



STATES OF ALDERNEY

AND

STATES OF ALDERNEY WATER BOARD

BUDGET REPORT 2021

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EXECUTIVE SUMMARY

The Budget for 2021, 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 (PFC) 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.
- There remains continuing emphasis on value for money, challenging existing budgets and delivering efficiencies so that funding is allocated to areas of greatest priority. There has been additional emphasis on this in light of the COVID pandemic.
- As previously reported, from 2020, a revised arrangement had been agreed with the States of Guernsey which amends the allocation from the States of Guernsey to a grant which provide the opportunity for any unspent balances to be transferred into a reserve to provide a contingency.
- With effect from 2021, subject to the Alderney Property Tax legislation being approved by the UK Government, the Alderney Property Tax, Fuel Duty and Document Duty income will be collected and retained by the States of Alderney. If the UK legislative timetable slips, alternative arrangements will be put in place.
- The estimated yield from the above three revenues has been assessed against the grant from the States of Guernsey that would have been received had the financial relationship not changed. A transitional grant of £300,000 will be made in 2021 and no further grants will be received by the States to support the revenue budget from 2022 onwards.
- The capital programme is mainly funded by Alderney Gambling Control Commission (AGCC) surpluses, together with locally raised revenue from asset sales etc. The gross distributions for 2021 is expected to be in the region of £1.5M, from which transfers to Alderney eGambling Limited (AeGL) and the Economic Development Reserve Fund (EDR) 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 £727k from water rates and charges, which in 2021 will cover its operating costs, with a surplus of £104k towards reserves.
- The Water Board capital programme continues successfully, funded by grants from the States of Alderney amounting to £2.86M to date since 2008, with a further grant of up to £175k anticipated for 2021.
- The 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. 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 PFC approval.

ECONOMIC DEVELOPMENT

Although the EDR 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.

All current projects as well as areas of financial support have been agreed by PFC and are being/ or are scheduled to be implemented. Many of these approved votes which are categorised under three main headings (Transport, Tourism and General) will roll over to 2021 depending upon available resources.

Following a review of the impact of COVID-19 earlier in 2020, it was agreed that any savings through diverting/ re-prioritising expenditure should be realised in order for funding to be made available for other COVID-19 related initiatives. Details of these initiatives will be presented to PFC as they are identified.

Transport

Transport links remain 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. The Sea Ferry links with Guernsey were once again supported through this fund and contributions are likely to be in the order of £120k. 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, which has been particularly vital during 2020 for the benefit of all sectors of the community.

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 with particular emphasis on the projects relating to the Islands heritage. The Nunnery has been a focus of this during 2020 and other projects are anticipated during 2021.

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 grant from the States of 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.

2020 Revised Budget – The Revised Budget (RB) for 2020 shows a surplus of £97k compared to the original budget forecast of £37k.

Whilst there has been a substantial loss in income which can be directly attributed to the effects of the pandemic, efforts to improve and enhance budget management together with the re-prioritisation of expenditure have contributed to efficiency savings, which have offset the effects to ensure that the States of Alderney do not run at a deficit this year.

2021 Budget – In respect of 2021 the budget is showing a surplus of £77k after contributions to reserves. The budget strategy considered earlier in the year by the Finance Committee (FC) suggested that it would be prudent to budget to build reserves of at least 3%. The forecast surplus together with other reserves proposed will meet this aspiration.

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

Building & Development Control

Net expenditure is down on Budget in 2020 to £35k from £47k however will increase in 2021 to reflect future work stream requirements.

Income – Due to lockdown and the associated effect on the building industry, permit fee income is expected to be down by approximately £17k in 2020. An increased but conservative fee income is provided for in 2021.

Expenditure – Staff costs are higher than anticipated in 2020 however reduced in 2021 pending appointment of a permanent Planning Officer. Savings have been made in consultancy and supplies and

services due to the impact of COVID and an allowance has been made in 2021 for commencement of work on the Land Use Plan.

General Services

Net expenditure has increased from 2020 Budget by £104k, however is set to reduce to levels similar to original Budget 2020 in 2021.

Income – Overall significant negative impact, largely due to COVID restrictions, in the following areas:-

- Rents – In regard to recreational rents, campsite, Island Hall and Butes Centre income, all down on budget in 2020 however reverting back to more typical rates in 2021.
- Harbour Income – There is a significant reduction in income for 2020 which specifically relates to harbour dues, visitor mooring fees, crane dues and water taxi receipts. Due to the pandemic, the General Services Committee (GSC) were keen to offer their support to the visitor economy and therefore, during the year, free Visitor Mooring Fees and Water Taxi Service were provided. In addition to this, in line with the States of Guernsey, local Commercial Fishermen also received a concession towards their mooring fees for 2020. These measures were well received within the Bailiwick and undoubtedly benefited the Islands economy.
- In 2021, income is expected to reach previous year levels, however as with other areas of income, this is dependent on the future COVID situation.

Expenditure – Overall, General Service expenditure has decreased from budget by £114k in 2020. Budget 2021 has provided for efficiency savings of £128k from 2019 expenditure. Areas of significant variance/points of note are:-

States Works

- Staff (General) – Due to staff vacancies and opportunities to review staffing requirements, costs in the majority of areas are significantly reduced for 2020. Opportunities to assess future requirements/ allocation of duties have been taken and reflected in the budget for 2021.
- Agriculture – Overall reduction in expenditure of £25k from budget with some of these savings maintained during 2021.
- Vehicle and Plant Maintenance – Due to delivery delays on vehicles included for replacement in the vehicle replacement programme, additional maintenance and repair costs have been required in some areas. However, as deliveries are expected imminently, these have been negated for 2021.

Emergency Services

- Fire – Increase in staffing costs during 2020 which are continued into 2021 due to the appointment of the Chief Fire Officer and additional responsibilities due to COVID operations which has been partially offset by less requirement for 3rd party services.
- Ambulance – As PFC have previously agreed in principle to include the Ambulance cost in the budget subject to some consultation with the public and consideration of alternative funding, costs as presented previously have been included as part of the budget. No alternatives are considered to be viable in the short-term and therefore consultation is now in hand on a binary choice between subscription model and including within the mainstream budget.

The arguments in favour of the mainstream model have been well rehearsed previously. The key points are:-

The arguments in favour of the mainstream model have been well rehearsed previously. The key points are:-

- No subscriptions will be required from existing subscribers;
- The service will be available as a free service for all residents including current non-subscribers;
- Efficiency savings will be realised on the cost of collecting subscriptions or resident fees;
- There is potential to raise income by a charge on non-residents;
- Staff and vehicle efficiency savings as part of the integration with Fire Brigade suggest that the additional cost of the Ambulance service within this iteration of the budget will be

less than £80,000. As the States has previously committed to a subsidy of £40,000, the net additional cost is £40,000 per annum. For a 350 TRP unit property, this additional cost is estimated at £32 per annum;

- A recommended Alderney Property Tax increase will accommodate the cost of the Ambulance in 2021.

Conversely, if the decision is taken to continue with a subscription model, there will be additional costs related to the administrative burden of collecting subscriptions as well as collection of debt from non-subscribers.

A final decision is required on this matter. Should funding not be part of the budget, the subscription model will need to be continued alongside a subsidy from the States.

Due to Emergency Response related to the pandemic, significant variances are a risk during 2021.

Harbour

- Expenditure costs are budgeted at £84k above budget in 2020 and at an equivalent amount to 2019 actuals for 2021. The increased expenditure in 2020 is attributable to no provision in 2020 budget for the Water Taxi Service, which, due to no suitable tender proposal being received, has been operated by the Harbour in 2020. These additional costs amounted to £16k. Staff costs were also higher in 2020 due to the overtime required to provide border control cover. Additional costs have also been incurred in 2020 due to maintenance and repairs on the crane and other plant which were unforeseen at budget time. There were also further costs relating to Moorings and Navigation & Buildings and Quay maintenance due to the breakdown and repairs required on the Pilot Boat and essential repairs required on the crane shed.

It has been anticipated that the Harbour will continue to operate the Water Taxi Service in 2021 and suitable budget provision has been made. In recognition of the costs associated with the Harbour and the current deficit, GSC with the support of FC, have agreed to carry out a review of activities at the harbour during 2021.

Policy & Finance

Net expenditure has decreased from 2020 Budget by £100k, however is set to return to similar levels as 2020 original Budget, in 2021.

Corporate & Democratic Services

- Staff costs/ Capacity – Due to staff vacancies, staff costs down by £27k in 2020. In 2021, £30k increase from 2020 Budget based on staff appointments as agreed by PFC. Opportunities for efficiency savings will continue to be assessed where this does not compromise service delivery.
- Supplies, Services & Recruitment – In 2021, an increase from RB 2020 of £34k to include minor additions in a number of areas and inclusion of the administration costs of the Alderney Property Tax being agreed with the States of Guernsey.
- Unforeseen expenditure – Provision has historically been made for unforeseen costs. However, as reserve funds are now held for major projects and uninsured events, together with the ability to retain any surplus with effect from 2020, no separate provision for this has been made in the RB for 2020 or for 2021.
- Reserve Funds – Provision has been retained for a £50k transfer to both the major projects and uninsured events funds for 2020 and 2021. No claims have been made to date during 2020 for use of these reserves.
- Permits, Licences and Fees – Expected income in this area has been reduced in 2020 due to COVID however has been increased in 2021 to an amount similar to original Budget 2020.

Court

- Staff costs reduced due to the current Greffier vacancy and associated savings in new appointment costs for 2021.

Tourism & Marketing

- Due to the pandemic and the effect on Tourism, the marketing team have re-evaluated and amended their strategy to maintain value for money wherever practicable. This has included withdrawing from off-Island distribution in 2021, enhancing digital marketing and retaining the 2020 brochure for use in 2021. Where possible, any advertising contracts have been suspended. Staffing requirements are also being assessed following the resignation of the Director of Tourism. These changes will provide a decrease in expenditure of £47k in 2020 and £35k reduction from Budget 2020 in 2021.
- Sale of Advertising Space – This has been set at nil for 2021 due to a marketing decision to utilise the 2020 brochure in 2021. This reduction in income is offset by savings in brochure production.

Education & Health

- Reduction in RB 2020 due to the reduced requirement for the School Bus during lockdown.

Grants & Subsidies

- RB 2020 has been adjusted to reflect awards to date. Based on advised requirements, no allocations have been included for Alderney Commission for Renewable Energy (ACRE) or the Alderney Ambulance Service in 2021, with the latter dependent on the outcome of the Ambulance discussions as detailed earlier in the report.

Other Operating Income

Property and Land Rents – Income reduced in 2020 to reflect property vacancies and changes to lease terms.

Interest Receivable – Based on interest received to-date, this income has been reduced by £22k from Budget. A conservative estimate has also been included for 2021 in light of the current worldwide situation.

Vehicle Import Licence fees – Due to COVID, there was a noticeable reduction in vehicle importations during the 2nd quarter of the year. However, imports have considerably increased in recent months and therefore currently anticipating a £10k reduction from budget in 2020, with further conservative increase in 2021.

Numismatic & Philatelic Profits – Income set to reflect the current contract terms agreed.

Property and other Taxation/Grant Income

Allocation from States of Guernsey – An increase in allocation from Budget 2020 relates to adjustments relating to the 2019 pay settlement.

In 2021, a transitional grant of £300,000 will be made as a final contribution to the States of Alderney revenue budget following the modification of the financial relationship with the States of Guernsey agreed in 2016. This ensures no financial detriment to the States of Alderney in the event that revenues in 2021 and 2022 are lower than the sum that the States would have expected to receive in the form of a grant. This will be the final revenue grant payment from the States of Guernsey. From 2022, the States of Alderney will be responsible for setting property tax and duty levels to meet its expenditure needs without routine support from the States of Guernsey.

For the purposes of the 2021 budget, estimates have been calculated for Alderney Property Tax, Document Duty and Fuel Duty on the basis of past experience. An adjustment has been incorporated into the budget to reflect the negative impact of COVID-19 in 2020 and into 2021 in terms of property sales, fuel sales and vacant properties.

Property Transfer Duties – Following a fall in property sales during lockdown, indications are for a good recovery in the latter part of the year therefore this has been reduced from budget for 2020 by only £26k. 2021 Budget has been set at the same rate as Original Budget 2020.

Duty Free Concession – The current contract holder withdrew from their concession agreement during 2020 and therefore, budgeted income has been reduced on this basis. Due to the unknown future of the viability of this concession agreement, no allowance for income has been made in 2021.

STATES OF ALDERNEY CAPITAL BUDGET

Capital Income

As mentioned above, the Capital Programme continues to be mainly funded by AGCC surpluses which are expected to continue at approximately £1.5M in 2020, from which the transfers of £500k to AeGL (original Budget £667k), and £300k to EDR will be made. Other minor capital income received in 2020 relates to the sale of States assets such as vehicles/ plant.

In 2021, AGCC surplus are again estimated at £1.5M with transfers of £588k to AeGL and £300k to EDR. Although no provision has been made for asset sale receipts in 2021, should any sales take place during the year, income will be adjusted at Revised Budget.

In regard to the difference in Budget for AeGL in 2020, a significant reduction has been requested by the Board due to the ongoing COVID-19 pandemic with savings being identified in areas associated with conference travel costs and marketing, and other promotional activities. They remain conservative in their budget request for 2021 due to travel uncertainties.

Capital Expenditure

This year the pandemic has had a significant impact which necessitated a review of the budget process earlier than usual in order to identify savings (both revenue and capital) for potential spend elsewhere.

The Senior Management Team with key department leads reviewed and prioritised all the capital projects summarising those that must continue, those that were likely to be delayed due to factors outside of States control, could be delayed with minimal risks or issues, and those that could be stopped. A number of key factors were used during the assessment including expenditure to date, resource (capacity, capability and constraints) and pandemic lockdown impact (e.g. travel restrictions, social distancing etc.).

The results of the re-prioritisation exercise have been considered by the FC and GSC. This exercise has resulted in potential savings of over £2M in major projects (those in excess of £150k) and £1M in minor projects (those under £150k).

Following the re-prioritisation exercise, the attached schedule has been agreed which shows each of the major projects together with the minor projects which are consolidated with the totals shown by department area.

It should be noted that the programme is an outline of expected projects and the approval of the budget does not mean that any individual project can proceed without the required business cases, approvals etc. as per the financial procedures.

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 etc. are charged to the revenue account.

As in all areas within the control of the States of Alderney, budget holders have been asked to focus on requirement and affordability. In light of the COVID pandemic, staff have, since Quarter 2, been required to re-prioritise work streams and identify any areas where savings can safely and appropriately be made. However, due to the nature of the services being provided by the Board, it should be noted that COVID-19 has had a relatively minor effect on the overall operations of the Board.

The regard to revenue, it is expected to exceed the overall surplus largely due to any loss in income being offset through expenditure efficiencies. Overall surplus for 2020 is expected to be £81k, with a surplus of £104k budgeted for 2021.

Any surplus is transferred to Water Board reserves at year end.

Income

As rates are set by ordinance each year, unmetered income in 2020 remains largely unchanged from Budget. However, due to the closure of hotels and businesses during lockdown, the RB for metered income has been reduced by £10k to reflect the reduction in overall usage. This together with minor reductions in service charges and contract works have resulted in a reduction in estimated income from £726k to £715k in 2020.

In regard to 2021 income, the Board have in recent years, committed to increasing Water Rates each year to increase the reserves held. Since 2017, a 5% increase has been agreed each year.

For the purposes of this Budget a nil increase has been assumed, and this forms part of the recommendations below. It should however be noted that this is as a short term mechanism and there should not be an assumption that this will continue in future years.

Expenditure

Total Expenditure for 2020 is projected to be down from budget by £44k with further reductions in 2021.

Although the majority of expenditure costs have been largely maintained, the main areas of variance are:-

Staff costs (General)

- These are lower than anticipated at budget and remain lower in 2021 due to the retirement of the Water Board Manager and proposed changes to the Management/ staffing structure. However, the final staffing structure is not currently known and therefore, there is a risk that these budgeted costs could be increased in the future.

Water Treatment & Testing

- RB and 2021 costs have been reduced due to less chemicals purchased following the commissioning of the OSEC (On-Site Electro-chlorination) plant.

Pumping Costs

- Reduction in fuel costs in 2020, with minor allowance for increase from RB in 2021.

Maintenance, Machinery & Materials

- The improvements to the distribution network continue to minimise maintenance costs. There is also expected to be less than anticipated originally in 2020 due to some impact on work streams during COVID.

Depreciation

- Adjusted to reflect capitalisation of completed phases and new fixed assets.

Administration Charge

- This is being incrementally increased annually in order to eventually remove the subsidy however this is only reflecting staff costs with no other overheads.

Staff Training

- No expenditure in 2020 due to travel restrictions.

WATER BOARD CAPITAL BUDGET

The Water Board continues with a successful capital programme which is mainly funded by capital grants from the States of Alderney. Over recent years the program has largely been driven by the work which Alderney Electricity Ltd is carrying out in relation to the distribution grid, with the Water Board joining in with trench share opportunities, where appropriate, in order to save on costs and disruption.

Delays due to lockdown restrictions on some projects, together with resource issues, has resulted in a reduction to the annual grant for minor distribution projects etc. by £100k to a more realistically

achievable amount of £175k for the foreseeable future. This is allocated as and when the individual projects are costed.

2020 Projects - During 2020 projects have included the finalisation of the significant Phase 9 project from Waterlane through to Braye Street, together with Phase 18 at Butes Lane. Phase 16 at La Marette has completed sections A to D, with section E (through to the top of Little Street) to follow once costings have been received.

The Standby Filtration Plant has been deferred over the past few years and deemed non urgent, preliminary costs voted have been at £20k with further feasibility work included in 2021 to review the options, including a change from membrane to sand filtration or other methods. This will be a major project requiring grant funding and is not included in the £175k pa grant for distribution projects. This project is also intended to include the centralisation of the Water Board operations at a single site in Battery Quarry, and could, if necessary, include the sale of the asset at Allee es Fees in order to offset costs.

In addition to the grant funded capital project work mentioned above, the Board funds vehicle replacements, and minor capital expenditure relating to pumps, meters, membranes, security etc. from its own reserves.

CONCLUSION

2020 has proved to be an unprecedented year for Alderney, and for the whole world. However, we are thankfully able, today, to report some fairly good news. The Covid-19 impact on Alderney's finances has been much less than the impact on other jurisdictions.

We have been shielded by our fiscal union and the wider financial relationship we have with Guernsey. It is the wider Bailiwick/fiscal union finances that have, in fact, suffered. And it is these other finances which have provided the majority of mechanisms for Alderney's own financial support through the pandemic. To date, Alderney's own finances have survived, and continue to survive, relatively unscathed.

And so, the States of Alderney have managed to budget for 2021 in a manner that largely preserves the important features of most of our earlier spending plans – though, as you will have noted, we:

- have re-prioritised some of capital projects;
- have reallocated those funds which, as a result of the Covid crisis, we have not spent nor have been able to spend; and
- are seeking to operate more efficiently - no mean feat in these difficult times.

We do however recognise that the challenges are ongoing and we are facing many uncertainties.

It would therefore be rash to suggest that when we look back next year, that the outturn from this 2021 budget, will have been as predicted.

We need to recognise that:

- our 'revenue-account' expenditures are largely committed to delivering existing services and where possible, we must continue to look for efficiency savings; and
- our 'revenue-account' income, although a 'best-estimate', may fluctuate – there are matters here that are beyond our control.

And so, in regard to the coming year:

- The new Alderney Property Tax, (which is subject to the relevant law being approved by the UK Privy Council), together with the Document and Fuel Duty changes can only be a good thing for Alderney – the changes give us flexibility for the future and make us, much more than before, the masters of our own destiny. Nothing, however, comes for free, and with these new powers, comes a responsibility for fiscal propriety. We have, therefore, decided to increase the rate for this tax by 5%. This will give us the flexibility to meet our current spending requirements as well as providing a modest sum to set aside in a reserve. This is an essential mechanism to start

providing a contingency to manage future budget fluctuations when we are no longer reliant on the States of Guernsey for 50% of our revenue budget.

At this point in time, we have no knowledge of the Guernsey budget intentions. However, we recognise that, were we to deviate significantly from any increases applied to TRP and duty levels in Guernsey for 2021, we would have great difficulty in persuading Guernsey to apply any emergency funding measures, should they be needed - and which we believe are particularly important while the Covid-19 crisis continues.

- We are, however, very pleased to be able to maintain water rates at 2020 levels, a great result considering the challenges presented in 2020. I would like to take this opportunity to offer the greatest of thanks to departing Water Board Manager, Paul Rose, who has served the Island with dedication and hard work for 44 years and wish him the very best in a well-deserved retirement.
- As we move to our new financial arrangement from 2021, we will receive a final grant from Guernsey to help us manage the transition. Except for emergencies that are outside our control we no longer have the opportunity to go back for support because we have exceeded our budget. In 2016, we asked to take responsibility for our finances rather than be dependent on the annual grant from Guernsey. Now we have financial independence, our challenge is to promote high standards of financial governance throughout the States, budget responsibly within our means and demonstrate value for money in how we use public money.

The obvious 'elephant in the room' in this budget is, of course, the harbour deficit. This has come about as a result of both reduced income, and increased maintenance costs – the crane being a particularly good example. In 2020, £70,000 of the harbour losses were due to the offers of free moorings and water taxi waivers to our Bailiwick friends. We do however believe that the increased injections of cash into the economy as a whole from our Staycation visitors was worth the free offers - and we would also note that we are not planning to repeat these offers next year.

It has been a very long time since we have had such a close relationship with Guernsey, and this new found relationship of positivity and mutual respect is one I hope that thrives. Our solution to the losses is not to increase harbour charges but instead to conduct a full review of harbour activities to identify inefficiencies and to make recommendations for cutting costs where these do not compromise quality and safety. As an Island, our harbour is of paramount importance. I hope to close the deficit over the coming years without rate hikes to the detriment to our seafaring islanders and visitors.

Finally, I would like to thank the tireless work of our dedicated Treasury Department staff and our Strategic Financial Advisor, Stephen Taylor. The Head of Finance, Liz Maurice and her team, have had their world turned upside down more than once during the last year. Next year may be no different. Their advice and assistance at every turn throughout the year has been invaluable.

I cannot give enough thanks for everyone's work in preparing this budget. Just a few months ago everyone thought it might make much bleaker reading.

Here's to 2021. A year which I hope is as exceptional as 2020, but in an entirely different way!

J. D. Dent
Chairman Policy & Finance Committee

September 2020