



## **POLICY & FINANCE COMMITTEE CHAIRMAN'S REPORT**

### **AUDITED ACCOUNTS 2020**

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 26<sup>th</sup> May, 2021.

The financial statements include a breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2020. For additional comparative purposes, a further report is also attached comparing actuals with the revised budget for 2020.

The following comments highlight, in round figures, some of the material differences between 2020; the revised budget for 2020; and on 2019 accounts.

#### **STATES OF ALDERNEY – REVENUE ACCOUNT**

**Summary** – Overall, I am pleased to report there was an increased surplus of some £80,2k for the year in comparison to the revised budget with a surplus at year end of £177,550. This compares to the surplus of some £48,5k in 2019.

**Building and Development Control Committee** – Overall shows a net cost of £39k which is marginally higher than budget forecast £35,5k. This was in part due to higher staff costs and less planning income due to the impact of COVID-19 lockdown restrictions reducing the amount of applications for projects.

**General Services Committee** – The General Services Committee has continued to deliver the wide range of public services covered within its mandate. Overall there is a net decrease in the cost of operational activities compared to revised budget of £34k, which is £63,5k less expenditure than in 2019 allocated by department as follows:-

- **States Works** - £174k decrease in net from 2019, primarily due to the impact of COVID-19 lockdown restrictions for part of the year. Although normal levels of service resumed from mid-2020 for the Bailiwick, a number of projects/ works were delayed with only essential services being carried out.

- **Recreation** - The Butes Centre & Island Hall rental income were initially impacted by lockdown restrictions preventing any hire/ usage during lockdown, however income recovered to exceed revised budget by £6,5k although less than in 2019. Income was also affected by COVID-19 as the Committee for Tourism & Economic Development reduced the Campsite rent to peppercorn level for the year following representation from the Campsite operator.
- **Fire Brigade** - Increase in maintenance wages costs following the appointment of the Chief Fire Officer as an established member of staff, however these were offset by reduced volunteer wages with the crew operating with only 10 of the full 12 crew normally available.
- **Civil Emergency** - £15k net reduction in expenditure from revised budget due to Harbour electing to “opt out” of the CEFAS program due to the difficulty of maintaining it during lockdown. No samples were collected or shipped as logistically it was very difficult to send samples away, and the laboratory was closed during the lockdown period.
- **Grants** - Grants issued were £18,3k less than those issued in 2019 and £3,4k lower than revised budget, mainly due to the grant issued in 2019 for the Milk Vending machine being a one-off cost, no additional environmental grants issued in 2020. Ramsar support was also below revised budget as this was affected by lockdown restriction in the second quarter of 2020.
- **Harbour** - The Harbour deficit increased to £216k compared to £88k in 2019, being marginally lower than forecast in revised budget.

The Harbour was significantly affected by the lockdown travel restriction and the closure of the Bailiwick borders in 2020 due to COVID-19. The Harbour had a significant reduction in income for 2020 which specifically related 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 visitors 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. Overall income was £122,9k down from 2019.

Expenditure costs were comparable to 2019 actuals and £10k less than revised budget. The increased expenditure in 2020 was attributable to no provision in the 2020 budget for the Water Taxi Service, which, due to no suitable tender proposal being received, was operated by the Harbour in 2020. These additional costs amounted to £19k. Staff costs were also higher in 2020 due to the overtime required to provide border control cover. Additional costs were also incurred in 2020 due to maintenance and repairs on the old crane and other plant which were unforeseen at when the budget was prepared. There were also further costs relating to the breakdown and repairs required on the Pilot Boat and essential repairs required on the crane shed.

**Policy and Finance Committee** – Overall there was a net decrease in operational costs of £38k compared to 2019, and is attributable by department as follows:-

- **Corporate & Democratic Services** - £103,8k net increase in overall operational activity costs. Income was down due to a reduction in income from permits, licences and fees due to COVID-19 of £3k, a reduction in income from gravel extraction royalties of £1,6k and reduction in income from Gazette notices of £2,8k. Expenditure increased by £95k from 2019. Training costs for all departments and office cleaning services were consolidated under one budget in 2020, resulting in an increase in expenditure of £18,4k from 2019. Although savings of £35k were made on less requirement for the use of legal & consultancy services from 2019, staff costs increased from 2019 which included additional costs following the former Chief Executive’s departure during the year.
- **Court** - Overall net decrease of £15,8k in costs due to the Greffier leaving his post in September and a replacement not appointed until early 2021.
- **Tourism/Marketing** - Due to the pandemic and the effect on Tourism, the marketing team had to significantly re-evaluate and amend their strategy to maintain value for money wherever practicable during 2020 which resulted in a net decrease of £25k in operational activities from 2019. This included enhancing digital marketing and retaining the 2020 brochure for use in 2021 and, where possible, advertising contracts were suspended. Few events were able to take place therefore grants were significantly lower than previous years. Staffing requirements also had to be assessed following the resignation of the Director of Tourism in September.

- **Social & Welfare Services** - Reduced expenditure in 2020 of £11k due to reduced requirement for the School Bus during lockdown.
- **Grants** - £98,1k less than in 2019 with no allocations required for Alderney Commission for Renewable Energy or the Alderney Ambulance Service in 2020. The Finance Committee considers all grants under agreed standard criteria, and organisations must satisfy these in order to be successful in applications for support.

#### Other Operating Income

- **Interest receivable** reduced by £28,8k from 2019 due to interest rates globally falling from the second quarter of 2020 as a result of the pandemic.
- **Numismatic Profit** was as per the current contract arrangements. **Philatelic Profit** slightly exceeded estimated income.
- **Property Transfer Duties**, although adversely affected in the first half of 2020, was £121,5k higher than revised budget and £74k more than 2019.
- **Property and land rents - GSC** - Income was down by £8,5k from 2019 due to untenanted properties and the peppercorn rent agreed with the Alderney Bird Observatory for the Nunnery.
- **Vehicle Import Licence fees** - Due to COVID-19 restrictions/ lockdown, there was a noticeable reduction in vehicle importations during the second quarter of the year. However, imports increased significantly in the third and fourth quarters and income was £11,9k higher than revised budget however still less than 2019 income.

#### STATES OF ALDERNEY – CAPITAL ACCOUNT

**Summary** – Overall capital expenditure amounted to £1,237,834 excluding the transfer of £300k to the Economic Development Fund. This was £1,722,166 less than revised budget for projects with a number of projects, purchase of replacement vehicles and plant, being delayed due to lockdown and COVID-19 restrictions. Therefore although approval had been given in 2020, expenditure did not incur during the year.

The main projects carried out during 2020, (excluding replacement plant & vehicles etc.) related to:-

##### General Services

Cliffs - York Hill/AEL Power Station / The Cutting	- £20,7k
Replacement Personnel Fire Fighting Kit & Radio	- £28,6k
Connaught Extension (Prelims & Phase 1)	- £98,6k
Connaught Extension (Phase 2)	- £133,4k
Connaught - Residents Rooms Refurbishment	- £15k
Connaught Fridge/ Freezer Units Replacements	- £10,4k
Island Hall - Anne French Room Refurbishment	- £23,6k
Old Connaught Repairs	- £44,4k
Fort Albert Bridge Repairs	- £41,7k
Waste & Recycling Container Replacements	- £51,4k
Impôt Area Improvements	- £30,5k
Mooring Buoy & Block Replacements (including Mooring Chain)	- £23,3k

##### Policy & Finance

Website Upgrades	- £13,3k
Program Updates - Rates	- £50,7k

**Water Board Grants** – £149k to the continuing improvements to the distribution network.

**Capital Income** – Income was £1,246k, which was £246k higher than revised budget however £167k less than that received in 2019.

## **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 7 years (2014 to 2020) amounts to £174k.

The initiatives carried out in 2020 are individually listed on page 16. Often a project can span more than one financial year and can be voted in incremental stages as the project progresses.

The main areas of expenditure during 2020 were as follows:-

- **Economic Development Administration and Consultancy** - This relates to staff costs, expenses and support services incurred in implementing economic as well as business development initiatives. In 2020 the two year contract of the Director of Business Development came to an end and a Project Support Officer was appointed to provide the necessary support for some of the economic development initiatives including the Bailiwick of Guernsey's 'Revive and Thrive' for recovery from the effects of the pandemic.
- **Sea Ferry Service Subsidy** - In 2020, the States continued their support for a scheduled summer sea passenger ferry service between Alderney and Guernsey which was operated by the Little Ferry Company. The service continued to be well utilised by both residents and visitors when the 'Bailiwick Bubble' opened up following the end of lockdown restrictions. Operation of the service in 2021 has again received States support.
- **Island's Tourism Product** - In 2020, the Tourism department worked with States Works, the Alderney Society, States of Guernsey Heritage and archaeologist Dr Jason Monaghan to develop The Nunnery Heritage Site. The site underwent improvements to enhance its reputation as a premier historic attraction.
- **Alderney Island Pride** - Funds were allocated to this project in 2018, with the majority of associated projects being carried out in 2019 and continued into 2020. The Tourism Department have worked collaboratively with the States Works Department with a number of projects which focus on enhancing the Island.

**Currency Reserve Fund (page 16)** - These funds are held in a separate account and relate to a percentage of the base metal coins sold under the previous contract with the Royal Mint which is reserved in case of redemption. Due to the improved coin contract terms, only negligible amounts were required to be transferred from revenue during 2020, relating to the previous contract holder. Balance held stands at £580k.

**Insurance Deductible Fund (page 16)** - The Insurance Deductible Reserve, which has been increasing incrementally each year, amounts to £494k and covers potential liability as at the end of 2020.

**Uninsured Events Reserve Fund (page 16)** - This new fund was set up during 2019 to provide reserves to cover any uninsured events that may arise. No claims were made against the fund during the year and therefore with a further allocation made of £25k in 2020, £75k remains available in the reserve.

**Major Projects Reserve Fund (page 16)** - This was the second of the reserve funds set up in 2019. No claims were made against the fund during the year and therefore with a further allocation made of £25k in 2020, £75k remains available in the reserve.

**Helping Hands Fund (page 16)** - In April 2020, the President set up the Helping Hands Fund due to the COVID-19 pandemic to provide interim support for those members of the community who may have required financial assistance. To facilitate this, the funds donated were held by the States of Alderney. As reported on the anniversary of the setup of the fund, the fund will be closed at the end of May 2021 and any undistributed funds will be returned to those that have donated or at their agreement, given to local charities.

**Alderney Ambulance Services (page 16)** - As reported in 2020, with the operation of the Ambulance Service being transferred over to the States of Alderney, Alderney Ambulance Service Ltd (AAS) transferred an initial sum of £30k to the States of Alderney in 2020 and cleared all their liabilities to the States up until end of September. The funds transferred were to be used to “pay” the amount the States would have recharged to AAS until year end.

In 2021, any residual balance, together with any additional transfers made once the company is wound up, will be held in an Ambulance Reserve Fund and will be used only under specific criteria (i.e. not general running costs).

**Summary of Balances (pages 17 & 18)** - These pages reflect the balances on sundry accounts, trust funds, and investments, as individually listed. Following a change to the current grant procedure and for greater transparency, a summary of relevant Grants, Subsidies and Third Party Payments relating to amounts over £1k are provided.

## **WATERBOARD – REVENUE ACCOUNT**

The revenue account is showing a surplus for the year of £118,026, which was £37k more than revised budget, and compares to £33,7k in 2019. The Water Board objective is to raise revenue to meet its running costs in any year. This was achieved in 2020 and surpluses continue to be held each year in reserves.

As in all areas within the control of the States of Alderney, budget holders were asked to focus on requirement and affordability in 2020. In light of the COVID pandemic, staff had, from the second quarter, been required to re-prioritise work streams and identify any areas where savings could 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 had a relatively minor effect on the overall operations of the Board.

### **Income**

The increase in income from 2019 is the result of the 2020 increase in rates of 5%. However, due to the closure of hotels and businesses during lockdown, the revised budget for metered income had been reduced by £10k to reflecting the reduction in overall usage. With free movement within the ‘Bailiwick Bubble’ from late June 2020, visitor numbers increased and resulted in the revised budget being exceeded by £17k at year end 2020.

### **Expenses**

- **Salaries & Wages** - The figure shown for salaries & wages at £164k is the net figure, after the transfer of £14,7k of capital project recoveries as a result of using in-house labour & supervision. The net figure is lower than anticipated at budget and compared to previous year due to the retirement of the Water Board Manager and proposed changes to the Management/ staffing structure.
- **Water Treatment & Testing** - On budget and comparable to 2019 actuals. This was due to less requirement of treatment materials with the improved distribution network/ system using less expensive products.
- **Pumping costs** - £3,3k less than prior year and £3,8k under revised budget due to less usage in the second quarter of 2020 due to lockdown restrictions, reduced telemetry charges and less failures on the system all being contributing factors.
- **Mains, Machinery & Materials** - Significant reduction in expenditure compared to 2019 of £20k with improvement to distribution network/ system continuing to keep costs down.
- **Administration Charge** - The Water Board revenue account is subsidised by the States of Alderney, with £57,6k 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 annually in order to eventually remove the subsidy however this is only reflecting staff costs with no other overheads.
- **Motor Vehicle Expenses** - Less than previous year due to the vehicle replacement program and less usage during lockdown restrictions in quarter 2 of 2020.
- **Accountancy & Audit** - As per the new contract agreed with Grant Thornton in 2020.

- **Bank Charges** - A decrease from 2019 directly relating to lockdown restrictions in the second quarter of 2020 which meant invoices could only be paid by cash, cheque or online banking and therefore card charges were not incurred over that period.

## **WATERBOARD – CAPITAL ACCOUNT**

The Water Board capital projects have been funded by capital grants from the States of Alderney, totalling £2,849,700 (as at 31st December 2020).

In 2020 these related to the distribution networks Phases 9, 16, 18 & 19, approved to the total of £149,000 (Phase 9 Lower Section £36,000, Phase 9 Upper Section £55,000, Phase 16 £26,000, Phase 18 £22,000 & Phase 19 £10,000). Phases 9 (Lower Section), 12 and 18 was completed and capitalised during 2020.

Balance Sheet (Page 6) - The Water Board general reserve is healthy at £867k (2019 £749k). This represents the accumulated revenue surplus from previous years. Reserves are held in current and deposit accounts which also include the unspent capital grants paid in full from the States of Alderney (see note 4 on page 8).

A review of reserves and balances is being undertaken during 2021 which will result in greater clarity on the rationale for reserves in future disclosures.

## **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.

The value of the funds under management in the scheme increased from £6.3m at the end of 2019 to £6.9m at the end of 2020.

At the end of 2020 the extract from the Actuarial Report shows that the Pension Scheme deficit has increased from £5.4m to £6.3m. This was mainly 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 effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities. These factors have been partially offset by a significant return on plan assets during the year. Further details are shown in note 2 to the accounts on page 7.

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**

The COVID-19 Lockdown and related restrictions had a significant impact on the Island and considering the difficulties faced in 2020, the achievement of a surplus of £177,550 reflects the efforts of staff to contain costs; the lower levels of grant applications and approvals; and increases in income mainly from increased property sales.

Capital Expenditure was higher than 2019 but well below the forecast for 2020 mainly due to delays to capital projects and purchases. Capital infrastructure projects will continue to be a focus in the coming years.

The erosion of the Alderney Gambling Control Commission ("AGCC") income continued to be a concern with the 2020 level of £1.25m being some £0.16m below the 2019 level of £1.41m. Discussions continue with the AGCC, however, the market conditions towards the end of 2020 were not encouraging when considering the 2021 budget. At a recent meeting with the AGCC we are encouraged that our significant reputation is resulting in increased license uptake due to reputational impacts in other jurisdictions and it is projected that revenues in coming years may increase and reach past levels.

Our fiscal union with Guernsey is now more valuable and important than ever and we are fortunate for the support to our businesses, and the furlough and other schemes put in place during the lockdown and continuing COVID-19 restrictions. Staycation visits from new and old friends in the Bailiwick have been of significant impact on our economy in this last year and they are to be thanked and will always be welcome.

Challenges for 2021 are related to the continued COVID-19 pandemic and how the 'new normal' associated with an endemic COVID-19 situation continues to impact on the Economy; travel to the Island; and the recovery of our Tourism and other businesses in the second half of 2021 as the Bailiwick border restrictions are reduced.

Our focus for 2021 will continue to be on transport links; refurbishment of our runway; completion of infrastructure projects; attracting families and businesses to the Island; and other economic development initiatives to offset reducing revenues and grow our economy.

All of our staff are to be thanked for their hard work and resilience in facing and handling the difficulties imposed by the COVID-19 lockdown and restrictions. Without their efforts service levels for the community would have been severely limited. Our Treasury Team are also thanked for their hard work over the year and in particularly in preparing these Accounts.

W J Abel  
Chairman, Policy & Finance Committee  
26<sup>th</sup> May 2021