



POLICY & FINANCE COMMITTEE CHAIRMAN'S REPORT AUDITED ACCOUNTS 2019

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 26th May, 2020.

The financial statements include a breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2019. For additional comparative purposes, a further report is also attached comparing actuals with the revised budget for 2019.

The following comments highlight, in round figures, some of the material differences between 2019, revised budget for 2019 and on 2018 accounts.

STATES OF ALDERNEY – REVENUE ACCOUNT

Summary – Overall, I am pleased to report that there was less than a £24k difference in actuals when compared to the expected outturn for the year with an underspend of £48,500 at year end. This compared with an underspend of £137k in 2018.

Building and Development Control Committee – Overall this Committee shows a net cost of £34k. This is an improvement of budget which forecast £49k. This was due to reduced use of consultants and other external services facilitated by changes to the staffing arrangements. Planning income was slightly less than in 2018 due to a reduction in applications for larger projects.

General Services Committee – The General Services Committee has continued to deliver the wide range of public services covered within its mandate. Overall, there was a net increase in operational activities compared to RB of £32k and £91k higher than in 2018 allocated by department as follows:-

States Works - £41k increase in net from 2018, primarily due to the appointment of an Estates, Environment & Infrastructure Manager, together with increased maintenance costs on the dustcart. As this vehicle was due for replacement in 2020 a supplier has been sourced and an order has now been placed. Waste disposal costs remain high, specifically on vehicles due to a clearance of the backlog linked to the civic pride initiative.

Recreation - Due to the Butes Centre coming under States management, a full year of income and expenditure was realised in 2019. Island hall rental income was also higher than in 2018 although this was offset by increased caretaking costs. There was also less expenditure on the Play Park due to the new equipment being installed in 2018 requiring less maintenance.

Fire Brigade - Increase in expenditure due to costs associated with the administration of the Fire Laws.

Grants - Grants issued were £24k above those issued in 2018 however £21k under revised budget. Main differences related to additional environmental grants in 2019 and additional allocation to the Alderney Bird Observatory.

Harbour - The Harbour saw a £22k increase in trading deficit when compared with 2018. Overall, income was £36k up on 2018, largely due to the Water Taxi service being brought in house, together with the increases in local mooring fees and boat storage charges implemented at the beginning of 2019. However this was offset by the significant crane associated expenditure which highlighted the urgent requirement for the now approved and ordered crane replacement. There were also additional set up costs for the Water Taxi service.

However, it should be noted that costs in the majority of service areas have continued to increase when compared with 2018 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 an increase in operational activities of £34k compared with 2018, allocated by department as follows:-

Corporate & Democratic Services - £189k increase in overall operational activities due to increased staffing capacity and reallocation of staff recharges, increase in audit fees, increase in legal and consultancy fees, together with a transfer to the newly formed reserve funds, as detailed in the sundry accounts, partially offset by savings in other areas.

Tourism/ Marketing - £31k increase in operational activities from 2018 however £10k under revised budget. Additional costs relating to promotion of tourism/alternative use of Economic Development funds.

Social & Welfare Services - Reduced expenditure in 2019 due to less visits to the Island by the Primary Care Counsellor, largely due to weather and flight availability. A revised service provision arrangement has been put in place for 2020.

Grants and subsidies - £184k less expenditure than in 2018. The majority of this saving was as a direct result of the change to the Alderney Commission for Renewable Energy (ACRE) arrangements and the additional payment in 2018 relating to the ACRE legal fees.

STATES OF ALDERNEY – CAPITAL ACCOUNT

Summary – Overall capital expenditure amounted to £931k excluding the transfer of £300k to the Economic Development Fund. This was £1,462k less than the revised budget for projects although it should be noted that a number of projects were approved during 2019 (to include the purchase of the Harbour Crane and Phase 2 of the Connaught Care Home extension) which due to delayed approvals, did not incur expenditure during the year.

The main projects carried out during 2019, (excluding replacement plant & vehicles etc.) related to:-

General Services – Surfacing of minor roads - £31k
Connaught Extension (Prelims & Phase 1) - £159k
Jubilee/ Connaught Laundry - £25k
Jubilee/ Connaught Generator - £44k
Jubilee/ Connaught Stairlifts - £15k
Island Hall Kitchen Refurbishment - £47k
Old Connaught Repairs - £99k
Old Fire Station - £14k
Recycling Area Improvements - £13k
Mooring Replacements/ Chain - £21k
Commercial Quay Fire Pump Replacement - £22k
Navigation Equipment Replacement - £15k

Policy & Finance – IT Improvements/ Office Equipment Replacements - £21k
Hardware Infrastructure (Aircon, Server) - £14k
Website Upgrades - £39k

Water Board Grants – £74k to the continuing improvements to the distribution network

Capital Income – Income was £1,420k, which was £238k higher than budgeted however significantly less than that received in 2018 which saw considerable additional income in AGCC receipts. As always, I would like to take the opportunity to offer the Committee's thanks to the Alderney Gambling Control Commission together with Alderney eGambling Limited for their continued efforts which benefits all sectors of the community.

SUNDRY ACCOUNTS

Economic Development Reserve – As previously reported, the Economic Development Reserve was established in 2014 primarily to support economic development initiatives. This reserve, set at £300k per annum, is funded from AGCC profits and 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 six years (2014 to 2019 inclusive) amounts to £180k.

The initiatives carried out in 2019 are individually listed on page 13. 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 2019 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 2018. Its primary purpose was to improve the connectivity of every household and business in the Island as well as subsidising an upgrade in internet speeds. Stage one of the project was completed at the end of 2019 and the vast majority of households and businesses now have the capability of accessing superfast broadband with half taking up the incentive to immediately upgrade to a superfast broadband speed.
- Sea Ferry Service Subsidy – In 2019, the States continued to support a scheduled summer sea passenger ferry service between Alderney and Guernsey and operated by the Little Ferry Company. The operation although disrupted by poor weather, continued to be well utilised by both residents and visitors. Operation of the service in 2020 will be dependent on the current Covid-19 situation.
- Alderney Island Pride – Funds were allocated to this project in 2018, with the majority of associated projects being carried out in 2019. The Tourism Department have worked collaboratively with the States Works Department to push forward with a number of projects which focus on enhancing the Island.
- 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 other projects were first initiated prior to 2019 and were primarily associated with tourism-related activity, product enhancement, Marine Management Plan, and Review of Governance. Transport Strategy Advice was also supported by the Fund.

Currency Reserve Fund (page 13) – 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 2019, relating to the previous contract holder. No coins were redeemed during the year. Balance held stands at £580k.

Insurance Deductible Fund (page 13) – The Insurance Deductible Reserve, which we have been increasing incrementally each year, amounts to £404k and covers our potential liability as at the end of 2019.

Uninsured Events Reserve Fund (page 13) – This new fund was set up during 2019 to provide reserves to cover any uninsured events that may arise. One such event, in respect of planning, arose during the year and the fund was replenished to the agreed £50k reserve at year end.

Major Projects Reserve Fund (page 13) – This was the second of the reserve funds initiated during the year. No claims against the fund were made during the year and therefore £50k remains available in the reserve.

Summary of Balances (pages 14 & 15) – 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, we have included a summary of relevant Grants, Subsidies and Third Party Payments relating to amounts over £1k.

Post Year End Statement in regard to the effects of Covid-19 (page 10) – In order to meet auditing requirements, a post year impact statement has been included in regard to the ongoing Covid-19 pandemic.

WATERBOARD – REVENUE ACCOUNT

The revenue account is showing a surplus for the year of £34k, which was £4k more than revised budget, and compares to £21k in 2018. As previously reported it has been agreed that the Board should meet its costs in any given year. Therefore this was achieved in 2019 and we continue to set aside relatively small underspends each year into reserves.

Income

The increase in income from 2018 is the result of the 2019 increase in rates (5%).

Expenses

Salaries & Wages – the figure shown for salaries & wages at £194k is the net figure, after the transfer of £16k 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, and due to the 2019 pay agreement being unknown at the time of setting the budgets.

Water Treatment & Testing – £7k less than budget and under 2018 actuals. This was due to timing of the purchase of treatment materials and less requirement due to the improved distribution system using cheaper products.

Pumping costs – £5k less than prior year and £7k under budget. This was due to the allowance for increase in electricity costs not being realised, reduced telemetry charges and less failures on the system.

Mains, Machinery & Materials – Over revised budget by £8k due to a number of unforeseen additional materials purchased during the latter part of the year. However expenditure remained under that of the previous year.

Administration Charge – the Water Board revenue account is subsidised by the States of Alderney, with £53k 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.

Motor Vehicle Expenses – Less than previous year due to the ongoing vehicle replacement program.

Accountancy & Audit – As previously reported to Committee, the increase in Audit Fees were unknown at Budget time.

Bank Charges – Increase from previous year due to proportionate share of bank charges with the States of Alderney being higher due to increased card usage/ charges.

Stock Write Offs – There were a number of stock items that had been held for many years which on review, were identified as being no longer required by the Water Board. Items were offered for sale to other parties however no use was identified.

WATERBOARD – CAPITAL ACCOUNT

The Water Board capital projects have been funded by capital grants from the States of Alderney, totalling £2,700,700 (as at 31st December 2019). Phase 12 relating to the Upgrade in the Disinfection System, at £66k (budget £55k) has encountered some issues, including commissioning. Phase 9 (lower section) relating to Newtown to Braye Road, at £53k (budget £62k) is nearing completion. Phase 9 (upper section) relating to Newtown to Water Lane, although originally forming part of one project, has been split into a second phase and approval of the budgeted figure of £91k was approved in the early part of 2020. Phase 15 (Hammond Memorial to Chateau L'Etoc) was completed just under the budgeted figure of £12k and was capitalised during the year.

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 £5.4m at the end of 2018 to £6.3m at the end of 2019.

At the end of 2019 the extract from the Actuarial Report shows that the Pension Scheme deficit has increased from £4.5m to £5.4m. 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

2019 was a satisfactory year.

As in 2018, we were able to record a modest surplus, £48,500, on our Revenue Account. Balancing our books is always good – and from this current year it will be particularly useful – for the first time, instead of having to return unspent balances to Guernsey, we will be allowed to retain it as an initial reserve prior to introduction of the Alderney Property Tax. Although I have reported good news in this area, this element of our accounts does, however, remain under pressure. In 2019, the cash allocation from Guernsey, £1.88 million, was almost identical to the £1.89 million received in 2018. In real terms, and consistent with Guernsey budget pressures and with inflation at 2.4% it has, therefore fallen. This meant that, as was the case in 2018, there were expenditures we could not fund as generously as we might have wanted. Grants to outside organisations were one area where increases were usually not possible and it is noteworthy that our grant expenditures fell to £62,000, from £84,000 in 2018. In 2019, and in the spirit of prudent financial management, our grant awards were expected to meet strict criteria. As before, projects likely to result in long-term economic benefits and those projects with very laudable and desirable social impacts continued to compete for funds – projects likely to bring economic benefit were understandably given priority. Overall, Revenue Account expenditure in 2019 at £3.14 million was still a little higher than the £3.09 million in 2018.

Our capital reserves are facing fundamental challenges. The most important feature to note is the variability over recent years in the income that goes to fund capital expenditure. In 2019 the most notable feature was, of course, the much reduced surpluses received from the AGCC – in 2019, this was £1.4 million down from £2.6 million in 2018. If the projects we had in the pipeline for 2019, and which had been budgeted for, had been realised we would have seen our capital reserves fall by £1.51 million. As it is, two major projects were delayed and we, instead, reported a surplus of £0.19 million. So, although our capital reserves may appear healthy, this is only because of the challenges we have faced in progressing much needed investments – and, of course, the underlying uncertainties in income continue to cause us concern.

Last year, I reported that the gambling industry and Alderney's own regulatory business were both coming under pressure from external sources. This year, I must report this pressure to be continuing, not least because of: consolidations in the gambling industry that are reducing the number of candidate operators; and uncertainty over Brexit. Having said this, and if Alderney is careful, it may well be that we can capitalise on these shifting forces. The high regulatory standards that Alderney has achieved should stand us in good stead with those operators wishing to protect their hard-won reputations and to be seen as responsible. The future impact of variations in the AGCC receipts on our spending plans, clearly, must continue to be monitored

Last year and the year before, I also reported on the difficulties we were facing trying to ensure that the capital programme did not slip. Project management capacity to deliver an ambitious capital programme is an inherent risk – though having said this, two high-cost and important projects: Phase 2 of the Connaught Care Home Extension and the purchase of a new Harbour Crane which, when I reported last year were both anticipated to be now underway, have, at least, been approved. The purchase of the crane was delayed as the competitive process and evaluation took longer than anticipated, and work on the

Connaught Care Home was initially delayed because of project finalisation issues. Usefully, the crane has now been ordered and, although a contract has now been let for the Care Home extension, work has yet to commence. The lock-down arising from the Covid-19 pandemic is once again holding up work. Hopefully, the care-home project should soon restart. If so, the expenditure planned for 2019 will feature in next year's accounts.

Last year and the year before, recognising the difficulties we were facing, we made budgetary provision for additional staff. We had hoped that, in 2019, we would therefore be able to reverse the slippages in a range of projects initiatives. Unfortunately, despite the Policy and Finance Committee approving new positions – in particular a replacement for the States Technical Services Officer who left Alderney late in the year, staffing problems continue. Matching our workforce and additional capacity with our capital project implementation programme will clearly be key to overcoming these ever-continuing slippages.

Our Economic Development Fund began the year with a surplus and, even though expenditure exceeded income, finished also with a surplus – albeit smaller. These surpluses, at the beginning and end of the year, are the accounting outcomes of those, earlier-referenced, difficulties that we have with spending.

I am pleased to report our top priorities last year were once again transport (with our funding of the Little Ferry the most significant item) digital connectivity and "Island Pride".

A lengthy discourse on the situation at the end of 2019 does, however, now seem a little inappropriate. The Covid-19 crisis has, of course, thrown all of the plans we were making in 2019 into disarray. It would, therefore, be foolish of me to suggest that the next few years will be easy.

Our fiscal union with Guernsey is now more valuable and important than ever and we are fortunate in being able to access the common Bailiwick-held and sought funds for supporting our businesses during this first lock-down phase of the crisis. Our major challenge for this year will be a credible Recovery plan. If this means closer ties with Guernsey, so be it. Guernsey have made plans for major borrowing and have indicated that austerity should not be a feature of their Recovery Plan. We need to: run closely with Guernsey; make sure we can access the funds we need for any capital investments that recovery will require; and invest for the future of our island.

The discussions on the Review of the 1948 Agreement are of course now on hold as are discussions in regard to any Public Service Obligation contracts for our air services.

Next year, with the final moves towards a Single Property Tax complete, the island will have the ability to set property taxes in a manner that reflects the best needs of our economy. It will also have the ability to vary the charge categories and retain other duties. These should be both useful tools for managing our economy. We need however to be clear. Any adjustments we make in these areas may be insufficient to bring us safely through the looming recession – much will, of course depend on the depth and length of that recession. Having said this, our most recent revisits to our budget for 2020, suggests the impact can be managed at least during this and the coming year.

Finally, and as always, thanks to all our Treasury staff. We are now being supported even more than anyone could previously have ever anticipated as necessary

J. D. Dent
Chairman, Policy & Finance Committee
28th May 2020