



STATES OF ALDERNEY

AND

STATES OF ALDERNEY WATER BOARD

BUDGET REPORT 2020

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EXECUTIVE SUMMARY

The Budget for 2020, shown on the attached 2 pages, has been prepared in line with the agreed budget process. The budget was considered and approved at the September Policy & Finance Committee Budget Meeting for debate at the October States Meeting. The main points to note are as follows:-

- Annual budgets provide a framework, they do not bind the States to spend in any particular area and nor do they preclude the States from choosing to vary the levels and standards of service it provides.
- The States of Alderney receives an annual cash allocation for the revenue account from the States of Guernsey, which together with its own income makes it necessary to prioritise the areas of public services that can be provided from the finite resources available.
- The 2020 revenue cash allocation from Guernsey is set at £1,875k. This will be adjusted to take into account any pay awards once known.
- The capital programme is mainly funded by Alderney Gambling Control Commission (AGCC) surpluses, together with locally raised revenue from asset sales etc. The surplus for 2020 is expected to be in the region of £1.9M, from which transfers to Alderney eGambling Limited (AeGL) and the Economic Development Reserve Fund (EDRF) will be made. It is important to note that there is no cash allocation received from Guernsey in respect of capital funding.
- The Water Board revenue account is expected to raise £726k from water rates and charges, which in 2020 will cover its operating costs, with a surplus of £49k towards reserves.
- The Water Board capital programme continues successfully, funded by grants from the States of Alderney amounting to £2.8M to date since 2008, with a further grant of £855k anticipated for 2020.
- The Economic Development Reserve Fund (EDR), established in 2014, continues to be funded from AGCC reserves at £300k per annum. This Fund provides finance for specific research and development projects with a direct relevance to the enhancement of the Island's economy. Further details of the individual initiatives and associated work streams are set out separately within this report. As the Fund does not form part of the General Revenue Account, any unspent balances each year are rolled forward. Each initiative is subject to Policy & Finance Committee approval.

On a more general issue, the Economic Development Reserve Fund was set up over five years' ago and it is now considered appropriate that the original objectives for the Fund are reviewed to see if any modification to the objectives are necessary including the overall amount transferred each year from AGCC Reserves.

ECONOMIC DEVELOPMENT

Although the Economic Development Reserve Fund does not feature in the main part of this budget (as mentioned above), it is shown in the year end accounts as a separate fund.

Many of these approved votes, which are categorised under three main headings - Transport, Tourism and General - will roll over to 2020 depending upon available resources.

Transport

Transport links are key to the Island and current and potential areas of expenditure during the next twelve months under this heading are focussed, and will continue to focus, on developing these links. It should be noted that the sea ferry subsidy this year alone will be in the order of £100k. However, supporting this particular service has proved to be a real success generating both extra passenger movements to and from the Island and extra visitor spend on the Island.

Tourism

The main areas of expenditure under this heading were approved in 2017 and relate to investment in the tourism product. This investment is now generating positive results in terms of real growth in potential visitor enquiries and interest. In addition, product enhancement projects are underway and there is a real focus on the Island's heritage.

General

There are a number of expenditure areas which come under this particular heading. The main area is the roll-out of the island-wide superfast broadband initiative which is due to be completed at the end of 2019. Further e-projects to add value to this investment are now in hand.

Other funding areas include the ongoing review of governance, consulting and business development administrative costs, and the Island's Civic Pride initiative which relates to the enhancement of the Island's amenities. This latter project is gathering momentum and has already made a significant difference to the overall appearance of the Island for the benefit of both the community and visitors alike.

Finally research funding has been allocated to projects such as the Fort Tourgis project, Tidal Energy, and Marine Development Plan.

STATES OF ALDERNEY REVENUE ACCOUNT

The consolidated format provides a summary of expenditure and income from operational areas as well as highlighting sources of revenue. The upper section of the report shows the operational activities (both income and expenditure) by the 3 Committees, and shows the net cost of service in each area. This is followed by "other operating income", "property and other taxation/grant income" (including the cash allocation from Guernsey), followed by transfers, finally showing the surplus for the year.

As previously reported, Senior Managers from each Department are delegated with full responsibility for their budgets as the Principal Budget Holder, and in turn have been given the authority to sub delegate to their staff where appropriate. Each Department is therefore responsible for ensuring that there is sufficient funding available in order to reach the objectives outlined in their departmental business plan.

2019 Revised Budget – The Revised Budget for 2019 shows an underspend of £72k compared to the original budget forecast of £19k. This is due to a number of variations from the original forecasts which have been identified by budget holders. This includes positive income growth following previous committee reviews alongside efforts to improve budget management which have contributed to efficiency savings and better prioritisation, as detailed in this report.

The total revised cash allocation from Guernsey for 2019 is £1,875k which reflects notified changes to the Cash Allocation from Guernsey. Any adjustments to agreed pay rates will be made at a future date once known.

As in 2018, any underspend in the revenue budget is returned to the States of Guernsey Revenue Account.

2020 Budget – In respect of 2020, the Budget is showing an underspend of £37k. This provides limited flexibility in spending plans however it should be noted that, from 2020, a revised arrangement has been agreed with the States of Guernsey Policy & Resources Committee which amends the allocation to a grant which will provide the opportunity for any unspent balances to be transferred into a reserve to

provide a contingency for future years. This is a welcome change in the financial arrangements between the Islands.

Further details on the main assumptions made and any significant items of note are listed below.

Building & Development Control

Overall net expenditure is down on budget in 2019 and this reduction is continued in 2020.

Income – Expected to be slightly more on budget in 2019, with further increases in income forecasted in 2020 due to a revised charging structure and positive trends in the economy resulting in greater volumes of building works.

Expenditure – Due to staff turnover, staff costs are forecast to be less in 2019 however this has been partially offset by increased costs of outsourcing planning administration and advice in the short term.

General Services

Income in 2019 has increased compared to original budget and this, coupled with the savings made in expenditure, have resulted in net expenditure being less than anticipated. This trend is expected to continue into 2020.

Further details are provided below: -

Fire Brigade & Cliff Rescue is showing an increase in expenditure which is partially offset by cost savings in other areas. This is due to a proposed small increase to retainer rates for volunteers in 2020, together with the introduction of a more formal post arrangement for station manager duties. It is anticipated that this will reduce the requirement for outsourcing some of the current services.

General Services Grants & Subsidies – Due to the success of the milk vending machine located in the Farm Shop (partially funded by the States of Alderney in 2018), further funding has been set aside in 2019 to allow the subsidy to be extended to other main retail outlets.

Properties – there is an increase in Revised Budget 2019 due to some minor works being met by revenue rather than being capitalised. Fewer vacancies in 2019, together with the appointment of the Manager of Estates, Environment and Infrastructure, have also resulted in greater capacity to complete projects in-house.

Waste Disposal – The forecast costs in the original budget were cautious and actual costs are now anticipated to be £60k less than budgeted. This has been reflected in the Revised Budget for 2019 and into 2020.

Vehicle Fleet costs – maintenance costs continue to reduce reflecting a successful outcome of the Vehicle Replacement Program.

Staff – PSE staff numbers remain relatively consistent, however there are changes in some service areas due to the staff allocation between States Works teams. The cost of Administration staff was less than anticipated in 2019 due to the delayed recruitment of the post of Estates, Environment and Infrastructure Manager. This role has now been filled and full costs are reflected in 2020.

Harbour – The overall harbour deficit shows a positive trend, and this has decreased by an estimated £23k against original budget in 2019. In 2020 the deficit is significantly less than 2019.

Income is higher in 2019 largely due to the increase in boat storage fees and mooring fees as agreed by the States in 2018. Additional income has also been received due to the change in operational arrangements in 2019 for the Water Taxi Service.

In regard to expenditure, overall this is up on budget. This is due to the purchase of crane rope replacements, urgent repairs required to the harbour crane as well as repairs to an aerial fault. This has been partially offset by the favourable weather which resulted in the mooring replacement being achieved

under budget. Additional funds were also required in 2019 to enable the Water Taxi Service to operate, which included purchase of a suitable vessel.

The cost of provision of pilotage remains high, however year-round service is guaranteed under the revised contract.

Policy & Finance

Overall net expenditure for 2019 is as per the budget with any significant items of note being referenced below:-

Corporate & Democratic Services

Staff costs/ Capacity – 2019 pay awards for Established staff have not yet been agreed and therefore no adjustments in this regard have been made. The original budget included provision for additional capacity in the civil service to be offset by savings in other areas. The revised budget shows an underspend in staff costs due to the timing of recruitment to these posts. The Harbour Master post became vacant during the year which has also contributed to budget savings across Committees.

In 2020, further staffing changes will be necessary largely as a result of some existing staff contracts nearing completion. The 2020 budget includes provision for longer term capacity to replace these roles alongside further capacity to strengthen overall management. The financial impact of these changes has been contained within the existing overall budget envelope by making savings elsewhere as well as re-prioritising duties.

Supplies, services & recruitment – An increase in 2019 and 2020 expenditure is due to the consolidation of departmental training budgets from individual departments to improve effectiveness and consistency across the organisation. Additional IT costs are also included in 2020 due to changes being implemented following the new IT contract arrangements being implemented by the States of Guernsey.

Reserve Fund for Major Projects – There are a number of current work streams that could potentially result in significant additional consultancy, legal advice and resources being required. These include the potential Fort Tourgis development, Brexit, introduction of the Single Property Tax, extension of the Territorial Seas and the possibility of further work associated with Fab Link. To smooth the impact of these potential costs, it is recommended that a reserve fund be created to provide for such expenditure where timing and amounts are uncertain. The Budget provides for an initial transfer of £50k to be made in 2019 with a further £25k in 2020.

Reserve Fund for Uninsurable Events – A recent case has highlighted that adequate insurance protection may not be available for some potential risks that the States may face. This is particularly relevant to Building and Development Control Committee court cases whereby there can be the potential financial risk of defending cases that may prove to be uninsurable, despite being deemed to be in the Island's interest to defend. It has therefore been recommended by the Finance Committee that a reserve fund of £50k be formed in 2019 to provide funding for such instances. It was further recommended that budget provision be made in 2020 for an additional £25k to be allocated to the fund in order that a more significant reserve may be achieved.

Legal & Consultancy fees – This budget has been reduced for 2019 due to less requirement for these services with elements of this work being carried out in-house. In 2020, a reduced amount is retained due to the proposed formation of the major project reserve fund (as mentioned above), together with the proposed changes to strengthen the management structure.

Insurance & Insurance Deductible Reserve –The Insurance Deductible fund has been established over the last few years in order to “self-insure” up to the maximum liability which potentially could be claimed for previous years. Up until 2018, this related to the period 1998-2017 however as the liability dated back 20 years there was a lower risk that funds from earlier years would be required. Therefore, it was agreed with effect from 2019, to include a revised provision to allow for current year limit (now £100k) plus the previous 10 years. The effect of this is a £46k one-off saving in 2019.

Policy and Finance Grants & Subsidies

Indicative budget provisions has been made for 2020 in relation to organisations that have applied for grants in 2019. However, on submission of grant applications in 2020, further consideration and analysis of their applications will be made before their actual grant allocation is awarded.

The ACRE subsidy has been significantly reduced in 2019 due to the changes in the Commission structure as agreed by the States in May 2019. The temporary appointment of existing civil service into the commissioner roles and the relocation of operations in house, has further reduced the 2020 budget to £25k, compared to an original budget of £110k in 2019.

Tourism

Staff costs are higher when compared with 2018 however this reflects changes made to fund all permanent posts in Tourism and Marketing from revenue resources rather than from the Economic Development Reserve (EDR) Fund.

Enhanced Digital Marketing costs have also been moved from EDR into revenue as the changes to marketing strategies have resulted in this form of marketing being considered a mainstream cost rather than an EDR initiative.

Other operating income

Property and land rents – This amount has slightly increased in 2020 to reflect changes within lease terms, adjustment for Nunnery rental arrangements and rental reviews where necessary.

Interest Receivable – Income has increased due to additional interest received based on favourable rates.

Vehicle Import Licence fees – Income has increased by an estimated £16k on original budget following changes to the fee structure implemented in 2019 together with increased import volumes.

Numismatic & philatelic profits – Income set to reflect the current contract terms agreed.

Property and other taxation/grant income

Income forecasts include duty free concession, an assumed increase of £11k in property transfer duties (based on income to date) for 2019, and the cash allocation from Guernsey (as mentioned earlier in the report).

Occupiers Rates – For the 2020 budget, no changes to category rates are being recommended as this will be the last year of Occupiers Rates prior to the introduction of the Single Property Tax from 2021. The Policy & Finance Committee is recommending a 5% increase to all property types. This will provide a small surplus in the Budget for 2020.

STATES OF ALDERNEY CAPITAL BUDGET

Programme Review

Additional resources have been allocated to the capital programme in 2019 in order to address the previous year's slippage by working with departments on their business cases, prioritising essential projects with States Members, and reviewing the systems and programme in general. As a result most of the 2018 backlog has been addressed, some projects have been moved into subsequent years or removed altogether, giving a more realistic and deliverable programme, some have been moved into revenue, where appropriate, or in the case of long standing projects earlier phases closed off with future phases requiring revised business cases. Overall the expected expenditure in 2019 has reduced to £2.4m, one main factor in this being the delay to the extension to the Connaught Care Home which is now proceeding mainly in 2020. As part of the review the programme has been allocated between major projects (exceeding £150k) and minor projects, to allow the Committee to prioritise and focus on the major projects, with approved minor projects proceeding as scheduled at staff level.

Financial Procedures

Approval by the States of the overall capital budget does not mean that any individual project can proceed without further approval under the financial procedures, and should therefore be recognised as an indication of probable projects as opposed to a firm schedule. All new projects will require individual costings, business cases and necessary approvals as per the financial procedures. Currently any project in excess of £100k requires approval by the full States of Alderney. This amount was last increased several years ago and as purchasing costs increase, the limit is considered too low. An example of this being the sewer cart replacement at approx £115k which is part of the scheduled vehicle replacement programme, but under current rules would require discussion by the full States. This is considered inappropriate and also causes delays in excess of 2 months to the purchase and potential increase to the time limited quoted price, usually valid for 30 days. It is therefore proposed that this approval level is increased to £150k in order to give the Committee more flexibility and avoid unnecessary delays and price increases. It should however be noted that the business cases will still require full Committee approval as per the financial rules.

Capital Income

The Capital Programme continues to be mainly funded by Alderney Gambling Control Commission surpluses which are expected to continue at approximately £1.9m in 2020, from which the transfers of £667k to AeGL, and £300k to the Economic Development Reserve Fund will be made. Other minor capital income relates to the sale of States assets such as vehicles and plant together with Le Banquage land freeholds.

Capital Expenditure

The General Services Committee anticipate £5.5m capital expenditure during 2020 covering a wide variety of projects. The major projects amounting to £3.5m of this include :-

- Connaught Care Home Extension
- Harbour Pontoon & Crane Replacement
- Coastal Defences at Corblets
- Cliff Erosion at The Cutting/York Hill
- Fort Doyle Sewer Improvements
- Water Board Standby Filtration Plant

The minor projects throughout the Departments, totalling just under £2m, covers all other aspects including:-

- Agriculture - vehicles & plant
- Fire Brigade - vehicles & equipment
- Harbour - plant, quays, buildings & moorings
- SWD – coastal & cliff erosion, waste, recycling & sewer projects, minor roads, land, property (including Fort Gronez hangar) and recreation projects, together with scheduled vehicle & plant replacements
- Water Board – ongoing distribution improvement projects (as per Water Board section)

The Policy & Finance Committee is also predicting to spend £260k during 2020 on projects including:-

- IT hardware & office equipment replacements & improvements
- IT upgrades including website, land registry & internal data systems
- Continued data protection security

Overall this reflects an ambitious capital programme for the year ahead, and capital expenditure on some major projects will extend into 2021. The shortfall between income and expenditure required to fund the proposed capital program will be funded by capital reserves, which have mainly been accumulated due to the project slippage in previous years.

The consolidated 5 year capital programme is as an attachment for information, however it should be noted that only 2019 (revised budget) and 2020 are subject to approval as part of this budget (subject to individual business cases and approvals as previously mentioned).

WATER BOARD REVENUE BUDGET

The budget achieves the key objective that the Board should meet its operating costs in any given year in order to build a reserve to fund future capital liabilities and the associated increases in depreciation. It should be noted that each time a capital project is approved the associated ongoing operational costs i.e. depreciation, maintenance contracts, replacements, TRP etc. are charged to the Revenue account.

The revised budget 2019 is expected to achieve a similar result at year end to the original budget.

In respect of 2020 any significant variances and/or main points for noting are listed below:-

Income

In respect of income from rates, for 2020 it is proposed that a 5% increase in rates is applied in order to cover the operating costs for the year and to maintain reserves equivalent to at least one year's operating costs. This will increase the minimum charge from £70 to £74 per quarter, and will produce an overall surplus for the year of £49k in 2020. Meanwhile the overall surplus for 2019 revised budget is a slight increase to the original budget.

Expenditure

Depreciation – Reflects the ongoing capital projects/purchases. This was less than budgeted during 2019 due to high value membranes fully depreciating at the beginning of the year.

Mains, Machinery & General Maintenance – Retained at the same level as 2019 revised budget as capital projects continue to upgrade the distribution system thus resulting in less maintenance required.

Administration charge – This is being incrementally increased annually in order to eventually remove the subsidy however this is only reflecting staff costs and no other overheads.

Staff costs – The wage costs are partially offset by recovery from the use of in-house labour and supervision on capital projects. The gross figure would show an additional £20k (2019r) and £21k (2020). Revised Budget wage costs are higher than budgeted due to use of in-house labour on capital projects being slightly less than anticipated.

Rents receivable – Slight increase in 2020 due to rent reviews.

Interest receivable – This has increased significantly due to higher interest rates receivable on the Reserve account subject to account balances being maintained.

WATER BOARD CAPITAL BUDGET

The Water Board continues successfully with its infrastructure improvement programme, supported by substantial capital investment from the States of Alderney, in the form of capital grants. Grants from commencement of the programme in 2008 to date amount to in excess of £2.8M. The projects to date have significantly improved the water collection, filtration, treatment, storage and distribution. The more recent distribution improvements have been arranged in order to take the opportunity to trench share with AEL, thereby saving on costs and disruption.

As shown on the 5 year capital programme, grant funded capital expenditure for 2020 is anticipated at £855k, which comprises the annual amount for distribution improvements of £275k together with £580k for the standby filtration plant. This latter project has been deferred for several years, however preliminary costs of £20k have been allocated in 2019 in order to commence the research works, with the main project due to materialise in 2020. From 2021 onwards the grant level will revert back to £275k per annum. All of which are pending the identification, prioritisation and costings of the individual schemes.

The remaining minor capital expenditure in 2020 of £25k, relating to minor capital items such as replacement pumps, meters & membranes etc, will be funded by Water Board reserves.

CONCLUSION

2019, although not yet over, should go down as a year in which, despite the pressures on us for fiscal austerity, we balanced our accounts and were able to implement some remarkably sensible, though possibly long overdue, housekeeping reforms. We were, of course, to some extent shielded by one very important element of good fortune. And I speak here of the receipts from our gambling industry, which recently have stood at record highs.

An important focus both this and next year are therefore insurances to protect ourselves from future mishap. We are, for example, and for the first time now building reserves for our Water Board. And we have created other reserves funds to protect ourselves from uninsured events, particularly in regard to planning and are setting aside contingency monies to allow us better to progress major projects. We are currently also reviewing the financial models we use for certain important infrastructure so that there are mechanisms for capital cost recovery. And, finally, we should be careful not to assume that our good fortunes in regard to gambling receipts will continue on an ever upward trend.

As you will have noted, we have mothballed the Alderney Commission for Renewable Energy (ACRE) and, wherever possible, we are using our own resources, rather than consultants to research new initiatives. We have also instituted new policies when we provide financial assistance to the community organisations we support. These community organisations are the backbone for much of what goes on in Alderney. It is nonetheless important to ensure that they, too, are financially prudent. And supporting those initiatives likely to have the greatest economic impact is a clear priority

Our revenue account largely balances income and expenditure. While a shortage of human and other resources continues to cause us difficulties spending the moneys we set aside annually in our capital budgets, we have done much to rectify this problem and the pipeline of projects in our capital programme is now moving ahead, more rapidly than it did when I reported to you in 2018 and 2017. This does not, however, mean that the problem is fully resolved. There are still improvements to do.

The initiatives relating to the Review of the Financial Relationships that I reported on last year still continue. They have resulted in no significant changes in our budget for next year. Any changes that do occur will be in 2021 and beyond. One minor useful change has, however, happened. The States of Guernsey will now allow us to keep any underspend on their annual subvention. This has got to be good.

I will reiterate one thing from last year: we need to place greater focus on the economic benefits derived from capital projects. Financing should be seen, not just as an end in itself, but as tool for realising outcomes essential for our economy. For example, if the damage to our economy from reduced transport links is £ "2*X" million pounds per year and we can rectify that with just an "X" million pound subsidy, why would we not do that?

As always I must finish with a clear message of thanks to the Treasury staff – now being led by the Acting Head, Liz Maurice. As always, they have been diligent and have provided the advice and information we need in a timely and useful manner. Putting together this budget has required long hours and there have been no complaints.

J. D. Dent
Chairman Policy & Finance Committee

September 2019