



**STATES OF ALDERNEY
AND
STATES OF ALDERNEY WATER BOARD**

**MEDIUM TERM FINANCIAL PLAN
2017 – 2019
FOR INFORMATION PURPOSES**

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Introduction and Purpose

- 1.1 This is the first Medium Term Financial Plan (MTFP) of the States of Alderney and covers the three financial years from 2017 – 2019.
- 1.2 The key purpose of the MTFP is to put in place a clear and robust financial strategy for the next three years that will help the States to deal with the challenges it faces, achieve its strategic aims and meet community priorities, within the limited resources available, whilst delivering value for money to the local community.
- 1.3 Strategic financial planning is of particular importance during a difficult economic period, when significant cuts are likely to be made to public sector spending by the States of Guernsey in order to facilitate the reduction of its budget deficit.
- 1.4 The MTFP is also important in putting in place a clear link between the States' strategic aims and targets and the priorities of the local community. This helps ensure that financial resources are allocated to services in a way that supports the delivery and achievement of these aims and priorities.
- 1.5 The MTFP sets out the financial climate in the Bailiwick, within which the States will be working over the next three years and highlights the key financial challenges that it faces, as well as the strategic aims that it will be aiming to deliver and the community priorities that it will be striving to meet.
- 1.6 It then puts in place a financial strategy to meet these challenges and ensure the delivery of strategic aims and community priorities within the financial resources likely to be available. The Plan includes indicative Revenue and Capital Budgets as well as projections of the likely level of locally derived income and balances and reserves over the three-year period.
- 1.7 Producing the MTFP each year will:
 - ensure that a strategic approach is taken in the planning of future spending and finances;
 - create stronger links between the States' strategic aims and the priorities of the local community, and future spending decisions;
 - help put in place a clear, understandable and forward looking financial planning framework;
 - make it clear how the States plans its spending and who is responsible for making spending decisions;
 - ensure that the States regularly reassesses and reviews the cost of its services;
 - help the States to demonstrate and deliver value for money in the use of public resources; and
 - ensure that the views of the community are taken into account in deciding future revenue levels, and where and how the States spends public money.

Review of financial relationship with States of Guernsey

1.8 This MTFP is presented at a time of change to the financial relationship with the States of Guernsey, which has been in place since 1948.

1.9 The changes will involve Guernsey continuing to fund the Transferred Services from the pooled streams of Income Tax and Social Security generated on both islands, while the States of Alderney will be responsible for funding and financial management of all other public services in Alderney. These will be funded from all other income streams from sources related to Alderney, including:

- Tax on Real Property (TRP);
- Occupier's Rates;
- Fees and Charges;
- Import and excise duties;
- Rents;
- Conge;
- Document duty; and
- Philatelic and numismatic profits.

1.10 The financial relationships change project focuses on reviewing and improving financial governance arrangements in order to provide the following outcomes for Alderney:

- a) freedom and flexibility to manage and control financial affairs in respect of local services in future;
- b) greater opportunity for longer term financial planning with incentives to vary budgets, taxes, fees and charges to pursue policy objectives;
- c) development of modern, fit for purpose and sustainable financial management processes in the States of Alderney to support this;
- d) ability to demonstrate to Guernsey that financial governance, systems and processes are robust and understood in order to facilitate these freedoms;
- e) the opportunity to influence service delivery, quality, service reviews and costs of transferred services through Service Level Agreements.

1.11 The MTFP is presented in the context of the above review and implementation of change will take place through the life of this plan

Resourcing Principles

2.1 As the States of Alderney moves towards greater financial accountability in respect of local revenues and expenditure on local services, a number of principles have been agreed. These are:

- 1) Maintain balanced budgets over the MTFP cycle;
- 2) No net real-term increase in public expenditure unless funded from income sources other than direct taxation¹;
- 3) Delivering value for money and a focus on savings and efficiencies by challenging existing methods of service delivery;
- 4) Prudence, reflecting the uncertain economic outlook;
- 5) No material adjustments to tax bases or structures in this 3-year period;
- 6) A full analysis of tax policies to be carried out during the 3-year period, with independent advice, culminating in detailed and fully costed proposals which will be the subject of public consultation;
- 7) No material change to taxation levels/deviation from Guernsey levels until 1 Jan 2020, at the earliest;
- 8) Taxes must be necessary, justifiable, sustainable and as simple as possible;
- 9) Realistic capital expenditure planning over the long-term;
- 10) Development of a reserve fund to provide a contingency against budget variations or future priorities;
- 11) Investment in improving the culture of financial governance at both political and management level.

2.2 Establishment of a Board of expert, external advisors will be considered to provide guidance, advice and support on the development of long-term financial strategies, including infrastructure investment proposals, taxation policies etc.

¹ In the context of the changing financial relationship, taxation refers only to those charges controlled and collected by the States of Alderney to fund local Alderney services EG: Occupier's Rates.

Planning Considerations

3.1 A number of factors have been taken into account in developing the MTFP. These include reflecting on:

- the wider Bailiwick economic outlook;
- specific economic issues relating to Alderney;
- the States of Guernsey budget given that the States of Alderney will still be reliant on grant income whilst the financial relationship changes during the period of this plan;
- Demographic issues;
- Political issues and elections.

Bailiwick economic outlook

3.2 The 6th Independent Fiscal Policy Review for the Bailiwick highlighted a number of issues pertinent to Alderney. In summary:

- Overall economic performance has been satisfactory in the context of global fiscal and economic difficulties;
- An unexpected actual deficit in Guernsey of £24.5m in 2015 plus a forecast deficit for 2016 will pose difficulties for the 2017 budget;
- The projected demographic shift highlights fiscal and economic pressures caused by a reduction in working population and a growth in the ageing population;
- Productivity levels of the workforce are high but will fall as the dependency level increases;
- GDP growth is likely to reduce alongside pressures to increase public expenditure which will be a risk to long-term sustainability;
- The pensionable age is to be increased over time but people need to be supported to remain in the workforce longer for this to have real impact;
- Levels of net inward migration to the Bailiwick are approximately 100 people per annum. Higher levels will be required to maintain the size of the working population;
- It is important that the States maximises the effective provision of public services.

Alderney economic outlook

3.3 All of the above factors are also relevant to Alderney together with the following economic and fiscal issues that will impact on public revenues and spending within the cycle of this MTFP:

- The impact on Alderney businesses and residents following the UK exit from the EU is an unknown factor that may become clearer during the period of this plan. All of the Channel Islands will wish to protect their interests in the UK exit agreement and replace Protocol 3 in the new UK/EU relationship, whilst at the same time, joining the UK in seeking new markets outside of the EU. Negotiation of exit arrangements and new deals may result in fluctuations in financial and trade markets as well as the value of the pound, all of which could impact on the Alderney community;
- There is no reliable GDP figure for Alderney. As a proxy, average remuneration from employment when measured in 2014 was around £18,000;

- The population has been in decline in recent years and although the last census showed a small increase, this decline is expected to continue unless economic development initiatives have an impact;
- The demographic forecast suggests that the ageing population will continue to grow and the dependency ratio² may increase significantly by 2035;
- Net migration levels are low and efforts to stimulate the economy and attract a different demographic are essential;
- Transport and access difficulties will remain a challenge in achieving this and initiatives in collaboration with the States of Guernsey and the private sector must be pursued;
- Delivering local public services to a small and remote population has inherent diseconomies of scale;
- The Alderney community includes a proportion of residents who are asset rich with relatively lower disposable income.

States of Guernsey budget

3.4 The current financial relationship between Alderney and Guernsey includes a requirement that all taxes generated on Alderney are passed to the States of Guernsey which, in turn pays an annual grant to the States of Alderney to supplement local fees and charges and meet the cost of the annual revenue budget. In 2016, this figure was £1.9 million (original budget).

3.5 The changes to the financial relationship will see this grant reduced over time as the States of Alderney will in future retain revenues from Tax on Real Property (TRP), and import and excise duties.

3.6 In the short-term, the States of Alderney will remain dependent on grant funding for a substantial part of its revenue budget and therefore pressures on the States of Guernsey budget will be reflected in the cash limit and grant allocation.

2015 outturn position

3.7 At the time of presenting the 2016 budget, the States of Guernsey anticipated that the projected balanced budget for 2015 would deteriorate to an overall deficit of £20m. Once the final accounts were prepared, the reported deficit had grown to £24.5m.

3.8 The deterioration was entirely due to income being lower than expected by £26.5m with the majority of the gap being income tax.

2016 Budget

3.9 The Budget for 2016 was compiled in the middle of 2015 with limited sight of this deteriorating position and based on the best information, indicators and forecasts available at that time.

² Calculated by dividing the number of people in dependent age categories by those in the working age category.

- 3.10 The projection for 2016 is for a deficit in the order of £10-15m. As with 2015, the main reason for the deterioration is weakness in revenues. The current forecasts show a deterioration in income tax of some £5-8m against the budgeted position. In addition, customs duties and document duty were also lagging against expectations in the first three months of the year which would translate into a budget shortfall of some £2-3m.
- 3.11 In addition to revenue variations, Health and Social Care services are forecasting an overspend again in 2016 despite the significant increase in budget approved by the Assembly in 2015. The current forecast is for a net overspend of just under £4m, after taking into account the amount held back in the budget reserve specifically to address a shortfall in this area. The expenditure pressures arise from two key areas -an on-going reliance on expensive agency staff and increased acute off-island referrals. Measures are actively being developed and put in place to seek to address the financial position and arrest the decline in financial performance in the year.
- 3.12 The Policy and Resources Committee has been exploring the options available to ensure that the budget can be balanced in year, which is vital since the limited reserves previously held within the General Revenue Account Reserve were exhausted in 2015. The following actions were agreed:
- The Civil Service Leadership Team has put in place formal controls over all vacancies;
 - There will be increased focus on limiting the amount of paid overtime;
 - Measures will be put in place to limit the use of expensive consultants;
 - All Chief Secretaries are carrying out reviews of their expenditure to identify and realise savings in year, including deferral of expenditure to future years where this is not deemed of any detriment;
 - All Chief Secretaries will also be asked to review their routine capital plans to reprioritise and reschedule projects wherever possible;
 - The Policy and Resources Committee does not intend to approve any further requests for funding from the Budget Reserve this year, either capital or revenue, other than in the most urgent of cases.
- 3.13 The ageing population in Guernsey and Alderney will increasingly result in pressure on services and lead to increased costs unless the States of Guernsey Public Service Reform programme is successfully delivered. This has a focus on continuous improvement and efficiency both now and in the future alongside larger transformation measures to ensure that these pressures can be mitigated and services sustainably delivered.
- 3.14 The Policy and Resources Committee has commenced its work on the 2017 Budget and aims to propose a package of measures to the States which will start to deliver sustainable public finances for 2017 and the longer term. Given the issues outlined above, it is evident that the States of Alderney cash-limit grant is also likely to be subject to the same level of scrutiny and cuts over the period of this MTFP.

Demographic issues

3.15 The population of Alderney at 31 March 2015 was estimated to be 2,020, representing a small increase from the previous census. Prior to 2015, a small decline in population is evident each year since 2008. Efforts are in hand to try and arrest this trend by stimulating the economy and encouraging some inward migration.

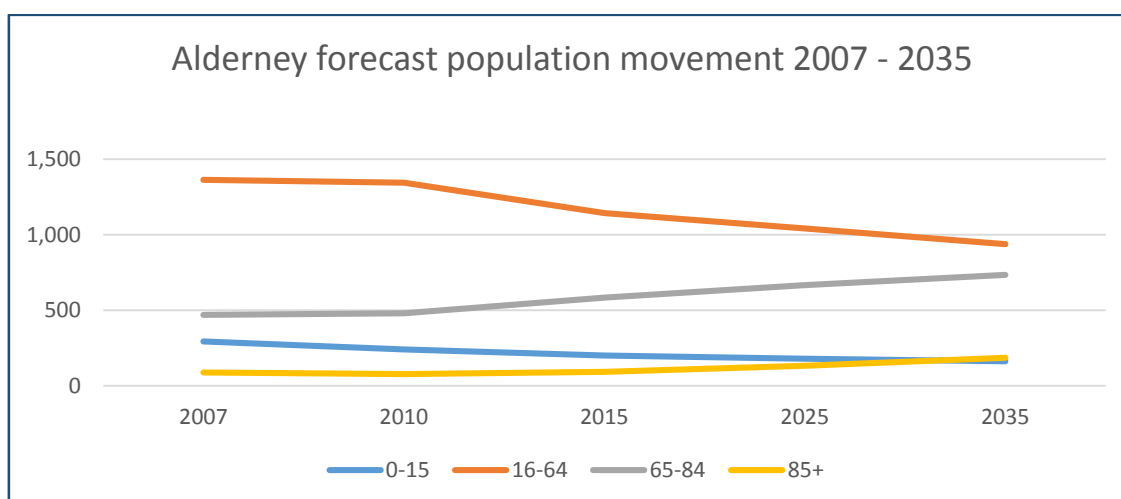
Alderney population trends since 2007

Year	0-15	16-64	65-84	85+	Total
2007	294	1,364	470	89	2,217
2008	273	1,395	465	87	2,220
2009	263	1,367	468	77	2,175
2010	240	1,346	481	77	2,144
2011	215	1,276	500	70	2,061
2012	203	1,233	536	68	2,040
2013	192	1,202	554	82	2,030
2014	199	1,168	569	77	2,013
2015	200	1,144	584	92	2,020

3.16 As well as the challenge of a pattern of population decline, Alderney also faces a significant issue in respect of the population profile. At the time of the last census in 2015, the dependency ratio was 0.77 compared to 0.53 in Guernsey (2014 census). This is predicted to increase over the next twenty years with consequent impact on public sector budgets unless efforts to stimulate the economy result in positive net migration of a different demographic.

3.17 If it is assumed that the demographic change to the age profile on Alderney from 2015 to 2025 and 2035 replicates the average change in the age profiles in the published forecasts from the UK, Guernsey and Jersey over the same period, the dependency ratio could grow to 0.94 by 2025 and 1.15 by 2035. This compares to a forecast for Guernsey of 0.73 by 2035.

3.18 The graph below shows an illustrative forecast of potential movements in the age profile assuming the current population remains stable with nil net migration.



3.19 The population analysis emphasises the need for continuing effort on economic development initiatives with a view to increasing the working age population. However, there is also a danger that depopulation could exacerbate the problem as it is argued that, those most likely to leave the island may be in the working age group.

Political issues and elections

3.20 The Government of the States of Alderney (the legislature) consists of a President and ten States Members. The President chairs the monthly meetings of the States and stands for election every four years. States Members also hold office for a period of four years and every two years there is an "Ordinary" election in which five of the sitting members offer themselves for re-election. The model ensures continuity of half of the States Members following the two-year election cycle.

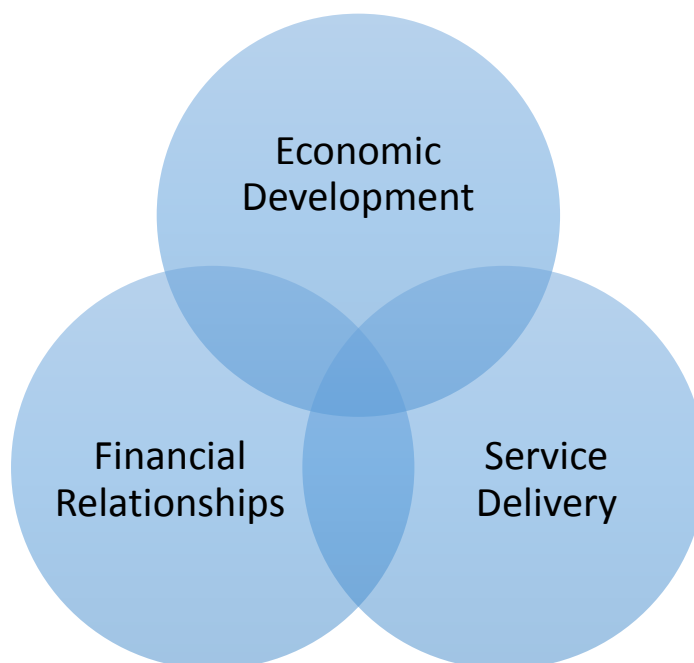
3.21 Routine matters of Government are performed by three States Committees - Policy & Finance, General Services and Building & Development Control. In practice detailed financial governance responsibilities are delegated by the Policy and Finance Committee to the Finance Committee.

3.22 At the end of 2016, five States Members will have the opportunity for re-election. These include the last three Chairmen of the Policy and Finance Committee, the current Chairman also being the Chairman of the Finance Committee.

3.23 Depending on personal decisions to stand down or apply for re-election, the potential loss of skills and experience of these politicians at the 2016 election represents a significant risk to the States at a time of financial change.

Medium Term Financial Plan Priorities

4.1 The States has three core priorities to focus on during the cycle of the three-year Medium Term Financial Plan. All States activity should relate to one or more of these.



Economic Development

4.2 The States has identified development of the economy as a key priority. This is both through direct input and also in its role as community leader, through facilitation and support to other stakeholders who can influence or lead developments.

4.3 A series of initiatives have been identified to support a range of objectives in relation to this priority.

Objective	Activities in support of objective
People	
Attract more residents to Alderney to help address recent population decline.	<ul style="list-style-type: none"> ➤ Work with partners to support creation of long term and sustainable employment opportunities in regulatory industry; ➤ Work with States of Guernsey and UK Home Office to explore potential for investor residence; ➤ Look for other opportunities to stimulate inward migration of individuals and businesses; ➤ Support AGCC to future-proof activities; ➤ Support existing businesses in partnership with Chamber of Commerce.
Increase visitor numbers.	<ul style="list-style-type: none"> ➤ Review of marketing strategy.

Infrastructure	
Improve transport connections.	<ul style="list-style-type: none"> ➤ Continue to work with States of Guernsey and Aurigny to improve existing air links; ➤ Look for opportunities for alternative or complementary air links; ➤ Engage with any credible providers to explore opportunities for a ferry service; ➤ Undertake a review of the airport to ensure a fit for purpose facility for the future; ➤ Review governance and management of the harbour.
Work with partners to improve electricity and broadband services provided to the island.	<ul style="list-style-type: none"> ➤ Work in partnership with AEL to establish a plan for network upgrade; ➤ Identify and evaluate options to provide fit for purpose broadband infrastructure.
Support Alderney Renewable Energy in projects to bring long-term benefit to the island.	<ul style="list-style-type: none"> ➤ Continue deliberations re FAB link cable.
Preserve, develop and enhance existing infrastructure assets.	<ul style="list-style-type: none"> ➤ Document all public assets and introduce asset accounting; ➤ Prepare a register and survey all commercial properties to ensure sufficient supply; ➤ Continue to consider options for a marina development; ➤ Review forts to ensure: <ul style="list-style-type: none"> ○ Commercial opportunities considered; ○ Deterioration prevented. ➤ Engage with States of Guernsey to agree future management plan for breakwater.
Government and administration	
Review and modernise existing legal and regulatory frameworks.	<ul style="list-style-type: none"> ➤ Undertake review of government capacity and available skills for future; ➤ Review and propose changes to relevant legislation; ➤ Complete and implement housing strategy and land use plan; ➤ Review of local taxation; ➤ Review agriculture and fisheries policies to promote sustainable growth; ➤ Seek opportunities for new regulatory business opportunities.

Financial Relationships with Guernsey

4.4 Fundamental changes to the existing financial relationship with Guernsey were agreed by both States in February 2016. Implementing these changes will be an important focus over the cycle of the Medium Term Financial Plan.

Objective	Activities in support of objective
Improve financial governance arrangements in preparation for greater financial autonomy from Guernsey.	<ul style="list-style-type: none"> ➤ Modernise existing financial management arrangements to enable more autonomy over time.
Influence service delivery, quality, service reviews and costs of transferred services.	<ul style="list-style-type: none"> ➤ Liaise with States of Guernsey to influence quality and quantity of transferred services in future; ➤ Work with States of Guernsey to develop service level agreements to enhance accountability of services delivered by Guernsey to the Alderney community.

Service delivery

4.5 In addition to the two priorities above, it is essential that the day to day operational activities of the States continue to meet community needs. Services will be delivered in accordance with local service plans with an emphasis on value for money and continuing improvement where this is possible.

Objective	Activities in support of objective
Maintain and improve delivery of local services.	<ul style="list-style-type: none"> ➤ Review and revise departmental business plans; ➤ Identify priority areas for improvement; ➤ Commission full service reviews as appropriate to focus on value for money and improvement ➤ Introduce performance management and review processes.
Community leadership - Working with partners.	<ul style="list-style-type: none"> ➤ Continue to work with partners to support development of the most effective service delivery models for the Alderney community.

Financial influences and challenges

- 5.1 The Medium Term Financial Plan will need to address a number of key financial influences and challenges.

Inflation

- 5.2 The Medium Term Plan must reflect prudent provision for unavoidable increases in costs that will arise from inflationary pressures to pay and non-pay costs over the period.
- 5.3 Inflation levels are now lower than many years and the budget and Medium Term Financial Plan will only provide for essential increases. Where possible, inflation increases for general expenses will be absorbed into existing budgets as part of the value for money focus outlined below.

Income pressures

- 5.4 There is likely to be pressure on the main revenue and capital income sources during the period of the Medium Term Financial Plan. The level of some of these are outside of the States' control and therefore it is essential that income generation options within the control of the States are reflected in this plan.
- 5.5 With regard to revenue funding, the States of Alderney will continue to receive the annual revenue grant from the States of Guernsey until retention of taxes is agreed and implemented as part of the financial relationship changes. Any ongoing grant funding support after this period will be subject to further negotiation.
- 5.6 The level of cash limit grant for 2016 was originally budgeted at £1.9m and the pressures on the States of Guernsey budget have resulted in a reduction for 2017. The real terms cuts proposed by the States of Guernsey for 2017 are in the order of 3% and this will result in a cut to the annual grant in the order of £57,000.
- 5.7 From 2018, further cuts are signalled in the order of 3-5%. At this stage, it is not clear how these proposed cuts will be translated into cash limit variations as there may be more significant opportunities arising from service transformation as part of the States of Guernsey Public Service Reform programme. However, if the real terms savings need were reflected in the Alderney grant, a mid-range assumption of 4% would potentially mean a further cut of £73,000 in 2018 and £70,000 in 2019.
- 5.8 The uncertainty related to maintaining the revenue grant places greater emphasis on the need for the States in the short term to consider options for income generation through occupier's rates, which have been frozen or reduced since 2012, water rates and fees and charges. This is therefore reflected in the 2017 budget and the Medium Term Financial Plan.
- 5.9 The main source of funding for capital in recent years is the annual surplus from AGCC which is distributed to the States of Alderney. In 2015, this was £2.47m and it has been consistently over £2m in recent years. The level of income is dependent on the volume of licences, which is variable, and the sustainability of the AGCC in Alderney.

5.10 It is estimated that the presence of the AGCC as a regulatory body in Alderney provides economic advantage to the Bailiwick in the order of £21.5m to Guernsey and £8m to Alderney.

5.11 The distributed surpluses from AGCC have always been earmarked as the major source for capital projects but limited project management capacity on the island and other factors, have constrained the ability to spend the AGCC funds. Unspent balances are therefore held in reserve and options for using the existing balances and future distributions will be considered as part of the financial relationship transition.

Value for money and efficiencies

5.12 The anticipated pressure on the budget alongside the move towards more financial autonomy from Guernsey will require a greater focus on value for money and efficiency from all departments. Spending decisions should all be underpinned by the following:

- **Economy:** minimising the use of States resources that are required to deliver services to the required standard – using less to achieve the required result;
- **Efficiency:** the relationship between the output from goods or services and the inputs used in producing them – using resources well;
- **Effectiveness:** the relationship between the intended and actual results of States spending and services – using resources wisely.

5.13 In addition, Departments are also expected to embrace the principles of best value and continuous service improvement in delivery of services to the community. This requires consideration of the following four principles as part of an ongoing process of service review:

1. **Challenge** – why, how and by whom an activity is carried out, including could it be done differently, better or not at all;
2. **Compare** – performance against other parts of the organisation and other jurisdictions;
3. **Consult** – involving stakeholders, including the community; and
4. **Compete** – as a means of securing efficient and effective services.

Capital expenditure

5.14 Capital expenditure bids reflected in the capital programme as part of the Medium Term Financial Plan are only included where supported by a robust business case which has been signed off by senior management. This will need to demonstrate that it:

- meets the States/Departments business need;
- is affordable;
- is feasible and achievable in the time available;
- has been chosen after exploring risk and other options; and
- will deliver clear benefits and/or provide value for money.

Pension costs

5.15 The States' defined benefit pension scheme was closed to new entrants in 2011 and at the end of 2015 reported a net liability or deficit of £2.5m (2014 £3.1m) which is

significant in relation to the fair value of assets of £4.6m. This assumes that 75% of employees retire at age 65 and 25% at age 60.

- 5.16 Current employee contributions for the above scheme are set at 6.5% and the employer contributions are 20% of pensionable salary.
- 5.17 New employees join the new defined contributions scheme established in 2013. This requires employee contributions of 6.5% and employer contributions of 7.5% of pensionable pay increasing by 0.5% annually up to a maximum of 12.5%.
- 5.18 Any future changes to contribution levels will be made on the basis of actuarial advice and with reference to States of Guernsey contribution levels to ensure equity.

Reserves

- 5.19 As part of the preparation for greater autonomy from Guernsey, the Medium Term Financial Plan includes provision to gradually establish a General Reserve equivalent to 5% of gross annual revenue expenditure. The States Treasurer will advise annually on a prudent level of reserves from 2017.

Borrowing

- 5.20 The Medium Term Financial Plan includes no borrowing by the States at this time. However, a Treasury Management policy will be prepared as part of the financial relationship review to provide a framework for borrowing in future should circumstances be such that this is advantageous to the States in a way that minimises any risk to public money.

Staffing issues

- 5.21 The Medium Term Financial Plan assumes continuity of the baseline staffing in 2016 adjusted for known future staffing changes where these are required to deliver the plan and States strategic objectives.

MTFP and Capital Programme summary 2017 – 2020

6.1 The Medium Term Financial Plan comprises three main statements:

- i) The revenue budget and medium term forecast;
- ii) The capital budget; and
- iii) Forecast statement of movement on major reserve funds.

Revenue budget 2017 and forecast for 2018 and 2019

6.2 The revenue budget for 2017 presented to the Policy and Finance Committee and the States represents the first year of the Medium Term Financial Plan. Budgets are prepared by departmental budget managers and are subject to scrutiny by the States Treasury and Finance Committee before being submitted for approval.

6.3 The 2017 budget provides the baseline for the revenue forecasts prepared for 2018 and 2019. These forecasts assume continuity of the baseline staffing in 2016 adjusted for known future staffing changes where these are required to deliver the plan and States strategic objectives.

2016 Revised Budget

6.4 The revised budget for 2016 was presented to the Policy and Finance Committee on 6 September 2016. This has been produced as a balanced budget taking into account a reduced cash allocation from Guernsey, offset by retention of the £49,000 surplus from the previous year. It also allows for repayment of the legal fees paid on behalf of ACRE as mentioned below, removal of the Breakwater contribution at £15k, and is balanced by a reduction in unforeseen expenditure from £22k to £17k.

2017 Budget

6.5 The first draft of the 2017 budget was showing a deficit of £200k. This has been ameliorated by a decision to treat Conge income as revenue income in future as opposed to capital. This results in a small surplus of £35,000 which, if realised, would provide a contribution to a new General Revenue Reserve as agreed by P & F in July. It also takes into account the 3% decrease in budget allocation from Guernsey, which is expected to continue to reduce at the rate of 3% - 5% pa going forwards.

6.6 Other headlines in the budget report include:

- Increased planning fees and charges;
- Growth in the harbour deficit due to new pilotage arrangements;
- Reduced rental income due to a new arrangement agreed with the Connaught;
- Additional income from management fees charged to States associated companies.

Water Board

6.7 The Water Board budgets are based on a requirement that income should at least meet operating costs each year in order to build a reserve for future infrastructure investment.

6.8 The budgets for 2016 (Revised) and 2017 assume a small surplus in both years. The budget for 2017 includes an increase in charges of 3% offset by increased costs.

Forecasts for 2018 and 2019

6.9 The forecasts for 2018 and 2019 are provided to provide context for strategic financial decision making by States Members. Forecast figures are indicative only with a view to identifying where the medium term financial pressures may occur. Where appropriate, the MTFP includes provision for:

- growth where this is justified part of the States strategic objectives;
- efficiency savings to meet estimated future budget gaps;
- inflation to cover pay and essential non-pay increases; and
- income generation.

6.10 Assumptions at this stage do not fetter the discretion of future decision makers and are included at this stage as part of the financial planning process. Decisions on items subject to assumption will be made by States Members as part of the 2018 and 2019 budget deliberations.

6.11 The figures in the forecasts for the first MTFP for 2018 and 2019 include the following detailed assumptions:

- Amalgamation of TRP and Occupier's Rates into a single property rate from 2018;
- Repatriation of document duty and fuel duty at the current levels in 2018;
- A residual revenue grant to be paid by the States of Guernsey equivalent to the balance of the existing grant when the above items are taken into account;
- A real terms reduction of 5% in 2018 and 2019 in respect of this residual grant;
- An expenditure increase in each year of 1.5% to reflect RPIX and pay awards;
- Stability in current operational budgets and no growth in revenue expenditure;
- Transfers to currency reserve to remain at current levels to provide for redemption of base metal costs;
- A target surplus of £40,000 in year with a view to developing a revenue reserve.

6.12 On the basis of the above assumptions, efficiency savings or income generation opportunities will be required in each year in order to deliver the proposed surplus.

Capital budget

6.13 The capital budget for 2017 is presented for approval alongside the revenue budget and also includes forecasts for 2018 and 2019.

6.14 Capital projects by the Water Board are funded by an annual grant by the States which is supplemented by use of retained surpluses where necessary.

6.15 Capital expenditure is funded in the year it is incurred. The major source of funding in recent years has been the distributed surpluses from the AGCC. Underspends in recent years have resulted in a reserve fund of past distributions. The future of this reserve will be considered as part of the financial relationships review.

6.16 With the exception of the Water Board, capital assets are not depreciated. The States is currently developing an asset register of all States assets with a view to developing asset accounting at some point in the future.

6.17 The Medium Term Financial Plan and summary capital programme are set out below.

Revenue Budget and forecast 2016 – 2019

2015 Actual Net	Revenue Budget	2016 Budget Net	2016 Revised Net	2017 Budget Net	2018 Forecast Net	2019 Forecast Net
£'000	Operational activities	£'000	£'000	£'000	£'000	£'000
171	Building and development control	93	161	140	140	140
	General Services					
1,161	States Works	1,228	1,219	1,315	1,315	1,315
7	Recreation	13	14	11	11	11
43	Fire Brigade	58	56	56	56	56
21	Civil Emergency	24	24	25	25	25
30	Alderney Harbour	51	94	88	88	88
28	Grants	28	28	29	29	29
	Policy and Finance					
823	Corporate and democratic services	796	733	683	683	683
111	Court	107	98	113	113	113
156	Tourism and marketing	209	215	210	210	210
33	Education and health	36	34	32	32	32
14	Social and welfare services	20	15	18	18	18
88	Grants	97	89	67	67	67
2,686	Cost of services	2,760	2,780	2,787	2,787	2,787
	Other operating income					
223	Property and land rents-GSC	236	240	156	156	156
41	Rents - PFC	42	42	42	42	42
16	Interest receivable	40	16	18	19	19
48	Vehicle import licence fees	35	35	35	35	35
70	Numismatic and philatelic profits	48	66	101	101	101
	Local taxes and grants					
1,896	Grant from States of Guernsey	1,900	1,884	1,830	360	342
463	Occupiers Rates/TRP	464	467	490	1,240	1,240
0	Property Transfer Duty	0	0	200	200	200
0	Fuel Duty				350	350
0	Document Duty				350	350
25	Duty free concession	25	25	25	25	25
96	Net budget before transfers	30	(5)	110	91	73

MTFP adjustments

	Provision for inflation and pay				40	40
	Growth bids					
	Efficiency savings required				64	82
96	Surplus/(Deficit) before transfers	30	(5)	110	115	115
£'000	Transfers to/from Reserves	£'000	£'000	£'000	£'000	£'000
50	Revenue reserves	0	50	35	40	40
46	Currency Reserve	30	45	75	75	75
96	Total Movement on Reserves	30	(5)	110	115	115

Water Board Revenue Budget and Forecast 2016 - 2019

2015 Actual	Water Board Revenue Budget	2016 Budget	2016 Revised	2017 Budget	2018 Forecast	2019 Forecast
£'000	Operational activities	£'000	£'000	£'000	£'000	£'000
484	Operating and maintenance	548	547	552	552	552
79	Administration and general	88	88	94	94	94
563	Total expenditure	636	635	646	646	646
	Operating income					
638	Supply charges	645	642	648	648	648
0	Asset sales	0	0	0	0	0
638	Total operating income	645	642	648	648	648
75	Operating surplus/deficit	9	7	2	2	2
	Other income					
11	Rents	11	11	11	11	11
86	Total surplus/deficit	20	18	13	13	13
	MTFP adjustments					
	Provision for inflation and pay				10	10
	Growth bids					
	Efficiency savings required				0	0
86	Total surplus/deficit	20	18	13	3	3

6.18 The balance from the various annual budgets of the States are transferred to reserves or to the States of Guernsey as appropriate. The key reserves movements anticipated in the Medium Term Financial Plan are as follows:

Movements in reserves 2016 - 2019

2015 Actual	Transfer to/from Reserves	2016 Budget	2016 Revised	2017 Budget	2018 Forecast	2019 Forecast
£'000		£'000	£'000	£'000	£'000	£'000
50	Revenue surplus/deficit	0	(50)	35	40	40
86	Water surplus	20	18	13	3	3
46	Transfer to currency reserve	30	45	75	75	75
264	Transfer to ED reserve	0	0	0	0	0
446	Revenue activities surplus	50	13	123	118	118
2,505	Capital surplus/deficit	(2,258)	(100)	(2,434)	0	0
2,951	Total reserve movement	(2,208)	(87)	(2,311)	118	118

Revenue reserve – Current underspent balances on the revenue account are returned to the States of Guernsey as the major funder. As part of the revised financial relationships, it is proposed that future unspent balances will be transferred into a revenue reserve to provide a contingency or enable reprioritisation in future years. Unspent balances in one year will not routinely be available to carry forward unless there is a persuasive case.

Water Board Reserve – Surpluses on the Water Board account are retained to help to smooth increases in water rates and supply charges as well as providing a reserve for infrastructure investment.

Currency reserve – A currency reserve is maintained to act as a provision to enable the reimbursement of base metal value in the event of the return of Alderney coin issues.

Economic Development Reserve – An Economic Development Fund was established in 2014 to provide funding for specific initiatives that the States wishes to pursue in support of its economic development objective. Funds for initiatives are allocated from the AGCC distributions and any unspent sums from the budget allocation are carried forward.

Capital Reserve – Sums distributed from the AGCC profits are earmarked for capital projects and income is held in reserve until it is required for capital expenditure.

Capital Programme

6.19 The capital budget is prepared from the capital programme of projects which must all be supported by an approved business case. The capital budget has been significantly underspent in recent years. It is therefore essential that future capital bids are realistic in terms of the capacity for the States to deliver the programme agreed. The table below shows the capital underspend in the past three years compared to original and revised budgets.

Capital budget underspends since 2013

Year	Original Budget	Revised Budget	Actual Exp	Variation Original	Variation Revised
	£'000	£'000	£'000	£'000	£'000
2015	2,413	921	366	-2,047	-555
2014	3,112	1,957	1,475	-1,637	-482
2013	4,440	3,402	2,930	-1,510	-472

6.20 Processes have been revised to ensure that deliverability of capital schemes can be demonstrated in future. In addition, approval limits have been revised for 2017 to provide more delegation to the Chief Executive and States Treasurer in respect of projects below £50,000. Projects in excess of £250,000 require formal approval by the States of Guernsey and this arrangement will be reviewed as part of the changes to the current financial relationships.

6.21 The schedules below show existing capital projects which have previously been approved and remain in progress together with new projects approved as part of the 2017 budget process.

6.22 Where existing schemes have not started and are no longer considered a priority, these have been deleted from the future programme and are indicated as such.

Capital Programme 2016 - 2020

Capital Budget Projects	Scheme Total	2016 Budget	2016 Revised	2017 Estimate	2018 Forecast	2019 Forecast	2020 Forecast
	£'000		£'000	£'000	£'000	£'000	£'000
General Services							
Fire Brigade							
<i>Under £50,000</i>							
Tanker- second hand from SoG	29						29
Replacement 4x4	45		45				
Replacement Kit	18			18			
Harbour							
<i>Under £50,000</i>							

Fendering	45	33	15		30		
Rock removal	18	18	18				
Boat park	45		10	35			
Douglas Quay repairs	30	30	0		30		
Inner harbour quay face	20			20			
Harbour launch	35				35		
Over £50,000							
Improvements to showers and toilets	97	120	97				
Buoy and block replacements	52				26	26	
Boat Hoist	80			80			
Tractor	50				50		
Sewerage							
Under £50,000							
Banquage Pump station	45		15				30
Valongis diversion	10					10	
Over £50,000							
Mouriaux/Platte Saline	800	505	0	400	400		
Fort Doyle outfall	100					100	
Valongis/Cotil du Val surface water	200						200
Newtown/Birdcage pitch fibre	50						50
Birdcage row	75						75
Properties							
Under £50,000							
Town toilet improvements	30			30			
Island Hall reroof community hall	45				45		
Museum improvements	2		2				
Town Clock Tower	20		20				
Over £50,000							
St Anne's Church roof	500	100	500				
Works Dept relocation	100					100	
Island Hall renovation	90			50	40		
Old Gaol improvements	50					50	
Jubilee and Connaught lift etc	200			200			
Jubilee and Connaught - Roof etc	107		107				
Key worker houses reroofing	50			50			
States properties refurb.	510	230	30	250			
Roads and land projects							
Under £50,000							
Agricultural relocation	15	15	0		15		
Land for runway extension	25		5	20			

Minor road surfacing programme	N/A			20	20	20	20
Over £50,000							
Road resurfacing	650	300	0	300		350	
Disabled access	75	45	0	75			
Town Streets refurb	1,450	150	0		250	600	600
Coastal and cliff erosion							
Under £50,000							
Corblets Wall Temp repair	40		40				
Glacis	20			20			
Over £50,000							
Coast protection		180	0				
Clonque and Tourgis	130			70	60		
Cliffs- York Hill/AEL power station	235			35		200	
Waste disposal and recycling							
Under £50,000							
Impot improvements	40		40				
Impot - Oil and paint storage	10			10			
Over £50,000							
Recycling improvements	60		20	40			
Waste disposal		60	0				
Impot - Animal Waste equipment	100					100	
Recreation							
Under £50,000							
Butes Toddler Park	25		25				
Skate Park Relocation	25	25	0	25			
Over £50,000							
Quarry improvements	50		50				
Vehicles and Plant							
Under £50,000							
Waste shredder	45				45		
Mini excavator	33		33				
Roadmender	40		40				
Over £50,000							
Vehicles and plant		100	0				
Dustcart	103			50			53
Sewer cart	50					50	
Hooklift/tractor	50			50			
Minor	N/A		22	53	25	25	25
Capital grant to Water Board*	N/A	250	156	250	250	250	250
	6,819	2,161	1,290	2,151	1,321	1,881	1,332

Policy and Finance							
<i>Over £50,000</i>							
AEL sale and leaseback	1200		20	340	840		
Aircraft refuelling	100	100		100			
IT upgrade	190	30	20	170	30		
Asset management and fin services	150	300	50	100			
Telecoms/Broadband		750		500			
Strategic Transport		500					
Swimming Pool and SC grant	350	150	250	100			
	1,990	1,830	340	1310	870	0	0
*Water Board schemes							
<i>Under £50,000</i>							
Minor capital		25	0				
Vehicles and plant		20	0				
<i>Over £50,000</i>							
Phase 4c improvements		40	0				
Phase 6 improvements		250	0				
Phase 6 - AeF/Carriere Viront	94		94				
Phase 7 - Longis/ Bluestone	62		62				
Phase 8 - Braye Road etc	250			250			
Further improvements	250				250		
Further improvements	250					250	
	906	290	156	250	250	250	0
Total Capital Programme £'000	8,809	3,991	1,630	3,461	2,191	1,881	1,332

2015	Capital Budget	2016	2016	2017	2018	2019	2020
Actual		Budget	Revised	Budget	Forecast	Forecast	Forecast
£'000		£'000	£'000	£'000	£'000	£'000	£'000
319	General Services projects	2,161	1,290	2,151	1,321	1,881	1,332
47	Policy and Finance projects	1,830	340	1,310	870	0	0
366	Total capital expenditure	3,991	1,630	3,461	2,191	1,881	1,332
	Sources of funding						
1,601	AGCC profit transfer	1,485	1,300	1,000	2,181	1,871	1,322
238	Property Transfer Duties	238	200	0	0	0	0
947	Exceptional income	0	0	0	0	0	0
58	Asset sales	0	28	25	0	0	0
27	Other	10	2	2	10	10	10
2,871	Total capital income	1,733	1,530	1,027	2,191	1,881	1,332
2,505	Surplus/(Deficit) on budget	(2,258)	(100)	(2,434)	0	0	0

Economic Development Fund

6.23 Economic development initiatives are funded by sums transferred from the AGCC reserves on the basis of a decision made in 2014. At the time of the budget deliberations in 2016, initiatives for the remainder of 2016 and 2017 are yet to be specified. However, budget provision has been made in the order of £300,000 for 2016, and subsequent years of the MTFP cycle.

Economic Development Fund 2016 - 2019

2015 Actual	Economic Development exp.	2016 Budget	2016 Revised	2017 Budget	2018 Forecast	2019 Forecast
£'000		£'000	£'000	£'000	£'000	£'000
148	Balance B/Fwd	265	265	0	0	0
300	Transfer from AGCC reserve	300	300	300	300	500
448	Total	565	565	300	300	300
	Expenditure					
25	Living islands					
25	E Gambling review					
4	Air links study		22			
42	Marina investigation		6			
	Young entrepreneur					
	Anti-money laundering		2			
8	Administration/consultancy		22			
20	Blockchain technology review (net)		0			
9	Financial relationships reform		25			
37	Company law review		51			
13	Aviation fuel subsidy		23			
	Governance review		30			
	Housing strategy		19			
	Ferry subsidy		30			
	Transport consultation		5			
	Development of niche tourism		4			
	Marine management plan		13			
	To be allocated	565	313	300	300	300
183	Total expenditure	565	565	300	300	300
265	Balance C/Fwd	0	0	0	0	0

Managing financial risk and uncertainty

7.1 As the States funding becomes increasingly reliant on local sources and exposed to greater fluctuations, it is essential to have appropriate strategies for managing any impact. The States has identified the main areas of risk in the following table:

No.	Risk	Mitigation
Skills and culture		
1.	Financial management capacity and skills in organisation.	Review current skills and capacity. Consider use of external capacity to support civil service.
2.	Financial management skills at political level. - States Member changes at end of 2016.	Provide awareness training for existing and potential States Members on current issues including finance. Identify lead Finance Member for 2017.
3.	Challenge of difficult decisions in respect of income increases or expenditure cuts.	Civil service to provide clear cost/benefit analysis for budget options including income.
4.	Potential for distraction due to States elections in 2016.	Ongoing dialogue with States Members. Civil service to provide clear business cases for financial decisions by States Members.
Expenditure risks		
5.	Demand and expectation puts pressure on service expenditure.	Longer –term planning. Service reviews to challenge existing delivery where necessary.
6.	Inflation assumptions inadequate for staff and non-staff costs.	Develop a range of options with sensitivity analysis.
7.	Departmental budgets not controlled appropriately leading to overspend.	Improve monthly monitoring procedures and officer, States Member scrutiny.
8.	New legal requirements have expenditure implications.	States Treasurer to identify potential issues.
9.	Spending decisions taken which: <ul style="list-style-type: none"> • are outside budget framework; or • failure to comply with States processes. 	States Treasurer to issue Financial Instructions to be adopted by Policy and Finance Committee. Compliance with financial rules and delegation procedures to be kept under review by Treasury.
10.	Insurance risk and claims increase premium costs.	States Treasurer to identify potential issues.
11.	Capital expenditure and project delivery continues to fail to meet expectations.	Revise capital bid process. Prepare realistic capital programme. Improve monitoring processes.
12.	Insufficient opportunity to build up a general financial reserve.	Build provision into budget from 2017.

Income risks		
13.	Transition to new financial relationship results in a funding gap in the Alderney budget.	Prepare early calculations to identify potential gap. Discuss future funding options with Guernsey.
14.	Population changes result in reduced income from local taxes and fees and charges.	Prepare forecasts for a range of outcomes.
15.	Fees and charges not on sound economic basis.	Review all fees and changes in 2017 and 2018 with a view to changes where appropriate.
External risks		
16.	States of Guernsey budget pressures impact on grant and cash-limit.	Early discussion with States of Guernsey to obtain certainty on future funding. Prepare assumptions for future years of MTFP.
17.	Uncertainty over future capital funding from AGCC.	Early discussions with AGCC and States of Guernsey to secure future funding.
18.	Impact on Alderney and Guernsey following UK exit from EU.	Engage with other islands to assess impact and negotiate new relationship to replace Protocol 3 in the UK/EU relationship. Continue liaison with Channel Islands EU office. Continue to seek external advice.