POLICY & FINANCE COMMITTEE
CHAIRMANS REPORT
AUDITED ACCOUNTS 2018

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 14th May 2019.

As previously reported the accounts are being shown in the revised and streamlined format, showing breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2018. For additional comparative purposes, a further report is also attached comparing actuals with the revised budget for 2018.

The following comments highlight, in round figures, some of the material differences between 2018, revised budget for 2018 and on 2017 accounts.

STATES OF ALDERNEY – REVENUE ACCOUNT

Summary – Overall, I am pleased to report a substantial improvement compared to the expected out turn as reported at budget time last year which forecasted the requirement for use of AGCC reserves amounting to £105k to fund the shortfall. Actuals show a surplus of £137k with no requirement for use of AGCC reserves. This was achieved mainly by additional income from property transfer fees, BDCC income and harbour dues collected coupled with savings in service areas, capitalisation of minor projects, and lower legal & consultancy fees than initially expected. Savings have however been offset by increased insurance costs across the Committees together with additional staff costs which have resulted from delayed pay negotiations which were not finalised during 2017.

Building and Development Control Committee – Overall this Committee shows a net cost of £44k. This is an improvement of budget which forecasted £59k. This was due to additional Planning Fees received in the latter part of the year, together with some more minor expenditure savings. As reported at Budget time, the high costs shown in 2017 have now ceased as the work on the Land Use Plan has reached fruition.

General Services Committee – The General Services Committee has continued to deliver the wide range of public services covered within its mandate. Overall, a net decrease in cost of operational activities of £76k has been achieved on revised budget, although net expenditure has increased by

£175k when compared with 2017. The overall increase since 2017 is largely due to the change in the service level agreement with the Connaught/ Jubilee Care Home which has resulted in additional property maintenance costs. An additional breakdown by department is provided below:-

States Works – £57k decrease in net when compared with budget, primarily due to less expenditure costs relating to Waste Disposal than anticipated and some larger States Properties projects being capitalisation together with other less significant differences in other service areas.

Grants – Additional expenditure in 2018 when compared with 2017 due to the nunnery arrangements during that year.

Harbour – £22k decrease in trading deficit on budget, largely due to over performance on income generated (£16k) – a result of a good summer which led to increased income from harbour dues and moorings fees. Also savings were made in other areas.

However, it should be noted that costs in the majority of service areas have continued to increase when compared with 2017 and therefore the Committee remain committed to ensuring that operations are continually reviewed and opportunities taken to ensure cost effectiveness wherever possible.

Policy and Finance Committee – Overall shows a decrease in operational activities of £91k compared with budget and an increase of £25k on 2017, allocated by department as follows:-

Corporate & democratic services – £52k reduction in overall operational activities compared with budget due to delayed recruitment, efficiency savings within legal and consultancy use and no significant requirement for unforeseen expenditure usage. These savings were partially offset by additional insurance costs.

Court – £14k decrease in net on budget due to over performance on income generated relating to various registration/ court fees.

Tourism/Marketing – £17k underspend on budget and reduced expenditure from 2017. Savings have been achieved in promotion of tourism and alternative use of Economic Development funds.

Grants – This heading includes the ACRE subsidy which increased in 2018 due to court costs as previously reported at Budget time. However, due to the court settlement, less indirect court costs were also realised than anticipated.

STATES OF ALDERNEY – CAPITAL ACCOUNT

Summary – Overall capital expenditure amounted to £952k excluding the transfer of £300k to the Economic Development Fund. This was £1,040k less than budgeted for projects. Capital income at £2.7 million significantly exceeded expectations and provided a much welcome boost to the capital fund. On behalf of the Policy and Finance Committee I would like to take the opportunity to recognise the continued work of the AGCC and AeGL and to thank them for their continued efforts.

The main projects carried out during 2018, (excluding replacement plant & vehicles etc.) related to:-

General Services – Road Resurfacing Contract - £178k
Connaught Extension (prelims) - £43k
Nunnery Refurbishment - £168k
Island Hall Repointing - £49k
Butes Play Park (excl. income) - £63k

Connaught Improvements - £58k
Public Facilities Improvements - £38k
St Anne's Church Roof - £25k

Policy & Finance – IT Improvements/ Office Equipment Replacements & Power Surge Protection - £46k
Telephone Network Upgrade/ Broadband - £23k
Video Conferencing Facilities - £19k
Website Upgrades - £12k
Sports Centre Trust – Additional Professional Fees - £19k
AEL Grant towards Improvements to Distribution Grid - £37k

Water Board Grants – £95k to the continuing improvements to the distribution network.

The Committees have collectively noted the lack of progression of some capital projects. Steps have been taken in 2019 to address this, largely through the appointment of a Capital Projects Coordinator and through the prioritisation by General Services Committee of the top 6 projects to ensure better focus of resources on specific projects.

SUNDRY ACCOUNTS

Economic Development Reserve – As previously reported, the Economic Development Reserve was established during 2014 in order to fund a number of economic development initiatives, to be funded mainly by AGCC reserves at £300k per annum. This is shown as a separate fund to ensure that any unspent balances from previous years are rolled over into the following year, the balance as at the end of the first 5 years (2014 to 2018) amounts to £294k.

The initiatives carried out in 2018 are individually listed on page 10. Often a project can span more than one financial year and can be voted in incremental stages as the project progress.

The main areas of expenditure during 2018 were as follows:-

- Digital Connectivity (E-Alderney) – to improve the e-connectivity of the island and open up new opportunities for business, education/training, and health, this initiative was launched at the beginning of the year. The primary purpose was to improve the connectivity of every household and business in the island as well as subsidising an upgrade in internet speeds. At the end of 2018, approximately 50% of households and businesses had been upgraded and it is anticipated that this work will be completed towards the end of 2019.

- New Sea Ferry Service Subsidy – In July 2018, a new scheduled sea passenger ferry service operated by the Little Ferry Company was launched between Alderney and Guernsey. The service was subsidised by the States of Alderney. The operation proved to be a real success and is being further supported during 2019 when it will be operated between May and September.

- Economic Development, administration and consultancy – This relates to staff costs, expenses and support services incurred in implementing economic as well as business development initiatives.

Other projects – a number of 2018 projects were first initiated in 2017 and were primarily associated with tourism-related support, product enhancement (including the Civic Pride roll-out), Marine Management Plan, and Review of Governance. Independent Transport Advice relating to work associated with the Island's air routes' Public Service Obligation (PSO) was also supported by the Fund.

Currency Reserve Fund – These funds are held in a separate account and relate to a percentage of the base metal coins sold which is reserved in case of redemption. Due to the improved coin contract terms only £4k was required to be transferred from revenue during 2018, relating to the previous contract holder. £800 worth of coins were redeemed during the year. Balance held stands at £580k.

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 balances from previous years, in order to assist in minimising annual premiums. The Insurance Deductible Reserve amounts to £331k and covers our potential liability as at the end of 2018.

WATERBOARD – REVENUE ACOUNT

The revenue account is showing a surplus for the year of £21k, which was £7k more than revised budget, and compares to £14k in 2017. As previously reported it has been agreed that the Board should meet its costs in any given year, as it does not have any significant reserves. Therefore this was achieved in 2018.

Income

The increase in income is the result of the 2018 increase in rates (5%), offset against the decision to remove the hose pipe charges in their entirety in 2018. There were also additional service charges when compared to 2017 due to a number of new developments taking place.

Expenses

Salaries & Wages – the figure shown for salaries & wages at £184k is the net figure, after the transfer of £13k of capital project recoveries as a result of using in-house labour & supervision. The net figure is higher than the revised budget due to less use of Water Board staff on capital project works than anticipated at budget time, however, is in line with 2017.

Water Treatment & Testing – £4k less than budget and 2017 actuals. This was largely due to timing of the purchase of treatment materials.

Maintenance Contracts – £6k less than 2017 and £4k under Budget. Mainly due to less additional visits required under contract.

Maintenance – 2018 was significantly higher than 2017 and £6k over revised budget. This was a result of the Water Board contribution towards the road resurfacing costs carried out in 2018.

Depreciation – some larger items fully depreciated during the year therefore slightly less than 2017. Capitalised projects were not completed until closer to year end and therefore not a full year of depreciation required.

Administration Charge – the Water Board revenue account is subsidised by the States of Alderney, with £48k charged as an administration charge to cover the whole operation, which would be significantly higher should the Board be treated as an independent Company with full overhead charges. As previously agreed, this figure is being incrementally increased to bring it to a more realistic figure.

WATERBOARD – CAPITAL ACCOUNT

The Water Board capital projects have been funded by capital grants from the States of Alderney, totalling £2,626,700 (as at 31st December 2018). Phase 11 relating to the Arsenal, Whitegates and Essex and Phase 13 relating to Connaught Square/Church St and QEII St have been completed and capitalised in 2018. Phase 12 relating to the Upgrade in the Disinfection System, at £43k (budget £55k) is well underway. Phase 9 relating to Water Lane & Newtown has commenced however due to AEL works along Braye Common the project is being extended.

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, and since then new States of Alderney employees have joined a defined contribution scheme.

Since January 2014 an amended investment strategy commence 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 2018. The value of the funds under management in the scheme decreased from £5.9m at the end of 2017 to £5.4 at the end of 2018. Over the last few years the fund has however grown substantially in value. December 31st 2018 was a date on which the value of stocks was particularly low. They have since recovered, though the market does remain highly volatile.

At the end of 2018 the extract from the Actuarial Report shows that the Pension Scheme deficit has increased from £4.3m to £4.5m. This was mainly due to as a result of the employer contributions being less than the cost of a year's accruals of benefits on the FRS 102 basis, together with the actual return on assets over the accounting period being lower that the interest income. These factors have been partially offset by actual pensionable salary growth increasing at a lower rate than expected and, overall, the actuarial assumptions adopted have reduced the present value of the liabilities. Further details are shown in note 2 to the accounts on pages 4-6. Finally, it needs to be noted that in common with other Pension Funds, the deficit reported in the accounts reflects the discount rate assumption prescribed by accounting standards. Should the assets grow faster than this assumed yield on long-term bonds, as indeed they have done historically, the deficit will be much reduced.

CONCLUSION

2018 was another busy year, particularly for our small staff in the Treasury. It was however a very satisfactory year. We increased our capital reserves and eliminated the deficit on our Revenue Account. This year, as noted earlier, the revenue account recorded a small underspend of £137,000 on our budget and cash-limit.

The contribution to the capital account from the license fee income from e-gaming continues to be our most important source of income and at £2,642k in 2018 has enabled us to further strengthen our capital base. In recent years we have been well served by the Alderney Gambling Control Commission, with transfers regularly exceeding forecasts. The gambling industry and indeed our own regulatory business are both coming under pressure from external sources, not least from the UK where gaming duty has been increased. Our expectation of ever increasing revenues from this source may, therefore, need to be tempered.

Last year, I reported on the difficulties we were facing trying to ensure that the capital programme did not slip. These difficulties continued throughout 2018. Last year, recognising the difficulties we were facing, we made budgetary provision for additional human resources and, so, hopefully in this year, 2019, we will be able to reverse the slippages that have still continued to occur. The Finance Committee is urging that all that can be done, is done particularly by the General Service Committee, to overcome the slippages.

Although I have reported some good news in regard to our Revenue Account, this element of our accounts remains under pressure. The cash allocation from Guernsey, although increased by a nominal 2.4%, remained almost flat in real terms (inflation was 2.3%). This pressure is expected to continue and emphasises the need for prudent budgeting and effective financial control. During 2018, we were careful, and I believe successful in, balancing our revenue and expenditure. As always, there was however competition between those projects likely to result in long-term economic benefits and those projects with very laudable and desirable social impacts. Occasionally, difficult decisions had to be made. As an economist, my inclination and indeed the whole of the Finance Committee’s inclination, was to favour expenditure likely to generate wealth, and bring in both new business and visitors. Long term, this has got to be money well spent. Our top priority last year, was consequently transport and this is continuing this year.

I will repeat now what I said last year: “the economic benefits from improved links will almost certainly outweigh any modest financial support”. We are, consequently, pleased to see progress in the project to rehabilitate our runway and would like to thank the States of Guernsey for their support of this very important project. Although the initial Invitation to Tender for Public Service Obligation contracts on the Alderney to Guernsey and Southampton routes failed, we are supporting the retendering process.

Last year we spent £70k supporting the Little Ferry summer service. Expenditure on the service this year is likely to be a more than last year. Any increased expenditure will, however, most likely be because of the ferry’s earlier commencement date.

Improvements to our digital connectivity continue and we have recommenced our search for partners who might work with us to exploit our very substantial tidal energy reserves.

Last year, a major focus of our management of expenditure was an attempt to achieve consistency in our approach to the funding of all the island-wide initiatives and enterprises we support. We recognised that we live in turbulent times and there are substantial risks associated with all of the things we engage in. We therefore encouraged all enterprises, including our own Water Board (for which we have, for the first time now made the required budgetary provisions) to hold adequate but not excessive reserves. Previously, different organisations were adopting very different approaches to this risk management tool. We accept, of course, that some organisations are prone to higher risks than others and that their need for more substantial reserves will be greater.

Brexit dominated the news throughout 2018. Last year I announced a new approach to how the States would resource the issues pertinent to Alderney. We began to rely more-and-more on Guernsey. This approach was prudent and, most importantly, more compatible with our own resources. I am pleased to say that this has caused Brexit to no longer be an item on which we have spent large sums of money. Uncertainty around Brexit still dominating the news and is the reason for a lack of progress on many fronts, particularly those that have required legal inputs. Whatever our personal views are on Brexit, these ongoing wider deliberations have caused delays to many work-streams, including the introduction of a Single Property Tax.

We continue to press ahead with the moves to institute a Single Property Tax that will be under the States of Alderney’s control. We wish to be able to fine tune the charges to suit our own island economy, rather than that of the wider Bailiwick. On the one hand, it is clearly inappropriate to milk sectors of the economy that were once cash-cows and which we are losing to other jurisdictions. On the other hand, we may wish to stimulate sectors which we feel need revitalising or who might be attracted to the island.

We continue to recognise the challenges we have with Governance. I need therefore to repeat last year’s message that “if we are to achieve efficient Government there will have to be change”.

Last year I reported that there were some signs that our economy, after a period of decline, was starting to recover. Although 2018 was a year of mixed outcomes – the property and construction sectors did well, but visitor numbers continued to decline, I can now report that both visitor and air passenger numbers appear now also to be increasing. And the property market and the construction sectors continue to do well.

I need now to mention the 1948 Agreement. There have been repeated calls from Guernsey for some kind of review. Currently, the Agreement focuses on our transactional/financial relationship with Guernsey. We have welcomed the review as long as it is widened in scope to cover our economic and other relationships. We are particularly keen to agree complementary roles and to obtain assistance in joint economic planning. We have also emphasised the need for independent arbitration/chairmanship particularly over any areas where there might be contention.

Finally, thanks to all our Treasury staff. We have been supported magnificently.

J. D. Dent
Chairman, Policy & Finance Committee
31 May 2019