

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY WATER ACCOUNTS 2018

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the Guernsey Water Accounts for the year ending 31 December 2018.

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

States of Guernsey
States' Trading Supervisory Board
Guernsey Water

Report and Financial Statements

For the year ended 31 December 2018

States' Trading Supervisory Board Guernsey Water

STATES' TRADING SUPERVISORY BOARD MEMBERS, PRINCIPAL OFFICERS AND PROFESSIONAL ADVISERS 3

CHAIRMAN'S REPORT 5

GENERAL MANAGER'S REPORT 8

CORPORATE GOVERNANCE 12

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STATES OF GUERNSEY - STATES' TRADING SUPERVISORY BOARD - GUERNSEY WATER 14

STATEMENT OF COMPREHENSIVE INCOME 16

STATEMENT OF FINANCIAL POSITION..... 17

STATEMENT OF CHANGES IN EQUITY 18

STATEMENT OF CASH FLOWS..... 19

NOTES TO THE FINANCIAL STATEMENTS..... 20

States' Trading Supervisory Board

Guernsey Water

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers

States' Trading Supervisory Board Members

Deputy P. Ferbrache, President	appointed 27 June 2018
Deputy J. Kuttelwascher	appointed 25 September 2018
Deputy C. Parkinson, President	resigned 27 June 2018
Deputy J. Smithies	
Mr S. Falla MBE	
Mr J. Hollis	

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and two members who shall be members of the States and two members who shall not be members of the States. If and when the STSB 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 to the States' Trading Supervisory Board

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, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

Guernsey Water Board Members

Mr J. Hollis	Chairman
Deputy J. Kuttelwascher	appointed 1 November 2018
Deputy J. Smithies	resigned 1 November 2018
Mr A. Bates	non-voting adviser
Mr S. Langlois	non-voting adviser
Mr A. Morton	non-voting adviser

At its meeting of 4 May 2017, the STSB agreed to establish political subcommittees (company Boards) for the trading assets including Guernsey Water.

The constitution of the Guernsey Water Board ("GWB") was determined by the STSB at its meeting 4 May 2017.

Further information on the role of the GWB is provided in the section on Corporate Governance.

Principal Officers to the Guernsey Water Board

Mr S. Langlois, General Manager, Guernsey Water	
Mr C. Hall, Customer Services Manager, Guernsey Water	resigned 31 August 2018
Mr J. Holt, Operations Manager, Guernsey Water	
Mr P. Marquis, Customer Services Manager, Guernsey Water	appointed 10 December 2018
Mrs M. McGuinness, Water Quality Risk Manager, Guernsey Water	
Mr A. Morton, Senior Finance Manager, Guernsey Water	
Mr M. Walker, Capital Delivery Manager, Guernsey Water	

States' Trading Supervisory Board Guernsey Water

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers – continued

In these Financial Statements any reference to “President” refers to the President of the STSB and any reference to “Chairman” refers to the Chairman of the GWB.

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board

Guernsey Water

Chairman's Report

Overview

In 2018 Guernsey Water announced that it would be freezing bills and rebalancing our water and wastewater charges in 2019. In 2018 the average metered water and wastewater customer spent just £1.16 per day (2017: £1.15) on our services:

On average:

- Each customer spent 88p per day (2017: 87p) on water. To supply water that is safe and good to drink to each customer Guernsey Water spent 38p per day (2017: 51p),
- Each customer spent 28p per day (2017: 28p) on wastewater. To provide effective drainage that collects wastewater and returns it safely to the environment for each customer Guernsey Water spent 80p per day (2017: 63p).

By increasing our wastewater charges and decreasing our water charges Guernsey Water is making them cost reflective. Guernsey Water is also pleased to return some of the savings it made in recent years to our customers in the form of a bill freeze. These changes to our charges will be reflected in our financial statements next year.

During the year Guernsey Water invested just under £5m in improving and maintaining our services. This included completion of a major sewerage scheme at Vale Road and the next phase of this scheme at Hure Mare. Refurbishment of Juas Water Treatment Works progressed well, with the plant being re-commissioned by the end of the year, which will enable us to decommission Longue Hougue Water Treatment Works in 2019.

This major investment was delivered using our own Water Production team, with several team members using skills developed through apprenticeships with us. Looking forward Guernsey Water recognises the ongoing importance of investing in ensuring our people have the right skills to meet the likely future challenges for our business.

In addition to these improvements, Guernsey Water remains focused on the ongoing maintenance of our assets. Guernsey Water completed a major refurbishment of our wastewater pumping station at Gele Road. During the year 1.8km of sewer was rehabilitated which exceeded our target of 1.3km. Guernsey Water also replaced 3.4km of water mains, which is slightly below our target of 3.6km.

Work is ongoing to develop options for reducing the risk of sewer flooding in St Peter Port, this is expected to continue throughout 2019. In the meantime, our sewer flooding mitigation programme is helping to protect customers from the more extreme rainfall events.

More broadly the GWB is also considering the future of our wastewater services, in particular the cesspit emptying service and access to the public sewer. As a principle Guernsey Water is committed to making our level of service more equitable and the cost of these services fairer for all.

Business Performance

Overall drinking water compliance with agreed quality standards in 2018 was 99.91% which was an improvement on the 99.85% in 2017.

Several water companies faced challenging water resource situations during 2018, with use restrictions (hosepipe bans) being implemented in Northern Ireland and the Isle of Man. Restrictions in the Northwest of England were cancelled due to rainfall just before they were due to start.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

Despite a dry year with rainfall of 16% below the average for the last 10 years, there was no requirement for any restrictions in Guernsey. Water resource levels fell to 73.9% in October, but by the end of the year reservoir levels had recovered to 93.4%. Investment in more effective capture of water from streams during the last decade played an important role in enabling this. In addition, during 2018 Guernsey Water was able to significantly reduce its operational water use and water loss due to leakage from its water distribution network. This meant that despite supplying more to our customers, the total water supplied reduced by 0.4%.

Financial Performance

In a difficult operating environment costs increased by £336k (an increase of 3%) when compared to 2017, although costs were still £92k lower than in 2016. This is largely as a result of an increase of £264k in the cost of emptying cesspits (an increase of 10%). £321k of interest was payable on borrowing from the States of Guernsey Bond to fund our Belle Greve sea outfalls replacement. 2018 was our first full year of interest payments (2017: £163k). Guernsey Water also incurred a loss of £67k on States of Guernsey investments when in 2017 Guernsey Water benefitted from a substantial return (2017: £497k).

Despite these cost pressures our financial performance remained strong and stable as Guernsey Water was able to make savings and efficiencies of £670k against budget. This was primarily in relation to the amount of capital work that was carried out internally and a number of vacancies that were carried throughout the year. This meant that Guernsey Water made a surplus of £126k in 2018 (2017: £387k).

I remain confident that Guernsey Water can continue to find the savings and efficiency that will enable it to deliver its business plan and constrain bill increases for customers.

Our Community

Guernsey Water is committed to contribute to the Policy & Resource Plan's vision that: "We will be among the happiest and healthiest places in the world, where everyone has equal opportunity to achieve their potential. We will be a safe and inclusive community, which nurtures its unique heritage and environment and is underpinned by a diverse and successful economy."

Guernsey Water collects surface water and treats it to provide clean and safe drinking water. Then Guernsey Water ensures the safe return of our wastewater to the environment. This helps to protect the environment and helps to ensure a Healthy Community.

Guernsey Water recognises the importance of educating the younger generation about water-related matters, so works regularly with schools and organisations to get these vital messages across. As part of this Guernsey Water has put together a Water Management Plan guidance pack for schools, which will allow teachers and pupils to make a few small changes to their water usage and enjoy much cheaper bills.

During 2018, Guernsey Water continued to maintain the Millennium Walk around St Saviours Reservoir for the island community.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

The Team

Guernsey Water has a committed team of operational (including capital delivery) and support staff. People are at the heart of our business and Guernsey Water is proud to say that the average length of service for our employees is 12 years.

This year has been a challenging year with a number of vacancies in various departments that the team has not allowed to impact on the services provided to our customers.

I would like to thank the dedicated staff and employees for all their hard work and commitment throughout the year.

The Future

In the future Guernsey Water will need to become more flexible to meet new regulatory requirements, increasing customer demands, keep up with the rapid pace of technological change and meet ever increasing customer expectations. This will all be set against a backdrop of growing pressure on our island's resources and a squeeze on household budgets. These challenges cannot be met by Guernsey Water alone, so cross-committee collaboration and partnership working will become even more important in the future.

How Guernsey Water plans to meet these challenges is set out within its business plan: 'Running Water' which is our integrated water and wastewater plan to 2025 and it is aligned with States of Guernsey Political and Public Services reforms. 'Running Water' is outcome-focused and these are;

- Being valued by customers,
- Water that is safe and good to drink,
- Effective drainage for the island,
- Help protect our environment,
- Sufficient and resilient water and wastewater systems, and
- Firm financial foundations for Guernsey Water

The Business Plan has three key themes of Strategy, Service and Efficiency that will lead us towards a collective vision that Guernsey Water will continually strive for:

"Customers always value the quality of our drinking water and the safe return of our wastewater to the environment."

States' Trading Supervisory Board

Guernsey Water

General Manager's Report

Guernsey Water presents its report and the audited financial statements for the year ended 31 December 2018. These are comprised of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24.

Principal activities

Guernsey Water, a business unit of the STSB, 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.

'Contributions' to the States of Guernsey

During 2018 Guernsey Water did not make any financial contribution to the States of Guernsey (2017: £18.6m)

Customers

Guernsey Water provides water to the majority of the residents and business on Guernsey. Guernsey Water also collects and treats wastewater from all properties on the Island.

	2018	2017	Change %
Number of supplies:			
Paying by tax on real property	8,236	8,414	-2.1%
Paying by measure	17,831	17,469	2.1%
Total	26,067	25,883	0.7%

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

Financial highlights

	Actual 2018 £'000	Budget 2018 £'000	Actual 2017 £'000
Revenue	16,622	16,492	15,689
Surplus/(deficit) for the financial year	126	(565)	387
Capital expenditure	4,968	5,662	4,489

During 2018 there were significant changes that had a material impact on the financial position:

- i) A full year of interest was payable on the loan from the States of Guernsey's Bond compared to only a half year in 2017.
- ii) As a result of the performance of the States of Guernsey's investments, Guernsey Water has accounted for a loss of £67k (2017: surplus of £496k) in investment returns on balances held with States Treasury.

In relation to capital expenditure, the major works completed include work on HSS improvement works (totalling £1.68m), Juas Water Treatment Works recommissioning (£627k), the refurbishment of Gele Road Pumping Station (£499k) and sewer rehabilitation (£360k).

Operational performance

	2018	2017	Change %
Volume supplied in million litres (ML):			
Delivered to customers paying by measure	2,745	2,612	+5.1%
Delivered to other customers	1,249	1,205	+3.7%
Operational use, fire fighting and losses	532	725	-26.6%
Total put into supply	4,526	4,542	-0.4%
Service:			
Restrictions on supply	None	None	
Burst mains	30	38	-21.1%
Discolouration - claims paid	4	5	-20.0%
Unit costs (partially weather related):			
Water production (per ML)	£368	£398	-7.5%
Water distribution (per supply)	£17	£18	-5.6%
Full time equivalent employees	82	81	1.2%
Average number of full time employees	83	80	3.8%

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

Statement of responsibilities for the preparation of financial statements

The STSB 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 STSB 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 STSB is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time Guernsey Water's financial position. The STSB 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.

Statement of financial controls

It is the responsibility of the STSB to identify and install internal controls, including financial controls, which are 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 STSB 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 STSB and GWB, 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 Group 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 STSB.

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

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

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 STSB 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 STSB therefore believes that Guernsey Water is a going concern for at least twelve months from the approval of the financial statements.

Auditors

Grant Thornton Limited have expressed their willingness to continue in office as auditors.

States' Trading Supervisory Board

Guernsey Water

Corporate Governance

The purpose of the GWB is to support the delivery of the STSB's mandate, ensuring the efficient and effective management, operation and maintenance of Guernsey Water.

The GWB is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other strategic reviews and organisational drivers.

The GWB will normally focus attention on a relatively small number of critical items, in particular those with potential to have the greatest impact on, and manage risk to, Guernsey Water operations whether financial, regulatory, health and safety, environmental or reputational.

The GWB membership is a minimum of a Chairman who is not a States Member, a Political Member of the STSB, a Senior Executive of an Incorporated Company or one or more Senior Officers of the States, the General Manager and the Financial Manager.

All members other than the General Manager and the Financial Manager are appointed by the STSB.

As a subcommittee of the States, the quorum will be two members of the STSB.

The Chairman is responsible for:

- The proper observance of the Terms of Reference;
- Overseeing and facilitating the conduct of the GWB meetings;
- Ensuring all GWB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole GWB for matters that may be referred to the STSB or when acting as a subcommittee; and
- Setting agenda items in conjunction with the General Manager.

The GWB does not hold a fiduciary responsibility.

The GWB will take into account the States' political direction with regard to the operation of Guernsey Water, as directed from time to time by the STSB. It must ensure that Guernsey Water operations and operational policies align with the wider strategy and policy framework of the States of Guernsey and/or the STSB. The GWB may generate policy for endorsement by the STSB and onward to the States of Guernsey as required.

The STSB specifically confers the following responsibilities and delegated authority to the GWB:

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports; and
- To guide and steer Guernsey Water.

In carrying out these responsibilities the GWB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; and Relevant legislation.

States' Trading Supervisory Board

Guernsey Water

Corporate Governance - continued

The GWB has the authority delegated by the STSB to direct the Guernsey Water General Manager in the day-to-day operation of Guernsey Water in line with approved budget and business plans.

In fulfilling this purpose,

- the GWB will: Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the Guernsey Water management team, with a view to directing Guernsey Water as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance reports;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of Guernsey Water operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the GWB's delegated authority;
- Submit annual budgets and business plans in line with the States of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by Guernsey Water;
- Consider any regulatory authority reports in relation to Guernsey Water, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the Guernsey Water risk register and report risks in line with agreed policy; and
- Receive, review and recommend action from other reports as may be requested by the GWB.

A recommendation by the GWB to the STSB to amend the Terms of Reference must be made by majority of all GWB members.

STSB can disband the GWB at any time without notice or recourse to any other body.

The GWB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the GWB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the GWB not less than 5 days prior to the meeting.

States' Trading Supervisory Board

Guernsey Water

Independent auditor's report to the members of The States of Guernsey - States' Trading Supervisory Board - Guernsey Water

Opinion

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 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of its surplus for the year then ended and are in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, 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.

Who we are reporting to

This report is made solely to the members of the States of Guernsey – States' Trading Supervisory Board (“the Board”) of the Business Unit, as a body, in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the members of the Board of the Business Unit 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 Business Unit and the members of the Board of the Business Unit as a body, for our audit work, for this report, or for the opinions we have formed

Conclusions relating to going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Business Unit's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board are responsible for the other information. The other information comprises the information included in the annual report, other than 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.

States' Trading Supervisory Board

Guernsey Water

Independent auditor's report to the members of The States of Guernsey - States' Trading Supervisory Board - Guernsey Water - continued

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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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 obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of financial statements in the General Manager's Report, the Board is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Business Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Business Unit 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 ISAs (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton Limited

Chartered Accountants
St Peter Port
Guernsey

16 May 2019

States' Trading Supervisory Board

Guernsey Water

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Revenue	2 & 4		
Water supplies		11,261,766	10,666,647
Waste water supplies		3,662,807	3,464,837
Other income		1,697,111	1,557,111
		<u>16,621,684</u>	<u>15,688,595</u>
Expenses	2 & 5		
Operating expenses		7,291,234	7,174,976
Management expenses		3,465,528	3,246,237
		<u>10,756,762</u>	<u>10,421,213</u>
Operating surplus before depreciation/amortisation and profit on disposal of fixed assets		5,864,922	5,267,382
Depreciation/amortisation	9 & 10	(5,347,389)	(5,225,796)
Impairment of assets		(3,168)	-
Profit on disposal of fixed assets	10	-	10,989
		<u>514,365</u>	<u>52,575</u>
Operating surplus for the year		514,365	52,575
Investment (loss)/return and net interest receivable	6	(67,409)	496,757
Interest payable		(320,731)	(162,736)
		<u>126,225</u>	<u>386,596</u>
Surplus for the financial year		126,225	386,596

All material activities derive from continuing operations.

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

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Intangible fixed assets	9	192,419	141,313
Tangible fixed assets	10	146,709,462	147,400,879
Investment property	11	650,000	650,000
Assets under construction	12	4,990,956	4,733,359
		<u>152,542,837</u>	<u>152,925,551</u>
Current assets			
Inventories	13	1,517,309	1,414,699
Debtors and prepayments	14	2,134,381	2,111,809
Cash at bank and in hand		1,474,325	882,839
Balances with States Treasury		2,613,977	3,099,805
		<u>7,739,992</u>	<u>7,509,152</u>
Creditors: amounts falling due within one year	15	<u>(2,305,495)</u>	<u>(2,137,424)</u>
Net current assets		<u>5,434,497</u>	<u>5,371,728</u>
Creditors: amounts falling due after more than one year	16	<u>(19,650,987)</u>	<u>(20,097,157)</u>
Total net assets		<u>138,326,347</u>	<u>138,200,122</u>
Reserves	17	<u>138,326,347</u>	<u>138,200,122</u>

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

Deputy P. Ferbrache
President

16 May 2019

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott
Managing Director

16 May 2019

Notes 1 to 24 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 2018

	Notes	2018 £	2017 £
At 1 January		138,200,122	137,813,526
Surplus for the financial year		<u>126,225</u>	<u>386,596</u>
At 31 December	17	<u>138,326,347</u>	<u>138,200,122</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash flows from operating activities	18	5,638,910	(12,844,191)
Cash flows from investing activities			
Purchase of fixed assets	12	(4,967,843)	(4,489,153)
Proceeds from disposal of assets		-	16,434
Net cash flows used in investing activities		(4,967,843)	(4,472,719)
Cash flows from financing activities			
Investment (loss)/return and interest received		(67,409)	496,757
Loans taken out in year		-	9,000,000
Capital repaid		(177,269)	(86,264)
Interest paid		(320,731)	(162,736)
Net cash flows from financing activities		(565,409)	9,247,757
Net increase/(decrease) in cash and cash equivalents		105,658	(8,069,153)
Cash and cash equivalents at the beginning of the year		3,982,644	12,051,797
Cash and cash equivalents at the end of the year		4,088,302	3,982,644
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		1,474,325	882,839
Balances with States Treasury		2,613,977	3,099,805
Cash and cash equivalents		4,088,302	3,982,644

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements

1. General information

Guernsey Water is an unincorporated business unit, the management, operation and maintenance of which is the responsibility of the States of Guernsey - STSB. The nature of Guernsey Water's operations and principal activities are set out in the General Manager's Report.

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 STSB 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 GWB 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 GWB 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 GWB decisions are capitalised as part of the tangible fixed asset constructed as a result of those decisions.

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.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

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)	5 - 15	6.7% - 20%
Mains	10 - 50	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	5 - 10	10% - 20%
Motor vehicles		
Motor vehicles	7	14.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. If there is objective evidence of impairment, an impairment loss is recognised in

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

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 are calculated using the average cost method. Provisions are made for obsolete, slow-moving or defective items where appropriate.

Basic financial instruments

i) Trade and other debtors

Invoiced 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 Treasury 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 Treasury 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.

v) Loans from the States of Guernsey

Any loan taken from the States of Guernsey is valued at amortised cost

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

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

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 20.

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.

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 STSB 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.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

3. Critical accounting judgement and key sources of estimation uncertainty - continued

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the GWB 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 was 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 have now been fully depreciated.

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 10.

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

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:

	2018	2017
	£	£
Water Supplies		
Unmeasured	3,668,029	3,623,934
Measured	7,593,737	7,042,713
	11,261,766	10,666,647
Waste Water Supplies		
Unmeasured	1,304,557	1,277,573
Measured	2,358,250	2,187,264
	3,662,807	3,464,837
Cesspit emptying income	1,175,557	1,082,585
Net surplus on other trading activities (see below)	252,653	205,785
Grant released (note 16)	268,901	268,741
	16,621,684	15,688,595
Net surplus on other trading activities		
Standard charges for service laying	189,416	146,078
Charges for work at ascertained cost	39,348	30,098
Property rental income	138,437	115,606
Stores issues	556,574	539,257
	923,775	831,039
Expenditure	(671,122)	(625,254)
	252,653	205,785

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

5. Expenses

	2018 £	2017 £
Operating expenses		
Water production	1,667,220	1,808,016
Water distribution	436,018	472,279
Asset management	408,293	353,437
Pumping	1,231,902	1,313,454
Sewers	3,547,801	3,227,790
	<u>7,291,234</u>	<u>7,174,976</u>
Management expenses		
Management and general	1,179,071	1,067,758
Water quality and risk management	537,239	523,303
Customer services	754,920	728,923
Finance and support services	994,298	926,253
	<u>3,465,528</u>	<u>3,246,237</u>
Total expenditure	<u><u>10,756,762</u></u>	<u><u>10,421,213</u></u>

6. Investment (loss)/return and net interest receivable

	2018 £	2017 £
Investment (loss)/return	(68,902)	496,492
Interest receivable and similar income	1,493	265
	<u>(67,409)</u>	<u>496,757</u>

7. Surplus for the financial year

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

	Note	2018 £	2017 £
Auditor's remuneration		18,800	17,347
Government grants released	16	(268,901)	(268,741)
Amortisation of intangible fixed assets	9	59,530	46,498
Depreciation of tangible fixed assets	10	5,287,859	5,179,298
Impairment of tangible fixed assets		3,168	-
Gain on disposal of fixed assets		-	(10,989)
		<u>5,100,456</u>	<u>4,963,413</u>

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

8. Staff numbers and costs

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

	2018	2017
Capital delivery	11	11
Operations	36	37
Customer services	21	21
Administration and support	6	2
Water quality risk management	9	9
	83	80

Their aggregate remuneration comprised:

	Note	2018	2017
		£	£
Wages and salaries		3,200,439	3,115,941
Social security costs		209,893	202,626
Pension costs	20	421,999	410,229
Remuneration costs transferred to capital assets		(582,436)	(547,089)
		3,249,895	3,181,707

Pension costs include only those items within Operating and Management expenses.

9. Intangible fixed assets

	1 January 2018 £	Additions £	Write offs/ Disposal £	31 December 2018 £
Cost				
Long-term strategies	<u>275,888</u>	<u>110,636</u>	<u>-</u>	<u>386,524</u>
	<u>275,888</u>	<u>110,636</u>	<u>-</u>	<u>386,524</u>
	1 January 2018 £	Charge for the year £	Write offs/ disposals £	31 December 2018 £
Amortisation				
Long-term strategies	<u>134,575</u>	<u>59,530</u>	<u>-</u>	<u>194,105</u>
	<u>134,575</u>	<u>59,530</u>	<u>-</u>	<u>194,105</u>
Net Book Value	<u><u>141,313</u></u>			<u><u>192,419</u></u>

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

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

10. Tangible fixed assets

	1 January 2018 £	Additions £	Write offs/ Disposal £	31 December 2018 £
Cost				
Land	3,141,359	-	-	3,141,359
Infrastructure	191,079,328	4,314,558	(132,717)	195,261,169
Buildings	15,554,992	219,692	-	15,774,684
Motor vehicles	724,966	-	-	724,966
Office equipment	889,096	65,360	-	954,456
	<u>211,389,741</u>	<u>4,599,610</u>	<u>(132,717)</u>	<u>215,856,634</u>
	1 January 2018 £	Charge for the year £	Write offs/ disposals £	31 December 2018 £
Depreciation				
Land	208,311	29,965	-	238,276
Infrastructure	59,103,027	4,718,212	(132,717)	63,688,522
Buildings	3,438,941	437,769	-	3,876,710
Motor vehicles	487,761	47,886	-	535,647
Office equipment	750,822	57,195	-	808,017
	<u>63,988,862</u>	<u>5,291,027</u>	<u>(132,717)</u>	<u>69,147,172</u>
Net Book Value	<u>147,400,879</u>			<u>146,709,462</u>

The planned decommissioning of Longue Hougue Water Treatment Works has resulted in additional depreciation being charged for the year of £525,555.

11. Investment properties

	1 January 2018 £	Additions/ Disposals £	Revaluations £	31 December 2018 £
Investment properties	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>650,000</u>
	<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.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

12. Assets under construction

	1 January £	Expenditure in the year £	Transfer to Tangible & Intangible Fixed Assets £	31 December £
2018 Total	4,733,359	4,967,843	(4,710,246)	4,990,956
2017 Total	1,761,513	4,489,153	(1,517,307)	4,733,359

Assets under construction completed in 2018 and transferred to fixed assets include HSS Phase 1 & 2 (£2,006,486), Gele Road Pumping Station refurbishment (£643,439) and the refurbishment of Le Huriaux emptying point (£342,452).

Assets under construction as at 31 December 2018 relate principally to the Vale Road sewer (£1,147,264), the relining of the raw water main from Juas to Longue Hougue (£484,635) and the refurbishment of Juas Water Treatment Works (£1,554,586).

13. Inventories

	2018 £	2017 £
Water production	548,768	437,989
Water distribution	425,966	549,420
Waste water	542,575	427,290
	1,517,309	1,414,699

14. Debtors and prepayments

	2018 £	2017 £
Amounts falling due within one year:		
Unbilled water supplies	794,775	749,890
Unbilled waste water	256,456	241,504
Customers' billed accounts outstanding	712,915	679,039
Cesspit emptying income receivable	18,170	16,214
Unbilled cesspit income	183,158	180,122
Electricity prepayment	67,157	132,355
Other debtors and prepayments	101,750	112,685
	2,134,381	2,111,809

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

15. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	904,023	861,561
Accruals	1,276,621	1,126,876
Deferred income	124,851	148,987
	<u>2,305,495</u>	<u>2,137,424</u>

16. Creditors: amounts falling due after more than one year

	2018 £	2017 £
Loan from States of Guernsey	8,736,467	8,913,736
Deferred income	10,914,520	11,183,421
	<u>19,650,987</u>	<u>20,097,157</u>

The loan from the States of Guernsey is repayable on a quarterly basis over a period of 29.5 years at an annual interest rate of 3.625%.

	2018 £	2017 £
Capital grants		
At beginning of year	11,183,421	11,428,130
Grants receivable	-	24,032
	<u>11,183,421</u>	<u>11,452,162</u>
Released to revenue account during the year	<u>(268,901)</u>	<u>(268,741)</u>
At end of year	<u>10,914,520</u>	<u>11,183,421</u>

An amount of £268,901 was released to the Statement of Comprehensive Income in 2018 (2017: £268,741). 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

17. Reserves

	Property Development Fund £	Funding from the States of Guernsey - Merger Reserve £	Revenue Account £	Total £
Balance at 1 January 2018	327,219	75,178,135	62,694,768	138,200,122
Surplus for financial year	-	-	126,225	126,225
Transfer of non-water profits	124,522	-	(124,522)	-
Balance at 31 December 2018	451,741	75,178,135	62,696,471	138,326,347

The property development fund was set up to fund Guernsey Water's centralisation development. Transfers to the fund comprise reserves generated from property related surpluses and other non-water/non-waste water related surpluses.

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.

18. Reconciliation of operating surplus to net cash inflow from operating activities

	2018 £	2017 £
Operating surplus for the year	514,365	52,575
Depreciation and amortisation charges	5,347,389	5,225,796
Profit on sale of tangible assets	-	(10,989)
Impairment of assets	3,168	-
Government grants released	(268,901)	(268,741)
Increase in inventories	(102,610)	(31,699)
(Increase)/decrease in debtors	(22,572)	60,131
Increase/(decrease) in creditors due within one year	168,071	(17,895,296)
Increase in Government grants	-	24,032
Net cash flows from operating activities	5,638,910	(12,844,191)

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

19. Financial commitments

	2018	2017
	£	£
Commitments at 31 December for which no provision has been made in these financial statements	<u>1,132,777</u>	<u>2,621,163</u>

Financial commitments relate mainly to the Vale Road Sewer (£166,000), La Hure Mare Sewer (£154,543), Sewer Rehabilitation (£135,000), Pressure Monitoring (£143,627) and Juas to Longue Hougue raw water main (£220,460).

20. 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 £90,074 (2017: £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. 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 £421,999 (2017: £410,229).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2018.

21. Subsequent events

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

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

22. Related party transactions

The STSB is of the opinion that there have been no material 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 compensation of key management personnel in 2018 (including salaries and other benefits) was £485,654 (2017: £430,398).

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".

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is disclosed below 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 STSB or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

	2018 £
Garenne Group	
Expenses	5,420
Assets under construction	2,073,424
	2,078,844
Trade Creditors	76,936

Of which £1,529,459 was the result of open public tenders and £477,502 of the remainder coming from a pre existing framework agreement and the balance of £71,883 being ad hoc work.

23. 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 STSB appointed by the States of Guernsey.

24. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 19 relating to 2018 which would affect these financial statements (2017: None).