impact on the Island's long-term competitiveness and hit those on lower incomes hardest. The Committee also believes that simply seeking to raise taxes because of committees' demands for more money does not encourage responsible financial control.
- 1.13 **Unless the pressure on revenue and capital expenditure reduces, it is likely that future Budgets Reports will include recommendations seeking the support of the States to approve significant increases in taxation.**
- 1.14 **The Committee is of the firm opinion that raising the level of taxes, which means that money is taken from the wage packets and purses of islanders, should not be an easy option. It is something that should only be done once the States can be sure that all existing expenditure is necessary and is without waste and inefficiency.**

Future Corporate Taxation Strategy

- 1.15 As part of last year's Budget the Committee issued a separate Budget supplement which set out the Committee's views for the future direction of Guernsey's corporate taxation strategy. Essentially, this long-term strategy consists of a general rate of income tax for Guernsey companies of zero per cent in respect of tax year 2008 onwards. The profits of certain companies licensed by the Guernsey Financial Services Commission would be taxed at 10%. In order to protect the tax revenues, special rules would be introduced to ensure that Guernsey resident individuals are taxed on a proportion of the profits of a company in which they have a beneficial interest.
- 1.16 In bringing forward that document the Committee emphasised that the proposals outlined in that report were not for immediate decision and implementation but were a framework for a new corporate taxation structure within an indicative timescale which would ensure that the Island had a competitive and stable future. **The Committee also emphasised that any proposals for a revised structure would be brought before the States of Deliberation for approval at the appropriate time.**
- 1.17 It was further stated that work would be undertaken to develop the strategic framework, with the aim of considering taxation and other revenue raising measures in consultation with the local industry, the impact of which would be strategically "complementary" to the reduction in the rate of corporate taxation.
- 1.18 The Committee's aim and intention remains that the introduction of a new corporate taxation structure will enhance the Island's competitiveness, encourage more value-added business and maintain the Island's reputation for adopting the highest international standards. The Committee is convinced that adapting to the

changing competitive and international climate will place Guernsey in a very strong position to look towards the future.

- 1.19 As set out in the Budget Supplement, one of the main reasons why the Committee has been able to take such a positive outlook is that public finances are very solid. Over many years the States has been very prudent in its financial planning and therefore has a range of options to consider for future income streams which would not be available in other circumstances. Any loosening of that prudent approach would put the Committee's plans for the long-term prosperity and stability of the Island at risk. The Committee is determined that the impact of the proposed corporate taxation strategy must be fair and proportionate.
- 1.20 The financial services sector is a major part of the Island's economy, and therefore provides significant revenues to pay for public services. Of the 30,000 individuals employed in Guernsey, over 7,000 (approximately 23%) are directly employed in this sector. The financial services sector directly contributes 35% of the Island's GDP and 65% of the export economy. Any corporate taxation strategy therefore needs to address the competitive position of the finance industry.
- 1.21 The financial services industry is not one single type of business but is made up of a number of inter-related and inter-dependent sectors. In order to be able to compete internationally to obtain and keep the custom of an institutional captive insurance company, for example, or a high net worth private banking client, different staff skills and training, and increasingly IT infrastructure, for the various sectors are necessary. Likewise the professional support services (accountants, tax specialists, lawyers, actuaries etc.) also need to be available to provide very high standards of service. The interrelationship between all these components can also be complex. To remain competitive and differentiate the Island in the marketplace, Guernsey needs this level of diversity and level of expertise across all sectors.
- 1.22 Therefore an essential part of the Committee's initial work on developing a new corporate taxation strategy was to find out in greater detail the workings of the sector. What areas were growing, which were declining; what were the constraints and opportunities; what areas were contributing most to the economy; which were paying most in direct taxation and how government could strategically encourage growth in those areas. The joint survey carried out by the Committee, the GFSC and the industry over the past year has provided extremely valuable data which has informed the ongoing work to develop the proposed new corporate taxation structure.
- 1.23 **It is emphasised that the fundamental purpose of the Committee's work in this area is to maintain a vibrant and sustainable finance sector which generates corporate profits, employs individuals and makes a positive contribution to other sectors of the Island's economy. It is through this economic activity that the States will be able to raise revenues to fund public services and infrastructure.**
- 1.24 A considerable amount of work on how to convert this economic activity into States Revenues has already been carried out and will continue over the coming

months and years. It is intended that the timetable for this work, which will deliver a comprehensive coordinated package of measures, will include the following milestones:

- 2005 Budget - outline strategy and consultation programme.
- 2006 Budget - more detailed proposals and implementation plan.

1.25 The Budget Supplement issued last year was prepared against a background of uncertainty with regard to the EU Tax Package and the OECD Harmful Tax Practices Initiative. The EU Tax Package was finally adopted in June 2003 and ECOFIN formally recognised the Committee's timetable for implementation of its corporate taxation strategy by 2008 and stated that Guernsey's intended measures were not harmful under the terms of the EU Code of Conduct on Business Taxation. This statement is to be welcomed as a very significant international endorsement. There are still ongoing international discussions with regard to the future of the OECD initiative. The Committee has indicated that it supports the principles underlying the initiative but is concerned to ensure a level playing field, particularly with regard to the OECD's own member states.

1.26 Overall, the Committee has no doubt that in order to maintain the Island's international reputation, and therefore its competitive position, it is vital to take into account international standards. The Committee is content that the proposed corporate taxation strategy is in line with established international standards, will leave the Island in good international standing, and will provide an excellent springboard for further value added economic growth.

Changes to Personal Allowances

1.27 The Committee is recommending that for 2005 the basic personal income tax allowances are increased by 3.5% compared to 2004, i.e. in line with the increase in the Guernsey Retail Price Index. Similar percentage increases will be made to the "supplementary allowances".

1.28 Although the above increase represents only a modest percentage rise for 2005 compared to 2004, it is worth emphasising that, as set out in more detail in section 4 of this Report, in recent years the personal income tax allowances have increased significantly in real terms. This has been of particular benefit to those on lower incomes.

Transfers to Reserves

1.29 The dramatic falls in world stock markets and long-term uncertainties surrounding economic performance, the continued pressure from international bodies such as the OECD and competition from other jurisdictions mean that, although there are unprecedented demands for capital expenditure, funds must continue to be set aside in the Contingency Reserve Fund.

1.30 **The Committee is therefore recommending a transfer of £5m to the Contingency Reserve Fund at the beginning of 2004.** This is in addition to the £5m transferred to this Fund as part of the 2003 Policy and Resource Plan in

- respect of the second tranche of the sales proceeds of Guernsey Telecoms Limited. As set out in the Committee's policy letter recommending the company's sale a further transfer of £5m in 2004 will also be made into the Contingency Reserve Fund in due course.
- 1.31 The main financial theme of the last three Policy and Resource Plans has been the unprecedented demands for capital expenditure, in particular on social needs housing, schools, healthcare facilities and general infrastructure.
- 1.32 Maintaining the Island's infrastructure will place a heavy demand on States resources in the coming years. Therefore, in order to meet committees most pressing capital expenditure requirements, the remainder of the resources available, after allowing for revenue expenditure requirements, need to be set aside for capital expenditure.
- 1.33 The Committee therefore recommends **the sum of £7m be transferred to the Capital Reserve at the beginning of 2004.** This is in line with the amount predicted in the 2003 Policy and Resource Plan and is in addition to the £10m appropriated in July 2003 and the £16m allocated to individual committees from General Revenue at the same time.
- 1.34 The total amount of money set aside for capital expenditure as a result of this Budget and the 2003 Policy and Resource Plan is therefore £38m (£17m in transfers to the Capital Reserve, £5m of interest accruing to the Reserve and £16m of new capital allocations to individual committees).
- 1.35 As at the end of September 2003, the Capital Reserve had a balance of £58m. However, it is unrealistic to expect that the majority, let alone all, of the capital requests put forward by individual committees can be met. Individual committee aspirations will have to be curtailed otherwise the States finances will be severely compromised.
- 1.36 The Committee's concerns over the growth of capital expenditure are not confined to their impact on the States finances. As set out in the Board of Industry's excellent report on the Construction Industry (Billet d'Etat VI, April 2002) local building costs are already considerably higher than elsewhere (on average 47% higher than in the United Kingdom and 26% higher than in Jersey). Unrestrained capital expenditure by the States will only further overheat the local construction industry leading to even higher building costs for both the public and private sector and yet more imported labour.

Indirect Taxation

- 1.37 In April 2002 (Billet d'Etat VI) the States directed the Advisory and Finance Committee to bring forward recommendations for increases in the rate of impôt on tobacco and tobacco products of "at least RPI plus 3.0% for a minimum of five years commencing with the Budget proposals for 2003."
- 1.38 Therefore, in accordance with States direction, the Committee recommends an increase in impôt on tobacco of 6.3% (being 3.0% plus the increase in the

Guernsey Retail Price Index as at September 2003 of 3.3%). This proposal should raise approximately an additional £0.4m per year.

- 1.39 As part of the last three Budgets the Committee has brought forward proposals to reduce the general level of document duty on the straightforward conveyance of properties and raised the threshold for complete exemption of document duty.
- 1.40 During 2003, in accordance with previous Resolutions of the States, treizième was abolished. As a result, and as was always intended, the rates of document duty were increased so that the total amount payable on straightforward conveyances of property remained the same.
- 1.41 In view of the overall States financial position the Committee does not feel that it is able to recommend any further reductions in document duty as part of this year's Budget. Furthermore, the Committee has taken notice of the independent consultant's advice included in its joint report with the Housing Authority entitled "The Operation of the Housing Market in Guernsey" which cautioned against reducing document duty rates at a time when demand for housing was high. However, the Committee is still committed to its long-term policy of reducing the general level of document duty.

Income Tax: Capital Allowances and Basis for Assessment of Business Profits

- 1.42 As set out in the 2003 Policy and Resource Plan, the Income Tax Authority has received representations from tax professionals and business organisations requesting that the arrangements for providing relief from income tax on certain types of capital expenditure be reviewed. The Committee and the Authority agree that there is a requirement to review the regime of capital allowances to reflect the flexibility needed in modern business practices.
- 1.43 In 1999 (Billet d'Etat XV, July 1999) the States accepted the Income Tax Authority's proposals for reforming the tax system from a previous year to a current year basis of assessment. This new basis of assessment, after a transitional period, is now established other than for businesses which were unaffected by the Authority's proposals and remain on a previous year basis.
- 1.44 The Income Tax Authority has revisited this issue and has concluded that it is now an appropriate time for a review and simplification of the way that incorporated and non-incorporated businesses are taxed.
- 1.45 It is therefore intended that a future report be brought to the States which will set out in detail the proposals, including transitional arrangements, for revising the basis of business taxation from a prior year basis to a current year basis and in respect of capital allowances.
- 1.46 The Committee and the Authority believe that these measures of simplification in the taxation system will be welcomed by businesses and their professional advisers.

Conclusion

- 1.47 The Committee is pleased to be able to report, as it has in recent years, that public revenues remain buoyant and the financial position of the States is healthy. The Committee is therefore able once again to present a favourable Budget. However, although the present financial position of the States is strong, it is much less so than last year. Primarily this is due to significant increases in ongoing revenue expenditure and the unprecedented demands by committees for capital expenditure.
- 1.48 This trend, which is largely in the control of the States, is unsustainable and, if continued, would result in higher taxes, a curtailment of growth or even a reduction in the level of public services, increased charges for the use of services and a depletion of reserves.
- 1.49 These issues are very real and unless public sector expenditure is controlled they will be a significant problem. Therefore, the Committee is convinced of the ongoing need for the careful control and prioritisation of expenditure. If this can be done the Committee remains confident of the Island's ability to maintain and improve its economy, infrastructure and public services.

SECTION 2: FINANCIAL POSITION

2.1 This section of the Report deals mainly with the financial position of the States, including income and expenditure projections for 2003 and 2004. This section also includes a brief summary of the General Revenue Account, Contingency and Capital Reserves and the Ports Holding Account.

2.2 The estimated financial position for 2003 and 2004 can be summarised as follows:

	2004	2003
	£m	£m
Revenue Income	300	291
Revenue Expenditure	<u>275</u>	<u>260</u>
Operating Surplus	<u>25</u>	<u>31</u>

2.3 The above financial projections are broadly in line with those predicted at Policy and Resource Planning time and show a modest growth in income tax receipts. However, increased General Revenue expenditure in particular in respect of extra staff costs and Education Council ICT costs has reduced the amount available for appropriation.

2.4 After taking into account the Budget changes proposed in this Report, and the allocations approved as part of the 2003 Policy and Resource Planning Report, the present predictions show that there is now £12m available for appropriation to the Capital and Contingency Reserves.

2.5 The Committee is recommending, in line with the predictions included in the 2003 Policy and Resource Plan, that this £12m be appropriated as follows:

- £7m to the Capital Reserve
- £5m to the Contingency Reserve Fund.

Contingency Reserve Fund

2.6 The purpose of the Contingency Reserve Fund is to provide protection against major emergencies including significant economic downturns having a severe adverse effect on the Island.

2.7 Following the States decision to sell Guernsey Telecoms Limited (“GT”) to Cable & Wireless plc (Billet d’Etat X, May 2002) proceeds of £13.8m were received in May 2002 with a further £5m in May 2003. A further final payment of £5m is due in May 2004.

2.8 As set out at the time, it was intended that these amounts would be appropriated to the Contingency Reserve Fund. Due to the timings of the receipts the first tranche was appropriated as part of last year’s Budget, the second tranche as part of the

2003 Policy and Resource Plan and the third tranche will be taken into account next year.

- 2.9 As set out above, the Committee is recommending that the appropriation to the Contingency Reserve Fund, with effect from the 1 January 2004, should be £5 million. Therefore, it is estimated that the balance on the Contingency Reserve Fund will be as follows:

	£m
Balance at 1 January 2003	147.8
Transfer from Revenue Account - 2003 Budget Report	5.0
Proceeds from sale of GT (first tranche)	13.8
Proceeds from sale of GT (second tranche)	5.0
Net Investment Income- 2003	<u>5.4</u>
 Estimated Balance 31 December 2003	 177.0
 Appropriation recommended for 2004	 5.0
Proceeds from sale of GT (third tranche)	5.0
Net Investment Income- 2004	<u>6.0</u>
Estimated Balance 31 December 2004	<u>193.0</u>

- 2.10 As at 31 December 2002 the balance of the Fund represented 62% of the equivalent of one year's revenue expenditure (2001: 59%). It is estimated that by the end of 2004 the balance on the Fund will be equivalent to 70% of one year's revenue expenditure.

Capital Reserve

- 2.11 The Capital Reserve plays an essential role in the management of the States finances. The purpose of the Capital Reserve is to provide a means of funding future capital projects within a controlled and prioritised strategic framework. If the States is serious about establishing such a framework, and remaining true to the decisions that were made when the Board of Industry's report on the Construction Industry was debated, it must not represent a reserve that can be raided by individual committees at will.
- 2.12 The Committee reviews the requirements of the Capital Reserve on an ongoing basis and, at this stage, considers that the possible calls on this Reserve will be as follows:
- Education Council's Site Development Plan.
 - Board of Heath's Site Development Plan.
 - Sewage treatment, by means of a treatment plant or otherwise.
 - Social Needs Housing and Key Worker accommodation.
 - ICT, and e-Government initiatives.

- 2.13 The movements on the Capital Reserve since the beginning of 2003 have been considerable. Although there have been appropriations into the account of £20m (including interest) during 2003, withdrawals approaching £70m have meant that the Capital Reserve balance has fallen from just under £100m to around £50m. **2003 will be the first year since its formation when the balance on the Capital Reserve will be less at the end of the year than it was at the beginning.**
- 2.14 A detailed summary of the movements on the Capital Reserve for the period 1998 to 30 September 2003 is set out as an appendix to the Budget Supplement.
- 2.15 In addition to the Capital Reserve, individual committees have access to funding for capital expenditure through their own capital allocations. Capital allocations form an important part of the annual Policy and Resource Planning process and are set at levels that allow individual committees to proceed with their more urgent projects and routine replacement programmes.
- 2.16 As at 30 September 2003 the aggregate capital allocations available to committees from out of General Revenue was £67.9m (£79.4m at Policy and Resource Planning time). The largest individual capital allocations are, as expected given their major development programmes, Board of Health (£19.8m), Education Council (£35.3m) and Public Thoroughfares Committee (£2.9m).
- 2.17 Providing funds for a sustainable capital programme, in particular for the priority areas of Health, Education and Housing, has been a major feature of this and previous Budgets. Since the beginning of 2003 the following funds have been made available for capital expenditure:

		£m
Appropriations to Capital Reserve:		
	2003 Policy Planning	10.0
	2004 Budget	7.0
	Interest income	5.0
Committee Capital allocations	2003 Policy Planning	16.0
Total allocated		<u>38.0</u>

Ports Holding Account

- 2.18 The budget of the Ports Holding Account shows an anticipated accumulated surplus as at 31 December 2004 of £1.3m (2003: £9.3m). This is a reduction from an actual balance of £24.4m as at 31 December 2002 (2001: £25.8m) due to the high levels of expenditure on a number of capital projects, in particular the redevelopment of the Airport Terminal building. The balance on the Ports Holding Account will, of course, be affected by the additional costs associated with the repairs to the New Jetty as reported to the States in November 2003.

SECTION 3: DETAILED FINANCIAL PROPOSALS

- 3.1 This section of the Report deals mainly with the Committee's detailed financial proposals including requests for additional revenue resources for various committees.
- 3.2 As stated on previous occasions, when considering its financial recommendations to the States, either as part of Policy and Resource Planning, the annual Budget, or when commenting on individual policy letters, the Committee must have regard to the following:
- Level and uncertainty of income, in particular income tax receipts.
 - Rate of growth of ongoing revenue expenditure.
 - Need to fund capital projects to maintain and improve the Island's infrastructure.
 - Need to build and retain sufficient reserves as a safeguard against future contingencies.
 - Ability of individual committees to make internal efficiencies and to prioritise.
- 3.3 As part of the annual budget process, committees are required to prepare their revenue budgets within the allocations determined by the States as part of the annual Policy and Resource Planning process. However, as circumstances and demands change, some committees are unable to submit budgets within their agreed cash limits. This is often because, although the requirement for extra funding was identified at Policy and Resource Planning time, precise details were not known. In such circumstances an approximate provision is normally made within the General Revenue Account Reserve instead of within the relevant committee budget.
- 3.4 Therefore, as in previous years, the Committee is recommending that the States approve a number of committee budgets which are in excess of their original cash limits. The Committee is satisfied that the required additional resources cannot be found from within the cash limits approved originally.

Committee Budgets for 2003

- 3.5 In previous Budget Reports the Committee has recommended the States to approve increases in the current year revenue expenditure budget for a number of Committees. However, no such recommendations for increased budgets are required as part of this year's Budget Report.

Budgets for 2004

- 3.6 The following budgets for 2004 have been submitted, with the Advisory and Finance Committee's approval, at amounts differing from the cash limits set as

part of the 2003 Policy and Resource Plan. It should be noted that the majority of the increases in expenditure relate to increased staffing. However, at the time of the Policy and Resource Plan, Civil Service Board approval had not been obtained and therefore (in accordance with normal practice) the costs were not included in the recommended cash limits but an appropriate provision was made in the General Revenue Account Reserve.

- **Children Board**

- 3.7 Following a review of the staffing levels of the Children Board, the Civil Service Board approved eight additional posts. As a result the Children Board, with the Committee's approval, has submitted its 2004 budget (which will form part of the Health and Social Services Department's budget) £300,000 in excess of its original cash limit.

- **Home Affairs - Police Force**

- 3.8 The Committee for Home Affairs, with the Committee's approval, has submitted its 2004 budget (which will form part of the Home Department) a total of £450,000 in excess of its original cash limit due to additional anticipated expenditure in respect of forensic medicine services and an interim pay award for Police Officers.

- **Education Council - General**

- 3.9 Following a review of the staffing levels of the Education Council the Civil Service Board approved 21 additional posts (18 teaching and three support staff). Furthermore, as a result of a Teacher's pay review giving higher than budgeted increases to certain staff groups, additional payroll costs need to be included in the 2004 budget. As a result the Council, with the Committee's approval, has submitted its 2004 budget (which will form part of the Education Department's budget) £1,000,000 in excess of its original cash limit. In addition to this increase, in July 2003 the States authorised the Council to submit its 2004 revenue expenditure budget at a sum of £4,250,000 in excess of the cash limit approved as part of the Policy and Resource Planning process for additional ICT expenditure.

Review of the Machinery of Government

- 3.10 As a result of the Review of the Machinery of Government a considerable amount of work has been undertaken to continue to review the budgets of various States committees and departments. One result of this process is that a number of committees, following consultation with the Treasury, have agreed that their level of unspent balances was in excess of their immediate needs. As reported in the 2003 Policy and Resource Plan unspent balances totalling £975,000 have already been returned to General Revenue. The Committee is pleased to report that the Horticulture Committee has subsequently returned £500,000 of its unspent balances. The Committee is duly appreciative of the Horticulture Committee for the responsible corporate attitude it has demonstrated.

3.11 The opportunity has also been taken to continue the process of offsetting income against expenditure where appropriate. (Note: this process has no net effect on overall States expenditure). The following income streams involving the Board of Administration and the Advisory and Finance Committee have been offset:

- Court fees, licences and various miscellaneous charges: £800,000.
- Property rents, fees and concessions: £1,200,000.

Museum Publications Fund

3.12 The Museum Publications Fund was established in 1987 for the purposes of publishing academic monographs about Guernsey and the Museum Collection. A sum of £20,000 was initially credited to the Fund. As at the beginning of this year, due to sales proceeds and accumulated interest, the balance on the Fund had increased to £53,300.

3.13 Since the Fund was established there have been several changes to the way that the States Accounts are prepared, in particular, stock, income and expenditure are now accounted for on an accruals basis.

3.14 Given the modest size of the Fund, the general change in States accounting policies and the review of the Machinery of Government, the Heritage Committee and the Advisory and Finance Committee have agreed that a separate Fund is no longer required. Therefore, with effect from 1 January 2003, the balance on the Fund was transferred to the Heritage Committee's revenue budget and its income and expenditure became part of the Museum and Galleries operating account.

Fortress Guernsey

3.15 In October 1993 the States approved a capital vote of £500,000, funded from the Economic Development Fund, to enable the Tourist Board to restore various fortifications around the Island. Since that time, with the majority of the work being carried out in the mid to late 1990s, a number of sites have been restored and now serve as valuable attractions for locals and visitors alike.

3.16 Following the completion of the recent works at Fort Hommet, and given the modest size of the balance of the capital vote, the Tourist Board and the Advisory and Finance Committee have agreed that this vote should now be closed and the remaining balance (of approximately £150,000) transferred to the Capital Reserve. The Committee is also taking the opportunity to close a small number of related capital votes associated with the Economic Development Fund and transfer the residual balance of just under £15,000 to the Capital Reserve.

SECTION 4: DETAILED BUDGET PROPOSALS

- 4.1 This section of the Report sets out in more detail the Budget proposals relating to changes in taxation.

Personal Income Tax Allowances

- 4.2 As a result of the States' acceptance of the Income Tax Authority's proposals for the reform of the tax system, in last year's Budget Report the Committee made recommendations, which the States approved, for personal income tax allowances for 2004. Therefore in this year's Report the Committee must make recommendations in respect of the allowances for 2005.
- 4.3 Hence, it can be seen that as part of the annual Budget process the Committee is required to set personal allowances for the year of charge commencing over a year into the future. The Committee therefore has to make predictions about the increase in Guernsey RPI for many months in advance.
- 4.4 Partly because of the uncertainty in predicting future increases in RPI but mostly as a result of the Committee's deliberate policy of increasing personal allowances by more than RPI, between 1996 and 2002, personal income tax allowances have increased by 34% in cash terms.
- 4.5 In view of the general concerns of the Committee as to the increasing levels of expenditure and the slowing down of income growth, the Committee is recommending that for **2005 the basic personal income tax allowances are increased by 3.5% compared to 2004**. Similar percentage increases will be made to the supplementary allowances.
- 4.6 Although this represents a smaller increase compared to previous years (a 4.5% increase in real terms in the 2002 Budget) this will still mean that between years of charge 1996 and 2005 personal allowances will have increased by 52% in cash terms and 20% in real terms (if the Committee's predictions on the increase in RPI are reasonably accurate).
- 4.7 The Budget propositions contain schedules setting out the personal income tax allowances for the Year of Charge 2005 and the conditions applicable thereto. Details of the proposals are:

- That the personal allowances for 2005 shall be increased as follows:

Single persons	from £7,725 to £8,000
Single entitled to age relief	from £9,125 to £9,450
Married persons	from £15,450 to £16,000
Married one entitled to age relief	from £16,850 to £17,450
Married both entitled to age relief	from £18,250 to £18,900

- That the supplementary allowances for 2005 shall be increased as follows:

Dependent relative	from £2,475 to £2,560
Housekeeper	from £2,475 to £2,560
Infirm persons	from £2,475 to £2,560
Charge of Children	from £5,260 to £5,445

- That for 2005 the Wife's Earned Income Allowance shall increase in line with the Single Person's Allowance, i.e. to £8,000. 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.
- That for 2005 the income limit of a dependent relative before the Dependent Relative Allowance is reduced be increased from £5,260 to £5,445.

Basis for Assessment of Business Profits & Capital Allowances

- 4.8 In 1999 (Billet d'Etat XV, July 1999) the States accepted the Income Tax Authority's proposals for reforming the tax system from a previous year to a current year basis of assessment. This new basis of assessment, after a transitional period, is now established other than for businesses which were unaffected and remain on a previous year basis.
- 4.9 Following this simplification of the income tax system for individuals, it is now proposed to review the way that businesses (incorporated and non-incorporated) are assessed to tax, the intention being to introduce a current year basis of assessment. As a result there would then be a common basis of assessment of all classes of income.
- 4.10 However, as was the case with the previous reforms, careful consideration will need to be given to the transitional arrangements (i.e. what profits should be brought into charge to tax during the year, or years, that the new basis is introduced.)
- 4.11 When calculating the taxable profits of a business, annual capital allowances are given to provide tax relief for capital expenditure. At present such tax relief is only available if the capital asset belongs to the person carrying on the business. Thus expenditure on leasehold improvements or on buildings erected on land owned by another party do not qualify for relief.
- 4.12 As set out in the 2003 Policy and Resources Plan, the Committee and the Authority agree that this situation is no longer appropriate in the modern business world and believe that the opportunity should be taken to review the entire capital allowance regime. The Committee believes that it is essential that any such regime should be flexible and operated proactively to enable it to react to prevailing economic conditions and, where necessary, enable specific industries to be given encouragement.

- 4.13 Furthermore, given the intention to review the basis of assessing businesses, it is also proposed that a complete review of the entire capital allowance system should be incorporated within that review.
- 4.14 The Committee and the Income Tax Authority believe that these further measures of simplification of the income tax system would be well received by taxpayers and their professional advisors and **it is therefore recommended that the States approve, in principle, the revision of the basis of assessing income tax on businesses to an actual basis and to revise the system for providing relief for capital expenditure, and to direct the Advisory and Finance Committee and the Income Tax Authority to report back to the States with detailed proposals, including transitional arrangements, accordingly.**

Collective Investment Schemes: Section 62 of the Income Tax Law

- 4.15 Until 1989 Guernsey residents were unable to invest in Collective Investment Schemes which had tax exempt status in Guernsey. However, with effect from 1989 this barrier was lifted. Since that time Guernsey residents have been allowed to participate in such Schemes.
- 4.16 Section 62 of the Income Tax Law provides for tax to be deducted from distributions of income made to Guernsey residents, such tax being remitted to the Administrator of Income Tax. However, non-resident investors receive their distributions of income without deduction of Guernsey tax at source.
- 4.17 In the opinion of the Income Tax Authority and the Guernsey Financial Services Commission to treat resident and non-resident investors on an equal basis in future would assist in the process of registering Guernsey funds for distribution in overseas jurisdictions.
- 4.18 In the Authority's opinion it is no longer necessary to distinguish between resident and non-resident investors. **It is therefore recommended that Section 62 of the Income Tax Law be amended to remove the requirement to deduct tax from distributions made to Guernsey resident investors.** As a result the only provision remaining in Section 62 would be concerning the provision of any information relating to a distribution as the Administrator of Income Tax may require. Local investors will, of course, continue to be pay tax on their income in the normal manner.

Tax Exempt Disturbance Allowance

- 4.19 One of the exemptions introduced by the Income Tax (Exemption of Benefits) Ordinance 1995 was that the first £4,000 of a disturbance allowance paid by an employer in relation to an employee newly recruited or transferred to the Island from a place outside Guernsey would be exempt from income tax. In setting this initial level the lump sum payable under the Civil Service Housing Benefit Scheme was a significant reference value.
- 4.20 In 2001, following an increase in the above Housing Benefit Scheme, the Income Tax Authority approached the States to increase the exemption threshold to a value of £5,515 with effect from 1 January 2001. In its letter of comment

accompanying the Authority’s policy letter, the Advisory and Finance Committee stated that rather than bring forward a separate policy letter for such a relatively minor routine matter, “in future it would be more appropriate for such proposals to be included within the Annual Budget Report”.

- 4.21 With effect from 1 January 2003, within the Civil Service Housing Benefit Scheme the lump sum payable was increased to £7,186. It is therefore proposed that the Income Tax (Exemption of Benefits) is further amended to reflect this uplift. Furthermore, to avoid repeated approaches to the States, **it is recommended that the exemption threshold be linked to the Civil Service Housing Benefit Scheme.**

Document Duty

- 4.22 As part of the last three Budgets the Committee has brought forward proposals to reduce the general level of document duty on the straightforward conveyance of properties and raised the threshold for complete exemption of document duty.
- 4.23 During 2003, in accordance with previous resolutions of the States, treizième was abolished. As a result, and as was always intended, the rates of document duty were increased so that the total amount of duty payable on straightforward conveyances of property remained the same.
- 4.24 In view of the overall States financial position the Committee does not feel that it is able to recommend any further reductions in document duty as part of this year’s Budget. Furthermore, the Committee has taken notice of the independent consultant’s advice included in its joint report with the Housing Authority’s entitled “The Operation of the Housing Market in Guernsey” which cautioned against reducing document duty rates at a time when demand for housing was high. However, the Committee is still committed to its long-term policy of reducing the general level of document duty as and when it is able to do so.

Impôts

- 4.25 The Committee is recommending changes to the existing rates of impôt only in respect of tobacco (as directed by the States in April 2002), as follows:

Description of Goods	Present Rate of Duty Per Kilogram	Proposed Rate of Duty Per Kilogram
Cigars and Cigarettes	£119.85	£127.40
Handrolling Tobacco	£111.61	£118.64
Other Manufactured Tobacco	£96.81	£102.91
Tobacco Leaf Unstemmed	£107.46	£114.23
Tobacco Leaf Stemmed	£108.54	£115.38

Implementation of Budget Proposals

- 4.26 In pursuance of its powers under the Impôts (Temporary Increase of Rates) (Guernsey) Law, 1971, as amended, the Committee will make an Order bringing the recommended changes in the rates of impôt into effect on the date of publication of the Billet d'Etat containing this Report. The new rates will not apply to stocks in the hands of any trader.
- 4.27 The Order will cease to have effect at the conclusion of the States Budget meeting and the Committee accordingly **recommends the States to approve by Ordinance that from that date the rates of impôt shall be varied as set out in this Report.**
- 4.28 These arrangements are the same as in previous years.

SECTION 5: OTHER MATTERS

- 5.1 This Section of the Report contains a commentary and update of various financial matters that the Committee considers appropriate to draw to the attention of the States.

Income Tax Projections

- 5.2 Income tax receipts are by far the largest contributor to States total revenue. Since 1990 income tax receipts have increased from under £96m to £237m for 2002. This represents an average annual rate of growth of approximately 8% per year in cash terms. However, individual year on year increases have varied considerably with a high of nearly 14% in 1999 and a low of under 1% in 1993. Even when inflation is taken into account the volatility in income tax receipts remains relatively high. Since income tax is the main source of States revenue this can have a significant impact on the financial planning of the States.
- 5.3 The economy of Guernsey is heavily reliant on the financial services sector (65% of the Island's export economy). This sector by its nature is highly competitive, fast moving and heavily influenced by international conditions. The profits made, and therefore the taxation paid, by individual institutions can vary significantly from one year to the next.
- 5.4 On a local level the sector can also be highly affected by individual company actions, for example changes in business strategy, group restructurings, mergers and acquisitions etc. Many of these are outside the direct influence of the States and are difficult, if not impossible, to predict.
- 5.5 The Treasury and Income Tax Authority are able to prepare with a reasonable degree of accuracy short-term projections for core business activities, in both the finance and non-finance sectors, and for the tax paid by employees. However, as explained above, there will always remain a degree of uncertainty. Similar issues are also faced in other jurisdictions. Therefore, although the Committee will always seek to provide as accurate a picture as it can, it believes it must continue to do so on a prudent and cautious basis.

Tax on Rateable Values

- 5.6 As reported previously, "although revised from time to time, the present rating system was devised in 1947 and uses a system of notional "annual rental values". These are calculated with reference to the usable square footage of the property and adding extra charges for such things as central heating and extra hot and cold water taps. Any system that has been in use for such a long time will inevitably develop anomalies. The Committee therefore intends to work with the Cadastre Committee to see how the present system can be revised and, where appropriate, simplified."
- 5.7 The Cadastre Committee continues to work on possible ways of revising the present system for taxing property which currently raises £4m per annum. The Advisory and Finance Committee considers this to be a very important project.

Taxation of Motor Vehicles

- 5.8 As set out in this year's Policy and Resource Plan (paragraph 7.6.8), the Committee, together with the Traffic Committee, continues to work on this area, being mindful of the fact that at present motor tax (i.e. vehicle licence) and petrol duties annually contribute approximately £5m and £2m respectively.
- 5.9 The Committee, for a variety of reasons (not least being the necessity of amending the existing Customs and Excise Legislation and the further development and implementation of the Integrated Road Transport Strategy) does not believe that it is desirable or practicable to introduce a new detailed system of motor taxation and fuel duties as part of this year's Budget.
- 5.10 The Committee is firmly of the view that any change in motor taxation and duty on fuel should only be introduced after a period of consultation and after allowing individuals and businesses to have prior notification (and therefore a measure of certainty) of its details and impact.
- 5.11 However, although firm proposals are not being put forward at this time, the Committee sets out below a broad framework for moving forward on this issue:
- A system of motor vehicle registration and licensing should be retained but amended and simplified so that taxation should be based on metric weight using three or possibly four broad bands which would be designed to encourage the ownership of lighter vehicles.
 - The annual rate of motor taxation would also include an element (of between £5 and £10) to recover the costs of disposal of end of life vehicles.
 - Although motor taxation will remain, as a general principle, any future increases in taxation would be directed towards the rate of duty on fuel.
 - A duty on diesel would be introduced (with certain exceptions, including diesel used for horticultural and agricultural purposes etc.) subject to the Committee satisfying itself that the introduction of such a system is administratively and economically efficient and is capable of being policed and enforced.

Investment Operations of the States Treasury

- 5.12 As reported previously, the Treasury, through professional managers, invests the combined surplus cash of various States entities and, as a result, gains the advantages of wholesale interest rates. It has also previously been explained how, from time to time, various entities borrow money from the Treasury at rates generally lower than those offered by a commercial loan. This aspect of the Treasury's operations has always been important, however, it is an area that has increased in complexity in recent years.

- 5.13 As reported in previous Policy and Resource Plans and Budget Reports, the Committee, after having sought tenders from appropriate local banks, obtained a £25m borrowing facility in respect of the Housing Development and Loan Fund. At the time of writing, the Fund is currently borrowing £5m from this source (compared to £5m at the time of the 2003 Policy and Resource Plan and £8m this time last year).
- 5.14 In 2002 (Billet d'Etat XXV, December 2002) the States resolved that the Guernsey Gambling Control Commission could borrow up to £150,000 for a period of no more than ten years in order to fund the Commission's expenses. As at the time of writing the Commission had borrowed £72,000 (compared to £46,000 at the time of the 2003 Policy and Resource Plan).
- 5.15 Similarly, a loan facility has been agreed with the Water Board in order to fund its capital improvement schedule. At the time of writing the Board has not needed to use this facility.
- 5.16 It is emphasised that, as a general principle, loan arrangements are only entered into where there is an income stream which can be used to support the repayment of the loan and associated interest charges.
- 5.17 In addition to the cash pool referred to above, the Treasury is also responsible for the management of financial assets in respect of General Revenue, the Superannuation Fund and the Contingency Fund. This investment portfolio totalling around £1 billion includes certificates of deposit, commercial paper, bonds, gilts and equities.
- 5.18 This is an area where a considerable amount of work has been undertaken in the past year or so. This work will continue to ensure that States investments are properly administered and safeguarded. The progress made to date has been very encouraging and the Committee believes it is better placed to meet the challenges that lie ahead.

Security of Air Links

- 5.19 As part of the States debate which approved the acquisition of Cabernet Limited, (being the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited) the Advisory and Finance Committee, on behalf of the States, was authorised to "provide loans or enter into any commercial guarantees or underwriting arrangements, with terms and conditions as it may determine and consider appropriate, in order to secure the operation of the additional services to Gatwick".
- 5.20 As at the time of writing no loans have been advanced by the States to Cabernet Limited or any of its subsidiaries. However, in July 2003 Cabernet Limited obtained a £2 million loan facility from a local financial institution at normal commercial terms and rates. The Advisory and Finance Committee, acting on behalf of the States in accordance with the above Resolution, is the Guarantor of that facility.

Purchasing and Finance Project

- 5.21 In January 2001 (Billet d'Etat I) the States approved the first phase of a major project for implementing best procurement practice and financial procedures (project E-Pact). This formed part of the overall strategy of improving financial controls, practices and procedures across the States.
- 5.22 The first phase of this project went live in January 2002 in accordance with the project plan and, as a result, the year-end accounts for 2002 (as approved by the States in July 2003) were prepared using the new system. During 2003 the functionality of this new system, in accordance with the initial project plan, has continued to be successfully rolled out across the States. Payroll and pensions has already been identified as an area where substantial cross committee benefits could be achieved and, following the completion of a detailed scoping and evaluation study, will be the next major phase of the project during 2004.

Review of the Machinery of Government (Financial Matters)

- 5.23 As a result of the Review of the Machinery of Government a new political structure will come into effect at the beginning of May 2004. Since preparing projections of income and expenditure, the setting of individual Department Budgets, capital allocations, transfers to reserves etc. is a complex process which involves many factors and takes several months to complete it is unrealistic to expect the new Policy Council and the new Departments to prepare, and agree, a full Policy and Resource Plan in time for the July 2004 States meeting.
- 5.24 Although no firm decisions have yet been taken, it is probable that an abridged Interim Report will need to be taken to the States by the Treasury and Resources Department in June or July 2004 on a number of routine financial matters including the following:
- Reporting on the use of the Advisory and Finance Committee's delegated financial authority since those reported in the 2004 Budget Report.
 - If appropriate, interim transfers to the Capital and Contingency Reserves.
 - Approval of "routine" capital allocations for individual Departments.
 - Update on various routine financial procedures and matters including an overview of the States financial position.
 - Approval of 2003 year-end accounts and re-appointment of external auditors.

Review of States Financial Procedures

- 5.25 As set out in previous Budget Reports and Policy and Resource Plans the Committee continues to monitor, and where necessary, amend the States Financial Procedures to ensure that they continue to remain appropriate. This is, of course,

- an ongoing process and one that will need to be kept under continual review, in particular during the first few years of the new political structure.
- 5.26 It is therefore likely that one of the first tasks that the Treasury and Resource Department will need to undertake is a review of this area, including, but by no means limited to, the delegated authority limits in respect of increasing annual budgets, capital votes, sanctioning overspends etc.
- 5.27 In undertaking this general review it is important that the resultant Financial Procedures will enable individual departments to manage their financial affairs in a manner combining flexibility and efficiency with control and accountability to the States and the taxpayer.
- 5.28 One specific matter which has already been identified as needing a review is the financial threshold requiring the Housing Authority to seek specific States approval for the sale of incompatible States' houses. Since 1996 this threshold has remained at £250,000 despite the significant increases in local property prices. **The Committee recommends that this threshold should be increased to £500,000 per unit to reflect the increase in house prices.** In doing so the Committee has taken into account the fact that any proceeds from the sale of incompatible housing are credited to the States Houses Fund (established in 2001) to assist with the replacement of States' housing stock.

APPENDIX I

Formula Led Expenditure	Actual	Present Estimate	Policy Planning Estimate	Present Estimate
	2002	2003	2004	2004
	£'000	£'000	£'000	£'000
Payments to States Members	1,021	1,090	1,204	1,170
Maintenance of Prisoners in the U.K.	257	320	300	400
Legal Aid Scheme	1,017	1,600	1,600	1,550
Social Insurance Grant	24,920	26,625	25,375	26,700
Health Service Grant	6,295	8,055	8,745	8,700
Long-Term Care Grant	-	1,290	1,400	1,380
Supplementary Benefits	9,594	9,100	9,060	9,245
Family Allowances	6,832	7,120	7,505	7,575
Attendance & Invalid Care Allowance	1,734	1,800	1,975	1,955
Concessionary Television Licences	397	400	415	415
Parochial Outdoor Assistance Boards	264	380	380	400
Medical Assistance Scheme	9	10	10	10
B.S.E. Compensation Payments	1	3	6	6
Cull Cattle Compensation Payments	55	60	100	69
Horticulture Interest Subsidy Scheme	169	150	250	250
Housing Grant Schemes	109	150	150	150
States of Alderney				
Congé	(580)	(300)	-	-
Leasehold Duty	(37)	(30)	-	-
Transfer Duty	(12)	-	-	-
TV Tender Payments	(1)	(1)	-	-
Out Relief	21	22	22	22
Cull Cattle Compensation Payments	2	3	3	3
TOTALS	52,067	57,847	58,500	60,000

Use of Delegated Financial Authority

The States Financial Procedures require the Advisory and Finance Committee to report periodically on the use of its delegated financial authority in respect of:

- a) Increases in General Revenue operating costs.
- b) Use of the Asset Purchase Fund.
- c) Capital projects (straightforward replacements without limit and projects up to £250,000).
- d) Property purchases and sales.
- e) As otherwise specifically directed by the States.

The Committee last reported to the States on these matters as part of the 2003 Policy and Resource Plan. Since that time:

The following increases in operating costs for 2003 have been approved:

	£
Cadastre Committee – additional staff	20,000
Children Board – external review of services	40,000
Education Council - additional staff	230,000
Income Tax Authority - extra staff and IT costs	250,000
Liberation Celebrations Committee - matching private sponsorship	20,000
Overseas Aid Committee – Liberia Crisis Emergency Aid	30,000
Probation Service Committee – additional staff	40,000

The following item has been approved for acquisition using the Asset Purchase Fund:

	£
Probation Service Committee – IT equipment replacement	40,000

The following capital projects have been approved:

	£
Advisory and Finance Committee	
Courts security measures (additional)	3,307
Law Officers IT equipment replacement	50,000
Loans System replacement	60,000
Property conditions surveys – phase I	102,850
Royal Court IT equipment replacement	85,000
States of Alderney	
Water tanker replacement	15,000
Board of Administration	
Freight, Administration and Immigration databases replacement	182,000
Recycling equipment eurobins replacement	20,000
Recycling equipment trucks replacement	90,000
St. Julians Avenue public conveniences upgrade	40,000

Board of Health	
Hospital and other equipment additional/replacement	694,500
Headquarters accommodation replacement	195,000
IT Hardware additional/replacement	66,000
Children Board	
Secure Unit refurbishment	240,000
Education Council	
ICT Strategy Communication equipment and server	165,000
ICT Strategy Network managed services consultants	60,000
La Mare de Carteret temporary classrooms	80,000
Oakvale temporary classrooms	66,000
Committee for Home Affairs	
Fire Brigade Computer development programme	13,000
Fire Brigade Rescue equipment replacement	9,000
Fire Brigade Wireless/staff car replacement	11,000
Police Speed detection radar units	20,000
Police Vehicles replacement	40,000
Prison Chimneys replacement	32,500
Prison Fencing replacement	335,000
Prison Multi cellular vehicle	65,000
Prison Workshop equipment	10,000
Housing Authority	
Guernsey Youth Housing project	455,000
Island Development Committee	
IT equipment replacement	15,000
Public Thoroughfares Committee	
Foul Water Network Extension Plan	2,150,000
Traffic Committee	
Bosq Lane road widening scheme	60,000
Tourist Board	
Despatch Department relocation	15,000
Board of Administration - Ports	
Airport Fire Service training area surface water drainage	40,000
Airport Maintenance van replacement	10,300
Airport PABX system replacement	110,000
Airport West grass parking area	118,875
St Peter Port Harbour mini excavator and trailer	20,000

The following property purchases and sales have been approved:

<u>Purchases</u>	£
Board of Administration	
New Street, St Peter Port small area of land	5,000
<u>Sales</u>	
Board of Administration	
Parcel of land at Le Bordage Clos	100
Wayleave at La Mare de Carteret playing field	100
Wayleave at Glatigny Esplanade	15,000
Old Girls Grammar School site, Rosaire Avenue (In accordance with States Resolution of 11 May 2001)	1
Housing Authority	
5, Hauteville, St Peter Port to Guernsey Housing Association	1

Draft Ordinance Entitled
The Impôts (Budget) Ordinance, 2003

THE STATES, in pursuance of their Resolution of 10th December, 2003 and in exercise of the powers conferred on them by sections 1 and 4 of the Indirect Taxes, Duties and Impôts (Increase of Rates) (Guernsey) Law, 1970, as amended^a, hereby order:-

Increase in impôt on tobacco products

1. For items 1 to 5 in Schedule 1 to the Indirect Taxes, Duties and Impôts (Increase of Rates) (Budget) Ordinance, 1994^b there is substituted:

“1.Cigars and cigarettes	£127.40 per kilogram
2.Handrolling tobacco	£118.64 per kilogram
3.Other manufactured tobacco	£102.91 per kilogram
4.Tobacco leaf unstemmed	£114.23 per kilogram
5.Tobacco leaf stemmed	£115.38 per kilogram”

Extent

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

Repeal

3. The Impôts (Budget) Ordinance, 2002^c is repealed.

Citation

4. This Ordinance may be cited as the Impôts (Budget) Ordinance, 2003.

Collective title

5. This Ordinance, the Impôts (Budget) Ordinance, 1998, the Impôts (Budget) Ordinance, 1999 and the Indirect Taxes, Duties and Impôts (Increase of Rates) (Budget) Ordinance, 1994 shall be construed as one, and may be cited together as the Indirect Taxes, Duties and Impôts (Increase of Rates) (Budget) Ordinances, 1994 to 2003.

Commencement

6. This Ordinance shall come into force on 10th December 2003.

^a Ordres en Conseil Vol. XXII, p.473; Vol. XXIV, p.236.

^b Recueil d'Ordonnances Tome XXVI, p.350.

^c Ordinance No. XLV of 2002.

Draft Ordinance Entitled

The Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2003

THE STATES, in exercise of the powers conferred on them by section 8(2A)(b) of the Income Tax (Guernsey) Law, 1975(a), hereby order:-

Tax-exempt disturbance allowance

1. In section 2(p) of the Income Tax (Exemption of Benefits) Ordinance, 1995, as amended (b), for “£5,515” substitute “such sum as is payable from time to time under the Civil Service Housing Benefit Scheme”.

Extent

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

Repeals

3. The Income Tax (Exemption of Benefits) (Amendment) Ordinance, 1998 (c) and the Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2001 (d) are repealed.

Citation

4. This Ordinance may be cited as the Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2003.

Application

5. This Ordinance shall apply in respect of any disturbance allowance payable on or after 1st January, 2003.

(a) Ordres en Conseil Vol XXV, p.124; Vol XXVI, pp.146, 200 and 292; Vol XXVII, pp.84, 118, 200, 333 and 565; Vol XXVIII, pp.184, 278, 353 and 409; Vol XXIX, p.214; Vol XXXI, pp.406 and 473; Vol XXXII, p.307; No IV of 1991; No VI of 1992; Nos IV and VIII of 1993; No XXV of 1994; Nos III and VII of 1995; No V of 1996; Nos IV and XXII of 1997; No II of 1999; No IV of 2000; Nos VI and XVII of 2001; No VII of 2002; Nos IV and XVIII of 2003; section 8(2A)(b) was inserted by Order in Council No III of 1995.

(b) Recueil d’Ordonnances Tome XXVI, p.472; No XIX of 1998; No XXXII of 1999; and No XV of 2001.

(c) Ordinance No XIX of 1998.

(d) Ordinance No XV of 2001.

PROPOSITIONS

The Advisory and Finance Committee recommends the States:

1. To transfer the sum of £7,000,000 to the Capital Reserve at the beginning of the financial year 2004.
2. To transfer the sum of £5,000,000 to the Contingency Reserve Fund at the beginning of the financial year 2004.
3. To agree that the States Advisory and Finance Committee's existing delegated authority to sanction the sale of incompatible States' houses be increased from £250,000 to £500,000 per unit with immediate effect.
4. That the rates of impôt in Guernsey and Alderney on the under mentioned goods be increased as follows:

Cigars and cigarettes	£127.40 per kilogram
Handrolling tobacco	£118.64 per kilogram
Other manufactured tobacco	£102.91 per kilogram
Tobacco leaf unstemmed	£114.23 per kilogram
Tobacco leaf stemmed	£115.38 per kilogram
5. To approve the draft Ordinance entitled "The Impôts (Budget) Ordinance, 2003" and to direct that the same shall have effect as an Ordinance of the States.
6. To agree that Section 62 of the Income Tax (Guernsey) Law, 1975 be amended to remove the requirement for tax exempt Collective Investment Schemes to deduct tax from distributions made to Guernsey residents.
7. To approve, in principle, the revision of the basis for assessing income tax on businesses to an actual basis and the revision of the system for providing relief for capital expenditure as set out in the 2004 Budget Report, and to direct the Advisory and Finance Committee and the Income Tax Authority to report back to the States with detailed proposals, including transitional arrangements, accordingly.
8. To approve a change in the amount of a disturbance allowance that will be exempt from tax, from £5,515 to such sum as is payable from time to time under the Civil Service Housing Benefit Scheme, such a change applying in respect of any disturbance allowance payable on or after 1 January 2003.
9. To approve the draft Ordinance entitled "The Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2003" and to direct that the same shall have effect as an Ordinance of the States.
10. (1) That, for the Year of Charge 2005, income tax shall be charged at the standard rate of 20p in the £.

(2) (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 2005 by an individual solely or principally resident in Guernsey by way of relief from income tax at the 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 that the conditions applicable to such allowances and prescribed in the Second Schedule to this Proposition have been fulfilled.

(c) That:

“Family Allowances” means Family Allowances payable under the Family Allowances (Guernsey) Laws, 1950 to 1976;

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

11. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

FIRST SCHEDULE

Year of Charge 2005

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

<u>Nature of Allowance</u>	<u>Amount of Allowance</u>
1. Personal Allowance.	
(i) for married persons.	Tax at the standard rate on £16,000. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(ii) for married persons where, at the commencement of the year of charge either he, or his wife living with him, was of the age of 64 years or over.	Tax at the standard rate on £17,450. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iii) for married persons where, at the commencement of the year of charge both he, and his wife living with him, were of the age of 64 years or over.	Tax at the standard rate on £18,900. Provided that the allowance shall be reduced by the sum of £1 for every pound of wife's earned income allowance granted.
(iv) for single persons.	Tax at the standard rate on £8,000.
(v) for single persons aged 64 years or over at the commencement of the year of charge.	Tax at the standard rate on £9,450.
2. Dependent Relative Allowance.	In respect of each dependent relative – tax at the standard rate on £2,560 or on the amount of the contributions whichever is less:

Provided that if the income of the dependent relative (exclusive of any contribution) exceeds £5,445 the allowance shall be reduced to tax at the standard rate on such sum as remains after subtracting from £2,560 the sum of £1 for every pound by which the dependent relative's income exceeds £5,445.

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 £2,560, or such lesser sum as remains after deducting from £2,560 the sum of £1 for every pound by which the dependent relative's income exceeds £5,445, the sum of £213 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 £2,560.
4. **Housekeeper Allowance.** Tax at the standard rate on £2,560.
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 £8,000.
6. **Life Assurance Allowance.** Tax at the standard rate on a sum equal to one-half of the allowable premiums or payments or deductions.
7. **Charge of Children Allowance.** Tax at the standard rate on £5,445.
8. **Retirement Annuity Allowance.** Tax at the standard rate on a sum equal to the qualifying premiums or contributions.

SECOND SCHEDULE

Conditions for the Year of Charge 2005 applicable to the allowances specified in the First Schedule

1. Personal Allowance

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

(a) for married persons -

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

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

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

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

2. Dependent Relative Allowance

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

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

(i) is the child of the claimant, or

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

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

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

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

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

- (4) In computing the amount of a child's income in his own right, no account shall be taken of any sum to which the child is entitled as the holder of a scholarship, bursary or other similar educational endowment.
 - (5) Where two or more persons jointly maintain or contribute towards the maintenance of any such person as aforesaid, the allowance shall be apportioned between them in proportion to the amount or value of their respective contributions towards the maintenance of that person.
- B.
- (1) The conditions to be fulfilled to entitle a claimant to a dependent relative allowance in any other case are:-
 - (a) that the claimant at his own expense maintains or contributes towards the maintenance of a person being a relative of the claimant or of the claimant's spouse; and
 - (b) that the person so maintained is prevented by incapacity due to old age or infirmity from maintaining himself.
 - (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.
- (2) Not more than one allowance shall be allowed to any claimant for any year.

4. Housekeeper Allowance

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

5. Wife's Earned Income Allowance

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

6. Life Assurance Allowance

- (1) The conditions to be fulfilled to entitle a claimant to an allowance in respect of life assurance are:-
 - (a) that the claimant has effected an assurance on his own life or on the life of his wife; or
 - (b) that the claimant has contracted for a deferred annuity on his own life or on the life of his wife; or
 - (c) that the claimant is, under the provisions of any Law or under the terms or conditions of his employment, liable to the payment of

any sum or to the deduction from his emoluments of any sum, for the purpose of securing a deferred annuity to his widow or provision for his children after his death not being a sum which may be claimed as an authorised deduction under the provisions of sub-section (3) of section 8 of the Income Tax (Guernsey) Law, 1975.

- (2) Subject to the provisions of the next succeeding paragraph the allowable premiums, payments or deductions shall be the amount of any premium paid, payments made or deductions suffered by the claimant in the year of charge in respect of any such assurance, contract or liability.
- (3) Notwithstanding the provisions of the preceding paragraph:-
- (a) No allowance shall be made in respect of any premium payments or deductions to the extent to which they exceed in the aggregate one-sixth of the assessable income of the claimant;
- (b) No allowance shall be made in respect of any premium or other payment on any policy for securing a capital sum on death (whether in conjunction with any other benefit or not) to the extent that the premium or other payment exceeds an amount equal to seven per cent of the actual capital sum assured, and in calculating any such capital sum no account shall be taken of -
- (i) any sum which is payable on the happening of any contingency other than death; or
- (ii) the value of any premium agreed to be returned; or
- (iii) any benefit by way of bonus, share of profits, or otherwise which is not the sum actually assured.
- (c) No allowance shall -
- (i) be made in respect of policies of insurance or contracts for deferred annuities except in respect of premiums payable on policies for securing a capital sum on death, whether in conjunction with any other benefit or not; or
- (ii) be made in respect of premiums payable during the period of deferment in respect of a policy of deferred assurance:

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

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

7. Charge of Children Allowance

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

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

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

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

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

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

8. Retirement Annuity Allowance

- (1) The conditions to be fulfilled to entitle a claimant to a retirement annuity allowance are that the claimant or his wife pays a premium or makes a contribution to a retirement annuity scheme or to a retirement annuity trust scheme approved under the provisions of section 157A of the Income Tax (Guernsey) Law, 1975 and that the claimant or his wife as appropriate is in receipt of relevant earnings.
- (2)
 - (a) Subject to the provisions of the next succeeding paragraph the qualifying premiums or contributions as the case may be, shall be the amount of any premium paid or contribution made by the claimant or his wife during the year of computation of the relevant earnings of the claimant or his wife assessable for the year of charge.
 - (b) The expression "relevant earnings" in relation to any individual has the meaning assigned to it by sub-section (9) of section 157A of the Income Tax (Guernsey) Law, 1975.
- (3) Notwithstanding the provisions of the preceding paragraph no allowance shall be given in respect of any qualifying premiums or contributions to the extent that, in aggregate, they exceed an amount equal to fifteen per

cent of the relevant earnings of the claimant or the claimant's wife, as the case may be or 25% of those earnings if the claimant, or the claimant's wife as the case may be, is aged 40 or over at any time during the year of computation referred to in subparagraph (a) of the preceding paragraph and is not also a member of an occupational pension scheme approved under section 150 or a scheme which is deemed to be such a scheme for the purposes of section 153 of the Income Tax (Guernsey) Law, 1975.

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

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

IN THE STATES OF THE ISLAND OF GUERNSEY

ON THE 26TH DAY OF NOVEMBER, 2003

The States resolved as follows concerning
Billet d'État No. XXVI dated 14th November, 2003

PROJET DE LOI

entitled

THE REFORM (AMENDMENT No. 2) (GUERNSEY) LAW, 2003

To approve the Projet de Loi entitled “The Reform (Amendment No. 2) (Guernsey) Law, 2003”, and to authorise the Bailiff to present a most humble Petition to Her Majesty in Council praying for Her Royal Sanction thereto.

K. H. TOUGH
HER MAJESTY’S GREFFIER