

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

STATES WORKS 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 States Works 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
States Works

Report and Financial Statements

For the year ended 31 December 2018

States’ Trading Supervisory Board
States Works

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PROFESSIONAL ADVISERS 3**

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States' Trading Supervisory Board

States Works

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

States Works Board Members

Mr J. Hollis	Chairman
Deputy J. Smithies	resigned 1 November 2018
Deputy J. Kuttelwascher	appointed 1 November 2018
Mr M. Darby	non-voting adviser
Mr P. Lickley	non-voting adviser
Mrs N. Nicholson	resigned as non-voting adviser 25 April 2018
Mr M. Hardwick	non-voting adviser
Mr I. Merrien	appointed as non-voting adviser 25 April 2018

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

The constitution of the States Works Board ("SWB") was determined by the STSB at its meeting 4 May 2017.

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

Principal Officers to the States Works Board

Mr P. Lickley, General Manager, States Works	
Mrs N. Nicholson, Senior Manager, Finance and Support Services, States Works	resigned 31 March 2018
Mr M. Hardwick, Senior Manager, Technical, States Works	
Mr M. Torode, Senior Manager, Operations, States Works	
Mr I. Merrien, Senior Finance Manager, States Works	appointed 1 April 2018
Miss C. Prout, Senior Manager, Business and Support Services, States Works	appointed 25 June 2018

States' Trading Supervisory Board

States Works

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 SWB.

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

States Works

Chairman's report

Overview

States Works is responsible for the provision of a number of essential services that either maintain and develop the island's infrastructure, or help promote Guernsey's natural beauty for islanders and visitors. Due to the diversity and scale of its service offering, States Works is also able to deploy its resources in providing an emergency response resource to unplanned incidents, the cost of which is borne across all its activities. This is an added benefit that helps to maintain the safety and security of the island.

States Works' 2018 financial results exceeded budget and provided a £1m cash contribution to the States of Guernsey as part of the Medium Term Financial Plan approved by the States of Deliberation. This is a credit to all members of States Works.

States of Guernsey clients represent approximately 90% of States Works business activities, and States Works has therefore felt the direct and indirect impacts of sustained government budget squeezes in recent years. Despite this, the management executive has been successful in working closely with clients to meet budgetary constraints whilst seeking to mitigate against, or at the very least minimise impacts to frontline services. Where possible, States Works has embraced leaner, smarter ways of working.

Business Performance

During 2018, States Works successfully negotiated the renewal of its key contracts with States clients but also developed and secured a number of additional revenue generating opportunities. This included the expansion of its household and commercial waste and recycling collection services and its successful bid for the future maintenance and operation of Guernsey Waste's new Waste Transfer Station and Household Waste Recycling Centre at Longue Hougue. The latter forms part of the implementation of the island's solid waste strategy, an aspect that has taken considerable staff effort to deliver over and above business as usual, and has only been achieved as a result of the dedication and commitment of staff across the business.

The Future

States Works management have also initiated an exercise to adopt appropriate best practice and improve efficiency across all its service lines, in conjunction with external expertise. This review is being conducted with the active support of the States Trading Supervisory Board, which oversees States Works. The outcome will be known later in 2019 and could involve various changes in States Works' 'operating model' (the target mix of resources, systems and processes). New service line opportunities will be pursued and States Works will seek to improve services by proactively responding to the outcomes of the review, where appropriate migrating to new processes, systems and operating models in the pursuit of best value to islanders.

Development and change always brings further challenges, but the Company Board and management executive remain optimistic that the outcomes will contribute to a stronger States Works business.

States' Trading Supervisory Board

States Works

General Manager's report

States Works 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 21.

Principal activities

States Works, a business unit of the STSB, 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.

Contributions' to the States of Guernsey

States Works made a £1million financial contribution to the States of Guernsey in 2018 (2017: £0) as well as assisting clients in achieving their own target reductions. This required root and branch reviews of many contracts to be undertaken to identify efficiencies and savings whilst also seeking to minimise noticeable impacts on services.

Customers

States Works client base is predominantly other States of Guernsey committees and unincorporated trading assets for which it undertakes work based on formal service level agreements. The remaining 12% of turnover is undertaken for private clients, including local parishes.

Financial highlights

	Actual 2018 £'000s	Budget 2018 £'000s	Actual 2017 £'000s
Revenue	15,606	14,843	14,636
Surplus for the financial year	719	244	957
Capital expenditure	1,596	2,418	1,643

Operational performance

	2018	2017
Staffing Statistics		
Number of staff members at year end	207	216
Income generated per employee	£75,391	£67,875
Full time equivalent employees	230	235
Emergency call-outs		
Number of calls	145	200
Man hours worked	480	573

States' Trading Supervisory Board

States Works

General Manager's report - continued

States Works made a surplus of £719k in 2018 compared to a budgeted surplus of £244k, £475k above budget. The key reasons for this were:

Operating income for 2018 was £15.606m which is £970k above budget. The main reasons were; increased work on the collection element of waste, increase in work undertaken by Highways Repair plus an increase in contribution for the Sewage Collection service.

The increase in income against budget is broadly matched by an increase in direct expenditure, however, there has been a reduction in staff numbers during the year due to recruitment issues for skilled staff so overtime has increased. The direct expenditure costs which include wages and materials are £489k adverse to budget.

Capital purchases of vehicles and plant were delayed which has resulted in depreciation being £133k lower than budget.

Cash balances are held with the States of Guernsey and the total investment return for the year is a loss of £75k which is £260k adverse to the previous year.

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 for States Works and of the surplus or deficit of States Works 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 a 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 States Works financial position. The STSB is also responsible for safeguarding States Works 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 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 STSB, to ensure that all STSB 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.

States' Trading Supervisory Board

States Works

General Manager's report - continued

- 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 STSB 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 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 States Works has adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that States Works 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

States Works

Corporate Governance

The purpose of the SWB is to support the delivery of the STSB's mandate, ensuring the efficient and effective management, operation and maintenance of States Works.

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

The SWB 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 of the SWB other than the General Manager and the Financial Manager are appointed by the STSB.

The quorum is the Chairman and the political member of the STSB.

The Chairman is responsible for:

- The proper observance of these Terms of Reference;
- Overseeing and facilitating the conduct of the SWB meetings;
- Ensuring all SWB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole SWB 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 SWB does not have a fiduciary responsibility.

The SWB will take into account the States' political direction with regard to the operation of States Works, as directed from time to time by the STSB. It must ensure that States Works operations and operational policies align with the wider strategy and policy framework of the States of Guernsey and / or the STSB. The SWB 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 SWB:

- 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 States Works.

In carrying out these responsibilities the SWB 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

States Works

Corporate Governance - continued

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

- In fulfilling this purpose, the SWB will: Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the States Works management team, with a view to directing States Works as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance report;
- 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 States Works operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the Board'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 States Works;
- Consider any regulatory authority reports in relation to States Works, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the States Works 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 SWB.

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

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

The SWB 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 SWB 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 SWB not less than 5 days prior to the meeting.

States' Trading Supervisory Board

States Works

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

Opinion

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 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

States Works

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

States Works

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Revenue	2 & 4	15,605,924	14,635,671
Expenses	2 & 5		
Operating expenses		11,241,621	10,671,764
Administration and general expenses		2,489,015	2,128,158
		13,730,636	12,799,922
Operating surplus before depreciation and profit on disposal of fixed assets		1,875,288	1,835,749
Depreciation	9	(1,226,918)	(1,089,237)
Gain on disposal of fixed assets	9	115,318	25,804
Fair value movement on investment property	10	30,000	-
Operating surplus for the year		793,688	772,316
Investment (loss)/return and net interest receivable	6	(75,143)	184,519
Surplus for the financial year		718,545	956,835

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 21 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Tangible fixed assets	9	6,660,195	6,292,602
Investment property	10	530,000	500,000
		7,190,195	6,792,602
Current assets			
Inventories and work in progress	11	538,542	348,316
Debtors and prepayments	12	1,869,723	1,681,905
Balances with States Treasury		2,783,606	3,553,975
		5,191,871	5,584,196
Creditors: amounts falling due within one year	13	(886,255)	(599,532)
Net current assets		4,305,616	4,984,664
Total net assets		11,495,811	11,777,266
Reserves	14	11,495,811	11,777,266

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 21 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 2018

	Notes	2018 £	2017 £
At 1 January		11,777,266	10,820,431
Surplus for the financial year		718,545	956,835
Transfer to States of Guernsey General Revenue		(1,000,000)	-
At 31 December	14	11,495,811	11,777,266

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

States' Trading Supervisory Board

States Works

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash flows from operating activities	15	1,749,740	1,330,579
Cash flows from investing activities			
Proceeds from sale of fixed assets		117,056	61,451
Purchase of fixed assets	9	(1,596,249)	(1,642,711)
Net cash flows used in investing activities		(1,479,193)	(1,581,260)
Cash flows from financing activities			
Contribution to States of Guernsey General Revenue	14	(1,000,000)	-
Investment (loss)/return received	6	(40,916)	150,292
Net cash flows from financing activities		(1,040,916)	150,292
Net (decrease)/increase in cash and cash equivalents		(770,369)	(100,389)
Cash and cash equivalents at the beginning of the year		3,553,975	3,654,364
Cash and cash equivalents at the end of the year		2,783,606	3,553,975
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		50	50
Balances with States Treasury		2,783,556	3,553,925
Cash and cash equivalents		2,783,606	3,553,975

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements

1. General information

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

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 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 States Works has adequate financial resources to meet its obligations as they fall due. The STSB 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 the end of each reporting period. 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 and are calculated at average value method. Provisions are 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

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.

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 Treasury 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 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.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

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.

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 17.

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 STSB 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

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

An analysis of States Works revenue, by class of business, is set out below:

	2018	2017
	£	£
Building maintenance	-	4,261
Cleansing	1,344,243	1,382,293
Drainage	319,099	335,045
Electrical and mechanical	1,067,802	1,034,390
Emergency services	186,932	90,603
Fleet Hire	99,330	79,887
Fleet maintenance	570,577	554,918
Highway repair	1,361,260	1,273,846
Land management	2,086,382	2,124,325
Landfill and recycling	3,728,350	3,388,368
Management services	204,023	207,115
Sewage collection	2,585,196	2,384,752
Signs and lines	485,253	429,955
Waste collection	1,053,653	851,591
Administration and stores	513,824	494,322
	<u>15,605,924</u>	<u>14,635,671</u>

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

5. Expenses

	2018 £	2017 £
Operating Expenses		
Direct labour	6,602,634	6,516,844
Direct materials	3,949,945	3,490,739
Vehicles – fuel costs	276,039	279,736
Plant and tools – maintenance and replacements	192,872	168,190
Building maintenance and charges	220,131	216,255
	<u>11,241,621</u>	<u>10,671,764</u>
Administration and general expenses		
Salaries, wages and employer's superannuation	1,740,884	1,511,303
Travel and training charges	72,255	80,443
Post, stationery and telephone	44,300	43,387
Computer charges	84,840	79,790
Insurance	120,000	120,000
Audit fee	18,000	17,500
Sundry office expenses	408,736	275,735
	<u>2,489,015</u>	<u>2,128,158</u>
Total expenses	<u>13,730,636</u>	<u>12,799,922</u>

6. Investment (loss)/return

	Note	2018 £	2017 £
Investment(loss)/return received/(paid)	15	(34,227)	34,227
Investment (loss)/return (payable)/receivable		<u>(40,916)</u>	<u>150,292</u>
		<u>(75,143)</u>	<u>184,519</u>

7. Surplus/(deficit) for the financial year

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

	Note	2018 £	2017 £
Auditor's remuneration		18,000	17,500
Gain on disposal of fixed assets	9	(115,318)	(25,804)
Depreciation of tangible fixed assets	9	<u>1,226,918</u>	<u>1,089,237</u>
		<u>1,129,600</u>	<u>1,080,933</u>

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

8. Staff numbers & costs

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

	2018	2017
Operational staff	195	203
Administration staff	35	32
	230	235

Their aggregate remuneration comprised:

	Note	2018	2017
		£	£
Wages and salaries		7,234,732	7,054,778
Social security costs		470,703	463,176
Pension costs	17	820,068	820,292
		8,525,503	8,338,246

Pension costs include only those items within Operating and Administration and general expenses.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2018 £	Additions £	Reduction of cost of transferred assets £	Write offs/ Disposal £	31 December 2018 £
Cost					
Land	649,220	-	-	-	649,220
Buildings & fittings	4,176,755	-	-	-	4,176,755
Plant & equipment	1,979,759	41,599	-	(310,378)	1,710,980
Motor vehicles	7,334,852	1,533,308	-	(480,042)	8,388,118
Office equipment	249,551	21,342	-	(3,064)	267,829
	<u>14,390,137</u>	<u>1,596,249</u>	<u>-</u>	<u>(793,484)</u>	<u>15,192,902</u>
Depreciation					
Land	-	-	-	-	-
Buildings & fittings	2,110,913	106,774	-	-	2,217,687
Plant & equipment	1,272,454	194,969	-	(310,378)	1,157,045
Motor vehicles	4,516,852	907,829	-	(478,303)	4,946,378
Office equipment	197,316	17,346	-	(3,065)	211,597
	<u>8,097,535</u>	<u>1,226,918</u>	<u>-</u>	<u>(791,746)</u>	<u>8,532,707</u>
Net Book Value	<u>6,292,602</u>				<u>6,660,195</u>

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

10. Investment Property

	1 January 2018 £	Additions/ Disposals £	Revaluations £	31 December 2018 £
Investment Property	500,000	-	30,000	530,000
	500,000	-	30,000	530,000

This investment property, which is freehold, was purchased on 1 January 2007. The fair value of this property at 31 December 2018 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:

	2018 £	2017 £
Within one year	35,571	35,571
	35,571	35,571

11. Inventories and work in progress

	2018 £	2017 £
Inventories	223,259	233,093
Work in progress	315,283	115,223
	538,542	348,316

12. Debtors and prepayments

	2018 £	2017 £
Trade debtors	1,841,298	1,623,857
Prepayments and other debtors	28,425	58,048
	1,869,723	1,681,905

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

13. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	486,863	269,389
Accruals	399,392	330,143
	<u>886,255</u>	<u>599,532</u>

14. Reserves

	Total Reserves £
Balance at 1 January 2018	11,777,266
Surplus for the financial year	718,545
Transfer to States of Guernsey General Revenue	<u>(1,000,000)</u>
Balance at 31 December 2018	<u>11,495,811</u>

All reserves are distributable.

15. Reconciliation of operating surplus/(deficit) to net cash flows from operating activities

	2018 £	2017 £
Operating surplus for the year	793,688	772,316
Depreciation charges and gain on sale of tangible assets	1,111,600	1,063,433
(Increase)/decrease in inventories and work in progress	(190,226)	39,540
(Increase)/decrease in debtors	(187,818)	(611,351)
Increase in creditors due within one year	286,723	32,414
(Loss)/return on investment	(34,227)	34,227
Revaluation of investment property	(30,000)	-
Net cash flows from operating activities	<u>1,749,740</u>	<u>1,330,579</u>

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

16. Financial commitments

	2018 £	2017 £
Commitments at 31 December for which no provision has been made in these financial statements.	<u>672,258</u>	<u>581,262</u>
	<u>672,258</u>	<u>581,262</u>

Financial commitments are for orders placed for new vehicles not yet delivered.

17. 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 £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 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 £820,068 (2017: £820,292).

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

18. 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

States Works

Notes to the Financial Statements – continued

19. Related party transactions

The STSB 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 88% (2017: 89%) and private 12% (2017: 11%) clients.

Less than 20% of the value of the organisation’s annual expenditure is due to transactions with other States entities.

The total compensation for key management personnel for the period totalled £320,980 (2017: £321,792). 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”.

STSB 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.

20. 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.

21. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 16 relating to 2018 which would affect these financial statements (2017: None).