



POLICY & FINANCE COMMITTEE CHAIRMAN'S REPORT

AUDITED ACCOUNTS 2021

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 11th May, 2022.

The financial statements include a breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2021.

The following comments highlight, in round figures, some of the material differences between 2021 actuals; the revised budget for 2021; and on 2020 accounts. For clarity, where there is reference to budget figures within this report, this relates to revised budget figures unless otherwise stated.

STATES OF ALDERNEY – REVENUE ACCOUNT

Summary – Overall, there was a £1,2M difference in actuals when compared to budget for the year, with a surplus at year end of £1,7M. This compared with a surplus of £178k in 2020.

The unexpected surplus coincided with the first year of the revised financial relationship with the States of Guernsey which means that all surpluses are retained by the States in Reserves which will provide a contingency for future years.

Building & Development Control Services – Overall shows a net cost of £39k. This was an improvement on budget which had a forecast of £69k and was in part due to higher planning income on applications for projects and less expenditure than anticipated on preliminary works for the upcoming Land Use Plan review.

General Services – Overall net increase in operational activities compared to budget and 2020 actuals of £44k, allocated by department as follows:-

- **States Works** - £22k decrease in net from 2020, primarily due to reduced maintenance/ works required on States Properties when compared with prior year due to tenant changes. This was partially offset by an increase in waste collection/disposal costs, and recycling costs, potentially due to 2021 seeing an increase in visitors when compared to 2020.
- **Ambulance** - In 2020, the Policy & Finance Committee (“PFC”) agreed to include the cost for operating the Ambulance service in the revenue budget with effect from 2021. Costs were £22k higher than budget primarily due to increased staff costs and minor equipment purchase. The revised budget 2021 and budget 2022 provided for expenditure pending the outcome and implementation of the recommendations of the ongoing review of the Ambulance Service.

- **Harbour** - The Harbour deficit decreased to £184k compared to £216k in 2020. This was £11k less than the deficit anticipated in the budget. Visitor mooring fees were up from 2020 when a concession was offered in order to promote visitor numbers during the peak of the pandemic. Overall income was £58k up from 2020. Expenditure costs were £25k higher than in 2020 and £6k less than revised budget. The increase was mainly attributed to no provision in the 2021 budget for the Water Taxi Service, which was operated by the Harbour in 2021 due to no suitable tender proposal being received. Staff costs were also higher in 2021 due to the overtime required to provide ongoing border control cover as part of the Covid-19 response.

Policy & Finance – Overall net decrease in operational activities compared to budget of £345k, and £125k less than in 2020 allocated by department as follows:-

- **Corporate & Democratic Services** - Overall net decrease of £89k in operational activities. Income was slightly up from 2020 mainly due to a change in the way allocations to the reserve funds (Major Projects and Uninsured Events) were treated within the accounts. These are now allocated out of year-end surpluses.
- **Court** - Overall net decrease of £30k in costs. Income increased by £16k compared to 2020 with higher income receipts for Land Registry fees, registration fees and other Court receipts. Expenditure decreased by £14k due to a staff vacancy not being filled until mid-2021.
- **Tourism & Marketing** - Net decrease of £12k compared to 2020. Sale of advertising space in the Visit Alderney Brochure was set at nil for 2021 due to a marketing decision to utilise the 2020 brochure again in 2021. This reduction in income is offset by savings in brochure production. Promotion of Tourism expenses were also down from 2020 due to a number of events not being able to take place as a result of Covid restrictions.
- **Education & Health** - Expenditure increase in 2021 by £9k compared to 2020. The School Bus service was reduced significantly in 2020 due to Covid restrictions and lockdown. However, in 2021 adjustments were made to reflect the new School Bus Subsidy agreement although this was slightly offset by a reduction in service operation during Jan/ Feb 2021 lockdown.

Other Operating Income

- **Property and land rents - GSC** - Income increased by £12k from 2020 with States residential properties becoming tenanted in 2021 as well as minor changes to lease terms.
- **Interest Receivable** increased by £12k from 2020 with interest rates gradually recovering following significant reduction in 2020 as a result of the pandemic.
- **Vehicle Import Licence fees** were £19k higher than 2020 income. 42 more vehicles were imported in 2021 compared to 2020 and scrapping/ exported vehicles were 35 less than in 2020 however it should be noted that scrapping figures were high in 2020 due to land clearance.
- **Numismatic & Philatelic Profit** was slightly higher than 2020 income.

Property & Other Taxation/Grant Income

- **Grant from States of Guernsey** - In 2021, a transitional grant of £300k was 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 ensured no financial detriment to the States of Alderney in the event that revenues in 2021 and 2022 were lower than the sum that the States would have expected to receive in the form of a grant. This was the final revenue grant payment from the States of Guernsey. Due to favourable income streams mentioned elsewhere in this report, this sum was not required to be utilised in 2021 and has been placed in reserve. It should also be noted that the States were due additional 2020 funding of £46k in respect of pay awards that were settled in early 2021. This was provided for under the previous funding arrangements with the States of Guernsey and funds were drawn down in early 2021.

- **Alderney Property Tax** - From 2021 Alderney Property Tax (“APT”) (ex-TRP & Occupiers Rates) income is being collected and retained by the States of Alderney. The estimated yield from this, Fuel Duty and Document Duty was assessed against the annual grant from the States of Guernsey that would have been received had the financial relationship not changed. Income from APT in 2021 exceeded budget by £54k as a result of reassessments throughout the course of the year.
- **Fuel Duty** - As mentioned above, from 2021 this income is collected and retained by the States of Alderney. As agreed by PFC, rates were kept in line with the States of Guernsey Fuel Duty Rates and income was £15k higher than budget.
- **Document Duty & Property Transfer Duties** - As reported at budget time, property sales receipts were substantially higher than projected during 2021. Income from Document Duty, which from 2021 is being collected and retained by the States of Alderney, together with Property Transfer Duty was £400k above budget at a combined income of £1,7M. Due to the reliance on the property market, this remains a highly volatile source of income.
- **Duty Free Concession** - As previously reported, the previous contract holder withdrew from their concession agreement in 2020. No income was received in 2021.

STATES OF ALDERNEY – CAPITAL ACCOUNT

Capital Income

Total income received was £1,86M, which was £608k higher than 2020 and £327k compared to budget. Surplus revenues paid to the States by the Alderney Gambling Control Commission (AGCC) were higher than forecast and the States also received capital receipts from the sale of assets.

As mentioned later in the report, the remaining reserve from the Alderney Ambulance Service (“AAS”) of £27k, ringfenced for ambulance service associated expenditure, was also received in 2021 and accounted for in Capital income.

Capital Expenditure

Overall expenditure was more than budget by £73k and £560k more when compared to 2020. This was impacted by supply delays related to the pandemic. The Connaught extension project was advanced during the year following States approval of significant additional funding of £737k once tender sums were available.

The main projects carried out during 2021, (excluding replacement plant & vehicles etc.) related to:-

General Services

Disabled Access Improvements - £12k
 Coastal Defences - Corblets (Interim repairs to wall) - £10,8k
 BA Compressor (part share SoG Fire Brigade) - £10,5k
 Ambulance & Major Incident Equipment - £15,7k
 Ambulance - Defibrillator Replacements - £29,8k
 Connaught Extension (Phase 2) - £259k
 Connaught Extension (Phase 3) - £360k
 Connaught - Residents Rooms Refurbishment - £10,4k
 Nunnery - Carriage Store Roof Repairs & Sun Room Demolition - £19,6k
 Imput - Area Improvements - £24k
 Mooring Buoy & Block Replacements (including Mooring Chain) - £31,7k
 Commercial Quay - Security Lighting - £23,3k
 Pontoon (existing) - Improvements - £21k
 Fort Grosnez Hangar - Crane Storage - £19,3k

Policy & Finance

WTP – IT Transformation Programme/ IT Replacements - £30k

Water Board Grants

£207k to the continuing improvements to the distribution network (Phases 16, 17, 19, 20 & 21)

RESERVES & SUNDRY ACCOUNTS

Changes have been made to the format of the accounts during 2021 to provide additional details on the reserves allocation. A statement of revenue reserves and balances are provided on page 12 of the accounts.

General Reserve

The General Reserve was established in 2020 as part of the review of the financial relationship with the States of Guernsey. In preparation for assuming responsibility for funding revenue expenditure from APT from 2021, it was agreed that any revenue surplus from 2020 would be retained by the States of Alderney. Prior to 2020, any surplus was returned to the States of Guernsey.

The General Reserve is the main contingency fund for the States of Alderney to manage the impact on the revenue budget and Property Tax arising from unexpected income and expenditure variations or exceptional items. The States of Alderney policy and strategy for reserves agreed in 2021 was that the general reserve should be grown to a minimum level of £850k. Due to the significant income received in 2021, the States of Alderney are able to set aside £1.4M to the General Reserve which is in addition to the opening balance of £178k.

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 8 years (2014 to 2021) amounts to £228k.

The main areas of expenditure in 2021 related to the following initiatives:-

- Sea Ferry Service Subsidy - The Sea Ferry service to Guernsey was once again supported through this fund with a performance-based subsidy in 2021, with residents and visitors benefiting from the service as well as enhancing links within the Bailiwick.
- Island's Tourism Product - There was further investment on the projects relating to the Islands heritage with works on the Odeon being one of the main projects during 2021.
- COVID Commercial Support/ Testing Centre costs - Following a review of the impact of COVID-19 in 2020, it was agreed that any savings in the EDR Fund through diverting/ re-prioritising expenditure should be realised in order for funding to be made available for COVID-19 related initiatives. In 2021 these initiatives have included the setting up of the Welcome Team facilities at the Harbour and Airport, financial support towards the testing facilities at the Island Medical Centre and minor rental assistance to qualifying States tenants.

Other Reserves

Details of all other reserves are provided in the notes to the accounts on page 18 of the accounts.

INVESTMENTS, TRUST FUNDS & GRANTS & SUBSIDIES – Pages 20-23 of the accounts show the balances on trust funds, investments and grants and subsidies. Following the change to the current grant procedure in 2019 and for greater transparency, we again include a summary of Grants, Subsidies and Third-Party payments relating to amounts over £1k.

WATERBOARD – REVENUE ACCOUNT

The revenue account is showing a surplus for the year of £116,377, which was £20k less than revised budget, and compares to £118k in 2020. The Water Board objective is to raise revenue to meet its running costs in any year. This was again achieved in 2021 and we continue to set aside surpluses each year into reserves.

As in all areas within the control of the States of Alderney, budget holders were asked to focus on requirement and affordability in 2021. With the ongoing effect of the COVID-19 pandemic, works streams were re-prioritised and areas were identified 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 the pandemic had a relatively minor effect on the overall operations of the Board.

Income

In 2020, the States agreed that the Water Rates for 2021 should not be increased on the basis of accumulated surpluses, forecasts and efficiency savings. However, based on actual metered water usage, the budget for metered income were increased to reflect an increase in overall usage. Total income for the year was £754k, which was £5k more than budget 2021.

Expenses

- **Salaries & Wages** - The figure shown for salaries & wages at £173k is the net figure, after the transfer of £11k of capital project recoveries as a result of using in-house labour & supervision. The net figure was higher than anticipated at budget due to supervisory/ administrative support being met through the Estates, Environment & Infrastructure Manager and the States Works Department Office Manager, with a proportion of their staff costs recharged to the Water Board.
- **Water Treatment & Testing** - Expenditure was £5k higher than in 2020. This was due to increase in price of products for water treatment and higher analyst charges than prior year.
- **Pumping costs** - £3k higher than 2020. With the easing of Covid restriction, the island was busier with more visitors, and this contributed to more water usage thus higher fuel and electricity costs.
- **Mains, Machinery & Materials** - Increase in expenditure compared to 2020 of £10k. Minor works required on the Battery Quarry Filtration Plant, purchasing of critical spare parts as well as minor leak repairs throughout the year were all contributing factors.
- **Maintenance Contracts** - Costs reduced significantly in 2021 by £21k largely due to maintenance contracts paid for in 2020 being unfulfilled due to COVID restrictions. This resulted in suppliers fulfilling the contract requirements in 2021 without charge.
- **Depreciation** - Increase of £7k compared to the prior year due to capitalisation of completed phase work projects to upgrade the distribution network, and the purchase of replacement filter membranes required for the Battery Quarry Filtration Plant.
- **Administration Charge** - The Water Board revenue account is subsidised by the States of Alderney, with £60k 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.
- **Stock Written Off** - Certain items of stock no longer fit for purpose or obsolete were identified and written off.

WATERBOARD – CAPITAL ACCOUNT

The Water Board continues with a successful capital programme mainly funded by Capital grants from the States of Alderney which totalled £3,056,700 at year-end 2021. In 2021, projects related to the continued upgrading of the distribution networks with Phases 16, 17, 19, 20 & 21 approved in 2021 to the total of £207,000 (Phase 16 - £65k, Phase 17 - £60k, Phase 19 - £10k, Phase 20 - £27k & Phase 21 - £45k). Phases 9 (Upper), 16, 19 & 21 were completed and capitalised during 2021.

BALANCE SHEET (Page 7)

The Water Board continue to build their reserves which is £984k at the end of 2021 and compares to £867k in 2020. This represents the accumulated revenue surpluses 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 9).

As the reserves increase, the Water Board will be reviewing the reliance of grant funding of its projects, in order to become more self-sufficient. The review will take place in 2022, with any changes becoming effective from 2023.

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 £6.9m at the end of 2020 to £7.3m at the end of 2021.

At the end of 2021 the extract from the Actuarial Report shows that the Pension Scheme deficit has decreased from £6.3m to £5.7m. This is mainly as a result of the effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities together with a significant return on plan assets during the year. Further details are shown in note 3 to the accounts on page 14-17.

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. PFC and the Pension Fund Trustees will continue to monitor the current deficit position and consider options for remedial action with the benefit of advice.

CONCLUSION

After the difficulties presented to the island, and the world, during 2020 and 2021, it is pleasing to report that Alderney finds itself in a good position financially. The invigorated interest and investment in Alderney is positive news, and the accounts for 2021 reflect that by showing a surplus of some £1.7 million, compared to the original forecast surplus of some £137k.

This is the first year in which the majority of the taxes/ duties are accrued to the States of Alderney and that all direct operating costs were to be controlled and funded from Alderney tax payments, with any surpluses being retained by the States.

The 'property boom' has led to a substantial increase in Document and Property Transfer (Conge) Duties, swelling the accounts generously, such that the States reserve stands at some £1.6 million at the end of 2021. With the uncertainty facing the global economy this reserve will provide valuable contingency for future unexpected variances in the budget.

It was also the first year where Occupiers Rates and Tax on Real Properties were combined into one tax – the Alderney Property Tax (APT), and it is also the first year that the cost of ambulance services, now provided by the States of Alderney, were included in the Budget.

Looking back at the budget debates in the States at the end of 2020 an APT increase of 3% was agreed for the 2021 Budget. However, it should be noted that if costs had not been contained by the impacts of Covid, and that Incomes on Document and Property Transfer Duty had not increased, the States would have been hard pressed to make a surplus and this should be considered when setting tax levels in the years ahead.

In reviewing the Revenue and Income expenditure for 2021 the increased surplus of some £1.58 million reflected both reduced spending and increased duties.

The overspends on ambulance services and the harbour were offset by reductions in Corporate and Democratic Services, the Court and Tourism with an overall saving of some £144k, reflecting the lack of activity and reduced direct revenues due to the continued impact of Covid.

There were significant increases in all areas of income and significantly in Document and Property Transfer (Conge) Duties with income exceeding budget by some £1.22 million. These incomes reflect the continued purchase of properties by those moving to the Island and those purchasing second homes.

This trend in increased Document and Property Transfer Duties has continued into 2022 reflecting the popularity of the Island and the relatively lower cost of properties. We welcome all those people and especially those who are now making their homes here.

Capital expenditure is currently funded by surplus revenues paid to the States by the Alderney Gambling Control Commission (AGCC) with some £1.67 million being received in 2021.

This significant increase in AGCC income reflects the more positive view of the Commission when it presented its accounts to the P&F Committee in May 2021. I am glad to be able to report that this trend is continuing, with the Commission recently advising that this level of income should be sustained.

Capital expenditure was less than the Original Budget reflecting both supply and project delays due to Covid. The Connaught extension project was advanced during the year following States approval of significant additional funding of some £0.74 million following the tendering process and award of contract.

Water Board

The continuing objective of the Board is to raise revenue to meet its running costs in any year and this was again achieved in 2021 with surpluses being set aside into the reserves to facilitate this objective.

Revenue and Expenditure were in line with budget reflecting the importance of this service throughout the pandemic. Capital expenditure related to the continued upgrading of the distribution networks.

Pension Scheme

The deficit on the States of Alderney Public Employee Pension Scheme (1982 scheme) continues to be of concern. There was a slight reduction in the deficit at the end of 2021, but the latest slump in the investment market has reversed this trend and discussions with fund managers are continuing.

Audit Report

Our auditors, Grant Thornton, have audited the financial statements of the States of Alderney for the year ended 31 December 2021 which comprise the Accounting Statements and notes to the financial statements, including a summary of significant accounting policies.

In their opinion the financial statements for the year ended 31 December 2021 are prepared, in all material respects, in accordance with the accounting policies stated in the notes to the financial statements and the provisions of the Government of Alderney Law, 2004 and there are no areas of concern.

Finally

The further 2021 COVID-19 Lockdown and related restrictions again had a significant impact on the Island's economy and its community. The significant increase in the surplus, not only reflects the increase in tax revenues but also the efforts of staff to contain costs

Our strong fiscal union and general relationship with Guernsey continues and the Island is thankful for the continued support to our businesses, and the furlough and other schemes put in place during the 2021 Lockdown and continuing COVID-19 restrictions.

Our new and old friends in the Bailiwick and the United Kingdom will always be welcome and they are to be thanked for their continued Staycation visits which have benefited the Islands economy throughout 2021 and into 2022.

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.

The significant uptake of vaccinations against Covid-19 has allowed the Island to return to normal and although I discussed a 'new normal' last year, I can only conclude that we have put the last 2 years behind us; that we have accepted that vaccinations are protecting us; and that life can return to normal.

Again, I am sure that the community will agree, that we are grateful to our medical and emergency services staff, across the Bailiwick, for their hard work and diligence in keeping us safe. We thank you.

The key aspects of the Island Plan for 2022 are continued focus on transport links; refurbishment of our runway; completion of infrastructure projects; stabilising our primary and emergency healthcare services; our move to lower cost renewable energy – in light of high oil prices; attracting families and businesses to the Island; and other economic development initiatives to offset reducing revenues and grow our economy.

W J Abel
Chairman, Policy & Finance Committee
30th May 2022