



**XIII
2017**

BILLET D'ÉTAT

TUESDAY, 20th JUNE, 2017

BUSINESS OF THE MEETING

1. The States of Guernsey Accounts 2016, P. 2017/59

BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I hereby give notice that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **TUESDAY**, the **20th June, 2017** at **9.30 a.m.**, to consider the item listed in this Billet d'État which has been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey

30th May, 2017

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ACCOUNTS 2016

The States are asked to decide:-

Whether, after consideration of the reports, statements and notes relating to the respective Accounts, they are of the opinion:-

1. To approve the States of Guernsey Accounts 2016
2. To approve the following 2016 Accounts:
 - i. Ports
 - ii. Guernsey Water
 - iii. Guernsey Dairy
 - iv. States Works
3. To note the following Accounts:
 - i. Social Security Contributory Funds
 - ii. Elizabeth College
 - iii. Ladies' College
 - iv. States of Alderney

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

CONTENTS

| | |
|---|-----|
| President's Foreword | 1 |
| States Treasurer's Report | 2 |
| Statement of Responsibilities | 18 |
| Statement of Internal Financial Controls | 18 |
| Independent Auditor's Report | 19 |
| | |
| Primary Accounts | 20 |
| Income and Expenditure Account | 21 |
| Balance Sheet | 22 |
| Cash Flow Statement | 23 |
| Balance Sheet (Fiduciary) | 24 |
| Notes | 25 |
| | |
| Appendix I - Committee Accounts and Commentaries | 52 |
| Income and Expenditure Account | 53 |
| Policy & Resources Committee | 54 |
| Committee <i>for</i> Economic Development | 60 |
| Committee <i>for</i> Education, Sport & Culture | 65 |
| Committee <i>for</i> Employment & Social Security | 71 |
| Committee <i>for the</i> Environment & Infrastructure | 78 |
| Committee <i>for</i> Health & Social Care | 83 |
| Committee <i>for</i> Home Affairs | 91 |
| Scrutiny Management Committee | 97 |
| States' Review Committee | 98 |
| Development & Planning Authority | 99 |
| States' Trading Supervisory Board | 102 |
| Royal Court | 107 |
| Law Officers | 111 |
| States of Alderney | 114 |
| | |
| Appendix II – Reserve Funds and Other Accounts | 115 |
| Capital Reserve | 116 |
| Guernsey Registry | 119 |
| Corporate Housing Programme | 120 |
| Other States Funds | 121 |
| | |
| Appendix III – Pay Costs and Staff Numbers | 135 |
| | |
| Appendix IV - Use of Delegated Financial Authority | 136 |
| | |
| Appendix V - Payments to States Members | 140 |
| | |
| Appendix VI – Consolidated Health and Social Care Accounts | 142 |
| | |
| Appendix VII – Analysis of Income and Expenditure Attributable to Alderney | 143 |

PRESIDENT'S FOREWORD

The 2016 States of Guernsey Accounts show that the overall surplus for the year was £24.9m. This is a significant improvement on the budgeted position of financial balance and a particularly pleasing result given the indications in the early part of 2016 were that a combination of lower than anticipated revenues and higher expenditure were signalling a deficit.

The improvement on the budgeted position came about as a result of improved underlying tax revenues in the second half of the year and a series of largely one-off, non-recurring measures, some of which were put in place specifically in order to improve the in-year position. I would like to commend all Committees for the measures which they implemented to reduce in-year expenditure and increase income in response to the adverse financial position forecast at the beginning of 2016.

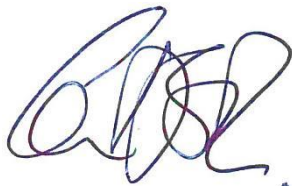
However, it should be borne in mind that the surplus position was only made possible at all by a reduction of £23.9m in the appropriation to the Capital Reserve. This reduction in the amount put aside for capital investment was an appropriate short-term response to balance the budget. However, the implications of this adjustment, if continued, would be current financial challenges limit the ability and necessity to invest in the island's capital infrastructure.

Overall revenues were higher than budget but this includes some £10m of non-recurring income due to exceptional investment returns of £8m and transfers from the States' unincorporated trading entities of £2m.

Revenue expenditure was £9m below budget, with underspends recorded in both pay and non-pay budgets. Revenue expenditure reduced by 1.3% in real terms. While this is encouraging and demonstrates financial control across the public service, a significant part this underspend was also one-off in nature.

Therefore, this favourable outturn in 2016 does not yet mean that the States' finances have returned to a position of fiscal sustainability - there remains an underlying structural deficit once the one-off measures and receipts have been removed. This deficit will only be tackled through a combination of targeted revenue raising and a reduction in the cost of the public service. This cost reduction will only be sustainable if it is delivered through thinking differently about the way that public services are delivered, rather than simply salami slicing budgets or looking for tactical opportunities to shave costs from services as they are currently delivered.

The Medium Term Financial Plan details the strategy to achieve and maintain a balanced budget before moving into a sustainable surplus over the next four years. This will enable reserves to be re-built and investment made in future public services to support the delivery of the outcomes set out in the Policy & Resource Plan.



Deputy G A St Pier
President of the Policy & Resources Committee

26 May 2017

STATES TREASURER'S REPORT

1: Executive Summary

- 1.1. The surplus of £24.9m represents a significant improvement against the original forecast of a balanced budget. Revenue income was £7.2m (1.8%) higher than budgeted, with exceptional investment returns of £8m and one-off contributions from the unincorporated States trading entities of £2m offsetting a shortfall in income tax receipts of £2.3m. In addition: net revenue expenditure was £9m lower than budgeted; routine capital expenditure was £2.8m lower than allocated; and as part of the 2017 Budget Report, in response to a forecast deficit for 2016, the States agreed to reduce the appropriation to the Capital Reserve by £5.4m which resulted in a 2016 appropriation of £22.9m including £10m of capital income.
- 1.2. The overall general revenue position is summarised in the table below:

| 2016 Budget £m | | 2016 Actual £m | 2015 Actual £m |
|----------------------|---|----------------------|----------------------|
| 399.8 | General Revenue Income | 407.0 | 379.8 |
| 34.1 | Operating Income | 37.4 | 36.0 |
| (406.2) | Gross Revenue Expenditure | (400.5) | (400.5) |
| (10.5) | Routine Capital Expenditure | (7.7) | (7.5) |
| 10.0 | Capital Income | 10.5 | - |
| | Transfers: | | |
| (28.3) | Capital Reserve | (22.9) | (36.3) |
| 1.1 | General Revenue Account Reserve (timing of delivery of FTP benefits) | 1.1 | 4.0 |
| - | Surplus / (Deficit) | 24.9 | (24.5) |

- 1.3. At the end of the first quarter of 2016, the forecast suggested an in-year deficit of £10-15m, compared to the budgeted balanced position, as a result of a combination of lower income forecasts and expenditure in excess of budget, particularly in the area of health and social care. Therefore, measures were put in place to reduce in-year expenditure including controls over recruitment; use of consultants and overtime. In addition, Committees were asked to review their routine capital expenditure plans and reprioritise or reschedule projects where appropriate and the States' Trading Supervisory Board was requested to make a return to General Revenue from the unincorporated trading assets.
- 1.4. As a result of these measures, a total of £5.6m was realised which reduced the projected shortfall through:
- Reductions of £2m in revenue expenditure;
 - Return of £1.6m of routine capital allocation by the Committee for Education, Sport & Culture; and
 - In-year contributions from Guernsey Water (£1.5m) and States Works (£0.5m).
- 1.5. At the time the 2017 Budget Report was compiled, the anticipated 2016 deficit was £5.4m and the States agreed to reduce the 2016 appropriation to the Capital Reserve by that amount.

STATES TREASURER'S REPORT (continued)

- 1.6. The improvement between the time of the 2017 Budget and the year end resulted in a surplus of £24.9m with the forecast shortfall of £8m in income tax receipts turning into a final shortfall of £2.3m, investment returns exceeding forecast by £8m and the outturn on expenditure being £9m lower than forecast, particularly in the area of health and social care where an anticipated overspend of up to £4m was turned into an underspend of £0.6m.
- 1.7. The main features of the 2016 accounts, compared to 2015, are:
- Overall general revenue income increased by 7.2% (£27.2m) (paragraph 3.5);
 - Income tax receipts from individuals showed a nominal increase of £7.5m (3.1%) which, based on the December 2016 RPIX of 1.6%, is a real terms increase of 1.5% (paragraph 3.7);
 - Net overall expenditure, decreased by £1.4m or 0.4%, but 2015 included £2.3m of expenditure on the road resurfacing & reconstruction programme which was transferred from revenue expenditure to routine capital expenditure from 2016. Therefore, on a like-for-like basis, there was a real terms' decrease of £4.9m (1.3%) and meeting the Fiscal Framework target of a real terms freeze on aggregate States revenue expenditure while the financial position remains in deficit (paragraph 3.16);
 - The balance on the Capital Reserve at 31 December 2016 stood at £159.2m (2015: £139.6m) following an appropriation of £22.9m, transfer from the Core Investment Reserve of £18.5m, investment return of £9.7m and expenditure on capital projects totalling £31.5m;
 - Overall reserves increased by £64.8m to £600.3m at 31 December 2016 mainly due to the overall General Revenue surplus, a reduction in provision for Cabernet Ltd losses and increase in the balance of the Capital Reserve.

STATES TREASURER'S REPORT (continued)

2: Introduction

- 2.1. This report is intended to give an overview commentary of the general revenue income and expenditure of the States of Guernsey during the period 1 January to 31 December 2016 and of the position as at 31 December 2016 in terms of net assets held.
- 2.2. The accounts have been presented in the following format which clearly distinguishes the primary statements from those which are included to give Committee level detail and narrative:
 - Section 1 contains the primary statements - the income and expenditure account, balance sheet, notes to the accounts and audit opinion on these primary statements;
 - Section 2 contains memorandum accounts of all States Committees¹ along with a narrative description of the financial performance in the year. These describe the overall financial position from a service perspective and give a more detailed view, allowing scrutiny of the activities of States' Committees;
 - Section 3 contains further detail on some of the material General Reserve Funds and Other Accounts which are disclosed on the States' balance sheet but benefit from further analysis.

3: Income and Expenditure Account

- 3.1. The income and expenditure account of the States contained within this Report is for 'General Revenue' only, and does not include all government income and expenditure.
- 3.2. Income does not include revenues from Social Security contributions (paid into the Social Security Funds) and expenditure includes only the General Revenue grants to Social Security Funds, non-contributory benefits and some general administration costs and does not include contributory benefits and pensions which are met from the Social Security Funds. The consolidated accounts of the Social Security Funds are published in full in the Miscellaneous Accounts.
- 3.3. Furthermore, there is currently no consolidation in respect of the States' internal trading entities (Ports, Guernsey Water, Dairy and States Works) or for the States Trading Companies (Guernsey Post Ltd, Guernsey Electricity Ltd, the Aurigny Group and JamesCo750 Ltd). The Accounts for the Social Security Funds and States' internal trading entities are published in the Miscellaneous Accounts part of this Billet; those of Guernsey Post Ltd and Guernsey Electricity Ltd are published as an item for debate in a Billet d'État; the Accounts of the Aurigny Group (with minor redactions) are publicly released. For reasons of commercial confidentiality, the full Accounts of JamesCo750 Ltd are not published.

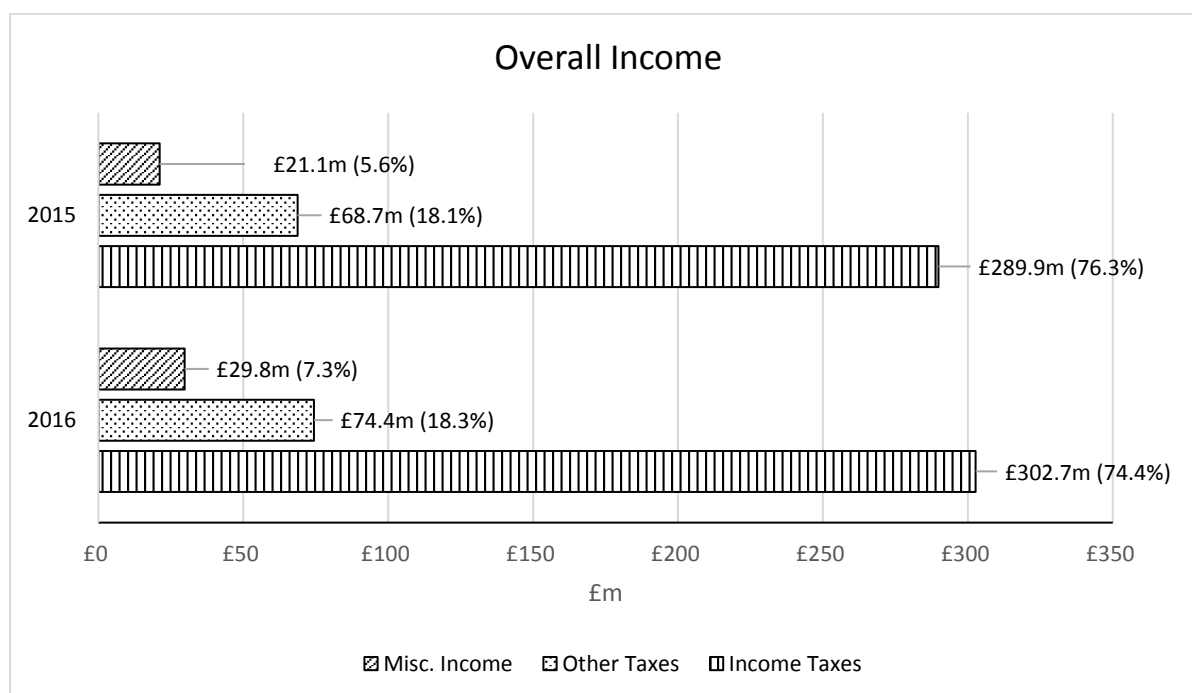
¹ For the purposes of this Report, the term 'Committee' includes the seven Principal Committees plus the following who are also allocated General Revenue Cash Limits: Development & Planning Authority, Overseas Aid & Development Commission, States' Trading Supervisory Board, Scrutiny Management Committee; Royal Court, Law Officers and States of Alderney

STATES TREASURER'S REPORT (continued)

- 3.4. The Income and Expenditure account gives overall information about the States' general revenue income and expenditure highlighting the main sources of income and summarising gross expenditure by pay, non-pay and formula-led². The associated notes (4-11) give further detail on the breakdown of income received and the main types of expenditure.

General Revenue Income

- 3.5. General Revenue income totalled £407m in 2016 which is an increase of £27.2m from 2015, a nominal increase of 7.2% or 5.6% in real terms.
- 3.6. Income taxes represented 74.4% of the total general revenue income collected in 2016 (2015: 76.3%) as illustrated in the chart below:

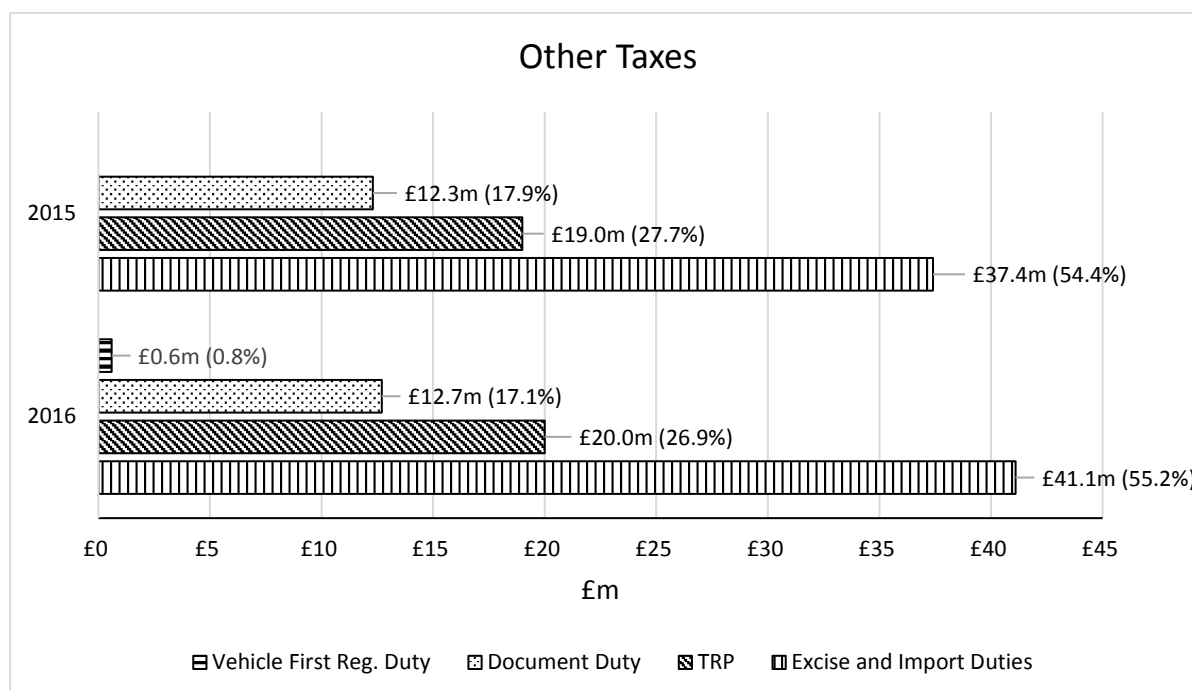


- 3.7. Of the total income taxes raised, £245.8m was collected from individuals compared with £238.4m in 2015, a 3.1% nominal increase or 1.5% in real terms. However, after allowing for the effect of not increasing personal income tax allowances (which increased revenues by £2m), there was a 0.7% real-terms increase in income tax receipts from individuals.
- 3.8. Income taxes collected from Companies (including Banks) increased by £5.7m (13.7%) to £47.2m in 2016 (2015: £41.5m), reversing a large part of the £9.9m decrease recorded in 2015 over 2014. Approximately £2m of additional revenue was due to the measures approved as part of the 2016 Budget to extend the 10% Company Higher Income Tax rate to custody business; the importation and/or supply of hydrocarbon oil or gas; and to retail business carried on in Guernsey where the company has a taxable profit of more than £500,000 in a year from such business.

² Formula Led costs consist of expenditure determined by the States as being payable on application by an individual having qualified under certain rules (Non-Contributory Social Security benefits, Payments to States Members and Legal Aid) and the grants to the Social Security Funds which are dependent on the contributions paid by employer and employee / contributor.

STATES TREASURER'S REPORT (continued)

3.9. Other taxes totalled £74.4m, which is an 8.3% nominal increase from the £68.7m received in 2015. The charts below show the sources of other taxes:



- TRP property tax income rose by £1.0m to £20.0m (2015: £19.0m) which is in line with the increases in tariffs approved as part of the 2016 Budget Report of 10% for domestic; 2.5% for retail; and 5% for other commercial;
- Document duty for 2016 totalled £12.7m, an increase of 3.3% over 2015. Although there was an increase in the number of conveyances between 2015 and 2016, the average price was lower. In addition, the income from bonds was £0.3m lower in 2016 than in 2015. The overall total includes £1.5m in respect of the conveyance of Open Market properties (2015: £1.8m);
- Receipts from excise and import duties increased by 9.9% from £37.4m in 2015 to £41.1m in 2016 although approximately £1m relates to duty receipts from tobacco imports which were anticipated in 2015 but delayed to 2016. Additional revenue was received as a result of budget increases of 5% on alcohol, 6.5-9% on tobacco and 12.9% on motor fuel, although this was offset by a 2% fall in volumes of motor fuel and small decreases in the volumes of alcohol imports.

Miscellaneous Income

3.10 Income from the Guernsey Registry (which is reported on a net surplus basis) and Exempt Company Fees was £10.4m, an increase of £0.2m (2%) over 2015;

3.11 The 2015 Surplus on Notes and Coins Account included £2.8m following a revision to the Notes and Coins reserve policy which resulted in a one-off transfer to General Revenue. The 2016 outturn of £5.6m was significantly higher than both the 2015 income of £0.9m (excluding the one-off transfer) and the budget estimate of £1.7m due to the strong investment return on the Notes and Coins reserve.

STATES TREASURER'S REPORT (continued)

- 3.12 In addition to dividends received from the incorporated States Trading Companies' (£1m from Guernsey Electricity Limited and £0.2m from Guernsey Post Limited), one-off contributions were received from Guernsey Water (£1.5m) and States Works (£0.5m).
- 3.13 The investment return of £4.1m was as a result of the improved financial position meaning that the General Revenue Account was in surplus, the balance in some General Revenue Funds being higher than anticipated due to delays in expenditure (including the Corporate Housing Programme Fund and the Transformation and Transition Fund) and the high rate of investment return achieved.

Operating Income

- 3.14 Operating income was £37.4m in 2016 which is £1.6m (4.4%) higher than in 2015, due to small increases in income generated by a number of Committees, including as a result of inflation increases in fees charged to maintain their real value.

General Revenue Expenditure

- 3.15 Gross revenue expenditure decreased by 1.6% in real terms to £400.5m. However, the road resurfacing & reconstruction programme was transferred from revenue expenditure to routine capital expenditure from 2016 (2015 expenditure of £2.3m). Therefore, comparing like with like, gross revenue expenditure decreased by 1% in real terms between 2015 and 2016.
- 3.16 The growth in operating income meant that overall net revenue expenditure was £363.2m, a decrease of £1.4m or 0.3% from 2015. Comparing like with like, the net expenditure reduction in real terms of £4.9m (1.3%) between 2015 and 2016 means that the Fiscal Framework target of a real terms freeze on aggregate States revenue expenditure has been met.
- 3.17 Total expenditure was £9m lower than the Authorised Budget, of which £2m related to Formula Led expenditure, £1.5m to the Committee for Home Affairs and £2.3m unrequired provision within the budget reserve.
- 3.18 The net expenditure of Committees is made up of expenditure on pay, non-pay and formula led less any operating income accruing to that Committee. The summary Income and Expenditure Accounts on page 53 are broken down by Committee and accompanied by that Committee's narrative summary of their activities over the year on pages 54 to 114.

Pay Costs

- 3.19 Pay costs continue to form the largest single item of expenditure totalling 54% of total revenue spend (2015: 53.8% adjusted comparative) and a paid workforce of 4,418 Full Time Equivalent staff (FTEs), an increase of 55FTE's compared to 2015. This increase was largely due to the recruitment in 2016 to posts in a number of service areas which were vacant in 2015. The total expenditure on pay (which includes temporary and agency staff) during 2016 was £216.1m which is a nominal increase of £1.8m (0.8%) (a decrease of £1.8m or 0.8% in real terms). This is largely due to the effect of a number of two year pay awards being 'front-loaded' in 2015 with 0% in 2016.

STATES TREASURER'S REPORT (continued)

3.20 Note 7 on page 34 details the number of employees whose gross cost of employment exceeds £80,000. This £80,000 threshold does not simply relate to employees' salary or wages but to the total costs of employment which include employer pension and social insurance contributions along with any other ancillary costs. Since this note was introduced in 2009, the starting point was £70,000, since then inflation has been 14.7% which has increased the £70,000 to £80,300 so the first banding has been revised to £80,000-£90,000. The increase of thirty employees between 2015 and 2016 is largely in the first banding and is due to the effect of a pay award meaning that a certain civil service grade which was below the threshold in 2015 now has total costs of employment which are above £80,000 in 2016. Future pay awards will lead to additional salary scales falling within the criteria each year.

Non Pay Costs

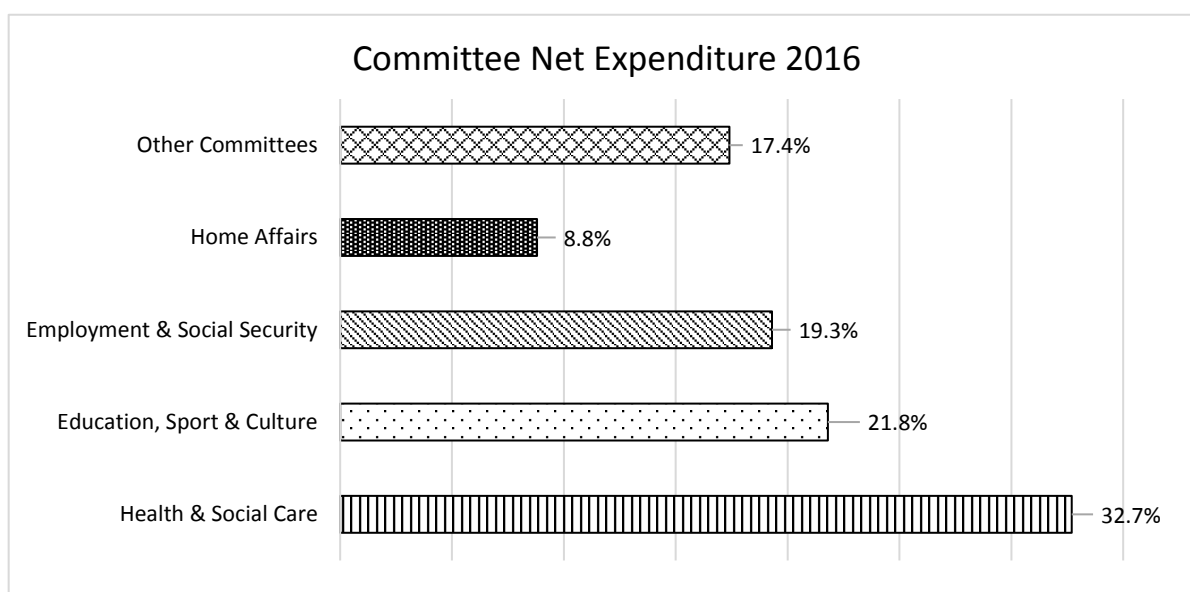
3.21 Non-pay costs amounted to £124.0m in 2016, which is approximately £2m lower than 2015. This is entirely attributable to the road resurfacing & reconstruction programme being transferred from revenue expenditure to routine capital expenditure from 2016 (2015 expenditure of £2.3m). On a like for like basis, non-pay expenditure reduced by 1.4% in real terms.

Formula Led Expenditure

3.22 Formula led expenditure rose by £0.2m to £60.4m in 2016 a nominal increase of 0.3% but a real terms decrease of 1.3%. The cost of Social Insurance and Health Service grants, which are calculated by a formula of 15% of contribution income (Social Insurance Fund grant) and 12% of contribution income (Health Service Fund grant), increased by £0.3m (1.5%) whereas expenditure on the non-contributory benefits only increased by £0.2m (0.5%) despite increases of 1.5% in rates. Expenditure on Legal Aid reduced to £2m from £2.2m, primarily due to lower demand for civil legal aid.

3.23 Payments to States Members reduced by £0.1m as a result of the reduction in the number of Deputies and the restructuring of remuneration arrangements with effect from May 2016.

3.24 The following chart shows the percentage of overall net expenditure allocated to the major Committees and used for the delivery of their States mandates:



STATES TREASURER'S REPORT (continued)

3.25 Appendix VI reports all health service related expenditure in a consolidated statement and comprise net income incurred by the Committee *for* Health & Social Care (General Revenue) and health and social care expenditure incurred by the Committee *for* Employment & Social Security (from the Health Service Fund, Long-term Care Insurance Fund and General Revenue).

3.26 Appendix VII details the income and expenditure incurred in respect of Alderney.

Budget Reserve

3.27 The Budget Reserve is the instrument used to hold provision for pay awards and manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures. Individual Committees do not routinely hold budget contingencies which invariably would not be fully utilised every year but funding is available from the Budget Reserve. The Policy & Resources Committee has delegated authority to approve use of the Budget Reserve and Appendix IV details of the uses of the Budget Reserve.

3.28 In 2016 there was a Budget Reserve of £8.9m which was allocated as follows:

| Provision | Notional Allocation £m | Required £m |
|--|---------------------------|----------------|
| Pay awards | 3.0 | 3.0 |
| Increasing established and Guernsey Border Agency staff budgets if the assumed 5% level of underspend arising from staff turnover does not occur | 1.0 | 0.4 |
| Committee <i>for</i> Health & Social Care – delay in delivery of efficiency savings | 1.2 | 1.2 |
| Other | 2.3 | 0.7 |
| Transfers to routine capital allocations* | 1.5 | 0.3 |
| Total | 8.9 | 5.6 |

*Any unused provision in the notional allocation for transfers to routine capital allocations is usually carried forward to be used for backlog maintenance works in the following year. However, this will be reduced by £0.38m to £0.8m as a result of the return to the Budget Reserve of part of the routine capital allocation specifically for implementing the Integrated Transport Strategy which was returned to compensate for the delay in introducing the Vehicle First Registration Duty.

Capital Expenditure

3.29 Capital expenditure is divided between routine capital allocations made to Committees as part of their annual cash limit and expenditure on items voted by the States from the Capital Reserve (page 116). Routine capital expenditure by Committees increased slightly in 2016 to £7.7m (2015: £7.5m). However, this included £2.2m on roads resurfacing & reconstruction meaning that comparable expenditure reduced by £2m. This is partially attributable to the measures put in place to reduce in-year expenditure resulting in Committees reviewing their capital expenditure plans and reprioritising or rescheduling projects where appropriate.

STATES TREASURER'S REPORT (continued)

- 3.30 Expenditure from the Capital Reserve totalled £31.5m in 2016 (2015: £32.5m) with the major item being the recapitalisation of Cabernet Ltd in the sum of £25.212m which was agreed by the States in November 2015 (Billet d'État XX, 2015). The recapitalisation crystallised the provision for accumulated losses of the Cabernet Ltd included in the General Revenue Account Reserve (£21.39m) with the balance of £3.82m being available to fund losses incurred from 2016. However, the company's losses in 2016 exceeded the balance of the recapitalisation amount by £957,000 and, therefore, provision for this amount has been included in the General Revenue Account Reserve (Note 17) in 2016. The value of the States of Guernsey's investment in Cabernet Ltd is £4.103m, which comprises the purchase cost of £5.06m less a provision for accumulated losses of £957,000 (Note 13).

4: Balance Sheet

- 4.1. The Balance Sheet provides a snapshot of the financial position as at 31 December 2016. It sets out the assets and liabilities of the States. However, it should be noted that the assets are limited to financial assets as it is currently not the policy of the States to capitalise fixed assets. The States made a decision in 2012 to adopt International Public Sector Accounting Standards (IPSAS) (which was re-affirmed in 2015) and the intention is that this will be incrementally introduced commencing with fixed asset valuation and accounting. This balance sheet does not include the deficit on the Superannuation Fund.
- 4.2. Note 2 to the Accounts includes details of those IPSASs that, on initial adoption, are likely to have the most material potential impact on the financial statements. It is emphasised that this is not an exhaustive list of the possible changes and, at this stage, no consideration has been given as to the timing and extent to which each of the standards will be implemented.
- 4.3. At the year end the States' net assets had increased to £600.3m (2015: £535.5m).
- 4.4. The Fiduciary Balance Sheet (page 24) details the financial assets held by the States on behalf of others and includes the Consolidated Superannuation Fund and HM Receiver-General's balances along with various charity and amenity funds.

Financial Investments and Investment Strategy

- 4.5. During 2015, the Treasury and Resources Department carried out a fundamental review of the organisation and investment approach for all funds under its control in order to ensure that the overall portfolio is invested in such a manner that maximises the opportunity for returns at an acceptable level of risk. A key element of this review was to consider how best to match the duration of liabilities with the assets held in determining the overall investment strategy. Consequently, the Treasury and Resources Department adopted a long-term fund, medium-term fund and short-term cash pool for managing the various funds under its control. The Superannuation Fund (included on the Fiduciary Balance Sheet – page 24), Core Investment Reserve, Notes and Coins Reserve, an element of the proceeds of the States of Guernsey Bond issue which have not been lent on and a small amount of General Revenue Reserves are all invested in the long-term fund while all other funds including the Capital Reserve, the Transformation and Transition Fund and the balance of the unlent Bond issue proceeds are invested in the medium-term fund and short-term cash fund.

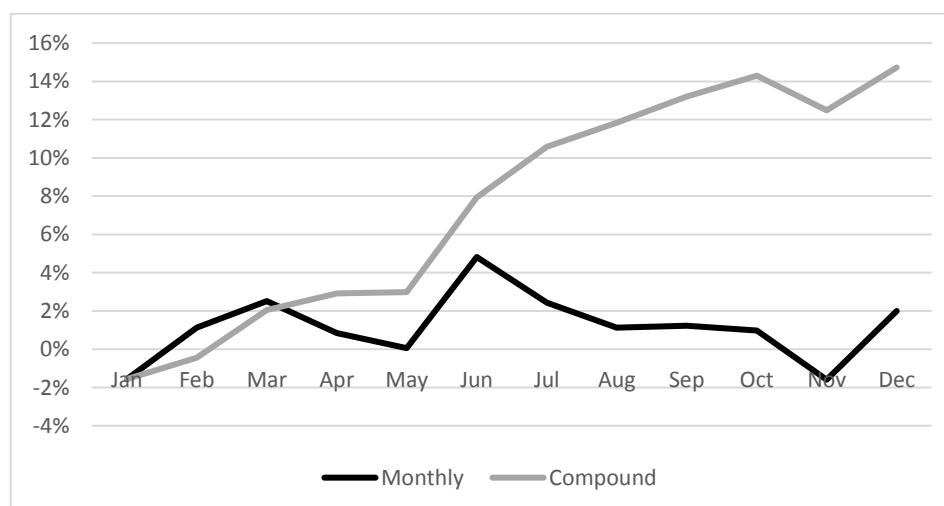
STATES TREASURER'S REPORT (continued)

4.6. The total amount of financial investments was £1,981m, held as follows:

| | Total £m | General Revenue £m | Fiduciary £m | Third Parties £m |
|-------------|---------------------|-----------------------------------|-------------------------|-----------------------------|
| Long-Term | 1,653 | 352 | 1,300 | 1 |
| Medium-Term | 322 | 257 | 30 | 35 |
| Short-Term | 6 | - | - | 6 |
| | 1,981 | 609 | 1,330 | 72 |

4.7. The markets were particularly volatile in 2016, with both economic and political events unsettling markets but initial negative reaction to events was often quickly turned around with many global markets achieving strong returns for the year, including the FTSE All Share Index gaining nearly 16.75% in 2016. However, Sterling ended the year over 20% lower against the US dollar and just short of 16% lower versus the Euro.

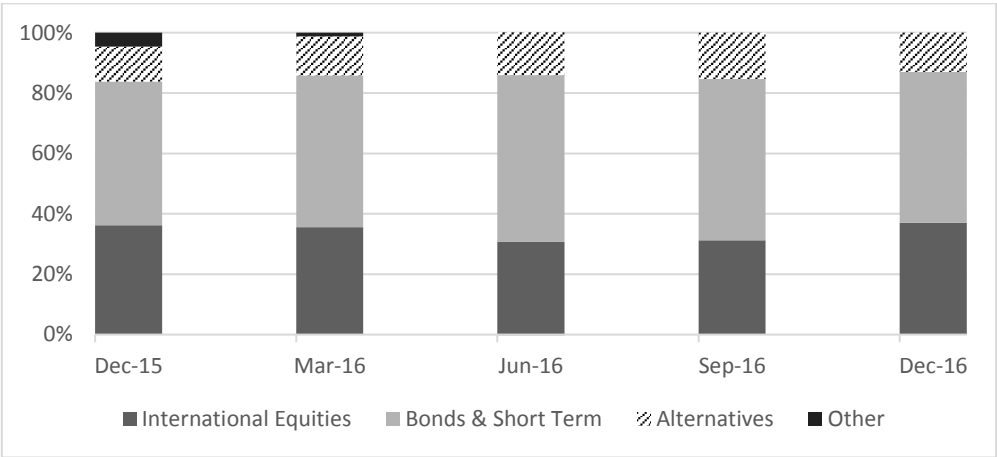
4.8. The long-term investment fund which was valued at £1,653m at 31 December 2016 (2015: £1,448m) is currently managed through seventeen managers and funds and invests in a combination of asset classes including equities, bonds, property, private equity, alternative investments and a small element of cash. During 2015 and 2016, the investment allocation remained broadly consistent with 50% in equities, 21% in bonds and other short-term instruments, 15% in alternative investments, 13% in property and a small allocation to private equity (1%). The fund performance for 2016 was 14.3%, a return which significantly outperformed the long-term target of UK RPI plus 4% (6.6%) for the year. This very favourable return resulted predominantly from the exposure to equities (most notably the emerging market exposures where the MSCI Emerging Markets Index gained 33% during the year) and the property portfolio. The following graph demonstrates the pattern of cumulative returns achieved over the year:



4.9. When performance is viewed over a longer term, trailing three year returns have been 7.6% per annum which is an out-performance of target by an average of 1.8% per annum.

STATES TREASURER’S REPORT (continued)

- 4.10. The medium-term investment fund also holds a range of investments with a diversified exposure to worldwide markets through varying strategies and has a target return of UK RPI plus 3.5% (i.e. 6.1% for 2016). The value of the total fund fell during the year from £330m to £322m, despite investment returns of £22m as withdrawals were made by participants, including to fund expenditure. The 2016 return was 6.8% which outperformed the target by 1.6%. The trailing three year returns have been 3.2% per annum which is below the target by an average of 2.1% per annum.
- 4.11. The fund is currently managed through nine managers and invests in a range of assets classes as depicted below:



- 4.12. During 2016, a further £50m was transferred to the five Guernsey based investment managers that were appointed in 2015, increasing this part of the portfolio to a total of £104m.
- 4.13. The Short-term cash pool which was £6m at the end of 2016 returned 0.7% which was 0.3% in excess of the target.

STATES TREASURER'S REPORT (continued)

Reserves

General Reserve

4.14. The General Reserve contains all non-specific reserves of the States including the Corporate Housing Programme Fund, Transformation and Transition Fund and Future Guernsey Economic Fund and further detail on the movements on these funds and reserves are contained in pages 116 to 134. The balance of the General Reserve at 31 December 2016 was £133.8m compared to the 2015 balance of £83.2m and includes unspent routine capital allocations totalling £11.8m (2015: £10.3m).

4.15. The material movements on the reserves have come through:

- The operating surplus of £36m;
- A £20.4m reduction in the provision for accumulated losses by Cabernet Ltd as a result of the £25.212m recapitalisation approved by the States in November 2015 which was funded from the Capital Reserve;
- Capital income of £10.5m (including £6m for the repurchase of shares by Guernsey Post Ltd and £4m for the repurchase of shares by Guernsey Electricity Ltd);
- An increase of £11.6m in the value of the Bond Reserve (due to the investment returns received exceeding the coupon payable); and
- Appropriations to the Capital Reserve totalling £22.9m.

Core Investment Reserve

4.16. The Core Investment Reserve is a long-term reserve, the capital value of which is only available to be used in the exceptional and specific circumstances of severe and structural decline or major emergencies. The movements on this Reserve summarised in the following table:

| | 2016 Core Investment Reserve £m | 2015 Core Investment Reserve £m |
|---------------------------|--|--|
| Opening Balance | 144.8 | 143.3 |
| Plus: | | |
| Net Investment Return | 20.8 | 3.8 |
| Less Transfers to: | | |
| Capital Reserve | (18.5) | (2.3) |
| Closing Balance | 147.1 | 144.8 |

4.17. In October 2014, the States resolved that, with effect from 1 January 2014, any real terms investment return on the Core Investment Reserve should be credited to the Capital Reserve. Therefore, of the 2016 net investment return of £20.8m, £2.3m was retained in the Core Investment Reserve to maintain its real value (2016 inflation: 1.6%) and the balance of £18.5m was transferred to the Capital Reserve.

STATES TREASURER'S REPORT (continued)

Capital Reserve

4.18. The Capital Reserve is used to accumulate funds for future major capital projects as prioritised by the States during a periodic capital prioritisation exercise, the most recent of which was completed during 2013. Annual appropriations are made to the reserve from General Revenue and the current policy is to maintain their value in real terms plus any specific additional transfers e.g. property sales. However, in order to balance the 2016 budget, the States agreed to reduce the 2016 appropriation by a total of £23.9m to £12.9m. This shortfall was partially compensated for by the returns of capital from Guernsey Electricity Ltd and Guernsey Post Ltd in the form of buyback of shares.

4.19. The movements on the Capital Reserve for the year are summarised in the table below

| Capital Reserve | 2016 £m | | 2015 £m | |
|---|------------|---------------|------------|---------------|
| Opening Balance | | 139.6 | | 111.4 |
| Plus: | | | | |
| Appropriation from General Revenue | 12.9 | | 36.3 | |
| Guernsey Electricity Ltd – Re-purchase of shares | 4.0 | | | |
| Guernsey Post Ltd – Re-purchase of shares | 6.0 | | - | |
| | | 22.9 | | 36.3 |
| Net Investment Return | | 9.7 | | 2.1 |
| Core Investment Reserve real terms investment return | | 18.5 | | 2.3 |
| Transfer from Corporate Housing Programme Fund | | - | | 20.0 |
| Less Expenditure on capital votes (see page 116) | | (31.5) | | (32.5) |
| Closing Balance | | 159.2 | | 139.6 |

Bond Reserve

4.20. The costs of £14.6m associated with the issue of the bond have been amortised, classified as a prepayment on the balance sheet and will be written off over the thirty two year life of the bond. These costs comprise £9.3m for interest rate locks which were entered into in order to protect the coupon payable against market rises between the time the bond issuance was agreed by the Treasury and Resources Department and the actual date of issue; £3.8m due to the actual yield payable being 3.445% (standard practice is that coupons are stated to the nearest 1/8th per-cent and an appropriate adjustment made to the proceeds received) and £1.5m of fees (including legal counsel, financial advisors, credit rating agency and banks / book-runners).

STATES TREASURER'S REPORT (continued)

4.21. The following loans from the proceeds of the States of Guernsey Bond issue have been agreed:

| Entity | Amount Agreed £m | Outstanding 31/12/2016 £m | Anticipated Repayment Date(s) | Purpose |
|----------------------------------|---------------------|---------------------------------|-------------------------------------|---|
| Approved in 2015: | | | | |
| Guernsey Housing Association LBG | 51.0 | 50.1 | 2045 | Refinancing of existing borrowings for development of social housing |
| Guernsey Housing Association LBG | 24.0 | 23.2 | 2036 | Refinancing of existing borrowings for development of social housing |
| Cabernet Ltd | 31.7 | 27.5 | 2019 - 2025 | Refinancing of existing borrowings for purchase of aircraft (plus additional borrowings for a new Dornier aircraft) |
| JamesCo750 Ltd | 13.1 | 12.2 | 2028 | Refinancing of existing borrowings for purchase of two tankships |
| H&SC Accommodation Fund | 2.1 | 1.9 | 2029 | Refinancing of existing borrowings for building of key worker accommodation |
| Approved in 2016: | | | | |
| Cabernet Ltd | 6.8 | 2.0 | 2027 | Purchase of a new Dornier aircraft (£2.0m advanced in 2016) |
| Guernsey Housing Association LBG | 5.1 | 5.0 | 2046 | Development of social housing |
| Guernsey Housing Association LBG | 10.0 | 0.0 | 2046 | Development of social housing |
| Total | 143.8 | 121.9 | | |

4.22. These loans are at rates of interest fixed in accordance with a formula which reflects the term of the borrowing, any change in market conditions compared to when the Bond was issued and the 'credit-risk' of each entity and range from 3.625% to slightly in excess of 4%.

4.23. The Bond issue proceeds which have not yet been lent on to entities form part of either the long-term or medium-term investment funds. Over the thirty two year life of the bond there will inevitably be periods in which there are varying amounts of funds invested due to the maturity profile of the on-lending and the investment returns in these periods will also vary and may be above or below the coupon rate. The model put in place by the Investment and Bond Management Sub-Committee is designed to ensure that the Bond issue can be serviced fully (ie the annual coupon payments made, the costs of issuance recovered and the capital sum repaid in full at the end of the term) without recourse to General Revenue.

STATES TREASURER'S REPORT (continued)

- 4.24. During 2015, the investment returns on the Bond issue proceeds which have not yet been lent on were not sufficient to fully cover the coupon payment on this portion of the bond and there was an in-year deficit of £4.6m. However, during 2016 the investment returns substantially exceeded the coupon payment on the unlent on portion of the bond proceeds and there was an in-year surplus of £12m. At the end of 2016, the Bond Reserve had a balance of £5.9m which will mitigate against the potential for investment returns being lower than the coupon rate in future years.

Superannuation Fund

- 4.25. The Superannuation Fund exists to pay the pensions of the employees of the States of Guernsey and other members of the Scheme. It is predominantly a defined benefit scheme funded by contributions from both the employer and employee. Note 25 to the financial statements details the position of the scheme as at 31 December 2016. Financial Reporting Standard 102 ("FRS102") has not been adopted in full and the deficit in the Fund is not included in the Balance Sheet. However, the notes include disclosures of certain information which would be required under FRS102.
- 4.26. In 2015, the States agreed revised pension arrangements for members joining after 1 May 2015 and for service from 1 March 2016 for those members who are not protected members (those close to retirement age). The revised arrangements replace the final salary defined benefit arrangements with defined benefits on a career average re-valued earnings (CARE) basis up to a salary cap (which is currently £87,434) with a defined contribution scheme for earnings in excess of this cap. The revised arrangements include a fixed cost ceiling (excluding the investment risk) on the employer's future contribution rate.
- 4.27. The transactions on the Fund are summarised in the table below:

| Superannuation Fund | 2016 £m | 2015 £m |
|---------------------------------|--------------------|--------------------|
| Opening Balance | 1,152.4 | 1,134.7 |
| Plus: | | |
| Contributions | 45.2 | 44.4 |
| Net appreciation of investments | 163.3 | 29.7 |
| Less: | | |
| Pensions and lump sums paid | (59.7) | (56.4) |
| Closing Balance | 1,301.1 | 1,152.4 |

- 4.28. The funding level under FRS102 decreased to 52.8% (2015: 62.8%).
- 4.29. The reason for this decrease in funding level is that FRS102 prescribes the discount rate (assumption of future investment returns) to be used in the calculation as the yield on high quality corporate bonds on an appropriate term for the liabilities. This discount rate decreased from a real rate of return of 0.55% in 2015 to 0.8% below UK inflation in 2016 which resulted in an increase in the value placed on the liabilities by almost £600m. Therefore, although the assets of the Superannuation Fund increased by 12.9% (£149m) in 2016 due to investment returns, the funding position deteriorated by £480m, and the deficit calculated in accordance with FRS102 deteriorated from £681m to £1,161m.

STATES TREASURER'S REPORT (continued)

- 4.30. Every three years, the Policy & Resources Committee commissions an actuarial valuation of the Superannuation Fund. A valuation as at 31 December 2013 was undertaken and showed that the funding level was 92% of the accrued benefits and in line with the States funding target. Therefore, when the States considered the Actuaries' report in March 2015, they agreed to make no change to the general employers' contribution rate. A full actuarial valuation of the Fund as at 31 December 2016 is in the process of being carried out. The results of this valuation, included proposed changes, if any, to the rates of employers' contributions, will be reported to the States later this year.
- 4.31. The reason for the difference between the FRS102 position and the funding position reported within an Actuarial Valuation (which was 92% in the 2013 Actuarial Valuation) is that the discount rate assumption used in the FRS102 calculation has no regard for the actual asset classes which the Superannuation Fund is invested in. The Superannuation Fund is largely invested in return seeking assets which are expected to provide substantially higher returns than corporate bonds over the long-term. The investment funds have a target rate of return of inflation plus 4% and, as set out in paragraph 4.9, actual returns over the last 5 years have been 5.8% above inflation. The 2013 Actuarial Valuation was based on an assumption of investment returns of inflation plus 3.25%.

5: Cash Flow Statement

- 5.1. This statement summarises the total cash movements during the year for both capital and revenue purposes, arising from income and payments and movements in working capital. The cash flow shows a net increase in cash of £9.0m (2015: decrease of £3.5m).



Bethan Haines BSc (Econ), CPFA
States Treasurer
26 May 2017

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF ANNUAL ACCOUNTS

The Policy & Resources Committee is responsible for the preparation of accounts for each financial year and for selecting suitable accounting policies. In preparing those accounts the Policy & Resources Committee relies on information supplied by States' Committees, Authorities and the States' Trading Supervisory Board. Each States' Committee, Authority and Board is expected to:

- apply the accounting policies on a consistent basis; and
- make judgements and estimates that are reasonable and prudent.

Each States' Committee, Authority and Board acknowledges responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the States of Guernsey.

STATEMENT OF INTERNAL FINANCIAL CONTROLS

It is the responsibility of each Committee, Authority and Board to identify and install a system of internal controls, including financial control, which is adequate for its own purposes. Thus each Committee, Authority and Board is responsible for safeguarding the assets of the States of Guernsey in their care and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each Committee, Authority and Board is also responsible for the economical, efficient and effective management of public funds and other resources entrusted to it.

It is acknowledged that each States' Committee, Authority and Board is subject to financial and manpower restrictions. Nevertheless, they have a duty to ensure that they fulfil their obligations to install and maintain adequate internal controls and safeguard the States resources for which they are responsible.

The States internal financial controls and monitoring procedures include:

- An annual budget and planning process to allocate, control and monitor the use of resources;
- Review and appraisal by States Internal Audit of the soundness, adequacy and application of internal controls;
- Collation of risk registers, which are subject to regular review and update in compliance with internal Risk Management Directives;
- The requirement for all audit reports to be tabled at a meeting of the relevant States' Committee, Authority or Board to ensure that all Committee, Authority or Board members are aware of their financial affairs; and
- Regular review of the performance and security of the States' financial assets.

Through their staff recruitment and training, each States' Committee, Authority and Board strives to ensure that all those with financial responsibilities have the necessary skills and motivation to discharge their duties with the proficiency, which the community has the right to expect.

The States' internal controls and accounting policies have been and are subject to continuous review and improvement.

The current auditor, Deloitte LLP has reached the end of its five year appointment. The States are currently undertaking a tender process for the appointment of an auditor.

INDEPENDENT AUDITOR'S REPORT TO THE POLICY & RESOURCES COMMITTEE

We have audited the accounts (the "accounts") of the States of Guernsey ("the States") for the year ended 31 December 2016 which comprise the Primary Accounts and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is the accounting policies stated in note 1.

This report is made solely to the States and the Policy & Resources Committee ("the Committee") in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Committee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee and auditor

As explained more fully in the Statement of Responsibilities for the preparation of Annual Accounts, the Committee are responsible for the preparation of the accounts. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the States' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information accompanying the accounts to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on accounts

In our opinion the accounts have been properly prepared in accordance with the accounting policies stated in note 1.

Emphasis of Matter – Basis of Accounting and Use

In forming our opinion on the accounts, which is not modified we draw attention to Note 1 to the accounts, which describes the basis of accounting. The accounts are prepared to assist the States in complying with their financial reporting obligations. As a result, the accounts may not be suitable for another purpose.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Deloitte LLP
Chartered Accountants
St Peter Port
Guernsey
26 May 2017

Primary Accounts

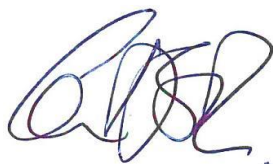
INCOME AND EXPENDITURE ACCOUNT

| 2016 | 2016 | | | 2016 | 2015 |
|-----------------|------------------|--|------|---------|---------|
| Original Budget | Total Authorised | <u>Income and Expenditure by Category</u> | | Actual | Actual |
| £'000s | £'000s | | Note | £'000s | £'000s |
| | | Income | | | |
| 305,050 | 305,050 | <i>Income Taxes</i> | 4 | 302,735 | 289,946 |
| 75,300 | 75,300 | <i>Other Taxes</i> | 5 | 74,440 | 68,736 |
| 19,475 | 19,475 | <i>Miscellaneous Income</i> | 6 | 29,789 | 21,135 |
| 399,825 | 399,825 | General Revenue Income | | 406,964 | 379,817 |
| 34,081 | 36,432 | Committee Operating Income | | 37,387 | 35,973 |
| 433,906 | 436,257 | Total Income | | 444,351 | 415,790 |
| | | Less Expenditure | | | |
| 211,846 | 216,854 | <i>Pay</i> | 7 | 216,130 | 214,350 |
| 127,003 | 127,573 | <i>Non-Pay</i> | 8 | 123,938 | 125,933 |
| 62,615 | 62,615 | <i>Formula-Led</i> | 9 | 60,452 | 60,218 |
| (1,920) | (770) | <i>Efficiency Target</i> | | - | - |
| (270) | (5) | <i>Financial Transformation Programme Target</i> | | - | - |
| (622) | - | <i>Budget submission in excess of Cash Limit</i> | | - | - |
| 7,529 | 2,265 | <i>Budget Reserve</i> | | - | - |
| 406,181 | 408,532 | General Revenue Expenditure | | 400,520 | 400,501 |
| 27,725 | 27,725 | Revenue Surplus | | 43,831 | 15,289 |
| 10,000 | 10,000 | Capital Income | 10 | 10,541 | 61 |
| 10,500 | 10,500 | Less Routine Capital Expenditure | 11 | 7,696 | 7,506 |
| 27,225 | 27,225 | Net Surplus | | 46,676 | 7,844 |

BALANCE SHEET

| | | 2016 | 2015 |
|--|------|----------------|----------------|
| | | Actual | Actual |
| | Note | £'000s | £'000s |
| Investments | | | |
| Financial investments | 12 | 608,510 | 545,139 |
| Investments in States Trading Entities | 13 | 117,201 | 106,768 |
| | | <hr/> | <hr/> |
| | | 725,711 | 651,907 |
| Loans Receivable | 14 | 126,414 | 144,557 |
| Current Assets | | | |
| Stocks | | 4,183 | 3,963 |
| Debtors and prepayments | 15 | 87,255 | 86,210 |
| Cash at bank and in hand | 24 | 15,851 | 6,815 |
| | | <hr/> | <hr/> |
| | | 107,289 | 96,988 |
| Current Liabilities | | | |
| Creditors and Accruals | | (29,163) | (28,007) |
| Long Term Liabilities | 16 | (330,000) | (330,000) |
| | | <hr/> | <hr/> |
| Net Assets | | 600,251 | 535,445 |
| | | <hr/> | <hr/> |
| Represented by: | | | |
| General Reserve | 17 | 133,820 | 83,234 |
| Capital Reserve | 18 | 159,161 | 139,608 |
| Core Investment Reserve | 19 | 147,095 | 144,779 |
| Notes and Coins Reserve | 20 | 47,077 | 44,726 |
| States Trading Entities Reserve | 21 | 113,098 | 123,098 |
| | | <hr/> | <hr/> |
| Reserves | | 600,251 | 535,445 |
| | | <hr/> | <hr/> |

These financial statements were approved by the Policy & Resources Committee on 23 May 2017



Deputy G A St Pier
President of the Policy & Resources Committee
26 May 2017



Bethan Haines
States Treasurer
26 May 2017

CASH FLOW STATEMENT

| | Note | 2016 Actual £'000s | 2015# Actual £'000s |
|--|------|--------------------------|---------------------------|
| Cash Generated by Operations | 22 | 39,611 | 12,255 |
| Cash Flows from Investing Activities | | | |
| Purchase of Assets | | (39,214) | (39,980) |
| Sale of Assets | | 541 | 61 |
| Share Buy-Back Scheme by Trading Entities | | 10,000 | - |
| Net Interest Received | | 57,846 | 12,880 |
| Net Cash Flows from Investing Activities | | 29,173 | (27,039) |
| Cash Flows from Financing Activities | | | |
| Interest Paid | | (11,141) | (11,141) |
| Net Cash Flow from Financing Activities | | (11,141) | (11,141) |
| Net Movement in Balances on Investments, Loans and Miscellaneous Funds etc. | | (48,607) | 22,404 |
| Net Increase in Cash at Bank and in Hand | | 9,036 | (3,521) |
| Cash and Cash Equivalents at the Beginning of the Year | | 6,815 | 10,336 |
| Cash and Cash Equivalents at the End of the Year | 23 | 15,851 | 6,815 |

BALANCE SHEET (FIDUCIARY)

| | | 2016 | 2015 |
|--|------|-------------------------|-------------------------|
| | | Actual | Actual |
| | Note | £'000s | £'000s |
| Financial investments | | 1,331,920 | 1,181,572 |
| Current Assets | | | |
| Debtors and prepayments | | 919 | 751 |
| Cash at bank and in hand | | 99 | 450 |
| | | <u>1,018</u> | <u>1,201</u> |
| Current Liabilities | | | |
| Creditors and Accruals | | (3,745) | (3,660) |
| Net Assets | | <u>1,329,193</u> | <u>1,179,113</u> |
| Represented by: | | | |
| Superannuation Fund | 25 | 1,301,155 | 1,152,433 |
| H M Receiver General | | 17,004 | 15,717 |
| Courts Security for Costs | | 6,617 | 5,742 |
| Various charity, amenity and other Funds | | 4,417 | 5,221 |
| | | <u>1,329,193</u> | <u>1,179,113</u> |

NOTES

1. States of Guernsey Accounting Policies

Basis of Accounting

- i. The Accounts of the States of Guernsey, set out on pages 21 to 51, are prepared in accordance with the stated accounting policies within this note. This is prepared under the historical cost convention, except for financial investments that are measured at revalued amounts or fair values at the end of each reporting period. Unless detailed otherwise below income and expenditure is accounted for on an accruals basis.

Going Concern

- ii. The Policy & Resources Committee, at the time of approving the Accounts, has a reasonable expectation that the States of Guernsey has adequate resources to continue in operational existence for the foreseeable future. This is based on the income, expenditure, financial position and cash flows monitored and projected for the States of Guernsey. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Income taxes

- iii. Income tax receipts are accounted for by recognising cash received and the amounts accrued based on assessments due for collection as at 31 January in the following calendar year (but relating to the preceding financial year) plus specific provisions for any repayments due.

Bad Debts

- iv. Bad debts are written off against the related income stream within the Income and Expenditure Account. Provisions are recognised based on the potential likelihood of recoverability of debtors as at the year-end date. The income stream within the Income and Expenditure Account will also be amended for any change to a bad debt provision. The debtor balance shown on the Balance Sheet and detailed in the Notes to the Accounts is net of any bad debt provision.

Rendering of Services

- v. The net income relating to contracts to provide services is recognised by reference to the stage of completion of the contract. This is estimated according to when the majority of services are provided.

Lease Payments

- vi. The accounting treatment adopted for Finance Leases and Operating Leases is the same. The entire value of the lease payment is charged as an expense in the financial year to which it relates. Neither an asset nor a liability will be recognised on the balance sheet, even where substantially all the risks and rewards incidental to ownership are transferred to the States of Guernsey.

Investment Returns

- vii. Returns on financial investments (which includes dividend income, bond interest income, and realised and unrealised gains/losses on financial investments) on the General Revenue Account are shown within the Revenue Income accounts. Other investment returns are shown in the respective funds and accounts to which they relate.

NOTES

1. States of Guernsey Accounting Policies (continued)

Capital Income

- viii. Income from the sale of property is accounted for on a completion basis. Proceeds generated from Share Buy-Back agreements with trading entities owned by the States of Guernsey, will be treated as a capital receipt and included within Capital Income.

Capital Expenditure

- ix. Capital expenditure from General Revenue Account votes is written off in the year in which it is incurred. Capital expenditure from the Capital Reserve votes is also written off in the year in which it is incurred. Depreciation is therefore not provided for.

Retirement Benefit Costs and Pension Disclosures

- x. The Consolidated Superannuation fund disclosures have been presented as far as practicable in accordance with Financial Reporting Standard 102 ("FRS 102"), the actuarial deficit has been calculated in accordance with FRS 102 but has not been included in the Fiduciary Balance Sheet. The pension costs charged to the Income and Expenditure Account pay costs are the contributions paid as agreed as a result of the latest triennial actuarial valuation.

Financial Investments

- xi. Investments in the Long Term Investment Fund, Medium Term Investment Fund, and Treasury Pool are measured at fair value as at each year-end.
- xii. Those investments that are listed or quoted on a recognised market are valued at the mid-market price in the relevant market as at the year-end date.
- xiii. The valuation of investments in investment funds that are neither quoted or listed are based on the latest information available as provided by the underlying investment fund in which the investment is made. Where the valuation date for investment funds is not coterminous with the year end of the States of Guernsey the most recent valuation before the valuation date, as received from the underlying fund manager or administrator, is used as the basis of the valuation. This basis is then adjusted for underlying fund level cash flows that have occurred between the last valuation date and the year-end date. From time to time, non-cash flow related adjustments may also be made if deemed to be of a material nature. The net asset value reported by the fund manager or administrator may be unaudited and in some cases the notified net asset value is based on estimates.
- xiv. Derivative contracts are recognised at fair value on the date at which they are entered into and are subsequently re-measured at their fair value. Fair value is determined using market observable inputs and recognised valuation models used by third party service providers.
- xv. Where investments are in a currency other than pounds sterling, being the currency the financial statements are presented in, these are translated into pounds sterling at the rate of exchange ruling as at the year-end
- xvi. Where the States of Guernsey has future funding commitments on investments these are disclosed in the notes to the financial statements and are not recognised as a liability as at the year-end

NOTES

1. States of Guernsey Accounting Policies (continued)

Investments in States Trading Entities

- xvii. Investments in respect of Guernsey Post Limited and Guernsey Electricity Limited reflect the basis of the transfer valuation attributed to the net undertaking transferred from the States Trading Boards to the commercialised entities in accordance with The States Trading Companies (Bailiwick of Guernsey) Law, 2001. There is no ongoing impairment review for these entities. If shares are re-purchased by Guernsey Post or Guernsey Electricity, then an adjustment will be made to the carrying value of the investment on the States' balance sheet.
- xviii. All other trading entities are accounted for at cost less impairment/provision for losses. Where the trading entity has an overall net liability on its balance sheet, then a corresponding provision will be held against the asset value on the States' balance sheet. This may increase or decrease depending upon the changes in the net liability at the end of each financial year, with a corresponding charge or credit being shown in the General Reserve.

Stock

- xix. Stock is valued at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those costs incurred to bring the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion.

Loans Receivable

- xx. Loans issued by the States of Guernsey, which have fixed or determinable payments and are not quoted in an active market, are measured at their outstanding capital value as at the year-end date. They are not subject to an impairment review for accounting purposes, but will be assessed for recoverability during the repayment period. Where the loans have been issued from the proceeds of the States of Guernsey Government Bond, then the interest received from borrowers is credited to the Bond Reserve.

Long Term Liabilities

- xxi. The issue of a States of Guernsey Government Bond has been categorised as a long term liability. Long term liabilities are included in the balance sheet at their nominal value, less any repayments of the principal sum. The associated cost of issue has been amortised and treated as a prepayment. This amortised cost is written off on a straight line basis, over the period of the long term liability. Any costs associated with the States of Guernsey Bond will be met from the Bond Reserve.

Cash Flow Statement

- xxii. Investments held by Investment Managers (detailed within Note 12) may include some cash balances at the year end. These cash balances are controlled by the Investment Managers and thus are not considered to be part of the States' cash balance. Any change to these cash balances held by Investment Managers are therefore not included within the section of the Cash Flow Statement headed Cash Flows From Investing Activities.

NOTES

1. States of Guernsey Accounting Policies (continued)

Fiduciary Balance Sheet

- xxiii. The Fiduciary Balance Sheet details the financial assets held by the States on behalf of others and includes the Consolidated Superannuation Fund and HM Receiver-General's balances along with various charity and amenity funds.

Restatement

- xxiv. 2015 Accounts columns marked with “#” includes figures that have been restated for comparative purposes.

NOTES

2. International Public Sector Accounting Standards (IPSAS)

- i. The States made a decision in 2012 to adopt International Public Sector Accounting Standards (IPSAS) (which was re-affirmed in 2015) and the intention is that this will be incrementally introduced commencing with fixed asset valuation and accounting.
- ii. The following is a list of those IPSASs that, on initial adoption, are likely to have the greatest material potential impact on the financial statements. It is emphasised that this is not an exhaustive list of the possible changes and, at this stage, no consideration has been given as to the timing and extent to which each of the standards will be implemented.

IPSAS 35 – Consolidated Financial Statements

- iii. At present the States of Guernsey presents single-entity accounts. If this standard is implemented, the States of Guernsey would be required to present the assets, liabilities, net assets, revenue, expenses and cash flows of itself and all entities it controls in its consolidated financial statements. All transactions between controlled entities would need to be eliminated on consolidation. Control would be based on whether (i) the States of Guernsey has power over the entity; (ii) exposure, or rights, to variable benefits from its involvement with the other entity; and (iii) the ability to use its power over the other entity to affect the nature or amount of the benefits. The States of Guernsey presently includes loans and equity investments in a number of controlled entities in assets. While their results would be consolidated as part of the above, these investments would continue to be presented in the separate financial statements of the States of Guernsey under IPSAS 34 – Separate Financial Statements.

IPSAS 16 – Investment Property and IPSAS 17 – Property, Plant and Equipment

- iv. At present the States of Guernsey does not recognise investment property or property, plant and equipment in its Balance Sheet. Following implementation of these standards, the States of Guernsey will recognise those assets for which it is likely future economic benefits or service potential associated with the asset will flow to the entity and where the cost or fair value can be measured reliably. Investment property will be subsequently be recognised using either the fair value or cost model, while property, plant and equipment will subsequently be recognised using the cost model or revaluation model. No decision has been taken as to which model will be applied as yet.

IPSAS 25 – Employee Benefits

- v. While the States of Guernsey prepares disclosures on the combined superannuation fund in accordance with FRS 102 (see note 25) it does not currently recognise the deficit on its defined benefit pension scheme in liabilities, nor does it recognise the costs associated with the scheme in line with this IPSAS 25 or FRS 102. Following implementation of this standard, the net deficit of the combined superannuation fund would be included within non-current liabilities, as it meets the definition of a defined benefit plan. Past and current service costs, net interest costs, re-measurement gains / losses on plan assets, and actuarial gains / losses on the defined benefit obligation would be included in the surplus / deficit of the States of Guernsey. Contributions made by the employer, which are currently accounted for as an expense, would only be adjusted within plan assets and would not be directly recognised in the Income and Expenditure Account. Consideration will need to be given as to the applicability of full adoption of this standard, given the rules, structure, funding arrangements and investment strategy for the States of Guernsey Public Servants' Pension Scheme.

NOTES

2. International Public Sector Accounting Standards (IPSAS) (continued)

IPSAS 29 – Financial Instruments: Recognition and Measurement

- vi. The States of Guernsey currently accounts for loans receivable and long term liabilities at their outstanding capital value as at the year-end, and hold investments in States Trading Entities at cost or transfer value, less impairment provisions as necessary. Within the separate financial statements of the States of Guernsey, IPSAS 29 would require loans held to maturity and not traded in an active market to be measured at amortised cost. This would be based on the original cost of the investment, less transaction costs associated with the loan and any principal repayments, plus effective interest in order to account for interest and transaction costs over the term of the loan. Any potential impairment on loans would be deducted from amortised cost. Equity investments in consolidated subsidiaries would be measured at cost (being the fair value on initial recognition) less accumulated impairment losses.

IPSAS 23 – Revenue from Non Exchange Transactions (Taxes and Transfers)

- vii. At present the States of Guernsey accounts for revenue from income tax on the basis of amounts collected February to December of the financial year, and recognising a debtor in respect of income tax collections received during January of the next calendar year. If this standard is implemented, the States of Guernsey would be required to recognise revenue on occurrence of a taxable event that gives rise to a potential asset. Revenue would need to be recognised at the fair value of that asset, except to the extent that a liability is also recognised in respect of the same revenue inflow. The standard requires that measurement models be applied in the calculation of this fair value where there is a separation between the timing of the taxable event and the collection of taxes, and these models should take account of the timing of cash receipts from taxpayers, declarations made by taxpayers, and the relationship of taxation receivable to economic events.

NOTES

3. Restatement of 2015 Accounts

The revised organisational structure of the machinery of government, as agreed by the States following consideration of the States' Review Committee proposals, was implemented during early 2016. All budgets are based upon the new structure and the 2015 Accounts have been restated for comparative purposes. The reorganisation of the budgets has included all costs for Finance and Human Resources being collectively budgeted; this is included within the Corporate Functions budget which is accounted for within the Policy & Resources Committee. This has resulted in the transfer of a small number of staff from the Trading Entities to the Policy & Resources Committee budget. A charge is levied to the Trading Entities for the services provided. Consequently for comparative purposes, the pay costs and income have both been increased by £672,000 in 2015 and the number of full time equivalents increased by 15.5.

A cash balance of £1.670m associated with the subsequent repayment of Customs and Excise duties, has been re-classified as a debtor balance at 31 December 2015, whereby the cash was received shortly after the year end.

The 2015 Accounts for Cabernet Limited (which were finalised after the preparation of the 2015 States of Guernsey Accounts) reported a net liability of £21.4m, compared to £18.7m included in the States of Guernsey Accounts. Therefore the provision for accumulated losses in the States of Guernsey Accounts has been increased by £2.7m to £21.4m for 2015.

NOTES

4. Income Taxes

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|-----------------------------|----------------|----------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 245,700 | 245,700 | Individuals | 245,836 | 238,351 |
| 50,350 | 50,350 | Companies (including Banks) | 47,185 | 41,498 |
| 9,000 | 9,000 | Distributed Profits | 9,714 | 10,097 |
| 305,050 | 305,050 | Income Taxes | 302,735 | 289,946 |

5. Other Taxes

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|---------------------------------|---------------|---------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| | | Customs & Immigration - | | |
| | | Excise and Import Duties | | |
| 3,340 | 3,340 | <i>Beer</i> | 3,249 | 3,201 |
| 780 | 780 | <i>Cider</i> | 749 | 716 |
| 18,850 | 18,850 | <i>Motor Spirit</i> | 18,740 | 17,082 |
| 3,120 | 3,120 | <i>Spirits</i> | 2,986 | 2,891 |
| 7,980 | 7,980 | <i>Tobacco</i> | 8,448 | 7,058 |
| 4,930 | 4,930 | <i>Wine</i> | 5,150 | 4,805 |
| 1,450 | 1,450 | <i>Import duties</i> | 1,797 | 1,705 |
| 40,450 | 40,450 | | 41,119 | 37,458 |
| 20,200 | 20,200 | Tax on Real Property | 19,969 | 19,018 |
| 13,500 | 13,500 | Document Duty | 12,718 | 12,260 |
| 1,150 | 1,150 | Vehicle First Registration Duty | 634 | - |
| 75,300 | 75,300 | Other Taxes | 74,440 | 68,736 |

6. Miscellaneous Income

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|---|---------------|---------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 10,375 | 10,375 | Company Fees | 10,439 | 10,220 |
| 4,600 | 4,600 | Net Housing Rental Income | 4,878 | 4,768 |
| 1,650 | 1,650 | Surplus on Notes and Coins Account | 5,629 | 3,741 |
| | | States Trading Companies' and Entities' | | |
| 2,850 | 2,850 | Dividends | 3,244 | 998 |
| - | - | Investment Return | 4,111 | 548 |
| - | - | Other Income | 1,488 | 860 |
| 19,475 | 19,475 | Miscellaneous Income | 29,789 | 21,135 |

NOTES

7. Pay

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | <u>Pay Costs by Pay Group</u> | 2016 Actual £'000s | 2015# Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|---------------------------|
| 83,326 | 84,261 | Established Staff | 83,141 | 83,167 |
| 16,108 | 16,270 | Public Service Employees | 16,278 | 16,292 |
| 46,989 | 49,338 | Nurses and Clinical Consultants | 48,889 | 48,355 |
| 40,765 | 41,833 | Teachers and Learning Support Assistants | 42,743 | 41,422 |
| 3,438 | 3,513 | Fire Officers | 3,446 | 3,500 |
| 9,084 | 9,317 | Police Officers | 9,021 | 9,289 |
| 1,927 | 1,957 | Home Support Staff | 1,987 | 1,780 |
| 3,433 | 3,283 | Border Agency Officers | 3,283 | 3,327 |
| 3,373 | 3,442 | Prison Officers | 3,374 | 3,351 |
| 1,664 | 1,664 | Crown Officers and Judges | 1,589 | 1,634 |
| 1,739 | 1,976 | Other Pay Groups | 2,379 | 2,233 |
| 211,846 | 216,854 | Pay Costs by Pay Group | 216,130 | 214,350 |

Staff information by pay group

| | 2016 Average FTE* | 2015# Average FTE* |
|--|-------------------------|--------------------------|
| Established Staff | 1,655 | 1,600 |
| Nurses and Clinical Consultants | 1,012 | 1,001 |
| Teachers and Learning Support Assistants | 804 | 804 |
| Public Service Employees | 501 | 516 |
| Police Officers | 154 | 156 |
| Prison Officers | 77 | 77 |
| Fire Officers | 60 | 61 |
| Border Agency Officers | 58 | 56 |
| Home Support Staff | 52 | 44 |
| Crown Officers and Judges | 7 | 7 |
| Other Pay Groups | 38 | 41 |
| | 4,418 | 4,363 |

The average number of Full Time Equivalents (FTE) includes all overtime, additional duties and miscellaneous duties paid to all employees (permanent, temporary, casual and agency).

*The average number of Full Time Equivalents (permanent, temporary, agency) paid during the year. For example, one member of Established Staff (full time hours 36) working an average of 18 hours a week over six months of the year would be included above as 0.25 FTE.

NOTES

7. Pay (continued)

Senior Employees Gross Cost Analysis

| | 2016 Number of Employees | 2015# Number of Employees |
|----------------------|--------------------------------|---------------------------------|
| £80,000 to £99,999 | 137 | 112 |
| £100,000 to £119,999 | 46 | 44 |
| £120,000 to £139,999 | 28 | 27 |
| £140,000 to £159,999 | 21 | 19 |
| £160,000 to £179,999 | 11 | 14 |
| £180,000 to £199,999 | 6 | 5 |
| £200,000 to £219,999 | 3 | 2 |
| £220,000 to £239,999 | 3 | - |
| £240,000 to £249,999 | - | 2 |
| £250,000 and above | 1 | 1 |
| | 256 | 226 |

Note: Employees are included where their total gross cost, including employer pension and social insurance contributions, exceeds £80,000 in that year. This includes all of the staff whose cost is met from General Revenue including other Funds and Reserves, but does not include the trading entities (Guernsey Dairy, Guernsey Water, Ports and States Works). A breakdown of the costs and staff numbers are detailed in Appendix III.

NOTES

8. Non-Pay Costs by Expenditure Category

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015# Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|---------------------------|
| | | Staff Non Pay Costs | | |
| 2,700 | 2,656 | <i>Recruitment</i> | 2,518 | 2,194 |
| 2,659 | 2,578 | <i>Training</i> | 2,242 | 2,044 |
| 516 | 521 | <i>Other Staff Costs</i> | 546 | 529 |
| 5,875 | 5,755 | | 5,306 | 4,767 |
| | | Support Services | | |
| 1,899 | 1,785 | <i>Advertising Marketing and PR</i> | 1,786 | 1,901 |
| 222 | 219 | <i>Audit Fees</i> | 177 | 241 |
| 103 | 103 | <i>Bank Charges</i> | 196 | 159 |
| 9,753 | 9,816 | <i>Communications and IT</i> | 9,381 | 8,876 |
| 2,066 | 2,474 | <i>Consultants Fees</i> | 2,683 | 2,258 |
| 8,286 | 9,030 | <i>Contracted Out Work</i> | 8,435 | 8,488 |
| 8 | 7 | <i>Incidental and Other costs</i> | - | 5 |
| 1,907 | 1,846 | <i>Postage, Stationery and Printing</i> | 1,705 | 2,028 |
| 2,189 | 2,186 | <i>Risk Management and Insurance</i> | 2,263 | 2,156 |
| 26,433 | 27,466 | | 26,626 | 26,112 |
| | | Premises | | |
| 755 | 739 | <i>Equipment, Fixtures and Fittings</i> | 936 | 785 |
| 2,699 | 2,613 | <i>Rents and Leasing</i> | 2,603 | 2,595 |
| 15,247 | 15,310 | <i>Repairs, Maintenance and Servicing</i> | 15,817 | 15,211 |
| 5,710 | 5,633 | <i>Utilities</i> | 4,878 | 4,816 |
| 24,411 | 24,295 | | 24,234 | 23,407 |
| | | Third Party Payments | | |
| 276 | 277 | <i>Benefit Payments</i> | 272 | 246 |
| 29,058 | 28,912 | <i>Grants and Subsidies</i> | 27,848 | 28,769 |
| 29,334 | 29,189 | | 28,120 | 29,015 |
| | | Transport | | |
| 1,387 | 1,379 | <i>Vehicles and Vessels</i> | 1,389 | 1,343 |
| | | Supplies and Services | | |
| 25,220 | 25,383 | <i>Services</i> | 24,411 | 27,742 |
| 14,343 | 14,106 | <i>Supplies</i> | 13,852 | 13,547 |
| 39,563 | 39,489 | | 38,263 | 41,289 |
| 127,003 | 127,573 | Non-Pay Costs by Expenditure Category | 123,938 | 125,933 |

Note: The above excludes formula-led costs (see Note 9).

NOTES

9. Formula-led Costs

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|---|--------------------------|--------------------------|
| 2,010 | 2,010 | Policy & Resources Committee <i>Payments to States Members</i> | 1,893 | 1,982 |
| 2,580 | 2,580 | Employment & Social Security Committee <i>Legal Aid</i> | 1,985 | 2,175 |
| 575 | 575 | <i>Concessionary TV Licences for the Elderly</i> | 626 | 624 |
| 9,850 | 9,850 | <i>Family Allowance</i> | 9,639 | 9,824 |
| 4,680 | 4,680 | <i>Health Service Grant</i> | 4,659 | 4,577 |
| | | <i>Severe Disability Benefit and Carers' Allowance</i> | 5,411 | 5,072 |
| 5,300 | 5,300 | <i>Social Insurance Grant</i> | 15,256 | 15,018 |
| 15,410 | 15,410 | <i>Supplementary Benefit</i> | 20,983 | 20,946 |
| 22,210 | 22,210 | | | |
| 60,605 | 60,605 | | 58,559 | 58,236 |
| 62,615 | 62,615 | Formula-led costs | 60,452 | 60,218 |

Note: The payments to States Members are detailed in Appendix V.

10. Capital Income

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 10,000 | 10,000 | Capital Income | - | - |
| - | - | Guernsey Post Limited Re-purchase of Shares | 6,000 | - |
| - | - | Guernsey Electricity Limited Re-purchase of Shares | 4,000 | - |
| - | - | Sale of Property or Land <i>Hermes House</i> | 345 | - |
| - | - | <i>Longue Hougue Access Rights</i> | 178 | - |
| - | - | <i>Other Property Sales</i> | 18 | 61 |
| 10,000 | 10,000 | Capital Income | 10,541 | 61 |

NOTES

11. Routine Capital Expenditure

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 7,077 | 9,338 | Miscellaneous Capital Works | 5,900 | 4,269 |
| 1,182 | 3,289 | IT Projects and Equipment | 506 | 846 |
| 1,921 | 971 | Equipment Machinery and Vehicles | 1,290 | 2,391 |
| 1,500 | 1,130 | Budget Reserve | - | - |
| 11,680 | 14,728 | | 7,696 | 7,506 |
| (1,180) | (4,228) | <i>Use of Accumulated Capital Allocation</i> | - | - |
| 10,500 | 10,500 | Net Routine Capital Expenditure | 7,696 | 7,506 |

12. Financial Investments (States General Investment Pool)

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Balance at 1 January | 1,774,311 | 737,288 |
| Transfer of Investments from Superannuation Fund | - | 1,150,100 |
| Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses | 229,341 | 20,636 |
| Net deposits/(withdrawals) during year | (22,905) | (133,713) |
| Balance at 31 December | 1,980,747 | 1,774,311 |
| <i>Represented by:</i> | | |
| Equities | 1,139,300 | 1,058,734 |
| Alternatives | 311,400 | 259,380 |
| Bonds and fixed interest securities | 330,884 | 243,535 |
| Property | 113,957 | 105,157 |
| Cash | 85,206 | 107,505 |
| Investments | 1,980,747 | 1,774,311 |
| Balances held on behalf of States' Entities and other third party deposits | (1,372,237) | (1,229,172) |
| Balance at 31 December | 608,510 | 545,139 |

Note: The transfer from the Superannuation Fund reflects the net value of the investments after an adjustment for outstanding fees and dividend income at the end of June 2015.

The States General Investment Pool participates in a securities lending programme. Securities lending is where securities are transferred from the States' custodian to a borrower against collateral in the form of cash or securities. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to the securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the States' balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has the voting rights attached to the securities during the lending period.

NOTES

12. Financial Investments (States General Investment Pool) (continued)

At the year-end, the value of securities on loan stood at £74.207million (2015: £41.086million) secured by cash and non-cash collateral of £77.042million (2015: £43.091million) being 103.82% (2015: 104.88%) of the value of securities on loan.

During 2016, the Long Term Investment Fund was managed by sixteen managers, namely: Aberdeen Asset Managers Limited, Allan Gray Africa Equity Fund Limited, AMP Capital Investors Limited, CBRE Global Investors (UK) Funds Limited, FIL Pensions Management, GAM (U.K.) Limited, Investec Asset Management, JP Morgan Asset Management, Morgan Stanley Investment Management Limited, Newton Investment Management Limited, Partners Group (Guernsey) Limited, Sarasin & Partners LLP, Schroders Investment Management Limited, State Street Global Advisors, TIAA Henderson Real Estate Limited and Wellington Management International Ltd.

The Medium Term Investment Fund was managed by nine managers, namely: Brooks Macdonald Asset Management (International) Limited, Canaccord Genuity Wealth (International) Ltd, Credit Suisse (Channel Islands) Limited, Newton Investment Management Limited, Odey Wealth Management (C.I.) Ltd, Ravenscroft Investment Management, Rocq Capital Management Limited, Royal London Asset Management C.I. Limited and Royal London Asset Management Limited.

The governance of the Funds is supported by the custodian, Northern Trust Global Services Limited and a professional investment advisor, International Asset Monitor Limited (trading as IAM Advisory).

The States General Investment Pool had the following commitments in Private Equity Funds as at 31 December 2016.

| | Total Commitment 31 December 2016 £'000s | Drawn Commitment 31 December 2016 £'000s | Undrawn Commitment 31 December 2016 £'000s | Undrawn Commitment 31 December 2015 £'000s |
|----------------|---|---|---|---|
| Partners Group | 8,128 | 2,245 | 5,883 | 6,432 |
| JP Morgan | 8,128 | 4,552 | 3,576 | 4,532 |
| CBRE | 188,324 | 173,860 | 14,464 | 118 |
| AMP | 8,128 | 3,829 | 4,299 | 4,895 |
| Morgan Stanley | 43,376 | 22,348 | 21,028 | 21,182 |
| Total | 256,084 | 206,834 | 49,250 | 37,159 |

Future cash commitments will be met through active management of the investment portfolio.

NOTES

13. Investments in States' Trading Entities

| | 2016 Actual £'000s | 2015# Actual £'000s |
|---|-----------------------------------|------------------------------------|
| Cabernet Limited | 5,060 | 5,060 |
| Cabernet Limited - provision for accumulated losses | (957) | (21,390) |
| Guernsey Electricity Limited | 105,209 | 109,209 |
| Guernsey Post Limited | 7,886 | 13,886 |
| Alderney Electricity Limited | 3 | 3 |
| Balance at 31 December | 117,201 | 106,768 |

Guernsey Electricity Limited re-purchased £4m of shares during 2016, consequently the balance invested by the States in that trading entity reduced from £109.209m to £105.209m.

Guernsey Post Limited re-purchased £6m of shares during 2016, such that the balance invested by the States in that trading entity reduced from £13.386m to £7.886m.

In November 2015 (Billet d'État XX, 2015), the States agreed the recapitalisation of Cabernet Limited in the sum of £25.212m. The recapitalisation took place in 2016 and crystallised the provision for accumulated losses of Cabernet Limited as at 31 December 2015 included in the General Revenue Account Reserve (£21.39m) with the balance of £3.82m being available to fund losses incurred from 2016. However, the company's losses in 2016 exceeded the balance of the recapitalisation amount by £957,000 and, therefore, provision for this amount has been included in the General Revenue Account Reserve (Note 17) in 2016. The value of the States of Guernsey's investment in Cabernet Limited at 31 December 2016 is £4.103m, which comprises the purchase cost of £5.06m less a provision for accumulated losses of £957,000.

NOTES

14. Loans Receivable

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Loans Issued from the Bond Reserve | | |
| Guernsey Housing Association LBG | 78,313 | 75,000 |
| Cabernet Limited | 29,487 | 30,725 |
| JamesCo 750 Limited | 12,179 | 12,747 |
| Health & Social Care - Accommodation Fund | 1,876 | 1,987 |
| Balance at 31 December | 121,855 | 120,459 |
| Other Loans | | |
| Cabernet Limited | | |
| <i>Purchase of Aircraft and Working Capital Overdraft</i> | - | 18,922 |
| Home Loans Scheme | 2,317 | 2,822 |
| Solid Waste Strategy Infrastructure | 1,606 | 1,385 |
| Higher Education Loans Fund | 220 | 251 |
| Office of the Financial Services Ombudsman | - | 225 |
| Company Registry | 159 | 214 |
| Farm Loans Fund | 142 | 148 |
| Sports Loans Fund | 115 | 131 |
| Balance at 31 December | 4,559 | 24,098 |
| Total | 126,414 | 144,557 |

The States have provided a number of loans from the proceeds of the States of Guernsey Bond issue at rates of interest fixed in accordance with a formula set by the Investment & Bond Sub-Committee. During 2016, the Sub-Committee approved two new loans totalling £7.1m (2015: 8 loans totalling £121.9m). Capital repayments received in 2016 were £5.7m (2015: £1.4m) including £1.7m for the early repayment in full of a loan to Cabernet Limited.

15. Debtors and Prepayments

| | 2016 Actual £'000s | 2015# Actual £'000s |
|-------------------------------|--------------------------|---------------------------|
| Debtors | 65,591 | 65,786 |
| Prepayments | 21,664 | 20,424 |
| Balance at 31 December | 87,255 | 86,210 |

NOTES

16. Long Term Liabilities

The States issued a public bond for general sale in December 2014. The notional value of the bond amounted to £330m, and this is due to be fully repaid in December 2046. The costs of £14.589m associated with the issue of the bond, have been amortised and classified as a prepayment on the balance sheet. This value will be written off on a straight line basis over the life of the bond. The value of the prepayment at the end of December 2016 amounted to £13.654m (2015: £14.110m).

17. General Reserve

| | 2016 Actual £'000s | 2015# Actual £'000s |
|--|--------------------------|---------------------------|
| Balance at 1 January | 1,360 | 31,256 |
| Revenue Surplus | 43,831 | 15,289 |
| Less Routine Capital Expenditure | (7,696) | (7,506) |
| Capital Income | 10,541 | 61 |
| | 48,036 | 39,100 |
| Cabernet Limited: Change in Provision for Accumulated Losses | 20,433 | (1,490) |
| Adjustment for Capital Expenditure | (774) | - |
| Appropriations | | |
| Transfer to Capital Reserve | (22,900) | (36,250) |
| General Revenue Account Reserve at 31 December | 44,795 | 1,360 |
| Various Capital Accounts | | |
| Corporate Housing Programme Fund | 30,092 | 33,783 |
| Transformation and Transition Fund | 25,115 | 26,058 |
| Insurance Deductible | 10,399 | 9,970 |
| Future Guernsey Economic Fund | 6,776 | 8,059 |
| Bond Reserve | 5,907 | (5,709) |
| Solid Waste Trading Account | 3,611 | 3,711 |
| Wilfred Carey Purchase Fund | 3,261 | 3,077 |
| Health and Social Services Accommodation Fund | 1,122 | 1,076 |
| Channel Islands Lottery (Guernsey) Fund | 922 | 623 |
| Higher Education Loans Fund | 911 | 907 |
| Overseas Aid & Development Commission Fund | 590 | - |
| Sports Loans Fund | 319 | 319 |
| General Reserve Balance at 31 December | 133,820 | 83,234 |

NOTES

18. Capital Reserve

| | 2016 Actual £'000s | 2015 Actual £'000s |
|--|--------------------------|--------------------------|
| Balance at 1 January | 139,608 | 111,429 |
| Appropriations from Revenue Account | 12,900 | 36,250 |
| Transfer from Corporate Housing Programme Fund (Vote 30.10.14) | - | 20,000 |
| Guernsey Post Ltd - Re-Purchase of Shares | 6,000 | - |
| Guernsey Electricity Ltd - Re-Purchase of Shares | 4,000 | - |
| Transfer from Core Investment Reserve | 18,446 | 2,323 |
| Investment Return | 9,725 | 2,080 |
| Expenditure on votes | (31,518) | (32,474) |
| Balance at 31 December | 159,161 | 139,608 |

19. Core Investment Reserve

| | 2016 Actual £'000s | 2015 Actual £'000s |
|-------------------------------|--------------------------|--------------------------|
| Balance at 1 January | 144,779 | 143,345 |
| Investment Return | 20,762 | 3,757 |
| Transfer to Capital Reserve | (18,446) | (2,323) |
| Balance at 31 December | 147,095 | 144,779 |

20. Notes and Coins Reserve

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---------------------------------------|--------------------------|--------------------------|
| In circulation at 1 January | 53,376 | 52,386 |
| Issued during the year | 96,542 | 103,098 |
| Withdrawn during the year | (93,977) | (102,108) |
| In circulation at 31 December | 55,941 | 53,376 |
| Less release from reserve | (8,864) | (8,650) |
| Balance at 31 December | 47,077 | 44,726 |
| Notes and Coins in circulation | | |
| <i>Made up of:</i> | | |
| Notes | 42,394 | 40,166 |
| Coins | 4,683 | 4,560 |

NOTES

21. States Trading Entities Reserve

| | 2016 Actual £'000s | 2015 Actual £'000s |
|-------------------------------|--------------------------|--------------------------|
| Alderney Electricity Limited | 3 | 3 |
| Guernsey Electricity Limited | 105,209 | 109,209 |
| Guernsey Post Limited | 7,886 | 13,886 |
| Balance at 31 December | 113,098 | 123,098 |

22. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

| | 2016 Actual £'000s | 2015 Actual £'000s |
|-------------------------------------|--------------------------|--------------------------|
| Operating surplus | 43,831 | 15,289 |
| Adjustment for investment returns | (4,111) | (548) |
| Increase in stocks | (220) | (137) |
| Increase in debtors and prepayments | (1,045) | (4,270) |
| Increase in creditors | 1,156 | 1,921 |
| | 39,611 | 12,255 |

23. Reconciliation of Movement in Cash Balances

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Balance at 1 January | 6,815 | 10,336 |
| Increase/(Decrease) in cash during the year | 9,036 | (3,521) |
| | 15,851 | 6,815 |

NOTES

24. Analysis of Cash Balances

| | At 1 January 2016 £'000s | Movement in Year 2016 £'000s | At 31 December 2016 £'000s |
|---------------|-----------------------------------|---------------------------------------|-------------------------------------|
| Cash at banks | 6,760 | 9,038 | 15,798 |
| Cash in hand | 55 | (2) | 53 |
| Total | 6,815 | 9,036 | 15,851 |

25. Superannuation Fund

Summary analysis of changes in Funds

| | At 1 January 2015 £'000s | Movement in Net Funds 2015 £'000s | At 31 December 2015 £'000s | Movement in Net Funds 2016 £'000s | At 31 December 2016 £'000s |
|---------------------|-----------------------------------|--|-------------------------------------|--|-------------------------------------|
| Combined Pool | 1,081,987 | 17,849 | 1,099,836 | 141,936 | 1,241,772 |
| Teachers Fund | 48,856 | 6 | 48,862 | 6,566 | 55,428 |
| States Members Fund | 3,826 | (91) | 3,735 | 220 | 3,955 |
| Total | 1,134,669 | 17,764 | 1,152,433 | 148,722 | 1,301,155 |

NOTES

25. Superannuation Fund (continued)

| Combined Pool | 2016 Actual £'000s | 2015 Actual £'000s |
|---|-----------------------------------|-----------------------------------|
| Employers' contributions | 28,202 | 28,106 |
| Employees' contributions | 13,667 | 12,542 |
| Refund of contributions repaid | 125 | 71 |
| Transfer values received | 1,867 | 2,627 |
| | 43,861 | 43,346 |
| Pensions | (42,756) | (40,791) |
| Lump sum payments | (12,534) | (10,048) |
| Contributions refunded to employees | (1,577) | (1,385) |
| Transfer values paid | (853) | (1,580) |
| | (57,720) | (53,804) |
| Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses | 155,795 | 28,307 |
| Net Increase in Fund for the Year | 141,936 | 17,849 |

| Teachers | 2016 Actual £'000s | 2015 Actual £'000s |
|---|-----------------------------------|-----------------------------------|
| Employers' contributions | 879 | 614 |
| Teachers' contributions | 304 | 285 |
| Transfer values received | - | 5 |
| | 1,183 | 904 |
| Pensions | (1,288) | (1,204) |
| Lump sum payments | (181) | (520) |
| Contributions refunded to employees | (6) | (5) |
| Transfer values paid | (99) | (451) |
| | (1,574) | (2,180) |
| Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses | 6,957 | 1,282 |
| Net Increase in Fund for the Year | 6,566 | 6 |

NOTES

25. Superannuation Fund (continued)

States Members' Pension Fund

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|-----------------------------------|-----------------------------------|
| Capital payment | 150 | 149 |
| Pensions | (286) | (261) |
| Transfer values paid | (145) | (82) |
| | (431) | (343) |
| Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses | 501 | 103 |
| Net Increase/(Reduction) in Fund for the Year | 220 | (91) |

Consolidated Superannuation Fund

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|-----------------------------------|-----------------------------------|
| Employers' contributions | 29,081 | 28,720 |
| Employees' contributions | 13,971 | 12,827 |
| Capital payments | 150 | 149 |
| Refund of contributions repaid | 125 | 71 |
| Transfer values received | 1,867 | 2,632 |
| | 45,194 | 44,399 |
| Pensions | (44,330) | (42,256) |
| Lump sum payments | (12,715) | (10,568) |
| Contributions refunded | (1,583) | (1,390) |
| Transfer values paid | (1,097) | (2,113) |
| | (59,725) | (56,327) |
| Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses | 163,253 | 29,692 |
| Net increase in Fund for the Year | 148,722 | 17,764 |

NOTES

25. Superannuation Fund (continued)

Notes

- a) The employees of the States of Guernsey are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

The scheme is a multi-entity arrangement and the States of Guernsey have contracted the fund's qualified independent actuaries to identify the actuarial account of each entity and therefore the value of the pension scheme assets and liabilities attributable to each entity. The fund is under the control of the States Policy & Resources Committee, which has arranged for it to be invested by professional advisers in a wide range of securities.

Employer contributions to the pension scheme are charged to staffing costs so as to spread the cost of pensions over employees' working lives with the States. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. Contributions to the scheme were last increased from 1 January 2010 based on the actuarial recommendations of the valuation undertaken as at 31 December 2007.

A full actuarial valuation of the Fund as at 31 December 2013 was carried out. The results of this valuation were reported to the States in March 2015 (Billet d'État VI, 2015) and it was agreed that the base employer rate (including teachers) would remain at 14.1%.

A full actuarial valuation of the Fund as at 31 December 2016 is in the process of being carried out. The results of this valuation, including proposed changes if any, to the rates of employers' contributions, will be reported to the States in Autumn 2017.

- b) The total contributions payable in respect of 2016 amounting to £29.081m (2015: £28.720m) have been charged as expenses in the revenue accounts for the current year. FRS 102 has not been adopted in full and the deficit on the Fund is, therefore, not included in the Balance Sheet. However, the following disclosures provide certain information which would be required under FRS 102.

NOTES

25. Superannuation Fund (continued)

- (i) The valuation was updated by the actuary on an FRS 102 basis as at 31 December 2016.
- (ii) The major assumptions used by the actuary in this valuation were:

| | 31 December 2016 % p.a. | 31 December 2015 % p.a. |
|---|-------------------------------|-------------------------------|
| Discount rate | 2.60% | 3.70% |
| Rate of inflation | 3.40% | 3.15% |
| Increases to deferred benefits during deferment - Other Schemes | 2.50% | 2.25% |
| Increases to deferred benefits during deferment - Teachers Scheme | 3.40% | 3.15% |
| Increases to pensions in payment - Teachers Scheme | 2.50% | 2.25% |
| Increases to pensions in payment - Other Schemes | 3.40% | 3.15% |
| Increases to salaries | 4.15% | 3.90% |

The assumptions used by the actuary have regard to the yield on AA rated corporate bonds and are also driven by other market yields which may not necessarily be borne out in practice.

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 89 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 91 if female.

Description of the basis used to determine the expected rate of return on the assets

The employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

(iii) Market Value of Scheme assets

| | 31 December 2016 £'000s | 31 December 2015 £'000s |
|--------------------------------------|-------------------------------|-------------------------------|
| Equities | 775,672 | 670,047 |
| Alternatives | 195,878 | 207,831 |
| Gilts and Bonds | 182,870 | 134,301 |
| Property | 89,546 | 83,905 |
| Cash | 57,189 | 56,349 |
| Market value of scheme assets | b)(v) 1,301,155 | 1,152,433 |
| Present Value of schemes liabilities | b)(v) (2,462,415) | (1,833,754) |
| | b)(v) (1,161,260) | (681,321) |

NOTES

25. Superannuation Fund (continued)

Notes (continued)

(v) Analysis of changes in scheme deficit

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Current Service Cost | (50,845) | (62,341) |
| Curtailment Gains | 5,028 | - |
| Net Interest on Net Defined Liability | | |
| <i>Interest on obligation</i> | (66,781) | (63,562) |
| <i>Interest on assets</i> | 42,371 | 40,069 |
| Cumulative Amounts of remeasurements | | |
| <i>Losses/(Return) on assets (not included in interest)</i> | 121,662 | (9,464) |
| <i>Actuarial gains/(losses) on obligation</i> | (559,826) | 68,652 |
| Administration Expenses | (779) | (923) |
| | (509,170) | (27,569) |
| Contributions by Employer | 29,231 | 28,868 |
| Net (Increase)/Reduction in Deficit for the year | (479,939) | 1,299 |
| Deficit at 1 January | (681,321) | (682,620) |
| Change in Deficit for the year | (479,939) | 1,299 |
| Deficit at 31 December | (1,161,260) | (681,321) |

Analysis of changes in the present value of the defined benefit obligation

| | 2016 Actual £'000s | 2015 Actual £'000s |
|--|--------------------------|--------------------------|
| Service cost | 50,845 | 62,341 |
| Interest cost | 66,781 | 63,562 |
| Curtailment Gains | (5,028) | - |
| Contribution by members | 13,971 | 12,827 |
| Benefits paid | (57,734) | (53,613) |
| Experience gains | (23,906) | (32,930) |
| Losses/(gains) from changes in assumptions | 583,732 | (35,722) |
| Change in defined benefit obligation | 628,661 | 16,465 |
| Defined benefit obligation at 1 January | 1,833,754 | 1,817,289 |
| Change in defined benefit obligation | 628,661 | 16,465 |
| Defined benefit obligation at 31 December | 2,462,415 | 1,833,754 |

NOTES

25. Superannuation Fund (continued)

Notes (continued)

b) (v) Analysis of changes in the fair value of Fund assets

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|-----------------------------------|-----------------------------------|
| Interest on assets | 42,371 | 40,069 |
| Return on assets (not included in interest) | 121,662 | (9,464) |
| Contributions by employer | 29,231 | 28,868 |
| Contributions by members | 13,971 | 12,827 |
| Benefits paid | (57,734) | (53,613) |
| Administration expenses | (779) | (923) |
| Change in fair value of Fund assets | 148,722 | 17,764 |
| Fair value of assets at 1 January | 1,152,433 | 1,134,669 |
| Change in fair value of Fund assets | 148,722 | 17,764 |
| Fair value of assets at 31 December | 1,301,155 | 1,152,433 |

The employer expects to contribute £27.721m to the Fund from 1 January 2017 to 31 December 2017.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

| | 2016 | 2015 |
|-----------------|-------------|-------------|
| Equities | 60% | 58% |
| Alternatives | 15% | 18% |
| Gilts and Bonds | 14% | 12% |
| Property | 7% | 7% |
| Cash | 4% | 5% |

- c) On 27 January 2012 the States agreed that the existing States Members pension scheme be closed for service for current or new States Members with effect from 30 April 2012 and Members and former States Members be provided with the additional option to transfer accrued benefits in respect of all service into alternative pension arrangements on terms to be advised by the actuary.

26. Non-Audit Services

There were no non-audit services provided by Deloitte LLP during 2016 (2015: nil).

NOTES

27. States Trading Entities

On 29 June 2005 (Billet d'État IX, 2005), the States authorised the provision of guarantees relating to borrowings from third parties by Cabernet Limited (the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited). The Policy & Resources Committee has guaranteed a loan facility entered into by Aurigny Air Services Limited with the Royal Bank of Scotland International Limited (RBSI) for the purchase of two new ATR72-500 aircraft. The balance of the loan amounted to £10.8m as at 31 December 2016 (2015: £11.8m). The Policy & Resources Committee has also guaranteed the company's trading operational loan facilities with RBSI Limited comprising: an overdraft facility of £1m; a credit limit utilisation of £700,000 for Foreign Currency Exchange Forward Contracts; and HM Customs Bonds of a maximum of £100,000. A further guarantee is in place with Barclaycard for an unlimited amount of credit card sales in respect of unflown flights.

28. Related Party Transactions

There were no material Related Party Transactions during the year.

29. Alderney Housing Association Borrowing Facilities

Under the terms of the Framework Agreement between the States of Alderney and the Alderney Housing Association (AHA), the States of Alderney have Step-In rights for the assets and liabilities of the AHA in the event that the latter was unable to meet its obligations. Accordingly, the States of Alderney have provided a letter of comfort in respect of the AHA's overdraft facility of £5m with a private financial institution. If it becomes necessary for the States of Alderney to exercise their Step-In rights, then all assets and liabilities of the AHA would revert to the States of Alderney at that time. The market value of assets as at 31 December 2016 was £8.970m (2015: £9.175m). The States of Guernsey have agreed to 'step-in' if the States of Alderney were unable to service the facility or repay any amounts due.

30. Guernsey Housing Association Borrowing Facilities

The Policy & Resources Committee provides a guarantee for Guernsey Housing Association's trading overdraft facility of £1m with RBSI Limited.

Committee Accounts & Commentaries

The following pages do not form part of the audited financial statements and are presented for information purposes only.

INCOME AND EXPENDITURE ACCOUNT

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | <u>Income and Expenditure by Service Area</u> | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|---|-------------|--------------------------|--------------------------|
| 399,825 | 399,825 | Revenue Income | | 406,964 | 379,817 |
| 10,000 | 10,000 | Capital Income | | 10,541 | 61 |
| 409,825 | 409,825 | Total Income | | 417,505 | 379,878 |
| | | Net Revenue Expenditure | Page | | |
| 29,593 | 30,542 | <i>Policy & Resources Committee</i> | 54 | 30,012 | 29,237 |
| 6,597 | 6,580 | <i>Committee for Economic Development</i> | 60 | 6,185 | 6,147 |
| 78,451 | 79,527 | <i>Committee for Education, Sport & Culture</i> | 65 | 79,266 | 77,973 |
| 72,197 | 72,340 | <i>Committee for Employment & Social Security</i> | 71 | 70,230 | 69,859 |
| 12,647 | 12,534 | <i>Committee for the Environment & Infrastructure</i> | 78 | 11,923 | 14,187 |
| 116,581 | 119,231 | <i>Committee for Health & Social Care</i> | 83 | 118,626 | 118,582 |
| 32,826 | 33,367 | <i>Committee for Home Affairs</i> | 91 | 31,865 | 33,059 |
| 570 | 570 | <i>Scrutiny Management Committee</i> | 97 | 529 | 468 |
| - | - | <i>States' Review Committee</i> | 98 | - | 17 |
| 1,520 | 1,520 | <i>Development & Planning Authority</i> | 99 | 1,201 | 1,459 |
| 2,885 | 2,885 | <i>Overseas Aid & Development Commission</i> | | 2,885 | 2,855 |
| 1,584 | 1,584 | <i>States' Trading Supervisory Board</i> | 102 | 1,392 | 1,558 |
| 2,540 | 2,541 | <i>Royal Court</i> | 107 | 2,525 | 2,557 |
| 4,700 | 4,729 | <i>Law Officers</i> | 111 | 4,609 | 4,711 |
| 1,880 | 1,885 | <i>States of Alderney</i> | 114 | 1,885 | 1,859 |
| 7,529 | 2,265 | <i>Budget Reserve</i> | | - | |
| 372,100 | 372,100 | Net Revenue Expenditure | | 363,133 | 364,528 |
| | | Routine Capital Expenditure | | | |
| 542 | 565 | <i>Policy & Resources Committee</i> | 59 | 146 | 287 |
| 1,374 | 1,464 | <i>Committee for Education, Sport & Culture</i> | 70 | 1,323 | 2,066 |
| 13 | - | <i>Committee for Employment & Social Security</i> | | - | 14 |
| 3,632 | 3,123 | <i>Committee for the Environment & Infrastructure</i> | 82 | 2,940 | 517 |
| 1,769 | 4,335 | <i>Committee for Health & Social Care</i> | 90 | 1,481 | 2,957 |
| 608 | 903 | <i>Committee for Home Affairs</i> | 96 | 778 | 986 |
| 474 | 1,348 | <i>States' Trading Supervisory Board</i> | 106 | 931 | 363 |
| 200 | 201 | <i>Royal Court</i> | 110 | 32 | 197 |
| 68 | 159 | <i>Law Officers</i> | 113 | 65 | 119 |
| 1,500 | 1,500 | <i>Backlog Property Maintenance</i> | | - | - |
| 1,500 | 1,130 | <i>Budget Reserve</i> | | - | - |
| 11,680 | 14,728 | Routine Capital Expenditure | | 7,696 | 7,506 |
| (1,180) | (4,228) | Use of Accumulated Capital Allocation | | - | - |
| 10,500 | 10,500 | Net Routine Capital Expenditure | | 7,696 | 7,506 |
| 382,600 | 382,600 | Total Cash Limits | | 370,829 | 372,034 |
| 27,225 | 27,225 | Net Surplus | | 46,676 | 7,844 |

POLICY & RESOURCES COMMITTEE

The Policy & Resources Committee has the responsibility to advise the States and to develop and implement policies and programmes relating to:

1. leadership and co-ordination of the work of the States;
2. fiscal policy, economic affairs and the financial and other resources of the States; and
3. external relations and international and constitutional affairs.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 1,199 | 2,320 | Operating Income | 2,337 | 1,855 |
| | | Non-Formula Led Expenditure | | |
| 17,776 | 19,111 | Pay costs | 18,794 | 18,263 |
| | | Non-Pay costs | | |
| 2,706 | 2,592 | Staff Non-Pay costs | 2,729 | 2,409 |
| 6,443 | 7,240 | Support Services | 7,237 | 6,616 |
| 331 | 326 | Premises | 263 | 275 |
| 1,044 | 1,025 | Third Party Payments | 1,000 | 1,006 |
| 13 | 10 | Transport | 8 | 8 |
| 589 | 548 | Supplies & Services | 425 | 533 |
| 11,126 | 11,741 | | 11,662 | 10,847 |
| 27,703 | 28,532 | Net Non-Formula Led Expenditure by Category | 28,119 | 27,255 |
| | | Formula Led Expenditure | | |
| 2,010 | 2,010 | Payments to States Members | 1,893 | 1,982 |
| 2,010 | 2,010 | Formula Led Expenditure by Category | 1,893 | 1,982 |
| (120) | - | Financial Transformation Programme Target | - | - |
| 29,593 | 30,542 | Net Expenditure by Category | 30,012 | 29,237 |

Non-Formula Led expenditure

Total non-formula-led expenditure for 2016 was £28.1m (2015: £27.3m) representing an increase of 3.2% over 2015. The Policy & Resources Committee under spent its 2016 authorised non-formula led budget by £413k (1.5%).

POLICY & RESOURCES COMMITTEE

Operating Income

| Category | 2016 £'000 | 2015 £'000 |
|-------------------------------|---------------|---------------|
| Recharges to Trading Entities | 1,395 | 997 |
| Other Recharges | 341 | 301 |
| Fees & Charges | 38 | 34 |
| Commissions & Royalties | 535 | 478 |
| Other | 28 | 45 |
| Total | 2,337 | 1,855 |

The majority of the income is received through recharges to the Trading Entities which relate to providing a transactional processing service (through the Shared Services Centre) and financial management services. The recharges are calculated using agreed formulae relating to the number of transactions processed, and the staff time employed to provide these services.

Commissions and Royalties are earned from the activities of the Guernsey Digimap Service.

Pay Costs

Pay costs increased from £18.2m in 2015 to £18.8m in 2016, an increase of 2.7% which is due to the recruitment in 2016 to posts which were vacant in 2015 including in the Human Resources and Finance functions and additional staff in the key areas of corporate policy co-ordination and development (as set out in the 2016 Budget Report); Corporate Communications and Data Protection and Governance.

A charge is levied to the States Trading entities in respect of services provided by the Finance function; in 2016 this was £1m (2015: £0.7m) for 15.7FTE (2015: 10.7FTE).

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------------|--------------|--------------|
| Established Staff | 342.7 | 327.0 |
| Nurses and Medical | 2.6 | 2.8 |
| Public Sector Employees | 2.4 | 2.9 |
| Other Pay Groups | 0.9 | 1.7 |
| Total | 348.6 | 334.4 |

Non-Pay Costs

Non-pay costs increased by £815k (7.5%) from 2015 to 2016 which is attributable to an increase in recruitment expenditure and a number of non-recurrent projects where additional funding was provided from the Budget Reserve including:

- £342k – to fund the defence of legal challenges to the implementation of pension reforms;
- £205k – to fund a national risk assessment of money laundering and the financing of terrorism, in accordance with the Financial Action Task Force's standards; and
- £131k – external assessments of the appropriate baseline budgets for the Committees for Education, Sport & Culture and Home Affairs for current service provision and benchmarked to comparable service models in other jurisdictions.

POLICY & RESOURCES COMMITTEE

Third Party Payments (Grants and Subsidies)

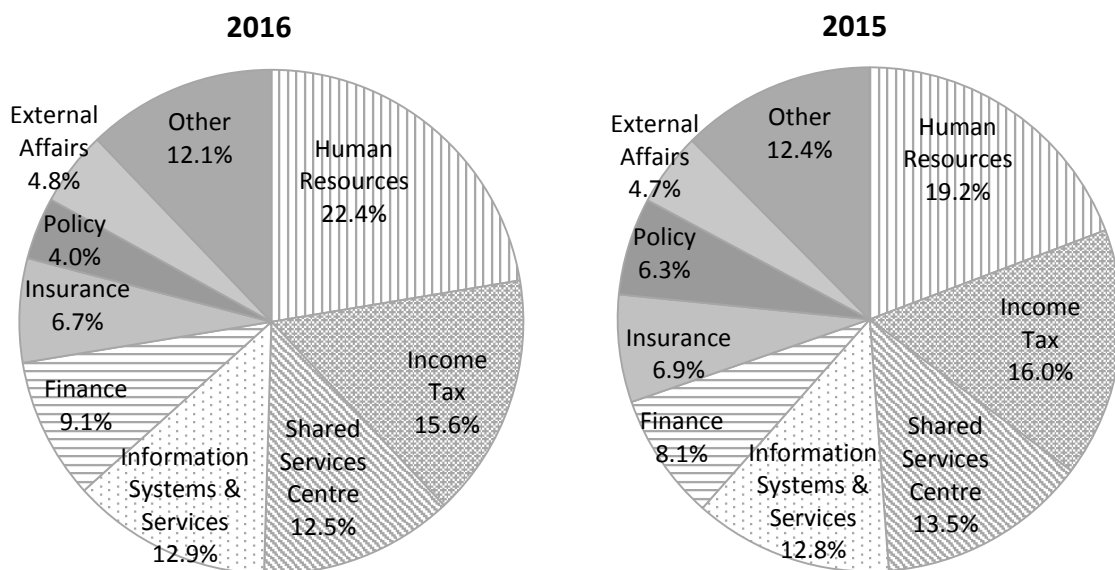
| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|---------------------------------|-------------------------|-------------------------|
| Channel Islands Brussels Office | 340 | 360 |
| H E Lieutenant Governor | 660 | 646 |
| Total | 1,000 | 1,006 |

The States of Guernsey maintains a joint office with Jersey in Brussels, to ensure our interests are represented in the European Union, and the grant paid is to cover Guernsey's share of the costs.

In addition to the remuneration and establishment allowance paid to His Excellency the Lieutenant-Governor, an establishment allowance is paid to his office to meet the costs of staff and of running both the office and Government House, including furnishing and routine maintenance of the house and grounds, as well as other expenditure related to the carrying out of his official duties.

POLICY & RESOURCES COMMITTEE

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | Non-Formula Led Expenditure | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|---|--------------------------|--------------------------|
| 769 | 1,023 | Core Services | 866 | 609 |
| 1,301 | 1,252 | Central Services | 1,351 | 1,284 |
| 1,279 | 1,227 | External Affairs | 1,123 | 1,706 |
| 731 | 731 | Policy | 716 | 974 |
| | | Treasury | | |
| 4,080 | 4,233 | | 4,056 | 4,573 |
| 521 | 491 | Corporate Functions | 482 | 489 |
| 210 | 249 | Assurance & Risk | 250 | 162 |
| 2,444 | 2,575 | Communications | 2,548 | 2,221 |
| 5,677 | 6,036 | Finance | 6,290 | 5,245 |
| 4,210 | 4,266 | Human Resources | 4,391 | 4,365 |
| 3,700 | 3,882 | Income Tax | 3,618 | 3,476 |
| 1,875 | 1,875 | Information Systems & Services | 1,875 | 1,879 |
| 368 | 368 | Insurance | 284 | 343 |
| 3,738 | 3,669 | Procurement | 3,510 | 3,686 |
| 7 | 15 | Shared Services Centre | 3 | 9 |
| | | Tribunals | | |
| 22,750 | 23,426 | | 23,251 | 21,875 |
| 69 | 69 | Commonwealth Parliamentary Association | 63 | 54 |
| 804 | 804 | HE Lieutenant Governor | 749 | 753 |
| 27,703 | 28,532 | Non-Formula Led Expenditure by Service Area | 28,119 | 27,255 |

POLICY & RESOURCES COMMITTEE

| 2016 Original Budget | 2016 Total Authorised | Formula Led Expenditure | 2016 Actual | 2015 Actual |
|----------------------------|-----------------------------|--|----------------|----------------|
| 2,010 | 2,010 | Payments to States Members | 1,893 | 1,982 |
| 2,010 | 2,010 | Formula Led Expenditure by Service Area | 1,893 | 1,982 |
| (120) | - | Financial Transformation Programme Target | - | - |
| 29,593 | 30,542 | Net Expenditure by Service Area | 30,012 | 29,237 |

Non-Formula Led

2016 expenditure in core services was lower than in 2015 as 2015 included one-off restructuring costs incurred in order to prepare for the new Committee structure.

Expenditure on Human Resources increased due to the costs associated with funding the defence of legal challenges to the implementation of pension reforms; filling of vacant posts and increased costs of recruitment due to the successful initiatives to recruitment to frontline nurse and teacher vacancies and reduce the reliance on agency/temporary staff.

Formula Led

Expenditure on Payments to States Members reduced by £89k compared to 2015 due to the part-year impact of the reduction in the number of Deputies and the restructuring or remuneration arrangements with effect from May 2016, together with a vacant seat for a number of months.

Financial Transformation Programme

The 2016 FTP Target for the Committee was £120k and this was met through recurring benefits arising from changes in a number of areas including the delivery of training; reduced consultancy use; and increased use of technology leading to savings in travel and printing costs.

In Year Budget Changes

| | £'000s | £'000s |
|--|--------|---------------|
| 2016 Cash Limit / Formula Led Estimate | | 29,593 |
| Additions (Non Formula Led) | | |
| Transfer from Budget Reserve: | | |
| Pension Reforms Legal Costs | 342 | |
| National Risk Assessments | 205 | |
| Costing and Benchmarking Reviews | 131 | |
| Development of Information Services including a Target Operating Model | 115 | |
| Other | 142 | |
| | | 935 |
| Pay Awards | 1 | |
| Net Inter-Committee Transfers | 13 | |
| | | 14 |
| 2016 Authorised Budget | | 30,542 |

POLICY & RESOURCES COMMITTEE

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|-----------------|------------------|--|------------|------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 520 | 565 | IT Projects and Equipment | 146 | 270 |
| 22 | - | Equipment, Machinery and vehicles | - | 17 |
| 542 | 565 | | 146 | 287 |
| (312) | (335) | Use of Accumulated Capital Allocation | - | - |
| 230 | 230 | Net Routine Capital Expenditure | 146 | 287 |

Routine capital expenditure in 2016 included upgrades to the Finance system (£38k out of a total project budget of £50k) and the purchase of port blocking software (£41k).

COMMITTEE *for* ECONOMIC DEVELOPMENT

As set out in its mandate, the purpose of the Committee *for* Economic Development is to secure prosperity through the generation of wealth and the creation of the greatest number and widest range of employment opportunities possible by promoting and developing business, commerce and industry in all sectors of the economy. It has the responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. the promotion and development of all sectors of business, including construction, creative industries, digital, financial services, horticulture, intellectual property, manufacturing, media, retail and tourism;
2. the reputation of the Island as a centre for commerce and industry;
3. securing the provision of, and promoting, air and sea links to and from the Bailiwick;
4. inward investment at the corporate and individual level;
5. the labour skills necessary to sustain economic prosperity;
6. competition, innovation, diversification and regulation in the economy;
7. broadcasting and the media;
8. safeguarding living marine resources and the sustainable exploitation of those resources.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 | 2016 | | 2016 | 2015 |
|------------------------|-------------------------|------------------------------------|---------------|---------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 712 | 712 | Operating Income | 714 | 772 |
| | | Non-Formula Led Expenditure | | |
| 2,757 | 2,767 | Pay costs | 2,734 | 2,689 |
| | | Non-Pay costs | | |
| 61 | 61 | <i>Staff Non-Pay costs</i> | 43 | 40 |
| 2,737 | 2,692 | <i>Support Services</i> | 2,447 | 2,684 |
| 116 | 114 | <i>Premises</i> | 78 | 58 |
| 1,229 | 1,229 | <i>Third Party Payments</i> | 1,218 | 1,209 |
| 80 | 80 | <i>Transport</i> | 59 | 34 |
| 329 | 349 | <i>Supplies & Services</i> | 320 | 205 |
| 4,552 | 4,525 | | 4,165 | 4,230 |
| 6,597 | 6,580 | Net Expenditure by Category | 6,185 | 6,147 |

Total Non-Formula Led expenditure for 2016 was £6.2m (2015: £6.1m), which is £38k (0.6%) higher than in 2015. The committee underspent its Authorised Budget by £400k (6%).

COMMITTEE *for* ECONOMIC DEVELOPMENT

Operating Income

| Category | 2016 £'000 | 2015 £'000 |
|--------------------|---------------|---------------|
| Fees & Charges | 353 | 391 |
| Advertising Income | 208 | 214 |
| Sales Income | 109 | 112 |
| Licences & Permits | 44 | 55 |
| Total | 714 | 772 |

Fees & charges income is generated from a number of Economic Development business units including the Civil Aviation Office (£226k), Public Trustee (£76k) and Sea Fisheries (£18k). Advertising income (£208k) is entirely from Marketing & Tourism and is generated through printed media, mainly brochures and the use of digital advertising. Sales income (£109k) is generated entirely from the Guernsey Information Centre. Licences and Permits income is derived from Marketing and Tourism's issue of Boarding Permits.

Pay Costs

Expenditure on pay in 2016 was £2.7m, a 1.7% increase (£45k) on 2015, due to Public Trustee work and additional staff to meet and greet cruise liner passengers.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------------|-------------|-------------|
| Established Staff | 42.1 | 44.2 |
| Public Sector Employees | 0.2 | 0.2 |
| Other | 3.1 | 1.7 |
| Total | 45.4 | 46.1 |

There was a reduction of one full time member of the established staff following a review of a vacant position. The increase shown in 'Other' relates to additional staff to meet and greet cruise liner passengers.

Non-Pay Costs

Support Services

There was a decrease in expenditure of £237k (8.8%) on 2015. The gradual move to from traditional printed media to digital media (including TV) advertising campaigns resulted in a reduction in general advertising and marketing costs (£145k) and a decrease in printed media and postage costs (£191k), relating to Marketing and Tourism activities. However, these cost reductions were partially offset by an increase in expenditure on digital advertenting within Supplies and Services. There was a reduction in non-financial audit fee costs (£41k) with non-financial audits being bi-annual. There was an increase in legal costs (£70k) relating to Sea Fisheries issues and an increase in contracted out work (£70k) in relation to additional case load for the Public Trustee and Civil Aviation work.

COMMITTEE *for* ECONOMIC DEVELOPMENT

Non-Pay Costs (continued)

Transport

There was an increase in repairs and maintenance costs (£25k) in relation to Sea Fisheries with more maintenance being spent on the Leopardess.

Supplies & Services

There was an increase in expenditure of £115k (56.1%) on 2015. There was an increase in digital and TV advertising (£90k) with the move to digital media campaigns in Marketing and Tourism. There was an increase in travel and associated travel costs (£22k) across the committee.

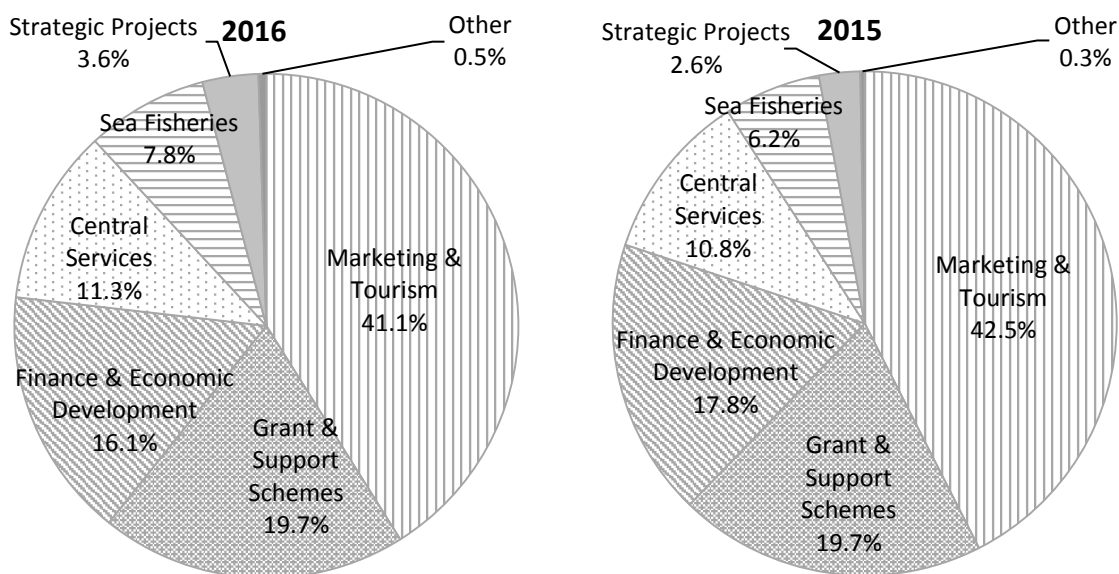
Third Party Payments (Grants and Subsidies)

| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|--|-------------------------|-------------------------|
| Guernsey Finance LBG | 800 | 800 |
| Events Group Grant | 170 | 175 |
| Guernsey Competition and Regulatory Authority | 140 | 140 |
| Guernsey Enterprise Agency (Start Up Guernsey) | 95 | 82 |
| Other | 13 | 12 |
| Total | 1,218 | 1,209 |

The grants paid to Guernsey Finance LBG, Events Group Grant, Guernsey Competition and Regulatory Authority and the Guernsey Enterprise Agency (Start Up Guernsey) are based on amounts approved in the previous year when the budgets are set and following a review of their requirements.

COMMITTEE *for* ECONOMIC DEVELOPMENT

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|---|--------|--------|
| Original Budget | Total Authorised | Non-Formula Led Expenditure | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 779 | 762 | Central Services | 698 | 665 |
| 2 | 2 | Civil Aviation Office | 5 | 14 |
| | | Finance & Economic Development | | |
| 704 | 704 | <i>Finance Sector Development</i> | 619 | 584 |
| 485 | 485 | <i>Business Innovation & Skills</i> | 375 | 512 |
| 1,189 | 1,189 | | 994 | 1,096 |
| 1,227 | 1,227 | Grant & Support Schemes | 1,216 | 1,212 |
| | | Marketing & Tourism | | |
| 1,335 | 1,355 | <i>Consumer & Communications</i> | 1,288 | 1,428 |
| 75 | 75 | <i>Guernsey Information Centre</i> | 70 | 49 |
| 79 | 79 | <i>Quality Development</i> | 65 | 68 |
| 611 | 611 | <i>Strategic Marketing</i> | 610 | 645 |
| 551 | 491 | <i>Trade & Media Relations</i> | 508 | 423 |
| 2,651 | 2,611 | | 2,541 | 2,613 |
| 20 | 20 | Office of the Public Trustee | 26 | 3 |
| 401 | 441 | Sea Fisheries | 483 | 382 |
| 328 | 328 | Strategic Projects | 222 | 162 |
| 6,597 | 6,580 | Net Expenditure by Service Area | 6,185 | 6,147 |

COMMITTEE *for* ECONOMIC DEVELOPMENT

Non-Formula Led

There was a decrease in expenditure within Business Innovation and Skills of £137k (26.7%) compared to 2015. This was the result of delays in filling vacant positions and a re-organisation within the unit.

In Year Budget Changes

| | £'000s |
|-------------------------------|--------------|
| 2016 Cash Limit | 6,597 |
| Reductions | |
| Inter-Committee Transfers | (17) |
| | |
| 2016 Authorised Budget | 6,580 |

COMMITTEE *for* EDUCATION, SPORT & CULTURE

The purpose of the Committee for Education, Sport & Culture is to encourage human development by maximising opportunities for participation and excellence through education, learning, sport and culture at every stage of life. It has responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. pre-school, primary, secondary, further and higher education;
2. apprenticeships;
3. skills;
4. lifelong learning;
5. sport, leisure and recreation;
6. youth affairs;
7. the arts;
8. libraries, museums, galleries and heritage;
9. Island Archives;
10. civic celebrations and commemorations, including Liberation celebrations.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 | 2016 | | 2016 | 2015 |
|------------------------|-------------------------|--|---------------|---------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 5,793 | 6,125 | Operating Income | 6,177 | 6,249 |
| | | Non-Formula Led Expenditure | | |
| 56,296 | 57,653 | Pay costs | 58,412 | 56,681 |
| | | Non-Pay costs | | |
| 952 | 954 | <i>Staff Non-Pay costs</i> | 1,029 | 1,001 |
| 3,540 | 3,498 | <i>Support Services</i> | 3,923 | 3,774 |
| 5,507 | 5,508 | <i>Premises</i> | 5,116 | 5,033 |
| 14,001 | 14,011 | <i>Third Party Payments</i> | 13,221 | 14,090 |
| 131 | 133 | <i>Transport</i> | 227 | 239 |
| 3,917 | 3,900 | <i>Supplies & Services</i> | 3,515 | 3,404 |
| 28,048 | 28,004 | | 27,031 | 27,541 |
| 78,551 | 79,532 | Net Non-Formula Led Expenditure by Category | 79,266 | 77,973 |
| (100) | (5) | Financial Transformation Programme Target | - | - |
| 78,451 | 79,527 | Net Expenditure by Category | 79,266 | 77,973 |

Non-Formula Led expenditure for 2016 was £79.3m which is £1.3m (1.7%) higher than 2015. The Committee achieved an underspend of £261k against its authorised budget.

COMMITTEE *for* EDUCATION, SPORT & CULTURE

Operating Income

| Category | 2016 £'000 | 2015 £'000 |
|-----------------------------------|---------------|---------------|
| Beau Sejour Centre | 3,213 | 3,162 |
| College of Further Education | 769 | 760 |
| Lottery Funding for Beau Sejour | 651 | 672 |
| Museums Service | 633 | 611 |
| Schools | 298 | 296 |
| Outdoor Sports Facilities | 187 | 199 |
| Grant Income* | 170 | 222 |
| School and Pupil Support Services | 139 | 168 |
| Others | 117 | 159 |
| Total | 6,177 | 6,249 |

*Grant Income is from the Committee *for* Economic Development for onward funding of Taste Guernsey, Floral Guernsey, the Arts Commission and Sports Guernsey. In 2015 there was also additional funding of £50k from the Lottery Appropriation Account for the 70th Anniversary Celebrations of Liberation Day.

Beau Sejour Leisure Centre operating income is £42k higher than 2015 due to increased membership sales, which were encouraged as a result of the refurbishment of the gym.

Pay Costs

Expenditure on pay in 2016 was £58.4m (2015: £56.7m), which is a 3% increase on the previous year.

The increase in pay costs is explained by the application of the teacher's 2015 pay award which was not settled until 2016; an increase in expenditure on agency staff (including additional support required in Alderney) and an increase in Learning Support Assistant staff.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--|----------------|----------------|
| Established Staff | 274.4 | 267.3 |
| Public Sector Employees | 108.6 | 105.8 |
| Teachers & Learning Support Assistants | 804.2 | 804.0 |
| Nurses | 16.4 | 17.1 |
| Other Pay Groups | 16.1 | 18.9 |
| Total | 1,219.7 | 1,213.1 |

The increase in Established staff numbers is a result of the recruitment in 2016 to posts that were vacant in 2015.

COMMITTEE *for* EDUCATION, SPORT & CULTURE

Non-Pay Costs

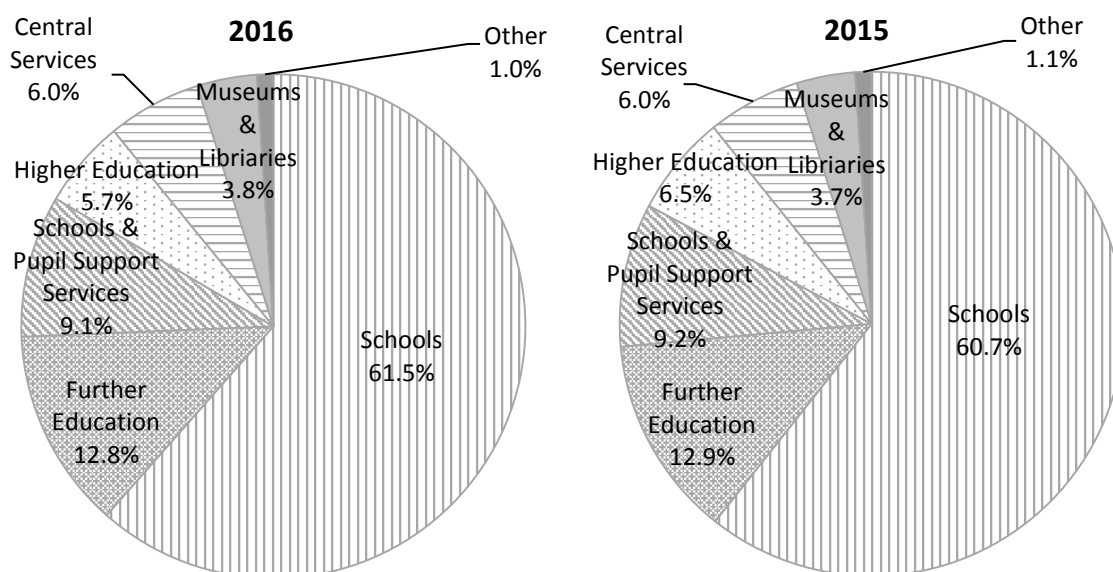
Non-pay expenditure was £27.0m (2015: £27.7m), a 2.5% decrease on the previous year which is due to the reduction in Third Party Payments.

Third Party Payments (Grants and Subsidies)

| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|------------------------------|-------------------------|-------------------------|
| Higher Education Grants | 4,514 | 4,892 |
| College Grants | 4,497 | 4,663 |
| Library Grants | 1,817 | 1,966 |
| Guernsey Training Agency | 740 | 740 |
| Apprenticeship Grants | 424 | 593 |
| Youth Service Administration | 399 | 417 |
| Guernsey Sports Commission | 226 | 234 |
| Dyslexia Day Centre | 148 | 148 |
| Guernsey Arts Commission | 141 | 144 |
| Other | 315 | 293 |
| Total | 13,221 | 14,090 |

The 6.2% reduction in Third Party Payments is largely explained by a reduced cohort size for Higher Education students; ongoing year-on-year reductions in College grants; and a reduction in the Schools Library Service grant.

NET REVENUE EXPENDITURE BY SERVICE AREA



COMMITTEE *for* EDUCATION, SPORT & CULTURE

NET REVENUE EXPENDITURE BY SERVICE AREA (continued)

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|---|--------------------------|--------------------------|
| | | Non-Formula Led Expenditure | | |
| 709 | 675 | Beau Sejour | | |
| (325) | (651) | <i>Net Expenditure</i> | 651 | 672 |
| | | <i>Less transfer from Channel Islands Lottery (Guernsey) Fund</i> | (651) | (672) |
| 384 | 24 | | - | - |
| 4,958 | 4,999 | Central Services | 4,769 | 4,667 |
| 414 | 414 | Cultural Activities & Events | 353 | 402 |
| | | Further Education | | |
| 7,853 | 8,131 | <i>College of Further Education</i> | 8,212 | 8,118 |
| 740 | 740 | <i>Guernsey Training Agency</i> | 740 | 740 |
| 1,349 | 1,349 | <i>Institute of Health & Social Care Studies</i> | 1,217 | 1,187 |
| 9,942 | 10,220 | | 10,169 | 10,045 |
| 4,697 | 4,685 | Higher Education | 4,484 | 5,037 |
| | | Museums & Libraries | | |
| 1,573 | 1,598 | <i>Grants to Libraries</i> | 1,599 | 1,570 |
| 292 | 292 | <i>Island Archive Service</i> | 300 | 280 |
| 1,115 | 1,187 | <i>Museums Service</i> | 1,148 | 1,072 |
| 2,980 | 3,077 | | 3,047 | 2,922 |
| 7,657 | 7,546 | Schools & Pupil Support Services | 7,215 | 7,179 |
| | | Schools | | |
| 4,494 | 4,494 | <i>Grants to Colleges</i> | 4,497 | 4,663 |
| 226 | 310 | <i>Pre-School</i> | 196 | - |
| 15,032 | 15,451 | <i>Primary Schools</i> | 15,302 | 14,975 |
| 650 | 722 | <i>School Music Service</i> | 737 | 697 |
| 19,334 | 19,443 | <i>Secondary Schools</i> | 20,038 | 19,556 |
| 5,587 | 5,883 | <i>Special Schools</i> | 6,093 | 5,580 |
| 1,780 | 1,828 | <i>Voluntary Schools</i> | 1,894 | 1,831 |
| 47,103 | 48,131 | | 48,757 | 47,302 |
| 416 | 436 | Sports | 472 | 419 |
| 78,551 | 79,532 | Non-Formula Led Expenditure by Service Area | 79,266 | 77,973 |
| (100) | (5) | Financial Transformation Programme Target | - | - |
| 78,451 | 79,527 | Net Expenditure by Service Area | 79,266 | 77,973 |

The increase in expenditure between 2015 and 2016 was predominantly in the area of Schools which increased by £1.4m as a result of the Teachers Pay Award (£1.15m) and £250k of expenditure on preparing for the introduction of pre-school education.

COMMITTEE *for* EDUCATION, SPORT & CULTURE

Financial Transformation Programme

The 2016 FTP target for the Committee was £100k and initiatives with in-year benefits of £95k (recurring benefits of £215k) were achieved during the year:

| Description | 2016 Benefit £'000 | Recurring benefit £'000 |
|--|--------------------------|-------------------------------|
| Secondary School Transformation | 74 | 193 |
| Cleaning Services – reduction in operational costs | 21 | 22 |
| Total | 95 | 215 |

IN YEAR BUDGET CHANGES

| | £'000s | £'000s |
|--|--------|---------------|
| 2016 Cash Limit | | 78,451 |
| Additions : | | |
| Pay Awards | 1,218 | |
| Established Staff turnover Adjustment | 263 | |
| | | 1,481 |
| Reductions : | | |
| Net Inter Committee Transfers | (79) | |
| Return to Budget Reserve – Lottery funding | (326) | |
| | | (405) |
| 2016 Authorised Budget | | 79,527 |

The return to Budget Reserve is in respect of the adjustment following the transfer of additional funds (i.e. in addition to the budgeted figure of £325k) from CI Lottery proceeds to cover the operating deficit at Beau Sejour.

Additional budget was also transferred from the Budget Reserve to services areas where the assumed 5% level of established staff vacancies did not occur.

COMMITTEE *for* EDUCATION, SPORT & CULTURE

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|--|--------------|--------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 1,149 | 1,297 | Miscellaneous Capital Work | 1,126 | 1,766 |
| - | - | IT Projects and Equipment | 1 | 13 |
| 225 | 167 | Equipment, Machinery and vehicles | 196 | 287 |
| 1,374 | 1,464 | | 1,323 | 2,066 |
| (249) | (339) | Use of Accumulated Capital Allocation | - | - |
| 1,125 | 1,125 | Net Routine Capital Expenditure | 1,323 | 2,066 |

The major capital works carried out in 2016 were:

- Grammar School refurbishment (£266k out of total project spend of £900k);
- St Martins School refurbishment (£219k out of total project spend of £407k);
- Grammar School roof maintenance (£164k out of total project spend of £451k);
- Castle Cornet Maritime Museum water ingress (£140k);
- Beau Sejour gym refurbishment (£111k); and
- Guernsey Museum & Art Gallery – gallery refurbishment (£92k)

During 2016, the Committee undertook a comprehensive review of its current capital programme and removed, deferred or reduced in scope a number of projects which meant it could return £690k of its routine capital allocation to General Revenue. In addition, the Committee agreed to return to General Revenue the full balance (£875k) of the routine capital allocation specifically held in respect of planned preventative refurbishment of Les Beaucamps High School.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

As set out in its mandate, the purpose of the Committee *for* Employment & Social Security is to foster a compassionate, cohesive and aspirational society in which responsibility is encouraged and individuals and families are supported through schemes of social protection relating to pensions, other contributory and non-contributory benefits, social housing, employment, re-employment and labour market legislation. It has responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. financial and social hardship;
2. social housing, including States' housing and the States' relationship with housing associations;
3. supplementary benefit and housing benefit;
4. social insurance;
5. pensions;
6. health insurance;
7. long-term care insurance;
8. equality and social inclusion, including in relation to disability;
9. the unemployed and the various initiatives to encourage employment and re-employment;
10. labour market legislation and practices;
11. health and safety in the workplace;
12. industrial relations;
13. legal aid.

The non-General Revenue responsibilities which are funded through the Committee's Contributory Funds (and included in a separate set of Accounts) are social insurance, pensions, health insurance, long-term care, the unemployed and the various initiatives to encourage employment and re-employment.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|--|---------------|---------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 17 | 17 | Operating Income | 21 | 48 |
| | | Non-Formula Led Expenditure | | |
| 3,899 | 3,910 | Pay costs | 3,750 | 3,687 |
| | | Non-Pay costs | | |
| 27 | 27 | <i>Staff Non-Pay costs</i> | 15 | 20 |
| 848 | 866 | <i>Support Services</i> | 752 | 749 |
| 5,970 | 5,970 | <i>Premises</i> | 6,358 | 6,356 |
| 674 | 788 | <i>Third Party Payments</i> | 678 | 725 |
| 37 | 37 | <i>Transport</i> | 31 | 36 |
| 154 | 154 | <i>Supplies & Services</i> | 108 | 98 |
| 7,710 | 7,842 | | 7,942 | 7,984 |
| 11,592 | 11,735 | Net Non-Formula Led Expenditure by Category | 11,671 | 11,623 |
| | | Formula Led Expenditure | | |
| 58,025 | 58,025 | Third Party Payments | 56,574 | 56,061 |
| 2,580 | 2,580 | <i>Supplies & Services</i> | 1,985 | 2,175 |
| 60,605 | 60,605 | Formula Led Expenditure by Category | 58,559 | 58,236 |
| 72,197 | 72,340 | Net Expenditure by Category | 70,230 | 69,859 |

Total Non-Formula Led expenditure for 2016 was £11.67m (2015: £11.62m), representing an increase of 0.4%. The Committee underspent its Authorised Budget by £60k (0.5%), following a change to the recruitment approach in the second half of the year, resulting in an underspend on Pay of £160k. Non-Formula Led expenditure consists of administration costs for Social Security, Housing, Legal Aid, Employment Relations and Health & Safety Executive together with the Community and Environmental Projects Scheme and Charitable Grants.

Formula Led expenditure for 2016 was £58.56m (2015:£58.24m), representing an increase of £320k (0.6%) over 2015, but an underspend against an authorised budget of £2.05m. This element flexes with the variable level of demand for legal aid, supplementary benefit, family allowance, severe disability benefit, carer's allowance and concessionary TV licences. In addition this expenditure includes grants to the contributory funds, which are based on a fixed percentage of contribution income.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

Operating Income

| Category | 2016 £'000 | 2015 £'000 |
|----------------|---------------|---------------|
| Fees & Charges | 21 | 48 |

The small amount of income for the Committee comprises of rental income from land and properties, tribunal fees for Employment Relations and waste disposal fees from the Health and Safety Executive. Income was lower in 2016 than in 2015 due to receipts for the removal of toxic substance in 2015 and a non-social housing property being vacant in 2016.

Pay Costs

Expenditure on pay for 2016 was £3.75m (2015: £3.69m) an increase of 1.6% over 2015.

The above pay costs include allocations to general revenue and excludes staffing costs allocated to the Social Security Contributory Funds.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------|------|------|
| Established Staff | 82.0 | 77.1 |

This increase in staffing levels is associated with resourcing 'invest to save' projects and reducing risk.

The Committee's total full-time equivalent staff numbers in 2016 was 174.6 (2015:175.0). The above analysis only includes allocations to general revenue and, therefore, excludes full-time equivalent staff allocated to the Social Security Contributory Funds which in 2016 was 92.6 (2015: 97.9).

Non-Pay Costs

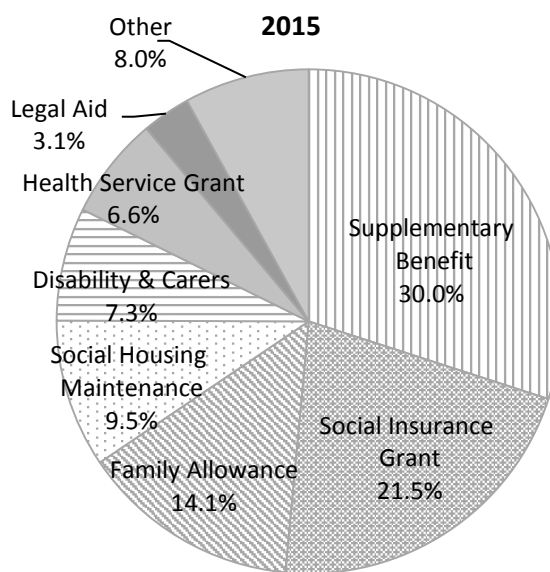
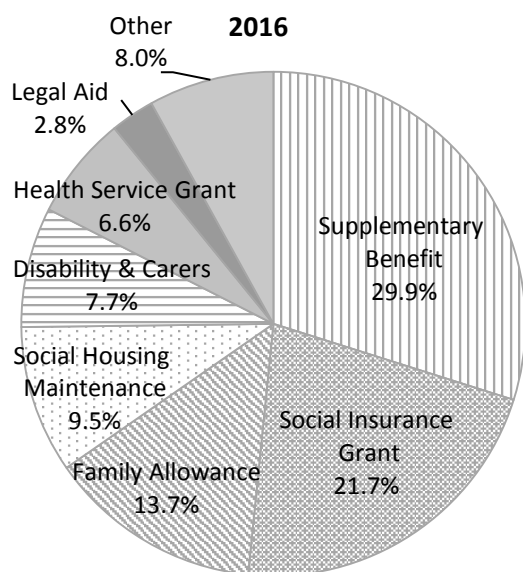
Total Non-Pay Costs for 2016 of £7.94m (2015: £7.87m) exceeded the Authorised Budget of £7.84m by £100k (1.3%) but this was offset by the underspend on pay.

Third Party Payments (Grants and Subsidies)

| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|--|-------------------------|-------------------------|
| Action for Children grant | 297 | 314 |
| Charitable Grants | 153 | 172 |
| Community and Environmental Projects participant payments | 124 | 127 |
| School Uniform Clothing and Educational Maintenance grants | 103 | 109 |
| Repatriation and Other | 1 | 3 |
| Total | 678 | 725 |

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | Non-Formula Led Expenditure | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| | | | | |
| 1,780 | 1,730 | Administration of Social Security & Legal Aid | 1,666 | 1,589 |
| 317 | 431 | Benefits & Allowances | 380 | 408 |
| 1,108 | 1,108 | Central Services | 1,057 | 1,003 |
| 51 | 70 | Disability & Inclusion | 79 | 22 |
| 319 | 319 | Employment Relations Service | 264 | 249 |
| 393 | 393 | Health & Safety Executive | 340 | 330 |
| 798 | 844 | Housing Strategy and Planning | 666 | 829 |
| 6,233 | 6,233 | Social Housing Buildings Maintenance | 6,651 | 6,643 |
| 593 | 607 | Social Housing Tenancy Management | 568 | 550 |
| 11,592 | 11,735 | Non-Formula Led Expenditure by Service Area | 11,671 | 11,623 |

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

NET REVENUE EXPENDITURE BY SERVICE AREA (continued)

| | | Formula Led Expenditure | | |
|---------------|---------------|--|---------------|---------------|
| 1,696 | 1,696 | Legal Aid | 1,173 | 1,358 |
| 884 | 884 | <i>Civil Legal Aid</i> | 812 | 817 |
| | | <i>Criminal Legal Aid</i> | | |
| 2,580 | 2,580 | | 1,985 | 2,175 |
| 575 | 575 | Concessionary TV Licences for the Elderly | 626 | 624 |
| 9,850 | 9,850 | Family Allowance | 9,639 | 9,824 |
| 4,680 | 4,680 | Health Service Grant | 4,659 | 4,577 |
| 5,300 | 5,300 | Severe Disability Benefit & Carers' Allowances | 5,411 | 5,072 |
| 15,410 | 15,410 | Social Insurance Grant | 15,256 | 15,018 |
| 22,210 | 22,210 | Supplementary Benefit | 20,983 | 20,946 |
| 60,605 | 60,605 | Formula Led Expenditure by Service Area | 58,559 | 58,236 |
| 72,197 | 72,340 | Net Expenditure by Service Area | 70,230 | 69,859 |

Non-Formula Led

Total Housing expenditure of £7.89m (2015: £8.02m) accounts for approximately 68% (2015: 69%) of the total Non-Formula Led spend of £11.67m (2015: £11.62m). This is reported in three service areas as follows:

Housing Strategy & Planning

There was a reduction in expenditure of £160k (20%) compared to 2015, due in the main to unfilled project officer vacancies and a small underspend on the budgeted grant for Action for Children (which fluctuates annually due to variations in income and expenditure).

Social Housing Buildings Maintenance

Housing is responsible for approximately 1,650 dwellings with an estimated re-instatement value of £511m (2015: £497m). The overall expenditure for general repairs, maintenance and void/renovations was £6.18m (2015: £6.17m). An overspend against budget for the year of £418k was due to a significant increase in the number of void properties renovated, partially offset by a managed reduction in other property maintenance.

Social Housing Tenancy Management

There was no significant change in expenditure for this heading between 2015 and 2016 but a small underspend of £39k was recorded due to staff vacancies and a reduction in utility bills, particularly sewage as more properties were connected to the main drain network.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

Additional Management Information

Social Security Statistics

| Number of claims at the year-end | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------------------------|-------|-------|-------|-------|-------|
| Supplementary benefit | 2,327 | 2,332 | 2,334 | 2,376 | 2,407 |
| Family allowance* | 6,793 | 6,850 | 6,904 | 6,926 | 6,912 |
| Severe disability benefit | 666 | 653 | 611 | 575 | 571 |
| Carer's allowance | 461 | 442 | 417 | 341 | 345 |

*A single claim can include payment for more than one child.

| Contributory Fund Grants | 2016 | 2015 | 2014 | 2013 | 2012 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| As a % of contributions | % | % | % | % | % |
| Guernsey Insurance Fund | 15% | 15% | 15% | 15% | 15% |
| Guernsey Health Service Fund | 12% | 12% | 12% | 12% | 12% |
| Annual Costs | £m | £m | £m | £m | £m |
| Guernsey Insurance Fund | 15.3 | 15.0 | 14.9 | 14.4 | 14.2 |
| Guernsey Health Service Fund | 4.7 | 4.6 | 4.5 | 4.4 | 4.3 |
| Total | 20.0 | 19.6 | 19.4 | 18.8 | 18.5 |

Formula Led

Total Formula Led expenditure for 2016 was £58.56m (2015: £58.24m) representing an increase of 0.55%, but under spent against authorised budget by £2.05m.

Supplementary Benefit

For the year, Supplementary Benefit expenditure increased by 0.4% to £20.98m (2015: £20.90m). Active claims 12- month rolling average decreased by 0.4% with the general rate of benefit increasing by 1.5%. A breakdown of expenditure is show in the table below:

| Breakdown of Supplementary Benefit | 2016 £'000s | 2015 £'000s | % Change |
|--------------------------------------|----------------|----------------|--------------|
| Job Seekers | 4,943 | 4,794 | +3.1% |
| Incapacity | 4,348 | 4,330 | +0.4% |
| Single Parents | 3,462 | 3,646 | -5.1% |
| Pensions top up | 2,929 | 2,808 | +4.3% |
| Disabled | 2,047 | 1,945 | +5.3% |
| Incapable of self-support | 674 | 658 | +2.4% |
| Other | 249 | 302 | -17.6% |
| Benefit & fuel allowance | 18,652 | 18,483 | +0.9% |
| Special grants & other costs | 2,331 | 2,413 | -3.4% |
| Supplementary Benefit - Total | 20,983 | 20,896 | +0.4% |

The small increase in expenditure compared to the previous year is more or less in line with expectations with the general rate of benefit increasing by 1.5% and a slight fall in claimant numbers. The significant underspend compared to budget is due to the budget assumptions being based on higher claimant numbers for the year and also over estimating the impact of moving claimants from short-term to the higher long-term rates following legislation changes.

COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY

Formula Led (continued)

Social Security Contributory Funds Grant

The total Social Security Contributory Funds Grant for 2016 was £19.91m (2015: £19.60m). This grant is based on a percentage of contributions into each of the Guernsey Insurance Fund and the Guernsey Health Services Fund, and is fixed at 15% and 12% respectively. The increased grant over 2015 reflects higher contributions into these funds.

Legal Aid

For the year, total legal aid expenditure decreased by 8.7% to £1.99m (2015: £2.18m). This decrease is due mainly to civil legal aid decreasing by 13.6% to £1.17m (2015: 1.36m) while criminal legal aid remained fairly static decreasing by 0.6% to £810k; both categories of legal aid were below budget. Although this is a favourable result, it should be noted that as expenditure is formula led, it can increase or decrease with variable levels of demand.

Severe Disability Benefit and Carer's Allowance

For the year, Severe Disability Benefit (SDB) and Carer's Allowance (CA) increased by 6.7% to £5.41m (2015: £5.07m). Most of the increase relates to a continuing upwards trend in claimant numbers, with the active claims 12-month rolling average for SDB and CA increasing by 5.9% and 5.7% respectively, albeit less than in 2015 when SDB increased by 6.1% and there was a 13.7% rise in CA.

In Year Budget Changes

| | £'000s | £'000s |
|---|--------|---------------|
| 2016 Cash Limit / Formula Led Estimate | | 72,197 |
| Additions – Non-Formula Led | | |
| Net Inter Committee Transfers | 124 | |
| Transfers from Budget Reserve | 19 | |
| | | 143 |
| 2016 Authorised Budget | | 72,340 |

The transfer from the Budget Reserve is in respect of one-off expenditure associated with the implementation of the Disability and Inclusion Strategy. The total maximum budget of £250k for implementation of the strategy was approved by the States and £28k had been spent up to the end of 2016. The balance of the budget is now being used to fund a number of agreed workstreams.

ROUTINE CAPITAL EXPENDITURE

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2016 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 13 | - | Equipment, Machinery and vehicles | - | 14 |
| 13 | - | | - | 14 |
| (13) | - | Use of Accumulated Capital Allocation | - | - |
| - | - | Net Routine Capital Expenditure | - | 14 |

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

As set out in its mandate, the purpose of the Committee *for the* Environment & Infrastructure is to protect and enhance the natural and physical environment and develop infrastructure in ways which are balanced and sustainable in order that present and future generations can live in a community which is clean, vibrant and prosperous. It has responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. infrastructure, including but not limited to water, wastewater, the ports and the airports;
2. spatial planning, including the Strategic Land Use Plan;
3. climate change;
4. protection and conservation of the natural environment;
5. waste, water and stone reserves;
6. energy, including renewable energy;
7. solid waste;
8. general housing policy in relation to land use, spatial planning and infrastructure;
9. the coast and coastal defences and the breakwater in Alderney;
10. traffic and transport;
11. the road network;
12. biodiversity;
13. agriculture, animal health and welfare and the sustainability of food and farming;
14. maritime affairs;
15. public parks;
16. security of supply of essential commodities.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| 1,442 | 1,707 | Operating Income | 1,790 | 2,007 |
| | | Non-Formula Led Expenditure | | |
| 2,630 | 2,648 | Pay costs | 2,652 | 3,135 |
| 18 | 18 | Non-Pay costs | 16 | 6 |
| 3,023 | 3,168 | Staff Non-Pay costs | 3,030 | 2,714 |
| 2,242 | 2,232 | Support Services | 2,083 | 2,172 |
| 5,521 | 5,521 | Premises | 5,248 | 5,214 |
| 36 | 36 | Third Party Payments | 45 | 29 |
| 619 | 618 | Transport | 639 | 2,924 |
| | | Supplies & Services | | |
| 11,459 | 11,593 | | 11,061 | 13,059 |
| 12,647 | 12,534 | Net Expenditure by Category | 11,923 | 14,187 |

Total Non-Formula Led expenditure for 2016 was £11.9m (2015: £14.2m). However, the road resurfacing & reconstruction programme was transferred from revenue expenditure to routine capital expenditure from 2016 (2015 expenditure of £2.3m). Therefore, comparing like with like, gross revenue expenditure remained broadly similar between 2015 and 2016. The Committee underspent its Authorised Budget by £611k (4.9%).

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

Operating Income

Fees and charges fell by £217k (10.8%) in 2016; this is due to 2015 being an exceptional year for the sale of registration marks including £223k in respect of '007'.

| Category | 2016 £'000 | 2015 £'000 |
|--------------------|---------------|---------------|
| Fees & Charges | 1,239 | 1,214 |
| Licences & Permits | 311 | 311 |
| Sales Income | 207 | 458 |
| Other | 33 | 24 |
| Total | 1,790 | 2,007 |

NOTE: Bus fare income of £1.15m (2015: £940k) is categorised against Third Party Payments in order to show the net subsidy effect of operating the scheduled bus service.

Pay Costs

Pay costs in 2016 were £2.7m (2015: £3.1m); the reduction is due to one-off staff restructuring costs that were incurred in 2015 in order to prepare for the new Committee structure.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--------------------------|-------------|-------------|
| Established Staff | 52.7 | 53.0 |
| Public Service Employees | 2.0 | 2.1 |
| Total | 54.7 | 55.1 |

Non-Pay Costs

Non-pay costs for 2016 were £11.1m (2015: £10.8m excluding the roads resurfacing & reconstruction programme). The increase results from the full-year effect of the increased subsidy paid to CT Plus Limited following the tender for a new scheduled bus service contract which came into operation on 1 April 2015.

Third Party Payments (Grants and Subsidies)

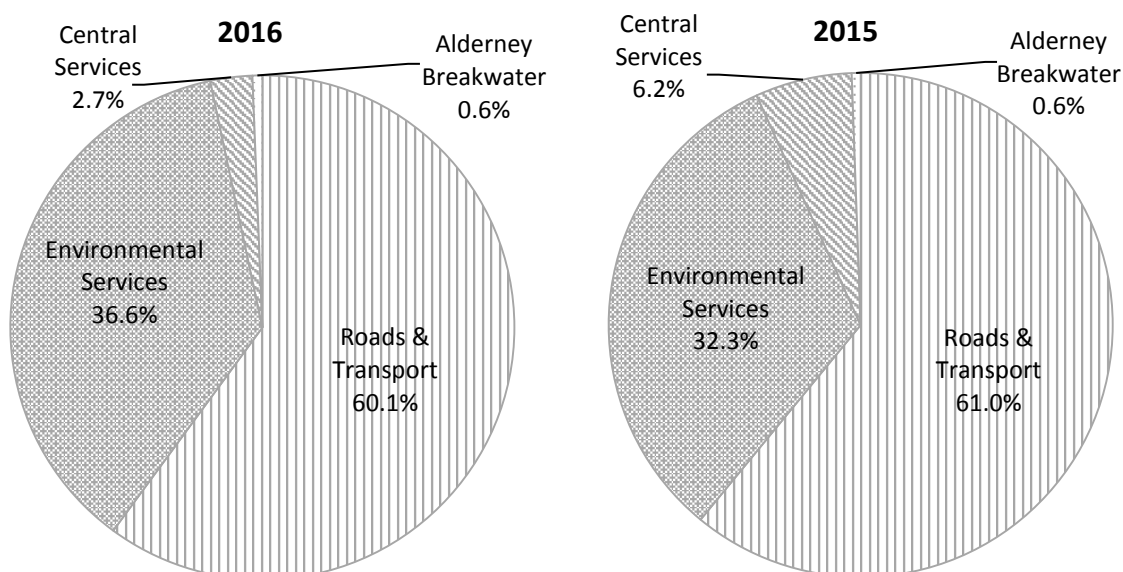
| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|---|-------------------------|-------------------------|
| Contract for the operation of scheduled and school bus services * | 3,593 | 3,359 |
| Dairy Farm Management Payments | 1,625 | 1,825 |
| Grant to Vale Commons Council re: Upkeep of L'Ancrese Common | 30 | 30 |
| Total | 5,248 | 5,214 |

* Figures net of fare income.

In September 2014, the States agreed that General Revenue expenditure on the Dairy Farm Management Payments Scheme, which was set up to support the dairy industry (farmers) in Guernsey, should be reduced by £1m in five equal steps over a five year period commencing from 2015.

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | Non-Formula Led Expenditure | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 327 | 327 | Central Services | 321 | 880 |
| 100 | 100 | Alderney Breakwater | 75 | 81 |
| | | Environmental Services | | |
| 2,440 | 2,448 | <i>Agriculture and Veterinary Services</i> | 2,342 | 2,532 |
| 853 | 853 | <i>Coastal Services</i> | 777 | 933 |
| 893 | 893 | <i>Parks, Gardens and Nature Trails</i> | 886 | 871 |
| 354 | 384 | <i>Other Environmental Services</i> | 359 | 242 |
| <hr/> | <hr/> | | <hr/> | <hr/> |
| 4,540 | 4,578 | | 4,364 | 4,578 |
| | | Roads and Transport | | |
| 353 | 333 | <i>Integrated Transport Strategy</i> | 291 | 162 |
| 399 | 398 | <i>Licensing and Traffic Services</i> | 421 | 179 |
| 4,899 | 4,769 | <i>Passenger Transport</i> | 4,461 | 4,069 |
| 2,029 | 2,029 | <i>Roads</i> | 1,990 | 4,238 |
| <hr/> | <hr/> | | <hr/> | <hr/> |
| 7,680 | 7,529 | | 7,163 | 8,648 |
| | | Balance of Budget Reduction | | |
| <hr/> | <hr/> | | <hr/> | <hr/> |
| 12,647 | 12,534 | Net Expenditure by Service Area | 11,923 | 14,187 |

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

Non-Formula Led

The reduction in Central Services expenditure is due to the one-off restructuring costs incurred in 2015.

Expenditure on Coastal Services fell well below 2015 levels and within budget, contrary to recent years of cost pressure against budget. The engagement of local contractors on capital projects at Perelle, Fort Grey and Longstore during 2016 had an impact on the availability of labour to undertake smaller projects.

Net expenditure on Licensing and Traffic Services increased by £242k due to lower income from sale of registration marks as 2015 was an exceptional year.

Expenditure on Passenger Transport was higher in 2016 than in 2015 due to the full year effect of the increased contract fee (£234k net of the bus fare income); £80k of additional vehicle maintenance required on the ageing fleet (as a result of the delay in the first phase of the bus fleet replacement programme); and £55k additional expenditure on school bus services (which was previously paid by the Committee *for* Education, Sport & Culture). Although there was a 9.8% increase in bus passengers compared to 2015, the highest annual increase since records began in 1996, the income fell slightly compared to 2015 as a result of new fare initiatives, primarily targeted at students and old age pensioners, focusing on increasing ridership and supporting the Integrated Transport Strategy objectives. However, there was an underspend compared to budget in 2016 due to the formula-driven bus contract fee being less than budgeted and passenger income being slightly ahead of budget.

IN YEAR BUDGET CHANGES

| | £'000s | £'000s |
|--|--------|---------------|
| 2016 Cash Limit | | 12,647 |
| Additions | | |
| Pay Awards: | | |
| Net Inter Committee Transfers | 18 | |
| Transfers from Budget Reserve | 21 | |
| Established Staff – return of vacancy factor | 18 | |
| | | 57 |
| Reductions: | | |
| Return of Funds to Budget Reserve | | (170) |
| 2016 Authorised Budget | | 12,534 |

£170k of the budget specifically allocated to implementing the Integrated Transport Strategy was returned to the Budget Reserve as a result of the delay in introducing the Vehicle First Registration Duty, one of the Strategy's main funding sources.

COMMITTEE *for the* ENVIRONMENT & INFRASTRUCTURE

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|--------------------|--------------------|--|--------------------|------------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 3,351 | 2,914 | Miscellaneous Capital Work | 2,833 | 512 |
| 66 | 184 | IT Projects and Equipment | 7 | - |
| 215 | 25 | Equipment, Machinery and vehicles | 100 | 5 |
| <hr/> 3,632 | <hr/> 3,123 | | <hr/> 2,940 | <hr/> 517 |
| (182) | (3) | Use of Accumulated Capital Allocation | - | - |
| <hr/> 3,450 | <hr/> 3,120 | Net Routine Capital Expenditure | <hr/> 2,940 | <hr/> 517 |

Routine Capital expenditure in 2016 was £2.9m (2015: £517k). £2.3m of this increase relates to the roads resurfacing & reconstruction programme which was transferred to routine capital in 2016.

The major items of capital expenditure in 2016 were:

- Roads resurfacing and reconstruction programme (£2.2m);
- Alderney Breakwater Repairs (£400k); and
- Salerie Cycle Path (£114k).

COMMITTEE *for* HEALTH & SOCIAL CARE

As set out in its mandate, the purpose of the Committee *for* Health & Social Care is to protect, promote and improve the health and well-being of individuals and the community. It has responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. adult social care;
2. the welfare and protection of children, young people and their families;
3. the prevention, diagnosis and treatment of acute and chronic diseases, illnesses and conditions;
4. mental health;
5. care of the elderly;
6. health promotion;
7. environmental health;
8. public health.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 11,686 | 12,534 | Operating Income | 12,594 | 12,364 |
| | | Non-Formula Led Expenditure | | |
| 83,336 | 85,560 | Pay costs | 85,099 | 84,879 |
| | | Non-Pay costs | | |
| 1,161 | 1,148 | <i>Staff Non-Pay costs</i> | 639 | 452 |
| 4,355 | 4,504 | <i>Support Services</i> | 4,549 | 4,481 |
| 6,052 | 6,037 | <i>Premises</i> | 6,115 | 5,516 |
| 3,402 | 3,403 | <i>Third Party Payments</i> | 3,489 | 3,583 |
| 700 | 697 | <i>Transport</i> | 606 | 556 |
| 31,161 | 31,166 | <i>Supplies & Services</i> | 30,723 | 31,479 |
| 46,831 | 46,955 | | 46,121 | 46,067 |
| 118,481 | 119,981 | Net Non-Formula Led Expenditure by Category | 118,626 | 118,582 |
| (1,900) | (750) | Efficiency Target | - | - |
| 116,581 | 119,231 | Net Expenditure by Category | 118,626 | 118,582 |

During 2015, an external assessment of the appropriate baseline budget for the Health and Social Services Department for current service provision and benchmarked to comparable service models in other jurisdictions was undertaken. This recommended a £8.2million increase, of which £1.15m was retained in the Budget Reserve and £7.05m included in the baseline Cash Limit of £118.5m (£116.58m after the changes arising from the implementation of the States' Review Committee proposals). As included in the 2017 Budget Report, the Policy & Resources Committee approved the transfer of the £1.15m to the Committee *for* Health & Social Care's 2016 budget in the Autumn of 2016 as, at that time, it was forecasting an overspend of £3.8m.

COMMITTEE *for* HEALTH & SOCIAL CARE

Total Non-Formula Led expenditure for 2016 was £118.6m (2015: £118.6m). The Committee underspent its 2016 Authorised Budget by £0.6m which compares to an overspend position in 2015 of £2m. This was the first time since 2011 that an underspend had been achieved in health and social care services.

Key to the underspend in 2016 was a range of measures that were put in place to control expenditure across all services and a major focus on the use of performance data (Key Performance Indicators) to underpin decision making and challenge performance. The new Agency framework was introduced in 2016 and created a preferred suppliers list for Agency staff with pre-negotiated staff supply costs. Agency spend reduced from £7.8m in 2015 to £5.5m in 2016 and is expected to reduce further in 2017.

From September 2016, the Committee directly delivered the Emergency Department (ED) taking over from Primary Care Company Limited (PCCL), who had previously been delivering the service under contract. Delivering the service directly means that the States now employs and engages all the specialist medical staff required for the safe and high quality provision of the ED service.

In 2016, the Committee initiated a range of measures to improve the way health and social care services are provided. The Policy & Resources Committee approved funding from the Transition & Transformation Fund, to allow Health and Social Care to put together a team to mobilise system-wide transformation. During 2016 a balance was found between the long-term transformation of the health and social care system and the short/medium-term imperative to stabilise finances and deliver tactical opportunities for cost and service improvement. During the year there has been progress on a number of key developments including the transfer of service to the Emergency Department and the introduction of technology including the Video Tele-conferencing capabilities.

Operating Income

The Committee for Health and Social Care received income amounting to £12.6m during 2016 which is comprised as follows:

| Category | 2016 £'000 | 2015 £'000 |
|-------------------|-----------------------|-----------------------|
| Fees & Charges | 4,125 | 3,831 |
| Private Patients | 7,349 | 6,875 |
| Income from Sales | 986 | 1,174 |
| Other Income | 134 | 484 |
| Total | 12,594 | 12,364 |

Income received from Fees and Charges (which relate to services provided including accident and emergency; radiology; pathology and pharmacy; States Analyst fees; and residential fees) increased by £294,000 between 2015 and 2016 with £90,000 of this increase being due to income from treatment provided through the Hyperbaric Chamber in 2016 (there were no such treatments in 2015).

Private Patient income has increased by £0.5m compared to 2015. This is primarily due to ED becoming a directly delivered service from 1 September which resulted in additional income amounting to £0.6m (there was a corresponding increase in expenditure). There were challenges in other areas of Private Patient income including a marginal decrease of 4% in Private Patient numbers from 808 patients in 2015 to 777 in 2016, albeit still higher than the 724 private patients treated in 2014. This decrease in the number of private patients was partially offset by the annual increase in charges of 1.9%.

COMMITTEE *for* HEALTH & SOCIAL CARE

Operating Income (continued)

Sales are comprised of income from cafes (PEH and extra care housing) as well as the Wheelchair Service. The PEH café is the main generator of sales income, with recent downward trends in annual sales continuing into 2016. This downward trend is likely to be attributable to the end of the Oberlands Centre building contract and the reduction in associated construction staff using the PEH café facilities.

Pay Costs

Pay expenditure in 2016 amounted to £85.1m. Compared to the 2015 position of £84.9m this represents a marginal increase of £0.2m. Measures that were put in place to control the Committee's pay expenditure have contributed to a real terms decrease in pay expenditure in 2016.

The number of average Full Time Equivalent (FTE) Staff Numbers has increased marginally by 35.4FTE (1.9%). Additional resources (eight consultants and four support staff) were added to the staff complement from September 2016 as a consequence of the ED coming into service.

The increase in established staff from 2015 to 2016 reflects improved substantive recruitment to social care posts.

The nursing figures include all agency and bank staff. Nursing figures in 2015 include the high use of agency resources. The decrease in 2016 nursing figures, therefore, reflects the success of the agency staff project and the recruitment challenge process (detailed below) which has reduced reliance on agency and locums. However, it should be noted that the number of substantive nursing posts has not decreased.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------------|----------------|----------------|
| Established Staff | 544.8 | 516.1 |
| Public Sector Employees | 371.9 | 357.2 |
| Nurses | 965.1 | 976.1 |
| Clinical Consultants | 28.1 | 25.1 |
| Total | 1,909.9 | 1,874.5 |

During 2016 the Committee carefully monitored and controlled the use of agency staff. The establishment of an internal appraisal and challenge process was the key driver in ensuring that agency resources were used efficiently and effectively thereby achieving cost reductions compared to 2015. This was achieved through agreeing a new procurement framework to source interims and careful monitoring of appointments to ensure that in general a ratio of two vacant posts per interim was maintained.

The following table shows the costs of employing agency staff, by pay group:

| Pay Group | 2016 £'000 | 2015 £'000 |
|----------------------|---------------|---------------|
| Established Staff | 1,096 | 2,148 |
| Nurses | 4,145 | 4,609 |
| Clinical Consultants | 219 | 1,013 |
| Total | 5,460 | 7,770 |

COMMITTEE *for* HEALTH & SOCIAL CARE

Non-Pay Costs

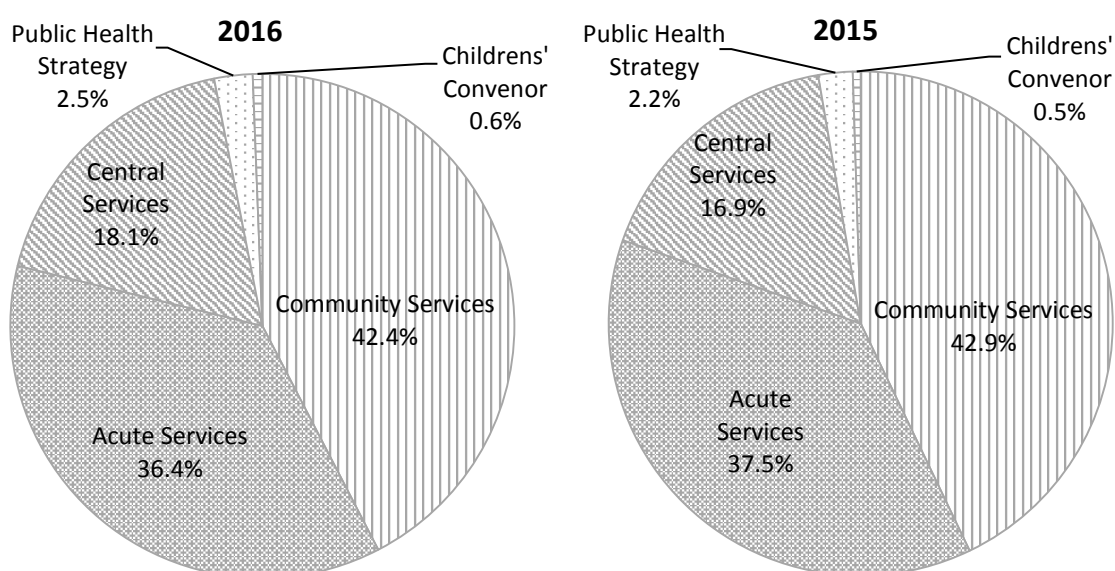
Expenditure incurred on Non-Pay related costs amounted to £46.1m (2015: £46.1m) which represented a minor increase on the 2015 position of £54,000 which is comprised as follows: increase in Premises costs (£0.6m); increase in Staff Non Pay costs (£0.2m); and a decrease in expenditure relating to Supplies & Services (£0.8m) which includes expenditure on Acute Off-Island care.

Third Party Payments (Grants and Subsidies)

| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|---|-------------------------|-------------------------|
| St John Ambulance and Rescue Service | 2,582 | 2,637 |
| Guernsey Employment Trust | 411 | 293 |
| Grow Limited | 141 | 129 |
| Guernsey Contraceptive Service | 140 | 140 |
| Extra Care Housing Grant (subsidy to catering facilities – provided in house from 2016) | - | 206 |
| Other | 215 | 178 |
| Total | 3,489 | 3,583 |

St John Ambulance and Rescue Service grant decreased in line with the contracted arrangements, as agreed by the Civil Contingencies Authority. During 2015, the funding arrangement changed for the Guernsey Employment Trust grant whereby, since May 2015, services are provided through a grant instead of directly by the Committee.

NET REVENUE EXPENDITURE BY SERVICE AREA



COMMITTEE *for* HEALTH & SOCIAL CARE

NET REVENUE EXPENDITURE BY SERVICE AREA

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|--|----------------|----------------|
| Original Budget | Total Authorised | Non-Formula Led Expenditure | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| | | Central Services | | |
| 1,209 | 1,305 | <i>Clinical Governance</i> | 1,152 | 1,041 |
| 1,460 | 1,647 | <i>Contract Management</i> | 1,426 | 1,778 |
| 12,586 | 12,657 | <i>Estates & Facilities</i> | 12,630 | 11,720 |
| 985 | 974 | <i>Procurement</i> | 917 | 880 |
| 1,019 | 1,054 | <i>Recruitment & Retention</i> | 253 | 436 |
| 1,562 | 1,876 | <i>Strategy, Policy & Engagement</i> | 1,706 | 1,809 |
| 2,796 | 2,872 | <i>Systems & Performance</i> | 2,683 | 2,417 |
| 21,617 | 22,385 | | 20,767 | 20,081 |
| | | Acute Services | | |
| 28,185 | 28,410 | <i>Acute Hospital Services</i> | 30,003 | 29,496 |
| 7,888 | 7,888 | <i>Acute Off Islands Treatment</i> | 8,930 | 9,195 |
| 1,023 | 1,005 | <i>Health Care Management</i> | 1,048 | 1,525 |
| 1,701 | 1,751 | <i>Institute of Health and Social Care Studies</i> | 1,336 | 1,586 |
| 2,582 | 2,582 | <i>St John Ambulance & Rescue</i> | 2,582 | 2,643 |
| 41,379 | 41,636 | | 43,929 | 44,445 |
| | | Community Services | | |
| 11,371 | 11,881 | <i>Adult Services</i> | 12,206 | 11,265 |
| 11,425 | 11,483 | <i>Children's Services</i> | 10,881 | 10,837 |
| 8,990 | 8,990 | <i>Complex Placements</i> | 7,900 | 8,377 |
| 281 | 260 | <i>Social Care Management</i> | 323 | 40 |
| 19,526 | 19,569 | <i>Specialist Services</i> | 18,980 | 20,333 |
| 51,593 | 52,183 | | 50,290 | 50,852 |
| | | Public Health & Strategy | | |
| 1,468 | 1,468 | <i>Community Health & Wellbeing</i> | 1,400 | 1,399 |
| 1,151 | 1,050 | <i>Medical Public Health</i> | 934 | 851 |
| 474 | 460 | <i>Public Health Management</i> | 582 | 362 |
| 3,093 | 2,978 | | 2,916 | 2,612 |
| 799 | 799 | Office of the Childrens' Convenor | 724 | 592 |
| 118,481 | 119,981 | Non-Formula Led Expenditure by Service Area | 118,626 | 118,582 |
| (1,900) | (750) | Efficiency Target | - | - |
| 116,581 | 119,231 | Net Expenditure by Service Area | 118,626 | 118,582 |

COMMITTEE *for* HEALTH & SOCIAL CARE

Non-Formula Led

Central Services

In 2016, Central Services incurred net annual expenditure of £20.8m which was £0.7m more than incurred in 2015 as a result of increases in net costs relating to Estates and Facilities due to an increased level of activity; and a decrease in contract costs with the establishment of the Emergency Department from September 2016.

Acute Services

In 2016, Acute Services incurred net annual expenditure of £43.9m which is £0.5m lower than incurred in 2015.

In 2016 the Committee sought to improve services received from Off Island providers in relation to Acute Services and Social Care. The number of acute patient attendances reduced by 14% but the expenditure reduction was lower due to an increased number of higher value treatments.

| Acute Off Island Care Activity | 2016 | 2015 |
|---------------------------------------|-------------|-------------|
| Number of Patient Attendances | 3,515 | 4,088 |
| Total acute off-Island expenditure | £8,929,701 | £9,194,884 |

| Diagnostic & Support Services Activity | 2016 | 2015 | % Change |
|---|------------------|------------------|-----------------|
| MRI/CAT Procedures | 10,437 | 10,386 | 1.0 |
| Number of Radiology Procedures (Excl. MRI/CAT) | 41,438 | 42,224 | (1.9) |
| Number of Biochemistry Tests Performed | 986,854 | 1,024,763 | (3.7) |
| Number of Haematology Tests Performed | 101,422 | 107,308 | (5.5) |
| Total | 1,140,151 | 1,184,481 | (3.7) |

| PEH Acute Patient Activity | 2016 | 2015 | % Change |
|---|-------------|-------------|-----------------|
| Inpatient Admissions (inc. Maternity) | 6,696 | 7,098 | (5.7) |
| Day Cases (DPU only) | 6,209 | 6,200 | - |
| Day Patient Attendances (inc. Renal & Oncology) | 5,793 | 5,824 | (0.5) |
| A&E Attendances | 17,338 | 17,084 | 1.5 |
| Inpatient Days | 40,004 | 41,039 | (2.5) |
| Average Length of Stay (Days) | 6.0 | 5.8 | (3.4) |

Community Services

In 2016, Community Services incurred net annual expenditure of £50.3m, a decrease of £0.6m (1.2%) compared to 2015.

A review of packages of care for complex off Island placements was carried out by a social work expert which resulted in a significant decrease in the amount paid for these packages and contributed to the lower costs compared to 2015. The launch of the Specialist Fostering Scheme in 2016 enabled the first young person to be repatriated from off-Island provision into a specialist foster placement in October 2016. In addition, Phase 2 of Grand Courtil development enabled a young man living in the UK to return home where his care and support could be delivered more effectively by specialised on-island community support workers.

| Acute Off Island Care Activity | 2016 | 2015 |
|---|-------------|-------------|
| Off Island Complex Care | | |
| Total off-Island complex care expenditure | £7,900,056 | £8,376,827 |

COMMITTEE *for* HEALTH & SOCIAL CARE

Community Services (continued)

| Specialist Services Activity | 2016 | 2015 | % Change |
|--|-------------|-------------|-----------------|
| Number of admissions to long stay wards for elderly care and respite | 105 | 204 | (48) |
| Number of bed days for elderly care and respite | 26,104 | 26,118 | - |
| Mental Health Cases (Admissions) – Adult only | 192 | 222 | (13.5) |

In Year Budget Changes

| | £'000s | £'000s |
|---|---------------|----------------|
| 2016 Cash Limit | | 116,581 |
| Additions: | | |
| Pay Awards | 1,398 | |
| Delay in delivery of Efficiency Savings | 1,150 | |
| Secondary Healthcare Project | 217 | |
| | | 2,765 |
| Reductions: | | |
| Inter Committee transfers | | (115) |
| 2016 Authorised Budget | | 119,231 |

In November 2015, the States approved funding from the Budget Reserve of up to £335,000 in 2016 in respect of the project to renegotiate the Secondary Healthcare contract.

COMMITTEE *for* HEALTH & SOCIAL CARE

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|-----------------|------------------|--|--------------|--------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 226 | 1,816 | Miscellaneous Capital Work | 506 | 1,033 |
| 347 | 1,999 | IT Projects and Equipment | 104 | 193 |
| 1,196 | 520 | Equipment, Machinery and vehicles | 871 | 1,731 |
| 1,769 | 4,335 | | 1,481 | 2,957 |
| (144) | (2,010) | Use of Accumulated Capital Allocation | - | - |
| 1,625 | 2,325 | Net Routine Capital Expenditure | 1,481 | 2,957 |

The Committee spent £1.5m on routine capital projects in 2016 including:

- £300k to upgrade medical equipment;
- £200k on refurbishing the Sterile Services Department (with cumulative spend at the end of 2016 being £400k against a project budget of £500k);
- £100k to purchase new laser equipment to treat ear, nose and throat complaints;
- £100k on necessary works to the incinerator (with cumulative spend to end of 2016 being £300k of a total project budget of £400k).

The remaining expenditure related to: equipment (£300K); refurbishments and upgrades to the estate (£300K) and IT projects (£200K).

There was some capital votes approved in 2016 where the expenditure will take place in 2017 including: £200k for the Windows XP replacement programme; £200k for ultrasound machine replacement and £400k to replace laundry equipment that has reached the end of its useful life.

COMMITTEE *for* HOME AFFAIRS

As set out in its mandate, the purpose of the Committee *for* Home Affairs is to support a high standard of living and quality of life by maintaining and promoting a safe, stable and equitable society which values public protection and justice and respects the rights, responsibilities and potential of every person. It has responsibility to advise the States and to develop and implement policies on matters relating to its purpose, including:

1. crime prevention;
2. law enforcement, including policing and customs;
3. justice policy;
4. the association between justice and social policy, for example domestic abuse and the misuse of drugs and alcohol;
5. the new population management regime, once introduced;
6. immigration and the housing control and right to work regimes;
7. imprisonment, parole, probation and rehabilitation;
8. fire, rescue and salvage;
9. consumer protection and advice;
10. trading standards;
11. data protection;
12. emergency planning;
13. civil defence;
14. lotteries and gambling;
15. the electoral roll.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 2,229 | 2,239 | Operating Income | 2,721 | 2,400 |
| | | Non-Formula Led Expenditure | | |
| 28,185 | 28,196 | Pay costs | 27,775 | 28,342 |
| | | Non-Pay costs | | |
| 706 | 713 | <i>Staff Non-Pay costs</i> | 687 | 670 |
| 3,099 | 3,115 | <i>Support Services</i> | 2,661 | 2,872 |
| 1,638 | 1,554 | <i>Premises</i> | 1,586 | 1,613 |
| 143 | 142 | <i>Third Party Payments</i> | 144 | 100 |
| 243 | 238 | <i>Transport</i> | 208 | 225 |
| 1,688 | 1,648 | <i>Supplies & Services</i> | 1,525 | 1,637 |
| 7,517 | 7,410 | | 6,811 | 7,117 |
| 33,473 | 33,367 | Net Non-Formula Led Expenditure by Category | 31,865 | 33,059 |
| (25) | - | Financial Transformation Programme Target | - | - |
| (622) | - | Budget Submission in Excess of Cash Limit | - | - |
| 32,826 | 33,367 | Net Expenditure by Category | 31,865 | 33,059 |

COMMITTEE *for* HOME AFFAIRS

Total Non-Formula Led expenditure for 2016 was £31.9m (2015: £33.1m) which is a decrease of £ 1.2m (3.6%) over 2015. The Committee underspent its Authorised Budget by £1.5m (4.5%) due to pay underspends of £420k, income being greater than budgeted by £482k and non-pay underspends of £599k the serious recruitment problems in Law Enforcement resulting in large numbers of vacancies

Operating Income

The Committee for Home Affairs received operating income of £2.7m during the year (2015: £2.4m) as follows:

| Category | 2016 £'000 | 2015 £'000 |
|-------------------|---------------|---------------|
| Fees & Charges | 891 | 615 |
| Fines & Costs | 651 | 594 |
| Licence & Permits | 1,159 | 1,175 |
| Training Income | 20 | 16 |
| Total | 2,721 | 2,400 |

Operating income increased during 2016 by £321k (13%) compared to 2015 due to additional income derived from recharges for the first full year of operation for JESCC (the recharges closely approximate to the costs incurred by the St John Ambulance & Rescue Service and the Coast Guard running their own separate control rooms in the past) and increases in Police Disclosures Fees from £10 to £20.

Income was higher than budgeted as the anticipated fall in Housing Control Fees ahead of the implementation of the new Population Management regime did not materialise.

Pay Costs

Expenditure on pay in 2016 was £27.8m (2015: £28.3m), which is a 1.8% decrease on the previous year. Overall pay expenditure was £420k less than budget (1.5%) which is attributable to established staff where FTE's have fallen by 6.7 (4.6%) as a result of a number of extended vacancies and a reduction in temporary posts.

The cost of employing Home Support Staff (this employee group was formerly known as *Police Support Staff* but was re-designated *Home Support Staff* when the JESCC was created to encompass JESCC staff as well) increased in 2016 by £207k (7.9FTE) predominantly as a result of higher costs for JESCC (2016 being the first complete year of operation). Pay expenditure on Police Officers reduced by £126k due to an exceptionally high level of vacant posts which is expected to be addressed early in 2017.

COMMITTEE *for* HOME AFFAIRS

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--------------------------|--------------|--------------|
| Established Staff | 137.5 | 144.2 |
| GBA Officers | 57.8 | 55.9 |
| Public Service Employees | 6.0 | 6.5 |
| Fire Officers | 59.6 | 60.7 |
| Home Support Staff | 51.9 | 44.0 |
| Police Officers | 153.7 | 156.5 |
| Prison Officers | 77.5 | 76.8 |
| Other Pay Groups | - | 0.7 |
| Total | 544.0 | 545.3 |

Non-Pay Costs

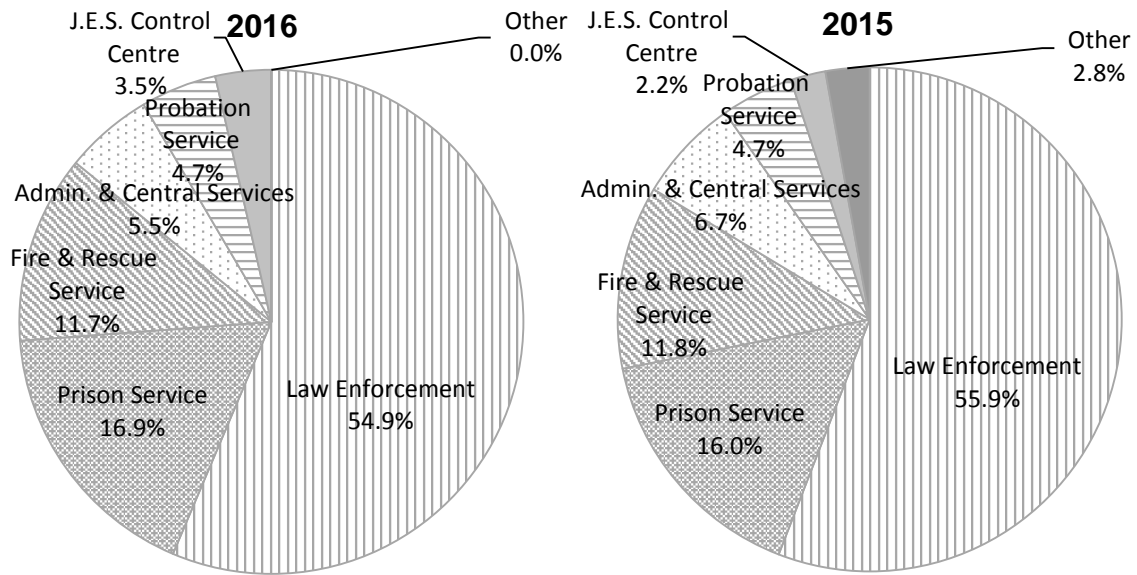
Total Non-Pay expenditure for 2016 was £6.8m (2015: £7.1m), a decrease of 4.2% compared to 2015. The cost of providing Support Services which includes Communications & IT and Contracted Out Work decreased by 7% compared to 2015 mainly due to a reduction in telephone call charges, as a result of ending the contracted-out work of emergency call handling. The late delivery and activation of a JESCC IT system meant that maintenance costs budgeted for in 2016 will not commence until 2017.

Third Party Payments (Grants and Subsidies)

| Description | 2016 Actual £'000 | 2015 Actual £'000 |
|--|-------------------------|-------------------------|
| Bailiwick of Guernsey Victim Support | 38 | 37 |
| Contribution to Financial Literacy Programme | - | 1 |
| Grant to General Election Candidates towards their election expenses | 47 | - |
| Other | 59 | 62 |
| Total | 144 | 100 |

COMMITTEE *for* HOME AFFAIRS

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | Non-Formula Led Expenditure | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 2,378 | 2,292 | Administration and Central Services | 1,760 | 2,200 |
| 412 | 404 | Bailiwick Drug and Alcohol Strategy | 317 | 363 |
| 118 | 116 | Data Protection | 108 | 92 |
| 383 | 448 | Domestic Abuse Strategy | 414 | 390 |
| 147 | 151 | Emergency Planning | 138 | 148 |
| (19) | (19) | Gambling Control | (35) | (19) |
| 3,848 | 3,784 | Guernsey Fire and Rescue Service | 3,739 | 3,889 |
| 147 | 147 | Housing Control | (84) | (44) |
| 680 | 951 | Joint Emergency Services Control Centre | 1,110 | 743 |
| 18,461 | 18,190 | Law Enforcement | 17,484 | 18,473 |
| 5,417 | 5,431 | Prison Service | 5,401 | 5,285 |
| 1,501 | 1,472 | Probation Service | 1,513 | 1,539 |
| 33,473 | 33,367 | Non-Formula Led Expenditure by Service Area | 31,865 | 33,059 |
| (25) | - | Financial Transformation Programme Target | - | - |
| (622) | - | Budget Submission in Excess of Cash Limit | - | - |
| 32,826 | 33,367 | Net Expenditure by Service Area | 31,865 | 33,059 |

COMMITTEE *for* HOME AFFAIRS

Non-Formula Led

Administration & Central Services costs reduced considerably primarily as a result of JESCC coming on-line meaning the ending of contracted out arrangements for emergency call handling.

The Joint Emergency Services Control Centre (JESCC) which began operating in April 2015 completed its first complete year of operation in 2016 and expenditure exceeded budget due to a longer than anticipated settling in period and difficulty in recruiting staff which placed a heavy reliance on overtime working and the longer than planned secondment of Police Officers due to recruitment difficulties.

Expenditure on Law Enforcement was nearly £1m lower than in 2015 due to an extremely high level of vacancies in Police and the continuing need to second officers to JESCC. The continued delay in recruitment of Police Officers has meant that expenditure on training has been lower.

The Guernsey Fire and Rescue Service expenditure decreased by £150k primarily due to the secondment of a Station Officer to the Emergency Planning function and a reduction in the level of overtime.

Financial Transformation Programme

The residual FTP balance for 2016 amounted to £25k and this was met as a result of the full year effect of deletion of a post in mid-2015.

IN YEAR BUDGET CHANGES

| | £'000s | £'000s |
|---|--------|---------------|
| 2016 Cash Limit | | 32,826 |
| Additions | | |
| Pay Awards | 338 | |
| Inter Committee Transfers | 65 | |
| Established Staff and GBA staff turnover adjustment | 125 | |
| Transfers from Budget Reserve | 13 | |
| | | 541 |
| 2016 Authorised Budget | | 33,367 |

In December 2015, the States considered a Policy Letter entitled *“Domestic Abuse Strategy for Guernsey and Alderney”* and agreed that additional funding be allocated to the Domestic Abuse Strategy through the transfer of budget from other Committees.

COMMITTEE *for* HOME AFFAIRS

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|-----------------|------------------|--|------------|------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 307 | 362 | Miscellaneous Capital Work | 472 | 398 |
| 101 | 302 | IT Projects and Equipment | 183 | 251 |
| 200 | 239 | Equipment, Machinery and vehicles | 123 | 337 |
| 608 | 903 | | 778 | 986 |
| (208) | (503) | Use of Accumulated Capital Allocation | - | - |
| 400 | 400 | Net Routine Capital Expenditure | 778 | 986 |

Routine capital expenditure projects in 2016 included the refurbishment of the Police Firing Range (£144k from a total project budget of £173k) and maintenance of the prison heating system (£175k from a total project budget of £230k).

SCRUTINY MANAGEMENT COMMITTEE

The Scrutiny Management Committee is responsible for leading and co-ordinating the scrutiny of committees of the States and those organisations which are in receipt of public funds, or which have been established by legislation, by reviewing and examining legislation, policies, services and the use of monies and other resources.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| | | Non-Formula Led Expenditure | | |
| 420 | 420 | Pay costs | 419 | 394 |
| | | Non-Pay costs | | |
| 14 | 14 | Staff Non-Pay costs | 5 | 2 |
| 104 | 104 | Support Services | 96 | 63 |
| 1 | 1 | Premises | 2 | - |
| 31 | 31 | Supplies & Services | 7 | 9 |
| 150 | 150 | | 110 | 74 |
| 570 | 570 | Net Expenditure by Category | 529 | 468 |

Total Non-Formula led expenditure for 2016 was £529k (2015: £468k), which is 13% higher than in 2015 as a result of a vacancy during part of 2015 which was filled in 2016 and the completion in 2016 of the Review of States Investments which commenced in 2015.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------|------|------|
| Established Staff | 6.0 | 5.7 |

STATES' REVIEW COMMITTEE

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| - | - | Pay costs | - | 11 |
| - | - | Non-Pay costs | - | 1 |
| - | - | <i>Support Services</i> | - | 5 |
| - | - | <i>Supplies & Services</i> | - | 6 |
| - | - | Net Expenditure by Category | - | 17 |

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|-------------------|------|------|
| Established Staff | - | 0.1 |

DEVELOPMENT & PLANNING AUTHORITY

As set out in its mandate, the purpose of the Development & Planning Authority is to advise the States on land use policy and to develop and implement land use policies through development plans and any other relevant instruments. It has the responsibility to:

1. determine development applications of all kinds, including planning, building control, protected buildings and scheduled sites;
2. maintain and keep under review schemes of delegation in order that only the most contentious or high profile or atypical development control applications are referred to the elected members of the Authority, and when they are so referred to ensure that they are heard at open planning meetings held in public.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| 1,094 | 1,094 | Operating Income | 1,277 | 1,089 |
| | | Non-Formula Led Expenditure | | |
| 2,318 | 2,319 | Pay costs | 2,255 | 2,314 |
| 83 | 83 | Non-Pay costs | | |
| 175 | 174 | Staff Non-Pay costs | 54 | 70 |
| 1 | 1 | Support Services | 137 | 135 |
| 22 | 22 | Premises | 2 | 1 |
| 15 | 15 | Transport | 19 | 18 |
| | | Supplies & Services | 11 | 10 |
| 296 | 295 | | 223 | 234 |
| 1,520 | 1,520 | Net Expenditure by Category | 1,201 | 1,459 |

Total Non-Formula Led expenditure for 2016 was £1.2m (2015: £1.5m), a reduction of 17.7%, with the Authority underspending its Authorised Budget by £319k.

Operating Income

The Development & Planning Authority received operating income of £1.3m during the year (2015: £1.1m) as follows:

| Category | 2016 £'000 | 2015 £'000 |
|-----------------|---------------|---------------|
| Fees & Charges | 1,266 | 1,084 |
| Training Income | 8 | - |
| Sales Income | 3 | 5 |
| Total | 1,277 | 1,089 |

DEVELOPMENT & PLANNING AUTHORITY

Operating Income (continued)

Fees and charges income primarily relates to Planning and Building Control fees. Planning control application fees accounted for £161k of the income increase in 2016. Whilst the level of individual applications dropped in 2016, there were a greater number of higher-value applications:

| | 2016 | 2015 |
|-------------------------------|-----------|-----------|
| Planning Applications | | |
| Number | 1,688 | 1,771 |
| Income | £ 678,000 | £ 517,000 |
| Average Fee | £ 402 | £ 292 |
| Building Control Applications | | |
| Number | 1,206 | 1,248 |
| Income | £ 528,000 | £ 521,000 |
| Average Fee | £ 438 | £ 417 |

Pay Costs

Expenditure on pay in 2016 was £2.3m (2015: 2.3m) which is a 2.5% (£59k) reduction on the previous year due to non-replacement of two vacant posts (with a longer-term view to their deletion) and recruitment delays on other posts.

Analysis of Full Time Equivalent Staff Numbers

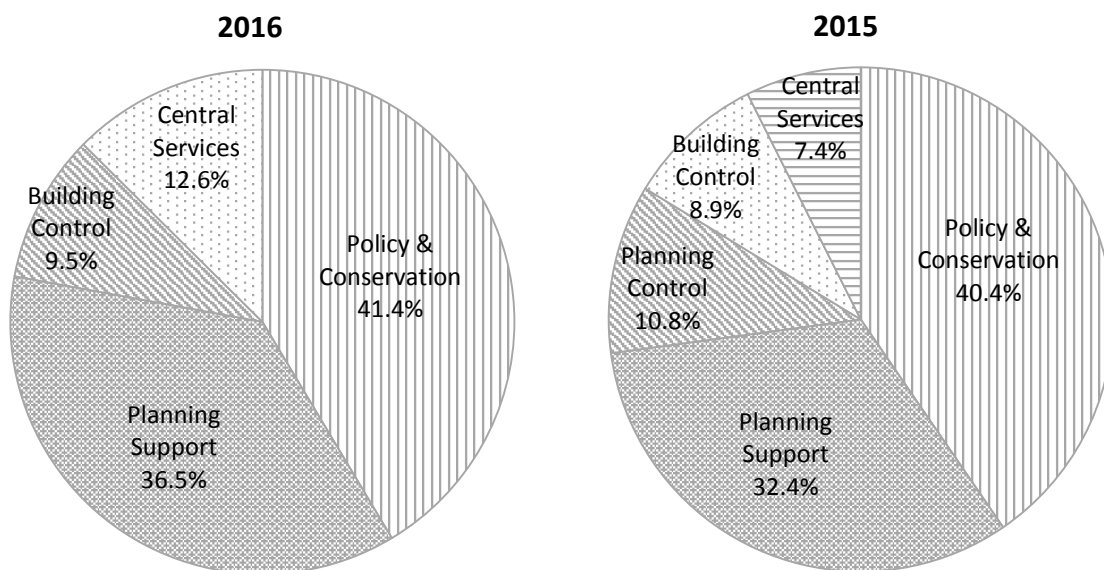
| Pay Group | 2016 | 2015 |
|-------------------|------|------|
| Established Staff | 41.5 | 43.9 |

Non-Pay Costs

Non-Pay Costs in 2016 was £220k (2015: £230k). Staff Non-pay Costs were £16k lower than the previous year by virtue of a reduction in rent allowance receivable by staff employed from the UK.

DEVELOPMENT & PLANNING AUTHORITY

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 | 2016 | Non-Formula Led Expenditure | 2016 | 2015 |
|-----------------|------------------|--|--------------|--------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| | | | | |
| 136 | 136 | Central Services | 153 | 108 |
| 112 | 112 | Building Control | 116 | 130 |
| 160 | 160 | Planning Control | (16) | 158 |
| 522 | 522 | Planning Support | 444 | 473 |
| 590 | 590 | Policy & Conservation | 504 | 590 |
| 1,520 | 1,520 | Net Expenditure by Service Area | 1,201 | 1,459 |

Non-Formula Led

Planning Control net expenditure reduced by £174k to a net income figure of £16k in 2016 due to the increase in fee income as a result of the greater number of higher-value applications in the year.

The Policy & Conservation section experienced high levels of staff turnover in 2016, leading to recruitment delays, resulting in expenditure being lower than in 2015 and less than budgeted.

STATES' TRADING SUPERVISORY BOARD

The mandate of the States' Trading Supervisory Board includes the following:

Within a framework of policies, guidance and instructions of the States and any of their relevant committees, to:

- (a) carry out the States' role as shareholder of any incorporated companies which are owned by the States and which the States have resolved to include in the mandate of the Board, which for the time being is the following:
 - 1. Cabernet Group;
 - 2. Guernsey Electricity;
 - 3. Guernsey Post;
 - 4. Jamesco750.

- (b) ensure the efficient management, operation and maintenance of any States' unincorporated trading concerns and commercial interests which the States have resolved to include in the mandate of the Board, which for the time being is the following:
 - 1. Channel Islands' lottery;
 - 2. Guernsey Airport, which includes Alderney Airport;
 - 3. Guernsey Dairy;
 - 4. Guernsey Harbours;
 - 5. Guernsey Water;
 - 6. Property and real estate owned or leased by the States;
 - 7. States' Works;
 - 8. States' corporate engineering and architectural services.

- (c) be the Waste Disposal Authority.

The responsibilities which are funded through the States' Trading Supervisory Board's revenue budget are Alderney Airport, Property and real estate owned or leased by the States and States' corporate engineering and architectural services.

STATES' TRADING SUPERVISORY BOARD

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 6,038 | 6,063 | Operating Income | 6,137 | 5,732 |
| | | Non-Formula Led Expenditure | | |
| 4,106 | 4,111 | Pay costs | 3,982 | 3,835 |
| 60 | 59 | Non-Pay costs | | |
| 1,045 | 1,041 | Staff Non-Pay costs | 30 | 56 |
| 1,863 | 1,863 | Support Services | 977 | 1,031 |
| 31 | 31 | Premises | 1,983 | 1,782 |
| 542 | 542 | Transport | 30 | 54 |
| | | Supplies & Services | 527 | 532 |
| 3,541 | 3,536 | | 3,547 | 3,455 |
| 1,609 | 1,584 | Net Non-Formula Led Expenditure by Category | 1,392 | 1,558 |
| (25) | - | Financial Transformation Programme Target | - | - |
| 1,584 | 1,584 | Net Expenditure by Category | 1,392 | 1,558 |

Non-Formula Led expenditure for 2016 was £1.4m (2015:£1.5m) which is 4.5% lower than 2015. The Board underspent its Authorised Budget by 12%.

Operating Income

| Category | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Rental and associated Income | 2,789 | 2,575 |
| Transfer from the Solid Waste Trading Account | 1,595 | 1,595 |
| Alderney Airport | 730 | 751 |
| Management charges relating to trading entities | 594 | 495 |
| Other | 429 | 316 |
| Total | 6,137 | 5,732 |

Operating Income has increased by 7%, mainly due to increased management charges to trading assets following an increase in the staffing complement that provides services to all unincorporated trading concerns. The increase in rental and associated income is largely due to changing the treatment of service recharges, etc and classifying them as operating income instead of offsetting against expenditure. The increase in other operating income is due to a change in charging mechanisms, enabling more to be charged on to tenants.

STATES' TRADING SUPERVISORY BOARD

Pay Costs

Pay costs increased by £147k compared to 2015 primarily due to the full-year effect of appointments to the posts of HR Assistant and Health and Safety Manager which were made in late-2015. This additional expenditure was largely offset by increased management recharges to the trading entities.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--|-------------|-------------|
| Established Staff | 51.2 | 52.3 |
| Public Sector Employees | 4.8 | 3.0 |
| Other (including Alderney Airport ATCO's and Fire Service) | 15.9 | 15.8 |
| Total | 71.9 | 71.1 |

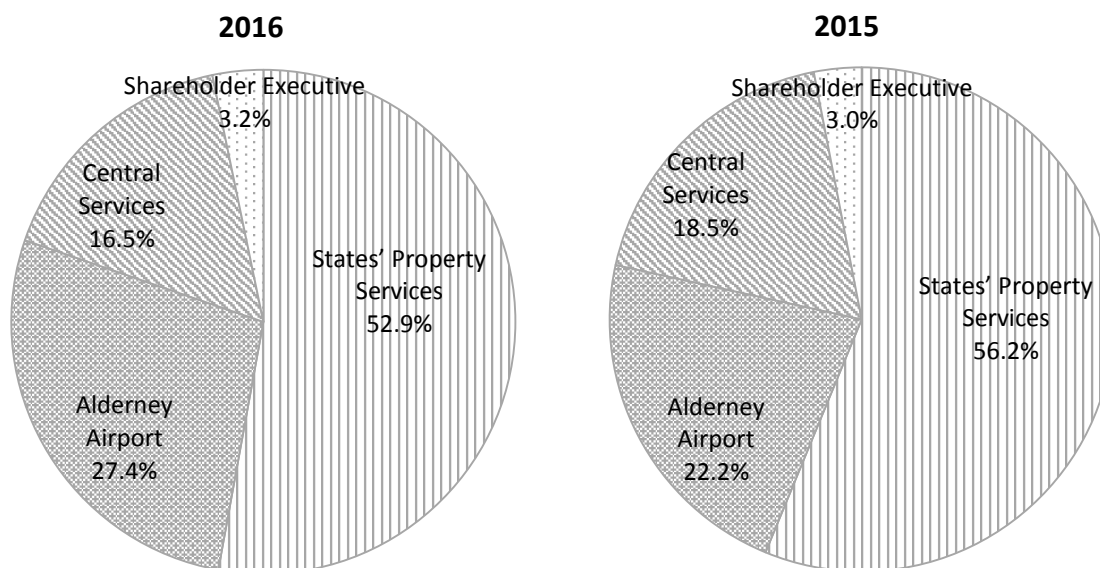
In 2016, two posts were reclassified as Public Sector Employees instead of Established Staff.

Non-Pay Costs

Non-Pay Costs have increased by 2.7% due mainly to increased operating costs supporting increased operating income. Premises costs previously included Service Charge recoveries (£158k) which is now classed as income.

STATES' TRADING SUPERVISORY BOARD

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|--|--------------|--------------|
| Original Budget | Total Authorised | Non-Formula Led Expenditure | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 786 | 790 | Alderney Airport | 818 | 701 |
| 481 | 456 | Central Services | 493 | 583 |
| 106 | 106 | Shareholder Executive | 97 | 96 |
| (1,595) | (1,595) | Solid Waste | (1,595) | (1,595) |
| 1,831 | 1,827 | States' Property Services | 1,579 | 1,773 |
| 1,609 | 1,584 | Non-Formula Led Expenditure by Service Area | 1,392 | 1,558 |
| (25) | - | Financial Transformation Programme Target | - | - |
| 1,584 | 1,584 | Net Expenditure by Service Area | 1,392 | 1,558 |

Non-Formula Led

Although broadly in line with budget, the net cost of Alderney Airport increased by £117k compared to 2015 due to a combination of reduced income through lower passenger throughput (£20k), unplanned repairs to buildings and runways (£33k); engineering surveys (£32k) and increases in CAA audit fees, insurance premiums and transaction charges (£32k).

Central Services expenditure was lower in 2016 due to a reduced net charge for Meteorological services of £30k and an increase in management recharges to the Trading Assets of £99k which was offset by increased administration staff (£39k).

The net cost of States' Property Services decreased by £194k compared to 2015 primarily due to additional rental income and a change in charging mechanisms, enabling higher recoveries from tenants. Expenditure was less than budgeted due to property maintenance that was planned for 2016 being delayed until 2017.

STATES' TRADING SUPERVISORY BOARD

Financial Transformation Programme

The 2016 FTP target of £25,000 was achieved through the recharging of costs incurred in performing the shareholder role to the incorporated entities.

IN YEAR BUDGET CHANGES

| | £'000s | £'000s |
|-------------------------------|--------|--------------|
| 2016 Cash Limit | | 1,584 |
| Additions | | |
| Pay Awards | 5 | |
| Reduction: | - | |
| Net Inter Committee Transfers | (5) | |
| | | |
| 2016 Authorised Budget | | 1,58 |

ROUTINE CAPITAL EXPENDITURE

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2016 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 474 | 1,328 | Miscellaneous Capital Work | 931 | 363 |
| - | 20 | Equipment, Machinery and vehicles | - | - |
| 474 | 1,348 | | 931 | 363 |
| (4) | (878) | Use of Accumulated Capital Allocation | - | - |
| 470 | 470 | Net Routine Capital Expenditure | 931 | 363 |

Routine capital expenditure in 2016 included:

- Guernsey Information Centre Re-roofing (£326k);
- Government House Driveway reconstruction, drainage and re-surfacing (£175k);
- Alderney Airport urgent runway repairs (£172k);
- Royal Courts roof repairs (£74k out of total project expenditure of £134k).

ROYAL COURT

The “Royal Court” budget funds the activities undertaken by the Magistrate’s Court, Royal Court and Court of Appeal and the Offices of H.M. Greffier, H.M. Sheriff and H.M. Sergeant and the Bailiff’s Chambers. The Offices of H.M. Greffier, H.M. Sheriff and H.M. Sergeant and the Bailiff’s Chambers provide services to facilitate the delivery of justice, the provision of facilities and administrative services to the States of Deliberation and States of Election and the Registration of Births, Marriages and Deaths.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| 1,990 | 1,990 | Operating Income | 2,057 | 1,881 |
| | | Non-Formula Led Expenditure | | |
| 3,715 | 3,716 | Pay costs | 3,912 | 3,769 |
| 8 | 8 | Non-Pay costs | | |
| 344 | 344 | Staff Non-Pay costs | 11 | 3 |
| 230 | 230 | Support Services | 227 | 241 |
| 5 | 5 | Premises | 197 | 192 |
| 7 | 7 | Third Party Payments | - | - |
| 221 | 221 | Transport | 5 | 5 |
| | | Supplies & Services | 230 | 228 |
| 815 | 815 | | 670 | 669 |
| 2,540 | 2,541 | Net Expenditure by Category | 2,525 | 2,557 |

Total Non-Formula Led expenditure for 2016 was £2.53m (2015: £2.56m), which is a decrease of 1.3% over 2015. The Royal Court underspent its 2016 authorised budget by £16k (0.63%).

Operating Income

The Royal Court received operating income of £2.1m during the year (2015: £1.9m) as follows:

| Category | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Court Fees | 1,124 | 964 |
| Registration of Document Fees | 336 | 306 |
| Legalisation of Document Fees | 269 | 265 |
| Sheriff Fees | 180 | 170 |
| Birth, Death and Marriage Certificates | 100 | 107 |
| Other | 48 | 69 |
| Total | 2,057 | 1,881 |

Operating income in 2016 was higher than in 2015 and more than budgeted due to an increase in civil case workload (including one exceptional case) and an increase in the number of property conveyances.

ROYAL COURT

Pay Costs

Expenditure on pay in 2016 was £3.91m (2015: £3.76m), which is a 4% increase on the previous year and £196k in excess of budget due to the continued requirement to employ additional judicial cover due to an increase in the civil case workload – a large element of these additional costs in 2016 was recovered through income from court fees.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--------------------------|-------------|-------------|
| Established Staff | 40.6 | 42.7 |
| Public Service Employees | 5.3 | 4.3 |
| Crown Officers & Judges | 5.0 | 5.0 |
| Other Pay Groups | 1.8 | 2.0 |
| Total | 52.7 | 54.0 |

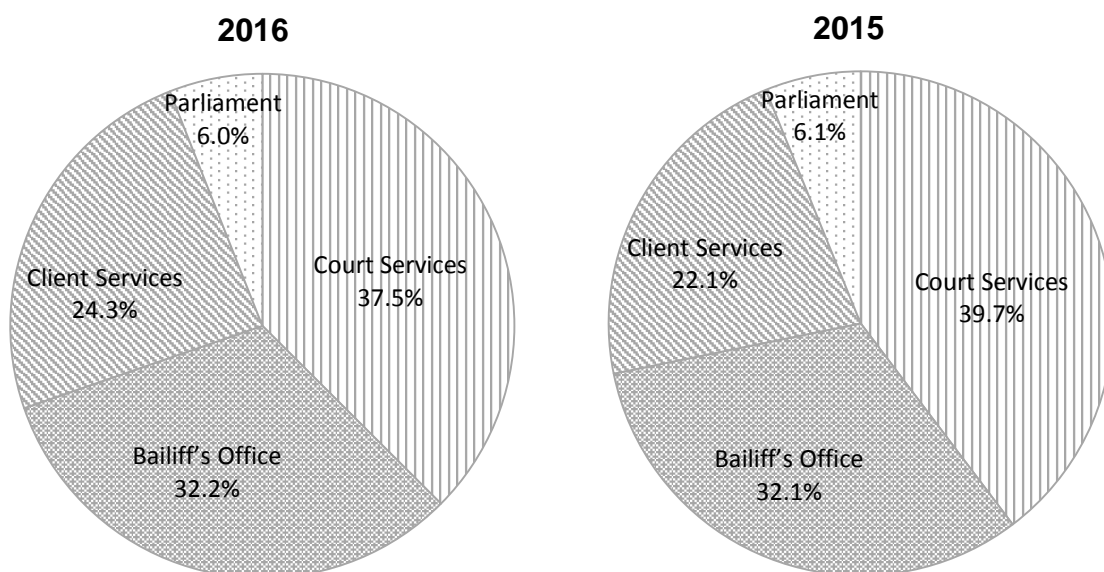
In 2016, a number of positions vacated within the Established Staff group were not automatically replaced whilst reviews of these roles were conducted. The increase in Public Service Employees was as a result of full staffing levels in this group and the employment of part-time staff to cover additional deployments of Court Security Officers to courts.

Non-Pay Costs

Expenditure in 2016 was £670k (2015: £669k). The Royal Court underspent its non-pay budget by £145k in 2016 due to underspends in numerous areas including advertising, printing, contracted out work, communications, IT, property maintenance and utility costs.

ROYAL COURT

NET REVENUE EXPENDITURE BY SERVICE AREA



| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | Non-Formula Led Expenditure | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|--|--------------------------|--------------------------|
| 848 | 848 | | 814 | 821 |
| 706 | 707 | Bailiff's Office | 614 | 564 |
| 828 | 828 | Client Services | 946 | 1,015 |
| 158 | 158 | Court Services | 151 | 157 |
| | | Parliament | | |
| 2,540 | 2,541 | Net Expenditure by Service Area | 2,525 | 2,557 |

Non-Formula Led

The overspend in Court Services due to the requirement to employ additional judicial cover for the increased workload for civil cases was offset by the underspend in Client Services as a result of lower than budgeted expenditure on premises and support services.

IN YEAR BUDGET CHANGES

| | £'000s |
|-------------------------------|--------------|
| 2016 Cash Limit | 2,540 |
| Additions | |
| Pay Awards | 1 |
| | |
| 2016 Authorised Budget | 2,541 |

ROYAL COURT

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|-----------------|------------------|--|----------|-----------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 50 | 121 | Miscellaneous Capital Work | 32 | 197 |
| 100 | 80 | IT Projects and Equipment | - | - |
| 50 | - | Equipment, Machinery and vehicles | - | - |
| <hr/> 200 | <hr/> 201 | | <hr/> 32 | <hr/> 197 |
| - | (1) | Use of Accumulated Capital Allocation | - | - |
| <hr/> 200 | <hr/> 200 | Net Routine Capital Expenditure | <hr/> 32 | <hr/> 197 |

Routine Capital expenditure in 2016 was in respect of the completion of building improvement works in Court 4 (£15k of total project expenditure of £212k) and the installation of cooling equipment in Courts 5 and 6 at the Royal Court (£17k of a total project budget of £23k). Other projects planned for 2016 were deferred until 2017 including improvements to facilities and an upgrade to digital court equipment.

LAW OFFICERS

The Law Officers respond to the needs of the Crown, the States of Guernsey and all others they serve by delivering independent, high quality and pragmatic legal advice, comprehensive legislative drafting, prosecution, litigation and commercial law services and robust representation with efficiency, integrity and professionalism, with the objective of protecting and enhancing the interests of the Bailiwick and its people.

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 Original Budget £'000s | 2016 Total Authorised £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| 180 | 180 | Operating Income | 197 | 222 |
| | | Non-Formula Led Expenditure | | |
| 4,573 | 4,603 | Pay costs | 4,584 | 4,678 |
| 36 | 35 | Non-Pay costs | | |
| 112 | 112 | Staff Non-Pay costs | 22 | 18 |
| 24 | 23 | Support Services | 60 | 115 |
| 2 | 3 | Premises | 19 | 20 |
| 133 | 133 | Transport | - | 1 |
| | | Supplies & Services | 121 | 101 |
| 307 | 306 | | 222 | 255 |
| 4,700 | 4,729 | Net Expenditure by Category | 4,609 | 4,711 |

Total Non Formula-Led expenditure of the Chambers of the Law Officers of the Crown (“the Law Officers”) for 2016 was £4.6m (2015: £4.7m) which is £102k (2.2%) lower than in 2015. This is primarily the result of a reduction in pay costs as a result of restructuring in the Commercial Law and Legislative Drafting and Advisory teams. The Law Officers underspent its Authorised Budget by £120k (2.6%).

Operating Income

Operating Income decreased by 12% to £197k in comparison to £222k in 2015. This is due to a decrease in demand for legal services provided to one of the Law Officers fee paying clients (N.B. the demand for legal services provided to a small number of fee paying clients fluctuates year on year).

LAW OFFICERS

Pay Costs

Pay costs, which account for the majority of the Law Officers expenditure, were marginally below the Authorised Budget in 2016 at £4.58m (2015: £4.68m), which is a 2% decrease on the previous year.

Analysis of Full Time Equivalent Staff Numbers

| Pay Group | 2016 | 2015 |
|--|-------------|-------------|
| Established Staff | 39.6 | 40.1 |
| Public Service Employees | - | 0.1 |
| Crown Officers, Magistrates & Royal Court Judges | 2.0 | 2.0 |
| Other Pay Groups | 0.4 | - |
| Total | 42.0 | 42.2 |

The FTE figures for 2016 are broadly in line with 2015. The figures below do not include two members of staff who are seconded to the Committee *for* Economic Development and one member of staff seconded to the Policy & Resources Committee (those individuals are included in the respective Committees' figures).

Non-Pay Costs

Expenditure on Non-Pay costs was £33,000 (15%) lower than in 2015 and £84,000 (38%) lower than the Authorised Budget due to lower demand for external legal support during the year and a later than anticipated commencement of a support contract for the Law Officers electronic Document Management System.

In Year Budget Changes

| | £'000s | £'000s |
|---|--------|--------------|
| 2016 Cash Limit | | 4,700 |
| Additions | | |
| Net Inter Committee Transfers | (1) | |
| Established Staff – turnover adjustment | 30 | |
| | | 29 |
| 2016 Authorised Budget | | 4,729 |

LAW OFFICERS

ROUTINE CAPITAL EXPENDITURE

| 2016 | 2016 | | 2016 | 2016 |
|-----------------|------------------|--|-----------|------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 20 | - | Miscellaneous Capital Work | - | - |
| 48 | 159 | IT Projects and Equipment | 65 | 119 |
| 68 | 159 | | 65 | 119 |
| (68) | (159) | Use of Accumulated Capital Allocation | - | - |
| - | - | Net Routine Capital Expenditure | 65 | 119 |

Capital expenditure, which decreased by £54k in 2016 when compared to the previous year, relates to two IT projects: £52k on the implementation of an electronic Document Management System, which was substantially completed during 2016 (total expenditure on this project is expected to be £195k); and £13k on the development of the Guernsey Legal Resources website (this project which has a total budget of £133k is yet to reach the implementation phase).

STATES OF ALDERNEY

NET REVENUE EXPENDITURE BY CATEGORY

| 2016 | 2016 | | 2016 | 2015 |
|-----------------|------------------|------------------------------------|--------------|--------------|
| Original Budget | Total Authorised | | Actual | Actual |
| £'000s | £'000s | | £'000s | £'000s |
| 1,451 | 1,451 | Operating Income | 1,365 | 1,354 |
| | | Non-Formula Led Expenditure | | |
| 1,835 | 1,840 | Pay costs | 1,762 | 1,673 |
| | | Non-Pay costs | | |
| 43 | 43 | <i>Staff Non-Pay costs</i> | 26 | 20 |
| 608 | 608 | <i>Support Services</i> | 530 | 636 |
| 436 | 436 | <i>Premises</i> | 432 | 389 |
| 180 | 180 | <i>Third Party Payments</i> | 237 | 233 |
| 85 | 85 | <i>Transport</i> | 151 | 138 |
| 164 | 164 | <i>Supplies & Services</i> | 112 | 124 |
| 1,516 | 1,516 | | 1,488 | 1,540 |
| (20) | (20) | Efficiency Target | - | - |
| 1,880 | 1,885 | Net Expenditure by Category | 1,885 | 1,859 |

Reserve Funds & Other Accounts

CAPITAL RESERVE

EXPENDITURE ACCOUNT

| | 2016 | 2015 |
|--|--------|--------|
| | Actual | Actual |
| | £'000s | £'000s |
| States Capital Investment Programme | | |
| Portfolio Administration Costs | 494 | 500 |
| Policy & Resources Committee | | |
| IT Wide Area Network (£1.09m) | 35 | 74 |
| Cremator and Emissions Equipment Replacement | 55 | 11 |
| Income Tax Electronic Document and Records Management | 31 | 51 |
| Income Tax and Social Security Contributions System | 208 | 85 |
| Strategic Asset Management Plan Phase 1 | 170 | 281 |
| Sir Charles Frossard House Re-Roofing (£0.8m) | (10) | 406 |
| Longue Hougue Rock Armour (£1.0m) | 5 | 364 |
| Cabernet Ltd Recapitalisation (£25.2m) | 25,212 | 28 |
| ICT Corporate Data Centre Infrastructure | 49 | - |
| Strategic Asset Management Plan Centralisation Community Service | 12 | - |
| Office Rationalisation Project 1 Phase 1 | 16 | - |
| Committee for Economic Development | | |
| Fisheries Protection Vessel Replacement | - | 3 |
| Committee for Education, Sport & Culture | | |
| College of Further Education - Les Ozouets Campus (£3.7m) | - | 7 |
| College of Further Education Transformation Programme | 72 | 28 |
| Le Rondin Special Needs School (£13.9m) | - | - |
| Les Beaucamps High School (£36.8m) | 220 | 45 |
| Les Nicolles Secondary and Special Needs Schools (£44.4m) | 14 | 7 |
| Project execution plan (£7.95m) | - | 190 |
| La Mare De Carteret Schools | 1,451 | 936 |
| Committee for the Environment & Infrastructure | | |
| Strategic Improvement of Coastal Defences | - | 14 |
| Bus Replacement Phase 1 (£1.84m) | 12 | 84 |
| Bulwer Avenue Sea Wall (£0.8m) | 717 | - |
| Sea Wall Repointing (£1.807m) | 188 | - |
| Committee for Health & Social Care | | |
| Mental Health and Wellbeing Centre (£24m) | 835 | 8,088 |
| Electronic Health and Social Care record (£3.9m) | 56 | 17 |
| Radiology Equipment Replacement (£1.276m) | 363 | 564 |
| Princess Elizabeth Hospital Re-Profiling | 81 | - |
| Sherwill Ward Redevelopment | 433 | - |
| Committee for Home Affairs | | |
| Tetra Radio (£1.8m) | 18 | 14 |
| New Generation Passport (£1.0m) | 101 | 319 |
| eBorders, eCustoms and Passport IT System (£1.0m) | - | 145 |
| Linkworks Information System Replacement (£1.2m) | 478 | 161 |
| Home Operational Services Transformation | 25 | - |

CAPITAL RESERVE EXPENDITURE ACCOUNT

| | 2016 | 2015 |
|---|---------------|---------------|
| | Actual | Actual |
| | £'000s | £'000s |
| States' Trading Supervisory Board | | |
| Airport Pavements Rehabilitation (£78.2m) | 208 | 491 |
| Airport Radar Replacement (£3.25m) | 113 | 126 |
| Belle Greve Wastewater Centre (£11.03m) | 3 | - |
| St Peter Port Harbour Crane Strategy (£13.675m) | (159) | 1,110 |
| Alderney Airport Runway Rehabilitation | 12 | - |
| Belle Greve Wastewater Outfalls (£19.9m) | - | 18,325 |
| Total | 31,518 | 32,474 |

STATES CAPITAL INVESTMENT PORTFOLIO - OPERATING COSTS

| | 2016 | 2015 |
|--------------------------------------|------------|------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Net Expenditure by Category | | |
| Pay costs | 465 | 460 |
| Non Pay costs | | |
| <i>Staff Non Pay costs</i> | 2 | 3 |
| <i>Support Services</i> | 25 | 35 |
| <i>Supplies & Services</i> | 2 | 2 |
| | 29 | 40 |
| Total Expenditure by Category | 494 | 500 |

GUERNSEY REGISTRY

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | <u>Net Income by Category</u> | | 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------------------|---------------------------------------|---|--|--------------------------|--------------------------|
| 10,253 | 10,066 | Income | | 10,205 | 9,945 |
| | | Operating Income | | | |
| | | Expenditure | | | |
| 472 | 391 | Pay costs | | 388 | 460 |
| | | Non-Pay costs | | | |
| 21 | 7 | Staff Non-Pay costs | | 6 | 5 |
| 386 | 377 | Support Services | | 244 | 246 |
| 146 | 136 | Premises | | 125 | 124 |
| 38 | 23 | Supplies & Services | | 13 | 18 |
| 591 | 543 | | | 388 | 393 |
| 9,190 | 9,132 | Surplus transferred to General Revenue | | 9,429 | 9,092 |
| | | <u>Net Income / (Expenditure) by Service Area</u> | | | |
| | | Company Registry | | | |
| 10,121 | 9,919 | Income | | 10,048 | 9,815 |
| (996) | (873) | Expenditure | | (757) | (814) |
| 9,125 | 9,046 | | | 9,291 | 9,001 |
| | | Intellectual Property Office | | | |
| 132 | 147 | Income | | 157 | 130 |
| (67) | (61) | Expenditure | | (19) | (39) |
| 65 | 86 | | | 138 | 91 |
| 9,190 | 9,132 | Surplus transferred to General Revenue | | 9,429 | 9,092 |

CORPORATE HOUSING PROGRAMME FUND

Income and Expenditure by Category

| | 2016 | 2015 |
|--|----------------|----------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Income | | |
| Sale of Incompatible Housing Stock | 384 | 128 |
| Total Income | 384 | 128 |
| Expenditure | | |
| Non Pay Costs | | |
| <i>Support Services</i> | (29) | - |
| <i>Premises</i> | (1,193) | (539) |
| <i>Third Party Payments</i> | (2,853) | (3,935) |
| | (4,075) | (4,474) |
| Net Deficit for the year | (3,691) | (4,346) |
| <u>Net Income / (Expenditure) by Service Area</u> | | |
| Net Operational (Expenditure) / Income | | |
| Sale of Incompatible Housing Stock | 384 | 128 |
| Modernisation of Social Housing Stock | (642) | (539) |
| | (258) | (411) |
| Corporate Initiatives and Strategies | | |
| Older People Housing & Support | (650) | (2,110) |
| Social Housing Development Programme | (2,233) | (1,825) |
| Supported Living Housing | (550) | - |
| | (3,433) | (3,935) |
| Net Deficit for the year | (3,691) | (4,346) |
| Balance at 1 January | 33,783 | 58,129 |
| Net Deficit for the year | (3,691) | (4,346) |
| Transfer to Capital Reserve (Vote: 30.10.14) | - | (20,000) |
| Balance at 31 December | 30,092 | 33,783 |

TRANSFORMATION AND TRANSITION FUND

| | 2016 | 2015 |
|---|---------------|---------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Expenditure by Category | | |
| Pay costs | 597 | 137 |
| Non-Pay costs | | |
| <i>Support Services</i> | 338 | 433 |
| <i>Premises</i> | 2 | 47 |
| <i>Supplies & Services</i> | 7 | 4 |
| | 347 | 484 |
| Net Expenditure for the Year | 944 | 621 |
| Expenditure by Programme | | |
| Financial Transformation Programme | 18 | 504 |
| Public Service Reform (Total approved: £100k) | 364 | 95 |
| Childrens and Young Persons Plan (Total approved: £75k) | - | 19 |
| Implementation of the Revised Committee System (Total approved: £265k) | 203 | 3 |
| Transforming Health & Social Care Phase 1 (Total approved: £80k) | 77 | - |
| Corporate Performance Reporting (Total approved: £236k) | 90 | - |
| Population Management (Total approved: £290k) | 51 | - |
| Transforming Health & Social Care Phase 2 (Total approved: £352k) | 141 | - |
| | 944 | 621 |
| Balance at 1 January | 26,058 | 26,679 |
| Net expenditure for the year | (944) | (621) |
| Balance at 31 December | 25,114 | 26,058 |

Notes:

The total approved expenditure on supporting the development of the Childrens and Young Persons Plan of £75,000 includes £38,000 that was paid from the former Strategic Development Fund.

TRANSFORMATION AND TRANSITION FUND

As part of the 2015 Budget Report, the States resolved to establish a Transformation and Transition Fund in order to recognise *“the significant investment required to deliver the public services of the future and the substantial policy agenda for the States.”* The overarching criteria to be demonstrated in any business cases for use of the Fund were set out as:

- Significant long-term transformation in the delivery of services;
- Evidenced and measurable benefits; and
- A return on investment.

The table below shows the position of the Fund at 31 December 2016:

| | Prioritised £'000 | Approved £'000 | 2016 Expenditure £'000 | Total Expenditure £'000 |
|--|----------------------|-------------------|------------------------------|-------------------------------|
| Opening balance | 25,000 | | | |
| Transfer from Fundamental Spending Review Fund | 817 | | | |
| Transfer from Strategic Development Fund | <u>862</u> | | | |
| | 26,679 | | | |
| Initiatives: | | | | |
| Social Policy Development | 750 | - | - | |
| Public Service Reform | 850 | 845 | 364 | 459 |
| Transforming Education & Training Services | 750 | - | - | - |
| Transforming Health & Social Care Services | 2,000 | 432 | 218 | 218 |
| Transforming Justice & Equality Services | 750 | 67 | - | - |
| Transforming Other Government Services | 750 | 170 | - | - |
| Civil Service Reform | 750 | 66 | - | - |
| Population Management | 500 | 290 | 51 | 51 |
| Corporate Performance Reporting | 236 | 236 | 90 | 90 |
| Implementation of States Review Committee proposals | 550 | 265 | 203 | 206 |
| Fundamental Spending Review Fund commitments including the introduction of resource accounting and budgeting | 2,117 | 817 | 18 | 522 |
| Children and Young People's Plan | 62 | 37 | - | 19 |
| Supported Living and Ageing Well Strategy | <u>175</u> | <u>175</u> | <u>-</u> | <u>-</u> |
| | 10,240 | 3,400 | 944 | 1,565 |
| Balance | | | | 25,114 |

TRANSFORMATION AND TRANSITION FUND

Public Service Reform

The programme mandate for Public Service Reform was approved by the Treasury and Resources Department in February 2016 together with the allocation of funding of £295k to complete the set up and initiation of the overarching programme of reform (i.e. the “Definition Phase”). This phase included:

- The establishment of an overarching governance framework detailing the organisational structure and key programme principles, and providing guidance on a standard programme management approach for all Public Service Reform sub-programmes;
- The creation of a Portfolio Register to facilitate ongoing programme and project monitoring and reporting;
- Work to embed the Service Guernsey vision in Public Service Reform including the development of an overarching strategy map and Service Guernsey Toolkit;
- An analysis of organisational change capability – the competencies required to deliver change activities were identified together with the most likely gaps; and
- The drafting of mandates for core programmes within Public Service Reform

The Definition Phase was completed in November 2016 with the full £295k expended and further funding of £450k was approved in December 2016 for the next phase, “Design and Delivery”. This funding covers the ongoing management and co-ordination of Public Service Reform at a programme level as part of the Design and Delivery Phase from 1st November 2016 to the end of December 2017. The objective of this phase is to ensure that programmes and projects are managed appropriately and their benefits, financial or otherwise, are properly identified, monitored and reported, and that the necessary co-ordination and reporting of initiatives is ongoing. It also aims to ensure that transformation initiatives are justified and aligned to common strategic goals. Expenditure on this phase was £69k in 2016.

Transforming Health & Social Care Services

In early 2016, funding of £80k was approved to complete initial scoping work and initiation of the programme; activities completed include:

- Confirming the programme vision & objectives;
- Identifying and quantifying the potential benefits;
- Identifying and planning the activity required to fully define programme and develop a new target operating model (TOM) for Health and Social Care in the Bailiwick
- Identifying “quick wins” and priority activities capable of delivering financial and non-financial benefits in 2016 & 2017;
- Identifying the key risks and issues associated with the programme; and
- Identifying the costs associated with delivering the TOM and progressing the “quick wins” and priority activities.

After completion of the initial scoping work, in July 2016, the Policy & Resources Committee approved the outline of the expected benefits, costs, timescales, risks and the core activities required to progress the transformation of health and social care services. Additional funding of £352,000 was allocated to the Programme to progress planning and delivery of this critical work.

TRANSFORMATION AND TRANSITION FUND

Transforming Health & Social Care Services (continued)

Work immediately commenced to improve financial controls and strengthen the leadership, governance and operating systems within health and social care services. The success of these efforts is evidenced in part, by the turnaround in the financial position during 2016, which moved from a forecast overspend of some £4.5m in May 2016 to an underspend at year end. By the end of 2016, the programme had also established a prioritised programme of cost and service improvement projects capable of delivering both financial and non-financial benefits within the existing operating model during 2017 and 2018. Finally, in the final quarter of 2016 a procurement exercise was commenced to secure an external provider to facilitate the review current operating model for health and social care services in the bailiwick and the development of a new TOM.

Population Management

In the 2016 Budget Report, the States gave delegated authority for the use of a maximum of £500,000 from the Transition and Transformation Fund in respect of the revenue expenditure associated with the change in the system of population management previously approved by the States. Expenditure in 2016 was to fund additional staffing to enable that the required systems and policies are developed and staff trained in readiness for the new Population Management regime.

Corporate Performance Reporting

The enhancement of organisational performance measurement and management is identified within the Framework for Public Service Reform 2015-2025 as one of the four priorities intrinsic to the development of a single public service organisation that is *“designed around meeting community needs”*. A performance framework is considered to be a key enabler for government to work more effectively and to facilitate reinvestment or redeployment of resources in different areas. In early 2016, funding of £236,000 was approved to enable the delivery of a corporate performance management framework across the States of Guernsey in order to support the driving of continuous improvement and supporting evidence-based decision making.

Expenditure on this project in 2016 was £90,000 and achieved:

- The design and build of an organisation-wide performance framework, which can be viewed by service area or by theme such as money; people; or customer;
- The design and construction of a common performance dashboard to enable viewing at each level of the organisation from the States of Guernsey as a whole down to individual service area or business unit.

By the end of 2016, the framework was ready to be populated with Key Performance Indicators, some of which were already developed and others are being defined in conjunction with service areas and subject matter experts with the aim of establishing operational performance monitoring across the organisation by the end of 2017.

Implementation of States' Review Committee proposals

In July 2015, the States authorised the use of up to £530,000 from the Transformation & Transition Fund to provide for the implementation of the improved committee system from May 2016. However, only approximately £200,000 of funding was required as the provisions for a project lead and designate appointments to prepare for the new Committee structure were not required. Actual expenditure was incurred in the areas of administration, communications, human resources, legal advice and reconfiguration of systems.

FUTURE GUERNSEY ECONOMIC FUND

Net Expenditure by Category

| | 2016 Actual £'000s | 2015 Actual £'000s |
|--|--------------------------|--------------------------|
| Operating Income | 64 | - |
| Pay costs | 307 | 24 |
| Non-Pay costs | | |
| <i>Staff Non-Pay Costs</i> | 11 | 1 |
| <i>Support Services</i> | 510 | 314 |
| <i>Premises</i> | 141 | 99 |
| <i>Third Party Payments</i> | 309 | 300 |
| <i>Supplies & Services</i> | 69 | 3 |
| | 1,040 | 717 |
| Net Expenditure for the Year | 1,283 | 741 |
| Expenditure by Programme | | |
| Contribution to Guernsey Finance LBG (Total approved: £0.9m) | 300 | 300 |
| Tourism Marketing (Total approved: £0.25m) | 250 | 230 |
| Digital Greenhouse (Total approved: £1.46m) | 407 | 190 |
| Locate Guernsey (Total approved: £1.2m) | 326 | 21 |
| | 1,283 | 741 |
| Balance at 1 January | 8,059 | 8,800 |
| Net expenditure for the year | (1,283) | (741) |
| Balance at 31 December | 6,776 | 8,059 |

Notes:

The total approved contribution to Guernsey Finance LBG of £0.9m includes £0.3m that was paid from the Strategic Development Fund in 2014.

TO UPDATE

FUTURE GUERNSEY ECONOMIC FUND

As part of the 2017 Budget Report, the States approved the renaming of the Economic Development as the Future Guernsey Economic Fund. The Policy & Resources Committee advised the States that it intended to use its delegated authority to approve funding for initiatives which deliver on the objectives within the Future Guernsey Programme for Government (in Phase One of the Policy & Resources Plan) and which:

- Ensure we have the right conditions for businesses to set up, grow and operate;
- Improve or protect economic growth; and
- Have measurable economic and fiscal benefits.

The table below shows the position of the Fund at 31 December 2016:

| | Approved £'000 | 2016 Expenditure £'000 | Total Expenditure £'000 |
|--|-------------------|------------------------------|-------------------------------|
| Opening balance | 7,000 | | |
| Transfer from Strategic Development Fund | <u>1,800</u> | | |
| | 9,100 | | |
| Initiatives: | | | |
| Contribution to Guernsey Finance LBG | 1,000 | 300 | 600 |
| Tourism Marketing | 500 | 250 | 480 |
| Innovation Centre (Digital Greenhouse) | 1,460 | 407 | 597 |
| Locate Guernsey | <u>1,200</u> | 326 | <u>347</u> |
| | 4,460 | 1,283 | 2,024 |
| Balance | | | 6,776 |

Guernsey Finance

In addition to the £0.6m paid from the Future Guernsey Economic Fund, £0.3m was paid from the Strategic Development Fund in 2014.

In December 2013 (Billet d'État XXIV, 2013), the States approved an increase in the grant to Guernsey Finance over three years (in addition to the £0.8m per annum paid from the Committee *for* Economic Development's revenue budget) to embark on a new markets development programme with the objectives of:

- Stimulating and further diversifying the economy by developing new markets and revenue streams for the financial services industry;
- Supporting the marketing efforts and facilitating opportunities for financial services firms on the Island to create additional employment and profits by increasing the volume of business carried out by the Island's financial services firms;

This was designed to generate additional government revenue by increasing ETI receipts and taxation derived from profits of the finance industry.

FUTURE GUERNSEY ECONOMIC FUND

Tourism Marketing

In each of 2015 and 2016, the use of £250,000 was approved to fund promotional Visit Guernsey television advertisements. The aim of the campaigns were to increase awareness of, and interest in, Guernsey as a short break or holiday destination. It was also intended to strengthen the existing online and print media advertising activity undertaken by the Committee.

However, in 2016, despite a 15.5% increase in web-site traffic and a 40% increase in referrals (leads generated for the tourism trade and industry), the overall number of visitors to the island, excluding cruise passengers and yachtsmen, fell by 5% (14,600) to 279,700. The number of visitors by sea declined by 16.3% (17,700) compared to an increase in visitors by air of 1.7% (3,100). The average room / unit occupancy rate for all accommodation declined slightly from 53% in 2015 to 52% in 2016.

Innovation Centre (Digital Greenhouse)

In April 2015, funding of £1.46million was approved to be used for a Digital Greenhouse pilot project to deliver an innovation centre for the creative and digital sectors in Guernsey and to help Islanders to develop a range of skills including coding, business development and confidence in using online services.

The Digital Greenhouse's objectives are to support the increase in:

- Employment opportunities in the sector and the diversification of the economy;
- Productivity and innovation in existing businesses through the use of technology and creative processes; and
- Start-up and entrepreneurial activity through the use of technology and creative processes.

The Digital Greenhouse opened in early 2016; it has 82 members with 1,000 people per month attend events held there. The number of people employed in the Information and Communication sector increased by 1.9% in 2016. Start-up Guernsey is located within the Digital Greenhouse to provide help and advice for those looking to start and grow their businesses.

Locate Guernsey

In April 2015, funding of £1.2m was approved to establish a promotional entity dedicated to facilitating an increase in inward investment into Guernsey through the additional relocations of businesses and economically active high net worth individuals to the Island resulting in economic benefits to the island and the States through increased tax take.

Locate Guernsey is designed to benefit the Island by attracting business and individuals, who in turn will contribute to the economy in a number of ways: by creation of new local jobs; by funding new local business ventures; and by contributing to the States' finances through income tax receipts and Document Duty on house sales. The "medium" case scenario of the project is to deliver a direct financial return of £1.76m over the three-year period through increases in document duty and income tax receipts.

In 2016, Locate Guernsey facilitated relocation of six individuals and fifteen businesses to the island, creating thirty six local jobs and generating nearly £0.7m in income tax and document duty receipts. This financial benefit excluded wider economic value to Guernsey businesses such as contributions to the construction, legal and financial sectors.

BOND RESERVE

| | 2016 | 2015 |
|-------------------------------|-------------------|---------------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Balance at 1 January | (5,709) | (573) |
| Investment Return | 18,484 | 5,074 |
| Interest Received from Loans | 4,764 | 1,421 |
| Coupon Payable | (11,141) | (11,141) |
| Issue Costs Written Off | (456) | (456) |
| Other Expenses | (35) | (34) |
| | <hr/> 11,616 | <hr/> (5,136) |
| Balance at 31 December | <hr/>5,907 | <hr/>(5,709) |

Notes:

Costs of £14.589m incurred during 2014, associated with the issue of the bond have been amortised and classified as a prepayment on the balance sheet. This value is being written off over the life of the bond. The outstanding balance as at 31 December 2016 was £13.654m (2015: £14.110m).

SOLID WASTE TRADING ACCOUNT

Income

Operating Income
Investment Return

Expenditure

Pay Costs

Non-Pay costs

Staff Non-Pay Costs

Support Services

Premises

Supplies & Services

Net Surplus for the year

Balance at 1 January
Net Surplus for the year
Adjustment for Capital Expenditure
Transfer to General Revenue

Balance at 31 December

| 2016 | 2015 |
|---------|---------|
| Actual | Actual |
| £'000s | £'000s |
| 6,547 | 6,315 |
| 233 | 24 |
| 6,780 | 6,339 |
| 314 | 456 |
| 3 | 4 |
| 4,566 | 4,444 |
| 31 | 46 |
| 371 | 312 |
| 4,971 | 4,806 |
| 1,495 | 1,077 |
| 3,711 | 3,344 |
| 1,495 | 1,077 |
| - | 885 |
| (1,595) | (1,595) |
| 3,611 | 3,711 |

Capital Expenditure

Miscellaneous Capital Works

Routine Capital Expenditure

Loan from General Revenue for Capital Expenditure

Capital Expenditure

| 2016 | 2015 |
|--------|---------|
| Actual | Actual |
| £'000s | £'000s |
| 118 | 1,385 |
| 118 | 1,385 |
| (118) | (1,385) |
| - | - |

WILFRED CAREY PURCHASE FUND

Capital Account

Balance at 1 January

Balance at 31 December

Revenue Account

Balance at 1 January

Investment Return

Transfer to Purchase of Exhibits Account

Balance at 31 December

Purchase of Exhibits Account

Balance at 1 January

Transfer from Revenue Account

Sundry Purchases

Balance at 31 December

| 2016 | 2015 |
|--------------|--------------|
| Actual | Actual |
| £'000s | £'000s |
| 2,266 | 2,266 |
| 2,266 | 2,266 |
| | |
| 790 | 799 |
| 229 | 41 |
| (50) | (50) |
| 969 | 790 |
| | |
| 21 | 13 |
| 50 | 50 |
| (45) | (42) |
| 26 | 21 |

HEALTH & SOCIAL CARE ACCOMMODATION FUND

| | 2016 | 2015 |
|---------------------------------|--------------|--------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Income | | |
| Operating Income | 1,489 | 1,542 |
| Transfer from Revenue account | 250 | 250 |
| | 1,739 | 1,792 |
| Expenditure | | |
| Pay Costs | 205 | 191 |
| Non-Pay costs | | |
| <i>Support Services</i> | 27 | 4 |
| <i>Premises</i> | 1,355 | 1,126 |
| <i>Transport</i> | 7 | 5 |
| <i>Supplies & Services</i> | 33 | 67 |
| <i>Financing Costs</i> | 66 | 224 |
| | 1,488 | 1,426 |
| Net Surplus for the year | 46 | 175 |
| Balance at 1 January | 1,076 | 901 |
| Net Surplus for the year | 46 | 175 |
| Balance at 31 December | 1,122 | 1,076 |

CHANNEL ISLANDS LOTTERY (GUERNSEY) FUND

| | 2016 | 2015 |
|---|------------|------------|
| | Actual | Actual |
| | £'000s | £'000s |
| Operating Account | | |
| Sale of Tickets | 9,803 | 8,958 |
| Forfeited prizes | 50 | 81 |
| Contribution to prize fund including forfeited prizes | (6,705) | (6,114) |
| Agents' commission | (1,329) | (1,213) |
| Sales commission | (532) | (478) |
| Pay costs | (47) | (52) |
| Handling and storage charges | (46) | (46) |
| Other expenses | (26) | (12) |
| Gross Surplus | 1,168 | 1,124 |
| States of Alderney - share of surplus | (3) | (4) |
| Chief Pleas of Sark - share of surplus | (2) | (2) |
| Net surplus transferred to Appropriation Account | 1,163 | 1,118 |
| Appropriation Account | | |
| Balance at 1 January | 623 | 447 |
| Net surplus transferred from Operating Account | 1,163 | 1,118 |
| Contribution towards 2015 Liberation Day Celebrations | - | (50) |
| Donation to Association of Guernsey Charities | (213) | (220) |
| Transfer to Beau Sejour Centre | (651) | (672) |
| Balance at 31 December | 922 | 623 |

Notes:

In accordance with the States resolutions of 26 September 2014 made following consideration of the Culture and Leisure Department's Report entitled "Channel Islands Lottery – Administration Arrangements, Forfeited Prizes Account and 2011-2013 Accounts" (Billet d'Etat XX, 2014):

- 1) The Guernsey proceeds of the Channel Islands Lottery Christmas Draw are donated to the Association of Guernsey Charities for subsequent distribution to registered, local charitable bodies;
- 2) A transfer is made from Guernsey's proceeds of the Channel Islands Lottery (excluding the Christmas Draw) to the Beau Sejour Leisure Centre up to the level of the Centre's operating deficit for that same calendar year;
- 3) Guernsey proceeds of the Channel Islands Lottery (excluding the Christmas Draw) which exceed the operating deficit of the Beau Sejour Leisure Centre are retained within the Appropriation Account to be used for major projects that will enhance States' properties used for cultural or leisure purposes or for the funding of events which have a particularly special significance to the Island's heritage and unique cultural identity.

OVERSEAS AID & DEVELOPMENT COMMISSION FUND

| | 2016 | 2015 |
|----------------------------------|------------|----------|
| | Actual | Actual |
| | £'000s | £'000s |
| Revenue Account | | |
| Balance at 1 January | - | - |
| Allocation from General Revenue | 2,885 | - |
| Grant Payments | | |
| <i>Overseas Aid Grants</i> | (2,247) | - |
| <i>Emergency Disaster Relief</i> | (48) | - |
| Balance at 31 December | 590 | - |

The Overseas Aid & Development Commission distributes funds voted by the States for aid and development overseas by making contributions to ongoing programmes and to emergency and disaster relief.

Although fully allocated to programmes, some expenditure on overseas aid grants is not incurred until the following year due to the timing of the delivery of individual projects.

In March 2004 (Billet d'État III, 2004), the States agreed that any part of the ring-fenced budget of £200,000 for Emergency Disaster Relief which is not used during the year in which it is allocated, shall be retained for distribution by the Overseas Aid & Development Commission in the following year. In 2016, expenditure on Emergency Disaster Relief was £47,700 and, therefore, an additional £152,300 will be available for overseas aid grants in 2017.

SPORTS LOANS FUND

Capital Account

Balance at 31 December

Borrowers Account

Balance at 1 January

Repayments receivable from borrowers

Balance at 31 December

| 2016 | 2015 |
|------------|------------|
| Actual | Actual |
| £'000s | £'000s |
| | |
| 319 | 319 |
| | |
| 131 | 147 |
| (16) | (16) |
| 115 | 131 |

PAY COSTS AND STAFF NUMBERS

| 2015 | 2015 | <u>Pay and staff information by Department, Fund or Reserve</u> | 2016 | 2016 |
|----------------|--------------|---|----------------|--------------|
| Actual | Average | | Actual | Average |
| £'000s | FTE* | | £'000s | FTE* |
| 18,263 | 335 | Policy & Resources Committee | 18,794 | 348 |
| 2,689 | 46 | Committee <i>for</i> Economic Development | 2,734 | 45 |
| 56,681 | 1,213 | Committee <i>for</i> Education, Sport & Culture | 58,412 | 1,220 |
| 3,687 | 77 | Committee <i>for</i> Employment & Social Security | 3,750 | 82 |
| 3,135 | 55 | Committee <i>for the</i> Environment & Infrastructure | 2,652 | 55 |
| 84,879 | 1,875 | Committee <i>for</i> Health & Social Care | 85,099 | 1,910 |
| 28,342 | 545 | Committee <i>for</i> Home Affairs | 27,775 | 544 |
| 394 | 6 | Scrutiny Management Committee | 419 | 6 |
| 11 | - | States Review Committee | - | - |
| 2,314 | 44 | Development & Planning Authority | 2,255 | 41 |
| 3,835 | 71 | States' Trading Supervisory Board | 3,982 | 72 |
| 3,769 | 54 | Royal Court | 3,912 | 53 |
| 4,678 | 42 | Law Officers | 4,584 | 42 |
| 1,673 | - | States of Alderney | 1,762 | - |
| 214,350 | 4,363 | Total for General Revenue | 216,130 | 4,418 |
| 120 | 2 | Financial Transformation Programme | - | - |
| 460 | 8 | Guernsey Registry | 388 | 7 |
| 460 | 8 | States Capital Investment Portfolio | 465 | 7 |
| 104 | 2 | Capital Reserve | 575 | 7 |
| 24 | - | Future Guernsey Economic Fund | 307 | 5 |
| 137 | 3 | Transformation and Transition Fund | 597 | 7 |
| 1,305 | 23 | Total for Other | 2,332 | 33 |
| 215,655 | 4,386 | | 218,462 | 4,451 |

Appendix IV

USE OF DELEGATED FINANCIAL AUTHORITY

The States Financial Procedures require the Policy & Resources Committee to report annually on the use of delegated financial authority.

The Committee has approved the following increases in 2016 revenue budgets:

| | £ |
|---|----------------------|
| Pay Awards | 2,966,850 |
| Established Staff and GBA staff – turnover adjustment | 436,000 |
| Committee for Health & Social Care | |
| Delay in delivery of efficiency savings | 1,150,000 |
| Secondary Healthcare contract - renegotiation | 217,260 |
| Policy & Resources Committee | |
| Defence of legal challenges to the implementation of pension reforms | 341,850 |
| National Risk Assessment of money laundering and the financing of terrorism, in accordance with the Financial Action Task Force's standards | 205,000 |
| Costing and Benchmarking Reviews | 131,400 |
| ICT Improvement Plan | 115,000 |
| Planning Inquiry | 75,000 |
| Other (£50k or less per item) | 120,644 |
| Total | 5,759,004 |

The Committee has approved the following increase in routine capital allocations:

| | £ |
|---|--------------------|
| Committee for Health & Social Care | |
| Medical Equipment replacement (backlog) | 700,000 |
| Total | 700,000 |

USE OF DELEGATED FINANCIAL AUTHORITY

The following capital projects have been approved:

| | £ |
|--|-----------|
| Policy & Resources Committee | |
| SAP - upgrade | 50,000 |
| Port blocking software | 45,000 |
| Committee for Education, Sport & Culture | |
| St Martins School heating system - refurbishment (phase 2) | 200,000 |
| Grammar School heating and water services - refurbishment (phase 3) | 168,000 |
| Grammar School - internal refurbishment | 140,000 |
| Grammar School - reroofing | 139,500 |
| Beau Sejour gym equipment - replacement | 125,000 |
| Beau Sejour hot water system - replacement | 74,000 |
| Vale School - reroofing | 60,000 |
| Beau Sejour Pool - alterations | 50,000 |
| Guernsey Museum and Art Gallery displays - refurbishment | 48,000 |
| Minibus - replacement | 40,000 |
| Victoria Tower - repointing (additional) | 33,881 |
| Guernsey Museum and Art Gallery roof - repairs (phase 4) | 31,940 |
| Vauvert Primary School - drainage works | 24,000 |
| St Martins School windows - replacement | 20,000 |
| Education estate boundary fencing - replacement | 20,000 |
| Priaulx Library boundary wall - conservation | 10,000 |
| Minor overspends on previously approved projects | 15,915 |
| Committee for the Environment & Infrastructure | |
| Roads resurfacing and reconstruction | 2,262,000 |
| Alderney Breakwater - repairs | 435,000 |
| Salarie cycle path - modifications | 120,000 |
| Island Roads Infrastructure System (IRIS) - upgrade | 103,000 |
| Val des Terres - rock stabilisation works | 85,000 |
| Incinerator - repairs | 16,000 |
| Information Signs - upgrades | 10,000 |
| Committee for Health & Social Care | |
| Hospital Equipment – additional / replacement (£100k or less per item) | 520,200 |
| Laundry - refurbishment | 455,000 |
| IT equipment - replacement | 531,211 |
| Buildings - maintenance | 292,739 |
| Ultrasound equipment - replacement | 200,000 |
| Ear, Nose and Throat laser - replacement | 144,300 |
| Jamaica Hall - refurbishment | 78,000 |
| Video conferencing equipment | 16,000 |
| Rapid Response vehicle - replacement | 10,000 |

USE OF DELEGATED FINANCIAL AUTHORITY

Committee for Home Affairs

| | |
|--|---------|
| Prison boiler - replacement | 230,000 |
| Custody facilities - refurbishment | 126,500 |
| Police vehicles - replacements | 84,000 |
| Prison Greenhouse - replacement | 63,000 |
| Prison wing - refurbishment | 58,000 |
| Prison vehicle - replacement | 30,000 |
| Prison - replacement heating valves | 20,000 |
| Minor overspends on previously approved projects | 7,177 |

States' Trading Supervisory Board

| | |
|---|---------|
| Government House driveway - resurfacing | 180,000 |
| Alderney Airport runway - renovations | 170,000 |
| North Beach Toilet Block - refurbishment | 50,000 |
| Stock Condition Surveys | 50,000 |
| Royal Court -remedial works (addressing water ingress) - additional | 49,000 |
| Sir John Leale House - electrical works | 40,000 |
| Government House paved area | 27,000 |
| Sir John Leale House - water system refurbishment | 22,000 |
| St Barnabas - repairs | 20,000 |
| Government House bedroom suite - refurbishment | 15,000 |

Royal Court

| | |
|-------------------------------|--------|
| Heating and Cooling Equipment | 23,000 |
|-------------------------------|--------|

States of Alderney

| | |
|--|---------|
| Water Board distribution improvements | 156,200 |
| Harbour showers - refurbishment | 97,000 |
| Care Home - legionella remediation works | 73,415 |
| Corblets Wall - repairs | 40,000 |
| Jubilee Care Home - repairs | 33,000 |
| Town Clock Tower - repairs | 20,000 |
| Pontoon area - rock removal | 18,000 |
| Harbour fenders - replacement | 15,000 |
| Boat park - refurbishment | 10,000 |
| Video conferencing equipment | 10,000 |

Capital Projects funded from the Capital Reserve

| | |
|--|-----------|
| Sea Wall repointing | 1,807,000 |
| Bus fleet - replacement | 1,731,816 |
| La Mare de Carteret Schools - remedial works | 1,650,000 |
| Hydrocarbon supply - project planning | 830,000 |
| Sherwill Ward - redevelopment | 519,000 |
| Contribution and Tax Services programme - project planning | 515,000 |
| Corporate Data Centre infrastructure - project planning | 80,000 |
| Alderney Airport Runway rehabilitation - project planning | 43,500 |
| Office rationalisation - project planning | 30,000 |

| | |
|--------------|-------------------|
| Total | 15,517,294 |
|--------------|-------------------|

USE OF DELEGATED FINANCIAL AUTHORITY

The following property purchases and sales have been approved:

| <u>Purchases</u> | £ |
|---|----------------|
| Le Vieux Jardin field | 550,000 |
| La Vequesse - wayleave | 500 |
| Mont du Herrisaon - wayleave | 400 |
| Total Purchases | 550,900 |
| <u>Sales</u> | |
| Hermes House | 395,000 |
| Longue Hougue – right of way | 194,000 |
| Small parcel of land at entrance to Delancey Park | 15,000 |
| Small parcel of land at Rue de Dol (Baubigny School site) | 3,000 |
| Victoria Road car park - wayleave | 250 |
| Route de la Garenne - wayleave | 100 |
| Wayleave | 1 |
| Total Sales | 607,351 |

PAYMENTS TO STATES MEMBERS

Appendix V

In accordance with the Resolutions of the States of 27 January 2012 (Billet d'État III) and 13 December 2012 (Billet d'État XXV), the Policy & Resources Committee is publishing in an Appendix to a Billet d'État the total remuneration received during the preceding calendar year by each States Member in respect of his or her performance of States business:

| | January –April £ | May – December £ | 2016 Total £ |
|---------------------|---------------------|---------------------|-----------------|
| A H Adam | 11,546 | | 11,546 |
| E G Bebb | 12,164 | | 12,164 |
| B L Brehaut | 12,612 | 33,891 | 46,503 |
| A H Brouard | 13,016 | 33,891 | 46,907 |
| Y Burford | 16,510 | | 16,510 |
| G M Collins | 12,164 | | 12,164 |
| R Conder | 11,687 | | 11,687 |
| D de G De Lisle | 11,309 | 24,006 | 35,315 |
| H L De Sausmarez | | 25,086 | 25,086 |
| R Domaille | 12,164 | | 12,164 |
| M H Dorey | 12,164 | 25,086 | 37,250 |
| A C Dudley-Owen | | 25,086 | 25,086 |
| D J Duquemin | 12,183 | | 12,183 |
| M J Fallaize | 13,789 | 33,891 | 47,680 |
| P T R Ferbrache | | 32,979 | 32,979 |
| P L Gillson | 16,510 | | 16,510 |
| J A B Gollop | 13,016 | 25,086 | 38,102 |
| R H Graham LVO, MBE | | 24,006 | 24,006 |
| C J Green | 11,533 | 33,891 | 45,424 |
| M P J Hadley | 12,486 | | 12,486 |
| S T Hansmann Rouxel | | 25,086 | 25,086 |
| P A Harwood | 10,257 | | 10,257 |
| N R Inder | | 7,587 | 7,587 |
| D A Inglis | 12,612 | | 12,612 |
| S A James MBE | 12,486 | | 12,486 |
| L E Jean | 3,800 | 8,192 | 11,992 |
| D B Jones | 14,817 | 9,002 | 23,819 |
| R A Jones | 13,655 | | 13,655 |
| J Kuttelwascher | 11,687 | 24,006 | 35,693 |
| A H Langlois | 16,542 | | 16,542 |
| S L Langlois | | 24,276 | 24,276 |
| M K Le Clerc | 11,386 | 33,891 | 45,277 |
| A R Le Lievre | 11,343 | | 11,343 |
| P R Le Pelley | 12,486 | 32,432 | 44,918 |
| J P Le Tocq | 21,910 | 33,891 | 55,801 |
| M P Leadbeater | | 25,086 | 25,086 |
| M M Lowe | 10,924 | 32,432 | 43,356 |
| P A Luxon | 15,998 | | 15,998 |
| S D G McKinley | 3,780 | 7,840 | 11,620 |
| C P Meerveld | | 25,086 | 25,086 |
| J S Merrett | | 25,086 | 25,086 |
| J I Mooney | | 25,086 | 25,086 |
| S J Ogier | 16,510 | | 16,510 |
| M G O'Hara | 15,661 | | 15,661 |
| V S Oliver | | 25,086 | 25,086 |

PAYMENTS TO STATES MEMBERS

Appendix V

| | January –April £ | May – December £ | 2016 Total £ |
|------------------|---------------------|---------------------|------------------|
| B J E Paint | 11,309 | 24,006 | 35,315 |
| C N K Parkinson | 12,164 | 25,086 | 37,250 |
| R A Perrot | 10,924 | | 10,924 |
| R G Prow | | 25,086 | 25,086 |
| L B Queripel | 12,164 | 25,086 | 37,250 |
| L C Queripel | 11,386 | 25,086 | 36,472 |
| F W Quin | 12,099 | | 12,099 |
| P J Roffey | | 25,086 | 25,086 |
| P A Sherbourne | 11,671 | | 11,671 |
| R W Sillars | 14,817 | | 14,817 |
| J C S F Smithies | | 24,006 | 24,006 |
| H J R Soulsby | 13,789 | 33,891 | 47,680 |
| A Spruce | 11,165 | | 11,165 |
| G A St Pier | 15,454 | 44,109 | 59,563 |
| T J Stephens | | 32,432 | 32,432 |
| K A Stewart | 16,510 | | 16,510 |
| D A Tindall | | 25,086 | 25,086 |
| R H Tooley | | 25,086 | 25,086 |
| L S Trott | 11,624 | 33,891 | 45,515 |
| A M Wilkie | 12,164 | | 12,164 |
| E A Yerby | | 25,086 | 25,086 |
| TOTAL | 597,947 | 1,073,987 | 1,671,934 |

Notes:

- Includes the following in respect of service from January – April 2016:
 - Remuneration (including if applicable, uplift for social security);
 - Expenses Allowance.
- Includes the following in respect of service from May - December 2016:
 - Remuneration (including if applicable, uplift for social security);
- The total differs by £221k to the Payments to States Members heading in Note 9 and the Policy & Resources Committee Accounts as they include pension payments in respect of previous service, Non States Members attendance allowances, IT equipment expenditure and expenses incurred in respect of the travel expenses of Alderney Representatives.
- The entry regarding Deputy D B Jones relates to the period from 1 January 2016 to 05 July 2016 (the date of his death).

Appendix VI

CONSOLIDATED HEALTH AND SOCIAL CARE ACCOUNTS

These consolidated Health & Social Care Accounts comprise net income and expenditure incurred by the Committee *for* Health & Social Care and health and social care expenditure incurred by the Committee *for* Employment & Social Security.

| | TOTAL £'000s | 2016 E&SS £'000s | H&SC £'000s | TOTAL £'000s | 2015 E&SS £'000s | H&SC £'000s |
|--|-----------------|------------------------|----------------|-----------------|------------------------|----------------|
| Primary Health Care | | | | | | |
| <i>Ambulatory Services</i> | 2,741 | - | 2,741 | 2,828 | - | 2,828 |
| <i>Emergency Department</i> | 1,630 | - | 1,630 | 1,758 | - | 1,758 |
| <i>GP and Nurse</i> | | | | | | |
| <i>Consultation Grants</i> | 3,466 | 3,466 | - | 3,503 | 3,503 | - |
| | 7,837 | 3,466 | 4,371 | 8,089 | 3,503 | 4,586 |
| Secondary and Tertiary Health Care | | | | | | |
| <i>Acute Services provided</i> | | | | | | |
| <i>Off-Island</i> | 9,721 | - | 9,721 | 10,046 | - | 10,046 |
| <i>Guernsey Therapy Group</i> | | | | | | |
| <i>Services</i> | 2,273 | 2,273 | - | 2,263 | 2,263 | - |
| <i>Hospital Services</i> | 49,188 | 3,323 | 45,865 | 50,618 | 3,208 | 47,410 |
| <i>Medical Specialist Group</i> | | | | | | |
| <i>Services</i> | 18,226 | 18,226 | - | 17,565 | 17,565 | - |
| <i>Prescription Drugs and</i> | | | | | | |
| <i>Medicines</i> | 16,320 | 16,320 | - | 16,037 | 16,037 | - |
| <i>Travel Costs</i> | 2,491 | 2,192 | 299 | 2,490 | 2,228 | 262 |
| | 98,219 | 42,334 | 55,885 | 99,019 | 41,301 | 57,718 |
| Community Care | | | | | | |
| <i>Children and Adult</i> | | | | | | |
| <i>Disability Services</i> | 11,939 | 219 | 11,720 | 12,030 | 230 | 11,800 |
| <i>Children and Adult</i> | | | | | | |
| <i>Mental Health Services</i> | 14,903 | 318 | 14,585 | 16,066 | 317 | 15,749 |
| <i>Community and Social</i> | | | | | | |
| <i>Care Services</i> | 23,701 | - | 23,701 | 20,416 | - | 20,416 |
| <i>Older People Services</i> | 24,255 | 19,005 | 5,250 | 24,103 | 18,482 | 5,621 |
| | 74,798 | 19,542 | 55,256 | 72,615 | 19,029 | 53,586 |
| Public Health Services | | | | | | |
| <i>Prevention and Awareness</i> | 2,546 | - | 2,546 | 2,244 | - | 2,244 |
| <i>Treatments</i> | 375 | - | 375 | 368 | - | 368 |
| | 2,921 | - | 2,921 | 2,612 | - | 2,612 |
| Net cost of providing Health and Social Care Services | 183,775 | 65,342 | 118,433 | 182,335 | 63,833 | 118,502 |

Notes:

The above includes an element of administrative and central costs amounting to £21.5m (2015: £22.2m) that have been apportioned across each of the expenditure lines.

Income and Expenditure relating to Non-Government providers of health and social care services, such as General Practitioner's (GPs) is not included. However, the Committee *for* Employment & Social Security does fund an element of GP and Nurse Consultation Fees.

ANALYSIS OF INCOME & EXPENDITURE - Appendix VII

ATTRIBUTABLE TO ALDERNEY

In February 2016 (Billet d'État III, 2016) the States considered a Policy Letter from the Policy Council entitled *"The Review of the Financial Relationship between Guernsey and Alderney"* and resolved, inter alia: *"To direct the Treasury and Resources Department (and its successors) (in liaison with Departments and Committees) to produce and publish annually best estimate figures for the income derived from sources based in Alderney, and expenditure incurred from the Guernsey Budget on public services provided for Alderney...."* and *"....to establish a simple formulaic method to estimate annually in arrears with effect from December 2016 the contributions to both islands of the e-Gaming sector in Alderney"*.

| | Note | 2016 Actual £'000s | 2015 Actual £'000s |
|--|------|--------------------------|--------------------------|
| Income | | | |
| Taxation and duty revenue received by the States of Guernsey | 1 | 8,758 | 8,158 |
| States of Alderney - Capital receipts | | 267 | 1,271 |
| Alderney Gambling Control Commission | | 1,803 | 2,049 |
| Total Income | | 10,828 | 11,478 |
| Expenditure | | | |
| States of Alderney - Net Revenue Expenditure | 2 | 1,885 | 1,859 |
| States of Alderney - Capital Expenditure | | 1,061 | 366 |
| States of Alderney - Economic Development Expenditure | | 352 | 183 |
| Transferred Services - Net Revenue Expenditure | 3 | 10,280 | 9,819 |
| Transferred Services - Capital Expenditure | 4 | 572 | 374 |
| Aurigny operating loss in respect of Alderney routes | | 2,699 | 1,193 |
| Total Expenditure | | 16,849 | 13,794 |
| Net Cost | | 6,021 | 2,316 |

The total direct gross economic contribution to the Bailiwick of the e-Gaming Sector in Alderney is estimated to be £25.7m in 2016 (2015: £25.6m) which comprises £5.7m in respect of Alderney (2015: £6.6m) and £20m in respect of Guernsey (2015: £19m) including £1.39m (2015:£1.37m) in personal income tax and social security contributions.

ANALYSIS OF SOCIAL SECURITY - ATTRIBUTABLE TO ALDERNEY

Appendix VII

| | 2016 Actual £'000s | 2015 Actual £'000s |
|--|--------------------------|--------------------------|
| Income | | |
| Contributions | | |
| Guernsey Insurance Fund | 2,075 | 2,039 |
| Guernsey Health Service Fund | 792 | 777 |
| Long-Term Care Insurance Fund | 395 | 385 |
| States Grant | 406 | 399 |
| Total Income | 3,668 | 3,600 |
| Benefits and Administration Costs | | |
| Guernsey Insurance Fund | 3,982 | 3,852 |
| Guernsey Health Service Fund | 1,568 | 1,456 |
| Long-Term Care Insurance Fund | 752 | 728 |
| Total Expenditure | 6,302 | 6,036 |
| Investing Activities | 2,215 | (182) |
| Net Deficit | 419 | 2,618 |

NOTES

1. Taxation and duty revenue received by States of Guernsey

Income Tax

| |
|---------------------|
| Individuals - ETI |
| Individuals - Other |
| Companies |
| Banks |
| Distributions |

Total Income Tax

Customs - Excise and Import Duties

Tax on Real Property

Document Duty

Appendix VII

| 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------|--------------------------|
| 3,395 | 3,300 |
| 2,484 | 2,200 |
| 524 | 477 |
| 31 | 14 |
| 167 | 160 |
| 6,601 | 6,151 |
| 1,070 | 964 |
| 744 | 698 |
| 343 | 345 |
| 8,758 | 8,158 |

2. States of Alderney - net Revenue Expenditure

Building and Development Control Services

| |
|-------------|
| Expenditure |
| Income |

General Services Committee

| |
|-------------|
| Expenditure |
| Income |

Policy and Finance Committee

| |
|-------------|
| Expenditure |
| Income |

| 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------|--------------------------|
| 200 | 183 |
| (16) | (12) |
| 184 | 171 |
| 1,701 | 1,671 |
| (633) | (653) |
| 1,068 | 1,018 |
| 1,428 | 1,452 |
| (795) | (782) |
| 633 | 670 |
| 1,885 | 1,859 |

3. Transferred Services and Aurigny - Net Revenue Expenditure

Policy & Resources Committee

| |
|--------------------------------|
| Policy |
| External Affairs |
| Digimap services |
| Information Systems & Services |
| Shared Services Centre |
| Payments to States Members |
| HE Lieutenant Governor |
| Income Tax |
| Cadastre |
| Alderney civil service |
| Treasury |
| Insurance |

| 2016 Actual £'000s | 2015 Actual £'000s |
|--------------------------|--------------------------|
| 93 | 107 |
| 17 | 63 |
| (14) | (14) |
| 40 | 52 |
| 20 | 20 |
| 59 | 95 |
| 23 | 24 |
| 88 | 82 |
| 18 | 18 |
| 128 | 122 |
| 14 | 19 |
| 38 | 38 |
| 524 | 626 |

NOTES (continued)

Appendix VII

3. Transferred Services and Aurigny - Net Revenue Expenditure (continued)

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Committee for Economic Development | 15 | 17 |
| Committee for Education, Sport & Culture | | |
| St Anne's School | 1,589 | 1,375 |
| Special Schools | 110 | 40 |
| College of Further Education | 239 | 237 |
| Higher Education | 143 | 161 |
| Travel, Subsistence and Accommodation | 64 | 77 |
| School and Pupil Support Services | 2 | 2 |
| Central support services and management | 296 | 287 |
| Special Needs Support | 121 | 80 |
| Other | 54 | 65 |
| | 2,618 | 2,324 |
| Committee for Employment & Social Security | | |
| Administration | 81 | 72 |
| Legal Aid | 29 | 23 |
| Medical Expenses Assistance Scheme | 2 | 2 |
| Severe Disability Benefit and Carers' Allowances | 172 | 162 |
| Family Allowance | 206 | 210 |
| Supplementary Benefit | 473 | 472 |
| Concessionary TV Licences for the Elderly | 34 | 34 |
| Social Insurance Fund - Grant | 311 | 306 |
| Health Service Fund - Grant | 95 | 93 |
| | 1,403 | 1,374 |
| Committee for the Environment & Infrastructure | | |
| Alderney Breakwater | 74 | 81 |
| Other | (25) | (24) |
| | 49 | 57 |
| Committee for Health & Social Care | | |
| Mignot Memorial Hospital | 1,815 | 1,905 |
| Princess Elizabeth Hospital - inpatient | 299 | 262 |
| Diagnostic Services and Hospital Administration | 434 | 358 |
| Emergency & Day Patient Hospital Services | 88 | 87 |
| Private patient income | (143) | (234) |
| Children's Services | 102 | 147 |
| Adult Services | 21 | 39 |
| Off island - complex placement | 196 | 54 |
| Acute Off islands treatment | 339 | 267 |
| Management & Strategy | 229 | 274 |
| | 3,380 | 3,159 |
| Committee for Home Affairs | | |
| TETRA | 40 | 32 |
| Domestic Abuse Strategy | 1 | 1 |
| Drug and Alcohol Strategy | 1 | 6 |
| Data Protection | 5 | 5 |
| Law Enforcement | 1,054 | 1,104 |
| Prison Service | 8 | 42 |
| Probation Service | 3 | 6 |
| Trading Standards | 1 | 4 |
| | 1,113 | 1,200 |

NOTES (continued)

Appendix VII

3. Transferred Services and Aurigny - Net Revenue Expenditure (continued)

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---------------------------------------|--------------------------|--------------------------|
| Scrutiny Management Committee | 17 | 14 |
| Overseas Aid & Development Commission | 90 | 89 |
| Law Officers | 240 | 247 |
| States' Trading Supervisory Board | | |
| Alderney Airport | 818 | 701 |
| States' Property Services | 13 | 11 |
| | 831 | 712 |
| | 10,280 | 9,819 |

4. Transferred Services - Capital Expenditure

| | 2016 Actual £'000s | 2015 Actual £'000s |
|---|--------------------------|--------------------------|
| Committee <i>for the</i> Environment & Infrastructure | | |
| Alderney Breakwater | 400 | 361 |
| States' Trading Supervisory Board | | |
| Alderney Airport | 172 | 13 |
| | 572 | 374 |

States of Guernsey

Miscellaneous Accounts 2016

CONTENTS

| | |
|--|-----|
| States' Trading Supervisory Board – Ports | 1 |
| States' Trading Supervisory Board – Guernsey Water | 29 |
| States' Trading Supervisory Board – Guernsey Dairy | 53 |
| States' Trading Supervisory Board – States Works | 71 |
| Social Security Contributory Funds | 90 |
| Elizabeth College | 129 |
| Ladies' College | 143 |
| States of Alderney | 154 |

States' Trading Supervisory Board

Ports

Statement of Activities and Performance

for the year ended 31 December 2016

During the financial year ended 31 December 2016, responsibility for the Ports fell initially within the mandate of the Public Services Department until 30 April 2016 and then under new arrangements agreed by the States of Guernsey for the organisation of States' affairs, responsibility for the Ports was transferred to the mandate of the new States' Trading Supervisory Board (the "Board") with effect from 1 May 2016. All references in this document to the States' Trading Supervisory Board should be read as relating to the Public Services Department if prior to 1 May 2016.

Principal activities

The Airport provides for safe and expeditious movement of commercial and private aircraft, passengers and cargo to and from the Island on the most cost-effective basis.

The Airport also looks to ensure that policies, facilities and services are commensurate with the requirements of the Island in respect of air transport services, general aviation and meeting the standards set by the United Kingdom Civil Aviation Authority.

The Harbours provide essential services including sea passenger and freight facilities for the commercial operators. Additional facilities include the provision of berthing and / or marina facilities for local and visiting boat-owners, together with berthing and handling facilities for the commercial sea transport requirements of the Island.

The finances of the Harbours of St Peter Port and St Sampson and the Airport have been presented in an amalgamated format since 1962, following a States Resolution in the Billet D'État XVI, 1961, on the basis that the Ports exist for the common purpose of facilitating the entry and exit from Guernsey of goods and passengers and that the States, as owners of the Ports, are responsible for the expenditure needed to provide such facilities. Uneconomic expenditure may be forced upon them from time to time by the vagaries of the demand for facilities as between one port and another.

Under this group arrangement the trading position of the Airport and Guernsey Harbours is separately identified, but the assets and liabilities are consolidated in recognition of the States' strategic asset in the form of the combined Ports.

Financial highlights

| | Actual 2016 £'000 | Budget 2016 £'000 | Actual 2015 £'000 |
|--|----------------------------------|----------------------------------|----------------------------------|
| Airport income | 12,365 | 12,156 | 11,916 |
| Harbour income | 8,780 | 9,255 | 9,057 |
| Total income | 21,145 | 21,411 | 20,973 |
| Airport (deficit) for the financial year | (3,086) | (712) | (5,156) |
| Harbour surplus for the financial year | 1,986 | 707 | 1,265 |
| Net investment return | 37 | - | 24 |
| Total (deficit) | (1,094) | (5) | (3,867) |
| Airport capital expenditure | 571 | 2,849 | 781 |
| Harbour capital expenditure | 164 | 5,730 | 2,194 |
| Capital expenditure | 735 | 8,579 | 2,975 |

States' Trading Supervisory Board Ports

Statement of Activities and Performance - continued

Operational Performance

Total passenger movements for the year ended 31 December 2016 were 1,254,532 (Guernsey Airport 841,914, Guernsey Harbours 412,618), which were 5.62% lower than the previous year. The movements attributable to Guernsey Airport were 2.12% lower and those for Guernsey Harbours 12.04% lower than the previous year.

There was one full emergency declared at Guernsey Airport during 2016 (2015: 3) and no aircraft accidents (2015: 0).

The Airport employed 119 full time equivalents at the end of 2016 (2015: 118).

The Harbour employed 77 full time equivalents at the end of 2016 (2015: 80).

Public Services Department Board Members and Principal Officers up to 30 April 2016.

Board Members were:

Deputy S. Ogier, Minister
Deputy D. Duquemin, Deputy Minister
Deputy M. Dorey
Deputy P. Harwood
Deputy R. Jones

Board Members were the elected political representatives of the Public Services Department as voted by the States of Deliberation.

Principal Officers were:

Mr A. Lewis, Chief Officer, Public Services Department
Mr R. Evans, Head of Corporate Services, Public Services Department
Mr S. Gardiner, Finance Business Partner
Mrs S. McGreevy, Harbour Director
Mr C. Le Ray, Airport Director
Mr A. Nicholas, Deputy Airport Director
Captain C. Murray, Harbourmaster
Mrs K. Lawson, Commercial Manager, Public Services Department

States' Trading and Supervisory Board Members and Principal Officers effective from 1 May 2016.

Board Members are:

| | |
|--------------------------------|---|
| Deputy C. Parkinson, President | elected 21 September 2016 |
| Deputy J. Smithies | elected 18 May 2016 |
| Deputy D. Jones, President | elected 11 May 2016 (deceased, 5 July 2016) |
| Mr S. Falla MBE | elected 21 September 2016 |
| Mr J. Hollis | elected 21 September 2016 |

States' Trading Supervisory Board Ports

Statement of Activities and Performance - continued

The constitution of the States' Trading Supervisory Board provides that the membership of the Board shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the Board is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers are:

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner
Mrs S. McGreevy, Harbour Director, Ports (up to 31 October 2016)
Mr C. Le Ray, General Manager, Ports
Mr A. Nicholas, Deputy General Manager, Airport
Captain C. Murray, Harbourmaster
Mrs K. Lawson, Commercial Manager, Ports

Auditors

The current auditor, Deloitte LLP, has reached the end of its 5 year appointment. The States of Guernsey is currently undertaking a tender process for the new auditor appointment.

States' Trading Supervisory Board Ports

Statement of Responsibilities for the Preparation of Financial Statements

The States' Trading Supervisory Board is required to prepare financial statements for each financial year, and for selecting suitable accounting policies for the Ports. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so; and
- state whether applicable accounting standards have been followed.

The States' Trading Supervisory Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time its financial position. The Board is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

States' Trading Supervisory Board

Ports

Statement of Internal Financial Controls and Going Concern

It is the responsibility of the States' Trading Supervisory Board to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The States' Trading Supervisory Board, is responsible for the economic, efficient and effective operations and management of the Ports and has a duty to ensure that they fulfil their obligations.

The Ports' internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the States' Trading Supervisory Board, to ensure that all Board members are informed of the Ports financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.
- The control of materials and stores purchases are managed using a computerised job-costing programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.

The States' Trading Supervisory Board strives to ensure that all staff with financial responsibility in the Ports have the appropriate integrity, skills and motivation to professionally discharge their duties.

The Ports' internal controls and accounting policies have been and are subject to continuous review and improvement. In addition the financial statements are subject to an independent external audit by an auditor, appointed by the States of Guernsey.

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with The Ports and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that the Ports have adequate financial resources to meet its obligations as they fall due. The Board therefore believe that the Ports are a going concern for at least twelve months from the approval of the financial statements.

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board

Report on the financial statements

Opinion

We have audited the financial statements of States of Guernsey - States' Trading Supervisory Board – Ports ("the Ports") for the year ended 31 December 2016, which comprise Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes 1 to 21.

In our opinion, the accompanying financial statements of the Ports for the year ended 31 December 2016 are prepared, in all material respects, in accordance with the accounting policies stated in note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ports in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the APB's Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to note 2 to the financial statements, which describes the basis of preparation and that no full impairment review has been undertaken as the primary objective is to facilitate travel to and from the island and not generate an economic return. This is not in compliance with FRS 102 which would have full impairment review in light of the negative operating cash flows. The financial statements are prepared to assist the Board to comply with its financial reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

This report is made solely to the members of the States of Guernsey - States' Trading Supervisory Board ("the Board"), as a body, in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Board members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

Other information

The Board is responsible for the other information which comprises the statement of activities and performance report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

The Board's Responsibilities for the Financial Statements

As explained more fully in the Statement of Responsibilities for the Preparation of Financial Statements, the Board is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 2 to the financial statements. The Board is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board

In preparing the financial statements, the Board is responsible for assessing the Ports' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Board either intend to liquidate or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ports' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ports to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Chartered Accountants, St Peter Port, Guernsey

18 May 2017

States' Trading Supervisory Board

Ports

Statement of Comprehensive Income

for the year ended 31 December 2016

| | | 2016 £ | 2015 £ |
|--|----------------|--------------------|--------------------|
| Revenue | Notes 2 & 4 | | |
| Airport fees, charges and other income | | 12,364,925 | 11,915,811 |
| Harbour dues, charges and other income | | 8,780,356 | 9,056,514 |
| | | 21,145,281 | 20,972,325 |
| Expenses | 2 & 6 | | |
| Airport expenses | | 14,219,559 | 15,772,092 |
| Harbours expenses | | 5,688,058 | 6,756,768 |
| | | 19,907,617 | 22,528,860 |
| Operating surplus/(deficit) before depreciation and deficit on disposal of fixed assets | | 1,237,664 | (1,556,535) |
| Depreciation of fixed assets | 6 | (5,768,079) | (5,836,824) |
| Deficit on disposal of fixed assets | 6 | (31,787) | (9,995) |
| Revaluation of investment property | 8 | (25,000) | 176,199 |
| Operating deficit for the year | | (4,587,202) | (7,227,155) |
| Amortisation of asset specific contributions | 2 & 14 | 3,487,026 | 3,336,741 |
| Net investment return | 5 | 36,844 | 23,884 |
| Deficit for the financial year | | (1,063,332) | (3,866,530) |

All material activities derive from continuing operations.

There are no recognised gains or losses for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 21 form an integral part of these financial statements.

States' Trading Supervisory Board

Ports

Statement of Financial Position

as at 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|--------------------|-------------|
| Non-current assets | | | |
| Tangible fixed assets – Airport | 7 | 99,323,341 | 103,027,984 |
| Tangible fixed assets - Harbours | 7 | 138,435,733 | 139,802,315 |
| Investment property | 8 | 500,000 | 525,000 |
| Assets under construction | 9 | 155,373 | 149,420 |
| | | 238,414,447 | 243,504,719 |
| Current assets | | | |
| Inventories | 10 | 378,716 | 377,403 |
| Debtors and prepayments | 11 | 2,669,719 | 2,537,524 |
| Bank and cash | | 275 | 275 |
| Balances with States Treasury | | 2,087,076 | 3,005,212 |
| | | 5,135,786 | 5,920,414 |
| Creditors: amounts falling due within one year | 12 | (1,559,242) | (3,253,724) |
| Net current assets | | 3,576,544 | 2,666,690 |
| Total net assets | | 241,990,991 | 246,171,409 |
| Reserves | 13 | 241,990,991 | 246,171,409 |

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy C. Parkinson

18 May 2017

President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott

18 May 2017

Managing Director

Notes 1 to 21 form an integral part of these financial statements.

States' Trading Supervisory Board Ports

Statement of Changes in Equity

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|--------------------|-------------|
| At 1 January | | 246,171,409 | 251,856,141 |
| Deficit for the financial year | | (1,063,332) | (3,866,530) |
| Amortisation of asset specific contributions | 14 | (3,487,026) | (3,336,741) |
| Contribution from States Capital Reserve | 14 | 369,940 | 1,518,539 |
| At 31 December | 13 | 241,990,991 | 246,171,409 |

Notes 1 to 21 form an integral part of these financial statements.

States' Trading Supervisory Board Ports

Statement of Cash Flows

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|------------------|--------------------|
| Net cash flows from operating activities | 15 | (590,326) | (1,352,593) |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | - | 49 |
| Purchase of fixed assets | 9 | (734,594) | (2,975,570) |
| Investment return received | 5 | 36,844 | 23,884 |
| Net cash flows used in investing activities | | (697,750) | (2,951,637) |
| Cash flows from financing activities | | | |
| Contribution From States Capital Reserve | 13 | 369,940 | 1,518,539 |
| Net cash flows from financing activities | | 369,940 | 1,518,539 |
| Net (decrease) in cash and cash equivalents | 16 | (918,136) | (2,785,691) |
| Cash and cash equivalents at the beginning of the year | | 3,005,487 | 5,791,178 |
| Cash and cash equivalents at the end of the year | 16 | 2,087,351 | 3,005,487 |
| Reconciliation to cash at bank and in hand: | | | |
| Cash at bank and in hand | | 275 | 275 |
| Cash balances with States Treasury | | 2,087,076 | 3,005,212 |
| Cash and cash equivalents | 16 | 2,087,351 | 3,005,487 |

Notes 1 to 21 form an integral part of these financial statements.

States' Trading Supervisory Board Ports

Notes to the Financial Statements

1. General information

The management, operation and maintenance of the Ports is the responsibility of the States of Guernsey - States' Trading Supervisory Board. The nature of the Ports operations and principal activities are set out in the Statement of Activities and Performance.

The Ports' principal places of business are Guernsey Airport, La Villiaze, Forest, Guernsey, GY8 0DS and Guernsey Harbour, St Julians Emplacement, St Peter Port, Guernsey, GY1 3DL.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. In respect of the Ports' Fixed Assets the impairment review undertaken has not included a full impairment review of the Fixed assets as the primary objective is to facilitate travel to and from the island and not generate an economic return. This is not in compliance with FRS 102 which would have a full impairment review in the light of negative operating cash flows.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of the Ports.

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with the Ports and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that The Ports have adequate financial resources to meet its obligations as they fall due. The Board therefore believe that The Ports are a going concern for at least twelve months from the approval of the financial statements

Tangible fixed assets

i) Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the Statement of Comprehensive Income.

ii) Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment is depreciated over their expected useful life except assets in the course of construction.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iii) Assets under construction

Assets under construction are capitalised and are transferred to tangible fixed assets and depreciated once brought into use. All costs associated with capital projects, including professional fees are capitalised. No impairment reviews are undertaken for assets under construction.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the beginning of the month of acquisition of an asset or, in the case of constructed assets, the asset being brought into a condition to be used as intended.

| | Estimated life in years | Depreciation % per annum |
|---------------------|----------------------------|-----------------------------|
| Land | - | - |
| Infrastructure | 15 - 60 | 6.7% - 1.7% |
| Buildings | 25 - 60 | 4.0% - 1.7% |
| Plant and Equipment | 5 - 25 | 20.0% - 4.0% |
| Motor vehicles | 5-10 | 20.0% - 10.0% |
| Computers and ICT | 3 | 33.3% |

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of Financial Position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The exception being as noted in section 2 Accounting Convention.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses.

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

ii) Trade and other creditors

Trade and other creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of the Ports. Whilst the Ports operates bank accounts, the entity will make payment and receive money via bank accounts held by the States of Guernsey. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents on the Ports' Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis. Revenue comprises amounts in respect of services provided and goods supplied in the year.

Pension costs

Pension costs are treated as described in note 17 Employee benefits.

Amortisation of asset specific contributions

Asset specific contributions are initially recognised as capital contributions reserve and released to the revenue account over the anticipated useful life of the asset concerned on a basis consistent with the depreciation of the underlying asset.

Net investment return

Net investment return on balances held with the States of Guernsey is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Ports accounting policies, which are described in note 2, the Board Members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Board Members have made in the process of applying the Ports accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Valuation of investment property

As stated in the accounting policies above, the Ports investment properties are stated at fair value as accounted for by management based on an independent external appraisal. The estimated fair value may differ from the price at which the properties could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. Also certain estimates require an assessment of factors not within management's control such as overall market conditions. As a result, actual realisable proceeds could differ from the valuations in these financial statements, and the difference could be significant.

ii) Depreciation rates

The Ports infrastructure assets have no definite life of the assets, so management makes an assumption based on previous experience of the usage of the assets. The rates used for each type of asset that makes up the infrastructure assets has been disclosed in note 2.

iii) Provisions

Provisions are recognised when the organisation has a present obligation (legal or constructive) as a result of a past event, it is probable that the organisation will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

4. Revenue

All revenue is derived from activities within the Bailiwick of Guernsey.

An analysis of the Ports revenue by class of business is set out below:

| | 2016 £ | 2015 £ |
|------------------------------------|-------------------|-------------------|
| Guernsey Airport | 12,364,925 | 11,915,811 |
| Guernsey Harbours | 8,780,356 | 9,056,514 |
| | 21,145,281 | 20,972,325 |
| Advertising, picketing etc | 365,000 | 392,000 |
| Airport Development Charge | 752,000 | 769,000 |
| Car Parking Fees | 720,000 | 734,000 |
| Rents | 1,878,452 | 1,904,061 |
| Traffic Receipts | 8,453,925 | 7,917,811 |
| Recovery from Alderney | 178,000 | 174,000 |
| Commercial Port Operations | 5,307,966 | 5,555,324 |
| Property | 899,787 | 849,035 |
| Leisure | 2,512,755 | 2,585,518 |
| Non-Commercial Port | 16,768 | 14,617 |
| Ships Registry | 43,080 | 52,020 |
| Investment Property rents (note 8) | 17,548 | 24,939 |
| | 21,145,281 | 20,972,325 |

5. Net investment return

| | 2016 £ | 2015 £ |
|-----------------------|---------------|---------------|
| Net investment return | 36,884 | 23,884 |
| | 36,884 | 23,884 |

6. Deficit for the financial year

Deficit on ordinary activities is stated after charging:

| | Note | 2016 £ | 2015 £ |
|---------------------------------------|------|------------------|------------------|
| Auditor's remuneration | | 18,132 | 36,275 |
| Depreciation of tangible fixed assets | 7 | 5,768,079 | 5,836,824 |
| Impairment of tangible fixed assets | | - | 223,972 |
| Deficit on disposal of fixed assets | 7 | 31,787 | 9,995 |
| | | 5,817,998 | 6,107,066 |

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

7. Tangible fixed assets

| Airport | 1 January 2016 | Additions | Write offs/ Disposal/Reclass | 31 December 2016 |
|------------------------|---------------------------|------------------|---------------------------------|----------------------------------|
| | £ | £ | £ | £ |
| Cost | | | | |
| Land | 2,687,152 | - | - | 2,687,152 |
| Infrastructure | 64,764,034 | 56,100 | - | 64,820,134 |
| Buildings | 33,132,900 | 52,088 | - | 33,184,988 |
| Plant & equipment | 23,165,652 | 383,352 | (17,271) | 23,531,733 |
| Motor vehicles | 1,198,692 | 39,141 | (14,925) | 1,222,908 |
| Information technology | 195,707 | - | - | 195,707 |
| | <u>125,144,137</u> | <u>530,681</u> | <u>(32,196)</u> | <u>125,642,622</u> |
| Depreciation | | | | |
| Land | - | - | - | - |
| Infrastructure | 6,533,825 | 1,892,091 | 223,704 | 8,649,620 |
| Buildings | 5,259,168 | 562,146 | (223,704) | 5,597,610 |
| Plant & equipment | 9,356,188 | 1,692,564 | (17,271) | 11,031,481 |
| Motor vehicles | 771,265 | 88,523 | (14,925) | 844,863 |
| Information technology | 195,707 | - | - | 195,707 |
| | <u>22,116,153</u> | <u>4,235,324</u> | <u>(32,196)</u> | <u>26,319,281</u> |
| Net Book Value | <u><u>103,027,984</u></u> | | | <u><u>99,323,341</u></u> |
| Harbour | 1 January 2016 | Additions | Write offs/ Disposal | 31 December 2016 |
| | £ | £ | £ | £ |
| Cost | | | | |
| Land | 87,515,374 | - | - | 87,515,374 |
| Infrastructure | 9,255,530 | 53,465 | (15,000) | 9,293,995 |
| Buildings | 48,865,608 | - | (41,428) | 48,824,180 |
| Plant & equipment | 8,741,291 | 127,250 | - | 8,868,541 |
| Motor vehicles | 180,894 | 17,245 | - | 198,139 |
| Information technology | 18,200 | - | - | 18,200 |
| | <u>154,576,897</u> | <u>197,960</u> | <u>(56,428)</u> | <u>154,718,429</u> |
| Depreciation | | | | |
| Land | - | - | - | - |
| Infrastructure | 406,395 | 334,009 | (14,491) | 725,913 |
| Buildings | 9,710,144 | 810,485 | (10,150) | 10,510,479 |
| Plant & equipment | 4,458,949 | 387,974 | - | 4,846,923 |
| Motor vehicles | 180,894 | 287 | - | 181,181 |
| Information technology | 18,200 | - | - | 18,200 |
| | <u>14,774,582</u> | <u>1,532,755</u> | <u>(24,641)</u> | <u>16,282,696</u> |
| Net Book Value | <u><u>139,802,315</u></u> | | | <u><u>138,435,733</u></u> |

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

8. Investment properties

| | 1 January 2016 | Additions / Disposals | Revaluations | 31 December 2016 |
|---------|----------------|--------------------------|-----------------|-----------------------|
| | £ | £ | £ | £ |
| Airport | 525,000 | - | (25,000) | 500,000 |
| Harbour | - | - | - | - |
| | <u>525,000</u> | <u>-</u> | <u>(25,000)</u> | <u>500,000</u> |

Investment properties, which are all freehold, were valued to fair value at 31 December 2016, based on a valuation undertaken by an independent valuer with recent experience in the location and class of the investment property being valued. The method of determining fair value was using the Red Book value. There are no restrictions on the realisability of investment property.

The original book value of the investment property was £436,045.

As set out in note 4, property rental income earned during the year was £17,548 (2015: £24,939). No contingent rents have been recognised as income in the current or prior year.

At the Statement of Financial Position date, the Ports had contracted with tenants for the following future minimum lease payments on investment properties:

| | 2016 £ | 2015 £ |
|--|-----------|---------------|
| Within one year | - | 25,017 |
| In the second to fifth years inclusive | - | - |
| After five years | - | - |
| | <u>-</u> | <u>25,017</u> |

9. Assets under construction

| | 1 January 2016 | Additions | Transfers to Tangible Fixed Assets | 31 December 2016 |
|------------|----------------|----------------|--|-----------------------|
| | £ | £ | £ | £ |
| Airport | 65,420 | 570,924 | (530,681) | 105,663 |
| Harbour | <u>84,000</u> | <u>163,670</u> | <u>(197,960)</u> | <u>49,710</u> |
| 2016 Total | <u>149,420</u> | <u>734,594</u> | <u>(728,641)</u> | <u>155,373</u> |
| 2015 Total | 5,337,989 | 2,975,570 | (8,164,139) | 149,420 |

Assets under construction completed in 2016 and transferred to fixed assets includes additional runway project and radar expenditure, car park system refurbishment and replacement vehicles at the Airport. The Harbour includes additions for Berth 4 and 6, replacement gangway, pontoon replacements and a replacement vehicle.

Assets under construction as at 31 December 2016 related principally to on-going Administration Block refurbishment and Wind and Cloud Base Monitoring equipment at the Airport, and at Harbours, a replacement pontoons, Castle Cornet Breakwater repairs and Dory engines.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

10. Inventories

| | 2016 £ | 2015 £ |
|----------|----------------|----------------|
| Airport | 64,774 | 64,774 |
| Harbours | 313,942 | 312,629 |
| | 378,716 | 377,403 |

11. Debtors and prepayments

| | 2016 £ | 2015 £ |
|---------------|------------------|------------------|
| Trade debtors | 2,563,251 | 2,475,395 |
| Prepayment | 106,468 | 62,129 |
| | 2,669,719 | 2,537,524 |

12. Creditors: amounts falling due within one year

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Trade creditors | 561,456 | 1,535,128 |
| Accruals | 740,032 | 1,330,510 |
| Deferred income | 255,304 | 386,686 |
| Other creditors: | | |
| Harbour operational license and security deposits | 2,450 | 1,400 |
| | 1,559,242 | 3,253,724 |

13. Reserves

| | 2016 £ | 2015 £ |
|--|--------------------|--------------------|
| Balance at 1 January | 246,171,409 | 251,856,141 |
| Deficit for financial year | (1,063,332) | (3,866,530) |
| Amortisation of asset specific contributions | (3,487,026) | (3,336,741) |
| Contribution from States Capital Reserve | 369,940 | 1,518,539 |
| Balance at 31 December | 241,990,991 | 246,171,409 |

Included within Reserves are amounts contributed by the States Capital Reserve specifically for the Guernsey Airport Pavements Rehabilitation and St Peter Port Crane Strategy projects. As the contributions are specifically related to assets acquired or constructed under those projects, the contributions reserve has been released back to the Statement of Comprehensive Income to match the depreciation expense on those specific assets. Amounts are released to the Statement of Comprehensive Income in line with the expected useful lives of the underlying assets for which contribution is provided for on a basis which is consistent with the depreciation policy for that asset.

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

14. Reserves

| | 2016 £ | 2015 £ |
|--|--------------------|-------------|
| Balance at 1 January | 246,171,409 | 251,856,141 |
| Deficit for financial year | (1,063,332) | (3,866,530) |
| Amortisation of asset specific contributions | (3,487,026) | (3,336,741) |
| Contribution from States Capital Reserve | 369,940 | 1,518,539 |
| Balance at 31 December | 241,990,991 | 246,171,409 |

Included within Reserves are amounts contributed by the States Capital Reserve specifically for the Guernsey Airport Pavements Rehabilitation and St Peter Port Crane Strategy projects. As the contributions are specifically related to assets acquired or constructed under those projects, the contributions reserve has been released back to the Statement of Comprehensive Income to match the depreciation expense on those specific assets. Amounts are released to the Statement of Comprehensive Income in line with the expected useful lives of the underlying assets for which contribution is provided for on a basis which is consistent with the depreciation policy for that asset.

15. Asset specific contributions

| | 2016 £ | 2015 (as restated) £ |
|---|--------------------|----------------------------|
| As at 1 January | 77,097,444 | 78,915,488 |
| Contributions receivable | 369,940 | 1,518,697 |
| | 77,467,384 | 80,434,185 |
| Released to Statement of Comprehensive Income during the year | (3,487,026) | (3,336,741) |
| As at 31 December | 73,980,358 | 77,097,444 |

Contributions receivable were overstated by £380,000 in 2013 resulting in a restatement of the 2015 opening balance.

16. Reconciliation of operating (deficit) to net cash flows from operating activities

| | 2016 £ | 2015 £ |
|--|--------------------|-------------|
| Operating (deficit) for the year | (4,587,202) | (7,227,155) |
| Depreciation charges | 5,768,079 | 5,836,824 |
| Deficit on sale of tangible assets | 31,787 | 9,995 |
| Revaluation of investment property | 25,000 | (176,199) |
| (Increase)/ decrease in inventories | (1,313) | 22,626 |
| (Increase)/ decrease in debtors | (132,195) | 65,212 |
| (Decrease)/increase in creditors due within one year | (1,694,482) | 116,104 |
| Net cash flows from operating activities | (590,326) | (1,352,593) |

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

17. Financial commitments

The Ports have no financial commitments as at 31 December 2016 (2015: nil) which are not provided for in the financial statements.

18. Employee benefits

The employees of the Ports are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify the Ports' share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Ports are considered to be ultimately employees of the States of Guernsey.

Consequently, the Ports have accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of Comprehensive Income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £1,118,395 (2015: £1,144,363).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2016.

19. Subsequent events

Management know of no events subsequent to the year end that would materially affect the financial statements.

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

20. Related party transactions

The States' Trading Supervisory Board is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length".

The total remuneration for key management personnel for the period totalled £439,768 (2015: £428,659).

Related party transactions between The Ports and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 "Related Party Disclosures."

States' Trading Supervisory Board member Mr S. Falla MBE has declared certain related party transactions under FRS 102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

21. Statement of control

The Ports are wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of the Ports has been delegated to the members of the States' Trading Supervisory Board appointed by the States of Guernsey.

22. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2016 which would affect these financial statements (2015: None).

Supplemental Information

The additional information has been prepared for the accounting records of the the States' Trading Supervisory Board. While it does not form part of the financial statements, it should be read in conjunction with them.

GUERNSEY AIRPORT

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | <u>Net Expenditure by Category</u> | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|---|-----------------------|-----------------------|
| | | Income | | |
| 12,156 | 12,258 | Operating Income | 12,365 | 11,916 |
| | | Expenditure | | |
| (6,595) | (7,104) | Pay Costs | (7,211) | (7,024) |
| | | Non-Pay costs | | |
| (230) | (233) | Staff Non-Pay costs | (198) | (187) |
| (1,479) | (3,193) | Support Services | (3,341) | (5,224) |
| (1,186) | (1,575) | Premises | (1,361) | (1,464) |
| (31) | (60) | Transport | (117) | (22) |
| (2,069) | (2,113) | Supplies & Services | (1,992) | (1,851) |
| (4,995) | (7,174) | | (7,008) | (8,747) |
| 566 | (2,020) | Operating (deficit) for the financial year | (1,855) | (3,856) |
| | | Depreciation (net of amortisation of asset | | |
| (1,278) | (1,278) | specific contributions) | (1,217) | (1,475) |
| (712) | (3,298) | Operating (deficit) | (3,071) | (5,331) |

GUERNSEY AIRPORT

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|---|-----------------------|-----------------------|
| | | <u>Net Expenditure by Service Area</u> | | |
| | | Income | | |
| 440 | 393 | Advertising, picketing etc | 365 | 392 |
| 770 | 786 | Airport Development Charge | 752 | 769 |
| 750 | 726 | Car Parking Fees | 720 | 734 |
| 2,225 | 1,973 | Rents | 2,080 | 2,101 |
| 8,024 | 8,202 | Traffic Receipts | 8,426 | 7,920 |
| 12,209 | 12,080 | | 12,343 | 11,916 |
| | | <i>Operational Expenditure</i> | | |
| (1,297) | (1,121) | Administration | (1,310) | (1,267) |
| (1,884) | (2,180) | Aerodrome Fire Service | (2,227) | (2,190) |
| (2,884) | (5,097) | Airport Infrastructure | (4,959) | (7,076) |
| (1,851) | (1,895) | Airport Security | (1,816) | (1,552) |
| (3,905) | (3,985) | Navigational Services | (4,064) | (3,861) |
| (11,821) | (14,278) | | (14,376) | (15,946) |
| 178 | 178 | <i>Recovery from Alderney Airport</i> | 178 | 174 |
| 566 | (2,020) | Operating (deficit) for the financial year | (1,855) | - 3,856 |
| (1,278) | (1,278) | <i>Depreciation (net of amortisation of asset specific contributions)</i> | (1,217) | (1,475) |
| (712) | (3,298) | Operating (deficit) | (3,072) | (5,331) |

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|---|-----------------------|-----------------------|
| | | <u>Routine Capital Expenditure</u> | | |
| (400) | (206) | <i>Miscellaneous Capital Works</i> | - | - |
| (1,818) | (281) | <i>Equipment, Machinery and Vehicles</i> | (250) | (163) |
| (2,218) | (487) | Routine Capital Expenditure | (250) | (163) |
| (500) | - | Airports Pavements Project | (208) | (492) |
| (131) | - | Airport Radar | (113) | (126) |
| 631 | - | Less Transfer from Capital Reserve | 321 | 618 |
| (2,218) | (487) | Net Capital Expenditure | (250) | (163) |

GUERNSEY HARBOURS

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | <u>Net Expenditure by Category</u> | | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|--|--|-----------------------|-----------------------|
| | | Income | | | |
| 9,255 | 8,843 | Operating Income | | 8,780 | 9,057 |
| | | Expenditure | | | |
| (3,726) | (3,409) | Pay Costs | | (3,396) | (3,803) |
| | | Non-Pay costs | | | |
| (179) | (128) | Staff Non-Pay costs | | (58) | (175) |
| - | 44 | Peripheral Activities | | (17) | (34) |
| (828) | (898) | Support Services | | (868) | (786) |
| (2,216) | (1,445) | Premises | | (969) | (1,493) |
| (105) | (91) | Transport | | (69) | (82) |
| (224) | (373) | Supplies & Services | | (311) | (384) |
| (3,552) | (2,891) | | | (2,292) | (2,954) |
| 1,977 | 2,543 | Operating surplus for the financial year | | 3,092 | 2,299 |
| (1,270) | (1,270) | Depreciation (net of amortisation of asset specific contributions) | | (1,096) | (1,035) |
| 707 | 1,273 | Operating surplus | | 1,996 | 1,264 |

GUERNSEY HARBOURS

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | <u>Net Income / Expenditure by Service Area</u> | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|---|-----------------------|-----------------------|
| 3,202 | 3,233 | Commercial Ports Operations | 3,510 | 3,354 |
| (408) | (182) | Property | (153) | (394) |
| 160 | 768 | Leisure | 772 | 487 |
| (959) | (1,259) | Non-Commercial Ports Operations | (1,014) | (1,124) |
| (18) | (18) | Ships Registry | (23) | (22) |
| - | - | Other | - | - |
| <u>1,977</u> | <u>2,543</u> | | <u>3,092</u> | <u>2,300</u> |
| (1,270) | (1,270) | <i>Depreciation (net of amortisation of asset specific contributions)</i> | (1,096) | (1,035) |
| <u>707</u> | <u>1,273</u> | Operating surplus | <u>1,996</u> | <u>1,265</u> |

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | <u>Routine Capital Expenditure</u> | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|--|-----------------------|-----------------------|
| (1,900) | (650) | <i>Miscellaneous Capital Works</i> | (88) | (1,087) |
| (450) | (130) | <i>IT Projects and Equipment</i> | - | (20) |
| (2,040) | (20) | <i>Equipment, Machinery and Vehicles</i> | (26) | (187) |
| <u>(4,390)</u> | <u>(800)</u> | Routine Capital Expenditure | <u>(114)</u> | <u>(1,294)</u> |
| (190) | - | Crane Strategy | (50) | (900) |
| (1,150) | - | Deep Water Berth Investigations | - | - |
| 1,340 | - | Less Transfer from Capital Reserve | 50 | 900 |
| <u>(4,390)</u> | <u>(800)</u> | Net Capital Expenditure | <u>(114)</u> | <u>(1,294)</u> |

PORTS HOLDING ACCOUNT

| 2016 Original Budget £'000s | 2016 Probable Outturn £'000s | | 2016 Actual £'000s | 2015 Actual £'000s |
|-----------------------------------|---------------------------------------|--|-----------------------|-----------------------|
| Revenue Account | | | | |
| | | <i>Operating (Deficit)/Surplus before depreciation</i> | | |
| 566 | (2,020) | Guernsey Airport | (1,855) | (3,856) |
| 1,977 | 2,543 | Guernsey Harbour | 3,092 | 2,299 |
| <u>2,543</u> | <u>523</u> | | <u>1,238</u> | <u>(1,557)</u> |
| 20 | (26) | <i>Investment Interest Receivable</i> | 37 | 24 |
| | | <i>Capital Expenditure</i> | | |
| (2,218) | (487) | Guernsey Airport | (250) | (163) |
| (4,390) | (800) | Guernsey Harbour | (114) | (1,294) |
| <u>(6,608)</u> | <u>(1,287)</u> | | <u>(364)</u> | <u>(1,457)</u> |
| <u>(4,045)</u> | <u>(790)</u> | Surplus/(deficit) before depreciation | <u>911</u> | <u>(2,990)</u> |
| (2,548) | (2,548) | Depreciation (net of amortisation of asset specific contributions) | (2,313) | (2,510) |
| <u>(6,593)</u> | <u>(3,338)</u> | (Deficit) after depreciation | <u>(1,402)</u> | <u>(5,500)</u> |
| 4,045 | 2,666 | <i>Balance at 1st January</i> | 2,666 | 5,656 |
| (4,045) | (790) | <i>Surplus/(deficit) for the year before depreciation</i> | 911 | (2,990) |
| <u>-</u> | <u>1,876</u> | Balance at 31st December | <u>3,576</u> | <u>2,666</u> |

States' Trading Supervisory Board

Guernsey Water

Statement of Activities and Performance

for the year ended 31 December 2016

During the financial year ended 31 December 2016, responsibility for Guernsey Water fell initially within the mandate of the Public Services Department until 30 April 2016 and then, under new arrangements agreed by the States of Guernsey for the organisation of States' affairs, responsibility for Guernsey Water was transferred to the mandate of the new States' Trading Supervisory Board (the "Board") with effect from 1 May 2016. All references in this document to the States' Trading Supervisory Board should be read as relating to the Public Services Department if prior to 1 May 2016.

Principal activities

Guernsey Water, a business unit of the States' Trading Supervisory Board, delivers to its customers:

- A reliable supply of high quality drinking water in sufficient quantity that satisfies normal daily demand at the lowest cost consistent with meeting a high level of customer service and confidence.
- A reliable wastewater collection service which treats and returns flow to the environment sustainably and efficiently.

Financial Highlights

| | Actual 2016 £'000s | Budget 2016 £'000s | Actual 2015 £'000s |
|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Revenue | 15,707 | 15,737 | 15,724 |
| Surplus for the financial year | 706 | 444 | 949 |
| Capital Expenditure | 4,788 | 7,259 | 23,991 |

During 2016 there were significant changes that had a material impact on the financial position.

- i) Following the approval of the Water Treatment Strategy, Juas Water Treatment Works is being recommissioned and once completed Longue Hougue Water Treatment Works will be decommissioned. As a result of this, those assets that cannot be utilised have had their useful life shortened and hence additional depreciation of £476,659 has been incurred.
- ii) The States of Guernsey resolved on 2 November 2016 to direct Guernsey Water to transfer a maximum of £19,900,000 to the Capital Reserve to reimburse the total cost of Belle Greve Wastewater Outfalls Project. As a result of this the original grant received has been converted into a short term creditor and any release to the Statement of Comprehensive Income has been reversed.
- iii) As a result of the performance of the States of Guernsey's investments, Guernsey Water has received £898,275 in investment return on balances held with States Treasury.

In relation to capital expenditure, Wastewater has now been integrated into Guernsey Water's remote control systems (SCADA), 5km of sewers have been rehabilitated, La Villette pumping station has been refurbished, the Kings Mills Water Treatment Sludge Thickening project and the Water Resource Management & Drought Plan have been completed.

States' Trading Supervisory Board

Guernsey Water

Statement of Activities and Performance – continued

Operational Performance

| | 2016 | 2015 | Change % |
|--|--------|--------|-------------|
| Number of supplies: | | | |
| Paying by tax on real property | 8,558 | 8,701 | -1.6% |
| Paying by measure | 17,205 | 16,954 | +1.5% |
| Total | 25,763 | 25,655 | +0.4% |
| Volume supplied in million litres (ML): | | | |
| Delivered to customers paying by measure | 2,620 | 2,639 | -0.7% |
| Delivered to other customers | 1,269 | 1,271 | -0.1% |
| Operational use, firefighting and losses | 685 | 617 | +11.0% |
| Total put into supply | 4,574 | 4,527 | +1.0% |
| | 2016 | 2015 | Change % |
| Service: | | | |
| Restrictions on supply | None | None | None |
| Burst mains | 41 | 39 | +5.1% |
| Discolouration - claims paid | 3 | 1 | +200.0% |
| Unit costs (partially weather related): | | | |
| Water production (per ML) | £ 386 | £ 477 | -17.0% |
| Water distribution (per supply) | £ 20 | £22 | -9.1% |
| Full time equivalent employees | 83 | 87 | -4.6% |
| Average number of full time employees | 80 | 80 | None |

Other matters:

In 2016 Guernsey Water made a one-off contribution to States of Guernsey General Revenue of £1,500,000. This contribution was made from the Property Development Fund. This reserve was originally created to fund Guernsey Water's centralisation development and is made up of net property sales, let property income and nominal interest.

States' Trading Supervisory Board

Guernsey Water

Statement of Activities and Performance – continued

Guernsey Water Department Board Members and Principal Officers up to 30 April 2016

Board Members were:

Deputy S. Ogier, Minister
Deputy D. Duquemin, Deputy Minister
Deputy M. Dorey
Deputy P. Harwood
Deputy R. Jones

Board Members were the elected political representatives of the Public Services Department as voted by the States of Deliberation.

Principal Officers were:

Mr A. Lewis, Chief Officer, Public Services Department
Mr R. Evans, Head of Corporate Services, Public Services Department
Mr S. Gardiner, Finance Business Partner
Mr S. Langlois, General Manager, Guernsey Water
Mr C. Hall, Customer Services Manager, Guernsey Water
Mr J. Holt, Operations Manager, Guernsey Water
Mrs M. McGuiness, Water Quality Risk Manager, Guernsey Water
Mr M. Walker, Capital Delivery Manager, Guernsey Water

States' Trading Supervisory Board Members and Principal Officers effective from 1 May 2016

Board Members are:

| | |
|--------------------------------|---|
| Deputy C. Parkinson, President | elected 21 September 2016 |
| Deputy J. Smithies | elected 18 May 2016 |
| Deputy D. Jones, President | elected 11 May 2016 (deceased, 5 July 2016) |
| Mr S. Falla MBE | elected 21 September 2016 |
| Mr J. Hollis | elected 21 September 2016 |

The constitution of the States' Trading Supervisory Board provides that the membership of the Board shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the Board is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers are:

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner
Mr S. Langlois, Director of Water Services
Mr C. Hall, Customer Services Manager, Guernsey Water
Mr J. Holt, Operations Manager, Guernsey Water
Mrs M. McGuiness, Water Quality Risk Manager, Guernsey Water
Mr A. Morton, Senior Finance Manager
Mr M. Walker, Capital Delivery Manager, Guernsey Water

Auditors

The current auditor, Deloitte LLP, has reached the end of its 5 year appointment. The States of Guernsey is currently undertaking a tender process for the new auditor appointment.

States' Trading Supervisory Board

Guernsey Water

Statement of Responsibilities for the Preparation of Financial Statements

The States' Trading Supervisory Board is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Guernsey Water and of the surplus or deficit of Guernsey Water for that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so; and
- state whether applicable accounting standards have been followed.

The States' Trading Supervisory Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time Guernsey Water's financial position. The Board is also responsible for safeguarding Guernsey Water's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

States' Trading Supervisory Board

Guernsey Water

Statement of Internal Financial Controls and Going Concern

It is the responsibility of the States' Trading Supervisory Board to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The States' Trading Supervisory Board is responsible for the economic, efficient and effective operations and management of Guernsey Water and has a duty to ensure that they fulfil their obligations.

Guernsey Water's internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual revenue and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the States' Trading Supervisory Board, to ensure that all Board members are informed of Guernsey Water's financial affairs.
- Customer invoices are subjected to a range of pre-determined integrity checks prior to dispatch in order to ensure accuracy.
- Regular review of debtors to ensure that any delinquent debtors are identified at an early stage and dealt with appropriately.
- The control of materials and purchases are managed using a computerised programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Board which is constituted from the Principal Officers of Guernsey Water.
- Regular review of charges for water supplies and other services.
- Consideration of all audit reports by the States' Trading Supervisory Board.

The States' Trading Supervisory Board strives to ensure that all staff with financial responsibility in Guernsey Water have the appropriate integrity, skills and motivation to professionally discharge their duties.

Guernsey Water's internal controls and accounting policies have been and are subject to continuous review and improvement. In addition the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with the States' Trading Supervisory Board and Guernsey Water's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Water has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Water is a going concern for at least twelve months from the approval of the financial statements.

Independent Auditor's Report to the Members of The States of Guernsey - States' Trading Supervisory Board

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board - Guernsey Water ("the Business Unit") for the year ended 31 December 2016, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom General Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the members of the States of Guernsey - States' Trading Supervisory Board ("the Board"), as a body, in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Statement of Responsibilities for the preparation of financial statements, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the Business Unit's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Business Unit's affairs as at 31 December 2016 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Chartered Accountants, St. Peter Port, Guernsey
18 May 2017

States' Trading Supervisory Board

Guernsey Water

Statement of Comprehensive Income

for the year ended 31 December 2016

| | | 2016 | 2015 |
|---|----------------|--------------------|-------------|
| | | £ | £ |
| Revenue | Notes 2 & 4 | | |
| Water supplies | | 10,627,330 | 10,589,290 |
| Waste water supplies | | 3,400,024 | 3,344,976 |
| Other income | | 1,679,200 | 1,789,712 |
| | | 15,706,554 | 15,723,978 |
| Expenses | 2 & 4 | | |
| Operating expenses | | 7,360,277 | 7,597,662 |
| Management expenses | | 3,488,442 | 3,082,798 |
| | | 10,848,719 | 10,680,460 |
| Operating surplus before depreciation, amortisation and loss on disposal of fixed assets | | 4,857,835 | 5,043,518 |
| Depreciation/amortisation | 8 & 9 | (4,998,494) | (4,155,702) |
| Loss on disposal of fixed assets | 9 | (36,568) | (150) |
| Operating (deficit)/surplus for the year | | (177,227) | 887,666 |
| Investment return and net interest receivable | 5 | 883,568 | 60,998 |
| Surplus for the financial year | 6 | 706,341 | 948,664 |

All material activities derive from continuing operations.

There are no recognised gains or losses for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Financial Position

as at 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|---------------------|---------------------|
| Non-current assets | | | |
| Intangible fixed assets | 8 | 180,913 | 95,411 |
| Tangible fixed assets | 9 | 151,075,213 | 151,763,921 |
| Investment property | 10 | 650,000 | 650,000 |
| Assets under construction | 11 | 1,761,513 | 1,404,871 |
| | | <u>153,667,639</u> | <u>153,914,203</u> |
| Current assets | | | |
| Inventories | 12 | 1,383,000 | 1,278,161 |
| Debtors and prepayments | 13 | 2,171,940 | 2,025,369 |
| Cash at Bank | | 177,539 | 662,666 |
| Balances with States Treasury | | 11,874,258 | 12,197,562 |
| | | <u>15,606,737</u> | <u>16,163,758</u> |
| Creditors: amounts falling due within one year | 14 | <u>(20,032,720)</u> | <u>(1,234,350)</u> |
| Net current (liabilities)/assets | | <u>(4,425,983)</u> | <u>14,929,408</u> |
| Creditors: amounts falling due after more than one year | 15 | <u>(11,428,130)</u> | <u>(30,236,426)</u> |
| Total net assets | | <u>137,813,526</u> | <u>138,607,185</u> |
| Reserves | 16 | <u>137,813,526</u> | <u>138,607,185</u> |

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy C. Parkinson

18 May 2017

President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott

18 May 2017

Managing Director

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Changes in Equity

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|---------------------------|---------------------------|
| At 1 January | | 138,607,185 | 137,658,521 |
| Surplus for the financial year | | 706,341 | 948,664 |
| Contribution to States of Guernsey General Revenue | | (1,500,000) | - |
| At 31 December | 16 | <u>137,813,526</u> | <u>138,607,185</u> |

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Cash Flows

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|--------------------|--------------|
| Net cash flows from operating activities | 17 | 4,536,500 | 5,085,505 |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | 11 | (4,788,498) | (23,991,137) |
| Investment return and Interest received | | 943,567 | 60,998 |
| Government grants received | | - | 18,367,370 |
| Net cash flows used in investing activities | | (3,844,931) | (5,562,769) |
| Cash flows from financing activities | | | |
| Contribution to States of Guernsey General Revenue | | (1,500,000) | - |
| Net cash flows from financing activities | | (1,500,000) | - |
| Net decrease in cash and cash equivalents | | (808,431) | (477,264) |
| Cash and cash equivalents at the beginning of the year | | 12,860,228 | 13,337,492 |
| Cash and cash equivalents at the end of the year | | 12,051,797 | 12,860,228 |
| Reconciliation to cash at bank and in hand: | | | |
| Cash at bank and in hand | | 177,539 | 662,666 |
| Balances with States Treasury | | 11,874,258 | 12,197,562 |
| Cash and cash equivalents | | 12,051,797 | 12,860,228 |

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements

1. General information

The management, operation and maintenance of Guernsey Water is the responsibility of the States of Guernsey - States' Trading Supervisory Board. The nature of Guernsey Water's operations and principal activities are set out in the Statement of Activities and Performance.

Guernsey Water's principal place of business is Brickfield House, St Andrew, Guernsey, GY1 3AS.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting Convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include Investment Properties at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of Guernsey Water.

Going Concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with the States' Trading Supervisory Board and Guernsey Water's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Water has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Water is a going concern for at least twelve months from the approval of the financial statements.

Intangible assets

i) Long-term strategies

Expenditure on reports that are designed to inform the long-term strategies of Guernsey Water are capitalised as an intangible fixed asset and amortised over the period for which the Board expects to be able to rely on the usefulness of the recommendations within the report. This period is five years. Provision is made for any impairment.

If the expenditure is only relevant to a decision in relation to a single asset then the expenditure is expensed as incurred. Expenditure on reports into the implementation of Board decisions are capitalised as part of the tangible fixed asset constructed as a result of those decisions.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Tangible Fixed Assets

i) Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the Statement of Comprehensive Income.

ii) Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment is depreciated over their expected useful life except assets in the course of construction.

iii) Assets under construction

Assets under construction are capitalised and are transferred to tangible fixed assets and depreciated once brought into use. All costs associated with capital projects, including professional fees are capitalised. No impairment reviews are undertaken for assets under construction.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the beginning of the month following the acquisition of an asset or, in the case of constructed assets, the asset being brought into a condition to be used as intended.

| | Estimated life in years | Depreciation % per annum |
|--|----------------------------|-----------------------------|
| Land | | |
| Land and quarries | - | - |
| Land and quarries improvements | 10 - 50 | 2% - 10% |
| Buildings | | |
| Structures and buildings | 10 - 50 | 2% - 10% |
| Infrastructure | | |
| Dam | 50 | 2% |
| Distribution meters | 12 | 8.3% |
| Fixed plant (machinery) | 15 - 5 | 6.7% - 20% |
| Mains | 50 - 10 | 2% - 10% |
| Mobile plant and tools | 5 | 20% |
| Pumping stations – Civil | 50 | 2% |
| Pumping stations – Mechanical and Electrical | 15 | 6.7% |
| Pumping stations – Control/Instrumentation | 10 | 10% |
| Rising Mains | 50 | 2% |
| Rolling Capital Programmes | 7 | 14.3% |
| Sewers - Pipes | 70 | 1.4% |
| Sewers - Chambers | 20 | 5% |
| Sewers – Manhole Covers | 5 | 20% |
| Furniture, fixtures and fittings | | |
| Computer equipment | 5 | 20% |
| Office furniture, fittings and equipment | 10 - 5 | 10% - 20% |
| Motor vehicles | | |
| Motor vehicles | 7 | 14.3% |

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of comprehensive income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include materials and is calculated using the average cost method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a specific provision against debtor balances that are identified as irrecoverable.

ii) Trade and other creditors

Trade and other creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Water. Whilst Guernsey Water operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents on Guernsey Water's Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Business Unit transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Business Unit, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in a contract is discharged, cancelled or expires.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis and also includes the estimated value of unbilled water and waste water supplies and cesspit emptying income which is calculated by reference to the value at which supplies will be invoiced. This total estimated value of unbilled supplies is included in debtors.

Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year. When the work has been completed this is recognised immediately as income.

Pension costs

Pension costs are treated as described in note 19 Employee benefits.

Capital grants

Grants from the States of Guernsey relating to tangible fixed assets are treated as deferred income and released to the Statement of Comprehensive Income over the anticipated useful life of the assets concerned on a basis consistent with the depreciation of the underlying asset. Other grants are credited to the Statement of Comprehensive Income as the related expenditure is incurred.

Investment return and interest receivable/payable

Investment return on balances held with the States of Guernsey and interest receivable/payable is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of Guernsey Water's accounting policies, which are described in note 2, the Board Members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Board Members have made in the process of applying Guernsey Water's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Valuation of investment property

As stated in the accounting policies above, Guernsey Water's investment properties are stated at fair value, as accounted for by management based on an independent external appraisal. The estimated fair value may differ from the price at which the properties could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. Also certain estimates require an assessment of factors not within management's control such as overall market conditions. As a result, actual realisable proceeds could differ from the valuations in these financial statements, and the difference could be significant.

ii) Depreciation rates

Guernsey Water's infrastructure assets have no definite life, so management makes an assumption based on previous experience of the usage of the assets. The rate used for each type of asset that makes up the infrastructure assets has been disclosed in note 2.

iii) Reassessment of the useful life of Longue Hougue Water Treatment Works assets

As a result of the approval of Guernsey Water's Water Treatment Strategy in March 2016, the decision has been taken to decommission the Longue Hougue Water Treatment Works in December 2018. The assets that constitute the Longue Hougue Water Treatment Works have been reviewed and have been split between those that will still have value to the business after the decommissioning and those that will have no value. Those assets that will have no value are now being depreciated over the period until decommissioning.

Management has estimated the cost of the individual assets based on the value of works originally tendered. Additionally where it has been determined that only part of an asset will be retained, management has estimated the proportion of the asset that will be retained based on the knowledge of staff with the most expertise and experience dealing with these assets. The results of this are disclosed in note 9.

iv) Rolling capital and meters

As a result of past experience and due to the nature of these assets, management has automatically treated these assets as disposals when they are at the end of their useful lives.

v) Unbilled services

Measured and unmeasured water supplies and waste water and cesspit emptying are billed on a quarterly cycle which means at the year-end a significant volume of water has been supplied and wastewater treated that has not been invoiced. Management estimates the value of these services based on subsequent invoicing.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

4. Revenue and expenses

All revenue is derived from activities within the Bailiwick of Guernsey.

An analysis of Guernsey Water's revenue by class of business is set out below:

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Water Supplies | | |
| Unmeasured | 3,586,807 | 3,655,197 |
| Measured | 7,040,523 | 6,934,093 |
| | <u>10,627,330</u> | <u>10,589,290</u> |
| Waste Water Supplies | | |
| Unmeasured | 1,238,777 | 1,218,067 |
| Measured | 2,161,247 | 2,126,909 |
| | <u>3,400,024</u> | <u>3,344,976</u> |
| Cesspit emptying income | 1,083,122 | 1,059,404 |
| Net surplus on other trading activities (see below) | 393,342 | 439,139 |
| Grant released (note 15) | 202,736 | 291,169 |
| | <u>15,706,554</u> | <u>15,723,978</u> |
| Net surplus on other trading activities | | |
| Standard charges for service laying | 238,574 | 297,331 |
| Charges for work at ascertained cost | 34,755 | 90,446 |
| Property rental income | 127,140 | 116,890 |
| Stores issues | 432,268 | 562,120 |
| | <u>832,737</u> | <u>1,066,787</u> |
| Expenditure | <u>(439,395)</u> | <u>(627,648)</u> |
| | <u>393,342</u> | <u>439,139</u> |
| Operating expenses | | |
| Water production | 1,765,153 | 2,157,999 |
| Water distribution | 514,814 | 559,284 |
| Asset Management | 434,358 | 317,453 |
| Pumping | 1,293,818 | 1,196,778 |
| Sewers | 3,352,134 | 3,366,148 |
| | <u>7,360,277</u> | <u>7,597,662</u> |
| Management expenses | | |
| Management and general | 969,100 | 673,881 |
| Water quality and risk management | 650,915 | 631,773 |
| Customer services | 861,230 | 648,016 |
| Finance and support services | 1,007,197 | 1,129,128 |
| | <u>3,488,442</u> | <u>3,082,798</u> |
| Total expenditure | <u>10,848,719</u> | <u>10,680,460</u> |

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

5. Investment return and net interest receivable

| | 2016 £ | 2015 £ |
|--|----------------|---------------|
| Investment return | 882,170 | 60,000 |
| Interest receivable and similar income | 1,398 | 998 |
| | 883,568 | 60,998 |

6. Surplus for the financial year

Surplus for the financial year is stated after charging/(crediting):

| | Note | 2016 £ | 2015 £ |
|---|------|------------------|------------------|
| Auditor's remuneration | | 23,385 | 26,755 |
| Government grants released | 15 | (202,736) | (291,169) |
| Amortisation of intangible fixed assets | 8 | 32,845 | 17,255 |
| Depreciation of tangible fixed assets | 9 | 4,965,649 | 4,129,343 |
| Impairment of tangible fixed assets | | 92,873 | 9,104 |
| Loss on disposal of fixed assets | | 36,568 | 150 |
| | | 4,948,584 | 3,891,438 |

7. Staff numbers and costs

The average monthly number of full time employees (including senior management) was:

| | Note | 2016 £ | 2015 £ |
|-------------------------------|------|-----------|-----------|
| Capital delivery | | 10 | 9 |
| Operations | | 37 | 38 |
| Customer Services | | 17 | 14 |
| Administration and support | | 8 | 14 |
| Water quality risk management | | 8 | 5 |
| | | 80 | 80 |

Their aggregate remuneration comprised:

| | Note | 2016 £ | 2015 £ |
|--|------|------------------|------------------|
| Wages and salaries | | 3,196,752 | 3,131,504 |
| Social security costs | | 201,870 | 202,639 |
| Other pension costs | 19 | 414,551 | 406,176 |
| Remuneration costs transferred to capital assets | | (273,181) | (412,639) |
| | | 3,539,992 | 3,327,680 |

Other pension costs include only those items within operating and management expenses.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

8. Intangible fixed assets

| | 1 January 2016 £ | Additions £ | Write offs/ Disposal £ | 31 December 2016 £ |
|-----------------------|------------------------|-----------------------------|-------------------------------|--------------------------|
| Cost | | | | |
| Long-term strategies | 150,644 | 118,347 | - | 268,991 |
| | <u>150,644</u> | <u>118,347</u> | <u>-</u> | <u>268,991</u> |
| | 1 January 2016 £ | Charge for the year £ | Write offs/ disposals £ | 31 December 2016 £ |
| Amortisation | | | | |
| Long-term strategies | 55,233 | 32,845 | - | 88,078 |
| | <u>55,233</u> | <u>32,845</u> | <u>-</u> | <u>88,078</u> |
| Net Book Value | <u>95,411</u> | | | <u>180,913</u> |

Long-term strategies represent reports prepared to inform the long-term decision making of Guernsey Water.

9. Tangible fixed assets

| | 1 January 2016 £ | Additions £ | Write offs/ Disposal £ | 31 December 2016 £ |
|-----------------------|------------------------|-----------------------------|-------------------------------|--------------------------|
| Cost | | | | |
| Land | 3,141,359 | - | - | 3,141,359 |
| Infrastructure | 186,036,941 | 3,848,224 | (130,592) | 189,754,573 |
| Buildings | 15,317,216 | 225,575 | (2,499) | 15,540,292 |
| Motor vehicles | 760,307 | 107,818 | (13,061) | 855,064 |
| Office equipment | 747,043 | 131,892 | - | 878,935 |
| | <u>206,002,866</u> | <u>4,313,509</u> | <u>(146,152)</u> | <u>210,170,223</u> |
| | 1 January 2016 £ | Charge for the year £ | Write offs/ disposals £ | 31 December 2016 £ |
| Depreciation | | | | |
| Land | 147,867 | 30,479 | - | 178,346 |
| Infrastructure | 50,201,563 | 4,405,130 | (94,024) | 54,512,669 |
| Buildings | 2,600,923 | 403,234 | (2,499) | 3,001,658 |
| Motor vehicles | 683,306 | 38,502 | (13,061) | 708,747 |
| Office equipment | 605,286 | 88,304 | - | 693,590 |
| | <u>54,238,945</u> | <u>4,965,649</u> | <u>(109,584)</u> | <u>59,095,010</u> |
| Net Book Value | <u>151,763,921</u> | | | <u>151,075,213</u> |

The planned decommissioning of Longue Hougue Water Treatment Works has resulted in additional depreciation being charged for the year of £476,659.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

10. Investment properties

| | 1 January 2016 £ | Additions/ Disposals £ | Revaluations £ | 31 December 2016 £ |
|-----------------------|------------------------|------------------------------|-------------------|--------------------------|
| Investment properties | 650,000 | - | - | 650,000 |
| | <u>650,000</u> | <u>-</u> | <u>-</u> | <u>650,000</u> |

Investment properties, which are all freehold, were revalued to fair value at 31 December 2013, based on a valuation undertaken by the States Property Services, an independent valuer approved by RICS with recent experience in the location and class of the investment property being valued. The method of determining fair value was the comparable basis. There are no restrictions on the realisability of investment property. The valuation was reviewed by the States Property Services at the year end and it concluded that there had been no significant change in the valuations of the investment properties.

The original book value of the investment properties was £253,648.

11. Assets under construction

| | 1 January £ | Expenditure in the year £ | Transfer to Tangible & Intangible Fixed Assets £ | 31 December £ |
|-------------------|------------------|---------------------------------|--|------------------|
| 2016 Total | 1,404,871 | 4,788,498 | (4,431,856) | 1,761,513 |
| 2015 Total | 1,431,984 | 23,991,137 | (24,018,250) | 1,404,871 |

Assets under construction completed in 2016 and transferred to fixed assets include the Waste Water SCADA Project (£654,183), Sewer rehabilitation (£794,556), the Kings Mills Water Treatment Sludge Thickening project (£254,593) and La Villette Pumping Station refurbishment (£374,215).

Assets under construction as at 31 December 2016 relate principally to replacing the sewage rising main from St Sampson to Belle Greve (£858,369).

12. Inventories

| | 2016 £ | 2015 £ |
|--------------------|------------------|------------------|
| Water production | 510,322 | 469,114 |
| Water distribution | 453,919 | 469,343 |
| Waste water | 418,759 | 339,704 |
| | <u>1,383,000</u> | <u>1,278,161</u> |

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

13. Debtors and prepayments

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Amounts falling due within one year: | | |
| Unbilled water supplies | 753,075 | 729,381 |
| Unbilled waste water | 235,871 | 228,782 |
| Customers' billed accounts outstanding | 578,626 | 424,110 |
| Cesspit emptying income receivable | 17,076 | 11,978 |
| Unbilled cesspit income | 171,621 | 173,574 |
| Electricity prepayment | 77,941 | 77,119 |
| Other debtors and prepayments | 324,786 | 116,561 |
| Grants receivable | 12,944 | 38,864 |
| | 2,171,940 | 1,800,369 |
| Amounts falling due after more than one year: | | |
| Lease deposit, see note 20. | - | 225,000 |
| | 2,171,940 | 2,025,369 |

Other debtors and prepayments includes £225,000 short term leasehold property deposit which was previously a long term debtor.

14. Creditors: amounts falling due within one year

| | 2016 £ | 2015 £ |
|---|-------------------|------------------|
| Trade creditors | 522,395 | 464,627 |
| Accruals | 859,925 | 600,247 |
| States of Guernsey creditor, see note 15. | 18,579,639 | - |
| Deferred income | 70,761 | 169,476 |
| | 20,032,720 | 1,234,350 |

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

15. Creditors: amounts falling due after more than one year

| | 2016 £ | 2015 £ |
|---|---------------------|-------------------|
| Deferred income | <u>11,428,130</u> | <u>30,236,426</u> |
| | <u>11,428,130</u> | <u>30,236,426</u> |
| | 2016 £ | 2015 £ |
| Capital grants | | |
| At beginning of year | 30,236,426 | 12,160,225 |
| Grants receivable | 13,599 | 18,367,370 |
| Grants to be repaid | <u>(18,619,159)</u> | <u>-</u> |
| | 11,630,866 | 30,527,595 |
| Released to revenue account during the year | <u>(202,736)</u> | <u>(291,169)</u> |
| At end of year | <u>11,428,130</u> | <u>30,236,426</u> |

As a result of the States of Guernsey decision on 2 November 2016 the grant received in relation to the Belle Greve Outfall Project is now repayable. All monies received have been transferred to the States of Guernsey creditor which is due for payment in 2017 (see note 14). Any amounts not received (£39,520) from the States of Guernsey at the time of the decision have been offset against Grants receivable.

An amount of £202,736 was released to the Statement of Comprehensive Income in 2016 (2015: £291,169). This represents an apportionment of the States grants received over the life of the assets to which the grants relate. This offsets the depreciation on those assets. The release of the grant is commenced on the date of recognition of the asset.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

16. Reserves

| | Property Develop't Fund £ | General Reserve £ | Funding from the States of Guernsey - Merger Reserve £ | Revenue Account £ | Total £ |
|--|------------------------------------|-------------------------|--|-------------------------|--------------------|
| Balance at 1 January 2016 | 5,006,707 | 16,102,073 | 75,178,135 | 42,320,270 | 138,607,185 |
| Surplus for financial year | - | - | - | 706,341 | 706,341 |
| Transfer to revenue account | (3,506,707) | (16,102,073) | - | 19,608,780 | - |
| Transfer of non-water profits | 129,004 | - | - | (129,004) | - |
| Transfer to the States of Guernsey General Revenue | (1,500,000) | - | - | - | (1,500,000) |
| Balance at 31 December 2016 | 129,004 | - | 75,178,135 | 62,506,387 | 137,813,526 |

The property development fund was set up to fund Guernsey Water's centralisation development. Transfers to the fund comprise net property surpluses, let property income and nominal interest and other surpluses. In 2016 Guernsey Water made a one-off distribution from this reserve to the States of Guernsey General Revenue of £1,500,000. It was decided that the reserve should be reset to nil from 1 January 2016. It will continue to be used to hold reserves generated from property related surpluses and other non-water/non-waste water related surpluses.

The funding of the asset base and the refurbishment or replacement of the St Saviour's Dam would be a very significant investment. The General Reserve has been a notional reserve and as such it does nothing to contribute to that intent, it was decided to transfer the balance on this reserve to the revenue account.

Funding from the States of Guernsey – Merger Reserve represents the net book value of the assets transferred by the States of Guernsey Public Services Department ("PSD") to Guernsey Water on the amalgamation of Guernsey Water and Guernsey Waste Water effective 1 January 2012.

All reserves are distributable.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

17. Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities

| | Note | 2016 £ | 2015 £ |
|---|-------|---------------------|-----------|
| Operating (deficit)/surplus for the year | | (177,227) | 887,666 |
| Depreciation and amortisation charges | 8 & 9 | 4,998,494 | 4,155,702 |
| Loss on sale of tangible assets | | 36,568 | 150 |
| Government grants released | 15 | (202,736) | (291,169) |
| Increase in inventories | 12 | (104,839) | (37,341) |
| (Increase)/decrease in debtors | 13 | (206,570) | 339,356 |
| Increase in creditors due within one year | 14 | 18,798,370 | 31,141 |
| Decrease in Government grants | | (18,605,560) | - |
| Net cash flows from operating activities | | 4,536,500 | 5,085,505 |

18. Financial commitments

| | 2016 £ | 2015 £ |
|---|------------------|-----------|
| Commitments at 31 December for which no provision has been made in these financial statements | 1,288,339 | 902,497 |

Financial commitments are for several low value capital projects.

19. Employee benefits

The employees of Guernsey Water are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Water's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Water are considered to be ultimately employees of the States of Guernsey.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

19. Employee benefits - continued

Consequently, Guernsey Water has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of Comprehensive Income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £414,551 (2015: £406,176).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2016.

20. Subsequent events

Subsequent to the year end, a contract with a leaseholder has been terminated resulting in the reclassification of a long term deposit to a short term debtor.

Management know of no other events subsequent to the year-end that would materially affect the financial statements.

21. Related party transactions

The States' Trading Supervisory Board is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length".

The total direct remuneration of key management personnel in 2016 (including salaries and other benefits) was £433,104 (2015: £389,503).

Related party transactions between Guernsey Water and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 "Related Party Disclosures.

States' Trading Supervisory Board member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

22. Statement of control

Guernsey Water is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Guernsey Water has been delegated to the members of the States' Trading Supervisory Board appointed by the States of Guernsey.

23. Off balance-sheet arrangements

There are no commitments other than detailed in note 18 or contingent liabilities relating to 2016 which would affect these financial statements (2015: None).

States' Trading Supervisory Board

Guernsey Dairy

Statement of Activities and Performance

for the year ended 31 December 2016

During the financial year ended 31 December 2016, responsibility for Guernsey Dairy fell initially within the mandate of the Commerce and Employment Department until 30 April 2016 and then, under new arrangements agreed by the States of Guernsey for the organisation of States' affairs, responsibility for Guernsey Dairy was transferred to the mandate of the new States' Trading Supervisory Board (the "Board") with effect from 1 May 2016. All references in this document to the States' Trading Supervisory Board should be read as relating to the Commerce and Employment Department if prior to 1 May 2016.

Principal activities

Guernsey Dairy operates to:

- Support the policies of the States' Trading Supervisory Board;
- Support a viable dairy industry in Guernsey by purchasing all locally produced milk;
- Satisfy the total consumer demand for fresh milk on Guernsey at an acceptable purchasing price;
- Operate efficiently and in such a manner that, over a year, the business does no worse than break even in financial terms; and
- Provide a safe and rewarding environment to all staff at the Dairy.

Financial Highlights

| | Actual 2016 £'000 | Budget 2016 £'000 | Actual 2015 £'000 |
|---------------------|----------------------------------|----------------------------------|----------------------------------|
| Revenue | 7,454 | 7,343 | 7,244 |
| (Deficit)/surplus | (791) | 253 | 133 |
| Capital expenditure | 550 | 1,142 | 198 |

The following report highlights the reasons for some of the key variances in Guernsey Dairy's financial statements and provides a summary of the year.

Revenue

Liquid milk revenue improved in 2016 as a result of an increase in the gate price for liquid milk. However demand for milk continued to decline during the year.

Production costs

The cost of purchasing raw milk increased in 2016. This is as a result of Guernsey Dairy increasing the price paid to farmers to compensate for the reduction in the Dairy Farm Management Payment Scheme from £2 million to £1 million over a 5 year period starting in 2015. This has resulted in an additional cost of £200,000 in 2016. The increase in costs was also due to high volumes of raw milk supplied in the early months of 2016.

Administration expenses

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at its meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750,000 in total, all of which has been included as part of "Other expenses". As at 31 December 2016 £80,000 remained unpaid.

Guernsey Dairy employed 37 full time equivalents at the end of 2016 (2015:38).

Capital expenditure

A comprehensive capital expenditure programme continued in 2016 resulting in total expenditure of £550,140 (2015:£198,499).

States' Trading Supervisory Board

Guernsey Dairy

Statement of Activities and Performance - continued

Commerce and Employment Department Board Members and Principal Officers up to 30 April 2016

Board Members were:

Deputy K. Stewart, Minister
Deputy A. Brouard, Deputy Minister
Deputy G. Collins, Member
Deputy D. De Lisle, Member
Deputy L. Trott, Member
Advocate T. Carey, Non-States Member

Board Members were the elected representatives of the Commerce and Employment Department as voted by the States of Deliberation.

Principal Officers were:

Mr J. Moriarty, Chief Officer, Commerce and Employment Department
Mr A. Tabel, Guernsey Dairy General Manager
Mr R. Nash, Director of Client/Environment Services

States' Trading and Supervisory Board Members and Principal Officers effective from 1 May 2016

Board Members are:

| | |
|--------------------------------|---|
| Deputy C. Parkinson, President | elected 21 September 2016 |
| Deputy J. Smithies | elected 18 May 2016 |
| Deputy D. Jones, President | elected 11 May 2016 (deceased, 5 July 2016) |
| Mr S. Falla MBE | elected 21 September 2016 |
| Mr J. Hollis | elected 21 September 2016 |

The constitution of the States' Trading Supervisory Board provides that the membership of the Board shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the Board is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers are:

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner
Mr A. Tabel, Guernsey Dairy General Manager
Mr R. Nash, Director of Environment Services

Dairy Management Board

The Dairy Management Board Members are:

| | |
|-----------------------|--------------------------------------|
| Mr S. Hogg, Chairman | appointed as Chairman 1 January 2017 |
| Mr A. Child, Chairman | resigned 31 December 2016 |
| Deputy D. De Lisle | resigned 30 April 2016 |
| Mr R. Waters | |
| Mr S. Keys | |
| Mr R. Evans | appointed 1 January 2017 |
| Mr R. Nash | |
| Mr A. Tabel | |

Auditors

The current auditor, Deloitte LLP, has reached the end of its 5 year appointment. The States of Guernsey is currently undertaking a tender process for the new auditor appointment.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Responsibilities for the Preparation of Financial Statements

The States' Trading Supervisory Board is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for Guernsey Dairy and of the surplus or deficit of Guernsey Dairy for that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so; and
- state whether applicable accounting standards have been followed.

The States' Trading Supervisory Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time Guernsey Dairy financial position. The Board is also responsible for safeguarding Guernsey Dairy assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Internal Financial Controls and Going Concern

It is the responsibility of the States' Trading Supervisory Board to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The States' Trading Supervisory Board is responsible for the economic, efficient and effective operations and management of Guernsey Dairy and has a duty to ensure that they fulfil their obligations.

Guernsey Dairy's internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the States' Trading Supervisory Board, to ensure that all Board Members are informed of Guernsey Dairy financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.
- The control of materials and stores purchases are managed using Guernsey Dairy's stores database programme with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.

The States' Trading Supervisory Board strives to ensure that all staff with financial responsibility in Guernsey Dairy have the appropriate integrity, skills and motivation to professionally discharge their duties.

Guernsey Dairy's internal controls and accounting policies have been and are subject to continuous review and improvement. In addition the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with Guernsey Dairy and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements.

Independent Auditor's Report to the Members of The States of Guernsey - States' Trading Supervisory Board

We have audited the financial statements of the States of Guernsey-States' Trading Supervisory Board-Guernsey Dairy ("the Business Unit") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom General Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the members of the States of Guernsey - States' Trading Supervisory Board ("the Board"), as a body, in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Statement of responsibilities for the preparation of financial statements, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to the Business Unit's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Business Unit's affairs as at 31 December 2016 and of its deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Chartered Accountants, St. Peter Port, Guernsey
18 May 2017

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2016

| | | 2016 | 2015 |
|--|-------|-------------------------|------------------|
| | Notes | £ | £ |
| Revenue | 2 & 4 | | |
| Liquid milk | | 5,886,132 | 5,657,361 |
| Dairy products | | 1,548,736 | 1,552,073 |
| Sundry income | | 19,161 | 34,741 |
| | | <u>7,454,029</u> | <u>7,244,175</u> |
| Expenses | 2 & 4 | | |
| Cost of sales | | 5,765,071 | 5,309,403 |
| Administration expenses | | 2,426,438 | 1,628,124 |
| | | <u>8,191,509</u> | <u>6,937,527</u> |
| Operating (deficit)/ surplus before depreciation and loss on disposal of fixed assets | | (737,480) | 306,648 |
| Depreciation | 8 | (221,050) | (204,121) |
| Gain on disposal of fixed assets | | - | 500 |
| Operating (deficit)/surplus for the year | | <u>(958,530)</u> | <u>103,027</u> |
| Investment return and net interest receivable | 5 | <u>167,369</u> | <u>29,925</u> |
| (Deficit)/surplus for the financial year | | <u>(791,161)</u> | <u>132,952</u> |

All material activities derive from continuing operations.

There are no recognised gains or losses for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as at 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|------------------|------------------|
| Non-current assets | | | |
| Tangible fixed assets | 8 | <u>2,322,935</u> | <u>1,993,845</u> |
| Current assets | | | |
| Inventories | 9 | 635,309 | 616,832 |
| Debtors and prepayments | 10 | 934,414 | 746,803 |
| Balances with States Treasury | | 1,548,710 | 2,905,598 |
| Cash at bank and in hand | | <u>252,597</u> | <u>74,447</u> |
| | | <u>3,371,030</u> | <u>4,343,680</u> |
| Creditors: amounts falling due within one year | 11 | <u>(648,106)</u> | <u>(500,505)</u> |
| Net current assets | | <u>2,722,924</u> | <u>3,843,175</u> |
| Total net assets | | <u>5,045,859</u> | <u>5,837,020</u> |
| Reserves | 12 | <u>5,045,859</u> | <u>5,837,020</u> |

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy C. Parkinson 18 May 2017
President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott 18 May 2017
Managing Director

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Changes in Equity

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|-------------------------|-------------------------|
| At 1 January | | 5,837,020 | 5,704,068 |
| (Deficit)/surplus for the financial year | | <u>(791,161)</u> | <u>132,952</u> |
| At 31 December | 12 | <u>5,045,859</u> | <u>5,837,020</u> |

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|--------------------|-----------|
| Net cash flows from operating activities | 13 | (795,967) | 302,814 |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | - | 500 |
| Purchase of fixed assets | 8 | (550,140) | (198,499) |
| Investment return and interest received | | 167,369 | 29,925 |
| Net cash flows used in investing activities | | (382,771) | (168,074) |
| Net (decrease)/increase in cash and cash equivalents | | (1,178,738) | 134,740 |
| Cash and cash equivalents at the beginning of the year | | 2,980,045 | 2,845,305 |
| Cash and cash equivalents at the end of the year | | 1,801,307 | 2,980,045 |
| Reconciliation to cash at bank and in hand: | | | |
| Cash at bank and in hand | | 252,597 | 74,447 |
| Balances with States Treasury | | 1,548,710 | 2,905,598 |
| Cash and cash equivalents | | 1,801,307 | 2,980,045 |

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements

1. General information

The management, operation and maintenance of Guernsey Dairy is the responsibility of the States of Guernsey - States' Trading Supervisory Board. The nature of Guernsey Dairy's operations and principal activities are set out in the Statement of Activities and Performance.

Guernsey Dairy's principal place of business is Bailiff's Cross, St Andrews, Guernsey, GY6 8RJ.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting Convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of Guernsey Dairy.

Going Concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with Guernsey Dairy and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements

Tangible Fixed Assets

i) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment are depreciated over their expected useful life.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the beginning of the month of acquisition of an asset or, in the case of constructed assets, the asset being brought into a condition to be used as intended.

| | Estimated life in years | Depreciation % per annum |
|------------------------|----------------------------|-----------------------------|
| Buildings | 10 – 50 | 2% - 10% |
| Plant and machinery | 5 – 20 | 5% - 33.3% |
| Motor vehicles | 5 – 20 | 5% - 20% |
| Information technology | 3 – 5 | 20% - 33.3% |

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

2. Principal accounting policies – continued

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of comprehensive income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses. Cost is calculated using the FIFO (first-in, first-out method). Provision is made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a general provision for all amounts exceeding 90 days.

ii) Trade and other creditors

Trade and other creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost.

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Dairy. Whilst Guernsey Dairy operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents on Guernsey Dairy's Statement of financial position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Dairy transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Dairy, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in a contract is discharged, cancelled or expires.

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

2. Principal accounting policies – continued

Pension costs

Pension costs are treated as described in note 15 Employee benefits.

Investment return and interest receivable/payable

Investment return on balances held with the States of Guernsey and interest receivable/payable is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Dairy's accounting policies, which are described in note 2, the Board Members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Board Members have made in the process of applying Guernsey Dairy's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

i) Depreciation rates

Guernsey Dairy's assets are depreciated based on management's previous experience of the usage and expected life of the assets within the business.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

4. Revenue and expenses

A geographical analysis of Guernsey Dairy's revenue is set out below.

| | 2016 | 2015 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Bailiwick of Guernsey | 7,130,132 | 6,928,339 |
| UK | 263,777 | 246,756 |
| Holland | 60,120 | 69,080 |
| | <u>7,454,029</u> | <u>7,244,175</u> |

An analysis of Guernsey Dairy's revenue by class of business is set out below:

| | 2016 | 2015 |
|-------------------------------|------------------|------------------|
| | £ | £ |
| Milk | 5,861,658 | 5,631,468 |
| Organic milk | 24,474 | 25,893 |
| Butter | 977,975 | 979,616 |
| Cheese | 160,889 | 168,573 |
| Cream | 272,381 | 275,610 |
| Ice-cream | 177,469 | 148,820 |
| Promotional discounts allowed | (39,978) | (20,546) |
| Carton advertising | - | 12,800 |
| Other income | 19,161 | 21,941 |
| | <u>7,454,029</u> | <u>7,244,175</u> |

An analysis of Guernsey Dairy's expenses is set out below

Cost of sales

| | | |
|---------------------------|------------------|------------------|
| Production wages | 951,311 | 883,563 |
| Milk | 3,963,928 | 3,804,927 |
| Milk - working loss | 152,072 | 111,197 |
| Dairy product ingredients | 37,431 | 49,176 |
| Packaging materials | 576,495 | 388,520 |
| Freight | 83,834 | 72,020 |
| | <u>5,765,071</u> | <u>5,309,403</u> |

Administration expenses

| | | |
|------------------------------------|------------------|------------------|
| Advertising and promotion | 57,926 | 88,650 |
| Cleaning materials | 59,356 | 64,279 |
| Fuel, light, power, water, rates | 308,853 | 287,511 |
| General administration costs | 72,251 | 45,729 |
| Laboratory materials and equipment | 93,107 | 99,063 |
| Motor vehicles | 15,457 | 25,739 |
| Professional fees | 317,040 | 184,924 |
| Provision for bad debts | (11,071) | (615) |
| Repairs, maintenance and insurance | 187,090 | 180,571 |
| Salaries | 519,745 | 612,158 |
| Other expenses | 806,684 | 40,115 |
| | <u>2,426,438</u> | <u>1,628,124</u> |

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at its meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750,000 in total all of which has been included as part of "Other expenses". £80,000 remains unpaid at 31 December 2016 and is included in accruals.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

5. Investment return and net interest receivable

| | 2016 £ | 2015 £ |
|--|----------------|---------------|
| Investment return | 167,146 | 29,785 |
| Interest receivable and similar income | 223 | 140 |
| | <u>167,369</u> | <u>29,925</u> |

6. (Deficit)/surplus for the financial year

(Deficit)/surplus is stated after charging/(crediting):

| | Note | 2016 £ | 2015 £ |
|---------------------------------------|------|----------------|----------------|
| Auditor's remuneration | | 18,230 | 18,230 |
| Depreciation of tangible fixed assets | 8 | 221,050 | 204,121 |
| Gain on disposal of fixed assets | | - | (500) |
| Ex-gratia payments | 4 | 750,000 | - |
| | | <u>989,280</u> | <u>221,851</u> |

7. Staff numbers and costs

The average monthly number of full time employees (including senior management) was:

| | 2016 £ | 2015 £ |
|----------------------|-----------|-----------|
| Production staff | 29 | 23 |
| Administration staff | 7 | 8 |
| | <u>36</u> | <u>31</u> |

Their aggregate remuneration comprised:

| | Note | 2016 £ | 2015 £ |
|-----------------------|------|------------------|------------------|
| Wages and salaries | | 1,252,840 | 1,284,783 |
| Social security costs | | 80,622 | 78,482 |
| Other pension costs | 15 | 137,594 | 132,456 |
| | | <u>1,471,056</u> | <u>1,495,721</u> |

Other pension costs include only those items within production costs and administration expenses.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

8. Tangible fixed assets

| | 1 January 2016 £ | Additions £ | Write offs/ Disposal £ | 31 December 2016 £ |
|------------------------|------------------------|----------------|------------------------------|--------------------------|
| Cost | | | | |
| Buildings | 1,670,221 | - | - | 1,670,221 |
| Plant & equipment | 3,835,621 | 549,208 | - | 4,384,829 |
| Motor vehicles | 283,858 | - | - | 283,858 |
| Information technology | 36,282 | 932 | - | 37,214 |
| | <u>5,825,982</u> | <u>550,140</u> | <u>-</u> | <u>6,376,122</u> |
| Depreciation | | | | |
| Buildings | 886,690 | 42,584 | - | 929,274 |
| Plant & equipment | 2,681,328 | 153,252 | - | 2,834,580 |
| Motor vehicles | 246,317 | 14,798 | - | 261,115 |
| Information technology | 17,802 | 10,416 | - | 28,218 |
| | <u>3,832,137</u> | <u>221,050</u> | <u>-</u> | <u>4,053,187</u> |
| Net Book Value | <u>1,993,845</u> | | | <u>2,322,935</u> |

9. Inventories

| | 2016 £ | 2015 £ |
|-------------------------|-----------------------|----------------|
| Milk and dairy products | 353,582 | 367,666 |
| Packaging materials | 215,377 | 183,634 |
| Other inventories | <u>66,350</u> | <u>65,532</u> |
| | <u>635,309</u> | <u>616,832</u> |

10. Debtors and prepayments

| | 2016 £ | 2015 £ |
|-------------------------------|-----------------------|----------------|
| Trade debtors | 615,880 | 635,357 |
| Accrued income | 285,886 | 98,002 |
| Other debtors and prepayments | <u>32,648</u> | <u>13,444</u> |
| | <u>934,414</u> | <u>746,803</u> |

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

11. Creditors: amounts falling due within one year

| | 2016 £ | 2015 £ |
|-----------------------|----------------|----------------|
| Trade creditors | 478,874 | 465,782 |
| Accruals (see note 4) | 169,232 | 34,723 |
| | 648,106 | 500,505 |

2016 accruals includes £80,000 of unpaid Ex-gratia payments.

12. Reserves

| | Development & Continuity Reserve £ | Revenue Account £ | Total £ |
|-----------------------------|---|-------------------------|------------------|
| Balance at 1 January 2016 | 1,450,000 | 4,387,020 | 5,837,020 |
| Deficit for financial year | - | (791,161) | (791,161) |
| Balance at 31 December 2016 | 1,450,000 | 3,595,859 | 5,045,859 |

The Development and Continuity Reserve was created in 2015 to set aside funds for future major capital plant and equipment replacements and enhancements to ensure the continued efficiency for the supply of high quality dairy products.

13. Reconciliation of operating (deficit)/surplus to net cash flows from operating activities

| | 2016 £ | 2015 £ |
|--|------------------|----------------|
| Operating (deficit)/surplus for the year | (958,530) | 103,027 |
| Depreciation charges and loss on sale of tangible assets | 221,050 | 204,121 |
| Gain on sale of tangible assets | - | (500) |
| Increase in inventories | (18,477) | (161,117) |
| (Increase)/decrease in debtors | (187,611) | 89,537 |
| Increase in creditors due within one year | 147,601 | 67,746 |
| Net cash flows from operating activities | (795,967) | 302,814 |

14. Financial commitments

Guernsey Dairy has no financial commitments as at 31 December 2016 (2015 - nil) which are not provided for in the financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

15. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Dairy's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Dairy are considered to be ultimately employees of the States of Guernsey. Consequently, Guernsey Dairy has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of comprehensive income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £137,594 (2015: £132,456).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2016.

16. Subsequent events

Management know of no events subsequent to the year-end that would materially affect the financial statements.

17. Related party transactions

The States' Trading Supervisory Board is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. One member of the Dairy Management Board is a milk supplier contracted at "arm's length" on the same terms as other milk suppliers.

The total direct remuneration for key management personnel in 2016 (including salaries and other benefits) was £91,340 (2015: £87,341)

Related party transactions between Guernsey Dairy and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 "Related Party Disclosures".

States' Trading Supervisory Board member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements - continued

18. Statement of control

Guernsey Dairy is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Guernsey Dairy has been delegated to the members of the States' Trading Supervisory Board appointed by the States of Guernsey.

19. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2016 which would affect these financial statements (2015: None).

States' Trading Supervisory Board

States Works

Statement of Activities and Performance

for the year ended 31 December 2016

During the financial year ended 31 December 2016, responsibility for States Works fell initially within the mandate of the Public Services Department until 30 April 2016 and then under new arrangements agreed by the States of Guernsey for the organisation of States' affairs, responsibility for States Works was transferred to the mandate of the new States' Trading Supervisory Board ("the Board") with effect from 1 May 2016. All references in this document to the States' Trading Supervisory Board should be read as relating to the Public Services Department if prior to 1 May 2016.

Principal activities

States Works, a business unit of the States' Trading Supervisory Board, operates as a trading organisation which contracts mainly with States clients to deliver a wide range of services. Those services demand the effort of a predominantly manual labour force utilising specialist plant and equipment to maintain the public services of the Island.

Financial Highlights

| | 2016 Actual 2016 £'000 | 2016 Budget 2016 £'000 | 2015 Actual 2015 £'000 |
|---------------------|------------------------------|------------------------------|------------------------------|
| Income | 15,171 | 15,035 | 15,548 |
| Surplus | 900 | 578 | 1,076 |
| Capital Expenditure | 1,049 | 1,805 | 1,611 |

The turnover for 2016 has decreased from 2015. This is due to a fall in reinstatement work undertaken by Highway Services, a reduction in sewage loads collected and a decrease in private work for the Land Management section.

The labour and direct materials expenditure has decreased from 2015 which is in line with the fall in operating income.

The capital expenditure is lower than budgeted for 2016 as vehicles and plant planned to be purchased this year are not expected until 2017.

On 12 September 2016, the States Trading Supervisory Board ratified a transfer of £0.5 million from States Works retained surpluses to the States of Guernsey General Revenue.

Operational Performance

Staffing Statistics

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------|-------------|
| Number of staff members at year end | 230 | 234 |
| Income generated per employee | £65,962 | £66,433 |
| Full time equivalent employees | 247 | 252 |

Emergency call-out

| | | |
|------------------|-----|-----|
| Number of calls | 113 | 89 |
| Man hours worked | 911 | 661 |

States' Trading Supervisory Board

States Works

Statement of Activities and Performance – continued

Public Services Department Board Members and Principal Officers up to 30 April 2016.

Board Members were:

Deputy S. Ogier, Minister
Deputy D. Duquemin, Deputy Minister
Deputy M. Dorey
Deputy P. Harwood
Deputy R. Jones

Board Members were the elected political representatives of the Public Services Department as voted by the States of Deliberation.

Principal Officers were:

Mr A. Lewis, Chief Officer, Public Services Department
Mr R. Evans, Head of Corporate Services, Public Services Department
Mr S. Gardiner, Finance Business Partner
Mr P. Lickley, General Manager, States Works
Mrs N. Nicholson, Senior Manager, Finance and Support Services, States Works
Mr N. Nicolle, Senior Manager, Technical, States Works
Mr M. Torode, Senior Manager, Operations, States Works

States' Trading and Supervisory Board Members and Principal Officers effective from 1 May 2016.

Board Members are:

| | |
|--------------------------------|---|
| Deputy D. Jones, President | elected 11 May 2016 (deceased, 5 July 2016) |
| Deputy C. Parkinson, President | elected 21 September 2016 |
| Deputy J. Smithies | elected 18 May 2016 |
| Mr S. Falla MBE | elected 21 September 2016 |
| Mr J. Hollis | elected 21 September 2016 |

The constitution of the States Trading Supervisory Board provides that the membership of the Board shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the Board is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers are:

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner
Mr P. Lickley, General Manager, States Works
Mrs N. Nicholson, Senior Manager, Finance and Support Services, States Works
Mr N. Nicolle, Senior Manager, Technical, States Works
Mr M. Torode, Senior Manager, Operations, States Works

Auditors

The current auditor, Deloitte LLP, has reached the end of its 5 year appointment. The States of Guernsey is currently undertaking a tender process for the new auditor appointment.

States' Trading Supervisory Board

States Works

Statement of Responsibilities for the Preparation of Financial Statements

The States' Trading Supervisory Board is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for States Works and of the surplus of States Works for that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so; and
- state whether applicable accounting standards have been followed.

The States' Trading Supervisory Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time States Works financial position. The Board is also responsible for safeguarding States Works assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

States' Trading Supervisory Board

States Works

Statement of Internal Financial Controls and Going Concern

It is the responsibility of the States' Trading Supervisory Board to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The States' Trading Supervisory Board is responsible for the economic, efficient and effective operations and management of States Works and has a duty to ensure that they fulfil their obligations.

States Works internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the States' Trading Supervisory Board, to ensure that all Board Members are informed of States Works financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.
- The control of materials and stores purchases are managed using a computerised job-costing programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.

The States' Trading Supervisory Board strives to ensure that all staff with financial responsibility in States Works have the appropriate integrity, skills and motivation to professionally discharge their duties.

States Works' internal controls and accounting policies have been and are subject to continuous review and improvement. In addition the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with States Works and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that States Works has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that States Works is a going concern for at least twelve months from the approval of the financial statements.

Independent Auditor's Report to the Members of The States of Guernsey - States' Trading Supervisory Board – States Works

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board – States Works ("the Business Unit") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the related Notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom General Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the members of the States of Guernsey - States' Trading Supervisory Board ("the Board"), as a body, in accordance with the terms of our engagement letter dated 29 January 2013. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As explained more fully in the Statement of Responsibilities for the Preparation of Financial Statements, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of; whether the accounting policies are appropriate to The Business Units circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Business units affairs as at 31 December 2016 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Chartered Accountants, St. Peter Port, Guernsey
18 May 2017

States' Trading Supervisory Board

States Works

Statement of Comprehensive Income

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|-------------------|------------|
| Revenue | 4 | 15,163,198 | 15,531,083 |
| Expenses | | | |
| Operating expenses | 4 | 11,341,142 | 11,704,422 |
| Administration and general expenses | 4 | 2,153,766 | 1,936,352 |
| | | 13,494,908 | 13,640,774 |
| Operating surplus before depreciation and surplus on disposal of fixed assets | | 1,668,290 | 1,890,309 |
| Depreciation | 7 | (959,679) | (891,219) |
| Gain on disposal of fixed assets | 6 | 8,011 | 17,201 |
| Operating surplus for the year | | 716,622 | 1,016,291 |
| Investment return | 5 | 183,548 | 60,000 |
| Surplus for the financial year | | 900,170 | 1,076,291 |

All material activities derive from continuing operations.

There are no recognised gains or losses for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Financial Position

as at 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|-------------------|------------|
| Non-current assets | | | |
| Tangible fixed assets | 7 | 5,774,783 | 5,718,503 |
| Investment property | 8 | 500,000 | 500,000 |
| | | 6,274,783 | 6,218,503 |
| Current assets | | | |
| Inventories and work in progress | 9 | 387,856 | 384,041 |
| Debtors and prepayments | 10 | 1,070,554 | 1,174,657 |
| Balances with States Treasury | | 3,654,364 | 3,247,800 |
| | | 5,112,774 | 4,806,498 |
| Creditors: amounts falling due within one year | 11 | 567,118 | 578,271 |
| Net current assets | | 4,545,656 | 4,228,227 |
| Total net assets | | 10,820,439 | 10,446,730 |
| Reserves | 12 | 10,820,439 | 10,446,730 |

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy C. Parkinson

18 May 2017

President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott

18 May 2017

Managing Director

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Changes in Equity

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|-------------------|-------------|
| At 1 January | | 10,446,730 | 10,414,381 |
| Surplus for the financial year | | 900,170 | 1,076,291 |
| Transfer to States of Guernsey General Revenue | | (500,000) | (1,000,000) |
| Write down of assets | | (26,461) | (43,942) |
| At 31 December | 12 | 10,820,439 | 10,446,730 |

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Cash Flows

for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|------------------|-------------|
| Net cash flows from operating activities | 13 | 1,697,425 | 2,216,567 |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | 14,881 | 42,616 |
| Purchase of fixed assets | 7 | (1,049,290) | (1,610,932) |
| Investment return received | | 243,548 | - |
| Net cash flows used in investing activities | | (790,861) | (1,568,316) |
| Cash flows used in financing activities | | | |
| Contribution to States of Guernsey General Revenue | 12 | (500,000) | (1,000,000) |
| Net cash flows used in financing activities | | (500,000) | (1,000,000) |
| Net increase/(decrease) in cash and cash equivalents | | 406,564 | (351,749) |
| Cash and cash equivalents at the beginning of the year | | 3,247,800 | 3,599,549 |
| Cash and cash equivalents at the end of the year | | 3,654,364 | 3,247,800 |
| Reconciliation to cash at bank and in hand: | | | |
| Cash at bank and in hand | | 50 | 50 |
| Balances with States Treasury | | 3,654,314 | 3,247,750 |
| Cash and cash equivalents | | 3,654,364 | 3,247,800 |

Notes 1 to 19 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements

1. General information

The management, operation and maintenance of States Works is the responsibility of the States of Guernsey - States' Trading Supervisory Board. The nature of States Works operations and principal activities are set out in the Statement of Activities and Performance.

States Works' principal place of business is La Hure Mare, Vale, Guernsey, GY3 5UD.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting Convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include Investment Properties at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of States Works.

Going Concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee (formerly Treasury and Resources Department), in conjunction with States Works and Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The States' Trading Supervisory Board and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that States Works has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that States Works is a going concern for at least twelve months from the approval of the financial statements

Tangible Fixed Assets

i) Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the Statement of Comprehensive Income.

ii) Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment is depreciated over its expected useful life.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the month of the acquisition of an asset.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

| | Estimated life in years | Depreciation % per annum |
|------------------------|----------------------------|-----------------------------|
| Plant and equipment | 3 – 20 | 5% - 33.3% |
| Motor vehicles | 3 – 10 | 10% - 33.3% |
| Office equipment | 5 | 20% |
| Buildings and fittings | 10 – 50 | 2% - 10% |
| Land | - | - |

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of Financial Position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses. Cost is calculated at average value method. Provision is made for obsolete and slow-moving items where appropriate.

Work in progress

Work in progress is valued at cost.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a general provision of £10,000.

ii) Trade and other creditors

Trade and other creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of States Works. Whilst States Works operates a treasury account, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents in States Works' Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Revenue and expenses

Revenue is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Revenue from the sale of goods is recognised when the goods are physically delivered to the customer. Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Pension costs

Pension costs are treated as described in Note 15 Employee benefits.

Investment return

Investment return on balances held with the States of Guernsey is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of States Works' accounting policies, which are described in Note 2, the Board Members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Board Members have made in the process of applying States Works accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Valuation of investment property

As stated in the accounting policies above, States Works' investment properties are stated at fair value, as accounted for by management based on an independent external appraisal. The estimated fair value may differ from the price at which the properties could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. Also certain estimates require an assessment of factors not within management's control such as overall market conditions. As a result, actual realisable proceeds could differ from the valuations in these financial statements, and the difference could be significant.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

4. Revenue and expenses

All revenue is derived from activities within the Bailiwick of Guernsey.

An analysis of States Works revenue and expenses, by class of business, is set out below:

| | 2016 £ | 2015 £ |
|--|-------------------|-------------------|
| Revenue | | |
| Building maintenance | 95,664 | 105,232 |
| Cleansing services | 2,196,164 | 2,078,789 |
| Drainage | 335,396 | 313,812 |
| Electrical and mechanical | 1,336,854 | 1,239,878 |
| Emergency services | 118,079 | 103,060 |
| Fleet Hire | 74,887 | 42,092 |
| Fleet maintenance | 631,372 | 660,317 |
| Highway repair | 1,393,226 | 1,743,661 |
| Land management | 2,102,656 | 2,218,774 |
| Landfill and recycling | 3,270,151 | 3,278,331 |
| Management services | 214,400 | 222,315 |
| Sewage collection | 2,352,329 | 2,401,140 |
| Signs and lines | 444,144 | 432,344 |
| Administration and stores | 597,876 | 691,338 |
| | 15,163,198 | 15,531,083 |
| Operating Expenses | | |
| Direct labour | 6,801,705 | 6,929,351 |
| Direct materials | 3,846,487 | 4,039,332 |
| Vehicles – fuel costs | 289,768 | 291,339 |
| Plant and tools – maintenance and replacements | 98,942 | 160,816 |
| Building maintenance and charges | 304,240 | 283,584 |
| | 11,341,142 | 11,704,422 |
| Administration and general expenses | | |
| Salaries, wages and employer's superannuation | 1,542,641 | 1,433,708 |
| Travel and training charges | 123,873 | 109,528 |
| Post, stationery and telephone | 42,639 | 40,101 |
| Computer charges | 63,350 | 83,917 |
| Insurance | 109,767 | 106,763 |
| Audit fee | 15,804 | 14,400 |
| Sundry office expenses | 254,563 | 141,785 |
| Debt write off | 1,129 | 6,150 |
| | 2,153,766 | 1,936,352 |
| Total expenses | 13,494,908 | 13,640,774 |

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

5. Investment return

| | 2016 £ | 2015 £ |
|-------------------|----------------|---------------|
| Investment return | <u>183,548</u> | <u>60,000</u> |
| | <u>183,548</u> | <u>60,000</u> |

6. Surplus for the financial year

Surplus for the financial year is stated after charging/ (crediting):

| | Note | 2016 £ | 2015 £ |
|---------------------------------------|------|----------------|----------------|
| Depreciation of tangible fixed assets | 7 | 959,679 | 891,219 |
| Gain on disposal of fixed assets | | (8,011) | (17,201) |
| Auditor's remuneration | | <u>15,804</u> | <u>14,400</u> |
| | | <u>967,472</u> | <u>888,418</u> |

7. Tangible fixed assets

| | 1 January 2016 | Additions | Reduction of cost of transferred assets | Write offs/ Disposal | 31 December 2016 |
|----------------------|-------------------|------------------|--|-------------------------|------------------------|
| | £ | £ | £ | £ | £ |
| Cost | | | | | |
| Land | 649,220 | - | - | - | 649,220 |
| Buildings & fittings | 3,960,211 | 33,708 | - | - | 3,993,919 |
| Plant & equipment | 1,543,934 | 120,897 | - | (51,218) | 1,613,613 |
| Motor vehicles | 6,222,960 | 890,783 | (26,461) | (230,051) | 6,857,231 |
| Office equipment | <u>234,899</u> | <u>3,902</u> | <u>-</u> | <u>(33,327)</u> | <u>205,474</u> |
| | <u>12,611,224</u> | <u>1,049,290</u> | <u>(26,461)</u> | <u>(314,596)</u> | <u>13,319,457</u> |
| Depreciation | | | | | |
| Land | - | - | - | - | - |
| Buildings & fittings | 1,902,777 | 100,413 | - | - | 2,003,190 |
| Plant & equipment | 1,142,903 | 126,284 | - | (44,348) | 1,224,839 |
| Motor vehicles | 3,650,251 | 709,915 | - | (230,051) | 4,130,115 |
| Office equipment | <u>196,790</u> | <u>23,067</u> | <u>-</u> | <u>(33,327)</u> | <u>186,530</u> |
| | <u>6,892,721</u> | <u>959,679</u> | <u>-</u> | <u>(307,726)</u> | <u>7,544,674</u> |
| Net Book Value | <u>5,718,503</u> | | | | <u>5,774,783</u> |

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

8. Investment Property

| | 1 January 2016 £ | Additions/ Disposals £ | Revaluations £ | 31 December 2016 £ |
|---------------------|------------------------|------------------------------|-------------------|--------------------------|
| Investment Property | 500,000 | - | - | 500,000 |
| | <u>500,000</u> | <u>-</u> | <u>-</u> | <u>500,000</u> |

This investment property, which is freehold, was purchased on 1 January 2007. The fair value of this property at 31 December 2016 was based on a valuation undertaken by States Property Services, an independent valuer approved by RICS with recent experience in the location and class of the investment property being valued. The historic cost of this property was £625,000.

Operating lease of investment property

The investment property is rented out under an operating lease.

At the Statement of Financial Position date, States Works had contracted with tenants for the following future minimum lease payments:

| | 2016 £ | 2015 £ |
|-----------------|---------------|---------------|
| Within one year | 35,011 | 36,856 |
| | <u>35,011</u> | <u>36,856</u> |

9. Inventories and work in progress

| | 2016 £ | 2015 £ |
|------------------|----------------|----------------|
| Inventories | 245,315 | 244,842 |
| Work in progress | 142,541 | 139,199 |
| | <u>387,856</u> | <u>384,041</u> |

10. Debtors and prepayments

| | 2016 £ | 2015 £ |
|-------------------------------|------------------|------------------|
| Trade debtors | 1,040,279 | 1,036,662 |
| Prepayments and other debtors | 30,275 | 137,995 |
| | <u>1,070,554</u> | <u>1,174,657</u> |

Prepayments and other debtors includes zero interest receivable (2015:£60,000)

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

11. Creditors: amounts falling due within one year

| | 2016 £ | 2015 £ |
|-----------------|----------------|----------------|
| Trade creditors | 300,485 | 433,325 |
| Accruals | 266,633 | 144,946 |
| | 567,118 | 578,271 |

12. Reserves

| | Revenue reserve £ | Asset transfer reserve £ | Total £ |
|--|-------------------------|--------------------------------|-------------------|
| Balance at 1 January 2016 | 10,420,247 | 26,483 | 10,446,730 |
| Surplus for the financial year | 900,170 | - | 900,170 |
| Transfer to States of Guernsey General Revenue | (500,000) | - | (500,000) |
| Asset write down (Note 7) | - | (26,461) | (26,461) |
| Balance at 31 December 2016 | 10,820,417 | 22 | 10,820,439 |

13. Reconciliation of operating surplus to net cash flows from operating activities

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Operating surplus for the year | 716,622 | 1,016,291 |
| Depreciation charges and gain on sale of tangible assets | 951,668 | 874,018 |
| (Increase)/decrease in inventories and work in progress | (3,815) | 72,811 |
| Decrease in debtors | 44,103 | 250,219 |
| (Decrease)/increase in creditors due within one year | (11,153) | 3,228 |
| Net cash flows from operating activities | 1,697,425 | 2,216,567 |

14. Financial Commitments

| | 2016 £ | 2015 £ |
|--|----------------|----------------|
| Capital commitments at 31 December for which no provision has been made in these financial statements. | 393,901 | 386,438 |
| | 393,901 | 386,438 |

Capital commitments are orders placed for new vehicles not yet delivered.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

15. Employee benefits

The employees of States Works are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify States Work's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of States Works are considered to be ultimately employees of the States of Guernsey.

Consequently, States Works has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of Comprehensive Income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the statement of comprehensive income amounted to £831,958 (2015: £834,180).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2016.

16. Subsequent events

Management know of no events subsequent to the year end that would materially affect the financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements - continued

17. Related party transactions

The States' Trading Supervisory Board is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length". There has been a small change in the proportion of business between States 89% (2015: 87%) and private 11% (2015: 13%) clients.

Less than 20% of the value of the organisation's annual expenditure is due to transactions with other States entities.

The total remuneration for key management personnel for the period totalled £321,792 (2015: £365,360). The key management personnel of States Works are the Senior Management Team.

Related party transactions between States Works and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 "Related Party Disclosures".

States' Trading Supervisory Board member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

18. Statement of control

States Works is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of States Works has been delegated to the members of the States' Trading Supervisory Board appointed by the States of Guernsey.

19. Off balance-sheet arrangements

There are no commitments other than detailed in note 14 or contingent liabilities relating to 2016 which would affect these financial statements (2015: None).

PRINCIPAL OFFICERS

Committee *for* Employment & Social Security – Membership post General Election

| Title | Name | Date Elected |
|--------------------------|--|---|
| President | Deputy M K Le Clerc | 11 May 2016 |
| Vice President* & Member | Deputy S L Langlois | 18 May 2016 25 May 2016* |
| Member | Deputy J A B Gollop Deputy M J Fallaize Deputy E A Yerby | 18 May 2016 18 May 2016 18 May 2016 |
| Non-Voting Member | Mr M J Brown Mr A R Le Lièvre | 3 June 2016 3 June 2016 |
| Chief Secretary | Mr M Nutley | |

Social Security Department – Membership prior to General Election

| Title | Name | Date Ceased Office |
|--------------------------|---|---|
| Minister | Deputy A H Langlois | 30 April 2016 |
| Deputy Minister & Member | Deputy S A James MBE | 30 April 2016 |
| Member | Deputy J A B Gollop Deputy M K Le Clerc Deputy D A Inglis | 30 April 2016 30 April 2016 30 April 2016 |
| Non-Voting Member | Mr M J Brown | 30 April 2016 |
| Chief Officer | Mr M Nutley | |

From 1 May 2016, the Contributory Funds are controlled by the Committee *for* Employment & Social Security which as a Principal Committee was constituted by resolutions of the States in 2015. The Committee can exercise powers and perform duties conferred on it by legislation and extant States' resolutions, including but not limited to, conferred functions on the former Social Security Department. The members of the Committee have been appointed by the States of Guernsey.

Prior to 1 May 2016, the Contributory Funds were controlled by the Social Security Department as required by Law with the members of the Department being appointed by the States of Guernsey.

All references in this document to the Committee *for* Employment & Social Security should be read as relating to the Social Security Department if prior to 1 May 2016.

STATEMENT OF ACTIVITIES

ACTIVITIES DURING THE YEAR

2016 was a year of change for Social Security, with the general election of Deputies in April and the restructure of the government in May. The Social Security Department became the Committee *for* Employment & Social Security, which incorporates Employment Relations, Social Housing, the Health and Safety Executive, and Legal Aid within its mandate, in addition to Social Security business.

The Social Security Department appointed a new Investment Adviser, Redington, effective from 1 January 2016. This followed a competitive tendering process. The actuarial reviews of the Guernsey Insurance Fund, the Guernsey Health Service Fund, and the Long-term Care Insurance Fund for the five year period 2010 to 2014 inclusive, were completed by the UK Government Actuary's Department, which won the tender for the work. This is a statutory governance obligation. The reviews included 60 year projections out to 2075 for the Guernsey Insurance Fund and the Long-term Care Insurance Fund, and a 15 year projection, to 2030, for the Guernsey Health Service Fund. The reports were laid before the States in November 2016 as appendices to the Committee's Policy Letter on Benefit and Contribution Rates for 2017 (Billet d'État XXVII of 2016, Article 4).

In February 2016, the Social Security Department's Policy Letter (Billet III d'État of 2016, Volume III, Article 15) on the proposals for the implementation of a second pillar pension scheme for Guernsey and Alderney was approved by the States. This is intended to introduce a system of automatic enrolment into private pension saving for working age residents of Guernsey and Alderney from 2020. The Committee will return to the States in 2018 with detailed implementation proposals, including an economic impact assessment.

Also in February 2016, the States approved the proposals for the Supported Living and Ageing Well Strategy. This Policy Letter (Billet d'État III of 2016, Volume II, Article 14), among other things, directed the Committee to report back to the States in its annual Policy Letter on benefit and contribution rates with a recommendation to increase contributions by 0.5% on all classes except employers, in order to improve the sustainability of the Long-term Care Insurance Fund. The 0.5% increase was then proposed by the Committee (Billet d'État XXVII of 2016, Article 4), and approved by the States in November 2016. The increase took effect from 1 January 2017. In addition to the 0.5% contributions increase, an increase of 0.1% on both the employer and employee contribution also took effect from 1 January 2017. This increase was approved by the States in November 2015 (Billet d'État XVIII of 2015, Article 8), in order to fund improved parental benefits, which also came into force on 1 January 2017. These two changes to contribution rates are shown in the table below:

| Class | Contribution | 2017 | 2016 |
|-------|--|--------------|--------------|
| 1 | Employers | 6.6% | 6.5% |
| | Employees | 6.6% | 6.0% |
| | Combined | 13.2% | 12.5% |
| 2 | Self-employed persons | 11% | 10.5% |
| 3 | Non-employed persons (under pension age) | 10.4% | 9.9% |
| | Non-employed persons (over pension age) | 3.4% | 2.9% |

The review of Secondary Healthcare provision continued, with the negotiations between the States and the Medical Specialist Group the main priority, as the contract comes to an end in December 2017. The States also approved a new law to allow same-sex marriages to take place in Guernsey, which will be enacted during 2017.

The Committee progressed with a number of ongoing projects throughout 2016, including Supporting Occupational Health and Wellbeing (SOHWELL), which focuses on early intervention to support people who may need extra help to stay in work, or get back to work more quickly. This aims to reduce the likelihood of incapacity benefits claims becoming prolonged long-term sickness claims. As a part of this work, the FitTogether campaign was launched in August 2016, which raises awareness of the very important relationship between work and health.

STATEMENT OF ACTIVITIES (CONTINUED)

ACTIVITIES DURING THE YEAR (CONTINUED)

Work also progressed on the Longer Working Lives project to investigate what can be done to enable people to remain in work later in life. This project was developed in response to two States Resolutions, one from the Personal Tax, Pensions and Benefits Review (Billet d'État IV of 2015), and the other from the report on Maintaining Guernsey's Working Population (Billet d'État XXIV of 2015).

The Increase in Pension Age project has also progressed during the year to ensure that the legislation and system changes required are in place for when the phased increase in pension age starts in 2020. In addition, Social Security staff have continued to work jointly with Income Tax staff on the Contributions and Tax Services project, to merge the Contributions and Income Tax collection systems in the future.

In November 2015, in the course of consideration of the Policy Letter on benefit and contribution rates for 2016 (Billet d'État XVIII of 2016, Article 8), an Amendment proposed by Deputy Fallaize was approved. This directed the Committee to investigate the options for introducing a scheme of medical insurance for Guernsey and Alderney residents who required medical treatment while they were travelling in the UK. The intention was that this would replace, on a unilateral basis, the Reciprocal Health Agreement that Guernsey had with the UK until 2009. Proposals on the details of the scheme will be reported to the States during 2017.

FUTURE ACTIVITIES

Following the November 2016 States Debate on the Policy and Resource Plan, the Committee was directed to prioritise its own policy work streams and projects and submit this to the Policy & Resources Committee for consideration by the States during 2017. This work will be ongoing during the early part of 2017.

Work has commenced on the Disability and Inclusion Strategy, which was transferred to the Committee's mandate during the restructure of government in 2016. A project team has been set up and a dedicated resource is working on the preparation of detailed policy proposals for consideration by the States.

As part of a States property rationalisation exercise, Housing staff and counter service staff from Sir Charles Frossard House and the Income Tax Office will relocate to Edward T Wheadon House during 2017. To accommodate the additional people, some building and refurbishment work and new IT provisions will be required during 2017.

During 2017, the Committee will be preparing for the Investors in People reaccreditation, which is due to take place in January 2018. The Continuous Improvement Team is working towards this reaccreditation, which takes on a different format to previous years.

In anticipation of the implementation of the EU General Data Protection Regulation during 2017, Guernsey is required to take steps to ensure compliance. In order to achieve this, Employment & Social Security staff are preparing data protection audit and review processes.

STATEMENT OF PERFORMANCE

Overview

The Social Security Contributory Funds comprising the Guernsey Insurance Fund (GIF), Guernsey Health Service Fund (GHSF) and Long-term Care Insurance Fund (LTCIF) recorded an operating deficit of £20.2m (2015: £17.3m deficit). A breakdown of the operating results is as follows:

- GIF: operating deficit of £22.2m (2015: £19.4m deficit).
- GHSF: operating surplus of £1.3m (2015: £1.4m surplus).
- LTCIF: operating surplus of £0.7m (2015: £0.7m surplus).

Total Reserves for the year increased by £74.8m (2015: £24.5m decrease). This increase comprised the operating deficit of £20.2m (2015: £17.2m deficit) and an increase from investing activities of £95.0m (2015: £7.3m decrease). The increase in Reserves is allocated as follows:

- GIF: +£54.4m (2015: -£25.3m) and comprised the operating deficit of £22.2m (2015: £19.4m deficit) and increase from investing activities of £76.6m (2015: £5.9m decrease);
- GHSF: +£13.3m (2015: +£0.5m) and comprised the operating surplus of £1.3m (2015: £1.4m surplus) and increase from investing activities of £12.0m (2015: £0.9m decrease); and
- LTCIF: +£7.1m (2015: +£0.3m) and comprised the operating surplus of £0.7m (2015: £0.7m surplus) and increase from investing activities of £6.4m (2015: £0.4m decrease).

At the year-end total reserves stood at £910.5m (2015: £835.8m) and allocated as follows:

- GIF: £731.2m (2015: £676.8m) with expenditure cover 5.2 years (2015: 5.0 years);
- GHSF: £116.3m (2015: £103.1m) with expenditure cover 2.8 years (2015: 2.5 years); and
- LTCIF: £62.9m (2015: £55.8m) with expenditure cover 3.4 years (2015: 3.1 years).

Contribution income and states grant

Total contribution income increased by 2.1% to £160.4m (2015: 1.3% increase to £157.2m). The increase is mainly attributable to an increase of 2.2% (2015: 1.7% increase) in respect of employed persons. Contribution income from self-employed persons and non-employed persons increased by 0.2% (2015: 1.4% decrease) and 0.9% (2015: 2.5% decrease) respectively. Total States' grants, which are based on a fixed percentage of contributions, increased to £20.0m (2015: £19.6m).

| Numbers of Contributors as at week 48 | 2016 | 2015 | 5-Year average |
|---------------------------------------|---------------|---------------|----------------|
| Employers | 2,386 | 2,431 | 2,423 |
| Employed | 28,769 | 28,713 | 28,805 |
| Self-Employed | 3,124 | 3,195 | 3,230 |
| Non-Employed | 5,691 | 5,690 | 5,459 |
| Total Contributors | 37,584 | 37,598 | 37,494 |

The overall number of contributors, at week 48, decreased marginally to 37,584 (2015: 37,598). The number of employed increased by 0.2% (2015: -0.2%) while self-employed decreased by 2.2% (2015: -1.7%). Non-employed contributors increased slightly (2015: +2.1%). The largest economic sector remained the financial sector, which accounted for 22% (2015: 22%) of the employed population and represented 32% (2015: 32%) of the total income received from employers and employees.

STATEMENT OF PERFORMANCE (CONTINUED)

Contribution income and states grant (continued)

The contribution income from the contribution classes is allocated as follows:

- GIF: +1.9% to £102.0m (2015: +1.1% to £100.1m). The grant received from the States of Guernsey, being a fixed percentage of contributions (15%), increased to £15.3m (2015: £15.0m);
- GHSF: +2.1% to £39.0m (2015: +1.4% to £38.1m). The grant received from the States of Guernsey, being a fixed percentage of contributions (12%), increased to £4.7m (2015: £4.6m); and
- LTCIF: +2.6% to £19.4m (2015: +2.1% to £18.9m).

Benefit expenditure

Overall benefit expenditure increased by 3.4% to £193.9m (2015: +4.0% to £187.5m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 2.1%. The allocation between the Funds is as follows:

- GIF: +3.7% to £134.6m (2015: +3.7% to £129.8m);
- GHSF: +2.6% to £40.8m (2015: +7.1% to £39.8m); and
- LTCIF: +3.0% to £18.5m (2015: -0.1% to £17.9m).

Details of major areas of benefit expenditure follow:

| GIF: Pension | 2016 | 2015 | 5-Year Average |
|---|-------------|-------------|-----------------------|
| Number of claimants at the year-end | 17,653 | 17,381 | 16,974 |
| Number of approved claims during the year | 1,006 | 956 | 1,062 |

Pension expenditure accounts for over 85% of the total benefit expenditure of GIF and for the year increased by 4.3% to £115.4m (2015: +4.3% to £110.7m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 2.1%.

| GIF: Invalidity benefit | 2016 | 2015 | 5-Year Average |
|---|-------------|-------------|-----------------------|
| Number of claimants at the year-end | 851 | 856 | 860 |
| Number of approved claims during the year | 253 | 226 | 262 |

Invalidity benefit decreased slightly to £8.1m (2015: +2.5% £8.1m). The Department is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick and the number of active claims for the year decreased marginally and below the 5-year average.

| GIF: Unemployment benefit | 2016 | 2015 | 5-Year Average |
|---|-------------|-------------|-----------------------|
| Number of claimants at the year-end | 183 | 213 | 216 |
| Number of approved claims during the year | 971 | 1,016 | 1,116 |

Unemployment benefit increased by 1.3% to £1.37m (2015: -3.2% to £1.36m). The Department continues to work on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed. Both the number of active claims and approved claims for the year decreased marginally and were below the 5-year average.

STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

| GHSF: Specialist Health Insurance Scheme | 2016 | 2015 | 5-Year Average |
|---|-------------|-------------|-----------------------|
| Medical specialist Group <i>full-time equivalent consultants (average)</i> | 44.8 | 41.5 | 41.4 |
| Guernsey Physiotherapy Group <i>full-time equivalent physiotherapists & assistants (average)</i> | 36.1 | 35.3 | 33.3 |

Medical specialist expenditure increased by 3.9% to £17.7m (2015: +9.0% to £17.0m) with the contract price increasing by 0.7% based on the September 2015 RPI. During the year as the Ophthalmology Service was extended by a 0.5 full-time equivalent and an extra 1.0 FTE Paediatric Consultant appointed in November. A further one-off payment has been provided and comprises a partial reimbursement of locum costs and also for additional work carried out by MSG in support of the new contract.

The Physiotherapy contract is provided by the Guernsey Therapy Group. For the year, expenditure increased by 0.6% to £2.2m (2015: +7.3% to £2.2m) with the contract price decreasing by 0.5%, based on the September 2015 RPIX of 0.5% less 1%.

The Alderney contract increased significantly to £164k (2015: £83k). While negotiations continue with Alderney Doctors regarding additional support there has been a temporary increase in the contract price of £12,500 per month.

| GHSF: Drugs and medicines | 2016 | 2015 | 5-Year Average |
|----------------------------------|-------------|-------------|-----------------------|
| Total prescriptions | 1,526,712 | 1,531,602 | 1,511,393 |
| Average basic cost per item | £8.99 | £8.63 | £8.58 |

For the year, total expenditure in respect of drugs and medicines increased by 1.8% to £16.3m (2015: +7.8% to £16.0m).

Following an unprecedented level of cost containment in recent years, the basic drug costs increased by 4.2% to £8.99 (Dec-15: £8.63) which, in part, is due to an increase in the price of UK generic drugs and also the increased use of very high cost, low volume, treatments. However, new drugs to the White List continue to be well controlled and the number of items dispensed decreased marginally compared to the same period last year.

| LTCIF: Residential Home Care grant | 2016 | 2015 | 5-Year Average |
|--|-------------|-------------|-----------------------|
| Number of claimants at year-end - Permanent | 262 | 252 | 263 |
| Number of claimants at year-end - Permanent with EMI | 98 | 97 | 98 |
| Total | 360 | 349 | 361 |
| 12-month rolling average | 347 | 352 | n/a |

Residential Home Care benefit expenditure decreased marginally to £8.62m (2015: -3.5% to £8.65m). Although the number of active claims at the year-end is higher than last year this is just a weekly snapshot. More telling is the 12-month rolling average which decreased by 1.4% with the general rate of benefit increasing by 2.1%.

| LTCIF: Nursing Home Care grant | 2016 | 2015 | 5-Year Average |
|---------------------------------------|-------------|-------------|-----------------------|
| Number of claimants at the year-end | 227 | 227 | 220 |
| 12-month rolling average | 230 | 220 | n/a |

STATEMENT OF PERFORMANCE (CONTINUED)

Nursing Home Care benefit expenditure increased by 6.1% to £9.8m (2015: +3.3% to £9.3m). The increase is due mainly to increased demand with the general rate of benefit increasing by 2.1%. Although the number of active claims at the year-end is similar to last year, the 12-month rolling average is up 4.4%.

Administration

Total administration expenditure increased by 2.4% to £8.7m (2015: +9.7% to £8.51m) with the recharge of administrative expenditure to Non Contributory Services (NCS) decreasing by 2.6% to £2.09m (2015: -0.6% to 2.15m). Overall staffing costs decreased by 0.8% to £5.74m (2014: +4.9% to 5.79m). The decrease is a result of the finance function being centralised with the Policy and Resource committee in 2016 with staffing costs of £299k being recharged to the contributory funds under Policy & Resources Committee charges not under salaries and pension costs. The decrease was partially offset by increasing staffing levels associated with invest to save projects and reducing risk.

The average number of full-time equivalent staff including overtime, additional hours and miscellaneous duties paid to permanent and temporary staff was 131.2 (2015: 131.0). The number of full-time equivalent staff allocated to the Contributory Funds and Non Contributory Services (General Revenue) was 92.5 and 38.7 respectively.

The allocation of administration costs between the Funds is as follows:

- GIF: +5.2% to £4.48m (2015: +5.2% to £4.48m);
- GHSE: -2.5% to £1.54m (2015: +27.7% to 1.58m); and
- LTCIF: +0.0% at £0.30m (2015: +0.0% to 0.30m).

Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2016 had a market value of £881.2m (2015: £807.3m).

As the Guernsey Insurance Fund is currently running an operating deficit, £23m (2015: £15m) was withdrawn from the Common Investment Fund during the year for cash flow to meet obligations. The allocation between the three contributory funds at the year-end is as follows:

| Common Investment Fund allocation At Year-end | 2016 | | 2015 | |
|--|------------|---------------|------------|---------------|
| | £m | % | £m | % |
| Guernsey Insurance Fund | 708 | 80.3% | 654 | 81.0% |
| Guernsey Health Service Fund | 112 | 12.8% | 99 | 12.3% |
| Long-term Care Insurance Fund | 61 | 6.9% | 54 | 6.7% |
| Total | 881 | 100.0% | 807 | 100.0% |

The Department has continued to diversify its investment portfolio to maximise returns for a reduced risk. The performance of the Common Investment Fund on annualised 1, 3 and 5 year periods is shown below:

| Common Investment Fund (CIF) Investment Performance | % CIF return per annum | % Target Return per annum * | % RPI Guernsey Average Annual Change |
|---|---------------------------|--------------------------------|---|
| 1-Year | 12.1% | 5.0% | 1.5% |
| 3-Year | 4.8% | 4.6% | 1.1% |
| 5-Year | 6.5% | 5.2% | 1.7% |

*The Target Return is Guernsey RPIX +3.5%.

STATEMENT OF PERFORMANCE (CONTINUED)

KEY STATISTICS

| Contribution Rates - Annual Earnings/Income limits | | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| | | £ | £ | £ | £ | £ |
| Class 1 | <i>Employed</i> | | | | | |
| | Upper earnings limit - employer | 137,592 | 135,252 | 132,444 | 129,792 | 125,268 |
| | Upper earnings limit - employee | 137,592 | 135,252 | 132,444 | 119,340 | 105,144 |
| | Lower earnings limit | 6,916 | 6,812 | 6,656 | 6,500 | 6,292 |
| Class 2 | <i>Self-employed</i> | | | | | |
| | Maximum earnings | 137,592 | 135,252 | 132,444 | 119,340 | 105,144 |
| | Minimum earnings | 6,916 | 6,812 | 6,656 | 6,500 | 6,292 |
| Class 3 | <i>Non-employed</i> | | | | | |
| | Maximum income | 137,592 | 135,252 | 132,444 | 119,340 | 105,144 |
| | Minimum income | 17,290 | 17,030 | 16,640 | 16,250 | 15,730 |
| | Allowance | 7,336 | 7,223 | 7,059 | 6,895 | 6,675 |

| Contribution Rates – Contributory Funds | | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| | | % | % | % | % | % |
| Class 1 | <i>Employer</i> | | | | | |
| | Guernsey Insurance Fund | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| | Guernsey Health Service Fund | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| | Long-term Care Insurance Fund | - | - | - | - | - |
| | | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| | <i>Employee</i> | | | | | |
| | Guernsey Insurance Fund | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| | Guernsey Health Service Fund | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| | Long-term Care Insurance Fund | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| | | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| | <i>Combined</i> | | | | | |
| | Guernsey Insurance Fund | 8.3 | 8.3 | 8.3 | 8.3 | 8.3 |
| | Guernsey Health Service Fund | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| | Long-term Care Insurance Fund | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| | | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| Class 2 | <i>Self-employed</i> | | | | | |
| | Guernsey Insurance Fund | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| | Guernsey Health Service Fund | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| | Long-term Care Insurance Fund | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| | | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Class 3 | <i>Non-employed (under 65)</i> | | | | | |
| | Guernsey Insurance Fund | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| | Guernsey Health Service Fund | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| | Long-term Care Insurance Fund | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| | | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 |
| | <i>Non-employed (over 65)</i> | | | | | |
| | Guernsey Insurance Fund | - | - | - | - | - |
| | Guernsey Health Service Fund | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| | Long-term Care Insurance Fund | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| | | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |

STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (continued)

| Number of contributors (as at week 48) | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|---------------|
| Employers | 2,386 | 2,431 | 2,435 | 2,432 | 2,430 |
| Employed | 28,769 | 28,713 | 28,771 | 28,827 | 28,947 |
| Self-employed | 3,124 | 3,195 | 3,251 | 3,280 | 3,302 |
| Non-employed | 5,691 | 5,690 | 5,574 | 5,324 | 5,014 |
| Total Contributors | 37,584 | 37,598 | 37,596 | 37,431 | 37,263 |

| Contributory Funds - General Revenue Grants - % of contributions | 2016 % | 2015 % | 2014 % | 2013 % | 2012 % |
|--|-------------|-------------|-------------|-------------|-------------|
| Guernsey Insurance Fund | 15% | 15% | 15% | 15% | 15% |
| Guernsey Health Service Fund | 12% | 12% | 12% | 12% | 12% |
| | £m | £m | £m | £m | £m |
| Guernsey Insurance Fund | 15.3 | 15.0 | 14.9 | 14.4 | 14.2 |
| Guernsey Health Service Fund | 4.7 | 4.6 | 4.5 | 4.4 | 4.3 |
| Total | 20.0 | 19.6 | 19.4 | 18.8 | 18.5 |

| GIF: Number of claimants at the year-end | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|---------------|---------------|---------------|
| Pension | 17,653 | 17,381 | 17,072 | 16,575 | 16,188 |
| Invalidity Benefit | 851 | 856 | 872 | 865 | 856 |
| Sickness Benefit | 388 | 418 | 440 | 320 | 372 |
| Bereavement Benefits | 208 | 188 | 205 | 227 | 239 |
| Unemployment Benefit | 183 | 213 | 179 | 217 | 288 |
| Industrial Disablement Benefit | 170 | 185 | 192 | 204 | 209 |
| Industrial Injury Benefit | 11 | 13 | 15 | 14 | 14 |
| Maternity Allowance | 119 | 129 | 125 | 142 | 135 |
| Total | 19,583 | 19,383 | 19,100 | 18,564 | 18,301 |

| GIF: No. of approved claims during the year | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------------|---------------|---------------|---------------|---------------|
| Sickness Benefit | 10,358 | 10,177 | 10,042 | 10,533 | 11,082 |
| Pension | 1,006 | 956 | 1,110 | 1,070 | 1,166 |
| Unemployment Benefit | 971 | 1,016 | 1,088 | 1,175 | 1,331 |
| Industrial Medical Benefit | 762 | 900 | 1,124 | 957 | 1,068 |
| Travel Allowance Grant | 875 | 1,014 | 1,026 | 983 | 1,091 |
| Maternity Allowance | 531 | 521 | 521 | 557 | 534 |
| Death Grant | 645 | 570 | 510 | 514 | 541 |
| Industrial Injury Benefit | 455 | 499 | 603 | 557 | 546 |
| Bereavement Benefits | 347 | 281 | 280 | 311 | 304 |
| Invalidity Benefit | 253 | 226 | 271 | 284 | 275 |
| Maternity Grant | 73 | 70 | 61 | 83 | 92 |
| Industrial Disablement Benefit | 6 | 7 | 3 | 9 | 6 |
| Total | 16,282 | 16,237 | 16,639 | 17,033 | 18,036 |

STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (continued)

| GHSF: Drugs & medicines | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-------------|-------------|-------------|-------------|-------------|
| Ordinary prescriptions | 552,606 | 562,306 | 571,524 | 555,296 | 574,724 |
| % change | -1.7% | -1.6% | +2.92% | -3.38% | -2.63% |
| Exempt prescriptions | 974,106 | 969,296 | 957,767 | 927,223 | 912,119 |
| % change | +0.5% | +1.2% | +3.29% | +1.66% | +4.44% |
| Total prescriptions | 1,526,712 | 1,531,602 | 1,529,291 | 1,482,519 | 1,486,843 |
| % change | -0.3% | +0.2% | +3.15% | -0.29% | +1.59% |
| Average basic cost | £8.99 | £8.63 | £8.29 | £8.40 | £8.60 |
| % change | +4.2% | +5.4% | -2.50% | -2.33% | -8.32% |
| Ordinary prescriptions as a % of total | 36.2% | 36.7% | 37.4% | 37.5% | 38.7% |
| Exempt prescriptions as a % of total | 63.8% | 63.3% | 62.6% | 62.5% | 61.3% |

| GHSF: Consultation grants | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Doctors | 241,749 | 243,500 | 254,747 | 250,998 | 263,568 |
| Nurses | 77,360 | 78,833 | 81,531 | 79,527 | 80,649 |
| Total | 319,109 | 322,333 | 336,278 | 330,525 | 344,217 |
| % change | -1.00% | -4.15% | +1.74% | -3.98% | 0.94% |

| LTCIF: Number of claimants at year-end | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Residential grant-permanent | 360 | 349 | 365 | 372 | 357 |
| Nursing grant-permanent | 227 | 227 | 220 | 210 | 210 |
| TOTAL | 587 | 576 | 585 | 582 | 567 |

STATEMENT OF PERFORMANCE (CONTINUED)

| GIF: 5-Year Financial Performance | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Income | 117.3 | 115.1 | 113.9 | 110.9 | 109.1 |
| Expenditure | (139.4) | (134.5) | (129.5) | (125.5) | (119.1) |
| Operating deficit | (22.1) | (19.4) | (15.6) | (14.6) | (10.0) |
| Investing activities | 76.5 | (5.9) | 25.4 | 54.7 | 50.8 |
| Net surplus/(deficit) during the year | 54.4 | (25.3) | 9.8 | 40.1 | 40.8 |
| Net assets of the Fund at 1 January | 676.8 | 702.1 | 692.3 | 652.2 | 611.4 |
| Net assets of the Fund at 31 December | 731.2 | 676.8 | 702.1 | 692.3 | 652.2 |
| Expenditure cover in number of years | 5.2 | 5.0 | 5.4 | 5.5 | 5.5 |

| GHSF: 5-Year Financial Performance | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Income | 43.6 | 42.7 | 42.2 | 40.9 | 40.1 |
| Expenditure | (42.3) | (41.3) | (38.4) | (36.0) | (35.8) |
| Operating Surplus | 1.3 | 1.4 | 3.8 | 4.9 | 4.3 |
| Investing activities | 12.0 | (0.9) | 3.6 | 7.3 | 6.5 |
| Net surplus during the year | 13.3 | 0.5 | 7.4 | 12.2 | 10.8 |
| Net assets at 1 January | 103.1 | 102.6 | 95.2 | 83.0 | 72.2 |
| Net assets at 31 December | 116.4 | 103.1 | 102.6 | 95.2 | 83.0 |
| Expenditure cover in number of years | 2.8 | 2.5 | 2.7 | 2.6 | 2.3 |

| LTCIF: 5-Year Financial Performance | 2016 £m | 2015 £m | 2014 £m | 2013 £m | 2012 £m |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Income | 19.4 | 18.9 | 18.5 | 18.1 | 17.6 |
| Expenditure | (18.7) | (18.2) | (18.2) | (17.4) | (16.8) |
| Operating Surplus | 0.7 | 0.7 | 0.3 | 0.7 | 0.8 |
| Investing activities | 6.4 | (0.5) | 2.0 | 4.2 | 3.9 |
| Net surplus/(deficit) during the year | 7.1 | 0.2 | 2.3 | 4.9 | 4.7 |
| Net assets at 1 January | 55.8 | 55.6 | 53.3 | 48.4 | 43.7 |
| Net assets at 31 December | 62.9 | 55.8 | 55.6 | 53.3 | 48.4 |
| Expenditure cover in number of years | 3.4 | 3.1 | 3.1 | 3.1 | 2.9 |

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The Committee for Employment & Social Security (“the Committee”) is required to prepare financial statements for each financial year which are properly prepared in accordance with the accounting policies set out in note 1. In preparing those financial statements, the Committee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Contributory Funds and enable them to ensure that the financial statements comply with Section 100(3) of The Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002. It is also responsible for safeguarding the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

STATEMENT OF INTERNAL CONTROLS

It is the responsibility of the Committee to identify and install a system of internal controls, including financial control, which is adequate for its own purposes, and to safeguard the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee is also responsible for the economical, efficient and effective management of public funds and other resources entrusted to it.

The Committee’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Committee;
 - the annual audit report together with the audited financial statements;
 - the annual report of observations and recommendations produced by the external auditor;
 - the annual business plan; and
 - the quarterly management accounts;
- by Law, an actuarial review to determine the adequacy of the contribution rates must be undertaken at least once every five years and submitted to the Committee and the States of Guernsey;
- a regular review of the performance and security of the Contributory Funds by the Committee;
- occasional review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Unit; and
- a requirement for internal audit reports to be tabled at a meeting of the Committee.

The Committee strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect. The Committee’s internal controls and accounting policies have been and are subject to continuous review and improvement.

In addition, the financial statements are subject to an independent external audit by the auditor appointed by the States of Guernsey.

The current auditor, Deloitte LLP, has reached the end of its five year appointment. The States of Guernsey is currently undertaking a tender process for the new auditor appointment.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
States of Guernsey – Committee *for* Employment & Social Security
As controller and manager of**

SOCIAL SECURITY – CONTRIBUTORY FUNDS

We have audited the financial statements of the States of Guernsey – Consolidated Contributory Funds ("the Fund") for the year ended 31 December 2016 which comprise the Consolidated fund account, the consolidated balance sheet, consolidated Statement of cash flows and the related notes 1 to 18. These financial statements have been prepared in accordance with the accounting policies stated in Note 1.

This report is made solely to the members of the States of Guernsey – Committee *for* Employment & Social Security ("the Committee") as a body, in accordance with Section 100 (3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002. Our audit work has been undertaken so that we might state to the Committee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Committee and auditor

As explained more fully in the Statement of Responsibilities of the Committee *for* Employment & Social Security, the Committee is responsible for the preparation of the financial statements and for being satisfied that they are properly prepared in accordance with the accounting policies. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implication for our report.

Opinion on financial statements

In our opinion the financial statements:

- have been properly prepared in accordance with the accounting policies set out in Note 1; and
- have been prepared in accordance with the Section 100(3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP
Chartered Accountants
St Peter Port, Guernsey
24 May 2017

| CONSOLIDATED FUND ACCOUNT | Note | 2016 £'000s | 2015 £'000s |
|--|--------------|-----------------------|-----------------------|
| Income | | | |
| Contributions | 1(b),2 | 160,432 | 157,203 |
| States grant | 1(b) | 19,981 | 19,595 |
| | | 180,413 | 176,798 |
| Expenditure | | | |
| Benefits payable | 1(c),3,4,5,6 | 193,903 | 187,489 |
| Administration | 7 | 6,616 | 6,357 |
| | | 200,519 | 193,846 |
| Operating deficit before depreciation charge | | (20,106) | (17,048) |
| Depreciation charge | 9 | (116) | (177) |
| Operating deficit | | (20,222) | (17,225) |
| Investment returns | 1(f),8 | 94,992 | (7,259) |
| Net surplus/(deficit) | | 74,770 | (24,484) |
| Net assets at 1 January | | 835,755 | 860,239 |
| Net assets at 31 December | | 910,525 | 835,755 |

All activities are derived from continuing operations.

The Contributory Funds have no recognised surplus or deficit in the current or previous financial year other than those passing through the Fund Account.

The notes 1 to 19 form part of these financial statements.

| CONSOLIDATED BALANCE SHEET | Note | 31.12.16 | 31.12.15 |
|--|-------------|-----------------|-----------------|
| | | £'000s | £'000s |
| Non-current assets | | | |
| Tangible assets | 9 | 2,533 | 2,649 |
| Financial Instruments | 10 | 881,171 | 807,301 |
| Debtors due after one year | 12 | 36 | 101 |
| | | 883,740 | 810,051 |
| Current assets | | | |
| Debtors due within one year | 11 | 29,105 | 26,696 |
| Balances with States Treasury | | 2,217 | 6,034 |
| Cash at bank and in hand | | 172 | 216 |
| | | 31,494 | 32,946 |
| Current liabilities | | | |
| Creditors: Amounts falling due within one year | 13 | 2,835 | 5,584 |
| Bank overdraft | | 1,874 | 1,658 |
| | | 4,709 | 7,242 |
| Net current assets | | 26,785 | 25,704 |
| Total net assets | | 910,525 | 835,755 |
| Reserves | | | |
| Guernsey Insurance Fund | | 731,249 | 676,837 |
| Guernsey Health Service Fund | | 116,347 | 103,086 |
| Long-term Care Insurance Fund | | 62,929 | 55,832 |
| | | 910,525 | 835,755 |

The financial statements were approved by the Committee *for* Employment & Social Security on 24 May 2017.

Signed on behalf of the Committee

M K Le Clerc
President

M Nutley
Chief Secretary

The notes 1 to 19 form part of these financial statements.

| CONSOLIDATED STATEMENT OF CASH FLOWS | Note | 2016 £'000s | 2015 £'000s |
|---|-------------|------------------------------|------------------------------|
| Cash flows from operating activities | | | |
| Operating deficit for the year | | (20,222) | (17,225) |
| <i>Adjustments for:</i> | | | |
| Depreciation | | 116 | 177 |
| (Increase)/(decrease) in debtors | | (2,344) | 5,390 |
| (Decrease)/increase in creditors | | (2,749) | 1,336 |
| Net cash used in operating activities | | (25,199) | (10,322) |
| Cash flows from investing activities | | | |
| Increase/(decrease) in cash equivalent in financial instruments | 8 | 94,992 | (7,259) |
| Net cash from investing activities | | 94,992 | (7,259) |
| Net increase/(decrease) in cash and cash equivalents (including investments) | | 69,793 | (17,581) |
| Financial instruments, treasury, cash balances and overdraft at 1 January | | 811,893 | 829,474 |
| Financial instruments, treasury, cash balances and overdraft at 31 December | | 881,686 | 811,893 |

| ANALYSIS AND RECONCILIATION OF NET FUNDS | At 1.1.16 £'000s | (Increase)/ decrease £'000s | At 31.12.16 £'000s |
|---|---|--|---|
| Cash at bank and in hand | 216 | (44) | 172 |
| Overdraft | (1,658) | (216) | (1,874) |
| Balances with States Treasury | 6,034 | (3,817) | 2,217 |
| | 4,592 | (4,077) | 515 |
| Financial instruments | 807,301 | 73,870 | 881,171 |
| | 811,893 | 69,793 | 881,686 |

The overdraft arises as a result of timing differences only and is therefore a technical overdraft arising due to accounting treatments.

The notes 1 to 19 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Social Security – Contributory Funds (the Contributory Funds”) comprise the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-Term Care Fund formed in accordance with Section 100(3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002.

The financial statements are prepared in accordance with the particular accounting policies described below:

a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) “The Financial Reporting Standard applicable in the UK and Republic of Ireland” except for certain disclosures required to be prepared by financial institutions in respect of financial instruments mainly in relation to level 3 investments. Given the complexity and extensive requirements of these disclosures, the Committee has not provided all the relevant disclosures required by FRS 102. The Committee, in conjunction with the Policy & Resources Committee, will consider providing such disclosures in future years.

Going Concern

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

b) Contributions & States grant

Contributions represent the amount of cash received before 1 February 2017 in respect of the financial year ended 31 December 2016 and amounts received relating to prior financial periods not accounted for in those prior periods.

The grants received from the States of Guernsey are based on a fixed percentage of contributions, accounted for in the relevant period and for 2016 was 15% (2015: 15%) in respect of the Guernsey Insurance Fund and 12% (2015: 12%) in respect of the Guernsey Health Service Fund.

c) Benefits payable

Benefits are accounted for on an accruals basis.

d) Actuarial Review

The financial statements summarise the transactions of the Contributory Funds and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Contributory Funds is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review for the five year period 2010 to 2014 was undertaken in 2015 and the results published in the November 2016 Billet D’Etat XXVII.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The costs of computer development projects are capitalised as and when they are considered to be material on an individual project basis. Depreciation is provided on cost at the following annual rates so as to write off the assets over their anticipated useful lives:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

e) Tangible fixed assets (continued)

| Fixed asset categories | Estimated useful life in years | Depreciation % per annum |
|--|--------------------------------|--------------------------|
| Freehold land and buildings | 80 | 1.25 straight line |
| Furniture and fittings | 10 | 10.00 straight |
| Office equipment | 5 | 20.00 straight |
| Computer equipment and software | 3 | 33.33 straight |
| Computer development | 3 | 33.33 straight |
| Computer development – Technological migration | 7 | 14.29 straight |

f) Common Investment Fund

The investments of the Contributory Funds form the Common Investment Fund. The allocation to the individual Contributory Funds is based on a percentage of amounts contributed by each fund into the Common Investment Fund, as determined by the Committee.

g) Financial instruments

Financial assets and financial liabilities are recognised when the Contributory Funds become a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investments

Investments are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Committee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principle assumptions are given in the notes to the financial statements where used. The methods of determining fair value for the principle classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before year end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Investments (continued)

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated, through consultation with its advisors, by the Committee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realization at the value, in which case adjustment is made.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Partnership investments are valued on the basis of the latest available net asset value if it is within one month prior to the year-end or where there has been a significant investment in the partnership subsequent to the latest valuation, to estimate the fair value of the partnership by using the price at which the amount of any significant investments is made.

Derivatives

All open derivatives are stated at their closing market values established by reference to the applicable index.

Security Lending

Securities lending is where securities are transferred from the Fund's custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's Statement of Net Assets. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period. Collateral received is not recorded unless it is reinvested. Income and realised and unrealised gains/losses on reinvested securities are recorded in the Fund account.

Capital movements – Realised and unrealised

Realised profits and losses on investments are calculated by reference to the net proceeds on disposal and the average cost attributable to those investments. Realised surpluses and deficits on the partial sale of investments are arrived at by deducting the average cost of such investments from the sales proceeds. The purchase and sales of investments are accounted for on the trade date. Unrealised profits and losses on investments are calculated by reference to the carrying value at the year end and the carrying costs of investments held. All realised and unrealised profits and losses on investments are reflected in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Other assets

Debtors are recognised at amortised cost, less any impairment losses. These comprise mainly contributions due and benefits prepaid at the balance sheet date and are short term in nature.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of the Contributory Funds. Whilst the Contributory Funds operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year end is treated as Cash and Cash Equivalents on the Contributory Funds' statement of financial position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Fund transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Fund, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

h) Foreign Currency

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of the Contributory Funds.

i) Pension costs

As described in note 14, the Committee has applied the provisions of FRS 102, section 27 in respect of defined contribution arrangements.

j) Critical accounting judgements and estimates

As stated above, investments in unlisted funds (including limited partnerships) are valued at the net asset value of that investment as determined in accordance with the terms of the funds' constitutive documents and notified by the fund manager or administrator as at the valuation date.

The valuation date of each fund may not always be co-terminus with the valuation date of the Contributory Funds, and in such cases, the valuation of the fund as at the last valuation date of the fund is used i.e. the latest available price is used on the valuation date. The net asset values reported by the relevant fund manager or administrator and used by the Committee as at 31 December 2016 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2016. However, it is the belief of the Investment Manager and the Committee that the latest available net asset value used on the valuation date will not be materially different from the net asset value used to realise these investments held at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CONTRIBUTIONS

| | 2016 | 2015 |
|--|----------------|----------------|
| | £'000's | £'000s |
| Employer contributions | 70,845 | 69,274 |
| Employee contributions | 64,939 | 63,560 |
| | 135,784 | 132,834 |
| Self-employed contributions | 15,852 | 15,813 |
| Non-employed contributions | 8,541 | 8,465 |
| Employer surcharge and penalty | 48 | 52 |
| Movement in contributions unallocated | 207 | 39 |
| | 160,432 | 157,203 |
| Contribution income allocated to: | | |
| Guernsey Insurance Fund | 102,035 | 100,117 |
| Guernsey Health Service Fund | 38,964 | 38,146 |
| Long-term Care Insurance Fund | 19,433 | 18,940 |
| | 160,432 | 157,203 |

3. BENEFITS PAYABLE

| | Note | 2016 | 2015 |
|-------------------------------|------|----------------|----------------|
| | | £'000's | £'000s |
| Guernsey Insurance Fund | 4 | 134,649 | 129,809 |
| Guernsey Health Service Fund | 5 | 40,804 | 39,767 |
| Long-term Care Insurance Fund | 6 | 18,450 | 17,913 |
| | | 193,903 | 187,489 |

4. BENEFITS PAYABLE: GUERNSEY INSURANCE FUND

| | Note | 2016 | 2015 |
|------------------------------------|----------|----------------|----------------|
| | | £'000's | £'000s |
| Pension | | 115,436 | 110,708 |
| Invalidity | | 8,095 | 8,118 |
| Sickness | | 3,778 | 3,597 |
| Bereavement | | 1,550 | 1,517 |
| Travelling allowance grant | | 2,070 | 2,095 |
| Unemployment | | 1,373 | 1,356 |
| Maternity benefit | | 1,208 | 1,194 |
| Industrial disablement | | 512 | 533 |
| Industrial injury | | 185 | 213 |
| Death grant | | 346 | 310 |
| Industrial medical | | 101 | 130 |
| | | 134,654 | 129,771 |
| Benefit debt written-off | | 17 | 42 |
| Doubtful debt provision - movement | | (22) | (4) |
| | 3 | 134,649 | 129,809 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. BENEFITS PAYABLE: GUERNSEY HEALTH SERVICE FUND

| | Note | 2016 £'000's | 2015 £'000s |
|--|------|-----------------|----------------|
| Drugs and medicines | 5(a) | 16,320 | 16,037 |
| Specialist Health Insurance Scheme | 5(b) | 20,066 | 19,300 |
| Consultation grants | 5(c) | 3,365 | 3,395 |
| Visiting medical consultants | | 751 | 735 |
| Primary Care Mental Health and Wellbeing | | 302 | 299 |
| | 3 | 40,804 | 39,767 |

5(a). DRUGS AND MEDICINES

| | Note | 2016 £'000's | 2015 £'000s |
|---------------------------------|------|-----------------|----------------|
| Drugs and medicines | | 17,317 | 16,959 |
| Appliances | | 817 | 783 |
| Oxygen Service | | 368 | 302 |
| | | 18,502 | 18,044 |
| Prescription charges receivable | | (2,182) | (2,007) |
| | 5 | 16,320 | 16,037 |

5(b). SPECIALIST HEALTH INSURANCE SCHEME

| | Note | 2016 £'000's | 2015 £'000s |
|----------------------------|------|-----------------|----------------|
| Specialist medical benefit | | 17,695 | 17,024 |
| Physiotherapy benefit | | 2,207 | 2,193 |
| Alderney hospital benefit | | 164 | 83 |
| | 5 | 20,066 | 19,300 |

The States of Guernsey entered into revised agreements for the last five years of the contracts with the Medical Specialist Group and the Guernsey Physiotherapy Group (now Guernsey Therapy Group) from 1 January 2014 to 31 December 2017.

The contract with the Medical Specialist Group is based on a per-consultant contracted price adjusted annually on 1 January each year taking account of any increase or decrease in the Guernsey RPI for the previous September.

The contract with the Guernsey Therapy Group is based on a per-physiotherapist and per-assistant price, with different rates applying to different grades of physiotherapist and adjusted annually on 1 January each year taking account of any increase or decrease in the Guernsey RPIX for the previous September less 1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5(c). CONSULTATION GRANTS

| Note | 2016 £'000's | 2015 £'000s |
|-----------------------------|-----------------|----------------|
| Doctors consultation grants | 2,901 | 2,922 |
| Nurses consultation grants | 464 | 473 |
| 5 | 3,365 | 3,395 |

6. BENEFITS PAYABLE: LONG-TERM CARE INSURANCE FUND

| Note | 2016 £'000's | 2015 £'000s |
|--------------------------------------|-----------------|----------------|
| Residential home care benefit | | |
| Permanent | 5,543 | 5,579 |
| Permanent with EMI supplement | 2,907 | 2,897 |
| Respite care | 144 | 159 |
| Respite care with EMI supplement | 21 | 11 |
| | 8,615 | 8,646 |
| Nursing home care benefit | | |
| Permanent | 9,708 | 9,146 |
| Respite care | 127 | 121 |
| | 9,835 | 9,267 |
| 3 | 18,450 | 17,913 |

7. ADMINISTRATION

| | 2016 £'000's | 2015 £'000s |
|--|-----------------|----------------|
| Salaries and pension costs | 5,744 | 5,789 |
| Other staff costs | 38 | 42 |
| IT and communication | 933 | 913 |
| Consultancy and contracted out work | 448 | 405 |
| Administration | 361 | 332 |
| Premises | 177 | 235 |
| Health and Social Services Committee charges | 360 | 460 |
| Policy & Resources Committee charges | 375 | 72 |
| Supplies and Services | 216 | 208 |
| Audit fee | 58 | 50 |
| | 8,710 | 8,506 |
| Amounts received from General Revenue | (2,094) | (2,149) |
| | 6,616 | 6,357 |
| Administration expenses allocated to: | | |
| Guernsey Insurance Fund | 4,744 | 4,479 |
| Guernsey Health Service Fund | 1,547 | 1,579 |
| Long-term Care Insurance Fund | 325 | 299 |
| | 6,616 | 6,357 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. ADMINISTRATION (CONTINUED)

Following the centralisation of the finance function with the Policy and Resource committee in 2016, finance staff costs of £299k was recharged to the contributory funds and included under Policy and Resources Committee charges. These costs in 2015 were include under salaries and pension costs.

8. INVESTMENT RETURNS

| | Note | 2016 £'000's | 2015 £'000s |
|---|------|-----------------|----------------|
| Income | | | |
| Interest from fixed interest securities | | 14,618 | 13,275 |
| Dividends from equities | | 784 | 816 |
| Distributions from property funds | | 317 | 349 |
| Interest on short term deposits and bank interest | | 128 | 109 |
| Securities lending (less expenses) | | 145 | 69 |
| Venture capital and partnerships | | 70 | - |
| Less: Withholding tax suffered | | (46) | (48) |
| | | 16,016 | 14,570 |
| Tax reclaim receivable | 11 | - | 259 |
| | | 16,016 | 14,829 |
| Expenditure | | | |
| Investment managers' fees | | 3,397 | 3,704 |
| Less: Fees charged directly on pooled funds | | (1,922) | (2,851) |
| | | 1,475 | 853 |
| Investment advisor's fees | | 367 | 104 |
| Custody fees | | 30 | 35 |
| Performance monitoring fees | | 19 | 21 |
| | | 1,891 | 1,013 |
| Net investment income | | 14,125 | 13,816 |
| Realised (loss)/profit on disposal | | (15,414) | 22,269 |
| Movement on unrealised profit/(loss) | | 96,281 | (43,344) |
| Total surplus/(deficit) for the year | | 94,992 | (7,259) |
| Investing activities allocated to: | | | |
| Guernsey Insurance Fund | | 76,581 | (5,933) |
| Guernsey Health Service Fund | | 11,971 | (866) |
| Long-term Care Insurance Fund | | 6,440 | (460) |
| | | 94,992 | (7,259) |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TANGIBLE ASSETS

| | 1.1.2016 | Additions | 31.12.2016 |
|---------------------------------|-----------------|---------------------|-------------------|
| | £'000s | £'000s | £'000s |
| Cost | | | |
| Freehold land and buildings | 3,774 | - | 3,774 |
| Plant and equipment | 1,004 | - | 1,004 |
| Information technology | 9,348 | - | 9,348 |
| | 14,126 | - | 14,126 |
| | | | |
| | 1.1.2016 | Depreciation | 31.12.2016 |
| | £'000s | £'000s | £'000s |
| Accumulated Depreciation | | | |
| Freehold land and buildings | 1,311 | 47 | 1,358 |
| Plant and equipment | 878 | 32 | 910 |
| Information technology | 9,288 | 37 | 9,325 |
| | 11,477 | 116 | 11,593 |
| | | | |
| Net book value | 2,649 | | 2,533 |

Freehold land and buildings comprises Edward T Wheadon House, which was valued at 31 December 2008 by a firm of estate agents and valuers, at an open market value of £11.02m.

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2015: £Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS

| Common Investment Fund (CIF) at Fair Value | 31.12.2016 £'000's | 31.12.2015 £'000s |
|---|------------------------------|-----------------------------|
| Equities and derivatives | 444,449 | 432,923 |
| Fixed income and derivatives | 249,575 | 249,422 |
| Alternative investments and hedge funds | 86,340 | 76,893 |
| Venture Capital & Partnerships | 20,293 | 15,477 |
| Cash and cash equivalents | 75,006 | 24,687 |
| Property funds | 3,648 | 6,261 |
| Commodities | 1,860 | 1,638 |
| | 881,171 | 807,301 |
| Investments allocated to: | | |
| Guernsey Insurance Fund | 707,580 | 653,794 |
| Guernsey Health Service Fund | 112,790 | 99,576 |
| Long-term Care Insurance Fund | 60,801 | 53,931 |
| | 881,171 | 807,301 |

| CIF movements during the year | 2016 £'000's | 2015 £'000s |
|---|------------------------|-----------------------|
| Market value 1 January | 807,301 | 822,896 |
| Investment income reinvested | 16,034 | 14,624 |
| Realised profit on disposal reinvested | (15,435) | 22,129 |
| Movement on unrealised profit/(loss) on investments | 96,271 | (43,344) |
| New monies | - | 5,978 |
| | 904,171 | 822,301 |
| Withdrawal of monies invested | (23,000) | (15,000) |
| Market value 31 December | 881,171 | 807,301 |

At the year-end, cash and cash equivalents included an additional £45m following the redemption of investments on 28 December 2016 with a settlement date of 3 January 2017.

During 2016, the Common Investment Fund was managed by four investment managers, namely: BlackRock Investment Management (UK) Limited; Legg Mason Global Asset Management; Morgan Stanley Investment Management Limited and GMO UK Limited.

The governance of the Fund is supported by the custodian, Northern Trust Global Services Limited and a professional investment adviser, Redington Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

Fair Value Measurement

FRS102 requires disclosure surrounding the level in fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities in the Balance Sheet. The determination of the fair value for financial assets and liabilities for which there is no observable price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective. The investments of common investment fund are categorized using the following hierarchy as defined by FRS 102:

- Level 1 - Quoted market prices in an active market for an identical instrument;
- Level 2 - Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; or
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all investments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses within the fair value hierarchy the Common Investment Fund measured at fair value at the year-end date:

| Fair Value at 31.12.2016 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|----------------|---------------|----------------|----------------|
| | £'000s | £'000s | £'000s | £'000 |
| Equities and derivatives | 433,398 | 750 | - | 444,449 |
| Fixed income and derivatives | 233,069 | 16,506 | - | 249,575 |
| Hedge funds | 3,294 | (10,300) | 93,346 | 86,340 |
| Venture Capital & Partnerships | - | - | 20,293 | 20,293 |
| Cash & cash equivalents | 51,662 | 23,345 | - | 75,006 |
| Property funds | - | - | 3,648 | 3,648 |
| Commodities | 1,860 | - | - | 1,860 |
| Common Investment Fund | 723,283 | 40,601 | 117,288 | 881,171 |

| Fair Value at 31.12.2015 | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|----------------|----------------|---------------|----------------|
| | £'000s | £'000s | £'000s | £'000 |
| Equities and derivatives | 432,031 | 891 | - | 432,922 |
| Fixed income and derivatives | 79,548 | 169,874 | - | 249,422 |
| Hedge funds | - | - | 76,893 | 76,893 |
| Venture Capital & Partnerships | - | - | 15,477 | 15,477 |
| Cash & cash equivalents | 5,227 | 19,460 | - | 24,687 |
| Property funds | - | - | 6,262 | 6,262 |
| Commodities | 1,638 | - | - | 1,638 |
| Common Investment Fund | 518,444 | 190,225 | 98,632 | 807,301 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

The fair valuation of any level 3 investments require the exercise of professional skill and judgement and naturally the fair values derived will have an element of estimation uncertainty as well as a likely range of potential valuation outcomes.

The level 3 investments consist pooled investment funds, private equity and venture capital funds, real estate funds and infrastructure funds which typically involve the purchase and redemption of shares from the fund itself rather than a secondary market. The majority of level 3 investments have therefore been measured at fair value using the reported net asset value ("NAV") as this is the approximate value at which shares are redeemable and therefore a basis for current transactions. No adjustment has been made for restrictions on redemption, which are all for periods of greater than 3 months, or for factors such as the marketability of the investment due to it not being listed.

Transfers between levels

There have been no transfers between the levels during the year (2015: None).

| Assets at 31.12.2016 | Fair Value through profit or loss | Amortised Cost | Total |
|--|--|-----------------------|----------------|
| Financial instruments (Common Investment Fund) | 881,171 | - | 881,171 |
| Tangible fixed assets | - | 2,533 | 2,533 |
| Treasury deposit and other cash | - | 515 | 515 |
| Trade and other receivables | - | 29,141 | 29,141 |
| Trade and other payables | - | (2,835) | (2,835) |
| | 881,171 | 29,354 | 910,525 |

| Assets at 31.12.2015 | Fair Value through profit or loss | Amortised Cost | Total |
|--|--|-----------------------|----------------|
| Financial instruments (Common Investment Fund) | 807,301 | - | 807,301 |
| Tangible fixed assets | - | 2,649 | 2,649 |
| Treasury deposit and other cash | - | 4,592 | 4,592 |
| Trade and other receivables | - | 26,797 | 26,797 |
| Trade and other payables | - | (5,584) | (5,584) |
| | 807,301 | 28,454 | 835,755 |

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The Committee do not believe that there is any material difference between the fair value and the amortised cost equivalent other than Freehold Land and Buildings included in tangible fixed assets which were valued at £11.02m at 31 December 2008. (see note 9).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. DEBTORS DUE WITHIN ONE YEAR

| | 31.12.16 £'000's | 31.12.15 £'000s |
|---|---------------------|--------------------|
| Contributions receivable | 22,997 | 22,896 |
| States of Guernsey Intercompany debtors | 3,203 | - |
| Benefits and allowances prepaid | 2,623 | 3,617 |
| Administration expenses prepaid | 229 | 154 |
| Trade debtors | 53 | 29 |
| | 29,105 | 26,696 |

In 2015 UK HM Revenue and Customs confirmed that the Common Investment Fund qualified for Crown Immunity from direct taxation relating to income tax, corporation tax and capital gains tax. In 2014, a provision of £5.7m was provided in respect of tax reclaims yet to be received which was received in full in 2015.

12. DEBTORS DUE WITHIN ONE YEAR

| | 31.12.16 £'000's | 31.12.15 £'000s |
|------------------------------|---------------------|--------------------|
| Benefit debt | 113 | 239 |
| Provision for doubtful debts | (77) | (138) |
| | 36 | 101 |

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31.12.16 £'000's | 31.12.15 £'000s |
|---|---------------------|--------------------|
| Benefits and allowance payable | 1,539 | 1,787 |
| States of Guernsey Intercompany creditors | - | 2,633 |
| Other creditors and accruals | 1,276 | 804 |
| Trade creditors | 20 | 360 |
| | 2,835 | 5,584 |

14. SUPERANNUATION FUND

The employees of Committee *for* Employment and Social Security are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. SUPERANNUATION FUND (CONTINUED)

Although the scheme is a multi-employer plan, it is not possible to identify the Committee's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Committee are considered to be ultimately employees of the States of Guernsey. Consequently, the Committee has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Fund Account. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Fund Account amounted to £0.59m (2015: £0.56m).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2016.

15. RELATED PARTY TRANSACTIONS

The Committee members confirm that there have been no related party transactions to disclose with members and senior management in this financial year (2015: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2016 and 2015 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States Treasury at the year-end amounted to £2.2m (2015: £6.0m).

Key management personnel compensation disclosure

For the year, total staffing costs associated with the Committee's key management was £1.16m (2015: £0.84m), comprising 13.5 full-time equivalent staff (2015: 9.5 F.T.E.). The increase in the number of key management is due to the new Committee's wider mandate following structural changes from 1 May 2016. Approximately £0.61m of total costs are allocated to the Contributory Funds (2015: £0.66m), the balance being charged to General Revenue.

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS

The Committee's activities expose it to a number of financial and associated risks, especially with regard to the investing activities of the Common Investment Fund and the possibility that an event or situation arises that reduces the likelihood of achieving its financial objectives.

In respect of the Common Investment Fund, there are many different types of specific risk including: governance risk, financial exposure market risk; performance risk; demographic exposure risk; and operational risk.

Governance Risk

The risk associated with poor governance essentially occurs where there is a failure to act as issues emerge.

Governance is the framework within which other risks are considered. The result of this consideration should, where appropriate, lead to action. Key controls and risk mitigation include:

- Objectives are well understood;
- Fund manager and other provider mandates are well defined; and
- Fund managers and providers are asked to articulate how their strategies might perform in different market and economic conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Governance Risk (Continued)

Once this is done, the risks in the other areas can be defined and evaluated. The focus is then on designing metrics and benchmarks that are consistent with the conditions identified above.

Financial Exposure Risk

Financial exposure risk is the potential for losses (compared to objectives) from falling asset values resulting from market movements.

The Committee considers financial exposure risk in three categories and makes use of three modelling approaches to help understand each of these.

| Risk | Cause | Indicative magnitude of loss | Time to recover |
|---------------------------|--|------------------------------|--------------------|
| Regular Market Volatility | Trading activity and market sentiment | 10%-15% | Months to one year |
| Market Stress | Market issues e.g. credit/currency or demand/supply issues | 20% | 1 to 2 years |
| Permanent Loss | Overvaluation or economic regime change | 50%-85% | Can be decades |

Regular Market Volatility can be measured using a VaR type model which can estimate the expected volatility of an investment strategy in normal market conditions. Market Stress is measured by calculating the effect of one off market shocks e.g. a sharp fall in equity values or significant rise in inflation. To measure the risk of permanent loss, a range of economic scenarios is identified and projections made as to how the strategy would perform in each of these situations.

In each case the Committee will develop with each investment manager, explicit constraints within which risk is managed. The risk of Permanent Loss is the initial focus of any analysis as these are the biggest and longest-lived risks faced by the Committee.

In order to fully test an investment strategy all three of the models will be used to assess how robust the strategy is against the three different types of risk. When considering a strategy the Committee will use models to test robustness and as a useful comparison between strategies, but will also apply a qualitative assessment of the strategy to ensure the results are sensible, defensible and meet the non-financial needs of the Committee.

Market risk

The fair value of future cash flows of a financial instrument held by the Common Investment Fund may fluctuate because of changes in market prices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Market price risk sensitivity

The following table illustrates the sensitivity of the Common Investment Fund to a decrease in the fair values of the all asset classes. A 5% increase in the fair values would have resulted in an equal but opposite effect.

| | 31.12.2016 | 31.12.2015 |
|------------------------------|------------|------------|
| | £'000s | £'000s |
| Fair value at year-end | 881,171 | 807,301 |
| Decrease of 5% in fair value | (44,059) | (40,365) |

The market risk comprises of five other elements – currency risk, interest rate risk, credit risk, counterparty risk and liquidity risk. Information to enable an evaluation of the nature of these four elements is given in (i) to (iv) below, together with sensitivity analyses where appropriate.

The Committee reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. Each investment manager assesses their exposure to market risk when making each investment decision and monitors the overall level of market risk on the investment portfolio under its management on an ongoing basis.

Open Option Contracts

There were 3 (2015: 3) open option contracts at the year-end. An analysis of the open contracts is as follows:

| Contract | Settlement Date | Purchase Price | 31.12.16 Fair Value £'000s | 31.12.15 Fair value £'000s |
|---------------------------|-----------------|----------------|----------------------------------|----------------------------------|
| FTSE100 Index C @6806.550 | 25/08/2017 | 14,163 | 11,322 | 4,781 |
| FTSE100 Index P @8554.150 | 25/08/2017 | (2,159) | (51) | (174) |
| FTSE100 Index P @4424.260 | 25/08/2017 | (3,842) | (288) | (283) |
| | | 8,162 | 11,050 | 1,783 |

(i) Currency risk

Certain of the Common Investment Fund's assets and liabilities and income are denominated in currencies other than sterling, which is the base currency of the Fund and the Committee's financial statements. As a result, movements in exchange rates will affect the Sterling value of those items.

Management of currency risk

The investment managers are responsible for managing currency risk and monitoring exposure to foreign currencies. Investment managers are permitted to use forward foreign currency exchange contracts to limit the exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Income denominated in foreign currencies is converted into Sterling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Open forward foreign currency contracts

There were 7 (2015: 5) open forward currency contracts at the year-end. An analysis of the open contracts is as follows:

| Contract | Settlement Date | Currency | Contracted Amount £'000s | 31.12.16 Fair value £'000s |
|---------------------|-----------------|----------|-----------------------------|----------------------------------|
| Forward FX Purchase | 1 month | EUR | 425 | 429 |
| Forward FX Purchase | 1 month | GBP | 147,162 | 147,162 |
| Forward FX Sale | 1 month | EUR | (5,597) | (5,693) |
| Forward FX Sale | 1 month | CAN | (1,136) | (1,141) |
| Forward FX Sale | 1 month | GBP | (425) | (425) |
| Forward FX Sale | 1 month | USD | (140,429) | (144,157) |
| | | | - | (3,825) |

| Contract | Settlement Date | Currency | Contracted Amount £'000s | 31.12.15 Fair value £'000s |
|---------------------|-----------------|----------|-----------------------------|----------------------------------|
| Forward FX Purchase | 1 month | EUR | 1,842 | 1,840 |
| Forward FX Purchase | 1 month | GBP | 136,356 | 136,356 |
| Forward FX Sale | 1 month | EUR | (10,156) | (10,308) |
| Forward FX Sale | 1 month | GBP | (1,842) | (1,842) |
| Forward FX Sale | 1 month | USD | (126,200) | (128,860) |
| | | | - | (2,813) |

Foreign currency exposure

At the year-end, the net currency exposure of the Contributory Funds, including the Common Investment Fund (CIF), was as follows

The net currency exposure of the Common Investment Fund at the year-end was as follows

| 31.12.16 | Monetary Assets £'000s | Monetary Liabilities £'000s | Non-Monetary Assets £'000s | Non-Monetary Liabilities £'000s | Forward FX Contracts £'000s | Total £'000s |
|--------------|---------------------------|--------------------------------|-------------------------------|------------------------------------|--------------------------------|-----------------|
| GBP | 78,310 | (291) | 665,961 | (10,670) | 146,737 | 880,046 |
| EUR | 415 | - | 4,685 | - | (5,263) | (163) |
| USD | 390 | - | 145,030 | - | (144,157) | 1,263 |
| CAD | 8 | - | 1,158 | - | (1,141) | 25 |
| Total (CIF) | 79,122 | (291) | 816,833 | (10,670) | (3,825) | 881,171 |
| GBP | 2,389 | (1,874) | 31,674 | (2,835) | - | 29,354 |
| Grand | 81,511 | (2,165) | 848,509 | (13,505) | (3,825) | 910,525 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Foreign currency exposure (continued)

| 31.12.15 | Monetary Assets | Monetary Liabilities | Non- Monetary Assets | Non- Monetary Liabilities | Forward FX Contracts | Total |
|--------------------|--------------------|-------------------------|----------------------------|---------------------------------|-------------------------|----------------|
| | £'000s | £'000s | £'000s | £'000s | £'000s | £'000s |
| GBP | 27,208 | - | 649,033 | (5,679) | 134,515 | 805,077 |
| EUR | 4 | - | 6,160 | - | (8,468) | (2,304) |
| USD | 281 | - | 133,098 | - | (128,860) | 4,519 |
| CAD | 7 | - | 2 | - | - | 9 |
| Total (CIF) | 27,500 | - | 788,293 | (5,679) | (2,813) | 807,301 |
| GBP | 6,250 | (1,658) | 29,446 | (5,584) | - | 28,454 |
| Grand Total | 33,750 | (1,658) | 817,739 | (11,263) | (2,813) | 835,755 |

At 31 December 2016, had the GBP strengthened by 5% in relation to other currency exposure of the Common Investment Fund (CIF), with all other variables held constant, the valuation of the CIF would have changed by the amounts shown below. The analysis is performed on the same basis for 2015. A 5% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect.

| Foreign Currency Exposure – Sensitivity Analysis | 31.12.2016 | 31.12.2015 |
|--|-------------|--------------|
| | £'000s | £'000s |
| EUR | 8 | 115 |
| USD | (63) | (226) |
| Total | (55) | (111) |

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Management of interest rate risk

The interest rate profile of the Contributory Funds at year-end is as follows:

| Interest rate profile 31.12.16 | Weighted Average Interest Rate | Fixed | Floating | Total |
|--------------------------------|--------------------------------------|---------------|---------------|----------------|
| | % | £'000 | £'000 | £'000 |
| Fixed income | 8.75% | 68,297 | - | 68,297 |
| Cash and cash equivalents | 0.50% | - | 75,521 | 75,521 |
| Total | | 68,297 | 75,521 | 143,818 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Management of interest rate risk (continued)

| Interest rate profile 31.12.15 | Weighted Average Interest Rate | Fixed | Floating | Total |
|--------------------------------|--------------------------------------|---------------|---------------|----------------|
| | % | £'000 | £'000 | £'000 |
| Fixed income | 8.75% | 73,155 | - | 73,155 |
| Cash and cash equivalents | 0.50% | - | 29,279 | 29,279 |
| Total | | 73,155 | 29,279 | 102,434 |

The majority of investments with fixed and floating rates are held in pooled investment funds and, as such, the interest rate risk is managed by the underlying investment managers. These exposures are therefore not included in the above tables.

The Common Investment Fund has only two direct holdings in fixed interest securities at 8.75% which expire during 2017. Floating rate assets comprise cash held within the Common Investment Funds. For the purposes of the above exposure summary, the interest rate for cash and cash equivalent has been estimated at 0.5% in line with the current base rate of the Bank of England. No sensitivity analysis has been provided on the basis that any movement would not be material to the Common Investment Fund.

(iii) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Contributory Funds.

It is the responsibility of the investment managers to monitor dealing activity to ensure best execution, which involves measuring various indicators including the quality of the trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Investment managers' credit committees.

The Committee's Custodian is Northern Trust Limited which has a credit rating of AA- from Standard and Poor, A1 from Moody's and AA- from Fitch. The Committee's investments are held in accounts which are segregated from the Custodian's own trading assets. If the Custodian were to become insolvent, the Committee's right of ownership is clear and they are therefore protected. However, the Committee cash balances, which are held with the Custodian, may be at risk in this instance as the Committee would rank alongside other creditors of the Custodian.

(iv) Counterparty risk

Counterparty risk is the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

(v) Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the cash flow requirements of the Committee need to be monitored to control the timing of investment and divestment to and from the Common Investment Fund. As the Committee has entered a long-term period of annual operating deficits, cash flow management including increased short-term fixed income features increasingly in the management and governance of the Common Investment Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

The liquidity analysis of the Contributory Funds at year-end is as follows:

| Liquidity Analysis | Within 1 month | 1 to 3 months | 3 to 12 months | Over 12 months | 31.12.16 Total |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| | £'000s | £'000s | £'000s | £'000s | £'000s |
| Financial instruments | 77,819 | 644,064 | 141,058 | 21,043 | 881,171 |
| Tangible assets | - | - | - | 2,533 | 2,533 |
| Treasury Deposit and other cash | 515 | - | - | - | 515 |
| Trade and other receivables | 29,105 | - | - | 36 | 29,141 |
| Trade and other payables | (2,835) | - | - | - | (2,835) |
| Total | 104,604 | 644,064 | 141,058 | 23,612 | 910,525 |
| % of Total | 11.2% | 70.7% | 15.5% | 2.6% | 100.0% |

| Liquidity Analysis | Within 1 month | 1 to 3 months | 3 to 12 months | Over 12 months | 31.12.15 Total |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| | £'000s | £'000s | £'000s | £'000s | £'000s |
| Financial instruments | 33,730 | 504,320 | 254,667 | 14,584 | 807,301 |
| Tangible assets | - | - | - | 2,649 | 2,649 |
| Treasury Deposit and other cash | 4,592 | - | - | - | 4,592 |
| Trade and other receivables | 26,696 | - | - | 101 | 26,797 |
| Trade and other payables | (5,584) | - | - | - | 5,584 |
| Total | 59,434 | 504,320 | 254,667 | 17,334 | 835,755 |
| % of Total | 7.1% | 60.3% | 30.5% | 2.1% | 100.0% |

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The investments categorised under the level 1 Fair Value hierarchy are valued at £444m at the year-end (2015: £434m). Investments with quoted prices and traded on an active market could usually be liquidated within one month. However, due to the size of certain of the level 1 holdings, it is assumed it that may take longer to liquidate some of these holdings and as such they have been analysed as 1-3 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT

The Committee's objectives when managing capital include safeguarding its ability to continue as a going concern and to ensure that each of the Contributory Funds has adequate financial resources to meet its obligations both in the short and long-term.

The Contributory Funds have no externally imposed capital requirements.

As part of its capital management, the Committee is responsible in law for setting investment policy, strategy and implementation. In discharging this responsibility, the Committee contracts advice from expert external advisers. The committee has delegated the responsibility for the direct governance of its investment funds to an Investment Sub-Committee.

In addition to the Committee's financial risk management as detailed in note 18, the management of other associated and qualitative risks as follows:

Demographic Risk

The risk of an increased cash flow requirement from the Fund resulting from demographic changes such as an increase in life expectancy, or reduction in working population.

Financial exposure risks are important, but the impact of demographics on the commitments of the funds may be just as relevant.

The demographics risks may affect the drawdown from the Fund in a number of ways:

- **Mortality:** Where benefits are related to death, the value of the benefit will be driven by this. This is particularly an issue in relation to the provision of pensions, where payments are made until the death of the beneficiary. Improvements in life expectancy would naturally result in paying out more than expected, which represents a risk to the Fund;
- **Ill-Health:** Some benefits relate to the incidence of ill-health, for example where this is in respect of invalidity or long-term care costs. Changes in this can result in paying benefits for longer, or greater overall levels of benefits; and
- **Structure of population:** The ability to finance the various funds is affected by the level of contributions, which in turn is related to the structure of the population. Therefore, a long run risk to the Fund is the relationship between those "paying" for the benefits and those receiving them.

These risks are important in absolute terms, but can intensify when combined with financial risks. For example, the "intensity" of an increase in longevity is magnified if the investment return on the Fund is expected to be lower. This has a very real effect on the risks of the Fund, if it affects the recommended contributions. Hence, these risks are not only about their effect on the long term cost, but also on the effect of the incidence of contributions in the short and medium term. The Actuarial Reviews that are undertaken at least every five years provide relevant information for this type of risk.

Performance Risk

As well as financial exposure risk, poor performance of Fund Managers and providers, including the Investment Adviser, can also have a significant effect. The key contributing risks are identified as below:

- It should be well understood what the objectives of Fund Managers and providers are and the time horizon over which these operate;
- There should be evidence that added-value is skilful (rather than lucky or the result of a persistent systemic position). The basis for skill – i.e. what it is and why it is expected to persist – should be clear and understood. If this evidence does not exist, it is difficult to have confidence in the ability of performance to be delivered;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT (CONTINUED)

Performance Risk (continued)

- All mandates involve constraints within which the Fund manager or provider must operate. It is important that operations are within the mandate and that there have been no breaches (or any breaches have been rectified quickly); and
- it is important to understand in advance how the Fund Manager or provider is expected to perform in a range of different conditions, in order that returns generated over various time horizons may be interpreted effectively.

The Committee takes advice from its Investment Adviser prior to appointing Fund Managers. All Fund Managers sign an Investment Management Agreement with the Committee setting out the legal mandate in terms of objectives, constraints and the roles and responsibilities of all related parties. The Committee monitors Fund Managers' performance to ensure they are delivering their objectives in line with their mandates.

Review of historical performance

Having set the performance tolerances above, these can be measured on a regular basis by comparing actual performance with the target, benchmark and where appropriate a Governance comparable figure (i.e. the Fund Manager's performance might be exaggerated or impaired because of factors that affect all similar managers in the same way).

Operational Risk

The risk is associated with losses resulting from weak controls, process or security. Operational risks can be either internal or external. Internal risks mainly refer to cash flow management. The Committee must ensure it plans for future cash flows and that all payments will be made in a timely manner (See: Liquidity Risk above).

Where funds are required to be moved quickly, the Committee needs to be being able to act quickly on an investment or disinvestment. External risks primarily relate to the process and control errors caused by external parties, such as Fund Managers, custodian or advisers. These risks are mitigated by thorough research and due diligence.

18. STATEMENT OF CONTROL

From 1 May 2016, the Contributory Funds are controlled by the Committee *for* Employment & Social Security which as a Principal Committee was constituted by resolutions of the States in 2015. The Committee can exercise powers and perform duties conferred on it by legislation and extant States' resolutions, including but not limited to, conferred functions on the former Social Security Department. The members of the Committee have been appointed by the States of Guernsey.

Prior to 1 May 2016, the Contributory Funds were controlled by the Social Security Department as required by Section 100(1) of the Social Insurance (Guernsey) Law, 1978, as amended in respect of the Guernsey Insurance Fund; Section 21 of the Health Service (Benefit) (Guernsey) Law, 1990 in respect of the Guernsey Health Service Fund and by Section 1(1) of The Long-term Care Insurance (Guernsey) Law, 2002 in respect of the Long-term Care Insurance Fund. The members of the Social Security Department had been appointed by the States of Guernsey.

19. SUBSEQUENT EVENTS

There have been no material subsequent events since the Balance Sheet date which affect these financial statements.

CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

| | Note | GIF 2016 £'000s | GHSF 2016 £'000s | LTCIF 2016 £'000s | TOTAL 2016 £'000s | TOTAL 2015 £'000s |
|---|--------------|-----------------------|------------------------|-------------------------|-------------------------|-------------------------|
| Income | | | | | | |
| Contributions | 1(b),2 | 102,035 | 38,964 | 19,433 | 160,432 | 157,203 |
| States grant | 1(b) | 15,305 | 4,676 | - | 19,981 | 19,595 |
| | | 117,340 | 43,640 | 19,433 | 180,413 | 176,798 |
| Expenditure | | | | | | |
| Benefits payable | 1(c),3,4,5,6 | 134,649 | 40,804 | 18,450 | 193,903 | 187,489 |
| Administration | 7 | 4,744 | 1,547 | 325 | 6,616 | 6,357 |
| | | 139,393 | 42,351 | 18,775 | 200,519 | 193,846 |
| Operating (deficit)/surplus before depreciation charge | | (22,053) | 1,289 | 658 | (20,106) | (17,048) |
| Depreciation charge | 9 | (116) | - | - | (116) | (177) |
| Operating (deficit)/surplus | | (22,169) | 1,289 | 658 | (20,222) | (17,225) |
| Investment returns | 1(f),8 | 76,581 | 11,971 | 6,440 | 94,992 | (7,259) |
| Net (deficit)/surplus | | 54,412 | 13,260 | 7,098 | 74,770 | (24,484) |
| Net assets at 1 January | | 676,837 | 103,086 | 55,832 | 835,755 | 860,239 |
| Net assets at 31 December | | 731,249 | 116,346 | 62,930 | 910,525 | 835,755 |

This additional information has been prepared from the accounting records of the Contributory Funds. While it does not form part of the financial statements, it should be read in conjunction with them.

Elizabeth College – Upper School

Report of the Board of Directors For the year ended 31 August 2016

The Board of Directors submits its report and the audited financial statements of Elizabeth College – Upper School (the “College”) for the year ended 31 August 2016.

Elizabeth College, founded in 1563 by Queen Elizabeth I, is a selective day school located in St Peter Port in Guernsey. The College includes the Upper School which is reported in these financial statements. The Pre-School and Pre-Preparatory School (Acorn House), and Preparatory School (Beechwood), are reported in separate financial statements as Elizabeth College – Junior School, Beechwood & Acorn House.

Directors' responsibilities statement

The Board of Directors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable laws. In preparing those financial statements the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable it to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The principal activity of the College is the provision of education.

Results

The results of the College for the year are set out in detail on the Statement of Income and Retained Funds.

Board of Directors

The Board of Directors of the College who served during the year were:-

| | |
|---|---|
| The Very Reverend Timothy Barker (Chairman) | Appointed 29 November 2015 |
| Deputy Allister Langlois | Resigned 6 January 2016 |
| Mr Kevin Roberts | |
| Mr David Preston | |
| Advocate Davey Le Marquand | |
| Mr John Perkins | |
| Mr Mike Buchanan | |
| Ms Anne-Marie Collivet | |
| Mr David Sussman | Appointed 5 January 2015, resigned 6 January 2016 |
| Mr Mark Thompson | Appointed 6 January 2016 |
| Mr Stephen Falla | Appointed 2 March 2016 |

On 6 January 2017 Deputy Lyndon Trott was appointed to the Board of Directors and Mr John Perkins resigned from the Board. On 20 February 2017 Mr Kevin Roberts resigned from the Board.

Elizabeth College – Upper School

Report of the Board of Directors (continued) For the year ended 31 August 2016

Independent auditor

BDO Limited have expressed their willingness to continue in office.

Disclosure of information to auditor

Each of the persons who are directors at the time when this report of the Board of Directors is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the College's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any audit information and to establish that the College's auditor is aware of that information.

Approved by the board of directors and signed on its behalf by:

.....
The Very Reverend Timothy Barker
Chairman

.....
Mr Mark Thompson
Director

Date:

Independent Auditor's Report to the Board of Directors of Elizabeth College – Upper School

We have audited the financial statements of Elizabeth College – Upper School (the “College”) for the year ended 31 August 2016 which comprise the Statement of Income and Retained Funds, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the College's Board of Directors, as a body, in accordance with the terms of engagement dated 25 November 2015. Our audit work is undertaken so that we might state to the College's Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditor

As explained more fully in the Directors' Responsibilities Statement within the Report of the Board of Directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2016 and of its deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

CHARTERED ACCOUNTANTS

Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date:

Elizabeth College – Upper School

Statement of Income and Retained Funds For the year ended 31 August 2016

| | Note | 2016 £ | 2016 £ | 2015 £ (restated) | 2015 £ (restated) |
|--|------|-----------|--------------------|-------------------------|-------------------------|
| Income | | | | | |
| States' block grant | | | 591,887 | | 778,744 |
| Fees receivable | | | 5,156,142 | | 5,009,116 |
| Other income | | | 352,004 | | 349,884 |
| | | | <u>6,100,033</u> | | <u>6,137,744</u> |
| Expenses | | | | | |
| School and departmental expenses | | 4,595,065 | | 4,384,331 | |
| Administrative expenses | | 1,340,333 | | 1,201,988 | |
| Maintenance of buildings and grounds | | 372,754 | | 438,683 | |
| | | | <u>(6,308,152)</u> | | <u>(6,025,002)</u> |
| Operating (deficit)/surplus before interest | | | <u>(208,119)</u> | | <u>112,742</u> |
| Interest receivable | | | 16,931 | | 23,408 |
| Operating (deficit)/surplus for the year | | | <u>(191,188)</u> | | <u>136,150</u> |
| <i>Loan waived</i> | | | | | |
| Ernest Gardner Bursary Fund | 13 | | - | | 145,000 |
| <i>Restricted income</i> | | | | | |
| Grants from Elizabeth College Foundation | 14 | | 188,031 | | 140,821 |
| | | | <u>(3,157)</u> | | <u>421,971</u> |
| (Deficit)/surplus for the year | | | <u>(3,157)</u> | | <u>421,971</u> |
| Retained funds at 1 September – as restated | | | <u>6,375,220</u> | | <u>5,953,249</u> |
| Retained funds at 31 August | | | <u>6,372,063</u> | | <u>6,375,220</u> |

All income for the year derives wholly from continuing activities.

The notes 1 to 15 form an integral part of these financial statements.

Elizabeth College – Upper School

**Statement of Financial Position
As at 31 August 2016**

| | Note | 2016 | 2016 | 2015 | 2015 |
|--|-------------|-------------|-------------|-------------------|-------------------|
| | | £ | £ | £ | £ |
| | | | | (restated) | (restated) |
| Fixed assets | | | | | |
| Tangible assets | 5 | 4,694,713 | | | 4,743,896 |
| Current assets | | | | | |
| Stock | | 3,638 | | 7,661 | |
| Debtors | 7 | 185,181 | | 231,300 | |
| Investments | | - | | 37,690 | |
| Cash and cash equivalents | 8 | 2,648,824 | | 2,368,678 | |
| | | | | | |
| | | 2,837,643 | | 2,645,329 | |
| Creditors - amounts falling due within one year | 9 | (1,160,293) | | (1,014,005) | |
| Net current assets | | 1,677,350 | | 1,631,324 | |
| | | | | | |
| Net assets | | 6,372,063 | | 6,375,220 | |
| | | | | | |
| Represented by:- | | | | | |
| Retained funds – as restated | 11 | 6,372,063 | | 6,375,220 | |

Approved by the Board of Directors and authorised for issue by:

.....
Chairman

.....
Date approved by the Board

The notes 1 to 15 form an integral part of these financial statements.

Elizabeth College – Upper School

Statement of Cash Flows For the year ended 31 August 2016

| | Note | 2016 £ | 2016 £ | 2015 £ (restated) | 2015 £ (restated) |
|---|------|-----------|-----------|-------------------------|-------------------------|
| Cash flows from operating activities | | | | | |
| (Deficit)/surplus for the financial year | | (3,157) | | 421,971 | |
| Adjustments for: | | | | | |
| Depreciation | 5 | 233,492 | | 224,344 | |
| Loan from Ernest Gardner Bursary Fund waived | | - | | (145,000) | |
| Decrease/(increase) in stock | | 4,023 | | (7,535) | |
| Decrease in operating debtors | | 83,808 | | 41,483 | |
| (Decrease)/increase in operating creditors | | (74,259) | | 45,815 | |
| Increase in current account – EC Junior School | | 220,548 | | 359,959 | |
| | | | | | |
| Net cash inflow from operating activities | | | 464,455 | | 941,037 |
| Investing activities | | | | | |
| Tangible fixed assets acquired | 5 | (184,309) | | (456,979) | |
| | | | | | |
| Net cash outflow from investing activities | | | (184,309) | | (456,979) |
| | | | | | |
| Net increase in cash and cash equivalents | | | 280,146 | | 484,058 |
| Cash and cash equivalents at the beginning of the year | 8 | | 2,368,678 | | 1,884,620 |
| | | | | | |
| Cash and cash equivalents at the end of the year | 8 | | 2,648,824 | | 2,368,678 |

The notes 1 to 15 form an integral part of these financial statements.

**Notes to the Financial Statements
For the year ended 31 August 2016**

1. General information

Elizabeth College is a selective day school located in St Peter Port, Guernsey that was founded in 1563 and is governed by statutes dated 28 December 1852. These financial statements only include the results of the Upper School. Separate financial statements are presented for Elizabeth College - Junior School, Beechwood and Acorn House as set out in the Report of the Board of Directors

2. Significant accounting policies

(a) Basis of preparation of the financial statements

The financial statements have been prepared on a going concern basis, under the historical costs convention and in accordance with Financial Reporting Standard 102 ("FRS 102"), the Financial Reporting Standard applicable in the UK and Republic of Ireland.

These financial statements are the first financial statements prepared under FRS 102. FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015. The date of transition to FRS 102 is 1 September 2014. Refer to note 15 for an explanation of the transition.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies (see note 3).

The following principal accounting policies have been applied:

(b) Income recognition

The States' Block Grant comprises a general grant from The States of Guernsey and is recognised on receipt of funds, or when entitlement of receipt by the College is certain. The general grant is being reduced over a 7 year period with effect from 1 September 2012, in accordance with a States Resolution dated 28 September 2011.

School fee income is recognised as receivable on the first day of each term for which pupils are enrolled. Fees received in respect of future years are carried forward as fees received in advance within creditors and are recognised in income in the school term when the pupil attends or is otherwise refunded. Discounts given on fees are recognised in the same period as the associated fees and recorded within administrative expenses.

Other income, including the hire of facilities and catering income, is recognised in the period that the goods or services are provided.

(c) Expenses

All expenses are accounted for on an accruals basis in the period to which the cost relates and are classified under headings that aggregate all costs related to each relevant category. Costs recharged to the Junior School are offset against the Upper School's expenses in the period in which the costs are incurred.

The costs of maintenance are charged in the period in which they are incurred.

(d) Pension costs

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Funds to spread the cost of the pensions over the employees' working lives.

(e) Elizabeth College Foundation

Capital grants received from the Foundation are recognised in the Statement of Income and Retained Funds when received or when entitlement of receipt by the College is certain.

Notes to the Financial Statements (continued)
For the year ended 31 August 2016

2. Significant accounting policies (continued)

(f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Only assets with a cost of £1,000 or more are capitalised as tangible fixed assets and this level is periodically reviewed by the Board, along with the need for a formal impairment review.

College buildings comprise the modern buildings on the main College site off the Grange, the modern changing room and groundsmen's buildings at the College Field and the pavilion at the Memorial Field.

The historic College buildings, being those situated at the College's original site in the Grange and in College Street, and the College Field playing fields and pavilion at King's Road, were gifted to the College at no cost. College buildings which have been held for 50 years or more have not been capitalised as they are considered to have been fully depreciated.

Depreciation is provided to write off the cost of the assets, less their estimated residual values over the period of their expected useful lives, on a straight line basis at the following annual rates:-

| | |
|-------------------------|----------|
| College buildings | - 2% |
| Furniture and equipment | - 10% |
| Computer equipment | - 33.33% |
| Plant and machinery | - 10% |
| Motor vehicles | - 20% |

(g) Financial instruments

The College only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Funds.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(h) Prepayments

A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. A prepaid expense is measured at the transaction price and carried on the Statement of Financial Position as a current asset at cost until it is consumed.

(i) Cash and cash equivalents

Cash is represented by current accounts, cash in hand and deposits with financial institutions. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

(j) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

Notes to the Financial Statements (continued)
For the year ended 31 August 2016

2. Significant accounting policies (continued)

(k) Prize funds and bequests

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College, nor does the College have control over the associated bank accounts.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Directors have made the following judgements:

Tangible fixed assets (see note 5)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are reviewed annually and may vary depending on a number of factors. In reviewing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as original assumptions, future market conditions, the remaining life of the asset and projected disposal values.

4. Taxation

The College is registered under the Charities and Non Profit Organisations (Registration) (Guernsey) Law, 2008 and has been granted exempt status under Section 40(k) of the Income Tax (Guernsey) Law, 1975. The College's income is therefore not subject to tax.

Elizabeth College – Upper School

Notes to the Financial Statements (continued) For the year ended 31 August 2016

| 5. Tangible assets | College Buildings £ | Furniture & Equipment £ | Computer Equipment £ | Plant & Machinery £ | Motor Vehicles £ | Total £ |
|-----------------------|------------------------|----------------------------|-------------------------|------------------------|---------------------|------------|
| Cost | | | | | | |
| At 1 September 2015 | 5,444,359 | 367,926 | 162,954 | 188,477 | 26,322 | 6,190,038 |
| Additions | 10,698 | 108,121 | 36,635 | 28,855 | - | 150,823 |
| | | | | | | |
| At 31 August 2016 | 5,455,057 | 476,047 | 199,589 | 217,332 | 26,322 | 6,430,861 |
| | | | | | | |
| Depreciation | | | | | | |
| At 1 September 2015 | 1,138,239 | 140,551 | 98,919 | 61,806 | 6,627 | 1,446,142 |
| Charge for the year | 111,012 | 44,256 | 51,228 | 21,733 | 5,263 | 233,492 |
| | | | | | | |
| At 31 August 2016 | 1,249,251 | 184,807 | 150,147 | 83,539 | 11,890 | 1,679,634 |
| | | | | | | |
| Net book value | | | | | | |
| At 31 August 2016 | 4,205,806 | 291,240 | 49,442 | 133,793 | 14,432 | 4,694,713 |
| | | | | | | |
| At 31 August 2015 | 4,306,120 | 227,375 | 64,035 | 126,671 | 19,695 | 4,743,896 |

As an indication of the relative value of the College's freehold property assets, and the values at which they are included within the financial statements, the following table sets out (a) the cost values at which the properties are included within the accounts and (b) their estimated insurance values as at 1 March 2016. All figures exclude land.

| | Cost At 31.8.15 £ | Cost Additions £ | Cost At 31.8.16 £ | Insurance Valuation £ |
|-------------------------|-------------------------|------------------------|-------------------------|-----------------------------|
| Main College site | | | | |
| - Historic buildings | - | - | - | 19,616,343 |
| - Modern buildings | 4,109,921 | 10,698 | 4,120,619 | 24,286,901 |
| - Sixth Form Centre | 388,470 | - | 388,470 | 467,056 |
| College playing fields | | | | |
| - CF - Old pavilion | - | - | - | 849,333 |
| - CF - Modern buildings | 149,670 | - | 149,670 | 1,698,667 |
| - MF Pavilion | 796,298 | - | 796,298 | 2,375,750 |
| | | | | |
| | 5,444,359 | 10,698 | 5,455,057 | 49,294,050 |

Notes to the Financial Statements (continued)
For the year ended 31 August 2016

6. Financial instruments

| | | |
|--|-------------|-------------|
| The College's financial instruments are analysed as follows: | 2016 | 2015 |
| | £ | £ |
| Financial assets | | |
| Financial assets measured at fair value through profit or loss | - | 37,690 |
| Financial assets that are measured at amortised cost | 2,735,271 | 2,587,488 |
| | <hr/> | <hr/> |
| | 2,735,271 | 2,625,178 |
| | <hr/> | <hr/> |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | 1,061,031 | 886,240 |
| | <hr/> | <hr/> |

7. Debtors

| | | |
|--------------------------------|-------------|-------------------|
| | 2016 | 2015 |
| | £ | £ |
| | | (restated) |
| Fee debtors | 35,619 | 28,997 |
| Amounts due from brokers | - | 105,732 |
| Sundry debtors | 36,186 | 38,619 |
| Prepayments and accrued income | 113,376 | 57,952 |
| | <hr/> | <hr/> |
| | 185,181 | 231,300 |
| | <hr/> | <hr/> |

Included in prepayments and accrued income is £2,501 (2015: £15,881) due from the Ernest Gardner Bursary Fund.

8. Cash and cash equivalents

| | | |
|---|-------------|-------------|
| | 2016 | 2015 |
| | £ | £ |
| Cash at bank and in hand | 1,216,551 | 1,100,502 |
| States' Treasury Cash & Investment Pool | 1,178,223 | 1,014,819 |
| Short-term fixed deposit | 254,050 | 253,357 |
| | <hr/> | <hr/> |
| | 2,648,824 | 2,368,678 |
| | <hr/> | <hr/> |

Amounts totalling £330,839 (2015: £354,089) held by the Ernest Gardner Bursary Fund are excluded from these financial statements on the basis that they represent monies held on behalf of third parties.

Elizabeth College – Upper School

Notes to the Financial Statements (continued) For the year ended 31 August 2016

| 9. Creditors – amounts falling due within one year | 2016 £ | 2015 £ |
|--|-----------|-----------|
| Creditors and accruals | 266,834 | 328,485 |
| Payroll creditors | 215,455 | 199,380 |
| Fees received in advance | 99,263 | 127,765 |
| Other sundry creditors | 98,568 | 98,750 |
| Current account: Elizabeth College – Junior School, Beechwood & Acorn House | 480,173 | 259,625 |
| | <hr/> | <hr/> |
| | 1,160,293 | 1,014,005 |
| | <hr/> | <hr/> |

The current account due to the Elizabeth College – Junior School, Beechwood & Acorn House is interest free, unsecured and payable upon demand (note 13).

10. Pension costs

A majority of the employees of Elizabeth College are members of the States of Guernsey Superannuation Scheme (“the Scheme”). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates determined on the basis of actuarial advice, which are calculated to spread the expected costs of benefits to employees over the period of those employees' expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the Scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is also not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by FRS 102. In addition, the Board of Directors considers that the additional costs which would be incurred were it possible to do so, in providing such information, considerably outweigh any benefit to the proposed users of these financial statements.

The latest actuarial valuation of the Scheme was conducted at 31 December 2013. At that date the actuarial value of the assets relating to the “Public Servants’ Pool” within the overall Scheme, to which the College’s administration and teaching staff belong, represented 92.2% of the actuarial valuation of the liabilities relating to that group. Based on the results of the above actuarial valuation, it was recommended that the base level rate of employer contributions to be paid remains 14.1% of pensionable salary in respect of all employees.

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2016 was £368,968 (2015: £357,788). At 31 August 2016 the amount of outstanding contributions not paid over to the Scheme was £125,421 (2015: £114,091). Further details relating to the funding of the Scheme are provided in the Superannuation Fund section of the accounts of The States of Guernsey.

11. Retained funds

Retained funds represent accumulated surpluses and deficits net of any adjustments. These funds provide working capital and resources for the operation of the College.

12. Controlling party

Throughout the year the College was under the control of the Board of Directors acting in concert. In the opinion of the Board of Directors there is no single controlling party as defined by FRS 102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefits from their direction.

Notes to the Financial Statements (continued)
For the year ended 31 August 2016

13. Related party disclosures

Elizabeth College operates a central accounting system administered by the Finance Bursar, elements of which cover both the Upper School and Junior School of the College's activities. A majority of the operating receipts and operating expenditure related to the College's activities, whether related to the Upper School or otherwise, pass through common bank accounts, all of which are included in the balance sheet within these financial statements. The net movement arising from cash transactions relating to non Upper School activities are disclosed in the Statement of cash flows as a movement on the current account operated between the two Schools (note 9). Periodically and at each year end, account balances within the central accounting system, including individual debtor and creditor account balances, are allocated as appropriate into the financial statements of the different Schools.

During the year ended 31 August 2016 an amount of £158,250 (2015: £150,000) was recharged from the Upper School of the College to the Junior School in relation to the employment expenses of administrative and accounting staff, a proportion of whose duties relate to the Junior School. At 31 August 2016 £480,173 (2015: £259,625) was due to Elizabeth College – Junior School, Beechwood & Acorn House and is included in creditors (note 9).

- 13. Related party disclosures (continued)** Elizabeth College - Junior School, Beechwood & Acorn House and Ernest Gardner Bursary Fund are related parties due to sharing common directors during the year. A loan amount of £145,000 was waived during the prior year by the directors of the Ernest Gardner Bursary Fund.

Key management personnel includes all directors and a number of senior managers across the College who together have authority and responsibility for planning, directing and controlling the activities of the College. The Directors are unpaid. The total compensation paid to key management personnel for services provided to the College was £474,588 (2015: £475,320).

14. Elizabeth College Foundation

The Elizabeth College Foundation comprises two charitable trusts (one UK and one Guernsey) which were established in 2006 to raise funds, principally from parents and alumni of Elizabeth College, to enable Elizabeth College to undertake projects and activities which might otherwise be beyond the means of the school to finance from its own operations. The Trustees of the Foundation trusts, although initially appointed by the College's Board of Directors, are independent of Elizabeth College and are required to act in accordance with the terms of the relevant trust deeds.

The basis upon which donations to the Foundation have been requested from donors is such that all monies donated are to be retained within the Foundation until such time as they may be expended as grants towards the funding of specified projects or activities for the benefit of Elizabeth College.

Other than donations and interest arising on retained funds, the Foundation trusts have no other sources of income. Therefore the Foundation is reliant upon Elizabeth College to meet a substantial proportion of its annual running costs, including the employment of Foundation staff involved with fund-raising, clerical support and project development. Included in administrative expenses for the year are costs of £57,528 (2015: £54,259) paid on behalf of The Foundation.

In addition to the Grants received during the year recognised in the Statement of Income and Retained Funds, the Elizabeth College Foundation also funded an Archiving and Digitisation project on the College's behalf, for which it paid £25,715 directly to the supplier. This project is ongoing.

Notes to the Financial Statements (continued)
For the year ended 31 August 2016

15. Transition to FRS 102

Other than the presentational changes to the financial statements required by FRS 102 there were no material adjustments to the opening balances as a result of the transition to FRS 102.

The College decided to update its accounting treatment of other operating income on review of its accounting policies. Previously other operating income was accounted for on a receipts basis. Operating income is now recognised in the period that the goods or services are provided and this updated treatment has been applied retrospectively. As a result of this change other operating income for the year ended 31 August 2015 decreased by £8, debtors increased by £9,134 and retained funds brought forward at 1 September 2015 increased by £9,134.

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

The Board of Governors submit their report and the audited financial statements of The Ladies' College – Guernsey (the "College") for the year ended 31 August 2016.

BOARD OF GOVERNORS' RESPONSIBILITIES STATEMENT

The Board of Governors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the profit or loss of the College for that period and are in accordance with applicable laws. In preparing those financial statements the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in business.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable them to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Board of Governors is aware, there is no relevant audit information of which the College's auditor is unaware, having taken all the steps the Board of Governors ought to have taken to make themselves aware of any relevant audit information and to establish that the College's auditor is aware of that information.

PRINCIPAL ACTIVITY

The Ladies' College, founded in 1872, is a girls' day school located in St Peter Port in Guernsey.

The principal activity of the College is the provision of education.

RESULTS

The results of the College for the year are set out in detail on the Statement of Income and Retained Earnings.

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

BOARD OF GOVERNORS

The Board of Governors of the College who served during the year were:-

Deputy Peter Gillson (retired 30 April 2016)
Mrs Kathryn Richards
Mr John Marren
Mr Jack Honeybill (retired 31 May 2016)
Advocate Ben Morgan
Mrs Stephanie Nickolls
Dame Mary Perkins (retired 31 May 2016)
Dr Mary Short (appointed 29 June 2016)
Deputy Heidi Soulsby (appointed 29 June 2016)
Mrs Catharine Walter (appointed 29 June 2016)

INDEPENDENT AUDITOR

BDO Limited has expressed its willingness to continue in office.

CHANGES TO FINANCIAL REPORTING FRAMEWORK

For the current period new UK accounting standards came into effect, replacing previously effective UK accounting standards. The College has applied these new standards, principally FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and Section 1A Small Entities thereof.

APPROVED BY THE BOARD OF GOVERNORS

K M N Richards
.....
Chairman

J M Marren
.....
Governor

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE, GUERNSEY

We have audited the financial statements of The Ladies' College for the year ended 31 August 2016 which comprise the Statement of Income and Retained Earnings, the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the College's Board of Governors, as a body, in accordance with our engagement letter dated 6 October 2015. Our audit work is undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Governors and auditor

The Board of Governors is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board of Governors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2016 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

BDO Limited

CHARTERED ACCOUNTANTS

Place du Pré

Rue du Pré

St Peter Port

Guernsey

Date:14 December 2016.....

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED 31 AUGUST 2016

| | Note | 2016 | 2015 |
|---------------------------------------|------|-------------|-------------|
| INCOME | 2(a) | | |
| States grant | | 460,995 | 617,653 |
| Feesreceivable | | 3,486,197 | 3,376,475 |
| Student registration fees | | 9,500 | 6,500 |
| Miscellaneous income | | 27,069 | 46,032 |
| | | <hr/> | <hr/> |
| | | 3,983,761 | 4,046,660 |
| EXPENDITURE | | | |
| School expenditure | | (3,788,053) | (3,639,120) |
| | | <hr/> | <hr/> |
| OPERATING SURPLUS | | 195,708 | 407,540 |
| Fundraising donations received | 2(b) | 551,844 | 550,632 |
| Bank interest received | | 3,865 | 9,906 |
| | | <hr/> | <hr/> |
| SURPLUS FOR THE YEAR | | £ 751,417 | £ 968,078 |
| | | <hr/> | <hr/> |
| Retained earnings at 1 September | | £ 2,385,676 | £ 1,417,598 |
| | | <hr/> | <hr/> |
| RETAINED EARNINGS AT 31 AUGUST | | £ 3,137,093 | £ 2,385,676 |
| | | <hr/> | <hr/> |

There were no recognised gains or losses other than the surplus for the financial year.

Notes 1 to 14 form an integral part of these financial statements

THE LADIES' COLLEGE, GUERNSEY

BALANCE SHEET

AS AT 31 AUGUST 2016

| | Note | 2016 | 2015 |
|--|------|-------------|-------------|
| FIXED ASSETS | | | |
| Tangible assets | 4 | 6,581,430 | 886,220 |
| CURRENT ASSETS | | | |
| Fee debtors | | 14,129 | 9,061 |
| Other debtors and prepayments | 5 | 50,384 | 61,897 |
| Cash at bank and in hand | 6 | 588,840 | 1,938,819 |
| | | <hr/> | <hr/> |
| | | 653,353 | 2,009,777 |
| CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR | 7 | (1,368,668) | (510,321) |
| | | <hr/> | <hr/> |
| NET CURRENT (LIABILITIES) /ASSETS | | (715,315) | 1,499,456 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 5,866,115 | 2,385,676 |
| CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR | 8 | (2,729,022) | - |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS LIABILITIES | | £ 3,137,093 | £ 2,385,676 |
| | | <hr/> | <hr/> |
| CAPITAL AND RESERVES | | | |
| RESERVES | | £ 3,137,093 | £ 2,385,676 |
| | | <hr/> | <hr/> |

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS AND AUTHORISED FOR ISSUE BY:

K M N Richards

Chairman

Date: 9 December 2016

Notes 1 to 14 form an integral part of these financial statements.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

1. GENERAL INFORMATION

The College is established under The Ladies' College (Guernsey) Law, 1962 as amended.

2. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with FRS 102, adopting section 1A. FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015. Section 1A of FRS 102 is applicable for accounting periods beginning on or after 1 January 2016 but may be applied early to accounting periods ending on or after 31 December 2013. The Board of Governors has taken the option of applying Section 1A early in the preparation of these financial statements. Information on the impact of the first time adoption of FRS 102 is given in note 14.

Disclosure exemptions

In preparing the financial statements for the College, advantage has been taken of the following disclosure exemptions available in FRS 102 section 1A:

- The requirement of Section 7 to prepare a *Statement of Cash Flows*;
- The requirements of Section 11 *Basic Financial Instruments* paragraphs 11.39 to 11.48A ;and
- The requirement of Section 33 *Related Party Disclosures*.

The following principal accounting policies have been consistently applied:

(a) INCOME RECOGNITION

Fee income is recognised as receivable on the first day of each term for which pupils are enrolled since it is non-refundable. The States' Block Grant relating to the General (Non Special Place Holder) Grant is recognised termly on receipt. The General Grant is being reduced over a 7 year period with effect from 1 September 2012, in accordance with a States Resolution on 28 September 2011.

Fee income received in advance of the term is deferred and released on the first day of the applicable term.

Student registration fees and miscellaneous income are recognised on receipt.

All other income is recognised on an accruals basis.

(b) FUNDRAISING DONATIONS RECEIVED

Fundraising donations received are recognised on a cash receipts basis.

(c) SCHOOL EXPENDITURE RECOGNITION

School supplies and equipment including books and teaching materials are recognised in relation to the academic year in which they are to be used as designated by the school budget agreed by the Governors. All other expenses are recognised on an accruals basis.

(d) TAXATION

The College has been registered under the Charities and Non Profit Organisations (Registration) (Guernsey) Law, 2008 and has therefore been granted exempt status under Section 40(k) of the Income Tax (Guernsey) Law, 1975. The College's income is therefore not subject to taxation.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

(e) TANGIBLE FIXED ASSETS AND DEPRECIATION

Freehold land is recognised at cost. The College acquired the land for a nominal sum from The Ladies' College Guild. Given the inherent difficulties in obtaining an accurate valuation of this land, the Board of Governors have elected to carry the land at its nominal value.

Until 2015 no asset was shown on the Balance Sheet in relation to the College premises or other assets as the College did not hold legal title to the land on which the College's premises are built. During 2015 the College entered into a lease arrangement with the States of Guernsey for the land and buildings occupied by the College and the fixed assets of the College from that date are now being recognised in accordance with this accounting policy.

The fixed assets of the College are now being recognised in accordance with the accounting policy set out in this note.

Depreciation will be charged on leasehold assets in the course of construction once construction has been completed and the asset is brought into use (see notes 4 and 11). The assets will be depreciated over the lease term.

Depreciation on other tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates:-

| | |
|-----------------------|----------------------|
| Fixtures and fittings | - 10% straight line |
| Computer equipment | - 33⅓% straight line |

(f) PENSION COSTS

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Earnings to spread the cost of the pensions over the employees' working lives.

(g) PRIZE FUNDS AND BEQUESTS

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College.

(h) BORROWING COSTS

Finance costs directly attributable to leasehold improvement additions are added to the cost of the leasehold improvements. Capitalisation of these finance costs will cease once the asset is substantially complete.

(i) BANK LOAN

The bank loan (explained more fully in note 8) is recognised in these financial statements on draw down and so does not match all relevant amounts accrued for at the balance sheet date. Amounts were drawn down after the balance sheet date to match these.

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the College's accounting policies. The Board of Governors was not required to exercise significant judgement in the preparation of these financial statements.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

4. TANGIBLE ASSETS

| | <u>Freehold Land</u> | <u>Leasehold asset in the course of construction</u> | <u>Fixtures and fittings</u> | <u>Computer equipment</u> | <u>Total</u> |
|-----------------------|--------------------------|--|----------------------------------|-------------------------------|--------------|
| COST | | | | | |
| At 1 September 2015 | 1 | 854,362 | 32,150 | - | 886,513 |
| Additions | - | 5,670,489 | 19,991 | 17,353 | 5,707,833 |
| | | | | | |
| At 31 August 2016 | 1 | 6,524,851 | 52,141 | 17,353 | 6,594,346 |
| | | | | | |
| DEPRECIATION | | | | | |
| At 1 September 2015 | - | - | 293 | - | 293 |
| Charge for the year | - | - | 8,212 | 4,411 | 12,623 |
| | | | | | |
| | - | - | 8,505 | 4,411 | 12,916 |
| | | | | | |
| NET BOOK VALUE | | | | | |
| At 31 August 2016 | £ 1 | £ 6,524,851 | £ 43,636 | £ 12,942 | £ 6,581,430 |
| | | | | | |
| At 31 August 2015 | £ 1 | £ 854,362 | £ 26,611 | £ 5,246 | £ 886,220 |

On 13 September 2012 the College acquired a parcel of land, known as The Ladies' College Playing Field for a nominal sum of £1 from The Ladies' College Guild. Given the inherent difficulties in obtaining an accurate valuation of this land, the Board of Governors have elected to carry the land at its nominal value.

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. The lease runs through to 31 December 2039 with an option to extend to 31 December 2065.

Included within leasehold asset in the course of construction additions are capitalised interest and finance costs amounting to £33,000.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

5. OTHER DEBTORS AND PREPAYMENTS

| | 2016 | 2015 |
|-----------------------|-------------|-------------|
| Prepayments | 44,010 | 37,637 |
| Other debtors | 6,374 | 19,410 |
| Accrued bank interest | - | 4,850 |
| | <hr/> | <hr/> |
| | £ 50,384 | £ 61,897 |
| | <hr/> | <hr/> |

6. CASH AT BANK AND IN HAND

| | 2016 | 2015 |
|-------------------|-------------|-------------|
| Cash in hand | 1,486 | 447 |
| Operating cash | 376,702 | 389,245 |
| | <hr/> | <hr/> |
| | 378,188 | 389,692 |
| Gift for learning | 210,652 | 1,549,127 |
| | <hr/> | <hr/> |
| | £ 588,840 | £ 1,938,819 |
| | <hr/> | <hr/> |

The Gift for learning funds relate to donations received in relation to the phase three development of the College premises.

**7. CREDITORS – AMOUNTS FALLING
DUE WITHIN ONE YEAR**

| | 2016 | 2015 |
|--|-------------|-------------|
| School and administrative expenses | 256,840 | 149,879 |
| Fees for autumn term received in advance | 214,327 | 212,776 |
| Amount payable on building contract | 743,798 | 147,666 |
| Bank loan (see note 8) | 147,040 | - |
| Net capital obligations under finance leases | 6,663 | - |
| | <hr/> | <hr/> |
| | £ 1,368,668 | £ 510,321 |
| | <hr/> | <hr/> |

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

| 8. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR | 2016 | 2015 |
|---|-------------|-------------|
| | £ | £ |
| Net capital obligations under finance leases | 8,329 | - |
| Retention on building contract | 142,403 | - |
| Bank loan | 1,078,290 | - |
| Balance with The Ladies' College, Melrose | 1,500,000 | - |
| | <hr/> | <hr/> |
| | £ 2,729,022 | - |
| | <hr/> | <hr/> |

The bank loan has been taken out from the Royal Bank of Scotland International Limited trading as NatWest to assist with the construction of Phase III. The loan facility, to an amount of £4 million, was agreed in two parts – the initial, flexible and interest only element known as the Revolving Credit Facility (“RCF”), which is available until practical completion of Phase 3 and the “Term Out” option which will enable the Board of Governors to invoke the “Term Out” option which will serve to convert the “RCF” (inclusive of accrued interest) to a capital and interest repayment loan over a period of up to 20 years. Interest is repayable at 1.75% above Base Rate during the RCF and 1.45% above Base Rate during the Term Out option.

The balance between the Senior School and Melrose reflects the shared use of resources across the College.

9. PENSION COSTS

A majority of the employees of the College are members of the States of Guernsey Superannuation Scheme (“the Scheme”). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice and which are calculated to spread the expected cost of benefits to employees over the period of those employees’ expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is also not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by FRS102. In addition, the Board of Governors considers that the additional costs which would be incurred were it possible to do so, in providing such information considerably outweigh any benefit to the proposed users of these financial statements.

The last actuarial valuation of the Scheme was conducted at 31 December 2013. At that date the actuarial value of the assets relating to the “Public servants pool” within the overall Scheme, to which the College’s administration and teaching staff belong, represented 92.2% of the actuarial valuation of the liabilities relating to that group. With effect from 1 January 2010 the rate of employer’s contribution increased to 14.1% in respect of all staff.

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2016 was £322,207 (2015: £306,821). At 31 August 2016 the amount of outstanding contributions not paid over to the Scheme was £82,838 (2015: £69,277).

Further details relating to the funding of the superannuation scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE ACCOUNTS

31 AUGUST 2016

10. CAPITAL COMMITMENT

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. Under the terms of the lease the College is required to invest an aggregate of not less than £10,000,000 on the property at Ladies College by 31 December 2035. The amount is subject to increase in line with the Guernsey retail price index and does not include finance costs. As at 31 August 2016 a total amount of £6,581,430 has been invested.

11. FINANCIAL COMMITMENT

The College has entered into a lease over the land and buildings occupied by the College. The rent payable under this lease in the next year is £252. The lease runs to 31 December 2039 with an option to extend to 31 December 2065.

The College has committed to spend £5,790,000 on the construction contract for phase three of the development of the College. Work was completed in September 2016 although certain amounts, including a retention as shown in Note 8, remain to be paid.

12. CONTROLLING PARTIES

Throughout the year the College was under the control of the Board of Governors acting in concert. In the opinion of the Board of Governors there is no controlling party as defined by FRS102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefit from their direction.

13. RELATED PARTY TRANSACTIONS

During the year the College received £nil (2015: £335,000) in the form of donations from members of the Board of Governors and their close family members. These amounts have been disclosed within fundraising donations received in the Statement of Income and Retained Earnings.

14. TRANSITION TO FRS102

The transition to FRS102 with effect from 1 September 2014 has had no impact on the College's financial statements.

STATES OF ALDERNEY

STATEMENT OF RESPONSIBILITIES OF THE POLICY AND FINANCE COMMITTEE AND THE STATES TREASURER

The States Treasurer is responsible for preparing accounts for each financial year which fairly summarise, in all material respects, the transactions of the States of Alderney for that period and are in accordance with the applicable law. In preparing those accounts she is required to:

- select suitable accounting policies and apply them consistently; and
- make judgements and estimates that are reasonable and prudent.

The Policy and Finance Committee acknowledges that it is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the States of Alderney and to enable them to ensure that the accounts comply with The Government of Alderney Law, 2004, as amended. They are also responsible for safeguarding the assets of the States of Alderney and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the Policy and Finance Committee

We have audited the financial statements of The States of Alderney (the "States") for the year ended 31 December 2016 which comprise the Revenue Income and Expenditure Account, Capital Income and Expenditure Account, Summary of Balances and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Policy and Finance Committee, as a body, in accordance with the terms of our engagement letter dated 16 March 2016. Our audit work has been undertaken so that we might state to the Policy and Finance Committee those matters we have been engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the States and the Policy and Finance Committee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Policy and Finance Committee and the States Treasurer and auditor

As explained more fully in the 'Statement of responsibilities of the Policy and Finance Committee and the States Treasurer', the States Treasurer is responsible for the preparation of the financial statements in accordance with the accounting policies set out in note 1. Our responsibility is to audit and express an opinion on the financial statements having regard to International Standards on Auditing (UK and Ireland). Those standards require compliance with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the States circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the States Treasurer; and the overall presentation of the financial statements. In view of the purpose for which these financial statements have been prepared, however, we did not assess the overall presentation of the financial statements which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on financial statements

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2016, have been prepared, in all material aspects, in accordance with the accounting policies set out in note 1.

Matters on which we report by exception

We have nothing to report in respect of the following matters where the terms of our engagement letter require us to report to you if, in our opinion:

- the States has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

- a. General revenue account receipts and payments arising during the year and in the month following the year end are brought into account in the accounting year to which they relate. Rental income, numismatic revenue and Harbour account revenues are accounted for on an accruals basis.
- b. Capital expenditure from general revenue account votes is written off in the year in which it is incurred. Depreciation is therefore not provided.
- c. The States of Alderney 1982 pension scheme has been presented as far as practicable having regard to FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"). Pension costs charged to the Summary Income and Expenditure Account are the contributions paid in line with the latest actuarial valuations, see note 2 for further details; other movements in the net pension liability are not reflected in the Summary Income and Expenditure account.

2. PENSION COSTS

The States of Alderney 1982 Pension Scheme

The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of this scheme are held separately from those of the States in an independently administered fund which up until 2013 were invested with Aviva.

Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role. In 2015 the investment management services were further improved to ensure that the portfolio and underlying funds are continually monitored by specialist and portfolio managers. In September, 2016 Aviva were appointed as Scheme Actuary with Gower Financial Services Limited continuing to provide administrative and investment support.

In preparing the disclosures for the States of Alderney (the "States") accounts, the States have noted the disclosure requirements of FRS 102, section 28. The States has used actuarial calculations provided by the actuary to identify the implications of any surplus/(deficit) to the States as at 1 January 2015, the date of the last actuarial valuation.

The calculations have been carried out by a qualified independent actuary based on the results of the last full actuarial valuation, updated to 31 December 2016. The pensionable salary growth has been directly linked to the inflation assumption, as the scheme is now closed to new entrants, those remaining in the scheme have no further known increments due, and pay awards have been, and are expected to be, lower than UK inflation assumption figure in the foreseeable future.

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS - continued

2. PENSION COSTS (continued)

The major assumptions used by the actuary were (in nominal terms):

| | Valuation at 31 December 2016 | Valuation at 31 December 2015 |
|-------------------------------|----------------------------------|----------------------------------|
| Pensionable salary growth | 3.0% pa | 3.25% pa |
| Pension escalation in payment | | |
| – to 31.12.2009 | 4.0% pa | 4.0% pa |
| – from 01.01.2010 | 3.0% pa | 3.0% pa |
| Discount rate | 2.7% pa | 3.8% pa |
| Inflation assumption | 3.0% pa | 3.25 pa |

The assets in the scheme and the expected rate of return were:

| | 2016 | 2015 |
|-------------------------------------|---------------------|---------------------|
| Fair value of plan assets | £5,322,000 | £4,610,000 |
| Present value of funded obligations | (£9,221,000) | (£7,077,000) |
| Deficit in the scheme | (£3,899,000) | (£2,467,000) |
| Net pension liability | (£3,899,000) | (£2,467,000) |

The balance sheet position of the Scheme has deteriorated by £1,432,000 over the year which mainly reflects a reduction in the discount rate assumption from 3.8% to 2.7%. This assumption is included in the actuarial valuation to 'discount' future benefit payments in accordance with parameters prescribed by FRS102. It is based on market expectations and FRS102 requires recognition of losses at the end of the accounting period rather than offsetting over a longer period. The actuarial loss for the year and included in the above deficit is £1,840,000.

Over the year to 31 December 2016 the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. Employee's Death in Service benefits are secured under a separate policy. The Actuary has based the above calculations on the assumption that 25% of scheme members will retire at age 60 and 75% at age 65.

In 2016 Employer premiums amounted to £139,893 (2015: £152,610) with no additional premium payments, and Employee premiums were £45,465 (2015: £49,598).

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS – continued

2. PENSION COSTS (continued)

The States of Alderney 2013 Pension Scheme

As approved by the States of Alderney, the new Defined Contributions Scheme, came into effect from 1 January 2013, and is administered by BWCI. There were 7 new entrants to the scheme during 2016. The employee contribution is set at 6.5% (as per the existing scheme), and the employers contribution rate at 7.5%, increasing annually by 0.5% up to a maximum of 12.5%.

In 2016 the Employer premium amounted to £34,821 (2015:£18,178), and the Employee contribution amounted to £64,206 (2015: £29,345).

In addition the Employees Death in Service policy amounted to £9,810 (2015: £9,129), relating to both Schemes. Of this amount £1,764 related to the 2013 Scheme members, and £8,046 related to the 1982 Scheme members.

3. RELATED PARTY TRANSACTIONS

The States of Alderney is responsible for the functions of the Water Board, which is a separate trading entity. During 2016 the States purchased goods and services from the Water Board to the value of £16,807 (2015: £19,915), and provided goods and services to the Board to the value of £65,781 (2015: £51,595).

The Royal Connaught Residential Home Limited is a States owned company. During 2016 the States provided goods and services to the company to the value of £84,220 (2015: £83,457).

The States has a majority share-holding in Alderney Electricity Ltd and purchases electricity, oil and specialist electrical services from the company. In 2016 the value of these purchases was £167,837 (2015: £114,160). The States has provided goods and services to the company during 2016 to the value of £57,672 (2015: £62,423).

Mr Ian Tugby is a member of the States of Alderney, and is also the beneficial owner of Tugby Contractors Ltd. During 2016 the States of Alderney purchased goods and services from Tugby Contractors Ltd to the value of £54,838 (2015: £50,870).

4. BUDGET APPROVALS

The original budget for 2016 was approved by the States of Alderney at the meeting held on 21 October 2015, with the revised budget approved by the States of Alderney on 19 October 2016.

5. ALDERNEY GAMBLING CONTROL COMMISSION

During the year the States of Alderney received a total of £4,365,500 (2015: £4,370,500) in respect of licences issued by the Commission under the Gambling (Alderney) Law 1999. This sum was transferred in total to the Commission to defray expenses with surpluses payable to the States on a quarterly basis. In 2016 the surplus received from the Commission amounted to £1,803,268 (2015: £2,048,530). An extract from the Alderney Gambling Control Commission's financial statements for 2016 will be available to the States in June 2017.

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS - continued

6. ALDERNEY eGAMBLING LIMITED

During 2016 Alderney eGambling Ltd (AeGL), a wholly States owned company, continues to handle the promotion and development of the on-line gambling industry in Alderney. As reported in 2015, it was agreed that the advisory and consultancy services to regulators, previously undertaken by Alderney eGambling Advisors Limited, would be transferred to the responsibility of the AeGL and this alteration to duties continues to work well. A report on the company's activity and accounts for 2016 will be available to the States in June 2017.

7. ALDERNEY COMMISSION FOR RENEWABLE ENERGY

With effect from 10 November 2008 the Alderney Commission for Renewable Energy (ACRE), was appointed by the States of Alderney as a statutory body operating under the provisions of the Renewable Energy (Alderney), Law 2007. A report on the Commission's activities and accounts for 2016 will be available to the States at some stage during 2017.

8. ROYAL CONNAUGHT RESIDENTIAL HOME LIMITED

The Royal Connaught Residential Home Limited is a States owned company managed by the Board of Directors, with responsibility for the administration of the Jubilee & Sydney Herival House and the Royal Connaught Residential Care Home. A report on the Board's activities and accounts for 2016 will be available to the States in June 2017.

9. ALDERNEY HARBOUR ACCOUNT

The trading deficit is debited to the General Services Committee and capital expenditure is funded by the General Services Committee.

10. ECONOMIC DEVELOPMENT RESERVE FUND

The Economic Development Reserve Fund has been approved as being funded by Alderney Gambling Control Commission reserves at £300k per annum. As this is a fund, any unspent balances are carried forward into the following year, and as such is now being shown as a separate fund. The balance of the fund as at year end amounted to £212,256.

STATES OF ALDERNEY

States of Alderney Summary Income and Expenditure Account 2016

| 2015 | | | Revenue Income and Expenditure | 2016 | | |
|-----------------------|----------------|------------------|---|-----------------------|----------------|------------------|
| Accounts Exp. £ | Inc. £ | Net £ | | Accounts Exp. £ | Inc. £ | Net £ |
| 182,851 | 11,493 | 171,358 | Operational activities | 200,357 | 15,740 | 184,617 |
| | | | Building and Development | | | |
| | | | Control Services | | | |
| | | | General Services | | | |
| 1,186,642 | 25,786 | 1,160,856 | States Works | 1,203,613 | 26,597 | 1,177,016 |
| 29,976 | 23,426 | 6,550 | Recreation | 33,664 | 20,628 | 13,036 |
| 43,385 | - | 43,385 | Fire Brigade | 38,384 | - | 38,384 |
| 20,434 | - | 20,434 | Civil Emergency | 22,235 | - | 22,235 |
| 28,178 | - | 28,178 | Grants | 28,459 | - | 28,459 |
| 363,186 | 333,340 | 29,846 | Alderney Harbour | 374,231 | 300,783 | 73,448 |
| | | | Policy and Finance | | | |
| 861,110 | 37,785 | 823,325 | Corporate and democratic services | 790,946 | 42,791 | 748,155 |
| 188,622 | 77,315 | 111,307 | Court | 163,310 | 72,032 | 91,278 |
| 172,528 | 16,314 | 156,214 | Tourism and marketing | 224,256 | 17,416 | 206,840 |
| 33,327 | - | 33,327 | Education and health | 32,741 | - | 32,741 |
| 108,428 | 94,499 | 13,929 | Social and welfare services | 125,722 | 113,780 | 11,942 |
| 88,383 | - | 88,383 | Grants | 90,899 | - | 90,899 |
| 3,307,050 | 619,958 | 2,687,092 | Cost of services | 3,328,817 | 609,767 | 2,719,050 |
| | | | Other operating income | | | |
| | | | Property and land rents - | | | |
| - | 222,856 | 222,856 | General Services | - | 233,603 | 233,603 |
| - | 41,729 | 41,729 | Rents - Policy & Finance | - | 41,729 | 41,729 |
| - | 15,794 | 15,794 | Interest receivable | - | (17,967) | (17,967) |
| - | 48,119 | 48,119 | Vehicle import licence fees | - | 51,166 | 51,166 |
| - | 70,145 | 70,145 | Numismatic and philatelic profits | - | 79,459 | 79,459 |
| | | | Property and other taxation/grant income | | | |
| - | 1,895,868 | 1,895,868 | Grant from States of Guernsey (Net) | - | 1,884,500 | 1,884,500 |
| - | 463,130 | 463,130 | Occupiers Rates | - | 466,915 | 466,915 |
| - | 25,000 | 25,000 | Duty free concession | - | 28,857 | 28,857 |
| | | 95,549 | services | | | 49,212 |
| | | | Transfer to/(from) Retained Surplus | | | (287) |
| | | 45,899 | Transfer to Currency Reserve | | | 49,499 |
| | | - | Surplus | | | - |

STATES OF ALDERNEY

States of Alderney Summary Income and Expenditure Account 2016 (continued)

| | | | Capital Income and Expenditure | | | |
|----------|-----------|-----------|--------------------------------|----------|-----------|-----------|
| Accounts | 2015 | | | Accounts | 2016 | |
| Exp. | Inc. | Net | | Exp. | Inc. | Net |
| £ | £ | £ | £ | £ | £ | |
| 318,795 | - | 318,795 | General Services Committee | 769,297 | - | 769,297 |
| 47,600 | - | 47,600 | Policy and Finance Committee | 291,935 | - | 291,935 |
| | | | Transfer to Economic | | | |
| 447,793 | - | 447,793 | Development Fund | 300,000 | - | 300,000 |
| | | 814,188 | Total capital expenditure | | | 1,361,232 |
| | | | Sources of Funding | | | |
| - | 2,048,530 | 2,048,530 | AGCC profit transfer | - | 1,803,268 | 1,803,268 |
| - | 238,093 | 238,093 | Property transfer duties | - | 232,732 | 232,732 |
| - | 947,776 | 947,776 | Exceptional income | - | - | - |
| - | 57,381 | 57,381 | Asset sales | - | 34,505 | 34,505 |
| - | 27,489 | 27,489 | Other | - | - | - |
| | | 3,319,269 | Total capital income | | | 2,070,505 |
| | | 2,505,081 | Surplus | | | 709,273 |

The summary of accounts were approved by the Policy and Finance Committee on 16th May 2017 and are signed on its behalf by:

Mr J Dent
Chairman, Policy and Finance Committee

As previously announced the format and presentation of the States of Alderney Accounts for 2016 has been revised from the format and presentation used in previous accounting periods. Certain comparative figures have been reclassified, where appropriate, to confirm with the revised presentation adopted in these accounts. Within the States of Alderney Accounts for 2016, the 2015 Alderney Harbour income of £333,340 and 2015 Social and welfare services income of £94,499 have been presented on a gross basis. Within the States of Alderney Accounts for 2015 these amounts were netted against their respective expenses. Further the transfer of £447,793 for 2015 to the Economic Development Fund is presented as a separate expenditure item in the 2016 accounts. This was previously presented as a reduction in income on the Capital Account within the States of Alderney Accounts for 2015. The above changes have no impact on the surplus / (Deficit) of the Revenue Income and Expenditure and Capital Income and Expenditure accounts.

STATES OF ALDERNEY

Summary of Balances at 31 December 2016

Coins in Circulation

| | |
|---|-------------------------|
| Value of coins in circulation at 01.01.16 | 3,838,308 |
| Value of coins issued in 2016 | 168,669 |
| | <u>4,006,977</u> |
| Less: Value of coins withdrawn from circulation | - |
| Value of coins in circulation at 31.12.16 | <u><u>4,006,977</u></u> |

Currency Reserve Fund

| | |
|---|-----------------------|
| Balance at 01.01.16 | 521,521 |
| Reserve for base metal coins issued in 2016 | 49,499 |
| | <u>571,020</u> |
| Less: Value of coins redeemed. | - |
| Transfer of funds to SoA Revenue Account | - |
| Balance at 31.12.16 | <u><u>571,020</u></u> |

Insurance Deductible Reserve Account

| | |
|-------------------------|-----------------------|
| Balance at 01.01.16 | 256,698 |
| 2016 Reserve Allocation | - |
| Payments/Claims | - |
| Balance at 31.12.16 | <u><u>256,698</u></u> |

Economic Development Reserve Fund

| | |
|---|-----------------------|
| Income | |
| AGCC funding - (accumulation of 2014-2016 balance) | 264,615 |
| AGCC funding 2016 | 300,000 |
| Expenditure 2016 | |
| Air Links Study (£22k) | 6,738 |
| Small Business Start Up Grants (Ex Young Entrepreneur Scheme) (£10k) | 1,000 |
| Anti Money Laundering/Know Your Client (PWC) (£13k) | 2,051 |
| Administration/Consultancy (£45k) | 30,804 |
| Marina Investigations (£65k) | 5,681 |
| Review of Company Law (£110k) | 78,513 |
| Development of Niche Tourism (£10k) | 10,330 |
| Housing Strategy (ARUP) (£19k) | 18,625 |
| Review of Financial Relationship with Guernsey (£50k) | 29,822 |
| Aviation Fuel Subsidy (Avgas) (£41k) | 26,052 |
| Review of Governance (£25k) | 68,725 |
| Transport Strategy Consultation (£35k) | 12,045 |
| Marine Management Plan (£25k) | 12,913 |
| Ferry Subsidy (£36k) | 37,167 |
| Airport Rehabilitation Project - York Aviation Feasibility Study (£35k) | 11,893 |
| Total expenditure 2016 | <u>352,359</u> |
| Balance carried forward at 31.12.16 | <u><u>212,256</u></u> |

Amounts in brackets are the total amount voted to year end

STATES OF ALDERNEY

Summary of Balances at 31 December 2016 (continued)

INVESTMENTS

| <u>2015</u> | | | <u>2016</u> | |
|------------------|---------------|---|------------------|---------------|
| SHARES | £ | <u>Alderney Electricity Ltd</u> | SHARES | £ |
| | | Ordinary Shares at £1 each fully paid at cost | | |
| <u>1,146,090</u> | <u>39,860</u> | Balance at 01.01.16 and 31.12.16 | <u>1,146,090</u> | <u>39,860</u> |
| <u>2015</u> | | | <u>2016</u> | |
| SHARES | £ | <u>Alderney Electricity Ltd</u> | SHARES | £ |
| | | 7% Cumulative Preference Shares | | |
| | | at £1 each fully paid at cost | | |
| <u>11,150</u> | <u>5,659</u> | Balance at 01.01.16 and 31.12.16 | <u>11,150</u> | <u>5,659</u> |
| <u>2015</u> | | | <u>2016</u> | |
| SHARES | £ | <u>Alderney eGambling Ltd</u> | SHARES | £ |
| | | Ordinary Shares at £1 each fully paid at cost | | |
| <u>1</u> | <u>1</u> | Balance at 01.01.16 and 31.12.16 | <u>1</u> | <u>1</u> |
| <u>2015</u> | | | <u>2016</u> | |
| SHARES | £ | <u>Alderney eGambling Advisers Ltd</u> | SHARES | £ |
| | | Ordinary Shares at £1 each fully paid at cost | | |
| | | Company dissolved during 2015 | | |
| <u>1</u> | <u>1</u> | Balance at 31.12.16 | <u>-</u> | <u>-</u> |
| <u>2015</u> | | | <u>2016</u> | |
| SHARES | £ | <u>Alderney Golf Club</u> | SHARES | £ |
| | | Shares at £1 each fully paid at cost | | |
| <u>650</u> | <u>650</u> | Balance at 01.01.16 and 31.12.16 | <u>650</u> | <u>650</u> |
| <u>2015</u> | | | <u>2016</u> | |
| SHARES | £ | <u>Royal Connaught Residential Home Ltd</u> | SHARES | £ |
| | | Shares at £1 each fully paid at cost | | |
| <u>2</u> | <u>2</u> | Balance at 01.01.16 and 31.12.16 | <u>2</u> | <u>2</u> |

STATES OF ALDERNEY

Summary of Balances at 31 December 2016 (continued)

| <u>2015</u> | <u>Bank accounts</u> | <u>2016</u> |
|---------------|--|---------------|
| £ | <u>Daisy Hansen St Anne's School Trust</u> | £ |
| 984 | Balance at 01.01.16 | 949 |
| - | Interest received | - |
| <u>984</u> | | <u>949</u> |
| (35) | Audit report | (35) |
| <u>949</u> | Balance at 31.12.16 | <u>914</u> |
| | <u>The Anne French Hospital Annexe Fund</u> | |
| 12,577 | Balance at 01.01.16 | 12,694 |
| 157 | Interest received | 156 |
| <u>12,734</u> | | <u>12,850</u> |
| (40) | Audit report | - |
| <u>12,694</u> | Balance at 31.12.16 | <u>12,850</u> |
| | <u>States of Alderney Interest on Investments Account</u> <u>(Educational Bequests)</u> | |
| 6,378 | Balance at 01.01.16 | 3,678 |
| - | Interest received | - |
| <u>6,378</u> | | <u>3,678</u> |
| (2,700) | Grants | (2,700) |
| - | Audit Reports | - |
| <u>3,678</u> | Balance at 31.12.16 | <u>978</u> |
| | <u>The Packe History Trust</u> | |
| 1,479 | Balance at 01.01.16 | 1,479 |
| - | Interest received | - |
| <u>1,479</u> | | <u>1,479</u> |
| - | School History Prize | - |
| <u>1,479</u> | Balance at 31.12.16 | <u>1,479</u> |
| | <u>Alderney Pilotage Board</u> | |
| <u>200</u> | Balance at 01.01.16 and 31.12.16 | <u>500</u> |
| | <u>The Mary Roylance Mignot Memorial Hospital Fund</u> | |
| 15,872 | Balance at 01.01.16 | 16,574 |
| 702 | Interest received (2015 overestimated adjustment & estimated 2016) | 421 |
| <u>16,574</u> | | <u>16,995</u> |
| - | Grants | (1,291) |
| <u>16,574</u> | Balance at 31.12.16 | <u>15,705</u> |
| | <u>St Anne's Trust</u> | |
| 32,455 | Balance at 01.01.16 | 32,780 |
| 325 | Interest received | 328 |
| <u>32,780</u> | | <u>33,108</u> |
| - | Grants | - |
| <u>32,780</u> | Balance at 31.12.16 | <u>33,108</u> |
| | <u>The New Parsonage House Trust</u> | |
| 74,913 | Balance at 01.01.16 | 76,859 |
| 2,205 | Interest received (2015 adjustment of overestimation) | 1,954 |
| <u>77,118</u> | | <u>78,813</u> |
| (259) | Maintenance costs | (3,916) |
| <u>76,859</u> | Balance at 31.12.16 | <u>74,897</u> |

STATES OF ALDERNEY

Summary of Balances at 31 December 2016 (continued)

| | <u>Charitable Trust Fund</u> | |
|----------------|---------------------------------------|----------------|
| 203,425 | Balance at 01.01.16 | 192,561 |
| 1,707 | Interest received | 2,078 |
| 50 | Returned grant | - |
| <u>205,182</u> | | <u>194,639</u> |
| (12,462) | Grants issued in year | (12,314) |
| (159) | Bank and general administration costs | (160) |
| <u>192,561</u> | Balance at 31.12.16 | <u>182,165</u> |

STATES OF ALDERNEY WATER BOARD

STATEMENT OF THE BOARD'S RESPONSIBILITIES

The States of Alderney Water Board ('the Board') acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Board and of the surplus or deficit of the Board for that year.

In preparing those financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They also have a general responsibility for taking such steps as are reasonably open to it, to safeguard the assets of the Board, and to prevent and detect fraud and other irregularities.

STATES OF ALDERNEY WATER BOARD

STATEMENT OF THE BOARD'S RESPONSIBILITIES

The States of Alderney Water Board ('the Board') acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Board and of the surplus or deficit of the Board for that year.

In preparing those financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They also have a general responsibility for taking such steps as are reasonably open to it, to safeguard the assets of the Board, and to prevent and detect fraud and other irregularities.

STATES OF ALDERNEY WATER BOARD

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 2016 | 2015 |
|-------------------------------------|-------|----------------|----------------|
| REVENUE | | £ | £ |
| | 1 | | |
| Unmetered Supplies | | 545,530 | 536,954 |
| Metered Supplies | | 91,030 | 85,631 |
| Service Charges | | 5,739 | 13,031 |
| Contract Work | | 6,486 | 2,261 |
| Sale of Fixed Assets | | (211) | - |
| | | <u>648,574</u> | <u>637,877</u> |
| EXPENSES | 1 | | |
| OPERATING AND MAINTENANCE EXPENSES | | | |
| Salaries and Wages | | 160,227 | 170,083 |
| Water Treatment and Testing | | 25,193 | 24,187 |
| Fuel, Electricity and Telemetry | | 86,422 | 88,142 |
| Maintenance | | 57,257 | 39,460 |
| Maintenance Contracts | | 23,490 | 22,831 |
| Health & Safety expenses | | 3,172 | 2,974 |
| Pension Costs | 2 | 29,396 | 27,449 |
| Depreciation | 1 & 6 | <u>119,967</u> | <u>109,207</u> |
| | | <u>505,124</u> | <u>484,333</u> |
| ADMINISTRATION AND GENERAL EXPENSES | | | |
| Administration Charge | | 36,522 | 30,473 |
| Rents, Rates and Taxes | | 17,076 | 16,571 |
| Insurance | | 5,561 | 5,191 |
| PFOS Related Expenses | | 12,489 | - |
| Motor Vehicle Expenses | | 5,751 | 3,770 |
| Office Expenses and Equipment | | 5,848 | 5,979 |
| Accountancy and Audit | | 6,532 | 6,478 |
| Bank Charges | | 1,943 | 1,972 |
| Travelling and General Expenses | | 1,642 | 1,787 |
| Staff Training Costs | | 527 | 2,210 |
| Consultancy Fees and Expenses | | 1,994 | 3,946 |
| Bad Debts Written off | | 896 | 391 |
| | | <u>96,781</u> | <u>78,768</u> |
| | | (601,905) | (563,101) |
| OPERATING SURPLUS | | 46,669 | 74,776 |

STATES OF ALDERNEY WATER BOARD

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

| | | | |
|-------------------------------|---|-----------------------|-----------------------|
| OTHER INCOME | | | |
| Interest and other Receivable | | 417 | - |
| Rents Receivable | 5 | <u>11,315</u> | <u>11,336</u> |
| SURPLUS FOR THE YEAR | | 58,401 | 86,112 |
| BALANCE BROUGHT FORWARD | | 621,677 | 535,565 |
| BALANCE CARRIED FORWARD | | <u><u>680,078</u></u> | <u><u>621,677</u></u> |

The Water Board has no recognised gains or losses other than the surplus for the year.

The Notes form part of these financial statements.

STATES OF ALDERNEY WATER BOARD

BALANCE SHEET AS AT 31 DECEMBER 2016

| | Notes | 2016 | 2015 |
|--|-------|------------------|------------------|
| | | £ | £ |
| ASSETS EMPLOYED | | | |
| FIXED ASSETS | 1 & 6 | 2,197,320 | 2,084,384 |
| CURRENT ASSETS | | | |
| Stock | 1 | 71,951 | 81,922 |
| Debtors | | 55,535 | 53,613 |
| Bank balances - deposit | | 400,485 | 67 |
| Bank balances - current | | 523,869 | 787,525 |
| | | <u>1,051,840</u> | <u>923,127</u> |
| LIABILITIES FALLING DUE WITHIN ONE YEAR | | | |
| Creditors | | 117,096 | 90,047 |
| NET CURRENT ASSETS | | <u>934,744</u> | <u>833,080</u> |
| NET ASSETS | | <u>3,132,064</u> | <u>2,917,464</u> |
| FINANCED BY | | | |
| RESERVES | | | |
| General | 3 | 86,286 | 86,286 |
| Capital Contribution from States of Alderney | 3 | 2,365,700 | 2,209,500 |
| Revenue Account | | 680,078 | 621,678 |
| | | <u>3,132,064</u> | <u>2,917,464</u> |

The Notes form part of these financial statements.

The financial statements were approved by the States of Alderney Water Board

Mrs N. Paris
Chairman, General Services Committee

STATES OF ALDERNEY WATER BOARD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the States of Alderney Water Board's financial statements:

Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with the applicable accounting policies.

Revenue and Expenses

Revenue and Expenditure is recognised on an accruals basis.

Fixed Assets

Fixed assets are stated at cost less depreciation. Staff time spent on capital projects is

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of fixed assets over their anticipated useful lives using the straight line method:

| | % |
|--------------------------------|-------|
| Mains and services | 2.50 |
| Buildings | 2.50 |
| High Level Storage Tanks | 4.00 |
| Machinery and Filtration Plant | 6.66 |
| Tools and equipment | 10.00 |
| Consumers' meters | 10.00 |
| Filtration Membranes | 14.50 |
| Motor vehicles | 20.00 |

Calculation of depreciation is based on capital expenditure incurred at the commencement of the accounting period, and also on additions during the accounting period.

Stock

Stock is valued at the lower of cost and net realisable value.

STATES OF ALDERNEY WATER BOARD

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

2 PENSION COSTS

The employees of the States of Alderney Water Board (the "Board") are members of the States of Alderney (the "States") Pension Scheme. The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of the 1982 Scheme are held separately from those of the States of Alderney in an independently administered fund which up until 2013 were invested with Aviva. Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role.

Over the year to 31 December 2016, under the 1982 Scheme, the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. The Actuary has based the above calculations on the assumption that 25% of scheme members will retire at age 60 and 75% at age 65.

Employee's Death in Service benefits are secured under a separate policy.

As the scheme is a multi employer arrangement the Board is unable to identify its share of the scheme assets and liabilities.

The new Defined Contributions Scheme, administered by BWCI came into effect on 1st January 2013 "the 2013 Scheme". There is currently one member of this Scheme from the Water Board. Since 1st January, 2016 until 31st December, 2016 the employer contributed 7.5% of pensionable salary, with the employee contribution of 6.5% of pensionable salary.

The pension charge to the Water Board for the year was £29,396 (2015: £27,449).

STATES OF ALDERNEY WATER BOARD

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

3 RESERVES

General Reserve

This is a historic record of the States of Alderney investment into the Water Board in the early years of operation.

Capital Contribution from States of Alderney.

Since 2008 capital contributions amounting to £2,365,700 have been awarded by way of grants from the States of Alderney in order to upgrade the Water Board infrastructure. The latest of these, relating to the distribution networks (Phases 6 & 7), both were approved in 2016 to the total of £156,200 (Phase 6 £94,200 & Phase 7 £62,000). As at 31 December 2016 this amount had been

4 RELATED PARTY TRANSACTIONS

In 2016 Mr I Tugby was Chairman of the General Services Committee and the Water Board.

The States of Alderney has a majority shareholding in Alderney Electricity Ltd and appoints annually a director to the Board of the Company. This position was held by Mr M Birmingham during 2016.

The Water Board purchases electricity, oil and specialist electrical services from Alderney Electricity Ltd. In 2016 the value of these purchases was £77,430 (2015: £79,003).

Mr I Tugby is a member of the Water Board, and is also the beneficial owner of Tugby Contractors Ltd. In 2016 the Board purchased goods and services from Tugby Contractors Ltd to the value of £109,215 (2015: £54,792).

During 2016 the Water Board purchased goods and services from the States of Alderney to the value of 2016 £65,781 (2015 £51,595) and supplied goods and services to the States of Alderney to the value of 2016 £16,807 (2015 £19,915).

The General Services Committee is appointed by the States of Alderney to act as the Water Board.

5 RENTS RECEIVABLE

During 2016 the Board received rent from two mobile telephone companies, that utilise the Mouriaux water tower as a base station for their equipment and aerials, and from the lease of Corblets Quarry for fishing rights.

STATES OF ALDERNEY WATER BOARD

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2016

| | At 1 January 2016 | Additions / Charge | Disposals / Written off & Transfers | At 31 December 2016 |
|---|-------------------------|-----------------------|---|------------------------------|
| | £ | £ | £ | £ |
| 6 FIXED ASSETS | | | | |
| COST | | | | |
| Land | 3,737 | - | - | 3,737 |
| Mains and Services | 1,316,046 | - | 135,986 | 1,452,032 |
| Buildings | 208,511 | - | 3,093 | 211,604 |
| Storage Tanks | 104,449 | - | - | 104,449 |
| Machinery | 910,835 | 26,558 | (805) | 936,588 |
| Filter Membranes | 65,000 | - | - | 65,000 |
| Tools and Equipment | 27,886 | 645 | - | 28,531 |
| Motor Vehicles | 18,450 | - | - | 18,450 |
| Consumer Meters | 4,917 | 1,241 | - | 6,158 |
| Assets in course of construction (Phase 4 BMS)* | - | 17,075 | (17,075) | - |
| Assets in course of construction (Phase 5)* | 41,516 | 24,807 | (66,324) | - |
| Assets in course of construction (Phase 6)* | 15,864 | 90,346 | (3,697) | 102,513 |
| Assets in course of construction (Phase 7)* | - | 64,023 | (64,023) | - |
| Assets in course of construction (Phase 8)* | - | 10,639 | - | 10,639 |
| Assets in course of construction (Phase 9)* | - | 9,821 | - | 9,821 |
| | 2,717,211 | 245,155 | (12,845) | 2,949,521 |
| DEPRECIATION | | | | |
| Mains and Services | 247,732 | 33,173 | - | 280,906 |
| Buildings | 29,897 | 4,954 | - | 34,850 |
| Storage Tanks | 13,488 | 4,178 | - | 17,666 |
| Machinery | 283,142 | 61,345 | (594) | 343,892 |
| Tools and Equipment | 10,700 | 2,741 | - | 13,440 |
| Motor Vehicles | 3,997 | 3,690 | - | 7,687 |
| Consumer Meters | 1,301 | 598 | - | 1,899 |
| Filter Membranes | 42,572 | 9,288 | - | 51,861 |
| | 632,829 | 119,966 | (594) | 752,201 |
| NET BOOK VALUE | 2,084,382 | 125,189 | (12,251) | 2,197,320 |

*Assets in the course of construction. No depreciation is charged on assets in the course of construction until they are brought into operational use in the business, at which point the assets are transferred into the relevant asset category on the fixed asset register and depreciated over their useful economic life. In the year ended 31 December 2016, assets in the course of construction relate to Phases 6 & 7. Phase 4 (BMS), Phase 5 & Phase 7 were completed and capitalised December 2016.