

## ASCENSION ISLAND GOVERNMENT

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## Formal meeting of the Ascension Island Council Finance Committee

1700 on Thursday 03 March 2022 at the Court House

### MINUTES

Present: Gareth Morris, Director of Resources

Councillor Alan Nicholls

Councillor Andrew Ellick

Councillor Nicholas John

In attendance: Catherine Leo, Assistant Director of Resources  
Siobhan Stewart, Clerk of Council

#### 1. Welcome

The Director of Resources (DoR) welcomed all parties and explained that the process for setting the budget for the 2022/23 financial year for the Ascension Island Government (AIG) started in August 2021 with an informal meeting of the Finance Committee where a timetable for the process as a whole was agreed, along with some core principles that would form the basis of decisions made around the budget proposal.

The DoR reported on the continuing improvement of the AIG operating position as well as the high levels of reserves held, which have contributed to an increase in confidence in the overall financial strength of the AIG.

The DoR described the rather cautious policy the AIG have followed to ensure financial health by holding a reserve amount equal to between 6-12 months of expenditure. At year end of 2020/2021 the AIG held 17 months of expenditure in reserves, well above the suggested policy. The DoR acknowledged that the policy for reserves held should be reviewed with external assistance, it is expected advice would only lower the advised amounts that should be held. Councillor Nicholls conveyed concern as to who would support financially in the event of an unexpected catastrophe, the DoR explained that the AIG would reach out to the UK Government in this case. Councillor John highlighted that this should be covered in the AIG's disaster management plans to validate additional funding.

The DoR explained that given the strong reserve position the Committee had agreed that substantial investment in capital improvements could be afforded and should be considered. However the Finance Committee were also keen to stress that money should not just be spent for the sake of using up reserves and that strong business cases would still require scrutiny before spending was approved. The DoR reported on the Finance Committee's agreement that the high level of reserves and forecast operational surplus's for this year and future years presented the opportunity to reduce the tax burden on both Employees and Employing Organisations. It was agreed proposals on reducing the tax burden across different stakeholders should be considered.

Although the current forecast financial position for future years present a positive outlook, the Finance Committee agreed that it was still important to keep control of operational spending. While it was acknowledged there would be inflationary cost pressures, and cases for increases to budgets alongside operational headcount, it was strongly felt there was still a very real need to prevent excessive increases to Operational expenditure at this time.

The DoR explained that the Finance Committee met informally a further four times since the initial budget setting meeting, scrutinising the Operational Budget, considering proposals on changes to the current tax regime, and appraising potential bids for capital expenditure. The DoR thanked all Finance Committee members for their hard work and diligence over the last few months.

The DoR provided a summary of the budget pack showing the forecast revenue within the budget proposal as being 1.7% lower than that budgeted for 21/22, and 12.7% lower than that forecast for the same year. The forecast lower revenue within the proposal takes account of an expected drop in revenues after the completion of the runway project and an expected reduction in contractors on island. For forecast purposes any expected upturn on island as a result of the recommencement of the South Atlantic Airbridge has been accounted for cautiously. Finally the DoR explained that the lower forecast revenue also takes account of suggested tax adjustments listed in the accompanying memo’s provided to Committee Members. The recommendations suggested have attempted to provide benefits to a whole range of stakeholders on island and Committee Members are invited to recommend.

**2. Business Levy**

The DoR introduced the first memo and explained that the recommendation relates to an adjustment to the Business Levy and asks Committee Members to agree to a £211k reduction to the Levy. The Business Levy charged to the main Employing Organisations on island was increased in April 2020 by 27% a rise of around £400k. The DoR explained that during discussions around the increase to the Business Levy the AIG produced a strong case to Employing Organisations to back the need for an increase but also stressed a willingness to continually review the financial position on the understanding the Business Levy could/should be reduced as well as increased based on the operational need. It was agreed that the current financial position dictates that a reduction of the Business Levy would be a fair and proper course of action to take. Councillor Nicholls recommended that Employing Organisations on island are made aware that if in the future there were to be a need to increase the business levy, then it may go up again. Councillor Ellick raised concerns over the large increase in the business levy in 2020/21 and what it was perceived to be for. Councillor Ellick encouraged caution when considering movement in the business levy in future.

**The DoR asked each Committee Member in turn if they are happy to take the proposal of a £211k reduction to the Business Levy forward as a recommendation to the Island Council.**

	Proposal	AE	NJ	AN
1	Business Levy decrease	Yes	Yes	Yes

**3. Income Tax**

The DoR moved onto the second memo and highlighted that the recommendation is for changes to the Income Tax Ordinance. Income Tax is the biggest source of revenue for the AIG, forecasting to contribute approximately £4m in revenue in financial year 21/22.

The DoR reported that the current Income Tax system comprises of a tax free allowance of £3,500 per individual, and two tax rates of 15% for the next £4,000 earned and 27% for all further earnings. These tax rates have been in place and not altered since 2002, over which time average earnings have moved substantially. The DoR explained that as part of this year’s budget work he would like to suggest an adjustment and rise in the lower rate tax threshold from £4,000 to £6,000. This adjustment would benefit tax payers by £240 each per annum, though reduce potential revenues by approximately £195k, with the impact falling to approximately £150k by 2023/24 with the expected decrease in contractors. The DoR clarified that the tax rates and thresholds have not been adjusted since 2002, and as such he believed this adjustment is overdue, and should be deemed a first step ahead of a further more comprehensive review of Tax rates and thresholds.

**The DoR asked each Committee Member in turn if they are happy to take the proposal of an adjustment to lower tax rate threshold from £4,000 up to £6,000 forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
2	Income Tax rate threshold increase	Yes	Yes	Yes

#### **4. Corporation Tax**

Also covered within the Income Tax Ordinance is the rate charged for Corporation Tax, currently 19% matched to the UK rate. The DoR explained that in line with the aim to decrease the tax burden to benefit of all stakeholders it is recommended that a decrease of 1% to the chargeable rate, with an expected initial impact of just over £20k. The DoR explained that this reduction would not only benefit those liable for the tax, helping to discourage price increases, it could also make Ascension more attractive as a base for profit making activity. Councillor Nicholls conveyed his support of the adjustment to the Corporation Tax, noting that it may encourage companies to declare their earnings differently.

**The DoR asked each Committee Member in turn if they are happy to take the proposal of an adjustment to Corporation Tax rate from 19% to 18% forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
3	Corporation Tax decrease	Yes	Yes	Yes

#### **5. Property Tax**

The DoR explained that as part of the 2020/21 budget a property tax holiday was introduced for small tax paying business's resulting in a reduction to revenues of approximately £9k per annum. As part of the budget setting process for 22/23 the DoR asked for this again to be considered, helping to encourage more small businesses and hopefully discouraging the need for price increases that will impact on customers. Councillor Nicholls conveyed his support to applying a property tax holiday for small business's, noting that it has very little impact on the overall budget.

**The DoR asked each Committee Member in turn if they are happy to take the proposal of a property tax holiday for small tax paying business's for the 2022/23 financial year forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
4	Property tax holiday	Abstained	Yes	Yes

#### **5. 2022/2023 Operational Budget Appropriation**

The DoR explained that the operational budgets across the AIG have been scrutinised and where possible efficiencies and savings made. However with the financial health of the AIG improving the DoR recommended that the emphasis needs to change from purely looking to save money, to instead looking to invest in services.

The DoR recommended the proposal for an appropriation to the Consolidated Fund of £6,943k which is 3.9% or £258k increase on the 22/23 financial year. The DoR explained that much of this increase can be attributed to inflationary pressures brought about by rising global prices, and increases in travel, fuel and utility costs. The AIG have also looked to invest in operational areas to help with key projects and particularly maintenance of public areas, as well as further investment for Environmental Health. The DoR confirmed that overall the current request would see an increase to headcount across the AIG of 2.3 FTE as shown on sheet 2 of the budget pack.

The DoR directed Councillors to sheet 4 of the budget pack which shows the projections for cashflow, forecasting an operating surplus for the 22/23 financial year of over £205k with the current suggested appropriation. The DoR explained that figures have been inflated for future years and still forecast operational surplus's up to the 25/26 financial year. These forecasts do not account for any additional significant investments in operational capacity, though it is acknowledged these may be needed in future years particularly if the recommencement of the South Atlantic Airbridge brings a significant increase in activity. The DoR reported that any such increase would also likely bring an increase in revenues, which at this time has not been included in current projections either. Councillor Nicholls requested further detail as to why the return of the Airbridge has not been included in the figures. The DoR explained that a modest increase has been applied however the full impact of the return of the Airbridge is not fully known at this time.

**The DoR asked each Committee Member in turn if they are happy to take the proposal for an appropriation of £6,943k for operational expenditure to the Consolidated Fund for the 2022/23 financial year forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
5	Appropriation of £6,943k for operational expenditure	Yes	Yes	Yes

The DoR reported that in light of the strong level of reserves and obvious needs for infrastructure improvements across the island, the AIG have bought forward several projects for consideration. The Finance Committee have provided scrutiny and feedback on proposed projects, reviewing business cases and suggesting amendments and additions.

The DoR directed Councillors to Sheet five of the budget pack which summarises the capital bids being bought forward for funding approval totalling just over £1m. These bids include requests for significant funding for a school estate improvement project, painting of public buildings, and significant maintenance on the Green Mountain Road. Other smaller projects cover repairs and maintenance to Georgetown Pool, the repair of the Red Lion archway, and improvements to the Two Boats Village Playpark. Further investment requests cover the replacement of trailers and tractor unit, an inshore sea rescue vessel and a cancer screening project to be run from Georgetown Hospital.

Other investments have been discussed at previous Finance Committee Meetings, and paused for the time being. These include the renovation of Garden Cottage, the replacement of vehicles within the AIG fleet, and the possible purchase of further fleet vehicles to support both Plant and Public Maintenance. The DoR confirmed that these requests may be revisited in year as part of a Supplementary ask for funding.

Councillor Nicholls conveyed some concern over the large estimated costs of the painting of public buildings, especially considering the interior of the Exiles building having been removed. The DoR explained that the figures were based on supplies needed to complete the works as well as costs of contracting out sections of the work. Councillor Nicholls requested a breakdown of costs for the painting of the buildings. The DoR agreed to redistribute the breakdown of costs to the Finance Committee. Councillor John highlighted that whilst he accepts the DoR's recommendation for the capital expenditure he requested that it be noted that only essential equipment be proposed moving forward.

**The DoR asked each Committee Member in turn if they are happy to take the proposal for an appropriation of £1,050k for capital expenditure to the Development Fund for the 2022/23 financial year forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
6	Appropriation of £1,050k for capital expenditure	Yes	Yes	Yes

The DoR highlighted that alongside ambitious capital investment plans for the next few years, there is also a strong need for investment in two key infrastructure areas that have been identified as major priorities

for Ascension Island. These priorities are for a new hospital and for a complete road replacement project. Unfortunately neither of these projects are likely to take place, or even start in the 22/23 financial year.

The DoR explained that even with the ambitious capital investment plans for the next few years the high level of reserves held still exceeds an advisable level, and as such may hamper bids for external funding.

Both the road and hospital replacement projects will require significant investment and in likelihood the need for external funds to contribute towards the project. The DoR explained that securing such funding will no doubt be a challenge, but would be helped significantly if the AIG can show they are able to make a significant contribution themselves. The DoR confirmed that a special fund has been setup to hold/ringfence funds that this committee may commit towards these projects.

The feasibility study for a new hospital suggested costs may be as high as £16m, while early indications are that the cost of the road replacement project could cost at least £2.2m. The DoR asked the Finance Committee members to show commitment to these two key projects by identifying funds now that ensure they visibly remain a key priority. A commitment of 50% of the estimated cost of the road the replacement project, and 15% of the estimated cost of the hospital replacement project would total £3.5m.

Councillor Nicholls requested clarity on the advisable level of reserve the AIG should hold, the DoR confirmed that auditors have previously advised a reserve level amount equal to between six to 12 months of expenditure, whilst the FCDO recommend a period of three months. Councillor Nicholls explained that when the AIG requests additional resources from Ministers, Ascension is viewed as holding high levels of reserves in comparison to other Overseas Territories. The DoR explained that Ascension's uniqueness makes it difficult to compare with other overseas territories, recommending that the auditors are best placed to advise on the appropriate reserve level for the AIG. Councillor John requested written evidence from the auditors of the recommended reserve level for the AIG, the DoR suggested that external expert opinion is sought to review the reserve level. Councillor John emphasized the importance of the decision being made to commit £3.5m, ultimately reducing the reserve fund without written recommendation. Further discussion was had regarding the recording of the funds, with the DoR reassuring Committee members that the funds can be unallocated at any point.

**The DoR asked each Committee Member in turn if they are happy to take the proposal for the appropriation of £3.5m for key priority project expenditure to the Key Infrastructure Special Fund for the 2022/23 financial year forward as a recommendation to the Island Council?**

	Proposal	AE	NJ	AN
7	Key Infrastructure Special Fund	Yes <sup>1</sup>	Yes <sup>1</sup>	Yes <sup>1</sup>

## 6. Overall proposed positions

	Proposal	AE	NJ	AN
1	Business Levy decrease	Yes	Yes	Yes
2	Income Tax threshold increase	Yes	Yes	Yes
3	Corporation Tax decrease	Yes	Yes	Yes
4	Property tax holiday	Abstained	Yes	Yes
5	Appropriation of £6,943k for operational expenditure	Yes	Yes	Yes
6	Appropriation of £1,050k for capital expenditure	Yes	Yes	Yes
7	Key Infrastructure Special Fund	Yes <sup>1</sup>	Yes <sup>1</sup>	Yes <sup>1</sup>

The DoR thanked Councillors for their hard work and contributions throughout the budget setting process and for the decisions that have been made today.

<sup>1</sup> [subject to written evidence supporting the reduction in the level of reserves]

## 7. Any other business

There was two items of **other business**:

- i. **Budget Pack:** Councillor John requested clarity on the presentation of the budget pack following a recent small change. The DoR explained that Finance Committee Members have a much more detailed overview, however should Councillors have any questions regarding the budget pack at the formal meeting of the Ascension Island Council on Thursday 10 March 2022 he is happy to address these at the time.
- ii. **Business Levy:** Councillor Ellick asked if there has been any communications from Employing Organisations on island following the proposed reduction to the Business Levy and whether businesses were now planning to reduce their costs, specifically around utility costs. The DoR explained that he is hopeful that the early communication of the reduction in the Business Levy may result in the reduced likelihood of increases being passed onto customers, however he pointed out that factors off island also impact the rates set by organisations. The DoR explained that following the formal meeting of the Ascension Island Council on Thursday 10 March 2022 he will communicate Councillors recommendation to Employing Organisations to allow them time to plan.

There was no further business and the meeting ended at 17:45

Siobhan

Siobhan Stewart  
Clerk of Council

*I certify that this is a true record of the meeting to which it relates.*



*Gareth Morris*  
*Director of Resources – Chair of the Finance Committee*