



STATES OF ALDERNEY

AND

STATES OF ALDERNEY WATER BOARD

BUDGET REPORT 2017

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EXECUTIVE SUMMARY

The attached Budget for 2017, shown on the attached 2 pages has been prepared in line with the agreed budget process, and is presented in the new approved format. The budget was considered and approved at the September Policy & Finance Committee Budget Meeting. The main points to note are as follows:-

- Annual budgets provide a framework, they do not bind the States to spend in any particular area and nor do they preclude the States from choosing to vary the levels and standards of service it provides.
- The States of Alderney receives an annual cash allocation for the revenue account from the States of Guernsey, which together with its own income makes it necessary to prioritise the areas of public services that can be provided from the finite resources available.
- The 2017 revenue cash allocation from Guernsey is set at £1,830,000, a reduction of 3%, with further annual reductions of 5% expected going forwards. However with effect from 2018, as part of the Review of the Financial Relationship it is expected that the repatriation of some of the revenues will reduce this significantly.
- The capital program is mainly funded by Alderney Gambling Control Commission surpluses, together with locally raised revenue from asset sales etc. The net surplus for 2017 is expected to be in the region of £1M (following the transfer of £630k to AeGL, £300k to Economic Development Reserve and the establishment of the Alderney eBusiness Ltd). There is no cash allocation received from Guernsey in respect of capital funding.
- The Water Board revenue account is expected to raise £645K from water rates and charges, which in 2017 will cover its operating costs.
- The Water Board capital program continues successfully, funded by grants from the States of Alderney amounting to £2.3 million since 2008, with a further grant of £250K anticipated for 2017.
- The Economic Development Reserve Fund, established in 2014 continues to be funded by AGCC at £300k per annum in order to finance the research and development of initiatives to improve the economy, some of which will attract inward investment by way of direct and indirect revenue. As this does not form part of the revenue account any unspent balances each year are rolled forward. Each initiative is subject to an approvals process via the Policy & Finance Committee, and will require application of measurement standards and regular updates, however holding this in a separate Fund allows additional flexibility without affecting the revenue account which is under pressure. Further details of the individual initiatives and associated workstreams are shown as follows in detail on page 2 of this report.

ECONOMIC DEVELOPMENT

In the face of rising fiscal challenges the States of Alderney and the States of Guernsey have continued their close working on the economic and social challenges and opportunities faced by both Islands. Oversight of this work is maintained by regular meetings of the Alderney Liaison Group.

Much of 2016 has been dominated by work on reviewing the current Memorandum of Understanding between both States and Aurigny on the Island's vital air links, with there being a clear need to increase capacity on both the Guernsey and Southampton routes and also to enhance the scheduling.

Considerable work has also been progressed in relation to the Alderney Airport Rehabilitation and Future Proofing project, with the inclusion of a general economic feasibility study for various runway options. This research work is drawing to a close, and it is hoped that the project will move forward early in 2017 as a Guernsey capital project, with the build phase commencing at the start of 2019.

There have been successes with other economic enablers such as the research on Blockchain opportunities with the first income streams from this work now being active. The PWC initiative on new regulatory opportunities with anti-money laundering is also proving to be very successful in Alderney, and is an excellent example of the type of business Alderney can benefit from.

Although this fund does not feature in the main part of this budget (it will be shown in the year end accounts as a separate fund), the main initiatives and current workstreams are listed below (not necessarily in order of priority):-

- **Airport Rehabilitation/Development** – The original work was extended to include an objective review of the costs and benefits of an 1100m runway vs an 880m runway. This included the commissioning of an independent economic feasibility study on the impacts of the various options on Alderney's wider economy.
- **Air Routes** – A Memorandum of Understanding was established for 2016 and reviewed in relation to 2017 based on experience gained this year. Significant additional capacity on both routes is being negotiated for 2017.
- **Surface Transport – ferries** – The Bumblebee ferry contract was established for the 2016 season. A review is to take place at the end of the year in relation to 2017 provision.
- **Development of Overall Comprehensive States Transport Strategy** – a draft States Transport Strategy is in preparation and will be ready for discussion early in the next States term.
- **Visit Alderney** – The Tourism strategy for 2016 followed the successful programs established in 2014 and 2015 and focused on niche tourism, particularly wildlife and heritage, but also very importantly on the diverse and varied program of events spread across an extended season. The importance of tourism to the general Island economy, to local employment and critically to sustaining our transport links cannot be over-emphasised especially as the Island presses for increased capacities on both the Guernsey and Southampton routes.
- **Maximise Benefit from sustainable management of Territorial waters** (including the seabed) - This project, looking to protect Alderney's marine resources both in the short and long term, commenced this year, and is expected to play a significant role as the Island moves forward with various marine challenges and opportunities. It is being developed as a community project with engagement and involvement from a wide cross-section of marine users.
- **Review fit for purpose legislation** – the Inheritance Law has been reviewed and amended accordingly. The review of the Company Law has been completed, and the agreed revisions are in the process of being passed to the Law Officers for the necessary legal drafting.
- **Planning/Housing Strategy** – Phase 1 of the new Land Use Plan was completed (including the housing strategy) and we are now engaged with phase 2 (covering the natural environment, the built environment and the economic strategy in relation to land planning). This should be subject to a Planning Inquiry next summer.

- **Asset Management Plan** (including Victorian Forts) – New development briefs were produced for several States assets, including the Nunnery which will appear before the States as a capital expenditure request in the near future.

STATES OF ALDERNEY REVENUE ACCOUNT

New format explained – The new format provides a summary of expenditure and income from operational areas as well as highlighting sources of revenue. It will be replicated for the 2016 accounts in keeping with current accounting practices. The top section of the report shows the operational activities (both income and expenditure) by the 3 Committees, which shows the net cost of service in each area. This is followed by “other operating income”, and “property and other taxation/grant income” (including the cash allocation from Guernsey), followed by transfers, resulting in the balanced budget for the year.

Budget delegation - 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.

Staff – The number of permanent staff is generally as predicted, with any further changes in numbers relating to bank or temporary/seasonal staff. Any variations in wages/salaries costs throughout the budget are due to the apportionment of salaries between headings, deployment of PSE labour between headings, together with annual increments etc. The cash allocation from Guernsey is adjusted to incorporate any pay settlement awarded.

2016 Revised Budget – This has been produced as a balanced budget taking into account the reduced cash allocation from Guernsey, offset by retention of the £49k 2015 surplus.

The total revised cash allocation from Guernsey for 2016 is £1,884,500 which has been increased from Original Budget to meet known pay awards, less efficiency savings.

2017 Budget – Is based on the locally raised income in addition to the reduced cash allocation from Guernsey at £1,830,000. However as the first draft of the 2017 budget was showing a deficit of £200k this has been ameliorated by the Policy & Finance Committee decision to treat Conge income as revenue income in future as opposed to capital. This results in a small surplus of £35k which, if realised, would provide a contribution to a new General Revenue Reserve as agreed by Policy & Finance in July.

The new sections are listed below including breakdown by Committee, together with the main assumptions or items for note identified throughout the budget.

Building & Development Control Committee

Income for 2017 has been slightly increased to reflect the expected amendment to the fee structure as previously reported by BDCC, proposals will appear before the States in due course.

Expenditure – a significant increase in 2016 revised budget due to additional supplies & services (outsourcing), slightly offset by staff cost savings, the Land Use Plan Phase 2 (stage A) costs are included as approved. In 2017 staff changes are expected part way through the year which are reflected in the budget. It also includes the approved Land Use Plan Inquiry Phase 2 (stage B) costs of £25k.

General Services

Expenditure – main increases relate to increased waste disposal costs (Mont Cuet charges), increased maintenance costs at the Connaught/Jubilee due to new operating arrangement together with changes to SWD staff administration & small increase in agricultural wages.

Harbour - The Harbour deficit has increased for both years mainly due to the new arrangements for the provision of Pilotage.

Policy & Finance

Corporate & Democratic Services (C&D) – this heading includes administration staff costs which are based on current staffing levels, together with legal & consultancy fees (net figure pending repayment of legal fees from ARE and ACRE in 2016).

Grants – The grants figure includes the St John Ambulance Grant which was increased in 2015/2016 to allow for the purchase of the ambulance (£52.5k), and has been reduced back to 2014 level of £42k for 2017.

Other operating income

Other operating income includes GSC property and land rents which is reduced for 2017 due to the new operating arrangements at the Connaught & Jubilee care homes. Numismatic & philatelic profits have increased due to the new minimum included in the coin contract. The transfer to the coin reserve for base metal coins is shown separately prior to arriving at the net budget position.

Property and other taxation/grant income

Includes the cash allocation from Guernsey (as mentioned above), duty free concession, property transfer duty (Conge, as mentioned above).

Occupiers Rates – Having considered an in-depth report on Occupiers Rates, the Policy & Finance Committee is proposing an increase of 5% for 2017. Having not increased the rates since 2012, and with a reduction of 10% for the commercial sector in 2014, the Committee is proposing an increase which is below the equivalent RPIX increase over the same period. This will result in additional income of £23k.

In readiness for the proposed repatriation of TRP in 2018, next years budget report will include proposals to combine the income from TRP and Occupiers rate and levy a single property rate for Alderney, further details to follow at that stage.

STATES OF ALDERNEY CAPITAL BUDGET

It is important to recognise that approval by the States of the overall capital budget does not mean that any individual project can proceed without further approval under the financial procedures, and should therefore be recognised as an indication of probable projects as opposed to a firm schedule. All new projects will require individual costings and necessary approvals as per the financial procedures.

Capital Income

The Capital Program continues to be mainly funded by Alderney Gambling Control Commission surpluses which are expected to amount to approximately £1m in 2017, which is the net figure after adjusting for the Alderney eGambling Ltd & associated companies, together with funding the Economic Development Reserve. Other minor income relates to the sale of States assets including Le Banquage freeholds.

As mentioned earlier in the report in 2017 it will be necessary to treat income from Property Transfer Duties (Conge, Leasehold and Transfer Duties) as revenue income as opposed to capital income. There is no change in the rate charged, just the treatment of the income. With the proposed repatriation of document duty in 2018 this measure will ensure consistency in the treatment of property transfers.

Capital Expenditure

The General Services Committee anticipate £2.1m capital expenditure during 2017 covering a wide variety of projects including:-

- The final phase of St Anne's Church roof repairs (funding for the final element of this project should be appearing before the States of Alderney for approval in November)
- Improvements at the Connaught and Jubilee Homes
- Road Resurfacing Program (deferred from 2016 due to ongoing AEL & Water Board projects)
- Various property refurbishments including The Nunnery
- Capital grant to the Water Board as outlined below

The Policy & Finance Committee is also predicting to spend in excess of £1.3m on the following projects:-

- Ongoing AEL distribution grid - (as already voted)
- Digital connectivity
- IT upgrades & improvements - (some arising from the Review of Financial Relationship)
- Aircraft refuelling facilities
- Asset Management and Financial Accounting & Reporting
- Additional grant towards Swimming Pool & Sports Centre - (on the basis that additional funding is required to complete the Pool, the States has reluctantly agreed that subject to audit of the additional cost, independent micro-management of the completion of the project, and audit of the robustness of additional funding pledges by the private sector, the States will consider match funding the project up to an additional £100k. However this will be subject to formal voting and approval and therefore the figure is at this stage inserted purely for budget purposes)

Overall this reflects an ambitious capital program for the year ahead, and capital expenditure on some major projects may extend into 2018. The shortfall between income and expenditure required to fund the proposed capital program for 2017 of £2.4m, will be funded by capital reserves, which have mainly been accumulated due to capital project slippage in previous years.

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 opex costs i.e. depreciation, maintenance contracts, replacements, TRP etc are charged to the revenue account.

Operational activities :-

Slight increase in expenditure for 2017 due to additional maintenance contracts for new /additional plant, and depreciation on capital projects/purchases.

Wage costs are partially offset by recovery from the in-house labour and supervision on capital projects.

The administration charge is being incrementally increased annually in order to remove the subsidy over time, as previously approved. However this is only reflecting staff costs and does not include other overheads.

Operational income :-

Last year when the charges were reviewed we reduced the hose pipe charge, and further stated that this charge would be eradicated over future years. For 2017 it is therefore proposed to reduce the current charge by 50% (from £20 to £10 per quarter), which will result in a reduction in income of £12k. An overall increase of 3% in rates is proposed, with the minimum charge increased from £60 to £63 per quarter.

This will produce a net overall increase in total Water Board income (i.e. including service charges for new developments) of £6.3k and an overall surplus for the year of £13.3k.

Meanwhile the overall surplus for 2016 revised budget is £2k less than original budget.

WATER BOARD CAPITAL BUDGET

The Water Board continues to be supported by substantial capital investment from the States of Alderney, in the form of capital grants, currently in excess of £2.3M, since 2008. The projects to date have significantly improved the water collection, filtration, treatment, storage and distribution. The more recent distribution improvements have been arranged in order to take the opportunity to trench share with AEL, thereby saving on costs and disruption.

Grant funded capital expenditure for 2017 onwards has been included at £250k per annum, pending the identification, prioritisation and costings of the individual schemes.

OTHER ITEMS OF NOTE

Review of the Financial Relationship between Alderney and Guernsey (RoFR)

Following agreement of the basic principles by both States in February 2016, considerable and detailed work has been completed in relation to implementing the changes which will bring some increased fiscal autonomy to Alderney. Work streams are progressing on the initiatives as per the approved project plan. It is expected that there will be no significant change to the budget figures for 2017.

However, in advance of the 2018 budget (subject to agreement by the States of Deliberation as part of the forthcoming budget debate), it is proposed that work continues between the two Treasury departments to revise the flow of funds from 2018 for those areas identified with a view to the States of Alderney :-

- Levying a single property tax which will effectively combine the existing Occupier's Rates which already accrue to Alderney, and the TRP currently paid to Guernsey (estimated at £750k)
- Receiving all fuel duties attributable to Alderney directly from the States of Guernsey (estimated at £350k)
- Retaining all document duties (estimated at £350k)
- Receiving a smaller grant from the States of Guernsey to ensure that any impact from the loss of revenue grant is neutral, with the exception of efficiency savings

It is clear from the above that any repatriation of revenues will not result in a reduction in the amount collected from Alderney, as the overall total will need to remain consistent, however it will give Alderney the flexibility to amend categories/tariffs etc.

Further detailed information relating to the Review of the Financial Relationship can be found in the Medium Term Financial Plan shown as shown in Appendix 1 (and outlined below).

Medium Term Financial Plan (MTFP)

One of the workstreams arising from the RoFR included the implementation of a Medium Term Financial Plan (MTFP). The MTFP will include the impact of proposed changes in 2018 and 2019, such as the reduction in funding from Guernsey and the repatriation of the revenues referred to above. It will also include assumptions on inflation, growth and efficiency savings to enable the Committee to have an early indication of potential strategic financial issues and pressures in 2018 and 2019. This should then provide the context for financial decision making in the next year. At this stage the MTFP is being published for information purposes only (see Appendix 1), however with effect from next year it will become part of the overall budget process.

Review of Governance

The Review of Governance has been well documented recently, including a public presentation held on 12th September, and is presented on the October Billet for debate without resolution in order that the Public may ascertain the views of the current States Members of the required changes to Governance prior to the elections in November of this year. Within the narrower context of the changes in the Financial Relationship, Governance changes will be absolutely necessary in order for the implementation of the changes in the financial relationship to take place with minimum disruption and reputational risk.

The initial costs have been charged to Economic Development Reserve (£25k voted). We are awaiting a fully costed business case proposal for any recommendations made in the report for 2017 and beyond, which will need to be approved and voted accordingly from the appropriate budget.

CONCLUSION

The Financial Relationship Review with Guernsey is particularly important for Alderney in the years ahead, initially defining the main cost/income flows between the islands, but then seeking ways to reduce outdated bureaucracy, and gradually permit the States of Alderney a greater measure of control over key economic levers for the Island.

The pressures on the revenue budget continue to present the greatest challenges and will necessitate careful budgeting by all departments concerned.

This is the last year in which the Budget will be produced and reported in the current format.

The States of Alderney will move to International Financial Accounting and Reporting Standards with effect from 2017. This change will necessitate a slightly amended approach to Budget Presentation. The changes in the financial relationship with Guernsey will start to take effect as Alderney assumes much greater responsibility for raising and management of its own taxation. Concurrently, there will need to be changes in financial governance in the management and oversight of the budget and budgetary changes both by the Civil Service and the Politicians. Those change will need to include an annual examination and evaluation of the transferred services as determined by the Service Level Agreements which will underpin the delivery of transferred services [Education/Health/Social Security/Home Department and selective ancillary services] by the States of Guernsey in consideration of Income Tax and Social Security Payments by Residents of Alderney to the Guernsey Exchequer.

Equally, the Independent Annual Fiscal Review of Alderney conducted as part of the Annual Fiscal Review of the Bailiwick will assume more significance.

By the time the changes in the financial relationship are implemented by the end of 2019, the annual cash allocation from Guernsey will be reduced to £300k.

The States of Alderney must continue to look closer and harder at opportunities to create direct home grown revenue streams aside from taxation as well as maximising opportunities from existing income streams where this is justified.

The challenges in capital spending are the capacity, resources and capability to deliver what is budgeted. Greater focus has to be placed not so much on the cost, but on the benefits derived from the capital projects. Much capital spend is in response to actual or perceived compliance requirements with standards or risk assessments, most of which are set by international or extra-jurisdictional bodies.

Finally, I would like to thank the Treasurer and her staff for their work in delivering a workable budget in this period of continuing costs and revenue pressures, a feature I fear for all the Channel Islands for the foreseeable future. Like the other Departments in the Civil Service in Alderney, they will experience substantial changes in their work processes and procedures arising from changes in the Financial Governance in order to implement the changes in the Financial Relationship as approved in the States of Guernsey and the States of Alderney in February of this year.

R. McDowall
Chairman Policy & Finance Committee

September 2016