



**POLICY & FINANCE COMMITTEE
CHAIRMANS REPORT
AUDITED ACCOUNTS 2016**

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 16th May 2017.

As previously reported the accounts are being shown in the revised and streamlined format this year, showing the breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2015 also shown for comparative purposes.

The following comments highlight, in round figures, some of the material differences between 2016 and the previous year.

STATES OF ALDERNEY – REVENUE ACCOUNT

Summary – Overall, following the years activities, and after transferring £49,499 to the Currency Reserve, the revenue account is showing a minor deficit of £287, which will be met from the retained surplus.

Building & Development Control Committee – Overall the revenue account shows a net increase of £13.2k. This is mainly due to an increase in staff costs (full year) and external planning advice, offset by lower consultancy fees and a small increase in income from planning & building fees.

General Services Committee - The General Services Committee has continued to deliver the range of public services under its mandate. Overall the revenue account shows a net increase of £63.6k. Allocated by Department this is mainly attributable to States Works (increase in waste disposal costs), and Alderney Harbour (increase in pilotage and crane costs).

Policy and Finance Committee – Overall the revenue account shows a net decrease compared to previous year of £44.6k. Allocated by department this is mainly attributable to savings on Corporate & Democratic services (no transfer required to Insurance Deductible Fund, and net consultancy costs lower due to recovery of ACRE surplus in respect of legal fees), savings on Court expenditure, offset by increase in Tourism & Marketing (increase in promotion of tourism & increased staff costs).

STATES OF ALDERNEY – CAPITAL ACCOUNT

Summary - Overall capital income exceeded expenditure by £709k, after taking into account the transfer to Economic Development Fund of £300k (see page 8).

Capital Income - Overall capital income is £1.2m lower than previous year, mainly due to the revetment recovery which was a one-off payment in 2015 (shown as exceptional income), together with income from the Toddler Park Trust matched funding (shown as other) which was also a one-off payment. The AGCC surplus at £1.8 million (net of payments to AeGL) is slightly lower than 2015. Income from asset sales are variable each year and mainly relate to sale of freeholds at Le Banquage, property transfer duties were similar to 2015.

Capital Expenditure – Overall capital expenditure amounted to £1,061k after the transfer of £300k to the Economic Development Fund. This is £700k higher than in 2015 where considerable slippage had occurred. The projects carried out during 2016, excluding replacement plant & vehicles etc, related to:-

- | | |
|-----------------------------|--|
| General Services | <ul style="list-style-type: none"> - St Annes Church roof repairs £209K - Water Board grants (distribution improvements) £156k - Harbour showers refurbishment £95k - Connaught/Jubilee refurbishment/legionella remediation etc £85.5k - Corblets wall repairs £36K - Asset management systems £29k - Town clock tower refurbishment £20K - Sewerage projects £16k - Fendering replacements £14k |
| Policy & Finance | <ul style="list-style-type: none"> - Sport Centre Trust (Pool) matched funding £240k - AEL distribution grid £52k |

Looking forward to 2017 the capital programme provides for the following improvements to the Islands infrastructure:- Digital Connectivity £500k, Sewerage projects £400k, Road resurfacing £300k, Nunnery Refurbishment £280k, Jubilee/Connaught improvements £200k, Coastal protection works £105k, Aircraft re-fuelling facility £100k, together with numerous smaller projects as per the 2017 budget. Each of these projects will be required to follow the necessary costing and approval process in accordance with the financial procedures.

SUNDRY ACCOUNTS

Economic Development Reserve Fund - The Economic Development Reserve Fund has been funded by AGCC reserves at £300k per annum since 2014, and continues to fund a number of economic development initiatives. The Reserve is shown as a separate fund and any balances can be rolled forward into the following year. The balance carried forward as at the end of 2016 stood at £212k.

The initiatives carried out in 2016 are individually listed on page 8, together with the overall amount voted by P&F relating to each item, shown in brackets alongside the individual heading. Often a project can span more than one financial year, and can be voted in incremental stages as the projects progress.

The main areas of expenditure (over £20k), during 2016 related to: -

Administration/Consultancy – Relates to the staff costs, expenses and support services incurred in implementing the Economic Development Initiatives.

Review of Company Law – This initiative commenced in 2015, as part of the review of legislation, with the completion of a GAP analysis. This was followed by a detailed review and consultation proposing reform to Alderney's company legislation to enable and encourage economic development for the Island. The funding for this project initiated in 2015 has been voted in a series of tranches as the project progressed. In 2017, the Policy & Finance Committee agreed to put this project on hold. Amongst other things, it was believed that a review of the objectives for the review was necessary.

Ferry Subsidy – As part of the States strategic commitment to explore alternative travel opportunities, a subsidy was awarded to Bumblebee Marine Ltd In 2016 to promote ferry travel between Alderney and Guernsey. This initiative has been repeated in 2017.

Financial Support to Aurigny – as part of an initiative to protect and promote our economy some financial support is being offered to Aurigny. This is in the form of a guarantee and a specified number of supplementary rotations. Should seat occupancy fall below specified levels the States of Alderney will top-up the revenue. The expected support should not exceed £150k in 2017.

Review of the Financial Relationship with Guernsey – This expenditure relates to the additional capacity commissioned to progress the numerous workstreams and initiatives related to the change in the States' financial relationship with Guernsey. This follows approval of relevant policy letters in both the Guernsey and Alderney States in 2016.

Aviation Fuel Subsidy – Initiated in 2015 in order to subsidise AEL with the provision of Avgas.

Review of Governance – Initiated in 2016, University College (London) were commissioned to report on the way Alderney is governed and administered. This resulted in the report entitled "Alderney's Choices" which was presented at a public meeting in September. Although the need for constitutional reform was recognised, the cost associated with the full implementation was considered to be a barrier, and due to the timing of the report, it was agreed to leave until the new States were elected. The Governance Sub-Committee formed in January 2017 will continue to consider aspects of this review where considered appropriate and relevant.

Currency Reserve Fund – Relates to a percentage of the base metal coins sold which is reserved in case of redemption, in 2016 of the £75.3k received in royalties, £49.5k was transferred to the reserve. Under the new coin contract, effective in 2017, the Commonwealth Mint have guaranteed that they will be responsible for any redeemed coins that they have issued.

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 assist in retaining/reducing annual premiums. It has been increased incrementally each year and I am pleased to report that at £257k it has now reached the potential insurance liability as at the end of 2016, without the requirement to transfer further funds during the year.

WATERBOARD – REVENUE ACCOUNT

The General Services Committee also fulfils the functions of the Water Board, which in 2016 returned an operating surplus on revenue account of £58.4k, compared to £86.1k in 2015.

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. Main areas worthy of note include :-

Salaries & Wages – The figure shown at £160k is the net figure, after the transfer of £36k relating to the use of in-house labour and supervision on capital projects.

Maintenance – £18k higher than previous year due to increase in electrical work & repairs, purchase of pipe fittings and more stock items being put to use.

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 £36k 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. As previously agreed this figure is therefore being increased incrementally.

WATERBOARD - CAPITAL ACCOUNT

The ongoing improvements at the Water Board continue, funded by capital grants from the States of Alderney, totalling in excess of £2.3m as at the end of 2016.

Phase 6 relating to Allee es Fees, and Phase 7 (initial phase) relating to Bluestone Hill, have been completed, Phase 8 relating to Braye Road, approved in 2017 at £93k is well underway.

These works have been prioritised in order to achieve financial savings by “trench-sharing” with Alderney Electricity Ltd as part of their ongoing project.

Further distribution improvements are scheduled to continue in 2017 and beyond.

PENSION SCHEME

The deficit on the States of Alderney Public Employee Pension Scheme (1982 scheme), a defined benefits scheme, has been the largest liability of the States of Alderney for several years. This fund 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 12 funds by the end of 2016. The value of the funds under management in the scheme increased from £4.4m at the end of 2015 to £5.1m at the end of 2016.

At the end of 2016 the extract from the Actuarial Report shows that the Pension Scheme deficit has increased from £2.5m to £3.9m. This was mainly due to the reduction in the assumption of the discount rate for future benefit payments reducing from 3.8% to 2.7%. The actuarial assumption reflects market expectations on the basis of prescribed parameters. The deficit calculation is in accordance with current accounting standards which also require the loss to be recognised in the year of account.

Further details are shown in note no 2 to the accounts on pages 3-6.

CONCLUSION

Overall 2016 has been a satisfactory year resulting in a small deficit of under £300. However, the revenue account remains under significant pressure which emphasises the need for effective financial stewardship and value for money in all areas of activity.

Cogniscent of this, the rules for tendering and contracting third parties have been tightened. Unless there are sound reasons for doing otherwise, it is expected that all works should be tendered and should be accompanied by clearly expected and defined contractual outputs.

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 has enabled the States of Alderney to build a firm capital base in order to assist with the Islands infrastructure requirements. The States needs to ensure that the capital program is delivered on time, without further slippage, in order to ensure our assets and infrastructure are fit for purpose.

Looking ahead, we remain committed to significant workstreams to improve services, the way we work and the longer economic outlook of the island.

Deliberations continue on FABlink and it is important that we invest in appropriate advice that provides the States with the relevant information to ensure that the decision represents the best long-term outcome for the island and community.

Transport links are also a priority and we will continue to work with third parties who wish to explore commercial opportunities to improve our air and sea links.

The review of the Financial Relationship between Alderney and Guernsey continues. We hope to improve our financial freedom and flexibility through introduction of a single Property Tax by 2019, as well as retaining other duties currently paid to Guernsey. There is also a commitment to develop Service Level Agreements for the Transferred Services provided for Alderney by the States of Guernsey. This will commence this year with a Bailiwick-wide review of Health and Social Care Services, building on earlier work.

Much work is urgently needed for rehabilitating our runway. Our transport links are our prime economic enabler and we must work closely with those in Guernsey to ensure that there are no further delays. The airport is a States of Guernsey responsibility and as such the capital expenditures required should not impinge on States of Alderney finances. We intend also to work with Guernsey to ensure that the services that Aurigny provides are viewed as an economic enabler for the Bailiwick. This is consequently likely to require financial support. Our view is that although Alderney is supplying some support for this financial year, this should not necessarily be seen as a precedent. The States of Alderney may provide some limited financial support to any company willing to operate scheduled services to Jersey. These will however need to be negotiated and would not be open-ended.

The Land Use Plan, particularly the need for changes to cater for major projects is currently absorbing more funds than were originally intended. The new provisions are however important.

There has as yet been no expenditure on improved digital connectivity. Improving digital connectivity nonetheless remains a high priority.

We are also taking the opportunity of publishing extracts from the 2016 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 2017.

Finally thanks to all of our staff. At times the work-load has been high and they have probably had a more difficult than usual year.



J. Dent
Chairman / Policy & Finance Committee
27 May 2017