

ASCENSION ISLAND GOVERNMENT

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Formal meeting of the Ascension Island Council

1330 on Wednesday 11 Mar 2020 at the Court House

MINUTES

Present:	HE Dr Philip Rushbrook, Governor HH Steven Chandler, Administrator Gareth Morris, Director of Resources Allen Cansick, Attorney General	Councillor Katharyn Chadwick Councillor Andrew Ellick Councillor Kitty George Councillor Andrew Hobson Councillor Alan Nicholls
In attendance:	Xander Halliwell, Head of Administrator's Office Dr Bill Hardy, Senior Medical Officer [Item 4]	Rob Cheeseman, Crown Counsel Jane Disley, Clerk of Council

1. Welcome

The Administrator welcomed all parties and explained who was present for those attending by phone.

2. Approval of minutes

The minutes of the previous formal meeting on 6 Feb were accepted. In accordance with the new Council Rules these had already been agreed by Council members and published.

3. AIG Budget FY20/21

The Director of Resources (Dir Res) had prepared a statement summarising the budget proposals and preparations, a copy of which is attached. The initial intention had been to deal with each proposal separately, but Cllr Hobson proposed that the budget be dealt with first since the Business Levy proposal was dependent upon its acceptance. After Dir Res read his statement the Administrator explained that Cllr Ellick had declared a financial interest in the Property Tax holiday proposal, so while he would remain throughout the discussion he would not be permitted to participate or vote on that element.

Cllr Nicholls noted a number of minor issues with the text of the Ordinance; these were agreed and would be addressed, where necessary, by Crown Counsel.

Cllr Hobson explained that in September 2019 the new Council had prioritised employment law review, A levels and a 5-year financial plan. Whilst there had been useful meetings about employment reform, he felt the A level work was going backwards and the budget plan did not restore balance and so the Council had achieved 'zero'. He felt that it was disingenuous to say that the reason for AIG's financial problems was the Airbridge and while this had caused a reduction in income the biggest loss of revenue was reductions in income linked to marine services, and reduction in additional services previously requested by employing organisations. Cllr Hobson felt that though there was a chance of retrieving some of this revenue that AIG needed to be realistic and accept that much of this income was gone for good and the AIG could no longer afford to operate as they do. Citing an example, Cllr Hobson noted the headcount reduction of the Environmental Health team and questioned whether an adequate service could be provided with less staff, noting that the number of rodents had not fallen. He suggested that maintenance of property and vehicles was not being adequately funded, and as such simply shaving some cost areas was creating false economies in hard services. It was therefore necessary to look more carefully at the soft services across the AIG. The example of how a business case for additional support to help people on island with mental health issues

could easily be put together but the bottom line was that with £1m less income AIG had to accept that there were some things it could not afford. In summary, Cllr Hobson confirmed that he could not support the budget as it was not a plan to restore financial health.

There was some discussion about the reduction in marine income, the loss of the RMS St Helena, the reduction in commercial work and the loss of commission from Voyager flight sales and about the difficulty with predicting how much of this income would be lost indefinitely and how much the Runway Reconstruction Project would generate. Cllr Chadwick pointed out that the budget was for this financial year and that the 5-year plan was fluid, so accepting this budget didn't mean accepting that the 5-year plan had failed.

The Administrator thanked the Finance Committee for its work and noted the points about lost revenue. He reminded councillors that work was being done not just to lower costs, but also to identify new income streams eg the Business Levy, the AC domain and marketing the +247 number, as well as external funding sources such as European Development Fund (EDF) and revenue generated from the runway contractors. There was a brief discussion about cruise ships and the fact that potential income from that source was restricted because of the inadequacy of the landing facilities. It was noted that whilst it was restricting potential revenue it would be costly to address, and CSSF rules did not cover such non-critical infrastructure.

Cllr Hobson pointed out that the EDF grant and other sources were not options that could be used as a solution to the operating deficit that AIG still had to address and that to suggest they affected this budget was misleading. He suggested that AIG had underestimated the impact of the Airbridge such that if the runway project was delayed the money for that would disappear. He did not contest Dir Res' figures as they were based in good faith on a pragmatic view of what might happen, but he stressed that there were as many downsides as upsides and that it was too easy to be optimistic. He said that if key decisions had been made in 2017 AIG would be in a better position, but they were frightened of taking hard decisions and now £1.7m of cash had gone. In response to Cllr Nicholls asking what hard decisions, Cllr Hobson mentioned the Social Worker position and St Helena Police numbers, after which there followed some discussion about the scale of budget shortfall to be closed and about AIG's responsibility to protect people.

Cllr Ellick stated that he had come round to Cllr Hobson's view that the AIG was living beyond its means and needed to streamline some of its resources. Cllr Chadwick expressed the view that the 5-year plan would work toward balancing the budget and there followed a brief discussion about the merits/costs of delaying acceptance of this year's budget. The Administrator reminded councillors that there had already been 6 months' work on this and that he felt it was important to put it to the vote today. Dir Res stressed that voting today would not mean the end of the process as there would be more meetings and more restructuring with the aim of becoming cash-neutral, but that there were no services it would be easy to cut without impacting on residents' lives.

Cllr Nicholls expressed his concern about reserves not meeting the budget requirements, but reminded councillors that when in dire straits previously the UK Govt had boosted its funds and that the FCO Desk Officer had indicated it could do so again if necessary. After further discussion about potential areas to cut or tweak, Cllr Hobson proposed that the vote be taken. Dir Res was thanked for bringing together a lot of detailed information and in return he thanked councillors for their time in discussing the proposals and providing their views. The results of voting to recommend the proposals to the Governor were as follows:

	Proposal	KC	AE	KG	AH	AN	Governor
1	Budget Approp Ordinance [subject to minor amendments]	Yes	No	Yes	No	Yes	Accepted
2	Business Levy increase and Ordinance [ditto]	Yes	Yes	Yes	Yes	Yes	Accepted
3	Property Tax holiday	Yes	Abstain	Yes	Yes	Yes	Accepted

4. Any other business

Several AOB points were raised:

- a) UK/OTs Joint Ministerial Council. The Administrator advised that the Joint Ministerial Council was likely to be cancelled; confirmation was expected the following day.

b) Coronavirus advice. Cllr George raised three questions from members of the public about coronavirus concerns:

- i. Why aren't companies calling staff meetings before the next flight to discuss what is in place and what is being done to mitigate the chances of COVID-19 coming here?
- ii. Why when St Helena is cancelling all public gatherings, is the public meeting with the Governor still going ahead? Shouldn't this be cancelled?
- iii. Shouldn't cruise ships be stopped from allowing passengers and crew ashore here especially as we have no way of testing here? Why not do everything that can be done **now** to prevent it from arriving here? Prevention is better than cure and we know there isn't any cure.

The Administrator advised that COVID-19 would, to varying degrees affect our whole community, particularly the most vulnerable, and as such we needed a whole of community response to it. He explained that AIG's COVID-19 Working Group (WG) was coordinating AIG's response and liaising with other Employing Organisations (EOs) about the state of play, about measures being put in place and about how EOs could contribute to the effectiveness of these. The WG had been communicating daily after liaison with authorities in the UK, Public Health England (PHE) and St Helena. He reiterated that whilst there was uncertainty, measures were in place to mitigate the threat and the vast majority of people would not be affected beyond that of a normal flu. Only a handful of people were in an 'at-risk' group, largely relating to age and existing health factors, so the aim was to avoid possible spread to those people. The focus on AIG messaging was on making the public aware of practising good cough and hand hygiene to impede the spread of any outbreak. Weekly written updates were being provided to the public and the WG planned to schedule regular meetings with the EOs. Anybody wanting specific advice should call the hospital. The expectation was that the virus would reach Ascension but that the measures in place were designed to slow the rate of transmission. The Administrator said he wanted to reassure island residents that AIG were committed to a calm, measured and proportionate response based on clinical advice. He stressed it was important not to be led by sensational media headlines in forming our response. Currently there were no suspected cases, but as the situation developed so would AIG's response. Cllr Nicholls noted the resurrection of the Resilience Forum would be an appropriate body to handle COVID-19. The Administrator advised that he had drawn together information for his successor to take forward and resurrect the Resilience Forum.

The SMO confirmed the points made by the Administrator and especially wished to dispel the notion that we could prevent the virus from reaching Ascension. However, he confirmed that it had a low infected-morbidity load and that AIG's response was based on trying to impede its progress in order that Ascension's health services were not overwhelmed. He advised that the epidemic would progress at a predictable rate, that it would probably last 8-9 weeks and that the key message was individual action. He confirmed that there was no diagnostic test so in the event of symptoms appearing self-isolation would be appropriate for up to 14 days to avoid the peak of infectivity. He also explained that arrangements would be made with the EOs to ensure people were supported and that details were recorded and monitored.

There was some discussion about communication methods and the need for some verbal messaging, including passing information and advice to staff within the EOs. There were also questions about banning public meetings, as had been done in St Helena, but the Administrator confirmed that, although we were not at that stage yet, it was a tool in the bag that could be used if appropriate and that St Helena had not banned public gatherings. Cllr Ellick questioned that decision and there followed some discussion about incubation periods and the merits of Ascension Island isolating itself. The SMO advised that this would delay the inevitable arrival of coronavirus which might make the situation worse as it would then coincide with the annual flu season. Cllr Hobson asked about measures to ensure the health professionals were protected and the SMO advised that they would follow the same measures as advised to the public but that personal protective equipment was available if required.

The Governor reiterated the medical advice given. He urged the Council and AIG's senior management team (SMT) to provide assurance by speaking with one voice to island residents to demonstrate that the Government/elected councillors had a plan in place and had confidence in it. He also stressed that the

response should be proportionate, that the SMT and councillors continue to be visible and that PHE be notified as soon as possible of any additional medical stocks that needed.

Cllr Ellick asked about testing and the SMO explained that the gold standard diagnostic test was complex and required specialised equipment which Ascension did not have. PHE were working on a simpler test that would detect the virus in the body; however official advice was not to purchase this yet. The diagnostic test would provide immediate results, whereas the other was to detect antibodies in response to the virus, so could only show that the subject *had been* infected.

c) Meeting notification. Cllr Hobson asked if the 11 Mar formal meeting had been properly publicised. The Administrator confirmed it had.

d) Runway update. Cllr Hobson pointed out that, although there had been a Runway Project item on the agenda less than a week before, the agenda ought to have included an update on the Runway Reconstruction Project since the Council had previously agreed it would be a standing item. The Administrator noted this point.

e) Councillor enquiries. Cllr Hobson noted that the answer to a councillor enquiry had been posted on the AIG website and asked if this was now the policy. The Administrator confirmed that this was a pilot posting to test the website and, subject to the distribution selected on the councillor enquiry form, answers would be published on the website in future.

f) Audit. Cllr Hobson asked when the Audited Accounts for 2018/19 would be available. Dir Res explained there was a meeting scheduled between the Chief Auditor and Administrator for 12 March to discuss further actions, with the hope the financial accounts will be fully signed off before the end of March. Dir Res further explained that the timetable for this year's audit had been less than ideal and that next year the schedule would commence much sooner after the close of the financial year.

g) Further education. Cllr Chadwick confirmed that once feedback on AIG's questions was received from the FCO and other key organisations it would be possible to work on a timeline for further progress. The Administrator confirmed that he had already spoken to his successor and that he would pick up this item.

h) Administrator's final meeting. It was confirmed that this would be the final meeting for the current Administrator. Cllr Nicholls offered his thanks to the Administrator and noted it had been a pleasure to work with him. Other councillors nodded their agreement.

5. Date of next meetings

The proposed dates for the next few meetings are as follows:

- Informal – Thursday 16 Apr at 1630
- Formal – Thursday 30 April at 1630
- Informal – Thursday 28 May at 1630
- Formal – Tuesday 11 Jun at 1630

There was no further business and the meeting ended at 1530.

J Disley

Jane Disley

Clerk of Council

Budget Summary by Director of Resources

Introduction:

From the papers shared all should be aware that there are 3 decision points on which the Council will be asked to make a recommendation to the Governor.

The financial performance of the AIG over the past 3 years has been disappointing, with the suspension of the South Atlantic Airbridge being a key contributing factor to a huge downturn in Revenues received. The reported financial operating position over the past 3 years has shown losses of £516k, £978k, and a forecast loss of £1,012k for 19/20.

Though the financial climate has been a challenging one, there is cause for optimism with the scheduled start of the Runway Reconstruction Project now within sight.

The budget setting process started at the end of October, and has included 3 informal meetings of the Island Finance committee, and a formal meeting on Tuesday 3rd March.

At the outset of the budget setting process AIG set some short and mid-term objectives of what we would aim to achieve financially.

Short-term objectives – 20/21:

- Produce a cash neutral operating budget.
- Avoid any tax or duty increases that impact directly on island residents (acknowledged Business Levy increase may have knock-on impact for residents).
- Ensure a Capital budget set at approximately 50% of expected value of our non-cash adjustment for depreciation and amortisation.
- Review staffing structure to find reductions in headcount.
- Support/promote local business.

Medium-term objectives – 21/22 - 23/24:

- Return the AIG financial position to an overall surplus.
- Ensure Capital budget matches annual non-cash adjustments.
- Maintain the AIG reserves at a level equal to 12 months of operational expenditure.

These objectives have been at the forefront of our work on budgets through the year.

At the formal meeting last week the Finance Committee made the decision they were happy for the proposals connected to the budget to be brought before Council for consideration.

Business Levy:

- The first item for consideration linked to the overall budget being put forward for Council approval is the proposal of an increase to the Business Levy for 20/21 financial year.
- The Business Levy first came into existence for the 12/13 financial year as an alternative for the main Employing Organisations to Property Tax. It was originally set at £1.6m. As a result of a then healthy financial position the AIG reduced the Levy in 13/14 to £1.5m, and then again in 14/15 to £1.4m. The Levy has remained frozen at £1.4m ever since.
- Since 16/17 Revenues have steadily fallen for the AIG, reducing by an annual total of £1.3m. As such Net Current Assets have reduced dramatically, from £10.5m at 16/17 financial year end to a forecast £8.6m at the

end of 19/20 FY.

- Over the same time period the AIG have managed to reduce expenditure levels by around £0.3m, while absorbing inflationary pressures and providing new services such as the waste management site, hydroponics, the petrol station and social worker services.
- There has been a series of meetings and discussions with some the main Employing Organisations on island, with the AIG aided by support from FCO. All parties are aware of the AIG's bringing this proposal before Council, though it is clear they are not entirely happy at the prospect of any sort of rise.
- The AIG believe that with the expiry of the current Business Levy Ordinance now is the time to review and increase the current level of the Business Levy. As such we propose an increase of £390k, which is approximately 27%.
- Inflationary increases of 4% per year over the 5 years that the Levy has been frozen would equate to just over £300k. The new services provided by the AIG over this time period are estimated to cost in excess of £250k. As such we believe the £390k is a fair increase at this point in time.
- The proposal brought forward is for one year only, with a commitment from the AIG to regularly review and update Employing Organisations on the financial performance forecasts. Employing Organisations do need to pay their share for the services they use on island, and contribute to plugging the gap in the government finances. It is hoped increased tax receipts over the next two years will mean that no further increase to the Levy is required over that time period.
- The AIG acknowledge that any increase to the Levy does risk Employing Organisations such as Encompass and Sure increasing their own prices. We are continuing dialogue with these Organisations to do what we can to mitigate against cost increases.

Property Tax:

- The second item for consideration linked to the overall budget being put forward for Council approval is the proposal for a Property Tax holiday for businesses operating or wishing to operate of Ascension Island.
- The AIG have been looking at how we can help existing tax paying businesses on island and create an environment that encourages more.
- We have this year waived shipping cargo handling fees for retail outlets and now we propose following this with a Property Tax holiday.
- The proposal would be that this holiday applies for only the 20/21 financial year, with a planned review of the system of Property Tax ahead of the 21/22 financial year.
- The purpose of this holiday period is to support both new and existing businesses to sustain / adapt / grow during the period before the scheduled reopening of the Airbridge.
- Based on figures from the 19/20 forecast this would reduce revenues for the AIG by around £10,000 per year, though this loss could potentially be more should there be an immediate increase from businesses for additional properties.
- Though it can be argued that this holiday may have been more beneficial at the start of the suspension of the Airbridge, we believe that at a relatively small cost to the AIG, this could make a considerable difference to island businesses, and hopefully benefit residents in terms of choice available and price containment.
- No legislative changes are necessary in order to implement this policy, as there is provision in the Property Tax Ordinance for the Governor to grant exemptions.

Budget:

The final item to be considered is the request for appropriation of funds for the 20/21 budget.

1st is an Appropriation for the Consolidated Fund of £6,440k.

2nd is an Appropriation for the Development Fund totalling £505k.

Revenue forecast behind the budget proposal 20/21:

- The budget proposal for 20/21 includes an increase to revenues against the 19/20 budget of 18% or £0.8m. The increase can be attributed to expected £0.4m increase in Income Tax receipts, and a proposal to uplift the Business Levy charged to Employing Organisations on island by £0.4m.
- Increased revenues for Income Tax have been forecast prudently, with the working population on island expected to increase by up to 40% at times over the next 12 months for work associated with the Runway Reconstruction Project and Encompass's power station refurbishment project. (Note: approximately 500 current tax payers on island for this financial year.)
- The increase in our forecast for duties in 19/20, plus expected increase in working population on Ascension Island in 20/21, has been accounted for with a modest 6.5% (£35k) increase to expected revenues from duties.
- While the rates of duties have been examined, this budget proposal contains no increase to those rates, though a further review is planned for the summer to inform 21/22 budget setting.
- Local Revenues have been forecast to increase in 20/21 compared to the 19/20 budget, despite the drop in commercial revenues that is currently forecast to be recurrent. The adverse movement for commercial revenues has been more than offset by an increase to expected trade sales in 20/21, particularly for fuel sales.
- Again a prudent approach has been taken to forecasting potential Revenue, and as such no provision has been added for potential local revenue generation connected to the Runway Reconstruction Project, for example from hire of equipment or providing additional ship-shore services.
- The approach taken to forecasting Revenues has been extremely cautious, and therefore the actual financial results for next year may look considerably more healthy.

Expenditure budget proposal 20/21:

- The cash operating expenditure budget proposed for 20/21 is approximately £250k or 4% higher than that set for the 19/20 financial year. The increase in comparison to the 19/20 forecast is approximately £400k or 7% higher.
- Staff and employment costs have increased by approximately £20k despite a decrease in budgeted headcount (reduction of 12). Costs estimated regarding provision of a sea and fire rescue service have remained in the budget despite the headcount being removed from staffing numbers.
- The £20k variance between 19/20 budget and the proposal for 20/21 is caused by increases to the allowance for food and drink, utility costs and staff medical costs. These have been somewhat offset by the overall reduction in headcount and reduced staff travel and training costs.
- There is a need to appraise staff salaries within the AIG, with work ongoing to produce and implement a fair and transparent structure for salaries. Additional costs for increases to salaries, particularly for those on the lowest pay, have been estimated at approximately £100k.
- This additional cost has been offset in the budget submission in lieu of the fact there is currently no

turnover provision, and the increase in salaries can likely be covered by in-year vacancies. Staffing costs have historically underspent year on year due to the lack of this provision.

- The budget proposal for Cost of Services is £80k higher than the 19/20 budget position. This is due to the costs for the purchase and freight of fuel with sales expected to exceed those forecast for in 19/20.
- The costs associated with running the waste incinerator have had the largest impact on the Maintenance budget, with a requirement for an additional £85k of budget in 20/21 compared to 19/20. This is in part due to higher than forecast fuel consumption but also to account for the expectation that waste from Travellers Hill will soon be burnt in the incinerator. This additional cost has been taken into consideration as part of the Business Levy discussions.

Development Fund budget:

- Project/Capital spend has been suggested for Development Fund expenditure to the value of £505k in 20/21; this equates to 75% of the non-cash adjustments.
- Project proposals for funding from the Conflict, Stability and Security Fund (CSSF) have been given first stage approval to the value of £2m.
- Project potential for 20/21 has been carefully considered given expected activity on island attributable to the Runway Reconstruction Project.

Risks:

- There is a great deal of uncertainty regarding the short and medium term future of the island. This budget proposal is based on a series of assumptions with forecasts made being prudent to reduce the potential risk of revenues not being achieved, or expenditure exceeding the levels requested.
- The Income Tax revenue for 20/21 also forecasts a modest increase due to the planned arrival of contractors onto the island. The impact on other revenue streams such as custom duties is also forecast to be favourable. The uplift from the planned increase to the working population has been forecast at the lowest level of the potential range, providing a level of risk mitigation across all revenue streams.
- Medical costs for AIG staff and dependants provide a rising cost pressure that is difficult to forecast or reduce. Currently there is a review underway to consider whether more stringent medical checks are required before allowing a staff member/dependant to sign a contract with the AIG. These increasing costs are affecting most Employing Organisations on island.
- The structural organisation of the AIG is under review with the aim of realising greater efficiencies. The outcomes of such a review do pose the risk that costs may move across Accounting areas and not align with those set out in the budget schedule. It may be necessary for a series of virements, and a revised budget schedule to be brought forward for approval after the first quarter of the new financial year.
- The current reporting structure and over-arching Ordinance do not differentiate between income-generating expenditure and pure operational costs. As such, cost centres may exceed legally agreed levels of expenditure, due to generating an improved net position. The reporting and framework of the Ordinance will be adjusted for the next budget setting round.
- Additional income-generating opportunities are expected in support of the Runway Reconstruction Project. These opportunities may skew expenditure costs and will need to be balanced against standard operational needs. These may include costs for services such as those from the hospital and dental surgery.
- The future of Fire Service provision is still under discussion. The cost of the future provision, whether

provided by MOD or a retained AIG service, is currently unknown.

- The current budget proposal and forecast projections assume no financial costs/benefits from introduction of MPA, or proposed Biosecurity regulations.

Forecast for future years:

- Forecasting the future financial performance for the AIG is a very fluid process. The forecast sheet in the budget pack is based on assumptions reflecting expected outcomes, with forward projections made cautiously when assessing uplifts in revenues, and the ability to restrain expenditure increases.
- Currently the projections included as part of the proposed budget for 20/21 include the suggested Business Levy increase and a further increase to the Levy of £0.5m in 21/22, before inflating the Levy annually by 2%. It is hoped that increased Income Tax Revenues may mean the second Levy increase is not needed.
- The revenue projections cautiously account for increased activity during the Runway Reconstruction Project period and also an uplift in other revenue streams after the Airbridge resumes operations via Ascension Island (anticipated 2022).
- Potential increases to revenue are being investigated concerning the .AC domain management and the sale of +247 phone number range. However, no provision has been made either in the 20/21 financial year or any future year for any new revenue from either of these activities.
- Future expenditure levels have been inflated from the 20/21 proposed position by 2.5 % per annum for staffing costs and 3% per annum for non-staffing costs. The 21/22 operational expenditure figure removes an additional £65k of staffing costs to account for current planned headcount reduction.
- Forecast expenditure via the Development Fund has been set at 50% of the net position of the non-cash adjustments. This spend will be supplemented over the next two years by CSSF and EDF funds, but should ideally increase should supplementary funding cease in future years in order to maintain the value of Government held assets and infrastructure.
- The current five year forecast shows Net Current Assets falling by a further 3% from the expected forecast position for 19/20. This would reduce levels to approximately 14 months' cash expenditure, still well within acceptable levels, but leaving work to be done to achieve a regular financial reporting surplus.
- There is still undoubtedly plenty to do in ensuring that the AIG is operating as efficiently as possible and providing best value for money. The future financial performance of the AIG is still uncertain and it is important that we continue to work towards improving the financial sustainability of the Government and do not rely on uncertain revenue streams. As such this budget is just next step in working towards a longer term goal.

Summarise:

Asking for approval for -

- Operational Expenditure budget of £6,440k
- Development Expenditure £505k
- Taking account of forecast revenues this would produce:
- A Cash Operating Surplus of £346k
- A Reported operating deficit of £333k
- Overall impact on Cash/Net Current Assets of a reduction of £159k.