



STATES OF ALDERNEY

AND

STATES OF ALDERNEY WATER BOARD

BUDGET REPORT 2023

BUDGET REPORT 2023

EXECUTIVE SUMMARY

The Budget for 2023, shown on the attached pages, has been prepared in line with the agreed Budget process. The Budget was considered and approved at the Policy & Finance Committee (PFC) Budget Meeting for debate at the October States Meeting. The main points to note are as follows:-

- There remains continuing emphasis on value for money, challenging existing budgets and delivering efficiencies so that funding is allocated to areas of greatest priority.
- The States principal income sources since 2021 are Alderney Property Tax (APT), Fuel Duty and Document Duty income. All unspent sums are retained by the States of Alderney. This provides the opportunity for any unspent balances to be transferred into a Reserve to provide a contingency for future years.
- The Revised Budget for 2022 shows a surplus of £765k compared to the original Budget forecast of £164k following transfer to Reserve. The vast majority of this surplus can be directly attributed to increased Document Duty and Property Transfer Duty, Fuel Duty Interest Receivable and, Vehicle Import Licence Fees which collectively have generated additional income of £1.3M. This additional income has been partially offset by significant unforeseen expenditure relating to the provision of Primary Health Care on the Island, plus additional costs to ensure safe and resilient Ambulance Service.
- In respect of 2023, operational costs are budgeted to increase by £1,18M compared to the 2022 Budget and £499k compared to the 2022 Revised Budget. The financial pressures relating to Health provision on the Island are expected to continue as both services develop. Alongside this, further pressures are forecast due to the impact of higher inflation across all supplies and services. It is also anticipated that the level of Property Transfer Duties will reduce compared to the levels experienced in 2021 and 2022. Whilst this has required an unavoidable recommendation for an increase to APT, the previous year's exceptional income from Property Transfer Duty has meant that the burden on the Community can be lessened through a one-off use of reserves to avoid passing on this burden to the Community in 2023. In total, this will require a total draw on reserves in the region of £533k. However, PFC recognizes that this is not a sustainable solution and therefore other mechanisms for addressing future shortfalls must be considered.
- Contractual Pay Agreements are now known for 2022 and 2023 in relation to Established staff. These equate to 5% in 2022 and 7% in 2023 and has been factored into the Budget. Additionally, a provisional increase for Public Service Employees has been made pending the outcome of pay discussions.
- The Capital programme is mainly funded by Alderney Gambling Control Commission (AGCC) surpluses, together with locally raised income from asset sales etc. The gross distributions for 2023 is expected to be in the region of £2.2M, an increase in the expected gross income from 2022 which has been revised to £2M. Transfers to meet the operational cost of Alderney eGambling Limited (AeGL) and a contribution to the Economic Development Reserve Fund (EDR) will be made from this funding. It is important to note that there is no cash allocation received from the States of Guernsey in respect of Capital funding.
- The Water Board revenue account is expected to raise £740k from water rates and charges, which in 2023 will cover its operating costs, with a surplus of £28k towards reserves. No increase to water rates is being recommended in 2023.
- The Water Board Capital programme continues successfully which has been mainly funded by Capital grants from the States of Alderney, amounting to just over £3M since 2008. Following review last year, the funding model will change with effect from 2023, with the Water Board taking on responsibility for projects from its own reserves.
- The Economic Development Reserve (EDR), established in 2014, continues to be funded from AGCC reserves at £300k per annum. This Fund provides finance for specific research and development projects with a direct relevance to the enhancement of the Island's economy. As the Fund does not form part of the General Revenue Account, any unspent balances each year are rolled forward. Each initiative is subject to PFC approval.

ECONOMIC DEVELOPMENT

Although the EDR Fund does not feature in the Budget, it is shown in the year-end accounts as a separate fund.

All current projects have been agreed by PFC. In addition, a review was carried out recently with a number of modifications to the objectives agreed by the Committee. The approved votes which are categorised under three main headings (Transport, Tourism and General) will roll over to 2023.

Transport

Transport links remain of the highest priority for the Island and the fund continues to be used to develop these links. Investigations have taken place into the legislation governing ferry size and advice has been sought from the Alderney and Guernsey Harbour authorities on the matter.

The provision of funding within the EDR allowed the States of Alderney to conduct earlier than usual, a competitive tender process for the seasonal ferry service between Alderney and Guernsey. Following analysis and evaluation, a new supplier was awarded the contract with a performance-based subsidy.

The Service has contributed to an active tourist season by transporting visitors who contribute to its economy. Regrettably, following a series of breakdowns, the provider advised the States in September 2022, that the service could no longer be provided as envisaged to December 2022. The agreement was therefore terminated by mutual consent in late September.

Energy Group Initiatives

During 2022 the main focus has been on developing an energy strategy and related energy policy. Ore Catapult Development Services were commissioned to prepare a literature survey applicable to the Island and to then develop a broad strategy for both electricity and heating to maximise the use of renewables.

For electricity, the recommendations were to utilise wind turbines (siting study commissioned) and solar panels; and for heating the initial focus is on improved insulation (evaluation commissioned) and the use of high efficiency boilers. The replacement of heating oil by electricity is constrained by economics and by the need to upgrade the Low Voltage infrastructure.

The use of hydrogen and tidal power has been evaluated but at this time the technology needs further development before they can be considered.

This work will continue into 2023. Work on renewables is now being taken forward by Alderney Electricity Ltd (AEL), supported by the Energy Group. Funding will be required to provide energy efficiency audits and advisory services to assist homeowners in reducing energy usage but more importantly to minimise heating costs.

Work will also continue on tidal power pilot projects as appropriate (in conjunction with the Alderney Commission for Renewable Energy) which may require technical support.

STATES OF ALDERNEY REVENUE ACCOUNT

The consolidated format provides a summary of income and expenditure from operational areas as well as highlighting sources of revenue. The upper section of the report shows the operational activities (both income and expenditure) by the three Committees and shows the net cost of service in each area. This is followed by "Other Operating Income", "Property and other Taxation/Grant income" followed by transfers/ funding from reserves and finally showing the surplus/ deficit for the year.

In regard to delegated responsibility, Senior Managers from each Department hold full responsibility for their Budgets as the principal budget holder, and in turn have been given the authority to 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.

Revised Budget 2022 – The Revised Budget for 2022 shows a surplus of £765k following transfer to Reserves compared to the original Budget forecast of £164k. The vast majority of this surplus can be directly attributed to increased Document Duty and Property Transfer Duty, Fuel Duty, Interest Receivable and Vehicle Import Licence Fees (collective additional income of £1,3M).

Budget 2023 – In respect of 2023, the Budget is showing a deficit on Provision of Service of £533k which will need to be met from a one-off exceptional transfer from the General Reserve to avoid passing on the burden to residents in 2023. This solution is not considered to be sustainable.

Agreed as part of the Budget Strategy earlier this year, was the Reserves strategy to ensure 3% or £100k is set aside to Reserves however in light of significant pressures on the Budget in 2023, no allocation is being allowed for as windfall revenues in 2021 and 2022 (based on Revised Budget) have taken us over the target minimum reserve level of £850k agreed in 2021.

Further details on the main assumptions made and any significant items of note are listed below.

Building & Development Control

Overall, there is little movement on net expenditure in 2022 and 2023. Whilst staff costs have increased, this has been offset against increased income together with expenditure on the Land Use Plan (LUP) being considerably less than expected during 2022.

Income

Permit fee income is expected to be higher than Budget in 2022 due to increased larger developments in 2022. Advice from the Planning Office and Building Inspector indicates that 2023 is likely to be reduced back down to previous years levels.

Expenditure

Staff costs are higher than anticipated in 2022 by £34k. This is due to the appointment of additional planning support and a delay to the review in planning services. Although £50k had been provided for at Budget 2022 for LUP work, this has been reduced to £30k based on work planned to year-end. Following information received from the Chair of Building and Development Control Committee, no provision has been made in the revenue Budget for LUP work in 2023. Should there be some expenditure identified at a later date, consideration will be made for this to be met from the Major Projects Reserve Fund as it is an exceptional revenue item.

General Services

Net expenditure has increased from 2022 Budget by £428k at £2M and is set to increase to £2,1M in 2023.

Income

Areas of significant variance/points of note are:-

- Harbour Income – The Harbour have reported a good season although August was not as profitable as they had originally expected. This is reflected in Visitor Mooring and Water Taxi income. A proposal was considered at the recent General Services Committee (GSC) meeting for amendments to various income sources within the Harbour. These proposals are being developed further and will be presented to the Committee as soon as practicable however, as the effect on Budget is not known at this time, no allowances have been made in 2023.
- Recreational Facilities – Income is down from Budget with hire of the Island Hall and Butes Centre not yet returning to pre-pandemic levels.

Expenditure

Overall, GSC expenditure has increased from Budget of £1,96M by £460k to £2,4M in 2022. Budget 2023 includes a further £155k expenditure taking the total to £2,6M.

Areas of significant variance/points of note are:-

- Ambulance – The increase in costs reflects the need to commission a clinically appropriate and resilient ambulance service after a period of significant operational disruption. This will provide necessary and required improvement to the ambulance service, including enhanced clinical governance, adherence to professional requirements and the capacity in due course to adopt more integrated working with other health care providers. Given the increasing pressures and demands arising from the ageing demographic, supporting resilience across organisations will help maximise efficiencies over time.

It is acknowledged that in contrast to Guernsey – where there is a mixed funding model combining a government grant with a subscription scheme and fees and charges – the costs presented are based on the States of Alderney bearing the full costs.

- Staff - Public Services – As mentioned earlier in this report, there are pay increases factored into the Budget which account for an increase of approximately £81k in 2023. Some new posts were filled during 2022 which will require ongoing costs in 2023. These posts have been identified as being essential to provide continuity of service. Managers, together with the Chief Executive, will continue to look at efficiencies within the departments to ensure value for money.
- Harbour – Mooring contract costs were higher than expected in 2022 and therefore this required an additional £13k additional expenditure. This more realistic cost is reflected in 2023. In addition to this an extra £15k is included under quay maintenance for Health & Safety works required on handrails, slipways etc. as well as works on the Commercial quay. The pilot boat also required a refit in 2022 and works had to be carried out on the harbour launch. The 2023 Budget also includes a full year of staffing costs for a replacement Harbour Master.
- Agriculture – Overall increase in expenditure of £28k from Budget mainly due to replacement of minor plant & equipment, as well as a precautionary budget allowed for Bird Flu compensation. Budget levels in 2023 are comparative with Revised Budget 2022.
- Household Collection and Impôt – Costs in this area are higher by £46,5k from 2022 Budget partly due to staff allocation plus to higher costs on vehicle and plant maintenance in this area of £21k. Disposal costs of household and general waste are also up on Budget by £10k and vehicle and white goods disposal costs are up by £11k as a result of clearing a backlog of stockpiled fridges, freezers and tyres. The Budget 2023 reverts to being in line with 2022 Budget.

Policy & Finance

Net expenditure relating to costs of services has increased from the 2022 Budget by £250k to £1,64M. 2023 expenditure is projected to be higher at £2M.

Income

Overall, the Budget shows a significant increase in revenue income of £1,27M from the Budget in 2022. However, this reduces back down by £816k in 2023 to £3,5M.

Areas of significant variance/points of note are:-

- Property Transfer Duties/ Document Duties – These receipts have been unpredictably higher than projected during the first half of 2022. It is estimated that receipts will be £1,2M above Budget at £1,86M. This continues to be monitored and will be adjusted as late as practicable during the Budget process. The Budget 2023 is forecast at a much-reduced level of income assuming that the high levels of sales experienced in 2021 and 2022 do not continue. Property sales have slowed down considerably since mid-year however this remains a highly volatile source of income therefore continues to be monitored closely. A total figure of £591k is considered to be a pragmatic assessment.
- Interest Receivable – Based on interest received to-date, interest rates have recovered significantly post pandemic and income has been increased by £32k from Budget. The Budget 2023 has been set to include an estimated return on a new Investment Policy & Strategy approved by PFC in September.

- Numismatic and Philatelic Profits – Revised Budget 2022 has been maintained as per the current contract arrangements. This increases in 2023 under a new contractual arrangement, the outcome of which is not published due to commercial sensitivity.
- APT – An increase of 9% is included to all APT tariffs excluding Utilities Providers to mitigate the impact of inflationary increases in 2023 (this equates to an additional £107k). This was agreed by majority at the September PFC meeting. In view of the current inflationary pressures, the Committee considered that this increase could be justified with other mitigating actions taking place to recover the majority of the budgeted deficit in 2023.
- Fuel Duty – A revised forecast of £440k has been included for 2022 based on income to date and a slight increase to £443k included for 2023. As per the Budget strategy, this will be kept in line with the States of Guernsey Fuel Duty Rates.
- Insurance Deductible Fund – As mentioned in previous year, a review of this Fund is due and given that at this time, it is anticipated that sufficient funding is available to cover potential liabilities, no allocation has been Budgeted in 2023.
- Company Registrations – The change in Company Fees, originally planned to take effect in 2022, will result in an additional £12,5k income per annum. The amendments required will need to be agreed prior to year-end.
- Sale of Advertising Space – This has been set at nil for 2023 due to a marketing decision to utilise the 2022 brochure again in 2023. This reduction in income is offset by savings in brochure production. Advertising space will once again be sold during 2024.

Expenditure

Overall, PFC expenditure has increased from Budget by £250k in 2022. The Budget 2023 is £344k higher than Revised Budget 2022.

Areas of significant variance/points of note are:-

- Administration Staff – Costs have increased by £44k in 2022 in part due to the requirement for a Welcome Team in the early part of the year and £120k in 2023. This includes new posts identified by the Chief Executive. Pay Agreements are also now known for 2022 and 2023 in relation to Established Staff and these equate to 5% in 2022 and 7% in 2023 and have been factored into the Budget.
- Education & Health Services – Savings are being made in 2022 Budget with a reduction in the School Bus Subsidy as no contract was awarded following a tender process earlier in the year. A longer-term solution is being discussed with relevant parties which may incur a level of expenditure in future years.
- Primary Health Care – The cost reflects the necessary investment to support and maintain primary care provision, ensuring islanders have resilient access to traditional Primary Care Services as and when needed (NB GP support provided to Mignot Memorial Hospital is fully funded by the States of Guernsey as a transferred service).

Throughout the course of 2023, steps will be taken to reduce where possible the revenue pressure on government through wider work, in conjunction with the States of Guernsey, to support greater integration across health care providers.

- Marketing – Increase in expenditure in 2023 is related to enhanced digital marketing and website hosting/ support. This is partially offset by savings made for brochure production, as mentioned earlier in this report.

STATES OF ALDERNEY CAPITAL BUDGET

Capital Income

As mentioned earlier in the report, the Capital programme is mainly funded by AGCC surpluses which are expected to be in the region of £2.2M in 2023, an increase in the expected gross income from 2022 which has been revised to £2M, from which the transfers of £611k to AeGL (original Budget £588k), and £300k to EDR Fund will be made.

Other Capital income received relates to the sale of States assets such as vehicles/ plant. It is important to note that there is no cash allocation received from the States of Guernsey in respect of Capital funding.

It should also be noted that the programme is an outline of potential projects and priorities. Spending approval is a separate stage and only agreed on submission and approval of business cases in accordance with established financial procedures.

Capital Expenditure

The schedule attached with this report, which has been approved by the Committees, shows each of the major projects together with the minor projects which are consolidated with the totals shown by department area.

Revised Budget 2022 – Funding for 2022 includes the ongoing scoping and costing works associated with the Mouriaux to Platte Saline Sewer Phase 2, which is anticipated to come before the States for approval early next year, in addition to preliminary costs for future major projects. Meanwhile there have been 15 minor projects approved this year to date, with more in progress and expected before year end.

Budget 2023 – The focus for major projects in 2023 will be the approval and delivery of Mouriaux to Platte Saline Sewer Scheme (Phase 2) as mentioned above, extension to the existing pontoon, grant funding to AHA together with the Purchase of Land for Sheltered Housing. In addition, there are in excess of 40 minor projects expected.

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 operational costs i.e. depreciation and other revenue implications are charged to the revenue account.

The Water Board Revised Budget 2022 shows a projected surplus for revenue is £84k, compared to Budget 2022 of £117k.

The Budget 2023 provides for a surplus of £28k.

Any surplus is transferred to Water Board reserves at year-end. The reserves stood at £984k at the end of 2021. These reserves will be used for Water Board capital projects in the near future.

Income

As rates are set by ordinance each year, unmetered income in 2022 remains unchanged from Budget. A minor amendment in service charges has resulted in a decrease in estimated income from £742k to £740k in 2022.

The Board have in previous years, committed to increasing Water Rates each year to increase the reserves held. From 2017, a 5% increase was agreed each year, however in 2021 and 2022, due to efficiency savings and the projected surplus, it was agreed not to increase the Water Rates.

In line with the 2023 Budget Strategy, no increases to Water Rates are being recommended for 2023. Whilst this is a positive outcome for the community, this should be considered as a short-term mechanism and that there is not an expectation that this will continue in future years. However, it should be recognised that operating costs are increasing and the relatively small budgeted profit for 2023 is not adequate to provide long term sustainability for ensuring that the Water Board can be self-funding. This is particularly important given the decision for the Water Board to fund future Capital works from reserves rather than through States of Alderney grant funding. These factors will be considered as part of the Water Rate review for 2024.

Expenditure

Total Expenditure for 2022 is projected to be up from Budget by £33k at £664k, increasing up to £721k in 2023.

Although a number of expenditure costs have been largely maintained, there are some more notable areas of variance, namely:-

- Staff costs (General) – These are less than anticipated at Budget by £12k. The costs continue to be shown as net as they are partially offset by recovery from the in-house labour and supervision on Capital projects. Recharges to Capital projects is increased from Budget due to a higher requirement for in-house labour on Capital projects. The costs also include an estimated increase in wage costs in 2022 and 2023 due to the Public Service Employee pay deal having yet to be settled.
- Water Treatment & Testing – £5k decrease to Budgeted costs based on year-to-date estimates. 2023 Budget has been increased to reflect expected increases to the costs of products and services.
- Pumping Costs – Based on increases already seen this year on electricity, fuel and telemetry a percentage increase has been added to reflect changes in the cost of living.
- Maintenance, Machinery & Materials – The improvements to the distribution network continue to minimise maintenance costs on the network however this is offset against maintenance in other areas and associated reinstatement costs.
- Maintenance Contract – Review of contracts has allowed for a reduction in Budget in 2022 which will continue into 2023.
- Depreciation – Adjusted to reflect capitalisation of completed phase works to upgrade the distribution network and the purchase of new fixed assets. This has resulted in a significant increase in 2022 and 2023.
- Administration Charge – This reflects estimated staff costs recharged from the States of Alderney with no other overheads. Increases are made annually to reflect pay increases.
- Insurances – Allowance made for expected increases due to changes in the insurance market and contract in 2023.
- Office Expenses and Equipment – Includes costs in 2022 and 2023 for mapping works and renting of associated equipment.
- Bank Charges – Increase overall across States departments due to significant increase in charges and usage.

WATER BOARD CAPITAL BUDGET

The Water Board continues with a successful Capital programme which is mainly funded by Capital grants from the States of Alderney, amounting to just over £3M since 2008. Over more recent years the program has largely been driven by the work which AEL is carrying out in relation to the distribution grid, with the Water Board joining in with trench share opportunities, where appropriate, in order to save on costs and disruption.

As reported last year it has been agreed that the funding model will change with effect from 2023, with the Water Board taking on responsibility for all of their Capital projects from their own reserves.

2022 Projects – During 2022 projects have included works at La Pre together with Mannez to Longis which is currently in progress. These projects are being funded by Capital grants from the States of Alderney.

2023 Projects – Further provision has been made for £110k expenditure on ongoing distribution improvements projects and infrastructure which will be costed and approved as necessary throughout the year, as per Water Board priority area. In addition, funding is included for vehicle replacement, and minor Capital expenditure relating to pumps, meters, membranes, security and IT systems etc.

Improvements to Battery Quarry – This major project has been deferred over the past few years and has become less urgent with the full replacement of lumens/membranes during 2021 (funded by Water Board reserves). The next stage in the project, for a new building to house the existing plant, together with stores, offices etc, is Budgeted in 2023. This will consolidate all Water Board operations in one area, with associated efficiencies, and could release assets currently used as stores in order to offset costs.

CONCLUSION

Within the positive report presented in 2021 it was stated: 'We must recognise that the future is always uncertain and that the last couple of years have shown us that anything can change with very little notice.' As a small jurisdiction we are subject to economic pressures outside of our control such as the effects of war in Europe and changes in UK government economic policy along with fluctuations in local Bailiwick activities.

Therefore, following the positive financial outcomes of 2021 and 2022, in part thanks to the rediscovery of Alderney by our Bailiwick friends and the subsequent housing 'boom', together with the strong fiscal union with Guernsey, the projected budget figures for 2023 lay bare several difficulties that it would have been hard to foresee. Namely, the issues presented by the sudden necessity for the States of Alderney (SoA) to take ownership and responsibility for the Island Medical Centre and the restructuring of the ambulance service. These issues have presented an acute immediate problem. For Alderney, with its current demographic, to ensure it has a reliable and resilient primary health care service is of paramount importance and an overriding priority for its government, but this has come at a cost and will continue to do so.

As such, the Treasury Department and Finance Committee are disappointed to be obliged to recommend an increase of the Alderney Property Tax (APT) to help meet the costs incurred regarding primary healthcare provision, particularly regarding the Island Medical Centre and maintaining continuity of service. It is the priority of the SoA to care for and support the people of Alderney, and whilst this increase in APT is hugely unwelcome by the public and indeed the SoA it is one aspect of the plans being developed with professionals across the Bailiwick which will result in certainty and ultimately an excellent and consistent level of healthcare for all Islanders in the future.

Of course, increased taxation cannot be the only answer, and we appreciate the increased burden imposed on our population. Hence, cost savings need to take place alongside, whilst not undermining services and development. The SoA have a responsibility to produce a prudent and sensible budget and have done so for 2023 by:

- Building on our positive outcomes from the 2022 budget;
- Reprioritising some of our capital projects;
- Seeking to operate more efficiently and looking for savings in all service areas where this doesn't compromise delivery and quality;
- Honouring the commitment to development of new income streams.

It is clear that Alderney needs to continue to consider the question of how it creates new income streams, along with reviewing whether our current revenue streams are appropriately focussed and applied, particularly in the light of the demands of its current demographic and the future projections for health and social care.

2022 has seen our Bailiwick relations continue to thrive and we have again welcomed visitors from the rest of the Bailiwick throughout the year, together with visitors from the UK and elsewhere maintaining the strength of our hospitality sector. New attractions such as the re-opening of Fort Doyle have seen our tourism product broaden, and we hope to continue promoting our rich history and natural world attractions through the coming years. We of course thank everyone involved for their hard work in these endeavours, and their dedication has been appreciated by islanders and visitors alike. The funds allocated towards a new pontoon are sizable and the planned improvement in infrastructure at the harbour will benefit residents and visitors alike providing improved access.

On a positive note, we can confirm that we will, once again maintain water rates at 2021 levels, which is an excellent result and testament to the hard work and diligent budgeting of the Water Board team, and we of course thank them for all of their hard work in this and previous years.

We give enormous thanks to all involved with preparing this budget in what has been an incredibly challenging year, in particular our Treasury team, led by Head of Finance, Liz Maurice, supported by Stephen Taylor, our Strategic Financial Advisor. This year the island has been confronted by many financial difficulties never faced before which have needed immediate solutions as well as the need to plan for different demands going forward. This highlights the issues presented throughout the year that we, as a small island, tackled with vigour addressing the need to provide continuity and confidence in caring for all of our residents. Whilst we regret that the budget for 2023 does not make for entirely positive reading, we are acutely aware of the issues that need addressing. We are doing so in a planned manner using appropriate advice and guidance and as such can approach the coming years with a continued sense of dynamism and determination to safeguard Alderney's future but with the proviso that Alderney is a very small jurisdiction in a very large economic and geopolitical sea whose character can change very quickly.

Christian Harris
Chairman, Finance Committee

&

Ian Carter
Chairman, Policy & Finance Committee

September 2022