



**POLICY & FINANCE COMMITTEE
CHAIRMANS REPORT
AUDITED ACCOUNTS 2015**

In accordance with Section 61 (5) of The Government of Alderney Law 2004, as amended, and the mandate of the Policy and Finance Committee, I attach the accounts of the States of Alderney and the States of Alderney Water Board, together with the Auditors' Reports thereon, which were approved at the Policy & Finance Committee and General Services Committee meetings held on 29th March 2016.

The detailed breakdown of the income and expenditure of the Committees is given in the attached accounts, together with details of the accounts for 2014, and the original and revised budgets for 2015, also shown for comparative purposes.

The following comments highlight, in round figures, some of the material differences between 2015 and the previous year, however it should be noted that staff costs throughout are slightly distorted in 2014 due to the VES payments made in that year, as reported at the time.

STATES OF ALDERNEY – REVENUE ACCOUNT

Summary – the total income and expenditure for each of the 3 Committees is shown on the summary. The overall position on the Revenue Account at the end of 2015 shows a surplus of £49k, compared to £13k in 2014.

Building and Development Control Committee - Income from planning fees is lower than previous year due to less building activity. Overall expenditure was more due to ARUP fees/LUP enquiry etc. The proportion of staff costs previously allocated from the Engineering Dept is lower due to the absence of engineering staff, however this is offset by bought in services shown in supplies & services.

General Services Committee - The General Services Committee has continued to deliver the range of public services under its mandate. Overall income is slightly lower than 2014 due to one-off income payment for the skate park of £41k showing in 2014. Expenditure is £608k lower than previous year as 2014 included VES costs and one-off skate park expenditure (as above), 2015 includes a reduction in Fire Brigade expenses, slightly offset by increased vet costs, training costs, together with some capital project costs charged to revenue in the absence of capital votes. This Committee also funds the harbour deficit (see below and page 12) which was lower than anticipated.

General Services Committee - Harbour – Overall the Harbour is showing a £29k trading deficit, which is an improvement of £36k on 2014. Although expenditure costs have decreased by £55k this has been offset by a reduction in income of £19k.

Policy and Finance Committee - Income is overall £38k lower than previous year, mainly attributable to reduction in interest. Expenditure is £164k lower than previous year mainly due to VES & recruitment fees in 2014, some marketing promotion & Living Islands grant transferred by EDF, offset by 2015 increase in legal & consultancy fees, and an additional grant to St John Ambulance towards purchase of a new vehicle.

STATES OF ALDERNEY – CAPITAL ACCOUNT

Summary - Overall capital income exceeded expenditure by £2.5m, after taking into account the transfer to Economic Development Fund of £447k (see page 19 below). The AGCC surplus at just over £2M (net of payments to AeGL and AeGAL) is slightly higher than 2014.

Income - Overall capital income is higher due to the revetment recovery, income from sale of Banquage freeholds and minor assets, together with income from the Toddler Park Trust (matched funding), offset by a slight decrease in Conge receipts.

Expenditure - is once again less than anticipated, due to further slippage in the capital program. Capital expenditure amounted to only £366k for the year which mainly included Recreational facilities (Toddler Park, Corporation Quarry etc) £90k, purchase of vehicles £40k, property refurbishments £52k, ongoing sewer works £42k and grants to Water Board £50k and AHA (balance) £47k.

The ongoing Water Board Capital projects, which are funded by grants from the States of Alderney capital account, continue successfully (see below), with further funding budget for future years.

Looking forward to 2016 the main improvements to the Islands infrastructure include sewerage projects (£505k), road resurfacing & replacement cobbles & drainage repairs (£450k), States properties refurbishment (£230k), coastal protection works (budgeted at £180k), Harbour visitor facilities (£120k), remaining works to St Annes Church (£100k), together with numerous smaller projects as per the 2016 budget. Each of these projects will be required to follow the necessary costing and approval process, as per the financial procedures.

SUNDRY ACCOUNTS

Economic Development Reserve Fund

The Economic Development Reserve Fund, funded by AGCC reserves at £300k per annum for the 3 years 2014 to 2016 continues to fund a number of economic development initiatives as listed on page 19, the main expenditure during 2015 relates to :-

Marina Investigations – Investigatory work continued on the marina proposals throughout 2015, and outline plans were drawn up. However, uncertainties over the future maintenance regime of Alderney Breakwater which would form an important part of the overall protection of Braye Harbour, were quoted as the principal reason why the developer withdrew from the project.

Review of Company Law – Excellent progress was made in 2015 with the completion of a GAP analysis on how to reform Alderney's company legislation to enable and encourage economic development for the Island. The results are now out to consultation, with a view to introducing any new legislation from 2016.

Blockchain Technology Research – Alderney maintains an excellent position at the cutting edge of the possibilities that such new cyber technology may deliver for the Island's economy in future. The budget has so far been used to keep abreast of research in relevant fields, but also to introduce small scale pilots to establish the true potential for the future.

Living Islands – 2015 saw the completion of this successful joint initiative with UK Wildlife Trusts to assess the value of wildlife and heritage tourism on Alderney, and to develop opportunities to further develop this important sector of the Island's tourism. The key learning points from this two year project have now been built into the day to day business of Visit Alderney.

Review of the Financial Relationship with Guernsey – this critical work reached a successful conclusion with the approval of relevant policy letters in both the Guernsey and Alderney States. While this work concluded that the majority of the current financial arrangements were still fit for purpose, some important amendments were agreed that will give Alderney more autonomy in relation to local taxes, fees and charges etc. There is also a commitment to develop Service Level Agreements for the Transferred Services provided for Alderney by the States of Guernsey. Further detailed phases to this work will continue through 2016.

e-Gambling Economic Study – this was a jointly commissioned study (with Guernsey) of the value of the Alderney e-Gaming Sector to the Bailiwick (split between Guernsey and Alderney). It formed an essential part of the overall equation in the financial flows between the two islands as part of the Review of the Financial Relationship between Guernsey and Alderney.

The fund is now shown and due to the method of funding any balances can be rolled forward into the following year. The balance available as at the end of 2015 stood at £264k.

Currency Reserve Fund – Relates to a percentage of the base metal coins sold which is reserved in case of redemption.

Insurance Deductible Fund – This fund has been established to cover the potential insurance liability i.e. the excess limit of the current year together with any balance from previous years, in order to retain/reduce annual premiums. It has been increased incrementally each year and I am pleased to report it has now reached the potential insurance liability as at the end of 2015 of £256k.

WATERBOARD – REVENUE ACCOUNT

The General Services Committee also fulfils the functions of the Water Board, which in 2015 returned an operating surplus on revenue account of £86k which is as predicted at revised budget, and compares to £24k in 2014.

The ultimate aim of the Board is to achieve an operating surplus with a view to building the depleted reserves in order to fund future capital requirements.

Salaries & Wages – The figure shown at £170k is the net figure, after the transfer of £21.6k relating to the use of in-house labour and supervision on capital projects. The proportion of costs allocated from the Engineering Dept is lower due to the absence of Engineering staff, however this is offset by bought-in services of the interim engineer charged to the consultancy heading.

Maintenance – expenditure at £39K is £33K lower than the previous year due to significant number of repairs carried out during 2014 together with Ronez reinstatements charges.

Maintenance Contracts – additional contracts agreed in 2015 in order to provide continual servicing to ensure efficiency of plant etc.

Depreciation – the depreciation figure will continue to increase due to the capital investment in the Water Board infrastructure.

Administration Charge - It is important to note that the Water Board revenue account is subsidised by the States of Alderney, with only £30k charged to cover the full administration of the service, which would be significantly higher should the Board be treated as an independent Company with full overhead charges. The figure is therefore being increased incrementally.

Bank charges – increased due to charges on the introduction of card payments.

WATERBOARD - CAPITAL ACCOUNT

The ongoing improvements at the Water Board continue, funded by capital grants from the States of Alderney, totalling in excess of £2.2M as at the end of 2015.

Phases 1 to 3, relating to water collection, filtration and treatment, and new storage tanks are complete, together with Phase 4 relating to the commencement of the improvement and replacement of the distribution network.

The improvement and replacement of the distribution network throughout the Island is being continued in phases. Phase 5 (at £50k) approved in 2015, together with Phase 6 (of which £94.2k has been approved in 2016 to date) have been prioritised in order to achieve financial savings by "trench-sharing" with Alderney Electricity Ltd as part of their ongoing project.

Pension Scheme

The deficit on the States of Alderney Public Employee Pension Scheme, a defined benefits scheme, has been the largest liability of the States of Alderney for several years. This fund is a closed fund. It was closed to new employees in April 2013. Since April 2013 new States of Alderney employees joined a defined contribution scheme.

Since January 2014 an amended investment strategy commenced using several fund managers to take on the Aviva role. Initially this was spread over 4 investment funds, which has been extended to 11 funds by the end of 2015. The value of the funds under management in the scheme increased from £4.3 million at the end of 2014 to £4.4 million at the end of 2015.

At the end of 2015 the extract from the FRS102 shows that the Pension Scheme deficit has been reduced from £3,084k to £2,467k, a further improvement of £617k.

CONCLUSION

Overall 2015 has been a satisfactory year resulting in a modest surplus overall.

The contribution to the capital account from the license fee income from gaming is the major source of income and at approx £2 million per year, which has enabled the States of Alderney to build a firm capital base in order to assist with the Islands infrastructure requirements.

The appointment of the new Technical Services Officer in 2016 will assist in improving capital work forecasting, where historically the capacity to deliver always results in underspend on the Capital Account.

We are also taking the opportunity of publishing extracts from the 2015 financial statements of the Alderney Gambling Control Commission and Alderney e-Gambling Ltd for information purposes. The financial statements relating to the Alderney Commission for Renewable Energy, and the Royal Connaught Residential Home Ltd will be published at a later date in 2016.

Looking ahead the review of the Financial Relationship between Alderney and Guernsey, as approved by both States in February 2016, will directly affect the budget process during 2016 and beyond. The main work streams have been identified and some are already underway, however as previously stated this will be a process which will take 2-3 years to complete. The key 12 action points were set out in the February 2016 Billet on the financial relationship review. Key changes from the annual accounts perspective are:

- Currently surpluses on the Revenue account (this year £49k) are returned to Guernsey in the form of a deduction on the revenue grant in the subsequent year, while deficits have to be taken from the States of Alderney Currency Reserves. It is anticipated rules will be established to enable a more flexible approach to treatment of surpluses and deficits.

- By way of memorandum the Financial Accounts will show the flow of fund between Alderney & Guernsey in respect of annual payments of Income Tax and Social Security Tax and the flow of funds between Guernsey and Alderney in respect of transferred services.
- While the accounts will have to be produced in the form of old fashioned revenue and capital accounts for consolidation purposes, the States of Alderney will produce accounts which meet International Financial Reporting Standards (IFRS) an international requirement for accounts produced for financial year end 2016 and beyond.
- A pro-forma is attached as an appendix, which does not form part of the audited accounts by way of reference, but the key changes are:
 - **The Comprehensive I and E statement**
 - **Movement in Reserves**
 - **Balance Sheet**
 - **Cash Flow**
 - **Notes to the Accounts** (A set of notes will also have to be prepared at a reasonably detailed level).
 - **Annual Governance Statement**

In addition to the above, due to the amount of information required from Guernsey, it is anticipated that the accounts will take slightly longer to produce which will necessitate an amendment to the Government of Alderney Law in order to reflect a late publication date for the annual accounts.

Finally, I would like to pay thanks to the States Treasurer and her team. They provide financial information and analysis promptly and accurately, cornerstones to good financial planning and management, and have a challenging 2-3 years ahead as the changes to the financial relationship take shape and are implemented.

R. McDowall
Chairman, Policy & Finance Committee
30 March 2016