

# **STATES OF ALDERNEY**



## **BILLET D'ETAT**

WEDNESDAY 24<sup>TH</sup> FEBRUARY 2016

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### **FOR WEDNESDAY 24<sup>TH</sup> FEBRUARY 2016**

**Members of the States:**

I have the honour to inform you that the Meeting of the States will be held at 5:30 pm on Wednesday 24th February 2016. This will be preceded by the People's Meeting, which will be held on Wednesday 17<sup>th</sup> February 2016 at 7:00 pm in the Island Hall.

W Stuart Trought  
President

**Item I**      **Chief Pleas**

Persons whose names are included on the Register of Voters and who have given due notice will address the States on matters of public interest.

**Item II**      **Review of The Financial Relationship between Guernsey and Alderney**

The following letter was received by Mr McDowall, Chairman of the Policy and Finance Committee:-

"A Policy Letter entitled "The Review of the Financial Relationship between Guernsey and Alderney" dated 30<sup>th</sup> November 2015 from the Chief Minister, Deputy J Le Tocq, is being considered at the meeting of the Guernsey States of Deliberation at its meeting on the 16<sup>th</sup> February 2016.

I would be grateful if you would place a copy of the Policy Letter entitled "The Review of the Financial Relationship between Guernsey and Alderney" before the next meeting of the States of Alderney with an appropriate proposition.

Mr R McDowall  
Chairman

The States of Alderney is asked to note the Policy Letter "The Review of the Financial Relationship between Guernsey and Alderney" being considered by the States of Deliberation and subject to the approval of the report and proposals contained therein by the States of Deliberation to direct the Policy and Finance Committee to prepare a project plan to implement the proposals so that they have effect in Alderney.

**Item III**      **Requête: Aurigny Air Services and its provision of air service - A vote of no confidence in its Management**

***Under clause 45(4) of the Government of Alderney Law 2004, four members of the States of Alderney have signed the following Requête:-***

***"Since the incumbent Management of Aurigny Air Services has been charged with the responsibility of provision and maintenance of a fit for purpose life line to Alderney, there has been a significant decline, evident to all.***

***The Management has reduced the number of flights, reduced the number of aircraft while increasing prices to high, unaffordable level. The reductions in flights and aircraft have restricted the number of reduced price seats available through advanced bookings. Yet, Aurigny is operating with aircraft suffering more frequent breakdown. The quality of air services has left Alderney abandoned and vulnerable. People cannot afford the ever spiralling fare structures. Confidence and investment in the economy is very weak.***

***Please remember the Airline is jointly owned by Alderney and Guernsey, an important factor in bringing this Requête. Alderney has had little opportunity to air its very real grievance publicly. This is our opportunity to do so.***

***The Requête is targeted at the Management of Aurigny, who run the airline and in turn advise the States of Guernsey what resources and investment are required to deliver a proper service to Alderney. The Management has failed, damaged the economy and is placing lives at risk through lack of cover on a daily basis.***

***We now formally ask the States of Alderney to support a vote of "No confidence" in the Management of Aurigny Air Services on the grounds of its neglect and its failure to provide an adequate air service to Alderney and its residents.***

***We the undersigned support this Requête to be included on the Billet of February 2016."***

***Signed by Messrs Roberts, McDowall, Tugby and Simonet***

**Item IV**      **Questions and Reports**

**Issued: 12 February 2016**

## POLICY COUNCIL

### THE REVIEW OF THE FINANCIAL RELATIONSHIP BETWEEN GUERNSEY AND ALDERNEY

#### Executive Summary

1. This Policy Letter fulfils the States Resolution of 10<sup>th</sup> December 2014 (Billet d'État XXVI of 2014) directing the Policy Council to work with the authorities in Alderney and to report back on a review of the financial arrangements between Guernsey and Alderney no later than March 2016. This Policy Letter has been agreed by the Alderney Policy and Finance Committee and will be laid before the States of Alderney at its meeting in March 2016.
2. It concludes that the basis of the 1948 Agreement between the islands, whereby income tax and social security contributions from Alderney accrue to the Guernsey budget to fund the majority of public services in Alderney, remains valid and that the Agreement should continue, albeit with one important change which could be in both islands' interests.
3. This change would involve Guernsey continuing to fund the Transferred Services from the pooled revenue streams of Income Tax and Social Security Contributions, while the States of Alderney would be responsible for all other public services in Alderney funding them from all other income streams from sources related to that island (including tax on real property, occupiers rates, fees and charges, import and excise duties, rents, fees in lieu of Congé, document duty, and numismatic and philatelic profits).
4. It further recommends that the changes made by the States in 1996 (Billet d'État X of 1996), which inter-alia effectively consolidated the Guernsey accounts for Alderney and Guernsey and prevented separate figures for expenditure and income from being kept, should be amended so that in future in addition to the formal consolidated accounts, such income and expenditure figures should be produced and published separately annually by the Treasury and Resources Department, in liaison with the Alderney Policy and Finance Committee.
5. In broad terms the present study has shown that the annual level of subsidy to Alderney over the past six years has varied from £3.2 million in 2011 to £6.6 million in 2013. However, it must also be acknowledged that the eGaming sector in Alderney adds very significant direct and indirect benefits to both islands' Gross Domestic Products ("GDP") in multi-millions of pounds. Direct benefits alone in 2014 have recently been estimated at £25 million (£18.2 million to Guernsey and £6.8 million to Alderney). Direct employment by the sector (174 fte people) contributed c £1.4 million in tax and social security contributions in 2014. The relationship between the islands can therefore be seen as a complex and mutually beneficial one.

6. The report recommends that, following reviews of the individual services in line with the original terms of reference for this study (see Appendix A), agreements are put in place with the appropriate authorities in Alderney by all Departments providing Transferred Services for that island.
7. It outlines the benefits of a number of important changes to the financial governance arrangements in Alderney and/or between Alderney and Guernsey, and gives assurance that such measures are now under consideration by the relevant authorities in each Island, with a premise to implement them unless agreed otherwise for very good reason.
8. It explains that the Alderney Policy and Finance Committee is currently researching a political governance review, and that it will take into account the effects of the above change to the implementation of the 1948 Agreement in this work.
9. Finally, the report once again draws States Members' attention to the current structural economic decline being experienced in Alderney, along with its associated de-population and ageing demographics, and emphasises how such issues in Alderney impact on Guernsey's budget through the de facto fiscal union between the islands. It recommends that the Commerce and Employment Department makes every effort to assist the authorities in Alderney with the task of stimulating economic activity, growing the population and addressing the ageing demographics in Alderney to the mutual advantage of both islands.

#### **Introduction and Background**

10. The present day close relationship between Alderney and Guernsey stems from a pivotal agreement made between the Islands and the United Kingdom Government in 1948. While the two islands have separate parliaments and electoral arrangements, they are de facto in fiscal union. There is also a strong relationship between the parliaments with Alderney currently having two Representatives with full voting rights in the Guernsey States of Deliberation.
11. Over the past 67 years the economic fortunes of both islands have fluctuated, and at various times each island has held a perception that at that particular moment in history it is contributing more to the fiscal union than the other partner. On at least two occasions both parties have appeared content to pursue increased autonomy for Alderney. The United Kingdom Government (as the other party to the original 1948 Agreement) has also been content for this to be pursued provided the increased autonomy did not threaten either Alderney's sustainability as a community or its good government. Notwithstanding this, on both occasions this initiative was dropped by both Islands and the 1948 Agreement continues (largely un-amended) to this day.
12. During the mid-1990s a perception of an imbalance in fiscal flows between the islands arose again, and following the work of a joint working party involving both governments the States of Deliberation resolved to consolidate the Alderney and Guernsey accounts of the States of Guernsey. From this point on Committees and Departments in Guernsey were effectively prevented from keeping separate accounts for the costs they incurred in each island.

13. Given the increased focus by both States in present times, resulting in part from the very different fiscal environment faced by both islands, this position where true costs are masked is no longer considered to be tenable. Both the States of Alderney and the States of Guernsey agreed in 2014 that in order to improve the efficiency and effectiveness of public services provided in both islands it was necessary to know the true cost bases of such services in both Alderney and Guernsey.
14. This was reported to the States of Deliberation in a report entitled "The Airport and Economic Development in Alderney" from the Policy Council dated 14 October 2014, (Billet d'État XXVI of 2014), which was considered and approved by the States at their meeting in December 2014. After debate of this report the States resolved:-

"To direct the Policy Council to report back to the States of Deliberation with the results of its current appraisal of the financial relationship between Guernsey and Alderney (as detailed in Appendix G in that Report), including appropriate recommendations, no later than March 2016."

For completeness, this Appendix is included in this report as Appendix A.

15. I am pleased to say that the above review has been carried out in a very open manner with the trust and full co-operation of all parties in both Islands. The Policy Council delegated the research to its Alderney Liaison Group ("ALG"), so that from the outset the work has been progressed and agreed by appropriate representatives from the Policy Council and the Alderney Policy and Finance Committee. This has been a core strength of the work, with the figures presented in this report being accepted by both Islands as a fair and reasonable representation of the costs incurred in both Islands in regard to public services provided in Alderney.

#### **A Note on the Figures Used**

16. Bearing in mind that the 1996 report to the States from the Advisory and Finance Committee (Billet d'État X of 1996) effectively consolidated the States of Guernsey accounts in relation to costs incurred in relation to services provided to Alderney, it is not possible to be precise on the costs that have been incurred or the revenues which have been paid to the "common public purse" (largely Income Tax and Social Security Contributions, although there are other smaller areas of income).
17. Nevertheless, at the direction of the Treasury and Resources Department, all Committees and Departments in Guernsey have provided the best figures possible, so that we have a very good representative picture of the costs. The money flows over the most recent six year period are included within a report produced independently for the ALG by Mr. Stephen Taylor (who was Chief Executive in Alderney on a short interim basis in 2014). This report is included in full as Appendix B.

18. It is the broad order of the money flows which is important in the context of this policy letter, not the detail. To focus on details is to miss the fundamental point on how both Islands move forward for the future to improve the efficiency and effectiveness of appropriate public services in Alderney.
19. The figures used in this report have been agreed by the States Departments in Guernsey that provided them, by the Treasury and Resources Department (which collated all the financial data for this report), by the Policy Council, and by the States of Alderney Policy and Finance Committee.
20. Before presenting the key fiscal data, and drawing some conclusions and recommendations on the way forward, it is perhaps worth re-capping briefly the historical context to the present day, and outlining again in summary why the current review is so critical to the future sustainability of Alderney.

#### **Alderney - A Brief Historical Context**

21. Alderney has a long and complex history. For much of its existence it maintained a status much like that of Sark with a Governor, who had a role that was more akin to the Seigneur of Sark, and who had a direct relationship to the Crown. There has also been a longstanding link through the Royal Court of Guernsey.
22. However, for many decades Alderney has been tightly linked to Guernsey. 1948 is a pivotal date in Alderney's history in that from that time its financing has been inextricably linked with that of Guernsey. Before this date Alderney was administered from local direct and indirect taxes, with Crown land administered by Crown revenues (rents, royalties etc.) and the shortfall met from United Kingdom HM Treasury funds.
23. After residents returned to Alderney post World War II, discussions between the United Kingdom Government, the States of Alderney and the States of Guernsey led to changes in financial and legislative controls. Following a review by a committee of the Privy Council, the subsequent report (Billet d'Etat XX of 1948) was presented to, and accepted by, the States of Deliberation on 5<sup>th</sup> November 1948, and this in turn led to what is now known as the '1948 Agreement'.
24. Through the 1948 Agreement, the States of Deliberation have responsibility for most major public services in Alderney including the provision of the airfield, healthcare, education facilities, immigration, policing and social services. Under the terms of the 1948 Agreement the States of Guernsey can legislate in any areas of these services without the consent of the States of Alderney, although the modern expectation is of course that the islands liaise closely in such areas. In addition to the 1948 Agreement the United Kingdom Government, in 1950, transferred all Crown lands in Alderney, including the seabed to the States of Alderney as a measure to help Alderney's economic development.
25. The States of Alderney are responsible for domestic services outside the transferred services, which are funded by Alderney revenues with a budget top-up from Guernsey. While the States of Guernsey approve the domestic budget, the States of Alderney have some limited freedom and flexibility to manage their own

financial affairs including the collection of some revenue income and expenditure. The States of Deliberation in Guernsey have the power to enact criminal legislation in respect of Alderney.

26. Capital projects amongst the Transferred Services are funded by the States of Guernsey in exactly the same way as such capital projects in Guernsey, whereas those in the domestic area are financed by the States of Alderney through the Alderney Gambling Control Commission ("AGCC") Surpluses, fees in lieu of Conge (2% on property sales) and where necessary top ups from the States of Guernsey. To maintain the integrity of matters such as procurement, capital expenditure funded from the AGCC reserves remains subject to the same approvals procedures exercised by the States of Guernsey.

#### **Alderney Breakwater**

27. Responsibility for the Breakwater in Alderney formed no part of the 1948 Agreement, because at that time the structure was maintained by HM Government. However, in 1987 Guernsey also assumed responsibility for maintaining the Breakwater in Alderney, as part of an agreed package of measures offered in response to a request from HM Government for a contribution from the Bailiwick of Guernsey as a whole towards the costs of defence and international representation.
28. The costs of maintaining the Alderney Breakwater are significant. Since 1987 the States have operated an effective on-going maintenance regime, supplemented by one-off repairs, as necessary, following major storm damage. Over the last 28 years the Bailiwick has spent approximately £25 million (at today's prices) on the structure. The problem however remains that the Breakwater has a finite life. Its superstructure, i.e. the portion which is seen above the water, is akin to the tip of an iceberg, as it is built on top of a massive rubble mound. All the engineering predictions are that sooner or later the main superstructure will fail either because of direct storm damage, or by an undermining of the structure as a result of movement in the mound.
29. The Public Services Department, which has the mandate to maintain the Breakwater, is alert to these issues and is intending to report to the States of Deliberation with recommendations for a long term strategy. This will undoubtedly stimulate discussion over whether continued maintenance and repair provide best value for the Bailiwick. Without doubt, it is essential for Alderney to continue to have a sheltered harbour. However, in the knowledge that the Breakwater will not last for ever, the Islands will need to work closely to ensure the future investment decisions in terms of guaranteeing a sheltered port, strike the right balance between effectiveness and affordability.

#### **Alderney's Economic Fortunes**

30. Alderney's economic fortunes have fluctuated in the 67 years since the 1948 Agreement, and there have been several reviews as to whether Alderney could gain more financial and constitutional autonomy from Guernsey. In 1955, the



President of Alderney submitted proposals to the Home Office for resuming responsibility for all its services. While the Home Office consulted on this and was willing to accept it in principle, the proposal was later dropped due to economic and political problems in Alderney.

31. A further proposal was made for greater separation in 1971. This proposal was made in the run up to the accession of the United Kingdom to the European Economic Community ("EEC") in 1973. At that time the United Kingdom Government said it would need to be satisfied that Alderney was, and would likely remain, financially and economically viable, the States of Alderney was a responsible body, that there was no reasonable objection from the States of Guernsey and that there were special safeguards on certain Transferred Services. Uncertainties over the Island's economic future stalled this proposal.
32. The next review of the relationship took place in 1995 when the States of Guernsey Advisory and Finance Committee and the Alderney Finance Committee set up a joint working group chaired by the then Bailiff with a mandate to review the operation of 1948 Agreement and to consider any necessary amendments (Billet d'État XXII of 1995, Article 16). In addition in September 1995 the States of Deliberation considered two reports (Billet XX of 1995, Article 19 and Article 20) on the Alderney Airport operating hours with proposals to reduce operating hours. In the event, both reports were subject to sursis motions pending the outcome of the review undertaken by the joint working group.
33. The review concluded that the 1948 Agreement set up a Bailiwick solution which was a unique federal relationship between the two islands. It was fit for purpose, although the level of services in Alderney should be appropriate for its population.
34. The review did not favour a return to pre-1948 arrangements for administering and financing Alderney. However, if this was pursued Alderney would need to satisfy HM Government that it could maintain itself. The review further recommended changes to accounting procedures in Guernsey which would in effect treat the islands as the same financial account (consolidated accounts). This was to remove any invidious and divisive impression from the previously separated (but somewhat over-simplified) accounts that Guernsey was subsidising Alderney. The revised accounting reflected the financial union and common position that exists between the islands.
35. The most recent chapter in the relationship was in January 2014 when the States formally reiterated that "...since 1948 Alderney and Guernsey have been inextricably linked and today there is fiscal union between the islands..." Fiscal union, *inter-alia*, means in reality that every £1 earned/spent in Alderney has the same effect on the Guernsey Exchequer as every £1 earned/spent in Guernsey.

#### **The Context to the Present Studies**

36. At the end of 2012/early 2013 several Alderney politicians were expressing concern to their Guernsey counterparts regarding the on-going and developing linked problems of economic decline and de-population in Alderney. This had

emerged as the top priority in the Alderney Strategic Plan and it was felt that government interventions needed to be made to help stimulate the Alderney economy. This in turn would hopefully help to start to reverse the de-population. It was in response to such concerns that the Policy Council formed an ALG in early 2013.

37. Some of the key statistics to result from Census in Alderney in April 2013 were as follows:-
  - the number of children aged 14 or less in Alderney has halved in the past 12 years;
  - the number of residents aged 55 and over has now reached half of the total population (this figure is around one third in Guernsey);
  - Those aged 60 to 69 make up one fifth of population (compared to a tenth in Guernsey).
38. Assuming zero net inward migration, Alderney's population is forecast to continue to decline over time (a further 5% decline by 2020 and 12% by 2030). The percentage employed was 46%.
39. With the overall population falling and the demographics becoming increasingly weighted towards the elderly, Alderney is becoming less sustainable as a community. Not only is the economy in decline, displaying signs of both structural and cyclical decline, but it will become increasingly difficult and costly to maintain aspects of essential infrastructure such as education facilities with reducing school rolls. Provision of some health and social services are also likely to be negatively impacted by reducing numbers of people (especially young people and families).
40. Given the de facto fiscal union that exists between the islands, Alderney's problems are also Guernsey's problems. It is against this background that the States in both islands are investing a lot of time and effort in trying to improve Alderney's long term sustainability through a number of initiatives, including developing opportunities in new niche financial technology innovations, securing the island's finance sectors and high end tourism through robust and reliable air services, future proofing Alderney's Airport for the next 25 years, and the development of a Bailiwick digital communications strategy.

#### **The Vision of Alderney in the Future**

41. Before reviewing the headline results of the current review into the financial relationship between Alderney and Guernsey, it is necessary to consider the vision of Alderney moving forward as an island community.
42. There is a perception in both Alderney and Guernsey that unless this can be achieved in the years ahead the Island may face a tipping point with some essential services such as education, where falling school numbers may make the physical presence of a school unviable. This equally applies to other aspects of the island's necessary infrastructure.

43. The Policy Council and the Alderney Policy and Finance Committee share a common vision for the future of Alderney. They see Alderney as a vibrant and integrated part of the Bailiwick of Guernsey, where it contributes in financial terms through initiatives like its world-class e-Gaming industry (with its associated highly respected regulation). It also believes that it is an ideal test bed for the Bailiwick to pilot new initiatives both to generate wealth for the Bailiwick overall (e.g. niche opportunities in newly emerging Financial Technology Industries ("FINTECH")) or to reduce costs/improve public services (e.g. tele-medicine, tele-education and digital government/business).
44. They also recognise that, while perhaps not as readily obvious as the Unique Selling Points ("USPs") which help to market tourism in Herm and Sark, Alderney clearly has its own USP which aligns with growing niche tourism markets in high spending groups (wildlife and heritage tourism and angling etc.). Recent experiences in Alderney, for example with the Living Islands Initiative (which promoted high end niche wildlife and heritage tourism) provides encouragement that there are significant growth opportunities in these areas, which merit further consideration.
45. The recent tax capping advantage in the 2015 Budget (for the year 2016) (Billet d'État XIX (Budget) of 2015) should also help to stimulate some economic activity in Alderney, although this tax capping measure could only be the first of several tax measures which could make a material difference to the economy in Alderney (and thus Guernsey too). Alderney needs to increase its workforce and attract/retain younger people to help counter the ageing demographics. Other countries (notably Ireland and Canada) have used targeted tax relief schemes, and other relocation incentives, as effective tools in achieving this goal, and it is recommended that the Treasury and Resources Department considers such opportunities in liaison with the Alderney Policy and Finance Committee so that any agreed measures could be introduced as part of the 2016 budget report (for the year 2017).
46. For the future there are also very exciting opportunities in terms of Alderney's most significant natural resources with marine macro-renewable energy projects in development, and with the prospect of the France-Alderney-Britain power cable ("FAB link") facilitating this industry, which could result in annual multi-million pound payments to Alderney.
47. Alderney is also in an exceptionally advantageous position in relation to pursuing policies which would enable it to promote the very high quality of its terrestrial and marine environments, which in turn could add significantly to its sustainable economic development opportunities through further high end eco-tourism and top end prices for its natural produce etc.
48. Alderney is committed to a vision of economic growth, where its contribution to its own (and the Bailiwick's) future expands. Close analysis of the Income and Expenditure figures for Alderney show that the Island needs to focus on generating more income, and this is best done by getting more people on island into higher skill jobs with higher levels of pay. A good example of this is the

recent establishment in Alderney of a pilot project by Pricewaterhouse Coopers to use digital technology to streamline regulatory requirements associated with anti-money laundering. If successful, this project has the potential to expand and provide much needed high value jobs in Alderney (and ultimately elsewhere in the Bailiwick).

49. The States of Alderney are working hard to progress economic development, and it is very much in the States of Guernsey's interests to assist this wherever possible.
50. One of the quirks of history is that although Alderney and Guernsey have been in fiscal union for nearly 70 years, and thus the islands and their futures are inextricably linked, there is not the same close level of understanding and familiarity of Alderney in Guernsey as there is say with Sark. This may well simply reflect geography where Alderney is out of view from Guernsey (on most days), being c 20 miles to the north-east, whereas Sark is almost always in view.
51. It is remarkable how many Guernsey people have either never, or very seldom, visited Alderney, compared with visits made to the much closer islands of Herm and Sark. Thus, despite the close governmental relationship between the islands, many Guernsey islanders are unfamiliar with life in Alderney and what it has to offer. In this regard, Alderney may be regarded as one of the best kept secrets in the Bailiwick!
52. While it may be considered somewhat trite in a Policy Letter such as this to recommend that government action is taken to redress this, to neglect this may be to miss a significant opportunity that may make a material difference to Alderney's economy and the future of its community.
53. Apart from anything else tourism on Alderney is a very sustainable industry which enables and supports other essential island infrastructure, including of course the cost of providing life line air services and operating Alderney airport.
54. States Members are aware from previous reports considered during this term, and from the Requête (Billet d'État I of 2014) prepared by Alderney Representative the late Mr. Paul Arditti, that Alderney could be at a pivotal time in its history and the thrust and focus on economic development does need to continue with the active help and support of Guernsey for the immediate future.
55. Both islands will benefit from Alderney's economic growth, both directly (through Income Tax and Social Security receipts) and also indirectly through employment opportunities in the wider Bailiwick (e.g. e-Gaming based in Alderney) and through reducing any deficit in the income and expenditure of public services on Alderney.
56. An alternative scenario, which may happen by default if the current constructive financial relationship and working partnership is broken, is that the Island's economic decline will continue with further de-population and increased ageing of the community to the point where it may be regarded very largely as a home for retired people many of whom are no longer economically active. In such

circumstances it would be difficult to see anything other than a reduction in public services (including health, education and physical transportation), thus condemning Alderney to a path of long-term decline and de-population as evidenced on many Scottish and Irish islands in previous decades.

57. **The Policy Council and the States of Alderney Policy and Finance Committee are committed to working to make sure that Alderney remains an active and vibrant community, which has an economically sustainable future with a stronger economy and with some increased population of younger economically active people who will help to reduce the growing dependency ratios. Approval of this report and its recommendations should go some way to helping to achieve this vision.**

#### **Headline Results from the Current Review of the Financial Relationship**

58. **The current review presents the best estimate of the money flows between the islands for decades. In very broad terms the annual shortfall of income over expenditure on all public services in Alderney (including the main cost items such as Alderney Breakwater, the Airport and the subsidy to the airline on the two lifeline routes), is in the region of £3.2 (2011) to 6.6 million (2013), and this “net” shortfall is currently contributed from the overall Guernsey budget. However, a degree of caution is needed viewing such bare figures not only because of the difficulties in determining the income and expenditure since the 1996 States Resolution effectively prevented this, but also because of the inevitably somewhat arbitrary nature of the allocation of many of the costs by Guernsey to Alderney because it is so difficult (and in some ways pointless) to assess with any degree of accuracy the proportions of overhead costs across such a varied range of public services in both Islands.**

#### **The Contributions and Value to Both Islands of the e-Gaming Sector in Alderney**

59. **It would be wholly inaccurate, however, to consider the above figure as a cost of Alderney to Guernsey. Alderney has a thriving e-Gaming Sector, which has built a world-leading international reputation for effective regulation. As part of the current Review of the Financial Relationship between the Islands, Frontier Economics was commissioned by the ALG to estimate the present day direct, indirect and induced benefits to both Guernsey and Alderney of this very important Sector which is enabled by having the AGCC, with its licensing regime and top class reputation.**
60. **In view of the size, technical infrastructure requirements and support industries associated with e-Gaming, the vast majority of business activity actually occurs in Guernsey, with much smaller levels in Alderney.**
61. **While the Frontier Economics work produced high levels of confidence in the direct benefits accruing to both islands, and the headline figures have been agreed by ALG, it is of course very much more difficult to calculate the value in GDP terms of the indirect benefits. The total benefits (direct, indirect and induced) have**

been calculated at a little over £51 million/annum, with 389 full time equivalent employees employed in the Sector. However, because of the inevitable assumptions that have to be made to derive such figures and the considerable degree of uncertainty involved, this report makes no further reference to the overall (direct, indirect and induced) levels of benefits. Instead it focuses on the area where we can hold much higher degrees of confidence and certainty - the direct benefits.

62. It must also be remembered that this is the overall contribution to the Bailiwick's GDP, not to the Islands' fiscal positions. It is therefore far too over-simplistic to try to compare the "subsidy" figure of £3.2 – £6.6 million with the contribution to Bailiwick GDP of circa £51 million per annum.

#### **Direct benefits accruing to Guernsey and Alderney**

63. The Frontier Economics work estimated that the e-Gambling Sector (defined as gambling operators and the AGCC) made a direct gross economic contribution to the Bailiwick of £25.0 million in 2014. This direct contribution consists of expenditure made by the Sector in the Bailiwick. This figure is very similar to the overall direct contribution from the Sector in 2011 of £25.8 million, as determined by research at that time.
64. Of this, Frontier estimates that 27% (£6.8 million) accrues to Alderney and 73% (18.24 million) to Guernsey. 174 fte people are directly employed by the sector across the Bailiwick (35 in Alderney and 139 in Guernsey). This represents around 0.5% of total employment in Guernsey and 4.0% in Alderney.
65. Frontier further estimated that direct employment by the Sector contributed around £1.4 million in personal income tax and Social Security Contributions in the Bailiwick in 2014.
66. This work shows how the financial relationship between Alderney and Guernsey is complex, with both Islands benefiting from the current arrangements.

Just as it is important to monitor the annual costs of providing public services in Alderney, and the overall level of any deficit (surplus), it is also necessary to develop a simple method to assess annually in arrears the direct contribution that the e-Gaming sector in Alderney makes to Guernsey and Alderney

#### **Improvements to the Current Financial Relationship and Financial Governance**

67. The Policy Council and the Alderney Policy and Finance Committee believe that the current review shows that the financial relationship between the islands is not broken and does not need a fundamental fix, however this does not mean that there is not room for improvement. Both islands agree that the relationship needs to be put on a more secure and sustainable basis, reflecting the modern fiscal positions in Guernsey and Alderney, and this section goes on to explain how this could happen.

68. This would involve Guernsey retaining responsibility to fund all Transferred Services, using the pooled income from Income Tax and Social Security Contributions to do this. This would leave the States of Alderney to fund all other Alderney public services (for example, the harbour, roads, sewerage and sanitation, refuse collection, recycling and disposal, fisheries, land planning, estate and coastal management, detailed marketing and promotion of the Island, recreation facilities, some local emergency services, water and electricity services, Island administration etc.) not from a block budget from the States of Guernsey, but from all other fees, charges, levies, rates and duties collected on Alderney (including tax on rateable property, occupiers' rates, property rents, import and excise duties, fees, charges, company registrations, permits, and numismatic and philatelic profits).
69. This could create benefits for both islands. For Guernsey it is likely (subject to further more detailed research) that the effect on its budget would be neutral or slightly reduced (in real terms), while Alderney could gain an improved ability for on island long-term financial planning. It would also be strongly incentivised to adjust the rates, taxes, fees, charges and duties that it would be responsible for on Alderney to pursue policy objectives on Alderney which reflect the quite different make-up and characters of the communities in both islands.
70. Given the above changes, it would be very beneficial for the Education Department, Health and Social Services Department, Home Department, Public Services Department and Social Security Departments in Guernsey, which provide Transferred Services for Alderney, to review the services provided (including how they are provided) in line with Section 4 of Appendix A to this report, and to reach agreement with the appropriate authorities in Alderney, having due regard to cost effectiveness and efficiency for such services on a timescale to be agreed between the Policy Council and the Alderney Policy and Finance Committee.
71. While focusing on cost effectiveness and efficiency within such outcome-based agreements, they will also have to reflect the different economies of scale between Guernsey and Alderney, and the relative isolation and remoteness of Alderney. Inevitably too the levels and standards of services may need to change over time, reflecting both on and off-island developments in the internal and external environments, so regular review provisions will also need to be put in place.
72. It would be in neither Island's interest to make changes which would further destabilise the economies and sustainability of Alderney as a community. This necessitates further detailed research before any final decisions are made on the way forward, and also the provision of some **annual monitoring mechanism** to keep a close eye on the position each year, so that in the event of a further deterioration in the financial position other measures can be considered to prevent the Island tipping to a position of unsustainability as a functional community.

73. Early research indicates that it is possible to arrange the finances in such a way as to move to this new arrangement which would better limit the overall levels of support provided by Guernsey, while improving Alderney's ability to manage its on island policy and financial planning.
74. There is of course the caveat that while the above changes would result in stability of the current financial position, this is entirely dependent upon how some of the principal cost items are treated.
75. The Policy Council and the Alderney Policy and Finance Committee have, for example, already agreed in principle that the following main cost items would need to remain within the purview of the funding provided by Guernsey from the pooled pots of Income Tax and Social Security Contributions:- Alderney Breakwater, Social Security Liabilities and Assets (funds), the Alderney Housing Association Loan facility, the (public service) subsidy to Aurigny on the lifeline routes of Guernsey and Southampton, Legal Aid and Law Officers' costs.
76. In relation to the Social Security Funds, it is worth mentioning that these are perhaps best viewed not strictly as part of the Transferred Services in that they are separate pay-as-you go Funds, holding contributions from citizens of both islands, and with liabilities to those people in both Guernsey and Alderney. For example the Guernsey Insurance Fund is subject to actuarial valuation every 5 years, and it covers its future liabilities by increasing contributions, raising retirement age and/or reducing pension payments. So it can be seen that while a fund has a theoretical liability, the reality is that it takes one, or a combination of, the measures above.
77. The one large cost item that shows the most promise for inclusion within the future research is the deficit in operating Alderney Airport (in the region of £700,000 - £900,000 per annum in recent times). While initially it may be difficult to see how Alderney could finance such an additional cost from on island revenue sources, radical options may enable this while also producing other benefits for the island. At this stage it therefore merits further research.
78. There are other advantages of singling out the operation of Alderney Airport for special consideration in the financial relationship between the islands. This is because the airport is absolutely critical infrastructure for both the economic and social well-being of the island, and the States of Alderney regard future proofing its operation over the next 25 years to be an absolute top priority for the Island. Unlike most other areas of the Transferred Services, it is also a discreet service providing one principal function. Its costs are easier to define than in most other areas, and there are also other potential models for its operation.
79. Notwithstanding any of the above, the possibility of the States of Alderney taking greater responsibility and accountability in the operation of the Airport will require very careful and detailed consideration of the potential benefits and disbenefits. Such research will also need to consider possible phasing of funding responsibilities for such a transfer.



80. How capital provision is made in Alderney in future also needs to be further researched. At present such funding is provided through the on-island retention of the surpluses made in the accounts of the AGCC (largely through the issue of licences), but this was originally agreed only as a temporary measure and as set out in the 2015 Guernsey Budget Report it is due to continue in this form only until 2017:-

“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.

...

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).

The Policy Council will shortly be submitting a States Report in response to the States’ Resolutions of December 2014 following consideration of a Requête entitled “The Airfield and Economic Development 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.”

81. Section 3 of the original terms of reference for this review (Appendix A) included taking work forward on reviewing financial governance in Alderney and between both islands.

**a) Financial Governance**

The Taylor report picks up the above these points on financial governance in Alderney, and includes a number of detailed measures which could be taken both to improve financial governance and to improve financial planning in Alderney. These recommendations lie either entirely within the legitimate

mandates of the Alderney Policy and Finance Committee or are matters for agreement between this body in Alderney and Treasury and Resources Department in Guernsey.

**Identifying these possible improvements in financial procedures and financial governance is an important part of the work progressed since the States debate in December 2014.**

It is very positive to report that the key parties in both islands agree that all the recommendations in the Taylor report will be considered further with a premise to accept and implement them as far as practicable, unless there are convincing arguments agreed by the relevant bodies not to do so in any specific cases.

#### **b) Political Governance**

It could be argued that the increased levels of financial autonomy that approval of this Policy Letter would bring may result in difficult political challenges in such a small democracy. Whether Alderney's current political governance is in the most appropriate form to deliver this may be a matter for discussion, as it has remained largely unchanged for decades. The Alderney Policy and Finance Committee is already considering this matter as part of its wider research, with an intention to introduce any agreed changes in harmony with its own electoral process in Alderney.

#### **Timetable – Phasing**

82. The work involved in the review of the financial relationship can be regarded as three-phased. This report completes Phase 1, which presents the cash flow figures for the past six years to the States, and importantly recommends how the financial governance and financial procedures can be improved.
83. The second Phase involves consideration of all the recommendations regarding improvements to the financial procedures and governance (as set out clearly in the Taylor Report at Appendix B). It also includes the work by the Treasury and Resources Department, in association with the Alderney Policy and Finance Committee, to include in its Budget Report in October 2016, proposals to modify the funding of Transferred Services (and other large cost items), and all other public services for Alderney, as set out in this policy letter.
84. This second phase will also involve the work by the five Departments with Transferred Services in reaching agreement with the appropriate authorities in Alderney on the levels and standards of public services provided as Transferred Services. Such outcome-based agreements will also need to consider how such services are provided and make provision for the necessary flexibility for the future, as relevant developments occur both on and off the islands.
85. Phase 3 involves detailed consideration of any of the large cost items to assess whether the financing and provision of any of these could be transferred to Alderney, and if so on what basis (including any necessary phasing) and on what

timescale, including Alderney Airport (which as explained in this report initially appears to hold the most potential).

86. Phase 1 reaches completion when this Policy Letter is debated by the States of Deliberation and the States of Alderney (February and March 2015 respectively).
87. Phase 2 will then commence, with any recommended detailed changes being included by the Treasury and Resources Department in its October 2016 Budget Report (for 2017). The timescale for the Departments with Transferred Services to reach agreement on such services with the appropriate authorities in Alderney will be agreed between the Policy Council and the Alderney Policy and Finance Committee, and will vary between Departments to reflect the very different complexities involved.
88. It is intended for the Treasury and Resources Department to report back to the States of Deliberation on the third phase (the details of how any specific large cost items which are to be transferred to Alderney (in full or in part) are to be treated in future), as soon as the necessary research has been completed. Further details on this will become evident once further study begins.

#### **Resources**

89. The States are recommended to undertake the actions recommended in this Policy Letter within existing resources and budget constraints and taking into account other priorities. If specialist assistance is required an application will be made to the Treasury and Resources Department for one-off funding from the Budget Reserve.

#### **Good Governance Principles**

90. The proposals in this Policy Letter are in accordance with the principles of Good Governance as outlined in Billet d'État IV 2011, particularly Principle 5: "developing the capacity and capability of the governing body to be effective".

#### **Recommendations**

91. The Policy Council recommends the States:-
  1. To endorse the contents of this Policy Letter;
  2. To agree, subject to 3 below, that the current implementation of the 1948 Agreement should continue to be the basis for the financial and political relationships between Guernsey and Alderney;
  3. To approve the changes to the current financial procedures in regard to the financial relationship between Guernsey and Alderney, as set out in this policy letter, such that with effect from the financial year 2016 separate figures are kept for memorandum purposes by Committees and Departments for income and expenditure in relation to public services provided by Guernsey for Alderney; but to direct the Treasury and Resources

Department (and its successors) to continue to present the formal accounts of the States in consolidated form;

4. To direct the Treasury and Resources Department (in liaison with Departments and Committees) (and its successors) to produce and publish annually best estimate figures for the income derived from sources based in Alderney, and expenditure incurred from the Guernsey Budget on public services provided for Alderney in the same manner as provided in the Taylor Report included as Appendix B to this report;
5. Consequent to 4 above, to further direct the Treasury and Resources Department (and its successors) to work with the Alderney Policy and Finance Committee to establish a simple formulaic method to estimate annually in arrears with effect from December 2016 the contributions to both islands of the e-Gaming sector in Alderney;
6. To agree in principle, subject to the necessary further detailed work, that the current implementation of the 1948 Agreement be modified such that
  - a) Guernsey retains responsibility to fund all Transferred Services and the Social Security Funds, through the pooled income sources of Income Tax and Social Security Contributions;
  - b) the States of Alderney is responsible for funding all other public services in Alderney (including the harbour, drainage (foul and surface water), roads, coastal defence, water and electricity), from all other levies, rates, taxes, permit fees, rents, duties and other income collected from sources based in Alderney (such as tax on real property, occupiers' rates, import duties and excise duties, fees in lieu of Congé, document duty, numismatic and philatelic profits, and company registration fees);
7. To direct the Treasury and Resources Department (and its successors) to work with the Alderney Policy and Finance Committee to progress the further work resulting from 6 above, and to report back to the States in the budget report for 2017 (i.e. October 2016) with proposals to implement any changes, including (at least in principle) recommendations on how each of the large cost items (including the deficit on operating Alderney Airport, the (public service) subsidy to the airline operating the Alderney – Guernsey and Alderney-Southampton routes, the breakwater, the Alderney Housing Association loan facility, legal aid and Law Officers' costs) are to be treated in the financial relationship and how future capital provision is to be made for Alderney;
8. To direct the Education Department, Health and Social Services Department, Home Department, Public Services Department and Social Security Department (and their successors) in Guernsey, which provide

Transferred Services for Alderney, to review the services provided (including how they are provided) in line with Section 4 of Appendix A to this Policy Letter, and to reach outcome-focused agreements with the appropriate authorities in Alderney, having due regard to cost effectiveness and efficiency for such services, and on a timescale to be agreed between the Policy Council (and its successors) and the Alderney Policy and Finance Committee.

9. To direct the Treasury and Resources Department (and its successors) to continue to work with the Alderney Policy and Finance Committee to progress the appropriate recommendations in the Taylor Report (Appendix B), which fall within its mandate, and to implement the agreed changes as soon as practicable, referring only such matters as may need States Resolutions back to the States for further debate;
10. To note the Alderney Policy and Finance Committee's intention to progress a political governance review and to align any conclusions and recommendations with the changes recommended in this report in regard to the implementation of the 1948 Agreement;
11. To direct the Commerce and Employment Department (and its successors) in Guernsey to continue to work as progressively and proactively as possible with the authorities in Alderney to help stimulate and develop economic activity in Alderney; and
12. To direct the Treasury and Resources Department (and its successors) to consider further tax measures (including targeted tax relief schemes), and other relocation incentives, which could be useful tools in increasing economic activity in Alderney and encouraging population growth, particularly in the younger age groups, and to report back to the States on any such measures in the Budget Report for 2017 (i.e. October 2016).

**J P Le Tocq**  
Chief Minister

30<sup>th</sup> November 2015

**A H Langlois**  
Deputy Chief Minister

**Y Burford**  
**P L Gillson**  
**S J Ogier**

**R W Sillars**  
**M G O'Hara**  
**K A Stewart**

**P A Luxon**  
**D B Jones**  
**G A St Pier**

## **Appendix A (Appendix G from Policy Council report dated October 2014)**

### **Joint Review of the Financial Relationship between the two Islands**

#### **Terms of Reference**

##### **Purpose**

To review the current financial relationship between the States of Alderney and the States of Guernsey to ensure that it enables the provision of fit for purpose public services in Alderney and provides appropriate clarity and transparency.

##### **Tasks**

1. To undertake a detailed review of current resources (including financial – capital and revenue) to identify, as far as possible, the overall cost of all public services in Alderney;
2. To identify, as far as possible, all public revenues which are accrued either directly in Alderney or by Alderney resident individuals and any companies trading there.;
3. To review current financial management processes between the two States and identify any barriers to efficient governance; such review to include:
  - \_ Roles and responsibilities;
  - \_ Decision making processes;
  - \_ Spending approvals;
  - \_ Budgeting and Accounting policies and processes;
  - \_ Procurement processes.
4. To liaise with States of Guernsey Departments to support specific service reviews, where appropriate, of transferred services in respect of the following:
  - \_ Home Department ;
  - \_ Public Services Department (Alderney Airport);
  - \_ Education Department;
  - \_ Health & Social Services Department; and
  - \_ Social Security Department.
5. To make recommendations regarding an appropriate financial governance framework for the future including:
  - \_ Any requirement for formal service agreements;
  - \_ The appropriateness of an accounting officer framework;
  - \_ Any required legislative changes.

##### **Timetable**

The project will commence in October 2014 with an initial scoping exercise to more accurately assess the timetable for detailed work to continue through 2015. The final outcome to be reported to both States no later than March 2016.