



BILLET D'ÉTAT

TUESDAY, 25th JUNE, 2019

**XI
2019**

BUSINESS OF THE MEETING

1. Policy & Resources Committee - The States of Guernsey Accounts 2018, P.2019/50
2. States' Trading Supervisory Board - Ports Accounts 2018, P.2019/51
3. States' Trading Supervisory Board - Guernsey Water Accounts 2018, P.2019/52
4. States' Trading Supervisory Board - Guernsey Dairy Accounts 2018, P.2019/53
5. States' Trading Supervisory Board - States Works Accounts 2018, P.2019/54
6. Committee for Employment & Social Security - Social Security Contributory Fund Accounts 2018, P.2019/55

APPENDICES

1. States' Trading Supervisory Board - Channel Islands Lottery - 2018 Report and Accounts
2. Elizabeth College Accounts for the Year Ended 31 August 2018
3. The Ladies' College Accounts for the Year Ended 31 August 2018
4. States of Alderney Accounts 2018

BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I hereby give notice that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **TUESDAY**, the **25th June, 2019** at **9.30 a.m.**, to consider the items listed in this Billet d'État which have been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey

3rd June, 2019

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ACCOUNTS 2018

The States are asked to decide:-

1. Whether they are of the opinion to agree with the Policy & Resources Committee's approval of the States of Guernsey 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.



THE STATES OF GUERNSEY
ACCOUNTS 2018

Price £5.00

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STATES TREASURER'S REPORT

1. Introduction

- 1.1. Guernsey is a Crown Isle situated in the Bay of St. Malo west of the Normandy coast, with its own laws and customs based originally on Norman practice. Effectively independent, yet coming under the protective wing of the British Government, Guernsey is a part of the British Isles but not the United Kingdom (UK). The UK Government is responsible only for the Bailiwick's international representation and defence.
- 1.2. The Parliament is referred to as the States of Deliberation, and has the power to raise taxation, determine expenditure and pass legislation within the Bailiwick. The States of Guernsey (States) refers to the function of government.
- 1.3. The Policy & Resources Committee is the senior Committee of the States and has mandated responsibility for submitting the annual Accounts to the States.

2. Scope

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

3. Changes to the Statement of Accounts

- 3.1. The States prepare a form of single entity accounts, which are audited and presented to the States of Deliberation for approval. The accounts have evolved with consideration for both the budgetary framework by which the States govern the finances of the organisation, as well as accounting principles. There is some divergence between the budgetary framework and accounting principles that exist within internationally recognised accounting standards. Consequently, the accounts are prepared in accordance with the stated accounting policies rather than a recognised accounting framework.

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- 3.2. In 2012 a decision was taken by the States to implement International Public Sector Accounting Standards (IPSAS), a recognised accounting framework which focuses on the requirements of the public sector. As such, this framework should be more applicable to the financial reporting requirements of the States than other accounting frameworks. This accounting framework which will be transitioned to over a number of years, has a proposed methodology for first time adoption which sets out specific exemptions or provisions that impact upon the preparation of the financial statements and the extent of compliance, within prescribed timeframes.
- 3.3. In recognition of the substantial resource implications required for such a transition, IPSAS is being introduced in a phased manner over a number of years. This is due to the requirement to develop and embed the systems and processes necessary for generating the appropriate financial information for the accounts.

4. External Audit

- 4.1. Grant Thornton Limited has performed the audit of the States 2018 financial statements in accordance with International Standards on Auditing (UK) and applicable law. The Auditor's Report gives the opinion that *"the accounts for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the accounts."*

5. Financial Performance

- 5.1. The overall deficit for 2018 was £16.2m (2017: surplus of £114.1m), the following table analyses it between General Revenue (ie in accordance with the Budget framework) and the Funds and Reserves:

	Total £'000s	General Revenue £'000s	Funds and Reserves £'000s
Income	518,987	497,102	21,885
Pay Expenditure	(231,789)	(229,789)	(2,000)
Non-Pay Expenditure	(227,199)	(197,467)	(29,732)
Operating Surplus / (Deficit)	59,999	69,846	(9,847)
Investment Charges	(19,859)	(2,539)	(17,320)
Finance Charges and Other Costs	(12,317)	(784)	(11,533)
Capital Receipts	2,122	1,970	152
Capital Expenditure	(46,164)	-	(46,164)
(Deficit) / Surplus	(16,219)	68,493	(84,712)
Adjustments:			
Overseas Aid & Development Commission Fund		(2,960)	2,960
Insurance Deductible Fund		(1,350)	1,350
Channel Islands Lottery (Guernsey) Fund		616	(616)
Solid Waste Trading Account		1,574	(1,574)
Adjusted (Deficit) / Surplus	(16,219)	66,373	(82,592)

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- 5.2. The General Revenue surplus of £66.4m compares to the 2018 budgeted surplus of £60.2m and a probable outturn of £64.2m which was included in the 2019 Budget Report:

	Actual £m	Probable Outturn £m	Budget Estimate £m
Revenue Income	439.1	436.7	431.5
Revenue Expenditure	(376.2)	(380.0)	(377.8)
Revenue Surplus	62.9	56.7	53.7
Capital Income	2.0	2.0	1.0
Return from States' trading assets	1.5	5.5	5.5
Operating Surplus	66.4	64.2	60.2

[Note: the figures in this table are presented in line with the Budget framework].

- 5.3. After allowing for a lower transfer to the Capital Reserve (due to timing of the return from States' trading assets – as set out in paragraph 8.17), the overall General Revenue unallocated surplus was £9.7m which is £9.2m more than budgeted:

	Actual £m	Probable Outturn £m	Budget Estimate £m
Operating Surplus	66.4	64.2	60.2
Transfers to Capital Reserve:			
General Revenue Appropriation	(53.2)	(53.2)	(53.2)
Capital Income	(2.0)	(2.0)	(1.0)
Return from States' Trading Assets	(1.5)	(5.5)	(5.5)
Unallocated Surplus	9.7	3.5	0.5

- 5.4. The unallocated surplus forms part of the General Reserve which, at the end of 2018, included an unallocated balance of £35.8m. As agreed as part of the Medium Term Financial Plan, there is a policy for an amount equivalent to 5% of annual revenue income to be retained within the General Reserve to be used to manage any in year shortfalls in income, short term cyclical variations and any other timing issues.
- 5.5. Therefore, after allowing for £23m as the 5% retained balance and a £3.9m provision for delayed delivery of budget reductions, there is £8.9m available for appropriation. The 2020 Budget Report will include proposals for use of this surplus, taking into account the projected financial position for 2019 and 2020.

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- 5.6. Appendix II is a schedule of the Income and Expenditure Account presented in the same format as included within the annual Budget Report and previous Accounts including expenditure by Committee¹.
- 5.7. It shows that net revenue expenditure increased by £19m between 2017 and 2018. Excluding the effect of the Income Support Scheme which was introduced in July 2018 (approximately £9m), this is an increase of £10m or 2.8% in nominal terms / £1.8m or 0.5% in real terms, the main components of which were:
- Committee *for* Health & Social Care – increase of £4m (3.5%);
 - Committee *for* Employment & Social Security – increase of £2m (3.1%);
 - Committee *for* Home Affairs – increase of £1.7m (5.6%); and
 - Policy & Resources Committee – increase of £1.5m (3.9%).
- 5.8. There were three Committees that overspent their Authorised Budgets by a total of £2.7m:
- The Committee *for* Education, Sport & Culture overspent by £2.0m (2.7%) which is a combination of failure to meet savings targets (£3.5m), offset by staff vacancies and a reduction in expenditure on higher education grants;
 - The Committee *for* Home Affairs overspent by £534,000 (1.7%) including £350,000 relating to non-delivery of savings targets; and
 - The Committee *for* Health & Social Care recorded a minor overspend of £177,000 (0.2%).
- 5.9. These overspends were offset by a collective underspend of £2.4m by other Committees including £1.0m by the Committee *for* Employment & Social Security. Therefore, when comparing to Authorised Budget, Committees collectively overspent by £0.3m and £1.9m remained unallocated within the Budget Reserve, giving a total underspend of £1.6m.
- 5.10. Full Committee Accounts and accompanying narrative are included as appendices to the Policy & Resource Plan 2018 - Review and 2019 Update (Billet d'État IX, 2019).
- 5.11. The Budget Reserve is the instrument used to hold provision for pay awards and manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures. Individual Committees do not routinely hold specific budget contingencies, which invariably would not be fully utilised every year. Funding is instead available for any Committee from the Budget Reserve and the Policy & Resources Committee has delegated authority to approve use of the Budget Reserve (detailed in Appendix VII).

¹ For the purposes of this Report, the term 'Committee' includes the seven Principal Committees (Policy & Resources Committee; Committee *for* Economic Development; Committee *for* Education, Sport & Culture; Committee *for* Employment & Social Security; Committee *for* the Environment & Infrastructure; Committee *for* Health & Social Care; and Committee *for* Home Affairs) plus the following who are also allocated General Revenue Cash Limits: Development & Planning Authority, Overseas Aid Development Commission, States' Trading Supervisory Board, Scrutiny Management Committee, Transport Licensing Authority, Royal Court, Law Officers and States of Alderney

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5.12. In 2018 there was a Budget Reserve of £11.7m which was allocated as follows:

Provision	Notional Allocation £m	Required £m
Pay Awards	7.0	6.4
Turnover Adjustment (Established Staff)	1.0	0.4
Other Revenue Uses	3.7	3.0
Total	11.7	9.8

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

5.14. Appendix VI details the income and expenditure incurred in respect of Alderney.

6. Income

Income Tax

6.1. Income tax receipts increased from £324.1m in 2017 to £332.5m in 2018, an increase of £8.4m (2.6%). The majority of income tax is collected from individuals which increased by £7m to £260.8m which is a 2.8% nominal increase or 0.5% in real terms. This is an improvement of £3.6m compared to the 2018 budgeted income of £257.2m and continues the solid real-terms' growth experienced in 2016 and 2017. Such real-terms' growth is an indicator of continued strength in the economy, and is supported by the increases in the numbers employed. In December 2018, 31,304 people were employed or self-employed in Guernsey, compared to 31,195 in December 2017.

6.2. In respect of companies, income tax receipts increased by £1.9m to £60.7m.

Other Taxes

6.3. The income from Other Taxes (which totalled £85.7m in 2018 and comprises Excise and Import Duties; Tax on Real Property; Document Duty and Vehicle First Registration Duty) increased by £5.9m between 2017 and 2018.

6.4. Income from Excise and Import Duties increased by £3.1m (7.5%) compared to 2017 which was primarily due to the effect of the increases in excise duty rates approved as part of the 2018 Budget Report together with the effect of the inherent volatility in tobacco excise duty (where in-year income can be materially impacted by the timing of imports).

6.5. The Tax on Real Property income increased by £2.3m which is in line with expectation and reflects the revised tariffs approved as part of the 2018 Budget Report.

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- 6.6. Despite Document Duty income in 2017 including two exceptional transactions which generated £3.4m, 2018 income was £600,000 higher than 2017 with the number of transactions increasing from 745 to 810. The number of open market transactions increased by 65% from 46 in 2017 to 76 in 2018 with accompanying Document Duty receipts increasing from £1.7m to £4.3m. This reflected both an increased number of transactions and an increase in the average price. Overall, the budget for Document Duty was exceeded by £3.4m in 2018.

Income from Operating Activities

- 6.7. Income from Operating Activities increased by £5.6m to £66.5m in 2018 and includes an increase of £2.2m in respect of lottery ticket sales (which has a similar increase in non-pay expenditure as a result – primarily in respect of prizes).

Other Corporate Income

- 6.8. Other Corporate Income, which comprises States' housing rental income; company fees; dividend income from States' trading entities; and other income, stayed broadly similar at £34.2m as in 2017 (£34.6m).

7. Expenditure

Pay Costs

- 7.1. Pay costs continue to form the largest single item of expenditure totalling 50.5% of total revenue spend (2017: 51.1%) and a paid workforce of 4,589 Full Time Equivalent staff (FTEs), an increase of 54 FTEs compared to 2017. This increase is predominantly within Health & Social Care as a result of continued recruitment efforts to fill vacant posts together with the repatriation of Complex Placements which has resulted in an increase in the number of Healthcare Assistants and Support Workers. The total expenditure on pay (which includes temporary and agency staff together with States Members' remuneration) during 2018 was £231.8m which is an increase of £3.4m or 1.5% in real terms (nominal increase of 3.8% or £8.5m). The effect of 2018 pay awards accounts for £6.7m of the increase.
- 7.2. Note 6 details the number of employees whose gross cost of employment exceeds £80,000. This £80,000 threshold does not simply relate to employees' salary or wages but to the total costs of employment which include employer pension and social insurance contributions along with any other ancillary costs. The increase of thirty seven employees between 2017 and 2018 is largely in the lower bandings and is due to the effect of pay awards meaning that a certain grade which was below the threshold in 2017 now has total costs of employment which are above £80,000 in 2018. Future pay awards will lead to additional salary scales falling within the criteria each year. The increase from one to four individuals in the £250,000 and above category was due to a back-dated pay award and a one-off payment.

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7.3. There has been a general trend to provide information within financial statements regarding remuneration of senior management. Some of this is framed in legislative requirements, other elements are set out within accounting rules. Whilst the States are not required to report such information, it has been decided that for the purpose of enhancing transparency, details of the remuneration attributed to members of the Chief Executive's Management Team will be included.

7.4. The Chief Executive's Management Team, which comprises the Chief Executive and his senior management team, is responsible for the delivery of an efficient and effective public service in support of Government objectives. The Chief Executive's Management Team are remunerated on standard established staff pay scales. The following table details the remuneration paid to the Chief Executive's Management Team, identified by way of job title:

Post Title	Grade	2018			2017
		Gross Pay	Pension Contribution	Total	Total
Chief Executive	SO12	155,562	21,934	177,496	171,185
States Treasurer	SO11	142,164	18,933	161,097	155,398
Chief Operating Officer	SO11	132,558	17,780	150,338	140,798
Chief Information Officer	SO10	129,908	17,462	147,370	138,725
Chief Strategy & Policy Officer	SO11	125,432	16,925	142,357	128,836

7.5. The remuneration paid excludes social security contributions which are made by the employer. If these are included these employees would be placed within the following bands of the Senior Employees 2018 Gross Cost Analysis (as set out in Note 6):

- £140,000 - £159,999 : 3 employees
- £160,000 - £179,999 : 1 employee
- £180,000 - £199,999 : 1 employee

Non-Pay

7.6. Non-pay expenditure totalled £227.2m in 2018 which is an increase of £13.3m compared to 2017 and is primarily due to the introduction of the Income Support Scheme.

Investment Returns

7.7. In 2018, there was a net investment loss (largely unrealised) of £19.8m compared to a return of £61.4m in 2017. This includes £5.8m of interest from loans made from the proceeds of the States of Guernsey Bond Issue and a loss of £25.7m from the Consolidated Investment Fund (paragraphs 8.5 to 8.6 are commentary on the financial investments which explain that this loss was consistent with market performance). This investment loss has been allocated to various reserves, based upon their individual balance throughout 2018 and is detailed in Notes 27 to 39. These include the Core Investment Reserve (£6.4m); Bond Reserve (£6.8m); and Capital Reserve (£9.2m).

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Impairment for Cabernet Losses

- 7.8. In early 2016 the States invested £25.2m in Cabernet Limited to provide for losses that had accrued in previous years plus an allowance for any potential losses in future years. The loss incurred by Cabernet Limited in 2016 was £4.8m and this was provided in full within the Statement of Financial Position leaving a carrying balance of £4.1m.
- 7.9. Cabernet Limited made a further loss of £5.2m in 2017 which was greater than the carrying balance within the Statement of Financial Position of £4.1m. Therefore, the remaining £1.1m was appropriated from the General Reserve to the States' Trading Entities Reserve.
- 7.10. The 2018 loss by Cabernet Limited was £4.43m and an appropriation of this amount has been made from the General Reserve to the States' Trading Entities Reserve.

8. Statement of Financial Position

- 8.1. The Statement of Financial Position provides a snapshot of the financial position as at 31 December 2018. It sets out the assets and liabilities of the States. However, it should be noted that the assets are limited to financial assets as it is currently not the policy of the States to capitalise fixed assets but the intention is that these will be included as IPSAS are incrementally introduced.
- 8.2. This Statement of Financial Position does not include the deficit on the Superannuation Fund although the notes include disclosures of certain information which would be required under FRS102.
- 8.3. At the year end the States' net assets had decreased to £651.4m (2017: £667.6m) as a result of the overall deficit as explained in the following narrative.

Financial investments (Consolidated Investment Fund)

- 8.4. The total amount of financial investments at the year end was £2,116m (2017: £2,206m). The States manage a single portfolio of investments and all investments are held in the name of the States and accounted for as an asset within the States' Statement of Financial Position. Within current liabilities on the Statement of Financial Position is Depositors who are separate entities or parties who have deposited cash balances with the States, which are almost entirely invested in the Consolidated Investment Fund. This includes £1,357m (2017: £1,426m) in respect of the Superannuation Fund.
- 8.5. Following strong returns in 2016 and 2017, equity markets fell substantially in 2018, particularly towards the end of the year. This started in the first quarter and then returned more severely in the final quarter of the year. At 31st December 2018, UK equity markets were down on the quarter nearly 10% and down close to 9% over the whole of 2018. Fixed income returns were positive but not sufficient to overcome the downward movement in equities. The British pound was again volatile, falling 8% against the US dollar over the year. Against this less than ideal backdrop, the Consolidated Investment Fund had some protection through diversification of investments but still suffered a loss of 3.7%.

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8.6. The following table details the returns achieved compared to the targets:

	Trailing 1 Year	Trailing 3 Years pa	Trailing 5 Years pa
Return	(3.7%)	7.0%	5.9%
Target: Retail Price Index +4%	6.8%	7.2%	6.5%

8.7. There were few changes to the investment strategy or managers of the Consolidated Investment Fund during the year. There was a switch from the incumbent Royal London Asset Management (RLAM) strategy to its balanced ESG (Environment, Sustainable, and Governance) strategy. There has been a marked growth in this style of investment driven both within the investment management industry and by investors and this was assessed as an area of particular strength for RLAM. On a similar theme, an investment was made into a new equity neutral fund run by Osmosis Investment Management based on its research into the resource efficiency of global companies. This process has been employed by Osmosis for several years and has been very successful to date.

8.8. In February 2018 it was announced that £25million has been committed to a new locally managed fund, the Guernsey Investment Fund, to support the development of innovation and technology businesses, along with £12.5 million of private sector investment. This investment, which is a little over 1% of the total investment portfolio, is independently managed with an investment objective to achieve a commercial return for its investors and support business in the Bailiwick or which will realise benefits to the Bailiwick.

8.9. During 2018, investments were made in this first Technology and Innovation Cell, with £3.3million of the £25million States of Guernsey commitment drawn-down. It is forecast that draw-downs will accelerate significantly during 2019 with several exciting projects moving from pipeline to implementation and funding stages. It is anticipated that a second cell, focusing on property, will be launched in 2019.

8.10. The following table details the asset allocation:

Asset Allocation	Equities	Alternatives	Bonds and Fixed Interest Securities	Property	Cash
2018	54%	21%	14%	6%	5%
2017	57%	17%	16%	6%	4%

8.11. The Policy & Resources Committee's Investment & Bond Sub-Committee (IBSC) is responsible for investment policy, strategy and implementation, on advice from an external advisor (currently International Asset Monitor Limited). The IBSC oversees the management and performance of the Consolidated Investment Fund, as well as regularly reviewing the risk management policies and procedures underpinning the management of the Fund and ensuring that they are complied with by investment managers and other responsible parties.

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Capital Reserve

8.12. Annual appropriations are made to the Capital Reserve from the General Reserve and the current policy is to maintain the value of these transfers in real terms in addition to any specific additional transfers e.g. property sales. The balance on the Capital Reserve increased slightly in 2018 by £1m to £241.2m.

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

	2018 £m		2017 £m	
Opening Balance		240.2		159.2
Belle Greve Outfalls – Repayment of Grant	-		18.6	
Cranes Replacement – Repayment of Grant	-		4.0	
Net Investment Return	(9.2)		14.6	
Expenditure	(46.5)		(8.7)	
		(55.7)		28.5
Transfers from General Reserve:				
Appropriation	53.2		37.9	
Capital Income	2.0		-	
Guernsey Post Ltd – Special Dividend	0.5		1.0	
States Works – Distribution of Reserves	1.0		-	
Routine Capital	-		13.6 ²	
		56.7		52.5
Closing Balance		241.2		240.2

8.14. Expenditure in 2018 totalled £46.5m which included £29m on waste management facilities and £8.1m in respect of minor capital projects. Appendix IV details the Capital Reserve expenditure.

8.15. The General Revenue appropriation to the Capital Reserve of £53.2million was in line with the parameter set out in the Fiscal Policy Framework to make sufficient transfers to the Capital Reserve to enable “*capital expenditure averaging 3% of GDP in the medium-term*”. The MTFP projected that the 2018 appropriation to the Capital Reserve would be £5.8million lower than the amount necessary to achieve an investment of 3% of GDP. However, as set out in the 2018 Budget Report, due to an improvement in income and lower Cash Limits, it has been possible to make the full transfer.

8.16. The Capital Income included receipts from the sale of Land at La Rue Marguerite (£1.3m) and £518,000 from the sale of a property (Platte Fougere). In accordance with a States resolution agreed following consideration of the 2018 Budget Report (Billet d’État XX, 2017), Capital Income receipts have been transferred to the Capital Reserve.

² The States agreed that, with effect from 2018, all capital expenditure is funded from the Capital Reserve. Therefore, the balance on Committees’ routine capital allocations and open votes of £13.6m was transferred to the Capital Reserve from the General Reserve.

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8.17. As part of the 2018 Budget Report, the States' Trading Supervisory Board was set a target minimum contribution to General Revenue of £5.5m of capital returns (in addition to any dividend paid in accordance with existing policy) from the States' trading assets in 2018. During 2018, Guernsey Post Limited made a special dividend payment of £500,000 and States Works distributed £1m of its reserves. The transactions for the balance of the £5.5m contribution were completed in early 2019 (£1m from Guernsey Dairy as the value of the land on which the Dairy building sits; and £3m from Guernsey Ports as partial repayment of funding from the Capital Reserve for works on Berths 4/5/6 within the Crane Strategy project).

Core Investment Reserve

8.18. The Core Investment Reserve is a long-term reserve, the capital value of which is only available to be used in the exceptional and specific circumstances of severe and structural decline or major emergencies. As agreed as part of the Medium Term Financial Plan, the States have a policy for the target balance of the Core Investment Reserve of 100% of General Revenue income and the Policy & Resources Committee makes proposals for any appropriations when the overall financial position is in surplus.

8.19. The movements on this Reserve are summarised in the following table:

	2018 £m	2017 £m
Opening Balance	168.4	147.1
Plus:		
Appropriation from General Reserve	12.9	5.0
Net Investment Return	(6.4)	16.3
Closing Balance	174.9	168.4

8.20. The balance of the Core Investment Reserve represents 38% of the 2019 General Revenue income budget.

Bond Reserve

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

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Entity	Amount Agreed £m	Outstanding 31/12/2018 £m	Anticipated Repayment Date(s)	Purpose
Approved in 2015:				
Guernsey Housing Association LBG	51.0	48.1	2045	Refinancing of existing borrowings for social housing development
Guernsey Housing Association LBG	24.0	21.6	2036	Refinancing of existing borrowings for social housing development
Cabernet Ltd	31.7	24.6	2019 - 2025	Refinancing of existing borrowings for purchase of aircraft (plus additional borrowings for a new Dornier aircraft)
JamesCo750 Ltd	13.1	11.0	2028	Refinancing of existing borrowings for purchase of two tankships
H&SC Accommodation Fund	2.1	1.6	2029	Refinancing of existing borrowings for building of key worker accommodation
Approved in 2016:				
Cabernet Ltd	6.8	6.9	2027	Purchase of a new Dornier aircraft (£4.0m advanced by end of 2017)
Guernsey Housing Association LBG	5.1	4.8	2046	Development of social housing
Guernsey Housing Association LBG	10.0	9.8	2046	Development of social housing
Approved in 2017:				
Guernsey Registry	0.3	0.3	2023	Introduction of a Beneficial Ownership Register
Guernsey Water	9.0	8.8	2046	Refinancing of Belle Greve Long Sea Outfall replacement
Guernsey Harbour	3.3	-	2039	Refinancing of purchase of two mobile cranes
Approved in 2018:				
Alderney Housing Association LBG	2.9	-	2046	Refinancing of existing borrowings for social housing development
Guernsey Dairy	0.8	-	2046	Site purchase
Guernsey Harbour	2.5	-	2039	Refinancing of works on Berths 4/5/6
Total	162.6	137.5		

STATES TREASURER'S REPORT

- 8.22. These loans have been made at rates of interest fixed in accordance with a formula which reflects the term of the borrowing, any change in market conditions compared to when the Bond was issued in 2014 and the 'credit-risk' of each entity, and range from 3.625% to slightly in excess of 4%.
- 8.23. The Bond issue proceeds which have not yet been lent on to entities form part of the Consolidated Investment Fund. Over the thirty two year life of the bond there will inevitably be periods in which there are varying amounts of funds invested due to the maturity profile of the on-lending and the investment returns in these periods will also vary and may be above or below the coupon rate. The model put in place by the IBSC is designed to ensure that the Bond issue can be serviced fully - that is, the annual coupon payments made, the costs of issuance recovered and the capital sum repaid in full at the end of the term without recourse to General Revenue.
- 8.24. During 2016 and 2017 the investment returns substantially exceeded the coupon payment on the unlent portion of the bond proceeds and there were in-year surpluses. At the end of 2017, the Bond Reserve had a balance of £16.2m which has mitigated against the investment returns being lower than the coupon rate in 2018. At the end of 2018, the balance of the Bond Reserve had reduced to £3.3m.

Superannuation Fund

- 8.25. Although Financial Reporting Standard 102 ("FRS102") has not been adopted in full and the deficit in the Fund is not included in the Statement of Financial Position, detailed disclosures pertaining to the Superannuation Fund are included as Note 43.
- 8.26. The Superannuation Fund exists to pay the pensions of the employees of the States of Guernsey and other members of the Scheme. It is predominantly a defined benefit scheme funded by contributions from both the employer and employee. In 2015, the States agreed revised pension arrangements for members joining after 1 May 2015 and for service from 1 March 2016 for those members who are not protected members (those close to retirement age). The revised arrangements replace the final salary defined benefit arrangements with defined benefits on a career average re-valued earnings (CARE) basis up to a salary cap (which was £87,434 from 1 May 2016, increasing to £90,074 from 1 May 2018) with a defined contribution scheme for earnings in excess of this cap. The revised arrangements include a fixed cost ceiling (excluding the investment risk) on the employer's future contribution rate.

STATES TREASURER'S REPORT

8.27. The transactions on the Fund are summarised in the table below:

Superannuation Fund	2018 £m	2017 £m
Opening Balance	1,426.2	1,301.2
Plus:		
Contributions	48.1	45.8
Net appreciation of investments	(52.3)	141.7
Less:		
Pensions and lump sums paid	(64.2)	(62.5)
Closing Balance	1,357.8	1,426.2

8.28. The funding level under FRS102 increased to 59.9% (2017: 58.2%).

8.29. Every three years, the Policy & Resources Committee commissions an actuarial valuation of the Superannuation Fund. A valuation as at 31 December 2016 was undertaken and showed that the funding level was 93.5% (2013: 93.4%) of the accrued benefits. The results of this valuation were reported to the States in July 2018 (Billet d'État XIX, 2018), and it was agreed that the base employer rate would remain at 14.1%.

8.30. The reason for the difference between the FRS102 position and the funding position reported within an Actuarial Valuation is that the discount rate assumption used in the FRS102 calculation has no regard for the actual asset classes in which the Superannuation Fund is invested in but is based on government bonds. The Fund is largely invested in return seeking assets which are expected to provide substantially higher returns than corporate bonds over the long-term. The investment funds have a target rate of return of inflation plus 4% and, as set out in paragraph 8.6, actual returns over the last 5 years have averaged 3.4% above inflation per annum. The 2016 Actuarial Valuation was based on an assumption of investment returns of inflation plus 2.5% (which is in line with that used when determining the revised pension arrangements) compared to the FRS102 assumption of inflation less 0.3% (the return on an AA corporate bond). The two bases result in material differences in the calculation of liabilities and the resultant net funding position of the scheme.

9. Cash Flow Statement

9.1. This statement summarises the total cash movements during the year for both capital and revenue purposes, arising from income and payments and movements in working capital. The cash flow shows a net decrease in cash of £6.7m (2017: decrease of £2.5m).

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF ANNUAL ACCOUNTS

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

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

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

STATEMENT OF INTERNAL FINANCIAL CONTROLS

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

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

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

The States internal financial controls and monitoring procedures include:

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE POLICY & RESOURCES COMMITTEE

Opinion

We have audited the accounts of the States of Guernsey (the "States") for the year ended 31 December 2018 which comprise the Statement of Financial Performance, the Movement in Reserves Statement, the Statement of Financial Position, the Cash Flow Statement and notes to the accounts including a summary of significant accounting policies.

- In our opinion, the accounts for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the accounts.

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 accounts' section of our report. We are independent of the States in accordance with the ethical requirements that are relevant to our audit of the accounts in Guernsey, including the Financial Reporting Council's (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.

Emphasis of Matter — Basis of Accounting and Restriction on Distribution and Use

We draw attention to note 1 to the accounts, which describes the basis of accounting. The accounts are prepared to assist the States in complying with their financial reporting obligations. As a result, the accounts may not be suitable for another purpose. Our report is intended solely for the States and should not be distributed to or used by parties other than the States. Our opinion is not modified in respect of this matter.

Who we are reporting to

This report is made solely to the States and the Policy & Resources Committee (the "Committee") in accordance with our engagement letter dated 7 September 2017. Our audit work has been undertaken so that we might state to the Committee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee, for this report, or for the opinions we have formed.

INDEPENDENT AUDITOR'S REPORT TO THE POLICY & RESOURCES COMMITTEE

Other information

The Committee is responsible for the other information. The other information comprises of the States Treasurer's Report, the Statement of Responsibilities for the Preparation of Annual Accounts and the Statement of Internal Financial Controls. Our opinion on the accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts 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 accounts 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 where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the accounts 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 Committee for the accounts

As explained more fully in the Statement of Responsibilities for the Preparation of Annual Accounts the Committee is responsible for the preparation of the accounts in accordance with the basis of preparation and accounting policies in note 1 to the accounts. The Committee is also responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the accounts, the Committee is responsible for assessing the States' 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 Committee either intend to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE POLICY & RESOURCES COMMITTEE

Auditor's responsibilities for the audit of the accounts

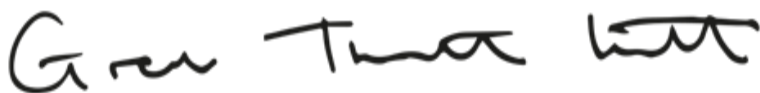
Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit 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 accounts.

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

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

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

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



Grant Thornton Limited

Chartered Accountants

St Peter Port

Guernsey

21 May 2019

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 31 December 2018

	Note	2018 £'000s	2017# £'000s
Income			
Income Taxes	3	332,535	324,068
Other Taxes	4	85,731	79,824
Income from Operating Activities		66,549	60,883
Other Corporate Income	5	34,172	34,644
		518,987	499,419
Expenditure			
Pay	6	(231,789)	(223,307)
Staff Related Non-Pay Costs	7	(5,222)	(5,283)
Support Services	7	(44,505)	(39,877)
Premises	7	(28,398)	(26,211)
Third Party Payments	7	(97,545)	(93,164)
Transport	7	(1,505)	(1,456)
Supplies and Services	7	(50,024)	(48,013)
Total Revenue Expenditure		(458,988)	(437,311)
Operating Surplus		59,999	62,108
Investment Returns			
Net (Charges)/Returns from the Consolidated Investment Fund		(25,707)	56,438
Interest Receivable on Loans and Overdraft Facilities Granted		5,848	5,036
		(19,859)	61,474
Other Income and Expenditure			
Finance Charges and Other Costs	9	(12,317)	(12,919)
Balance of Internal Loans Charged to Capital Reserve	10	(9,107)	-
Impairment for Losses Incurred by Cabernet Limited		-	(4,103)
		(21,424)	(17,022)
Capital Receipts and Expenditure			
Capital Receipts	11	2,122	22,601
Capital Expenditure	12	(37,057)	(15,103)
		(34,935)	7,498
Net (Deficit)/Surplus for the period		(16,219)	114,058
Retained by:			
General Reserve		45,894	69,197
Capital Reserve		(55,701)	28,535
Core Investment Reserve		(6,412)	16,326
		(16,219)	114,058

The 2017 totals have been amended for comparative purposes and details of the changes are included within Note 2.

MOVEMENT IN RESERVES STATEMENT

For the Year Ended 31 December 2017

	Total Usable Reserves	General Reserve	Capital Reserve	Core Investment Reserve	States' Trading Entities Reserve
	£'000s	£'000s	£'000s	£'000s	£'000s
Opening Balance	553,590	134,236	159,161	147,095	113,098
Surplus for Year	114,058	69,197	28,535	16,326	-
Transfers in Year	-	(58,647)	52,553	5,000	1,094
Closing Balance	667,648	144,786	240,249	168,421	114,192

For the Year Ended 31 December 2018

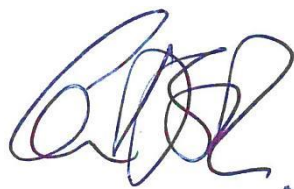
	Total Usable Reserves	General Reserve	Capital Reserve	Core Investment Reserve	States' Trading Entities Reserve
	£'000s	£'000s	£'000s	£'000s	£'000s
Opening Balance	667,648	144,786	240,249	168,421	114,192
(Deficit)/Surplus for Year	(16,219)	45,894	(55,701)	(6,412)	-
Transfers in Year	-	(74,000)	56,670	12,900	4,430
Closing Balance	651,429	116,680	241,218	174,909	118,622

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 £'000s	2017# £'000s
Non-Current Assets			
Shareholdings in States' Trading Entities	14	113,098	113,098
Consolidated Investment Fund	13	2,115,634	2,205,548
Receivables	15	134,030	135,520
		2,362,762	2,454,166
Current Assets			
Cash and Cash Equivalents	42	6,638	13,383
Receivables	15	89,145	88,503
Stock		4,746	4,277
Prepayments		9,139	6,717
		109,668	112,880
Current Liabilities			
Creditors	16	(35,177)	(33,697)
Short-Term Provisions		(126)	(590)
Depositors	17	(1,419,195)	(1,502,141)
Currency in Circulation	18	(49,450)	(46,194)
		(1,503,948)	(1,582,622)
Non-Current Liabilities			
Bond Issue	19	(317,053)	(316,776)
Net Assets		651,429	667,648
Represented by:			
General Reserve	21	116,680	144,786
Capital Reserve	38	241,218	240,249
Core Investment Reserve	39	174,909	168,421
States' Trading Entities Reserve	40	118,622	114,192
Reserves		651,429	667,648

These financial statements were approved by the Policy & Resources Committee on 21 May 2019.



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



Bethan Haines
States Treasurer

The 2017 totals have been amended for comparative purposes and details of the changes are included within Note 2.

CASH FLOW STATEMENT

For the Year Ended 31 December 2018

	Note	2018 £'000s	2017# £'000s
Cash Flows from Operating Activities	41	34,628	37,105
Cash Flows from Investing Activities			
Capital Expenditure		(37,057)	(15,103)
Capital Receipts		2,122	22,601
Net Sale/(Purchase) of Investments		10,727	(21,712)
Dividends Received		2,100	2,313
Issue of New External Loans (Receivable) Financed from the Bond		(12,980)	(20,262)
Repayment of External Loans (Receivable) Financed from the Bond		4,856	3,731
Net Cash Flows from Investing Activities		(30,232)	(28,432)
Cash Flows from Financing Activities			
Interest Paid		(11,141)	(11,141)
Net Cash Flow from Financing Activities		(11,141)	(11,141)
Net Decrease in Cash at Bank and in Hand		(6,745)	(2,468)
Cash and Cash Equivalents at the Beginning of the Year	42	13,383	15,851
Cash and Cash Equivalents at the End of the Year		6,638	13,383

The 2017 totals have been amended for comparative purposes and details of the changes are included within Note 2.

NOTES TO THE ACCOUNTS

1. States of Guernsey Accounting Policies

Basis of Accounting

- i. The Accounts of the States of Guernsey, set out on pages 19 to 61, are prepared in accordance with the accounting policies included within note 1. The accounts are prepared under the historical cost convention, except for financial investments that are measured at re-valued amounts or fair values at the end of each reporting period. Unless detailed otherwise below, income and expenditure is accounted for on an accruals basis.
- ii. The accounting policies noted below may depart from rules within internationally recognised accounting frameworks, in order to adhere to internal reporting conventions. Consequently these accounts have not been prepared in accordance with a particular accounting framework, but instead follow the accounting policies as noted.

Going Concern

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

Income Taxes

- iv. Income tax is normally treated as revenue income when a taxable event has occurred. However, some elements of that revenue income can only be confirmed in subsequent years and therefore consideration is given to future cash flows that may arise from assessments relating to the reporting period (and earlier), as well as levels of recoverability.
- v. The total income tax reported in the Statement of Financial Performance is net of any repayment of tax receipts or reduction in tax assessment, for previous years.

Bad Debts

- vi. Bad debts written off during the year are charged to the Statement of Financial Performance within the expenditure category Finance Charges and Other Costs.
- vii. Any increase in the bad debt provision will also result in a charge to that category of expenditure. Conversely, any reduction in bad debt provision will result in a credit to that expenditure category.
- viii. Provisions are based on the assessment of non-recoverability of debts as at the year-end date. The receivables balance shown on the Statement of Financial Position and detailed in the Notes to the Accounts is net of any bad debt provision.

Charging for Services Across States' Functions

- ix. The States currently recharges between different parts of the reporting entity, in other words for a particular transaction, one function will report income and another expenditure (of an equal and opposite value). These amounts have not been eliminated within the Statement of Financial Performance.

Rendering of Services

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

Lease Payments

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

Investment Returns

- xii. The States manage a portfolio of investments that generates dividend income, bond interest income, as well as realised and unrealised gains/losses on financial investments. Adjustments are made to the investment returns to reflect the amounts earned rather than cash received.

NOTES TO THE ACCOUNTS

- xiii. There are associated costs with managing the portfolio including investment management fees and other charges. Adjustments are made to the investment fees and other costs, in order that they are charged in the reporting period to which they relate, as opposed to when they are paid.
- xiv. The net investment return or charge reported within the Statement of Financial Performance equates to the amount attributable to the States. The net investment return or charge attributable to the depositors is debited or credited directly to the depositors and is not reported within the Statement of Financial Performance. The performance of the entire investment portfolio during the reporting period is included within the Notes to the Accounts.

Capital Receipts

- xv. Capital receipts generated from the sale of property are accounted for on a completion basis.
- xvi. Where the States have provided a capital grant to an external entity and accounted for it as capital expenditure in a previous financial year, any refund of that grant in the current reporting period will be accounted for as a capital receipt.

Capital Expenditure

- xvii. The States do not capitalise expenditure related to the purchase or construction of fixed assets. Expenditure is written off during the financial year in which it is incurred.

Pay Costs

- xviii. The total pay costs within the Statement of Financial Performance also includes amounts relating to agency staff, who are legally employed by another entity but work for the States providing operational capacity. However, it excludes any pay costs that are charged to capital projects. This only occurs where additional staff are directly employed to progress the capital project or to backfill for those seconded to the project. These costs are included within the Statement of Financial Performance under the heading of Capital Expenditure.

Retirement Benefit Costs and Pension Disclosures

- xix. The Consolidated Superannuation Fund disclosures have been presented, as far as practicable, in accordance with Financial Reporting Standard 102 ("FRS 102"). Similarly the actuarial deficit has been calculated in accordance with FRS 102. The pension costs charged within the Statement of Financial Performance are the contributions paid by the States on behalf of its employees, in accordance with the latest triennial actuarial valuation. The accounting approach is similar to that used for a defined contribution scheme.

States of Alderney

- xx. The States of Alderney receive an annual revenue allocation from the States of Guernsey each year to part-fund the provision of certain services. The States of Alderney provide details of income and expenditure for the financial year, and these totals are recorded within the States of Guernsey's Statement of Financial Performance against the appropriate headings. If the revenue allocation is not expended in full, the balance is repayable by the States of Alderney and is accounted for as a debtor.

NOTES TO THE ACCOUNTS

Current Assets and Non-Current Assets

- xxi. An asset is classified as current when it meets any of the following criteria -
- (a) It is expected to be realised, or is held for sale or consumption, in the States' normal operating cycle (usually 12 months);
 - (b) It is held primarily for the purpose of being traded;
 - (c) It is expected to be realised within 12 months after the reporting period or;
 - (d) It is cash or considered to be a cash equivalent.

All other assets are classified as non-current.

Current Liabilities and Non-Current Liabilities

- xxii. A liability is classified as current when it meets any of the following criteria -
- (a) It is expected to be settled in the States' normal operating cycle;
 - (b) It is held primarily for the purpose of being traded or;
 - (c) It is expected to be settled within 12 months after the reporting period.

All other liabilities are classified as non-current.

Financial Investments

- xxiii. Investments are measured at fair value as at the year-end date.
- xxiv. Those investments that are listed or quoted on a recognised market are valued at the mid-market price in the relevant market as at the year-end date.
- xxv. Where investments are part of an investment fund that is neither quoted nor listed, then the valuation will be based upon the latest information available. That information will be provided by the underlying investment fund. Where the valuation date for the investment fund is not coterminous with the year end of the States, the most recent valuation before the valuation date, as received from the underlying fund manager or administrator, is used as the basis of the valuation. This basis is then adjusted for underlying fund level cash flows that have occurred between the last valuation date and the year-end date. From time to time, non-cash flow related adjustments may also be made if deemed to be of a material nature. The net asset value reported by the fund manager or administrator may be unaudited and in some cases the notified net asset value is based on estimates.
- xxvi. Derivative contracts are recognised at fair value on the date at which they are entered into and are subsequently re-measured at their fair value. Fair value is determined using market observable inputs and recognised valuation models used by third party service providers.
- xxvii. Where investments are in a currency other than pounds sterling (being the currency the financial statements are presented in), then these are translated into pounds sterling at the rate of exchange ruling as at the year-end.
- xxviii. Where the States have future funding commitments on investments these are disclosed in the notes to the financial statements and are not recognised as a liability as at the year-end.

Investments in States' Trading Entities

- xxix. Investments in respect of Guernsey Post Limited and Guernsey Electricity Limited reflect the basis of the transfer valuation attributed to the net undertaking transferred from the States Trading Boards to the commercialised entities in accordance with The States Trading Companies (Bailiwick of Guernsey) Law, 2001. There is no on-going impairment review for these entities. If shares are re-purchased by Guernsey Post Limited or Guernsey Electricity Limited, then an adjustment will be made to the carrying value of the investment on the Statement of Financial Position.
- xxx. All other incorporated trading entities are accounted for at cost less impairment/provision for losses.
- xxxi. The unincorporated trading entities are not accounted for within the principal financial statements. The value of net assets for each of the unincorporated trading entities is disclosed within the Notes to the Accounts.

NOTES TO THE ACCOUNTS

- xxxii. Where the accumulated losses incurred by an incorporated trading entity exceed the gross value of the investment, then the impairment charged to the Statement of Financial Performance will be limited to an amount that reduces the carrying value of the investment down to nil. Thereafter consideration for excess losses is accommodated through appropriations between the General Reserve and the States' Trading Entities Reserve.

Stock

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

Loans Receivable

- xxxiv. Loans made by the States, which have fixed or determinable payments and are not quoted in an active market, are measured at their outstanding capital value as at the year-end date. They are not subject to a formal impairment review for accounting purposes, but will be assessed for recoverability during the repayment period. Where the loans have been made from the proceeds of the States of Guernsey Bond Issue, then the interest received from borrowers is credited to the Statement of Financial Performance and allocated to the Bond Reserve.
- xxxv. Some of the loans made by the States are internal to the organisation. These loans are linked with trading functions that operate within the States. The expenditure is capitalised and written off over the period of the internal loan, which is similar to an expected life of the related asset. These internal loans have been disclosed separately within the Notes to the Accounts.

Currency in Circulation

- xxxvi. The States issue banknotes and coins in the name of The States of Guernsey. The States may issue commemorative notes and coins from time to time. All banknotes and coins issued by the States can be exchanged or redeemed at face value.
- xxxvii. The value of notes and coins in circulation is accounted for as a liability within the Statement of Financial Position.
- xxxviii. Demand for the States' issued currency may fluctuate, consequently the liability may rise or fall depending upon the value of notes and coins in circulation at any point in time. At the end of their useful life, they are removed from circulation and destroyed. At that time they will be treated as being withdrawn from circulation, such that both the asset and liability will reduce accordingly. Any cost associated with the issue or destruction of notes and coins will be charged to the Statement of Financial Performance.
- xxxix. The net liability takes account of the intrinsic value of coinage in circulation and an estimation of the value of notes and coins in circulation that are unlikely to be redeemed.

Long Term Liabilities

- xl. The issue of a States of Guernsey Government Bond has been categorised as a long term liability. Long term liabilities are valued in the Statement of Financial Position at amortised cost. Any costs associated with the States Bond will be met from the Bond Reserve.
- xli. The amortised cost is the amount at which the bond loan is measured at initial recognition, less any principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.
- xlii. The effective interest method is the means of calculating the amortised cost of the bond loan and of allocating the interest charge over the period of the loan. The effective interest rate is the rate that exactly discounts the future cash payments through the expected life of the bond. The calculation includes all fees associated with the issuance of the bond.

Reserves

- xliii. All income and expenditure is included within the Statement of Financial Performance. Any net surplus or deficit reported within the Statement of Financial Performance will be credited or debited only to a reserve.

NOTES TO THE ACCOUNTS

- xliv. Not all of the net surplus or deficit is attributed to the General Reserve, as the States have earmarked a number of reserves for specific purposes. The Movement in Reserves Statement provides details of the surplus or deficit for the financial year relating to those earmarked reserves. This surplus or deficit is separate from any transfer between the reserves. Any transfer between reserves is classified as an appropriation.
- xlvi. The balance of reserves will amount to the value of the net assets of the States.

Cash Flow Statement

- xlvi. The Cash Flow Statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. It is presented using the indirect method, whereby the overall surplus or deficit is adjusted for the effects of transactions of a non-cash nature, as well as items that are classified as either an Investing or Financing Activity.
- xlvi. The investment managers may hold cash balances on behalf of the States to be used for investment purposes. Any such balances held at the reporting date will be classified as investments, and not cash or cash equivalents.
- xlvi. Coupon payments associated with the bond loan are classified as Financing Activities. Any other interest charges are included within Operating Activities.
- xlix. Receipts generated from interest received are included within Operating Activities.

Restatement

- I. 2017 Accounts columns marked with “#” includes figures that have been restated for comparative purposes.

NOTES TO THE ACCOUNTS

2. Restatement of 2017 Accounts

Some changes have been made to the accounting policies included within Note 1, for the preparation of these accounts. This note sets out what those changes are and the resultant impact upon the principal financial statements. Where necessary, the figures presented as comparatives for the reporting year 2017 have been amended from that previously published within the 2017 States of Guernsey Accounts.

The changes have been categorised within the following adjustments and have been summarised for the purpose of disclosing the overall changes at an appropriate level of detail.

Adjustment 1 - Accounting for the long term liabilities using the Amortised Cost accounting method

During 2014 the States of Guernsey Bond was publicly listed for general sale. The nominal value of the bond issue amounted to £330m. There were various costs associated with the issue of the bond and the accounting approach adopted previously was to treat this related expenditure as a prepayment. The total issuance cost amounted to £14.589m and was charged on a straight line basis to the Statement of Financial Performance over the life of the bond. By 31 December 2016 £936k had been charged to the Statement of Financial Performance, with a further £456k charged in 2017. The carrying value of the Bond loan remained at £330m.

The new accounting policy is to value the carrying balance of the long term loan at amortised cost using an effective interest rate. This means that at the time the Bond loan was issued, the issuance costs of £14.589m would have been deducted from the fair value of the Bond (£330m) and included in the calculation of amortised cost and the effective interest rate. The transaction costs are effectively spread over the life of the bond and included within interest expense.

Adjustments have been made to the comparative 2017 figures, to restate the accounting for the bond loan and measure it retrospectively at amortised cost using an effective interest rate, as if this revised approach had been applied from the date of issue of the bond.

Each year, the carrying balance of the bond loan increases by the difference between the effective interest charged to Statement of Financial Performance and the actual coupon payments, until such time as the maturity date of the bond is reached. At that point, the carrying value of the loan will amount to £330m.

There is an increase of £605k in the overall value of net assets and the reserves as at 31 December 2017 as a result of this adjustment.

NOTES TO THE ACCOUNTS

Adjustments to 2017 Comparative Totals Within the Statement of Financial Position

	Published Accounts as at 31 Dec 2017	Adjustment for Changes Prior to 2017	Adjustment for Changes During 2017	Restated Accounts as at 31 Dec 2017
	£'000s	£'000s	£'000s	£'000s
Investments	2,318,646			2,318,646
Cash and Cash Equivalents	13,383			13,383
Receivables and Prepayments	243,938	(13,654)	456	230,740
Stock	4,277			4,277
Current Liabilities	(1,583,201)	579		(1,582,622)
Long Term Liabilities	(330,000)	13,491	(267)	(316,776)
Net Assets	667,043	416	189	667,648
Reserves				
General Reserve	144,181	416	189	144,786
Capital Reserve	240,249			240,249
Core Investment Reserve	168,421			168,421
States' Trading Entities Reserve	114,192			114,192
Reserves	667,043	416	189	667,648

Adjustments to 2017 Comparative Totals Within the Statement of Financial Performance

	£'000s
Coupon Payment	11,141
Issuance Costs Written Down on a Straight Line Basis	456
Total Charge in the Published 2017 Accounts	11,597
Effective Interest Rate Charge	11,408
Total Charge in the Restated 2017 Accounts	11,408
Reduction in the amount charged to the Statement of Financial Performance in 2017	189

Adjustment 2 - Categorising assets and liabilities between current and non-current in the Statement of Financial Position

Where applicable, assets and liabilities have been categorised between those that are current and non-current. The comparative 2017 figures have been restated accordingly. Current assets or liabilities are amounts that expect to be received or settled within 12 months of the reporting date. Trade receivables and payables will remain as due within one year.

There is no overall impact on the Statement of Financial Position for 2017, as the change merely reclassifies balances within it.

NOTES TO THE ACCOUNTS

Adjustment 3 - Reclassifying revenue transactions in the Statement of Financial Performance

Changes have been made to the format of the Statement of Financial Performance to provide a more comprehensive presentation of the States' activities. In particular, gains or losses associated with the Consolidated Investment Fund and interest received from loans are now reported in a separate category headed Investment Returns. These balance were previously reported within the total headed Miscellaneous Income. The remaining items of revenue previously reported within Miscellaneous Income are now classified as Other Corporate Income.

These changes do not affect the net surplus reported in the Statement of Financial Performance for 2017 as they merely reclassify transactions within it.

NOTES TO THE ACCOUNTS

3. Income Taxes

	2018 £'000s	2017 £'000s
Individuals	260,790	253,762
Companies (including banks)	60,713	58,772
Distributed profits	11,032	11,534
Total Income Taxes	332,535	324,068

4. Other Taxes and Duties

	2018 £'000s	2017 £'000s
Customs - Excise and Import Duties		
Beer	3,722	3,373
Cider	920	815
Motor fuel	20,287	19,390
Spirits	3,707	3,343
Tobacco	7,908	7,050
Wine	5,433	5,399
Import duties	2,089	1,634
	44,066	41,004
Tax on Real Property	22,920	20,662
Document Duty – Conveyancing and Bonds	17,583	16,964
Vehicle First Registration Duty	1,162	1,194
Total Other Taxes and Duties	85,731	79,824

5. Other Corporate Income

	2018 £'000s	2017# £'000s
Housing rental income	19,914	19,904
Company fees	11,070	11,535
Dividend income from States' trading entities	2,100	2,313
Other income	1,088	892
Total Other Corporate Income	34,172	34,644

NOTES TO THE ACCOUNTS

6. Pay

Pay Costs by Pay Group	2018 £'000s	2017 £'000s
Established staff	88,982	86,022
Public service employees	16,435	16,412
Nurses and medical consultants	54,967	51,105
Teachers, lecturers and learning support assistants	42,958	42,545
Fire officers	3,402	3,486
Police officers	9,207	8,803
Home support staff	2,237	2,041
Border Agency officers	3,715	3,308
Prison officers	3,486	3,442
Crown officers and judges	1,859	1,627
Other pay groups	2,655	2,661
	229,903	221,452
States Members' remuneration	1,886	1,855
Total Pay Costs by Pay Group	231,789	223,307

A breakdown of the amounts paid to each of the States' Members is provided within Note 47.

Full Time Equivalents by Pay Group Included Within Pay Costs	2018 Average FTE	2017 Average FTE
Established staff	1,688	1,649
Public service employees	546	558
Nurses and medical consultants	1,092	1,028
Teachers, lecturers and learning support assistants	812	823
Fire officers	59	61
Police officers	153	146
Home support staff	50	46
Border Agency officers	69	61
Prison officers	76	76
Crown officers and judges	7	7
Other pay groups	37	80
Total Full Time Equivalents by Pay Group Included Within Pay Costs	4,589	4,535

The average number of Full Time Equivalents (FTE) includes all employees (permanent, temporary, casual and agency) and takes account of additional hours worked through overtime etc. For example, one member of Established Staff (full time hours 36) working an average of 18 hours a week over six months of the year would be included above as 0.25 FTE. Equally, one member of Established Staff working on average 39 hours per week over a period of a year, would be included above as 1.08 FTE.

The figures contained in the tables headed 'Pay Costs by Pay Group' and 'Full Time Equivalents by Pay Group Included Within Pay Costs', do not include those staff charged to capital projects. Those pay costs and associated FTEs are detailed within Appendix III.

NOTES TO THE ACCOUNTS

Senior Employees Gross Cost Analysis

	2018 Number of Employees	2017 Number of Employees
£80,000 to £99,999	152	130
£100,000 to £119,999	59	43
£120,000 to £139,999	30	33
£140,000 to £159,999	33	31
£160,000 to £179,999	9	12
£180,000 to £199,999	7	6
£200,000 to £219,999	3	3
£220,000 to £239,999	1	2
£240,000 to £249,999	-	-
£250,000 and above	4	1
	298	261

The bandings in the table above relate to the total cost incurred by the States in employing those individuals. The total cost will include the gross salary and any other forms of remuneration, the related pension contribution made by the States, as well as social insurance contributions.

NOTES TO THE ACCOUNTS

7. Operating Expenditure (Non-Pay) by Category

	2018 £'000s	2017 £'000s
Staff Related Non-Pay Costs		
Recruitment	2,285	2,438
Training	2,133	2,313
Other staff costs	804	532
	5,222	5,283
Support Services		
Advertising, marketing and public relations	2,711	2,026
Audit fees	270	256
Bank charges	329	156
Communications and IT	11,381	10,035
Consultants fees	3,076	3,836
Contracted out work	22,684	19,764
Incidental and other costs	82	99
Postage, stationery and printing	1,617	1,684
Risk management and insurance	2,355	2,021
	44,505	39,877
Premises		
Equipment, fixtures and fittings	966	900
Rents and leasing	4,459	3,767
Repairs, maintenance and servicing	16,761	15,670
Utilities	6,212	5,874
	28,398	26,211
Third Party Payments		
Benefit payments	47,280	38,784
Grants and subsidies	50,265	54,380
	97,545	93,164
Transport		
Vehicles and vessels	1,505	1,456
Supplies and Services		
Services	36,632	33,769
Supplies	13,392	14,244
	50,024	48,013
Total Operating Expenditure (Non-Pay) by Category	227,199	214,004

NOTES TO THE ACCOUNTS

8. Formula-led Costs

Whilst the costs associated with Formula-led activities have been allocated across the different income and expenditure categories in the Statement of Financial Performance, the total expenditure per activity is noted below.

	2018 £'000s	2017# £'000s
Policy & Resources Committee		
Payments to States Members	1,895	1,855
Committee for Employment & Social Security		
Legal Aid	2,486	2,453
Concessionary TV Licences for the Elderly	469	582
Family Allowance	8,332	8,190
Severe Disability Benefit and Carers' Allowance	6,260	5,569
Social Insurance Grant	16,135	15,668
Supplementary Benefit/Income Support Scheme	30,796	21,683
	64,478	54,145
Total Formula-led Costs	66,373	56,000

9. Finance Charges and Other Costs

	2018 £'000s	2017 £'000s
Bond interest charges	11,418	11,408
Bad debt expenses and adjustment for impairment of receivables	717	1,336
Notional loan charges	182	175
Total Finance Charges and Other Costs	12,317	12,919

10. Balance of Internal Loans Charged to Capital Reserve

At its meeting on 19 April 2018 (Billet d'État XI, 2018), the States agreed to rescind a previous decision to fund the initial capital costs of the new waste management facilities through a loan from the proceeds of the States of Guernsey Bond Issue and instead agreed to fund these costs (to a maximum value of £32m) from the Capital Reserve.

The amount expended in previous financial years (£9.107m) is shown as "Balance of Internal Loans Charged to Capital Reserve" within the Statement of Financial Performance. The 2018 expenditure is shown within Capital Expenditure.

NOTES TO THE ACCOUNTS

11. Capital Receipts

	2018 £'000s	2017 £'000s
Repayment of capital grant from -		
Guernsey Water	-	18,580
Ports	-	4,000
	-	22,580
Property Sales		
Land at La Rue Marguerite	1,267	-
Platte Fougere	518	-
8 College Street, St Peter Port	152	-
Other property sales	185	21
	2,122	21
Total Capital Receipts	2,122	22,601

The property at 8 College Street was part of the States' housing stock and thus the capital receipt arising from its sale has been credited to the Corporate Housing Programme Fund.

The States agreed (Billet d'État XX, 2017) to transfer capital income generated from the sale of General Revenue property to the Capital Reserve. Therefore, an amount of £1.970m has been appropriated from the General Reserve to the Capital Reserve during 2018.

During 2014 and 2015, the States provided a capital grant totalling £18.580m to Guernsey Water to fund the completion of Phase IV of the Belle Greve Outfalls project, which included the replacement of discharge pipes from the Belle Greve Wastewater Centre. Guernsey Water re-paid the grant in full during 2017. The payments of the capital grant to Guernsey Water were written off by the States against the balance of the Capital Reserve. Consequently, the repayment of the capital grant in 2017 has been treated as a capital receipt and credited to the Capital Reserve.

The Crane Strategy project was approved by the States in February 2012, to fund the cost of performing remedial work on the harbour and replace the cranes. The approved budget was £13.675m and the grant funding provided by the States amounted to £13.399m. The payments of the capital grant to Guernsey Ports were written off by the States against the balance of the Capital Reserve. A decision was taken by the States' Trading Supervisory Board in November 2017 to repay £4m of the capital grant. Consequently, the repayment of the capital grant in 2017 has been treated as a capital receipt and credited to the Capital Reserve.

NOTES TO THE ACCOUNTS

12. Capital Expenditure

The following is a breakdown of the total capital expenditure associated with the purchase or creation of fixed assets. The States' accounting policy is to write off the expenditure in the year in which it was incurred.

In 2017, new arrangements were put in place from the start of 2018, to fund expenditure on all Committee led capital schemes, from the Capital Reserve. There are some functions within the States where capital expenditure is funded in a different way. This includes expenditure on minor capital projects that relate to the collection of solid waste, which is funded from the Solid Waste Trading Account, and all capital expenditure incurred by Guernsey Registry, which is capitalised via an internal loan.

Capital Expenditure

	2018 £'000s	2017 £'000s
Capital works on land, buildings and infrastructure	18,738	9,107
IT projects and equipment	4,529	2,217
Equipment, machinery and vehicles	13,790	3,779
Total Capital Expenditure	37,057	15,103

Funding of Capital Expenditure

	2018 £'000s	2017 £'000s
Capital Reserve	37,035	8,236
Solid Waste Trading Account	22	98
General Reserve	-	6,769
Total Funding of Capital Expenditure	37,057	15,103

There was a change in the funding arrangements for the Waste Transfer Station (note 10 refers), and as a result capital expenditure incurred during 2018 (£19.948m) is included in the table above. However, the expenditure incurred prior to 2018 (£9.107m) was accounted for as an internal loan, and thus is not included within the expenditure totals for 2017 in the table above.

NOTES TO THE ACCOUNTS

13. Financial Investments

	2018 £'000s	2017 £'000s
Balance at 1 January	2,205,548	1,980,747
Returns on investments (including realised and unrealised gains/(losses) on revaluation of investments) net of investment management fees and other expenses	(79,187)	203,089
Net (withdrawals)/deposits of cash during the year	(10,727)	21,712
Balance at 31 December	2,115,634	2,205,548
Equities	1,141,329	1,258,082
Alternatives	441,913	379,335
Bonds and fixed interest securities	292,738	359,160
Property	139,548	132,185
Cash (held by investment managers)	100,106	76,786
Balance at 31 December	2,115,634	2,205,548

The States manages a single portfolio of investments through different investment managers. In 2015, the States transferred all of the investments held by the Superannuation Fund into this portfolio of investments. These investments totalling £1.4bn were not segregated for the benefit of the Superannuation Fund, but became part of a larger investment portfolio. The portfolio of investments is controlled solely by the States and all investments are held in the name of the States. It is for this reason that all investments within that portfolio are accounted for as an asset within the States' Statement of Financial Position.

The States continually reviews their cash balances and where necessary transfers amounts into or out of the investment portfolio, depending on whether there is a surplus or a shortfall in cash balances held.

The Long-Term and Medium-Term Funds were amalgamated at the start of 2018, into a single fund called the Consolidated Investment Fund under the existing guidelines of the Long-Term Fund.

Consolidated Investment Fund Managers - 2018

Aberdeen Asset Managers Limited	Newton Investment Management Limited
Allan Gray Africa Equity Fund Limited	Odey Wealth Management (C.I.) Ltd
AMP Capital Investors Limited	Osmosis (Holdings) Limited
Brooks Macdonald Asset Management (International) Limited	Partners Group (Guernsey) Limited
Canaccord Genuity Wealth (International) Limited	Ravenscroft Investment Management
CBRE Global Investors (UK) Funds Limited	Rocq Capital Management Limited
Credit Suisse (Channel Islands) Limited	Royal London Asset Management Limited
FIL Pensions Management Limited	Sarasin & Partners LLP
GAM (U.K.) Limited	Schroders Investment Management Limited
Investec Asset Management	State Street Global Advisors
JP Morgan Asset Management	Sustainable Growth Management GP Sàrl
Bank Julius Baer & Co Limited Guernsey Branch	Wellington Management International Limited
MittonOptimal Portfolio Management (CI) Limited	White Star Capital Guernsey Limited
Morgan Stanley Investment Management Limited	

NOTES TO THE ACCOUNTS

Long Term Investment Fund Managers - 2017

Aberdeen Asset Managers Limited	Morgan Stanley Investment Management Limited
Allan Gray Africa Equity Fund Limited	Newton Investment Management Limited
AMP Capital Investors Limited	Partners Group (Guernsey) Limited
CBRE Global Investors (UK) Funds Limited	Sarasin & Partners LLP
FIL Pensions Management	Schroders Investment Management Limited
GAM (U.K.) Limited	State Street Global Advisors
Investec Asset Management	TIAA Henderson Real Estate Limited
JP Morgan Asset Management	Wellington Management International Limited

Medium Term Investment Fund Managers - 2017

Brooks Macdonald Asset Management (International) Limited	Ravenscroft Investment Management
Canaccord Genuity Wealth (International) Limited	Rocq Capital Management Limited
Credit Suisse (Channel Islands) Limited	Royal London Asset Management C.I. Limited
Newton Investment Management Limited	Royal London Asset Management Limited
Odey Wealth Management (C.I.) Limited	

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

The States had the following commitments in Private Equity Funds as at 31 December 2018.

	Total Commitment 31 December 2018 £'000s	Drawn Commitment 31 December 2018 £'000s	Undrawn Commitment 31 December 2018 £'000s	31 December 2017 £'000s
CBRE	209,274	201,041	8,233	16,552
Morgan Stanley	71,642	38,985	32,657	19,679
Guernsey Investment Fund	25,000	3,414	21,586	-
Sustainable Growth Fund	8,970	7,372	1,598	3,903
AMP	7,831	7,186	645	414
JP Morgan	7,831	6,267	1,564	2,359
Partners Group	7,831	5,916	1,915	4,300
White Star	7,831	2,741	5,090	6,662
Total	346,210	272,922	73,288	53,869

The undrawn commitment reflected within the CBRE and Morgan Stanley portfolios will be met by the respective investment manager from the assets held within its portfolio. The capital calls for the other undrawn commitments will be met by the States through active management of the investment portfolio.

NOTES TO THE ACCOUNTS

14. Investments in States' Trading Entities

The States have shareholdings in a small number of incorporated trading entities and these are shown at cost on the Statement of Financial Position. The values presented in the accounts may therefore not represent the amount that the States could realise upon any sale of their holdings.

They also control a number of un-incorporated trading entities and the Social Security Contributory Funds, but these have not been attributed any cost or value within the States' Statement of Financial Position.

Incorporated Trading Entities

	2018 £'000s	2017 £'000s
Guernsey Electricity Limited	105,209	105,209
Guernsey Post Limited	7,886	7,886
Cabernet Limited		
Purchase cost and subsequent re-capitalisation	30,272	30,272
Provision for amounts written down due to accumulated losses	(30,272)	(30,272)
	-	-
Alderney Electricity Limited	3	3
Balance at 31 December	113,098	113,098

Guernsey Electricity Limited

The States own all of the allotted and fully paid shares of Guernsey Electricity Limited.

The States did not receive a dividend during 2018 (2017: £749,000).

The total value of Guernsey Electricity Limited's net assets as at 31 March 2018 was £91.761m (£85.636m as at 31 March 2017). However, this is after provision has been made for a pension deficit reported under FRS102 of £35.074m (2017: £40.674m).

Guernsey Post Limited

The States own all of the allotted and fully paid shares of Guernsey Post Limited.

The States received a dividend of £1.100m (2017: £1.564m).

The total value of Guernsey Post Limited's net assets as at 31 March 2018 was £22.786m (£22.363m as at 31 March 2017).

Cabernet Limited

Cabernet Limited (holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited) was initially purchased by the States in 2003 for the amount of £5.060m. In 2016, the States provided funding to re-capitalise the group's balance sheet. The States' shareholding increased by £25.212m in April 2016.

Cabernet Ltd has continued to report losses during the intervening period. The accumulated net losses reported up to the end of December 2018 amounts to £35.796m (2017: £31.366m). This exceeds the gross cost of the investment held by the States (£30.272m), by £5.524m.

In order to provide for the remaining element of Cabernet's accumulated losses, an amount of £4.430m (2017: £1.094m) has been transferred from the General Reserve to the States' Trading Entities Reserve.

NOTES TO THE ACCOUNTS

It is assumed that the use of landing slots at Gatwick Airport by Cabernet Ltd still retains a residual value of £5.06m. This value is based upon the initial purchase cost of Cabernet Ltd, compared to the value of the net assets of the group when the acquisition occurred. The accounts of Cabernet Ltd do not include the landing slots as assets so therefore they report a net liability as at 31 December 2018 of £10.584m (2017: £6.154m), which exceeds the amount set aside in the States' Trading Entities Reserve of £5.524m (2017: £1.094m) by £5.06m.

Alderney Electricity Limited

The States of Guernsey own 17.1% of the ordinary share capital of Alderney Electricity Limited.

JamesCo750 Limited

The States of Guernsey also own the two ordinary £1 shares of JamesCo750 Limited.

Un-incorporated Trading Entities

The following table shows each of the States' un-incorporated trading entities, which are controlled by the States' Trading Supervisory Board, along with their net asset value at the year end.

	2018 £'000s	2017 £'000s
Ports	234,456	236,246
Guernsey Water	138,326	138,200
States Works	11,496	11,777
Guernsey Dairy	4,205	4,691
Balance at 31 December	388,483	390,914

Social Security – Contributory Funds

The Committee *for* Employment & Social Security manages and controls the Social Security Contributory Funds. The balances in the table below reflect the net value of each fund as at the end of the financial year. These funds are held in order to meet future obligations (benefit payments). The adequacy of each Contributory Fund is subject to actuarial review at least once every five years to determine contribution rates that would be levied in future years.

	2018 £'000s	2017 £'000s
Guernsey Insurance Fund	712,516	769,278
Guernsey Health Service Fund	114,444	122,528
Long-Term Care Insurance Fund	79,211	75,013
Balance at 31 December	906,171	966,819

NOTES TO THE ACCOUNTS

15. Receivables

	Non-Current	Current	Non-Current	Current
	2018 £'000s	2018 £'000s	2017 £'000s	2017 £'000s
External Loans				
Guernsey Housing Association LBG*	82,091	2,238	74,486	1,949
Cabernet Limited*	29,580	1,875	28,582	1,884
JamesCo750 Limited*	10,336	638	10,974	614
Guernsey Water*	8,552	184	8,736	178
Home Loans Scheme	1,460	80	1,513	77
Higher Education Loans Fund	32	19	45	41
Farm Loans Fund	119	17	122	17
Sports Loans Fund	61	22	98	11
Guernsey Harbour*	33	-	-	-
	132,264	5,073	124,556	4,771
Internal Loans				
Committee for Health & Social Care - Accommodation Fund*	1,518	124	1,642	119
Solid Waste Strategy Infrastructure*	-	-	9,107	-
Company Registry*	248	57	176	-
Company Registry	-	36	39	63
	1,766	217	10,964	182
Other Receivables				
Income tax	-	43,385	-	51,199
Other taxes and duties	-	3,606	-	3,069
	-	46,991	-	54,268
Trade debtors	-	24,951	-	20,439
Other debtors	-	11,913	-	8,843
	-	36,864	-	29,282
Balance at 31 December	134,030	89,145	135,520	88,503

The loans marked * refer to those that have been funded using proceeds from the States of Guernsey Bond Issue. The loans have been issued at rates of interest fixed in accordance with a formula set by the Investment & Bond Management Sub-Committee of the Policy & Resources Committee.

Taxation and duties that are receivable, represent all liabilities due to the States that have been established as at the year end. This is irrespective of whether the amounts are due or overdue as at that date.

The States provides a short-term borrowing facility to Cabernet Ltd and charges interest on the carrying balance at a pre-agreed rate. The total amount borrowed as at the end of 2018 was £7.840m (2017: £5.067m) and is included within the amount categorised as "Other debtors".

NOTES TO THE ACCOUNTS

16. Creditors

	2018 £'000s	2017# £'000s
Trade creditors	32,624	31,414
Deferred Income	2,453	2,241
Other creditors	100	42
Balance at 31 December	35,177	33,697

17. Depositors

	2018 £'000s	2017 £'000s
Superannuation Fund	1,356,537	1,425,623
States incorporated trading entities	8,804	14,970
States un-incorporated trading entities	16,680	11,142
Charity and other deposit balances	37,174	50,406
Balance at 31 December	1,419,195	1,502,141

The depositors are separate entities or parties that have deposited cash balances with the States. All assets reported within the Statement of Financial Position are held in the name of the States, including any balances transferred to the States by the depositors.

Details of the change in the balance of the Superannuation Fund are included within Note 43.

18. Currency in Circulation

	2018 £'000s	2017 £'000s
All notes and coins in circulation at 1 January	55,270	55,941
<i>Issued during the year</i>	96,149	101,049
<i>Withdrawn during the year</i>	(92,743)	(101,720)
All notes and coins in circulation at 31 December	58,676	55,270
Nominal value of notes and coins which are considered unlikely to be either redeemed or exchanged at 31 December		
<i>Commemorative coins</i>	(7,126)	(6,976)
<i>General notes and coins</i>	(2,100)	(2,100)
	(9,226)	(9,076)
Estimated Value of Liability at 31 December	49,450	46,194

Although the nominal value of the notes and coins in circulation amounted to £58.676m as at 31 December 2018 (2017: £55.270m), it has been estimated that a certain proportion of this total would not be redeemed at any point in the future. Consequently, it has been assumed that the liability would reduce accordingly.

This estimate has been calculated using formulae, which considers the type of note or coin, as well as the levels of redemption in past years.

With regard to commemorative coins, the nominal value of coins issued as at 31 December 2018 was £7.595m (2017: £7.433m). The liability has been reduced by £7.126m (2017: £6.976m), due to the negligible levels of redemption in previous years. The commemorative coins may have a market value that exceeds their nominal value, due to either the value of the metals contained within the coins, and/or their demand within the market place.

NOTES TO THE ACCOUNTS

19. Long Term Liabilities

The States issued a public bond for general sale in December 2014. It was admitted to the Official List of the Channel Islands Securities Exchange Authority Limited on 12 December 2014. The notional value of the bond amounted to £330m, and is due to be fully repaid on a maturity date of 12 December 2046.

The total costs associated with the issuance of the bond amounted to £14.589m and the annual coupon payment amounts to £11.141m. The bond has been valued at amortised cost, such that the issuance costs and the coupon payments have been used to determine an effective interest rate. The effective interest rate has been used to calculate the amount that is charged to the Statement of Financial Performance and the carrying balance of the loan on the Statement of Financial Position.

20. Financial Instruments

The following note provides a breakdown of balances that relate to financial instruments. A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Consequently, there are some balances within the Statement of Financial Position that are not deemed to be financial contracts and therefore excluded from the table below.

The following table shows the different categories of financial instruments held by the States of Guernsey, and the valuation technique that has been applied to calculate their carrying amount as reported in the Statement of Financial Position.

	2018 £'000s	2017 £'000s
Financial Assets Classified as Financial Instruments		
Financial assets at fair value		
Consolidated Investment Fund	2,115,634	2,205,548
Financial assets at amortised cost		
External loans	137,337	129,327
Trade debtors	24,951	20,439
Other debtors	11,617	8,626
Cash and cash equivalents	6,638	13,383
	180,543	171,775
Financial assets at cost		
Shareholdings in States' Trading Entities	113,098	113,098
Total Financial Assets Classified as Financial Instruments	2,409,275	2,490,421
Financial Liabilities Classified as Financial Instruments		
Financial liabilities at fair value		
Depositors	(1,419,195)	(1,502,141)
Financial liabilities at amortised cost		
Trade creditors	(32,624)	(31,414)
Other creditors	-	(30)
Bond issue	(317,053)	(316,776)
	(349,677)	(348,220)
Total Financial Liabilities Classified as Financial Instruments	(1,768,872)	(1,850,361)

NOTES TO THE ACCOUNTS

21. General Reserve

The General Reserve retains the net balance of surpluses and deficits arising from the operational activities of the States. Within the General Reserve there are a number of earmarked funds that have been created for a specific purpose. The remaining balance is unallocated and thus available to meet future funding commitments, as may be decided upon at a later date.

	Note	2018 £'000s	2017# £'000s
Earmarked funds at 31 December			
Corporate Housing Programme Fund	23	24,524	27,090
Transformation and Transition Fund	24	20,247	23,326
Insurance Deductible Fund	25	12,084	10,851
Future Guernsey Economic Fund	26	5,732	5,693
Bond Reserve	27	3,339	16,215
Wilfred Carey Purchase Fund	28	3,228	3,419
Brexit Transition Fund	29	3,000	-
Channel Islands Lottery (Guernsey) Fund	30	1,932	1,459
Solid Waste Trading Account	31	1,345	3,460
Overseas Aid & Development Commission Fund	32	1,137	903
Health and Social Care Accommodation Fund	33	1,020	1,127
Overseas Aid & Development Impact Investment Fund	34	1,000	-
Participatory Budgeting Fund	35	1,000	-
Higher Education Loans Fund	36	934	958
Sports Loans Fund	37	319	319
		80,841	94,820
Unallocated balance at 31 December	22	35,839	49,966
General Reserve Balance at 31 December		116,680	144,786

22. General Reserve (Unallocated Balance)

	2018 £'000s	2017 £'000s
Balance at 1 January	49,966	44,795
Revenue Surplus	68,493	65,945
	118,459	110,740
Appropriations from		
Solid Waste Trading Account	1,574	1,595
Channel Islands Lottery (Guernsey) Fund	616	493
	2,190	2,088
Appropriations to		
Capital Reserve	(56,670)	(52,553)
Core Investment Reserve	(12,900)	(5,000)
States' Trading Entities Reserve	(4,430)	(1,094)
Brexit Transition Fund	(3,000)	-
Overseas Aid & Development Commission Fund	(2,960)	(2,915)
Future Guernsey Economic Fund	(1,500)	-
Insurance Deductible Fund	(1,350)	(1,300)
Overseas Aid & Development Impact Investment Fund	(1,000)	-
Participatory Budgeting Fund	(1,000)	-
	(84,810)	(62,862)
Balance at 31 December	35,839	49,966

NOTES TO THE ACCOUNTS

The net appropriation of £56.670m to the Capital Reserve during 2018 was made up of –

- (i) £53.2m (Billet d'État XX,2017)
- (ii) £1.970m (Billet d'État XX,2017) – sale of property
- (iii) £1m (Billet d'État XX,2017) – dividend from States Works
- (iv) £0.5m (Billet d'État XX,2017) – special dividend from Guernsey Post Limited

The appropriation of £52.553m to the Capital Reserve during 2017 was made up of –

- (i) £29.8m (Billet d'État XXVI,2016)
- (ii) £8.1m (Billet d'État XX,2017)
- (iii) £13.653m transfer of funding for Routine Capital projects
- (iv) £1m (Billet d'État XXVI,2016) – special dividend from Guernsey Post Limited

23. Corporate Housing Programme Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	27,090	30,092
Capital receipts	152	-
Operating expenditure	(2,718)	(3,002)
Net deficit for the year	(2,566)	(3,002)
Balance at 31 December	24,524	27,090

24. Transformation and Transition Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	23,326	25,115
Operating income	-	27
Operating expenditure	(3,079)	(1,816)
Net deficit for the year	(3,079)	(1,789)
Balance at 31 December	20,247	23,326

25. Insurance Deductible Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	10,851	10,399
Operating expenditure	(117)	(848)
Appropriations - From General Reserve	1,350	1,300
Balance at 31 December	12,084	10,851

NOTES TO THE ACCOUNTS

26. Future Guernsey Economic Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	5,693	6,776
Operating income	165	96
Operating expenditure	(1,626)	(1,179)
Net deficit for the year	(1,461)	(1,083)
Appropriations -		
From General Reserve	1,500	-
Balance at 31 December	5,732	5,693

27. Bond Reserve

	2018 £'000s	2017# £'000s
Balance at 1 January	16,215	6,323
Investment (charge)/return	(6,781)	16,201
Interest received from loans	5,316	4,871
Non utilisation fees	51	238
Total income	(1,414)	21,310
Interest charge	(11,418)	(11,408)
Other expenses	(44)	(10)
Total expenditure	(11,462)	(11,418)
Net (deficit)/surplus for the year	(12,876)	9,892
Balance at 31 December	3,339	16,215

28. Wilfred Carey Purchase Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	3,419	3,261
Investment (charge)/return	(122)	206
Operating Expenditure	(69)	(48)
Net (deficit)/surplus for the year	(191)	158
Balance at 31 December	3,228	3,419

NOTES TO THE ACCOUNTS

29. Brexit Transition Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	-	-
Appropriations - From General Reserve	3,000	-
Balance at 31 December	3,000	-

30. Channel Islands Lottery (Guernsey) Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	1,459	922
Operating income	13,092	10,844
Operating expenditure	(11,678)	(9,502)
Contributions to third parties	(325)	(312)
Net surplus for the year	1,089	1,030
Appropriations - To General Reserve	(616)	(493)
Balance at 31 December	1,932	1,459

31. Solid Waste Trading Account

	2018 £'000s	2017 £'000s
Balance at 1 January	3,460	3,611
Investment (charge)/return	(48)	205
Operating income	6,340	6,697
Operating expenditure	(6,811)	(5,360)
Capital expenditure	(22)	(98)
Net (deficit)/surplus for the year	(541)	1,444
Appropriations - To General Reserve	(1,574)	(1,595)
Balance at 31 December	1,345	3,460

32. Overseas Aid & Development Commission Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	903	590
Total grants payable	(2,726)	(2,602)
Appropriations - From General Reserve	2,960	2,915
Balance at 31 December	1,137	903

NOTES TO THE ACCOUNTS

33. Health and Social Care Accommodation Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	1,127	1,122
Net investment charge	(89)	(16)
Operating income	2,047	1,749
Operating expenditure	(2,065)	(1,728)
Net (deficit)/surplus for the year	(107)	5
Balance at 31 December	1,020	1,127

34. Overseas Aid & Development Impact Investment Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	-	-
Appropriations - From General Reserve	1,000	-
Balance at 31 December	1,000	-

35. Participatory Budgeting Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	-	-
Appropriations - From General Reserve	1,000	-
Balance at 31 December	1,000	-

36. Higher Education Loans Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	958	911
Investment (charge)/return	(33)	51
Interest received on loans	-	1
Operating expenditure (change in bad debt provision)	9	(5)
Net (deficit)/surplus for the year	(24)	47
Balance at 31 December	934	958

NOTES TO THE ACCOUNTS

37. Sports Loans Fund

	2018 £'000s	2017 £'000s
Balance at 1 January	319	319
Net surplus for the year	-	-
Balance at 31 December	319	319

38. Capital Reserve

	2018 £'000s	2017 £'000s
Balance at 1 January	240,249	159,161
Investment (charge)/return	(9,151)	14,598
Capital receipts	-	22,580
Expenditure on capital votes	(46,142)	(8,236)
Operating expenditure	(408)	(407)
	(55,701)	28,535
Appropriations from General Reserve	56,670	52,553
Balance at 31 December	241,218	240,249

The net appropriation of £56.670m from the General Reserve during 2018 was made up of –

- (i) £53.2m (Billet d'État XX,2017)
- (ii) £1.970m (Billet d'État XX,2017) – sale of property
- (iii) £1m (Billet d'État XX,2017) – dividend from States Works
- (iv) £0.5m (Billet d'État XX,2017) – special dividend from Guernsey Post Limited

The net appropriation of £52.553m from the General Reserve during 2017 was made up of –

- (v) £29.8m (Billet d'État XXVI,2016)
- (vi) £8.1m (Billet d'État XX,2017)
- (vii) £13.653m transfer of funding for Routine Capital projects
- (viii) £1m (Billet d'État XXVI,2016) – special dividend from Guernsey Post Limited

39. Core Investment Reserve

	2018 £'000s	2017 £'000s
Balance at 1 January	168,421	147,095
Investment (charge)/return	(6,412)	16,326
Appropriations - From General Reserve	12,900	5,000
Balance at 31 December	174,909	168,421

NOTES TO THE ACCOUNTS

40. States' Trading Entities Reserve

	2018 £'000s	2017 £'000s
Alderney Electricity Limited	3	3
Guernsey Electricity Limited	105,209	105,209
Guernsey Post Limited	7,886	7,886
Cabernet Limited		
Balance at 1 January	1,094	-
Appropriations - From General Reserve	4,430	1,094
Balance at 31 December	5,524	1,094
Total Balance at 31 December	118,622	114,192

An appropriation of £4.430m (2017: £1.094m) was made between the General Reserve and the States' Trading Entities Reserve during 2018, to provide for the difference between the cumulative amounts charged to the Statement of Financial Performance and accumulated losses incurred by Cabernet Limited.

41. Reconciliation of Overall (Deficit)/Surplus to Net Cash Flows from Operating Activities

	2018 £'000s	2017# £'000s
Overall (deficit)/surplus	(16,219)	114,058
Adjustment for net capital expenditure charged to revenue	37,057	15,103
Adjustment for net capital receipts credited to revenue	(2,122)	(22,601)
Adjustment for Cabernet Ltd losses	-	4,103
Adjustment for dividends received	(2,100)	(2,313)
Adjustment for coupon payment	11,141	11,141
Adjustment for Effective Interest Rate charged to amortised loan	277	267
Losses/(gains) on revaluation of investments	79,187	(203,089)
Increase in stocks	(469)	(94)
Increase in debtors and prepayments	(2,727)	(16,520)
Decrease in other loan balances	9,277	2,326
(Decrease)/increase in depositor balances	(82,946)	129,904
Increase in creditors	4,272	4,820
Net cash inflows from Operating Activities	34,628	37,105

The (deficit)/surplus reported within the Statement of Financial Performance includes elements of income and expenditure that are either not a cash transaction, or they are categorised as an Investing or Financing Activity within the Cash Flow Statement. Consequently an adjustment has been made to exclude them from Operating Activities and re-categorise them accordingly.

NOTES TO THE ACCOUNTS

42. Analysis of Cash Balances

	At 1 January 2017 £'000s	Movements in 2017 £'000s	At 31 December 2017 £'000s	Movements in 2018 £'000s	At 31 December 2018 £'000s
Cash at banks	15,798	(2,460)	13,338	(6,774)	6,564
Cash in hand	53	(8)	45	29	74
Total	15,851	(2,468)	13,383	(6,745)	6,638

43. Superannuation Fund

	At 1 January 2017 £'000s	Movements in Net Funds 2017 £'000s	At 31 December 2017 £'000s	Movements in Net Funds 2018 £'000s	At 31 December 2018 £'000s
Combined Pool	1,242,647	120,161	1,362,808	(64,301)	1,298,507
Teachers Fund	54,553	4,572	59,125	(3,615)	55,510
States Members Fund	3,955	296	4,251	(434)	3,817
Total	1,301,155	125,029	1,426,184	(68,350)	1,357,834

Combined Pool

	2018 £'000s	2017 £'000s
Employers' contributions	29,034	28,059
Employees' contributions	14,992	14,085
Capital payments	-	126
Refund of contributions repaid	45	86
Transfer values received	3,712	2,997
	47,783	45,353
Pensions	(46,714)	(44,591)
Lump sum payments	(12,305)	(11,050)
Contributions refunded to employees	(1,395)	(1,590)
Transfer values paid	(1,623)	(3,033)
	(62,037)	(60,264)
Returns on Investments (including realised and unrealised gains/(losses) on revaluation of investments) net of investment management fees and other expenses	(50,047)	135,072
Net (Decrease)/Increase in Fund for the Year	(64,301)	120,161

NOTES TO THE ACCOUNTS

Teachers' Fund

Employers' contributions
Teachers' contributions
Transfer values received

Pensions
Lump sum payments
Contributions refunded to teachers
Transfer values paid

Returns on investments (including realised and unrealised gains/(losses) on revaluation of investments) net of investment management fees and other expenses

Net (Decrease)/Increase in Fund for the Year

2018 £'000s	2017 £'000s
172	193
85	96
-	27
257	316
(1,411)	(1,420)
(292)	(234)
-	(2)
(29)	(207)
(1,732)	(1,863)
(2,140)	6,119
(3,615)	4,572

States Members' Pension Fund

Capital payment

Pensions
Transfer values paid

Returns on Investments (including realised and unrealised gains/(losses) on revaluation of investments) net of investment management fees and other expenses

Net (Decrease)/Increase in Fund for the Year

2018 £'000s	2017 £'000s
157	153
(301)	(303)
(148)	(48)
(449)	(351)
(142)	494
(434)	296

Consolidated Superannuation Fund

Employers' contributions
Employees' contributions
Capital payments
Refund of contributions repaid
Transfer values received

Pensions
Lump sum payments
Contributions refunded
Transfer values paid

Returns on Investments (including realised and unrealised gains/(losses) on revaluation of investments) net of investment management fees and other expenses

Net (Decrease)/Increase in Fund for the Year

2018 £'000s	2017 £'000s
29,206	28,252
15,077	14,181
157	279
45	86
3,712	3,024
48,197	45,822
(48,426)	(46,314)
(12,597)	(11,284)
(1,395)	(1,592)
(1,800)	(3,288)
(64,218)	(62,478)
(52,329)	141,685
(68,350)	125,029

NOTES TO THE ACCOUNTS

The employees of the States 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 (which was £87,434 from 1 May 2016, increasing to £90,074 from 1 May 2018) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

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

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

A full actuarial valuation of the Fund as at 31 December 2016 was carried out. The results of this valuation were reported to the States in July 2018 (Billet d'État XIX, 2018), and it was agreed that the base employer rate (including teachers) would remain at 14.1%.

The Statement of Financial Performance includes only net amounts contributed by the States to the Superannuation Fund for staff employed during the reporting period. FRS 102 has been adopted as a means of providing further information relating to the Superannuation Fund. The actuarial balances have not been incorporated within the principal financial statements. The deficit on the Superannuation Fund is not included in the Statement of Financial Position.

The valuation was updated by the actuary on an FRS 102 basis as at 31 December 2018.

The major assumptions used by the actuary in this valuation were:

	31 December 2018 % p.a.	31 December 2017 % p.a.
Discount rate	2.80%	2.60%
Rate of inflation	3.10%	3.40%
Increases to deferred benefits during deferment - Teachers Scheme	2.20%	2.50%
Increases to deferred benefits during deferment - Other Schemes	3.10%	3.40%
Increases to pensions in payment - Teachers Scheme	2.20%	2.50%
Increases to pensions in payment - Other Schemes	3.10%	3.40%
Increases to salaries	3.85%	4.15%
Mortality assumptions:		
Female pensioners aged 65 will live until	89	89
Male pensioners aged 65 will live until	87	87
Female employees aged 45 will live until	90	90
Male employees aged 45 will live until	88	88

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

NOTES TO THE ACCOUNTS

Analysis of changes in scheme deficit

Movements in the scheme deficit for the year were as follows

	2018 £'000s	2017 £'000s
Current service cost	71,177	77,151
Net interest on net defined liability		
Interest on obligation	62,964	63,262
Interest on assets	(36,873)	(33,625)
Cumulative amounts of re-measurements		
Return on assets (not included in interest)	88,370	(108,047)
Actuarial gains on obligation	(274,346)	(106,486)
Administration expenses	832	884
	(87,876)	(106,861)
Contributions by employer	(29,363)	(28,671)
Net Reduction in Deficit for the Year	(117,239)	(135,532)

Movements in the present value of the defined benefit obligations in the year were as follows:

	2018 £'000s	2017 £'000s
Defined benefit obligation at 1 January	2,451,912	2,462,415
Service cost	71,177	77,151
Contribution by members	15,077	14,060
Benefits paid	(60,461)	(58,490)
Interest on obligation	62,964	63,262
Experience gains	(22,374)	(29,795)
Gains from changes in assumptions	(251,972)	(76,691)
Defined Benefit Obligation at 31 December	2,266,323	2,451,912

Movements in the fair value of Fund assets in the year were as follows.

	2018 £'000s	2017 £'000s
Fair value of fund assets at 1 January	1,426,184	1,301,155
Interest on assets	36,873	33,625
Return on assets (not included in interest)	(88,370)	108,047
Contributions by employer	29,363	28,671
Contributions by members	15,077	14,060
Benefits paid	(60,461)	(58,490)
Administration expenses	(832)	(884)
Fair Value of Fund Assets at 31 December	1,357,834	1,426,184

NOTES TO THE ACCOUNTS

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

	2018 £'000s	2018 %	2017 £'000s	2017 %
Equities	732,871	54	852,645	60
Alternatives	283,353	21	246,183	17
Gilts and bonds	187,703	14	198,837	14
Property	89,478	6	103,801	7
Cash	64,429	5	24,718	2
Total Fund Assets	1,357,834	100	1,426,184	100

All investments held by the Consolidated Investment Fund are in the name of the States, therefore the figures presented in the table above reflect an equivalent share of that portfolio. Any cash introduced to or withdrawn from the Superannuation Fund during the reporting period, is directly managed through the States operating cash balances, and not the Consolidated Investment Fund.

The employer expects to contribute £29m to the Fund from 1 January 2019 to 31 December 2019.

The overall scheme deficit is as follows:

	2018 £'000s	2017 £'000s
Defined benefit obligation at 31 December	2,266,323	2,451,912
Fair value of fund assets at 31 December	(1,357,834)	(1,426,184)
Net defined benefit liability	908,489	1,025,728

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

44. Non-Audit Services

There were no non-audit services provided by Grant Thornton Limited during 2018 (2017: nil).

45. Contingent Liabilities

The following guarantees are considered to be contingent liabilities, but have not been accounted for in the principal financial statements. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the States. The obligation has not been recognised as a liability within the Statement of Financial Position, because there is a current expectation that no payment will be required to settle that obligation.

Cabernet Limited

On 29 June 2005 (Billet d'État IX, 2005), the States authorised the provision of guarantees relating to borrowings from third parties by Cabernet Limited (the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited).

On 20 December 2018, the Policy & Resources Committee guaranteed a loan facility entered into by Aurigny Air Services Limited with the Royal Bank of Scotland International Limited (RBSI) for the replacement of ATR72-500 aircraft with three ART72-600 aircraft subject to a maximum amount guaranteed of £51m. The Guarantee includes provision for any interest rate and/or currency exchange swap agreements that may be required. The facility also includes £8.4m, outstanding to the bank under an existing loan dated 5 February 2008, which will be repaid within the next twelve months. The value of the existing loan amounted to £9.6m as at 31 December 2017.

NOTES TO THE ACCOUNTS

This agreement replaces in its entirety each of the guarantees with The Royal Bank of Scotland International Limited, dated 20 August 2008 and 23 July 2010.

The Policy & Resources Committee has also guaranteed the company's trading operational loan facilities with RBSI Limited comprising: an overdraft facility of £1.25m and HM Customs Bonds of a maximum of £40,000. A further guarantee is in place with Barclaycard for an unlimited amount of credit card sales in respect of unflown flights.

Guernsey Housing Association Limited (by Guarantee)

During 2017, the Policy & Resources Committee provided a letter of comfort in respect of a revolving credit facility for £15m with the Royal Bank of Scotland International Limited. This agreement commenced in April 2017, and the balance drawn against this facility as at 31 December 2018, amounted to £3m (2017: £8.3m).

Alderney Housing Association Limited

Under the terms of the Framework Agreement between the States of Alderney and the Alderney Housing Association Limited (AHA), the States of Alderney have Step-In rights for the assets and liabilities of the AHA in the event that the latter was unable to meet its obligations. Accordingly, the States of Alderney have provided a letter of comfort in respect of the AHA's overdraft facility of £3m with a private financial institution. The balance drawn against this facility as at 31 December 2018 amounted to £2.6m (2017: £2.1m).

If it becomes necessary for the States of Alderney to exercise their Step-In rights, then all assets and liabilities of the AHA would revert to the States of Alderney at that time. The net assets of AHA as at 31 December 2018 amounted to £7.6m (2017: £7.6m) and comprised of year-end reserves adjusted to include a revaluation to market value of property and excluding the States of Alderney grant liability in respect of deferred income. The States of Guernsey have agreed to 'step-in' if the States of Alderney were unable to service the facility or repay any amounts due.

NOTES TO THE ACCOUNTS

46. Table of Grant Payments

The States provides grant funding to a number of different entities. Details of those grants that were payable during 2018 and 2017 are as follows.

Description	2018 £'000	2017 £'000
Social Insurance Fund Grant	16,135	15,667
Rent rebate payments (various)	5,835	11,022
Overseas aid grants (various)	2,725	2,602
St John Ambulance and Rescue Service	2,350	2,486
Guernsey Housing Association	2,118	2,291
Elizabeth College (College Grant)	2,103	2,134
Pre-school grants (various)	1,854	1,836
The Ladies College (College Grant)	1,853	1,856
Guille-Alles Library	1,621	1,604
Dairy farm management payments (various)	1,225	1,425
Guernsey Finance LBG	1,200	1,200
Guernsey Training Agency	703	275
H E Lieutenant Governor	638	628
Youth Commission	548	498
Office of Data Protection Authority	465	-
Guernsey Employment Trust	459	417
Blanchelande College (College Grant)	393	404
Channel Islands Brussels Office	340	260
Priault Library	327	319
Action for Children	327	314
Alderney Commission for Renewable Energy	237	54
Association of Guernsey Charities	218	190
Guernsey Sports Commission	209	209
Health Improvement Commission	182	-
Dyslexia Day Centre	159	148
Grow Limited	141	141
Guernsey Competition and Regulatory Authority	140	140
Guernsey Contraceptive Service	140	140
Events Group	137	165
Guernsey Arts Commission	114	114
Guernsey Enterprise Agency (Start Up Guernsey)	112	112
2021 Island Games	100	100
Dairy & Land Management (Alderney)	65	65
Friends of St James Association	58	58
Other grant payments less than £50,000 (various)	5,034	5,506
Total Grant Payments	50,265	54,380

NOTES TO THE ACCOUNTS

47. Payments to States Members

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

	2018 Total £	2017 Total £
B L Brehaut	52,666	51,617
A H Brouard	52,666	51,617
D de G De Lisle	37,304	36,561
H L De Sausmarez	38,982	38,206
M H Dorey	38,982	38,206
A C Dudley-Owen	38,982	38,206
M J Fallaize	52,666	51,617
P T R Ferbrache	37,304	49,394
J A B Gollop	38,982	38,206
R H Graham LVO, MBE	37,304	36,561
C J Green	52,666	51,617
S T Hansmann Rouxel	37,629	37,629
N R Inder	40,971	38,206
L E Jean	12,288	12,287
J Kuttelwascher	37,304	36,561
S L Langlois	36,009	36,008
M K Le Clerc	52,666	51,617
P R Le Pelley	39,459	49,394
J P Le Tocq	52,666	51,617
M P Leadbeater	38,982	38,206
M M Lowe	48,648	48,648
S D G McKinley, OBE	20,589	14,591
C P Meerveld	38,982	38,206
J S Merrett	38,982	38,206
J I Mooney	38,982	38,206
V S Oliver	38,982	38,206
B J E Paint	37,304	36,561
C N K Parkinson	52,666	38,896
R G Prow	36,009	37,359
L B Queripel	37,629	37,629
L C Queripel	37,304	36,966
P J Roffey	49,306	38,206
J C S F Smithies	37,304	36,561
H J R Soulsby	52,666	51,617
G A St Pier	68,543	67,179
T J Stephens	50,398	49,394
D A Tindall	38,982	38,206
R H Tooley	38,982	38,206
L S Trott	52,666	51,617
E A Yerby	37,629	37,629
Total Payments to States Members	1,679,031	1,645,422

States' Members are considered to have self-employed status for social security purposes.

The total cost reported above differs from the amount disclosed within Note 8. This is because the figure above excludes pension payments in respect of previous service, Non States Members attendance allowances, IT equipment expenditure and expenses incurred in respect of the travel expenses of Alderney Representatives.

NOTES TO THE ACCOUNTS

48. Related Party Transactions

The following disclosures have been made in accordance with the reporting requirements approved by the States (Billet d'État XVIII, 1997).

Mr Stuart Falla M.B.E., who is a Non-States Member of the States' Trading Supervisory Board, is a shareholder with a controlling interest in the Garenne Group. The Garenne Group charged the States' Trading Supervisory Board £11.541m (2017: £577k) in respect of goods and services provided by companies within that Group to the States' Trading Supervisory Board (non-trading responsibilities) during 2018. The Accounts of each States' Trading Supervisory Board trading entity (incorporated and unincorporated) include a related party transaction note.

Mr Falla has also advised that companies within the Garenne Group have received payments as sub-contractor from contractors appointed by the States' Trading Supervisory Board.

Deputy Mark Dorey is a member of the Committee *for the* Environment & Infrastructure which is responsible for issuing payments to farmers under the Dairy Farm Management Payment Scheme (introduced in 2001 and amended in September 2014 – Billet d'État XX, 2014). During 2018, a relation of Deputy Dorey received £42k from the Dairy Farm Management Payment Scheme. The payment was governed by the rules as set out in the scheme and Deputy Dorey had no involvement in the transaction.

All States Members and Non-States Members are required to provide Declarations of Members' Interests, which are available at the Greffe for public inspection and published on the States' website.

49. Post Balance Sheet Events

The States approved the creation of Guernsey Waste which, from 2019 onwards, will be treated as a separate reporting entity. Consequently, the balances attributed to the Solid Waste Trading Account will transfer to Guernsey Waste on 1 January 2019.

50. Segmental Analysis

The States prepared the 2018 Budget in a format that is different to that reported within these accounts. It is important to note that the Segmental Analysis (Appendix II) only includes income and expenditure attributed to Committee functions and certain corporate activities (recovery of taxes and other non-exchange transactions, capital receipts etc.). Equally, the totals within the segmental analysis includes amounts that are treated as an appropriation between reserves within these accounts.

The following is a reconciliation between the totals included within these financial statements and the overall surplus included within the segmental analysis.

NOTES TO THE ACCOUNTS

Reconciliation Between Totals Reported in Statement of Financial Performance and the Segmental Analysis

	Note	2018 £'000s	2017 £'000s
(Deficit)/Surplus for the year as per the Statement of Financial Performance		(16,219)	114,058
Adjustments for (surplus)/deficit on earmarked balances within the General Reserve			
Corporate Housing Programme Fund	23	2,566	3,002
Transformation and Transition Fund	24	3,079	1,789
Insurance Deductible Fund	25	117	848
Future Guernsey Economic Fund	26	1,461	1,083
Bond Reserve	27	12,876	(9,892)
Wilfred Carey Purchase Fund	28	191	(158)
Channel Islands Lottery (Guernsey) Fund	30	(1,089)	(1,030)
Solid Waste Trading Account	31	541	(1,444)
Overseas Aid & Development Commission Fund	32	2,726	2,602
Health and Social Care Accommodation Fund	33	107	(5)
Higher Education Loans Fund	36	24	(47)
		22,599	(3,252)
Adjustment for balances debited/(credited) to the Capital Reserve	38	55,701	(28,535)
Adjustment for balances credited to the Core Investment Reserve	39	6,412	(16,326)
Surplus credited to General Reserve (Unallocated Balance)		68,493	65,945
Other adjusting items included within the Segmental Analysis			
Transfer to Insurance Deductible Fund	25	(1,350)	(1,300)
Transfer from Channel Islands Lottery (Guernsey) Fund	30	616	493
Transfer from Solid Waste Trading Account	31	1,574	1,595
Transfer to Overseas Aid & Development Commission Fund	32	(2,960)	(2,915)
		(2,120)	(2,127)
Other adjusting items excluded from the Segmental Analysis			
Impairment for Cabernet losses		-	4,103
Surplus reported within the Segmental Analysis		66,373	67,921

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

Accounting Boundary

The functions noted within Category A and B in the table below denote the constituent parts of the States of Guernsey that are included for the purpose of preparing this set of financial statements.

Only those functions noted within Category A are included within the Income and Expenditure Account, which is reported as part of the Segmental Analysis (Appendix II).

Category A

General Revenue Income
Policy & Resources Committee
Committee *for* Economic Development
Committee *for* Education, Sport & Culture
Committee *for* Employment & Social Security
Committee *for the* Environment & Infrastructure
Committee *for* Health & Social Care
Committee *for* Home Affairs
Scrutiny Management Committee
Development & Planning Authority
Transport Licensing Authority
Overseas Aid & Development Commission
States' Trading Supervisory Board
Royal Court
Law Officers
States of Alderney

Category B

Corporate Housing Programme Fund
Transformation and Transition Fund
Insurance Deductible Fund
Future Guernsey Economic Fund
Bond Reserve
Wilfred Carey Purchase Fund
Brexit Transition Fund
Channel Islands Lottery (Guernsey) Fund
Solid Waste Trading Account
Overseas Aid & Development Commission Fund
Health and Social Care Accommodation Fund
Overseas Aid & Development Impact Investment Fund
Participatory Budgeting Fund
Higher Education Loans Fund
Sports Loans Fund
Capital Reserve
Core Investment Reserve
States' Trading Entities Reserve

Accruals Basis - is a basis of accounting under which transactions and other events are recognised when they occur, and not when cash or its equivalent is received or paid. Consequently the transactions and events are included in the financial statements for the periods to which they relate.

Appropriation – the transfer of a balance between two or more reserves.

Assets - resources controlled by the States as a result of past events, and from which future economic benefits or service potential are expected to flow.

Bond Reserve – an earmarked reserve, used to hold the issue proceeds prior to any onward allocation and to accumulate funds for eventual repayment at the end of the life of the bond. The Bond Reserve also funds the issue costs and any ongoing expenses.

GLOSSARY

Appendix I

Brexit Transition Fund – an earmarked reserve used to support urgent and necessary measures to manage Brexit in a controlled and timely manner and mitigate against any risks that may arise, without adversely impacting on funding for existing States' priorities. This will be used to implement projects, inter alia, concerning: amendments to the customs and immigration systems; extension of the UK's membership of the World Trade Organization to Guernsey; and participating in any new economic partnership agreed by the UK, such as Free Trade Agreements. It could also be used to: manage any contingency risk including in relation to supply chains; implement measures to minimise risk to transport links; and maintain critical infrastructure.

Capital Reserve - is an earmarked long term reserve. It has been created to provide funding for the States' programme of capital expenditure. The profile of funding may differ markedly year on year from the programme of expenditure. The Capital Reserve allows for the funding and expenditure to be managed over the longer term, without there being any significant impact on other reserves.

Channel Islands Lottery (Guernsey) Fund - an earmarked reserve that is used to report income and expenditure associated with the operation of the Channel Islands Lottery.

Contingent Liability – A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. The obligation is not recognised as a financial liability within the Statement of Financial Position because it is not probable that an outflow of resources will occur (in order to settle the obligation) or the amount cannot be quantified with any sufficient reliability.

Core Investment Reserve – an earmarked long term reserve, the capital value of which is only available to be used in the exceptional and specific circumstances of severe and structural decline in public sector finances or major emergencies.

Cost – the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Coupon payment – is the interest payment made by the States to the bond holders.

Credit Risk – the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency Risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Depositors – external parties and entities (outwith those functions noted in the Accounting Boundary) who place surplus funds with the States of Guernsey.

Earmarked Reserve - an amount that is set aside for a specific purpose.

Effective Interest Rate – a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest returns or charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument. These cash flows will consider all contractual terms of the financial instrument (including all fees, premiums, discounts and other transactions costs).

Financial Year/Reporting Period – the States' financial statements are prepared for accounting periods that span the calendar year. The year end is 31 December.

Future Guernsey Economic Fund - an earmarked reserve used to provide funding for initiatives which deliver on the objectives within the Future Guernsey Programme for Government (in Phase One of the Policy & Resources Plan) and which ensure that the right conditions exist for businesses to set up, grow and operate; improve or protect economic growth; and have measurable economic and fiscal benefits.

General Reserve – retains the net balance of surpluses and deficits arising from the operational activities of the States. Within the General Reserve there are a number of earmarked funds that have been created for a specific purpose and these are detailed within the Note to the Accounts. Also within the General Reserve is the Unallocated Balance, which is used for managing any in year shortfalls in income, short term cyclical variations and other timing issues. The States have a policy for the Unallocated Balance to maintain a value that equates to 5% of annual General Revenue income.

GLOSSARY

Appendix I

Health and Social Care Accommodation Fund - an earmarked reserve that is used to report income and expenditure associated with the provision of accommodation for staff employed by the States working for the Committee for Health & Social Care.

Higher Education Loans Fund - an earmarked reserve that is used to fund the issue of loans to students and to record operating income (interest receivable) and expenditure associated with the scheme. No new loans have been issued in recent years.

Impairment - a diminution in value of an asset resulting from particular circumstances.

Insurance Deductible Fund - an earmarked reserve that is used to fund expenditure on the self-insured element of insurance settlements that are paid during the financial year.

Interest Rate Risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

IPSAS – are International Public Sector Accounting Standards that are issued by the International Public Sector Accounting Standards Board (IPSASB). The IPSASB encourages public sector entities to adopt the accrual basis of accounting — which will improve financial management and increase transparency resulting in a more comprehensive and accurate view of a government’s financial position.

Liabilities - are present obligations of the States arising from past events, the settlement of which is expected to result in a future outflow of assets.

Liquidity Risk – the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market Risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three different elements, namely currency risk, interest rate risk and other price risk.

Materiality - an item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Movement in Reserves Statement – presents a reconciliation of the balances held in reserves at the start and the end of the financial year, and the summary changes that have come about during that reporting period.

Non-exchange Transactions – this type of transaction occurs when an entity either receives value from another entity without directly giving approximately equal value in return, or gives value to another entity without directly receiving approximately equal value in exchange.

Other Price Risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or the issuer, or factors affecting all similar financial instruments traded in the market.

Overseas Aid & Development Commission Fund - is an earmarked reserve that is used to make grant payments associated with programmes of overseas aid and development, as well as contribute to emergency and disaster relief schemes.

Overseas Aid & Development Impact Investment Fund – is an earmarked reserve to provide funding for investments designed in a manner to have the ability to make a different, more lasting impact in the world’s least developed countries and with sustainable objectives in mind.

Participatory Budgeting Fund – is an earmarked reserve. Participatory (or community) budgeting is a means of the community engaging with government and deciding where to spend part of a public budget. This is an increasingly popular initiative in other communities which should deliver social and economic dividends including through community building by participants prioritising projects requiring one-off funding that they assess will address the greatest community need. This reserve is a pilot scheme for funding initiatives identified through the participatory budgeting process.

Reserves – collectively the total balances held within the reserves equate to the net assets of the States as at 31 December.

GLOSSARY

Appendix I

Solid Waste Trading Account – an earmarked reserve that is used to report income and expenditure associated with the management of all solid waste related activities.

Sports Loans Fund – an earmarked reserve that is used to provide funding for the issue of loans (subject to certain conditions) to sporting organisations or playing field authorities.

Statement of Financial Performance - presents the total revenue income generated and expenditure incurred by the States during the calendar year.

Statement of Financial Position - presents the value, as at 31 December, of the assets, liabilities and other balances recognised by the States.

States' Trading Entities Reserve - is an earmarked long term reserve. It represents the book value of the shares held in Guernsey Electricity Limited and Guernsey Post Limited (ie the value of the assets transferred at commercialisation less any subsequent share buy-backs), as well as Alderney Electricity Limited. It also includes amounts held for potential liabilities or future impairments that may arise in respect of Cabernet Limited.

Taxable Event – an event that the States have determined will be subject to taxation and result in a liability for either an individual or external entity.

Wilfred Carey Purchase Fund - an earmarked reserve that is used to report expenditure on the purchase of items of specific local interest from this fund.

SEGMENTAL ANALYSIS

2018 Original Budget £'000s	2018 Total Authorised £'000s	
431,500	431,500	Revenue Income
6,500	6,500	Capital Income
438,000	438,000	Total Income
		Net Revenue Expenditure
37,410	39,172	<i>Policy & Resources Committee</i>
6,235	6,504	<i>Committee for Economic Development</i>
73,925	75,387	<i>Committee for Education, Sport & Culture</i>
76,902	76,990	<i>Committee for Employment & Social Security</i>
11,975	12,467	<i>Committee for the Environment & Infrastructure</i>
114,658	117,851	<i>Committee for Health & Social Care</i>
29,825	31,468	<i>Committee for Home Affairs</i>
547	560	<i>Scrutiny Management Committee</i>
1,340	1,408	<i>Development & Planning Authority</i>
2,960	2,960	<i>Overseas Aid & Development Commission</i>
-	24	<i>Transport Licensing Authority</i>
1,490	1,628	<i>States' Trading Supervisory Board</i>
2,535	2,690	<i>Royal Court</i>
4,475	4,877	<i>Law Officers</i>
1,840	1,891	<i>States of Alderney</i>
11,683	1,923	<i>Budget Reserve</i>
377,800	377,800	Net Revenue Expenditure
-	-	Routine Capital Expenditure
377,800	377,800	Total Cash Limits
60,200	60,200	Net Surplus

Appendix II

2018 Actual £'000s	2017 Actual £'000s
440,555	431,832
1,970	18
442,525	431,850
39,142	37,678
6,204	6,755
77,413	77,276
75,943	64,938
12,281	11,456
118,028	114,072
32,002	30,305
511	474
1,259	1,167
2,960	2,915
24	-
1,239	885
2,571	2,800
4,820	4,592
1,755	1,847
-	-
376,152	357,160
-	6,769
376,152	363,929
66,373	67,921

ANALYSIS OF PAY COSTS AND FTE TOTALS

Appendix III

Committee	2018 Actual £'000s	2018 Average FTE	2017 Actual £'000s	2017 Average FTE
Policy & Resources Committee	24,009	410	21,778	394
Committee <i>for</i> Economic Development	2,539	40	2,645	42
Committee <i>for</i> Education, Sport & Culture	58,304	1,195	57,963	1,234
Committee <i>for</i> Employment & Social Security	4,041	82	3,891	83
Committee <i>for the</i> Environment & Infrastructure	2,963	58	2,654	53
Committee <i>for</i> Health & Social Care	90,087	2,011	85,800	1,953
Committee <i>for</i> Home Affairs	28,303	540	27,408	533
Scrutiny Management Committee	446	6	430	6
Development & Planning Authority	2,330	42	2,267	42
States' Trading Supervisory Board	4,113	65	4,005	64
Royal Court	3,817	52	4,040	53
Law Officers	4,762	41	4,490	41
States of Alderney	1,796	-	1,684	-
	227,510	4,542	219,055	4,498
Other Functions				
Transformation and Transition Fund	835	14	752	6
Guernsey Registry	298	6	395	7
Future Guernsey Economic Fund	379	8	353	6
Portfolio Team	269	3	353	5
Solid Waste Trading Account	259	7	241	5
Channel Islands Lottery (Guernsey) Fund	41	1	-	-
Health and Social Care Accommodation Fund	217	6	216	6
Notes and Coins Trading Account	95	2	87	2
	2,393	47	2,397	37
States' Members	1,886	-	1,855	-
Total pay costs charged to the Statement of Financial Performance and equivalent FTE's	231,789	4,589	223,307	4,535
Capital Reserve and Routine Capital projects	719	10	1,343	15
Total Pay Costs and Equivalent FTE's	232,508	4,599	224,650	4,550

CAPITAL RESERVE EXPENDITURE

Appendix IV

	2018 £'000s	2017 £'000s
States Capital Investment Programme		
Portfolio Administration Costs	408	407
Policy & Resources Committee		
IT Wide Area Network (£1.09m)	53	-
Cremator and Emissions Equipment Replacement	96	106
Income Tax Electronic Document and Records Management	-	4
Revenue Service Programme	894	428
Sir Charles Frossard House Re-Roofing (£0.8m)	-	11
Future Digital Services	614	257
Office Rationalisation Project 1 Phase 1 (£2.098m)	309	1,523
SAP Roadmap	161	65
Digital Infrastructure	24	-
Committee for Economic Development		
Seafront Enhancement Area	40	-
Committee for Education, Sport & Culture		
Les Beaucamps High School (£36.8m)	16	(102)
Les Nicolles Secondary and Special Needs Schools (£44.4m)	108	104
La Mare De Carteret Schools (£1.65m)	959	121
Education Estates Development – Phase 1	16	49
Footes Lane Refurbishment	8	-
Committee for the Environment & Infrastructure		
Bus Replacement (£4.745m)	2,795	1,617
Sea Wall Repointing (£1.807m)	-	462
Hydrocarbon Supplies	1	1,107
L'Ancrese Wall – East Section	72	-
L'Eree - Coastal Repairs	356	-
Vazon - Coastal Repairs	352	-
Committee for Health & Social Care		
Mental Health and Wellbeing Centre (£24m)	12	(486)
Health & Social Care Site Development	(4)	-
Electronic Health and Social Care record (£3.9m)	347	354
Radiology Equipment Replacement (£1.246m)	219	575
Princess Elizabeth Hospital Re-Profiling	23	28
Sherwill Ward Redevelopment	-	6
Hospital Modernisation – Phase 1	121	-
Health & Social Care Local Area Network (£1.866m)	1,319	-
Committee for Home Affairs		
New Generation Passport (£1.0m)	-	32
Linkworks Information System Replacement (£1.2m)	9	61
Replacement Prison Fencing (£1.7m)	-	1,708
Home Operational Services Transformation	-	88
CCTV Replacement	2	-
Home Affairs Estate Rationalisation	19	-
States' Trading Supervisory Board		
Airport Pavements Rehabilitation (£78.2m)	1	25
Belle Greve Wastewater Centre (£11.03m)	-	37
St Peter Port Harbour Crane Strategy (£13.675m)	11	27
Alderney Airport Runway Rehabilitation	43	29
Household Waste Recycling Centre (£2.2m)	1,442	-
Waste Transfer Station (£29.5m)	27,613	-

CAPITAL RESERVE EXPENDITURE

Appendix IV

Minor Capital Projects

Property maintenance and minor works
Information technology
Medical equipment
Vehicles and other equipment

Total Expenditure Charged to the Capital Reserve

2018 £'000s	2017 £'000s
5,073	-
1,129	-
1,239	-
650	-
46,550	8,643

CONSOLIDATED HEALTH AND SOCIAL CARE ACCOUNTS

Appendix V

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

	2018			2017		
	Total £'000s	E&SS £'000s	H&SC £'000s	Total £'000s	E&SS £'000s	H&SC £'000s
Primary Health Care						
<i>Ambulatory Services</i>	2,769	-	2,769	2,586	-	2,586
<i>Emergency Department</i>	1,403	-	1,403	1,147	-	1,147
<i>GP and Nurse Consultation Grants</i>	3,485	3,485	-	3,401	3,401	-
	<u>7,657</u>	<u>3,485</u>	<u>4,172</u>	<u>7,134</u>	<u>3,401</u>	<u>3,733</u>
Secondary and Tertiary Health Care						
<i>Acute Services provided Off-Island</i>	10,602	-	10,602	9,123	-	9,123
<i>Guernsey Therapy Group Services</i>	2,432	2,432	-	2,287	2,287	-
<i>Hospital Services</i>	43,730	4,627	39,103	49,973	3,576	46,397
<i>Medical Specialist Group Services</i>	19,335	19,335	-	18,354	18,354	-
<i>Prescription Drugs and Medicines</i>	16,813	16,813	-	16,247	16,247	-
<i>Travel Costs</i>	2,890	2,890	-	2,462	2,163	299
	<u>95,802</u>	<u>46,097</u>	<u>49,705</u>	<u>98,446</u>	<u>42,627</u>	<u>55,819</u>
Community Care						
<i>Children and Adult Disability Services</i>	13,291	275	13,016	11,841	366	11,475
<i>Children and Adult Mental Health Services</i>	13,752	398	13,354	11,954	367	11,587
<i>Community and Social Care Services</i>	26,521	-	26,521	22,803	-	22,803
<i>Older People Services</i>	27,443	20,188	7,255	26,085	19,961	6,124
	<u>81,007</u>	<u>20,861</u>	<u>60,146</u>	<u>72,683</u>	<u>20,694</u>	<u>51,989</u>
Public Health Services						
<i>Prevention and Awareness Treatments</i>	3,263	-	3,263	2,591	-	2,591
	326	-	326	392	-	392
	<u>3,589</u>	<u>-</u>	<u>3,589</u>	<u>2,983</u>	<u>-</u>	<u>2,983</u>
Net Cost of Providing Health and Social Care Services	<u>188,055</u>	<u>70,443</u>	<u>117,612</u>	<u>181,246</u>	<u>66,722</u>	<u>114,524</u>

Notes:

The above includes an element of administrative and central costs amounting to £17.9m (2017: 18.8m) that have been apportioned across each of the expenditure lines. It excludes costs attributable to the States' Analyst, which are funded from the Committee *for* Health & Social Care's revenue budget.

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

ATTRIBUTABLE TO ALDERNEY

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

	Note	2018 £'000s	2017 £'000s
Income			
Taxation and duty revenue received by the States of Guernsey	1	8,610	9,148
States of Alderney - Capital receipts		66	6
Alderney Gambling Control Commission		2,642	1,972
Total Income		11,318	11,126
Expenditure			
States of Alderney - Net Revenue Expenditure	2	1,755	1,848
States of Alderney - Capital Expenditure		952	2,180
States of Alderney - Economic Development Expenditure		300	300
Transferred Services - Net Revenue Expenditure	3	10,629	10,045
Transferred Services - Capital Expenditure	4	560	282
Aurigny operating loss in respect of Alderney routes		2,800	3,300
Total Expenditure		16,996	17,955
Net Cost		5,678	6,829

The total direct gross economic contribution to the Bailiwick of the e-Gaming Sector in Alderney is estimated to be £28.7m in 2018 (2017: £25.9m) which comprises £5.4m in respect of Alderney (2017: £5.2m) and £23.3m in respect of Guernsey (2017: £20.7m) including £1.68m (2017: £1.44m) in personal income tax and social security contributions.

ANALYSIS OF SOCIAL SECURITY ATTRIBUTABLE TO ALDERNEY

Appendix VI

	2018 £'000s	2017 £'000s
Income		
Contributions		
Guernsey Insurance Fund	2,229	2,145
Guernsey Health Service Fund	833	796
Long-Term Care Insurance Fund	569	535
States Grant	328	313
Total Income	3,959	3,789
Benefits and Administration Costs		
Guernsey Insurance Fund	4,444	4,008
Guernsey Health Service Fund	1,639	1,351
Long-Term Care Insurance Fund	889	814
Total Expenditure	6,972	6,173
Investing Activities	(1,398)	1,587
Net Deficit	4,411	797

NOTES

1. Taxation and duty revenue received by States of Guernsey

Income Tax

Individuals - ETI
Individuals - Other
Companies
Banks
Distributions

Total Income Tax

Customs - Excise and Import Duties

Tax on Real Property

Document Duty

Appendix VI

2018 £'000s	2017 £'000s
3,526	3,458
2,484	2,543
149	412
27	32
73	399
6,259	6,844
1,138	1,094
874	822
339	388
8,610	9,148

2. States of Alderney - Net Revenue Expenditure

Building and Development Control Services

Expenditure
Income

General Services Committee

Expenditure
Income

Policy and Finance Committee

Expenditure
Income
Transfer from capital allocation

2018 £'000s	2017 £'000s
88	369
(44)	(34)
44	335
1,520	1,396
(182)	(209)
1,338	1,187
1,568	1,557
(1,195)	(1,135)
-	(96)
373	326
1,755	1,848

3. Transferred Services - Net Revenue Expenditure

Policy & Resources Committee

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

2018 £'000s	2017 £'000s
65	85
18	15
(10)	(9)
173	155
12	19
42	59
24	19
77	89
20	18
127	124
17	20
53	40
618	634

NOTES

3. Transferred Services - Net Revenue Expenditure (continued)

Appendix VI

	2018 £'000s	2017 £'000s
Committee for Economic Development	17	18
Committee for Education, Sport & Culture		
St Anne's School	1,536	1,551
Special Schools	3	7
College of Further Education	174	178
Higher Education	59	99
Travel, Subsistence and Accommodation	50	49
School and Pupil Support Services	2	2
Central support services and management	137	143
Special Needs Support	44	80
Other	93	98
	2,098	2,207
Committee for Employment & Social Security		
Administration	72	72
Legal Aid	3	36
Medical Expenses Assistance Scheme	2	2
Severe Disability Benefit and Carers' Allowances	196	197
Family Allowance	154	175
Supplementary Benefit	667	489
Concessionary TV Licences for the Elderly	26	32
Social Insurance Fund – Grant	328	313
	1,448	1,316
Committee for the Environment & Infrastructure		
Alderney Breakwater	103	74
Other	(31)	(25)
	72	49
Committee for Health & Social Care		
Mignot Memorial Hospital	1,920	1,879
Princess Elizabeth Hospital - inpatient	206	214
Diagnostic Services and Hospital Administration	630	721
Emergency & Day Patient Hospital Services	122	138
Private patient income	(131)	(121)
Children's Services	121	114
Adult Services	107	26
Off island - complex placement	101	62
Acute Off islands treatment	278	267
Management & Strategy	259	256
	3,613	3,556

NOTES

3. Transferred Services - Net Revenue Expenditure (continued)

Committee *for* Home Affairs

Domestic Abuse Strategy
Drug and Alcohol Strategy
Data Protection
Law Enforcement
Probation Service
Trading Standards

Scrutiny Management Committee

Overseas Aid & Development Commission

Law Officers

States' Trading Supervisory Board

Alderney Airport
States' Property Services

Appendix VI

	2018 £'000s	2017 £'000s
	5	4
	-	5
	2	5
	1,138	1,079
	2	3
	2	1
	1,149	1,097
	16	15
	91	91
	240	236
	1,224	815
	43	11
	1,267	826
	10,629	10,045

4. Transferred Services - Capital Expenditure

Policy & Resources Committee

Committee *for the* Environment & Infrastructure

Alderney Breakwater

Committee *for* Health & Social Care

States' Trading Supervisory Board

Alderney Airport

	2018 £'000s	2017 £'000s
	72	-
	412	276
	10	6
	66	-
	560	282

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

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

The Committee approved the following increases in 2018 revenue budgets:

	£
Pay Awards	6,356,775
Established Staff and Guernsey Border Agency Staff – turnover adjustment	377,400
Committee <i>for</i> Economic Development	
Office of the Public Trustee	461,194
Committee <i>for</i> Education, Sport & Culture	
Staff restructuring	220,000
Committee <i>for</i> Health & Social Care	
Various non-recurring cost pressures	731,000
Committee <i>for</i> Home Affairs	
Guernsey Data Protection Authority	599,000
Various non-recurring cost pressures	250,000
Policy & Resources Committee	
Medical Malpractice Insurance	675,000
Miscellaneous	89,500
Total	9,759,869

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

The following capital projects have been approved, funded from the Capital Reserve:

Major Capital Projects	£
Waste Transfer Station	29,500,000
Bus Fleet – replacement	2,905,000
Household Waste Recycling Centre	2,200,000
Radiology Equipment – replacement	2,040,500
Health & Social Care Local Area Network – replacement	1,866,000
Revenue Service Programme	1,092,500
Vazon - coastal repairs	929,000
Turntable Ladder Fire Appliance – replacement	700,000
Future Digital Services	539,000
Education Estates Development - Phase 1	396,000
L'Eree – coastal repairs	371,000
Hospital Modernisation – Phase 1 – project planning	352,000
Replacement Cremator and Emissions Equipment – project planning	260,000
Seafront Enhancement Area – project planning	260,000
Strategic Air and Sea Links Infrastructure – project planning	245,000
CCTV Replacement – project planning	150,000
Cyber Information – project planning	80,000
Digital Infrastructure – project planning	53,000
Alderney Airport Runway Rehabilitation – project planning	50,000
Castle Cornet Refurbishment – project planning	50,000
Footes Lane Refurbishment – project planning	50,000
Total Major Capital Projects	44,089,000

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

Minor Capital Projects

Information Technology

£

Policy & Resources Committee

End-User devices - life cycle refresh	990,000
Learning Management System (Phase 1)	161,580
General Data Protection Regulation (GDPR) compliance system	50,000
Cyber security awareness training system	22,000

1,223,580

Committee for Education, Sport & Culture

College of Further Education (CoFE) student IT facilities – upgrade	93,237
Other (less than £50,000 per project)	88,463

181,700

Committee for Health & Social Care

MOSAIC (Children's social care case management system) – upgrade	120,000
Cardiotocography (CTG) connection (maternity equipment) – upgrade	56,450
ChemoCare (chemotherapy electronic prescribing system) – upgrade	15,000

191,450

Committee for Home Affairs

Guernsey Electronic Manifest System – upgrade	406,000
Local Area network and Wi-Fi – replacement	129,000
Server storage & network – replacement	80,000
Secure access and communications equipment	59,000
Tetra Radio – minor purchases	55,000
Law Enforcement database – upgrade	50,000
Closed Circuit Television – minor purchases	20,000

799,000

Law Officers

Time Recording Software	75,000
Contract Automation System	49,000

124,000

Total Information Technology

2,519,730

Medical Equipment

£

Committee for Health & Social Care

Radiopharmacy facility - refurbishment	435,000
Hyperbaric Chamber	408,000
Intravenous pumps – replacement	177,000
Defibrillators – replacement	80,249
Hoists – replacement	61,333
Haematology analysers – replacement	58,200
Tissue analysers – replacement	57,300
Rigid scopes (theatres) – replacement	50,000
Other (less than £50,000 per project)	454,069

Total Medical Equipment

1,781,151

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

Property Maintenance and Minor Works

£

Committee *for* Education, Sport & Culture

Amherst School roofing	166,000
Footes Lane floodlighting – refurbishment	126,500
Vale School roofing	120,000
Grammar School – Food Technology Room – refurbishment	80,000
Beau Sejour Centre Bar & Café – refurbishment	60,000
Castle Cornet roofing	8,500

561,000

Committee *for* the Environment & Infrastructure

Alderney Breakwater – maintenance contract	350,000
Alderney Breakwater - repairs	200,000
Cattle Incinerator roof & doors – replacement	150,000
Other (less than £50,000 per project)	29,600

729,600

Committee *for* Health & Social Care

PEH Incinerator – refurbishment	204,000
Building management control system – replacement	116,100
Corbiere Ward – refurbishment	97,000
Roustel Ward – refurbishment	94,000
PEH car park subsidence – works	70,000
PEH staff changing facilities – refurbishment	44,000

625,100

Committee *for* Home Affairs

Prison electronic Control Panel / Air Handling Unit – replacement	110,000
Other (less than £50,000 per project)	42,300

152,300

States' Trading Supervisory Board

Summerland - remedial works	130,000
Herm Cliff Face netting	33,000

163,000

Total Property Maintenance and Minor Works

2,231,000

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

Coastal Repairs	£
Committee <i>for the</i> Environment & Infrastructure	
Grand Port Area sea wall – repointing	40,000
Total Coastal Repairs	40,000
Integrated Transport Strategy	£
Committee for Environment & Infrastructure	
Bas Courtils / Grandes Maison toucan crossing – new	85,000
Other (less than £50,000 per project)	87,000
Total Integrated Transport Strategy	172,000
Road Resurfacing and Reconstruction	£
Committee <i>for the</i> Environment & Infrastructure	
Bulwer Avenue	237,000
La Vallette	188,000
Les Mielles and La Moye Road	165,000
La Houquette	119,000
Route de Rocquaine (north)	112,000
Les Vardes	106,000
Route de la Mare de Carteret	100,000
Le Truchot	97,000
Route de Rocque Poisson	87,000
Longue Rue	82,000
Rue des Crabbes	75,000
Rouge Rue	74,000
Rue des Grantez	70,000
Les Landelles, Castel	69,000
Rue au Page and Route de Bas Courtils	68,000
La Folie Lane	64,000
Rue des Haizes	61,000
Le Picquerel Estate	55,000
Maurepas	55,000
Rue de Menages	55,000
Rue des Goddards	55,000
St. Johns Road	55,000
Rue de Galaad	54,000
College Street	52,000
Other (less than £50,000 per project)	340,000
Total Road Resurfacing and Reconstruction	2,495,000

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

Vehicles & Other Equipment	£
Policy & Resources Committee	
Government House vehicle – replacement	13,279
	13,279
Committee for Education, Sport & Culture	
Education Services minibus – replacement	82,900
College of Further Education gym equipment – replacement	50,000
Other (less than £50,000 per project)	121,467
	254,367
Committee for the Environment & Infrastructure	
Candie and Saumarez Park litter and recycling bins – replacement	8,700
	8,700
Committee for Health & Social Care	
General Service vehicles – replacement	142,810
Adult Disability Service vehicles – replacement	63,045
Princess Elizabeth Hospital staff paging system – replacement	50,000
	255,855
Committee for Home Affairs	
Law Enforcement vehicle – replacement	98,000
Prison cell alarm system – replacement	60,000
Guernsey Fire & Rescue Service hydraulic cutting & spreading equipment – replacement	56,680
Other (less than £50,000 per project)	115,463
	330,143
States' Trading Supervisory Board	
Alderney Airport radios – replacement	23,671
	23,671
Total Vehicles & Other Equipment	886,015
Total Minor Capital	10,124,896

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

States of Alderney	£
Roads resurfacing	245,000
Connaught Extension - architect fees & project management services	55,000
Water Board distribution improvements	55,000
Other (less than £50,000 per project)	343,000
Total States of Alderney	698,000
Future Guernsey Economic Fund	£
Locate Guernsey	975,000
Innovation Centre (Digital Greenhouse)	493,725
Marketing - 'The Guernsey Literary & Potato Peel Pie Society' Film	215,000
Total Future Guernsey Economic Fund	1,683,725
Transformation and Transition Fund	£
Transforming Health & Social Care services	2,543,500
Transforming Education & Training Services	1,506,000
Public Service Reform	750,000
Development of the People Plan	495,000
Development of an Energy Policy	375,000
Social Policy Development	315,000
Population Management	140,000
Transforming Justice & Equality Services	124,000
Bright Ideas Fund	100,000
Guernsey Uploads App	68,000
Digitalisation of Income Support & Housing	55,450
Total Transformation and Transition Fund	6,471,950

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

The following property purchases and sales have been approved by the States' Trading Supervisory Board:

<u>Purchases</u>	£
Wayleave	
Longue Hougue	1
Total Purchases	1
<u>Sales</u>	
Conveyance	
Car park at La Rue Marguerite	1,100,000
Property known as Platte Fougere; outbuildings; and land	535,000
Land at La Rue Marguerite	200,000
Property at 8, College Street	160,000
Ville au Roi site (GHA)	90,000
Land known as Fort Alice, Fort George	75,000
Fields at Victoria Avenue	19,350
Land at junction of Monument Road and Candie Road	1,000
Land at Millbrook Estate	500
Land at Ville au Roi and Oberlands	1
Land at Chemin des Monts	1
Property known as The Oaks (GHA)	1
Field known as Le Vieux Jardin (GHA)	1
	2,180,854
Conveyance by way of exchange and agreement (definition of boundaries)	
2, Bas Courtils	500
Land at Port Soif	-
	500
Wayleave	
Les Echelons, South Esplanade	500
Le Vieux Jardin	1
The Oaks	1
	502
Total Sales	2,181,856

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

PORTS 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 Ports 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
Ports

Report and Financial Statements

For the year ended 31 December 2018

**States’ Trading Supervisory Board
Ports**

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PROFESSIONAL ADVISERS 3**

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States' Trading Supervisory Board Ports

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

Ports Board Members

Mr S. Falla MBE,	Chairman
Deputy C. Parkinson	resigned 17 July 2018
Deputy P. Ferbrache	appointed 17 July 2018
Mr B. Smillie	non-voting adviser
Mr C. Le Ray	non-voting adviser
Mr I. Merrien	resigned 17 July 2018
Miss A. Tough	appointed as non-voting adviser 16 April 2018

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

The constitution of the Ports Board ("PB") was determined by the STSB at its meeting 4 May 2017.

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

Principal Officers to the Ports Board

Mr C. Le Ray, General Manager, Ports	
Mr A. Nicholas, Head of Aviation Services, Airport	
Mr I. Merrien, Senior Finance Manager, Ports	left 17 July 2018
Mr D. Wright, Commercial Manager, Ports	
Miss A. Tough, Senior Finance Manager, Ports	joined 16 April 2018
Mr D. Barker, Harbourmaster, Harbour	joined 24 September 2018

States' Trading Supervisory Board Ports

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 PB.

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

Ports

Chairman's Report

Overview

For the Ports, 2018 has been a challenging trading year, passenger numbers at both the Harbour and the Airport were lower than in 2017. This decline is not evident in the income streams at either port, largely as the percentage decline in passenger numbers corresponded with the percentage increase in charges during the year. The Ports board remains aware of these significant challenges and through its Business Plans is beginning to develop an environment that it hopes will encourage more activity through the island's key facilities.

Business Performance

Income at both ports outperformed the 2018 budget and 2017 actuals in spite of a downturn in passenger numbers in 2018. The percentage reduction in passenger numbers was marginally less than the percentage increase in charges in 2018. The underlying reduction in passengers using the ports is however the fundamental point and to that end the Ports Board is looking at mechanisms for improving passenger traffic particularly at the Airport, which recorded its lowest passenger movements since 1995 last year. The Harbour's passenger numbers were below 2017 levels, this highlights the importance of the Ports continuing to diversify revenue streams.

Financial Performance

The Ports made a surplus of £1.4m during 2018 (2017 surplus £1.5m). The main reasons for the decrease is due to passenger movements being lower than previous years at both the Airport and the Harbour, increased overtime costs at the Airport due to cover for staff training, sickness and extensions as well as the transition from Civil Aviation Authority to European Aviation Safety Agency regulations. There was a further £126K spent at the Harbour on the dredging project which was not budgeted for. The Ports also incurred a loss of £86k on its investments with the States of Guernsey (2017: surplus £131k).

Our Community

As the main gateway to the island, the Ports are aware of the need to balance financial performance with the greater needs of the island. To this end, the Ports are constantly striving to minimise the impact of passenger charges on the general public. Alongside this, support for the community continues with a range of public realm maintenance liabilities, such as slipways and car parks, around the Harbour together with a number of public events held at the ports, including sponsored runway events, Proms on the Pier, Liberation Day celebrations etc.

States' Trading Supervisory Board Ports

Chairman's Report - continued

The Team

Whilst 2018 has been a challenging year in terms of passenger throughput, 2018 will be regarded as an exceptionally mild summer which saw much water-borne activity and an increase in demand from leisure users and visiting yachts. The Ports has responded well to these demands and to developing its strategic and long term planning.

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

The Future

Work undertaken by the STSB in 2018 to improve governance arrangements across all of the States of Guernsey Trading Assets has continued and developed in 2018 through the political subcommittee (the Ports board). Development and publishing of Business Plans for Guernsey Airport and Guernsey Harbours has provided a framework and focus for the strategic direction.

In order to remain compliant with current standards, the Airport has worked on new governance arrangements for its critical services, primarily in air traffic control and aviation security. Simply increasing passenger charges to accommodate these requirements is seen as counter-productive and so the Airport will continue to explore other avenues of revenue to better meet these increased costs. The Seafront Enhancement Area Plan (Harbour Action Area Plan) has progressed in 2018, with the Ports continuing to make an important contribution to the future planning and development of the Harbour Area.

States' Trading Supervisory Board

Ports

General Manager's Report

Guernsey Ports 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 23.

Principal activities

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

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

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

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

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

'Contributions' to the States of Guernsey

The Ports did not make a repayment to the Capital Reserve in 2018. However an amount of £3m was agreed as a return in 2018 by the PB and STSB but was not transacted until 2019.

Customers

The Ports client base is commercial airlines and shipping, along with freight, private planes and vessels and cruise ships. The team is aware that this client base passes on costs to their ultimate customers which are largely the residents of the island.

States' Trading Supervisory Board Ports

General Manager's Report – continued

Financial highlights

	Actual 2018 £'000	Budget 2018 £'000	Actual 2017 £'000
Airport revenue	12,319	12,272	12,303
Harbour revenue	9,465	9,245	9,158
Total revenue	21,784	21,517	21,461
Airport (deficit) for the financial year	(843)	(1,295)	(287)
Harbour surplus for the financial year	2,376	1,490	1,701
Net investment (loss)/return	(86)	0	131
Total surplus for the financial year	1,447	195	1,545
Airport capital expenditure	779	3,183	198
Harbour capital expenditure	370	4,425	242
Capital expenditure	1,149	7,608	440

Operational performance

	2018	2017	Change %
Passenger movements			
Airport	808,616	813,595	-0.6%
Harbour	307,997	320,255	-3.8%
Total	1,116,613	1,133,850	-1.5%
Airport			
Full emergencies declared	6	17	-64.7%
Aircraft accidents	-	-	0%
Full time equivalent employees			
Airport	124	123	0.8%
Harbour	77	75	2.7%

States' Trading Supervisory Board

Ports

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, and for selecting suitable accounting policies for the Ports. 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 its financial position. The STSB is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of financial controls and going concern

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 the Ports and has a duty to ensure that they fulfil their obligations.

The Ports' internal financial controls and monitoring procedures include:

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

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

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

States' Trading Supervisory Board Ports

General Manager's Report – continued

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 the Ports have adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that the Ports are 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 auditor.

States' Trading Supervisory Board

Ports

Corporate Governance

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

The PB 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 key strategic reviews and organisational drivers.

The PB 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, Guernsey Ports operations whether financial, regulatory, health and safety, environmental or reputational.

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

The Chairman is responsible for:

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

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

- 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 the business unit.

In carrying out these responsibilities the PB 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

Ports

Corporate Governance - continued

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

In fulfilling this purpose, the PB will:

- Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the business unit management team, with a view to directing the Ports 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 business unit operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the PB'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 the business unit;
- Consider any regulatory authority reports in relation to the business unit, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the business unit risk register and report risks in line with agreed policy;
- Receive, review and recommend action from other reports as may be requested by the PB.

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

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

The PB 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 PB 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 PB not less than five days prior to the meeting.

States' Trading Supervisory Board Ports

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

Opinion

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board – Ports (the "Ports") 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.

In our opinion, the financial statements of the Ports for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies stated in note 2 to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter — Basis of Accounting and Restriction on Distribution and Use

We draw attention to note 2 to the financial statements, which describes the basis of accounting. Specifically, no full impairment review has been undertaken on the Ports Fixed Assets. This is not in compliance with FRS 102, which would require a full impairment review in light of the accounting losses. The financial statements are prepared to assist the Ports to comply with its financial reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Ports and should not be distributed to or used by parties other than the Ports. Our opinion is not modified in respect of this matter.

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 Ports, 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 Ports 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 Ports and the members of the Board of the Ports as a body, for our audit work, for this report, or for the opinions we have formed.

Other information

The Board is responsible for the other information. 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 Ports

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Ports - 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 where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not 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 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 in accordance with the basis of preparation and accounting policies in note 2 to the financial statements. The Board is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Ports' 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 intend to liquidate the Ports 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.

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

States' Trading Supervisory Board Ports

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

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ports' ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Ports to cease to continue as a going concern.

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.

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

16 May 2019

States' Trading Supervisory Board Ports

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Revenue	2 & 4		
Airport fees, charges and other income		12,319,256	12,303,272
Harbour dues, charges and other income		9,464,820	9,158,079
		21,784,076	21,461,351
Expenses	2 & 5		
Airport expenses		12,159,217	11,688,544
Harbours expenses		5,982,100	6,305,931
		18,141,317	17,994,475
Operating surplus before depreciation/amortisation and loss on disposal of fixed assets		3,642,759	3,466,876
Depreciation/amortisation	9	(5,381,946)	(5,392,807)
Loss on disposal of fixed assets	9	(59,824)	(2,032)
Operating deficit for the year		(1,799,011)	(1,927,963)
Amortisation of asset specific contributions	2 & 16	3,332,473	3,342,381
Investment (loss)/return	6	(86,117)	130,626
Surplus for the financial year	15	1,447,345	1,545,044

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 23 form an integral part of these financial statements.

States' Trading Supervisory Board Ports

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Tangible fixed assets – Airport	9	91,963,720	95,690,280
Tangible fixed assets – Harbours	9	136,027,053	137,136,108
Investment property	10	500,000	500,000
Assets under construction	11	651,436	109,058
		<u>229,142,209</u>	<u>233,435,446</u>
Current assets			
Inventories	12	417,833	366,349
Debtors and prepayments	13	2,437,064	2,770,882
Cash at bank and in hand		5,072	174
Balances with States Treasury		3,975,803	1,567,756
		<u>6,835,772</u>	<u>4,705,161</u>
Creditors: amounts falling due within one year	14	<u>(1,522,080)</u>	<u>(1,894,957)</u>
Net current assets		<u>5,313,692</u>	<u>2,810,204</u>
Total net assets		<u>234,455,901</u>	<u>236,245,650</u>
Reserves	15	<u>234,455,901</u>	<u>236,245,650</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 23 form an integral part of these financial statements.

States' Trading Supervisory Board Ports

Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	2018 £	2017 £
At 1 January		236,245,650	241,990,991
Surplus for the financial year		1,447,345	1,545,044
Amortisation of asset specific contributions	15	(3,332,473)	(3,342,381)
Contribution from States Capital Reserve	15	95,379	51,996
Contribution to States Capital Reserve	15	-	(4,000,000)
At 31 December	15	234,455,901	236,245,650

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

States' Trading Supervisory Board Ports

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash flows from operating activities	17	3,369,459	3,713,795
Cash flows from investing activities			
Proceeds from sale of fixed assets		500	10,000
Purchase of fixed assets	11	(1,149,033)	(425,838)
Net cash flows used in investing activities		(1,148,533)	(415,838)
Cash flows from financing activities			
Net contribution from/(to) States Capital Reserve	15	95,379	(3,948,004)
Investment return received	6	96,640	130,626
Net cash flows from/(used in) financing activities		192,019	(3,817,378)
Net increase/(decrease) in cash and cash equivalents		2,412,945	(519,421)
Cash and cash equivalents at the beginning of the year		1,567,930	2,087,351
Cash and cash equivalents at the end of the year		3,980,875	1,567,930
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		5,072	174
Cash balances with States Treasury		3,975,803	1,567,756
Cash and cash equivalents		3,980,875	1,567,930

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

States' Trading Supervisory Board Ports

Notes to the Financial Statements

1. General information

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

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

2. Principal accounting policies

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

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include certain items at fair value and in broadly following the principles of the Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The two exceptions below render the accounts non-compliant with FRS102.

i) Fixed Asset impairment

In respect of the Ports' Fixed Assets the impairment review undertaken has not included a full impairment review of the Fixed Assets as the primary objective is to facilitate travel to and from the island and not generate an economic return. This is not in compliance with FRS 102 which would have a full impairment review in the light of negative operating cash flows.

ii) Amortisation of asset specific contributions

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

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis.

The 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 the Ports have adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that the Ports are a going concern for at least twelve months from the approval of the financial statements.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Tangible fixed assets

i) Investment properties

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

ii) Property, plant and equipment

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

iii) Assets under construction

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

Depreciation

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

	Estimated life in years	Depreciation % per annum
Land	-	-
Infrastructure	15 - 60	1.7% - 6.7%
Buildings	25 - 60	1.7% - 4.0%
Plant and Equipment	5 - 25	4.0% - 20.0%
Vehicles and Vessels	5 - 25	4.0% - 20.0%
Computers and ICT	3	33.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at 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. The exception being as noted in section 2 Accounting Convention.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses and are calculated at average value method. Provisions are made for obsolete and slow-moving items where appropriate.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

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 the Ports. Whilst the Ports operate bank accounts, the entity will make payment and receive money via bank accounts held by the States Treasury. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents on the Ports' Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States 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.

Revenue and expenses

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

Pension costs

Pension costs are treated as described in note 19.

Net investment (loss)/ return

Net investment (loss)/return on balances held with the States Treasury is accounted for on an accruals basis.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Leases

i) As lessee

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

ii) As lessor

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Ports' 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.

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

i) Valuation of investment property

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

ii) Depreciation rates

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

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

4. Revenue

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

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

	2018 £	2017 £
Guernsey Airport	12,319,256	12,303,272
Guernsey Harbours	9,464,820	9,158,079
	21,784,076	21,461,351
Advertising & Sundries	393,296	379,000
Airport development charge	726,578	731,000
Car parking fees	737,289	696,000
Rents	1,860,884	1,868,000
Traffic receipts	8,418,023	8,450,272
Recovery from Alderney	183,186	179,000
Commercial port operations	5,587,945	5,343,603
Property	1,040,025	1,085,624
Leisure	2,778,711	2,653,865
Non-commercial port	21,179	29,357
Ships registry	36,960	45,630
	21,784,076	21,461,351

5. Expenses

	2018 £	2017 £
Airport		
Aerodrome fire service	2,322,369	2,157,000
Airport infrastructure	2,782,442	2,666,000
Airport security	1,853,907	1,795,000
Navigational services	4,061,695	4,079,000
Administration	1,138,804	991,544
	12,159,217	11,688,544
Harbour		
Commercial ports operations	2,263,562	2,364,232
Property	868,982	894,233
Leisure	1,615,920	1,627,233
Non-commercial ports operations	1,159,125	1,352,233
Ships registry	74,511	68,000
	5,982,100	6,305,931

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

6. Investment (loss)/return

	2018 £	2017 £
Net investment (loss)/return	<u>(86,117)</u>	<u>130,626</u>
	<u>(86,117)</u>	<u>130,626</u>

7. Surplus for the financial year

Surplus on ordinary activities is stated after charging:

	Note	2018 £	2017 £
Auditor's remuneration		25,200	18,013
Depreciation of tangible fixed assets	9	5,381,946	5,392,808
Loss on disposal of fixed assets		<u>59,824</u>	<u>2,032</u>
		<u><u>5,466,970</u></u>	<u><u>5,412,853</u></u>

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

8. Staff numbers & costs

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

	2018	2017
Airport		
Operational	111	110
Administration and support	13	13
	<u>124</u>	<u>123</u>
Harbour		
Operational	65	62
Administration and support	12	13
	<u>77</u>	<u>75</u>

Their aggregate remuneration comprised:

	Note	2018 £	2017 £
Wages and salaries		9,084,196	8,881,879
Social security costs		596,081	542,830
Pension costs	19	<u>1,191,087</u>	<u>1,084,654</u>
		<u>10,871,364</u>	<u>10,509,363</u>

Pension costs include only those items within Airport and Harbour expenses.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

9. Tangible fixed assets

Airport	1 January 2018 £	Additions £	Adjustments/ Disposals £	31 December 2018 £
Cost				
Land	2,687,152	-	-	2,687,152
Infrastructure	64,818,337	27,947	-	64,846,284
Buildings	33,183,904	17,202	-	33,201,106
Plant & equipment	23,593,809	214,369	(802,757)	23,005,421
Vehicles & Vessels	1,264,899	18,734	-	1,283,633
Information technology	155,757	-	-	155,757
	<u>125,703,858</u>	<u>278,252</u>	<u>(802,757)</u>	<u>125,179,353</u>
Depreciation				
Land	-	-	-	-
Infrastructure	10,537,128	1,891,026	-	12,428,154
Buildings	6,158,247	539,931	-	6,698,178
Plant & equipment	12,231,881	1,411,958	(742,139)	12,901,700
Vehicles & Vessels	930,565	101,573	(294)	1,031,844
Information technology	155,757	-	-	155,757
	<u>30,013,578</u>	<u>3,944,488</u>	<u>(742,433)</u>	<u>33,215,633</u>
Net Book Value	<u>95,690,280</u>			<u>91,963,720</u>

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

9. Tangible fixed assets - continued

Harbour	1 January 2018 £	Additions £	Adjustments/ Disposals £	31 December 2018 £
Cost				
Land	87,515,374	-	-	87,515,374
Infrastructure	9,228,012	-	-	9,228,012
Buildings	48,824,180	-	-	48,824,180
Plant & equipment	9,066,465	57,028	(15,500)	9,107,993
Vehicles & Vessels	213,072	23,900	(12,870)	224,102
Information technology	19,238	247,475	-	266,713
	<u>154,866,341</u>	<u>328,403</u>	<u>(28,370)</u>	<u>155,166,374</u>
Depreciation				
Land	-	-	-	-
Infrastructure	1,069,357	332,582	-	1,401,939
Buildings	11,320,278	809,802	-	12,130,080
Plant & equipment	5,153,050	270,081	(15,500)	5,407,631
Vehicles & Vessels	186,479	8,151	(12,870)	181,760
Information technology	1,069	16,842	-	17,911
	<u>17,730,233</u>	<u>1,437,458</u>	<u>(28,370)</u>	<u>19,139,321</u>
Net Book Value	<u>137,136,108</u>			<u>136,027,053</u>

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

10. Investment properties

	1 January 2018 £	Additions/ Disposals £	Revaluations £	31 December 2018 £
Airport	500,000	-	-	500,000
Harbour	-	-	-	-
	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>

Investment properties, which are all freehold, were valued to fair value at 31 December 2018, based on a valuation undertaken by an independent valuer with recent experience in the location and class of the investment property being valued. The method of determining fair value was using the Red Book value. There are no restrictions on the realisability of investment property.

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

Investment property rental income earned during the year was nil (2017: £Nil). No contingent rents have been recognised as income in the current or prior year.

At the Statement of Financial Position date, the Ports were not contracted with tenants for any future minimum lease payments on investment properties (2017: nil)

11. Assets under construction

	1 January 2018 £	Additions £	Transfers to Tangible Fixed Assets £	31 December 2018 £
Airport	26,391	779,118	(278,252)	527,257
Harbour	82,667	369,915	(328,403)	124,179
2018 Total	<u>109,058</u>	<u>1,149,033</u>	<u>(606,655)</u>	<u>651,436</u>
2017 Total	155,373	425,838	(472,153)	109,058

Assets under construction completed in 2018 and transferred to fixed assets includes the fire station roller doors, Spotters car park fencing, car park pay stations, the harbours IT project (Commercial), pontoons & replacement vehicles.

Assets under construction as at 31 December 2018 related principally to the administration block refurbishment, hold baggage screening equipment, the harbours IT project (Leisure) and Vessel Traffic Service System.

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

12. Inventories

	2018 £	2017 £
Airport	64,774	64,774
Harbours	353,059	301,575
	417,833	366,349

13. Debtors and prepayments

	2018 £	2017 £
Amounts falling due within one year:		
Trade debtors - Airport	1,658,769	2,129,340
Trade debtors - Harbour	712,765	515,773
Prepayments - Airport	28,098	84,570
Prepayments - Harbour	37,432	41,199
	2,437,064	2,770,882

14. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors - Airport	281,922	296,683
Trade creditors - Harbour	168,427	238,233
Accruals - Airport	434,405	302,975
Accruals - Harbour	328,192	288,985
Deferred income - Airport	170,089	635,678
Deferred income - Harbour	136,545	129,903
Harbour operational license and security deposits	2,500	2,500
	1,522,080	1,894,957

States' Trading Supervisory Board Ports

Notes to the Financial Statements – continued

15. Reserves

	2018 £	2017 £
Balance at 1 January	236,245,650	241,990,991
Surplus for financial year	1,447,345	1,545,044
Amortisation of asset specific contributions	(3,332,473)	(3,342,381)
Contribution from/(to) States Capital Reserve	95,379	(3,948,004)
	<hr/>	<hr/>
Balance at 31 December	234,455,901	236,245,650
	<hr/>	<hr/>

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

All reserves are distributable.

16. Asset specific contributions

	2018 £	2017 £
As at 1 January	67,239,739	73,980,358
Contributions receivable/(payable)	95,379	(3,398,238)
	<hr/>	<hr/>
	67,335,118	70,582,120
Released to Statement of Comprehensive Income during the year	(3,332,473)	(3,342,381)
	<hr/>	<hr/>
As at 31 December	64,002,645	67,239,739
	<hr/>	<hr/>

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

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

	2018 £	2017 £
Operating deficit for the year	(1,799,011)	(1,927,963)
Depreciation charges	5,381,946	5,392,807
Loss on disposal of tangible assets	59,824	2,032
(Increase)/decrease in inventories	(51,484)	12,367
Decrease/(increase) in debtors	151,061	(101,163)
(Decrease)/increase in creditors due within one year	(372,877)	335,715
Net cash flows from operating activities	3,369,459	3,713,795

18. Financial commitments

The Ports have no financial commitments as at 31 December 2018 (2017: nil) which are not provided for in the financial statements beyond that disclosed in note 20.

19. Employee benefits

The employees of the Ports are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £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 the Ports' share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficits of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Ports are considered to be ultimately employees of the States of Guernsey.

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

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £1,191,087 (2017: £1,084,654).

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

States' Trading Supervisory Board

Ports

Notes to the Financial Statements – continued

20. Subsequent events

In 2018 the PB and STSB agreed a repayment to the Capital Reserve of £3m as part of the target set for States' Trading Assets in the 2017 Budget Report. This transaction is scheduled for completion in 2019.

21. 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".

The total compensation for key management personnel for the period totalled £389,415 (2017: £360,104).

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

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

STSB member Mr P. Ferbrache has declared certain related party transactions under FRS 102 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 Ferbrache, 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.

Capital Restaurants Ltd	2018
	£
Rental Income	37,694
Total Debtors as at 31 December 2018	1,301

22. Statement of control

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

23. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2018 which would affect these financial statements (2017: None).

States of Guernsey
States' Trading Supervisory Board
Ports

Supplemental Information

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

GUERNSEY AIRPORT

2018 Original Budget £'000s	2018 Probable Outturn £'000s	Net Expenditure by Category		2018 Actual £'000s	2017 Actual £'000s
		Income			
12,272	11,981	Operating Income		12,319	12,303
		Expenditure			
(7,086)	(7,370)	Pay Costs		(7,421)	(7,067)
		Non-Pay costs			
(277)	(213)	Staff Non-Pay costs		(163)	(202)
(1,270)	(1,232)	Support Services		(1,275)	(1,172)
(1,376)	(1,324)	Premises		(1,271)	(1,193)
(56)	(110)	Transport		(107)	(45)
(2,244)	(2,022)	Supplies & Services		(1,983)	(2,009)
(5,223)	(4,901)			(4,799)	(4,621)
(37)	(290)	Operating surplus for the financial year		99	615
		<i>Depreciation (net of amortisation of asset specific contributions)</i>			
(1,258)	(972)			(942)	(902)
(1,295)	(1,262)	Operating (deficit)		(843)	(287)

GUERNSEY AIRPORT

2018 Original Budget £'000s	2018 Probable Outturn £'000s		2018 Actual £'000s	2017 Actual £'000s
		<u>Net Expenditure by Service Area</u>		
		Income		
371	371	Advertising, picketing etc	393	442
726	720	Airport Development Charge	727	731
727	718	Car Parking Fees	737	696
2,149	1,958	Rents	2,080	2,085
8,299	8,214	Traffic Receipts	8,382	8,349
<u>12,272</u>	<u>11,981</u>		<u>12,319</u>	<u>12,303</u>
		<i>Operational Expenditure</i>		
(1,522)	(1,348)	Administration	(1,322)	(1,171)
(2,130)	(2,234)	Aerodrome Fire Service	(2,322)	(2,157)
(2,747)	(2,765)	Airport Infrastructure	(2,782)	(2,666)
(2,057)	(1,850)	Airport Security	(1,854)	(1,795)
(4,036)	(4,257)	Navigational Services	(4,123)	(4,079)
<u>(12,492)</u>	<u>(12,454)</u>		<u>(12,403)</u>	<u>(11,868)</u>
183	183	<i>Recovery from Alderney Airport</i>	183	180
(37)	(290)	Operating surplus for the financial year	99	615
(1,258)	(972)	<i>Depreciation (net of amortisation of asset specific contributions)</i>	(942)	(902)
<u>(1,295)</u>	<u>(1,262)</u>	Operating (deficit)	<u>(843)</u>	<u>(287)</u>

2018 Original Budget £'000s	2018 Probable Outturn £'000s		2018 Actual £'000s	2017 Actual £'000s
		<u>Routine Capital Expenditure</u>		
(1,183)	(777)	<i>Miscellaneous Capital Works</i>	(168)	(5)
(750)	-	<i>IT Projects and Equipment</i>	-	-
(1,250)	(898)	<i>Equipment, Machinery and Vehicles</i>	(526)	(167)
<u>(3,183)</u>	<u>(1,675)</u>	Routine Capital Expenditure	<u>(694)</u>	<u>(172)</u>
-	(21)	Airports Pavements Project	(61)	7
-	-	Airport Radar	(24)	(33)
-	21	Less Transfer from Capital Reserve	85	26
<u>(3,183)</u>	<u>(1,675)</u>	Net Capital Expenditure	<u>(694)</u>	<u>(172)</u>

GUERNSEY HARBOURS

2018 Original Budget £'000s	2018 Probable Outturn £'000s	<u>Net Expenditure by Category</u>		2018 Actual £'000s	2017 Actual £'000s
		Income			
9,245	9,357	Operating Income		9,465	9,158
		Expenditure			
(3,553)	(3,500)	Pay Costs		(3,451)	(3,443)
		Non-Pay costs			
(173)	(103)	Staff Non-Pay costs		(63)	(88)
(64)	54	Peripheral Activities		64	(199)
(826)	(1,142)	Support Services		(1,041)	(871)
(1,383)	(1,443)	Premises		(1,105)	(1,345)
(124)	(108)	Transport		(78)	(78)
(363)	(388)	Supplies & Services		(298)	(255)
(2,933)	(3,130)			(2,521)	(2,836)
2,759	2,727	Operating surplus for the financial year		3,493	2,879
		<i>Depreciation (net of amortisation of asset specific contributions)</i>			
(1,269)	(1,481)			(1,117)	(1,178)
1,490	1,246	Operating surplus		2,376	1,701

GUERNSEY HARBOURS

2018 Original Budget £'000s	2018 Probable Outturn £'000s	<u>Net Income / Expenditure by Service Area</u>	2018 Actual £'000s	2017 Actual £'000s
2,946	2,904	Commercial Ports Operations	3,328	2,865
(21)	51	Property	174	233
1,147	1,119	Leisure	1,166	1,076
(1,277)	(1,295)	Non-Commercial Ports Operations	(1,136)	(1,272)
(36)	(52)	Ships Registry	(39)	(23)
-	-	Other	-	-
<u>2,759</u>	<u>2,727</u>		<u>3,493</u>	<u>2,879</u>
(1,269)	(1,481)	<i>Depreciation (net of amortisation of asset specific contributions)</i>	(1,117)	(1,178)
<u>1,490</u>	<u>1,246</u>	Operating surplus	<u>2,376</u>	<u>1,701</u>

2018 Original Budget £'000s	2018 Probable Outturn £'000s	<u>Routine Capital Expenditure</u>	2018 Actual £'000s	2017 Actual £'000s
(3,075)	(530)	<i>Miscellaneous Capital Works</i>	-	(15)
(250)	(469)	<i>IT Projects and Equipment</i>	(256)	(75)
(1,100)	(630)	<i>Equipment, Machinery and Vehicles</i>	(114)	(125)
<u>(4,425)</u>	<u>(1,629)</u>	Routine Capital Expenditure	<u>(370)</u>	<u>(215)</u>
-	(11)	Crane Strategy	-	(27)
-	11	Less Transfer from Capital Reserve	-	27
<u>(4,425)</u>	<u>(1,629)</u>	Net Capital Expenditure	<u>(370)</u>	<u>(215)</u>

PORTS HOLDING ACCOUNT

2018 Original Budget £'000s	2018 Probable Outturn £'000s		2018 Actual £'000s	2017 Actual £'000s
Revenue Account				
		<i>Operating (Deficit)/Surplus before</i>		
(37)	(290)	Guernsey Airport	99	615
2,759	2,727	Guernsey Harbour	3,493	2,879
2,722	2,437		3,592	3,494
		Investment Return	(96)	131
		Loss adjusted on asset disposals	(28)	-
		<i>Capital Expenditure</i>		
(3,183)	(1,675)	Guernsey Airport	(694)	(172)
(4,425)	(1,629)	Guernsey Harbour	(370)	(215)
(7,608)	(3,304)		(1,064)	(387)
(4,886)	(867)	Surplus before depreciation	2,404	3,238
		<i>Depreciation (net of amortisation of asset specific contributions)</i>		
(2,527)	(2,453)		(2,059)	(2,080)
(7,413)	(3,320)	Surplus after depreciation	345	1,158
5,362	2,815	Balance at 1st January	2,815	3,577
(4,886)	(867)	Surplus for the year before depreciation	2,404	3,238
-	-	Contribution from Capital reserve	95	-
-	-	Contribution to Capital reserve	-	(4,000)
476	1,948	Balance at 31st December	5,314	2,815

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

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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	<u>17,831</u>	<u>17,469</u>	<u>2.1%</u>
Total	<u>26,067</u>	<u>25,883</u>	<u>0.7%</u>

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
		16,621,684	15,688,595
Expenses	2 & 5		
Operating expenses		7,291,234	7,174,976
Management expenses		3,465,528	3,246,237
		10,756,762	10,421,213
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
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)
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
		152,542,837	152,925,551
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
		7,739,992	7,509,152
Creditors: amounts falling due within one year	15	(2,305,495)	(2,137,424)
Net current assets		5,434,497	5,371,728
Creditors: amounts falling due after more than one year	16	(19,650,987)	(20,097,157)
Total net assets		138,326,347	138,200,122
Reserves	17	138,326,347	138,200,122

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	<u>7,593,737</u>	<u>7,042,713</u>
	<u>11,261,766</u>	<u>10,666,647</u>
Waste Water Supplies		
Unmeasured	1,304,557	1,277,573
Measured	<u>2,358,250</u>	<u>2,187,264</u>
	<u>3,662,807</u>	<u>3,464,837</u>
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)	<u>268,901</u>	<u>268,741</u>
	<u>16,621,684</u>	<u>15,688,595</u>
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	<u>556,574</u>	<u>539,257</u>
	923,775	831,039
Expenditure	<u>(671,122)</u>	<u>(625,254)</u>
	<u>252,653</u>	<u>205,785</u>

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
	7,291,234	7,174,976
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
	3,465,528	3,246,237
Total expenditure	10,756,762	10,421,213

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
	(67,409)	496,757

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)
		5,100,456	4,963,413

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

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	650,000	-	-	650,000
	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>650,000</u>

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

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

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	(268,901)	(268,741)
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
	<u>2,078,844</u>
Trade Creditors	<u>76,936</u>

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).

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY DAIRY 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 Dairy 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 Dairy

Report and Financial Statements

For the year ended 31 December 2018

States’ Trading Supervisory Board
Guernsey Dairy

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States' Trading Supervisory Board

Guernsey Dairy

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

Dairy Management Board Members

Mr S. Hogg	resigned as Chairman 31 December 2018
Mr S. Falla MBE	appointed as Chairman 1 January 2019
Deputy J. Smithies	resigned 4th October 2018
Deputy J. Kuttelwascher	appointed 4th October 2018
Mr R. Waters	GFA representative
Mr R. Evans	non-voting STSB representative
Mr R. Nash	non-voting adviser
Mr A. Tabel	non-voting adviser
Mrs C. Edwards	non-voting adviser
Mr S. Langlois	non-voting adviser

The constitution of the Dairy Management Board ("DMB") is laid out in Billet XIII dated 5 April 2007 and amended in Billet XX dated 15 August 2014

Principal Officers to the Dairy Management Board

Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr A. Tabel, General Manager, Guernsey Dairy
Mrs C. Edwards, Senior Finance Manager, Guernsey Dairy
Mr R. Nash, Director of Environment Services

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

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 DMB.

States' Trading Supervisory Board Guernsey Dairy

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

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 Dairy

Chairman's Report

Overview

2018 was a year of continued improvement for Guernsey Dairy set against a challenging environment. Revenue increased despite declining volumes arising from pricing and evolution of the product mix. The underlying costs of the business have remained relatively constant but certain one off charges have resulted in a worsening in year deficit. Capital investment has continued as the business develops and improves its long term infrastructure plans, in particular with regard to the replacement of ageing equipment. The DMB and the Dairy management team have worked closely with STSB to ensure robust governance and effective management of a very dynamic business.

Business Performance

Supply of milk to the Island's population is the Dairy's primary responsibility and purpose with liquid milk sales accounting for 77.1% of product turnover. Milk volumes in 2018 continued a decline and this appears to be a wider trend related partially to changing consumer preferences. Butter, cheese, cream and ice-cream is produced from the cream left over from the manufacture of milk. Following a product mix review in 2016, use of surplus cream is now primarily utilised for butter rather than cheese production. This continued throughout 2018 and the year saw continued strong growth with a 21% year on year growth in butter revenues.

Milk pricing continues to be affected by the reduction in the Dairy Farm Management Payment, a payment made direct by the Committee *for the* Environment & Infrastructure to farmers. The States of Guernsey approved the reduction of this payment by £200k per annum from £2.085m in 2014 to £1.085m by 2019. Compensation for this had the effect of adding 2.56 pence per litre to the milk price each year.

The Dairy continues to manage its cost base and in 2019 will be carrying out an independent efficiency review to provide assurance that the current pricing model is reasonable and that cost reduction opportunities are identified and realised.

The Dairy continue to work closely with the Guernsey Farmers' Association ("GFA") to maintain and improve efficiency and quality. In 2018 the Farming community was impacted by the summer drought which resulted in higher feed costs. The Dairy, with the agreement of the STSB, agreed to compensate farmers resulting in a one off cost to the Dairy of approximately £156k.

The RSPCA Farm Assurance Scheme will be introduced by the start of 2020 and Guernsey Dairy has elected to adopt the highest standard of farm assurance. This and ongoing work with Agriculture, Countryside and Land Management Services is expected to benefit both the Island's countryside and environment.

A key area of work throughout 2018 has been on the ageing plant and equipment at the Dairy. In order to produce safe, drinkable milk, Guernsey Dairy operates a significant amount of specialised complex plant and equipment. A high proportion of this is ageing and is approaching the end of its life. As a result there has been considerable reactive maintenance throughout 2018 in order to ensure continuity of supply.

A key focus for the coming year will be to determine whether the current site and facilities are fit for purpose for now and into the future. A project team has been established and stakeholder engagement will begin imminently.

In the meantime, a prioritised capital plan is in place to replace essential ageing equipment, which could be used either in the existing Dairy or in a new Dairy facility, to be financed via a combination of cash reserves and long-term borrowing, the latter being a first for the Dairy.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report - continued

Financial Performance

The Dairy made a deficit in 2018 of £486k (2017 deficit £355k).

After adjusting for certain one off charges the Dairy made a deficit of £150k (2017: £128k deficit). This is detailed in the General Manager's Report.

The net cash inflow was £55k: £299k was spent on fixed assets and a £37k interest and investment loss was incurred. Net cash inflows from operating activities was £390k: debtors reduced by £283k and creditors increased by £341k. Cash and cash equivalents at the end of the year were £1.6m (2017: £1.5m).

At the year-end debtors and prepayments were £775k (2017: £1.1m), a decrease of £283k. The Dairy continues to work with its valued customers to ensure good credit management policies are in place.

Tangible fixed assets are £2.2m. The land and original buildings that the Dairy operate from is an asset of the States of Guernsey however it has been agreed that in 2019 this will be transferred to the Dairy's balance sheet at a fair value of £1m.

Reserves have decreased by £486k from £4.7m to £4.2m, because of the deficit in the year.

Our Community

The Dairy 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."

The Dairy industry provides a sustainable-farmed countryside and thereby protects the environment and biodiversity of the Island, so facilitating a healthy community. Through providing a financially viable Dairy and dairy farming business, the Dairy industry protects and promotes our unique identity and rich heritage, ensuring our island is strong and sustainable.

In 2018 the Dairy continued to sponsor the Guernsey Annual Father's Day Milk Run, a popular community half marathon event run in association with the Guernsey Athletics Club.

The Team

The Dairy has a committed team of production and support staff. This year has been challenging with the production and engineering teams dealing with ageing plant and equipment and, despite this, maintaining continuity in the supply of milk to our customers.

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

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report - continued

The Future

In 2018, with the co-operation and engagement of the GFA and the Committee *for the* Environment & Infrastructure, the Dairy produced and published its five year Business Plan in which the key outcomes and business objectives for the next five years are established.

There is a focus on the Dairy making a sufficient surplus that ensures it is sustainable, whilst balancing this with the need to provide the infrastructure necessary to support the dairy farming business.

The key areas which the STSB has requested the DMB to focus on for the coming year are:

- The Dairy will carry out an independent efficiency review to provide assurance that the current pricing model is reasonable and that cost reduction opportunities are identified and realised.
- The Dairy will determine whether the current site and facilities are fit for purpose for now and into the future.

The Business Plan also identifies the importance of the brand and the desire for strong customer loyalty to the Guernsey Dairy amongst Islanders which will be a focus for the DMB in 2019.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report

The Guernsey Dairy 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

Guernsey Dairy, a business unit of the STSB, operates to:

- Support a viable dairy industry in Guernsey by purchasing all locally produced milk;
- Satisfy the total consumer demand for fresh milk on Guernsey at an acceptable price to the consumer.

'Contributions' to the States of Guernsey

The Dairy did not make any financial contributions to the States of Guernsey in 2018 (2017: nil).

Customers

The Dairy's immediate customers are Trade Account holders who purchase milk and other dairy products from the Dairy and deliver them to shops, the catering food sector or to doorsteps. As a wholesaler, the Dairy does not set the retail price of milk allowing retail outlets to adjust the price to meet market demand.

Financial highlights

	Actual 2018 £'000	Budget 2018 £'000	Actual 2017 £'000
Revenue	8,198	8,341	7,729
(Deficit)/surplus for the financial year	(486)	25	(355)
Capital expenditure	299	750	179
Full time equivalent employees	38	38	37

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

Operational performance

Guernsey Dairy made an overall deficit of £486k in 2018, compared to a budgeted surplus of £25k; £511k below budget. The overall deficit was also a worsening on 2017's deficit position of £355k.

The key reasons for this are:

- A one off payment of c£156k was made to farmers to compensate for the impact of the summer drought;
- There was a timing difference between the price increase to farmers in January, and the increase in Gate price in March costing c£47k;
- Repairs and maintenance costs were £110k higher than budgeted, due to essential reactive maintenance on key Dairy equipment and buildings;
- We incurred a loss of £37k on States of Guernsey investments when in 2017 we benefitted from a return (2017: £78k)
- A review of the Dairy's fixed assets has led to an impairment loss of £70k being recognised in the financial statements.

When the one off costs including farmer compensation, impairment loss and the impact of the delay in increasing the Gate price are excluded from 2018 the deficit for the year was £150k. 2017 also suffered some one-off cost impacts and excluding these, 2017's performance was a deficit of £128k.

The following report highlights the reasons for some of the key variances in the financial statements and provides a summary of the year.

i) Revenue:

Overall revenues were £469k (6.1%) higher than 2017.

Liquid milk revenues were +3.6% ahead of the previous year. The gate price for liquid milk increased by 4.75p (4.8%) in March 2018. Milk sales in litres were down 2.8% against 2017.

Butter continued its strong sales performance with a 20.5% increase in sales revenues. Butter exports were broadly in line with the previous year with a 1% increase in UK and Holland revenues.

Butter prices were benchmarked against other like-for-like products and gate prices were amended during the year to reflect market conditions, demand and availability.

ii) Cost of Sales:

The total cost of raw milk purchases increased by 9.5% in 2018, this includes the one off payment and excluding this raw milk purchases increased by 5.8%.

The price paid to Farmers was increased by 4.066p per litre (7.6%) on 1 February 2018, to compensate farmers for inflationary increases as well as the reduction in the States of Guernsey's Dairy Farm Management Payment Scheme, approved by the States in 2014.

The annual Dairy Farm Management Payment was £2.1m in 2014, when the States approved its reduction by £200k per year over a 5-year period, to £1.1m p.a. by 2019.

Volume of milk intake at the dairy increased by 0.5% (41,448 litres) on the same period in 2017. This is a result of the Dairy and farmers working together to ensure the ideal production of liquid milk for the islands' needs with as little over or under production as possible.

Packaging expenses saw a £89k (15.6%) year on year increase largely due to supplier price increases.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

iii) Administration Expenses:

Total Administration expenses were £35k lower than 2017. The key reasons for this are:

- Repairs and maintenance were £94k lower than the previous year, whilst still higher than budget;
- Professional fees were £123k lower than the previous year; due to a targeted reduction in the Dairy's use of consultants; and
- These decreases were partially offset by other general cost increases.

The Dairy continues its focus on efficiency with set targets in 2019 to build on some of the savings realised in 2018.

iv) Capital Expenditure:

The Dairy's capital expenditure programme continued in 2018, resulting in expenditure of £299k in the year. This included spend on upgrading the Dairy's production system, such as a new butter cream tank, ice cream freezer and ice cream fruit feeder.

In 2017, surveys were commissioned on the Dairy buildings and equipment, and a plan to deal with immediate issues that these surveys highlighted is now being actioned. In tandem with this a project to determine the most appropriate future Dairy site has been started and any spend on capital is made with this in mind.

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 Guernsey Dairy and of the surplus or deficit of Guernsey Dairy 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 Guernsey Dairy's financial position. The STSB is also responsible for safeguarding Guernsey Dairy assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of internal 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 Dairy and has a duty to ensure that they fulfil their obligations.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

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

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and DMB, to ensure that all board members are informed of Guernsey Dairy financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.
- The control of materials and stores purchases are managed using Guernsey Dairy's stores database programme with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, which maintains detailed audit trails.
- Staff 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 the Guernsey Dairy.
- Regular review of milk and other product prices.
- Consideration of all audit reports by the STSB.

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

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

Going concern

The financial statements are produced on a going concern basis.

The 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 Dairy has adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Dairy 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 Dairy

Corporate Governance

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

The DMB is accountable to the STSB. It operates by challenging established practices and supports the business in establishing clear strategic direction in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey, STSB objectives and other key strategic reviews and organisational drivers.

The DMB 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, Guernsey Dairy operations whether financial, regulatory, health and safety, environmental or reputational.

DMB membership is primarily defined in Billet XIII 5th April 2007 and amended in Billet XX 15 August 2014. At its meeting of 4 May 2017, the STSB agreed to establish 'company' Boards for the trading assets including Guernsey Dairy. The DMB has therefore been supplemented with the addition of either 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.

The quorum is the Chairman and the Political Member of STSB.

The Chairman is responsible for:

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

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

The DMB should operate by challenging established practices and assumptions, and creating, developing and critically reviewing long-term business plans and budgets to be set before the STSB for approval.

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

- 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 the Guernsey Dairy.

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance - continued

In carrying out these responsibilities the DMB 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.

The DMB has the authority delegated by the STSB to direct the Guernsey Dairy General Manager in the day-to-day operation of Guernsey Dairy in line with approved budget and business plans. In fulfilling this purpose, the DMB will:

- Receive regular operational, sales/management information and financial reports from the General Manager and, as appropriate, reports from the Guernsey Dairy management team, with a view to directing the Guernsey Dairy 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 Dairy operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the DMB'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 Dairy;
- Consider any regulatory authority reports in relation to Guernsey Dairy, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the Guernsey Dairy 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 DMB.

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

STSB can supplement the Billet defined DMB membership at any time with non-voting advisers.

The DMB 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 DMB 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 DMB not less than five days prior to the meeting.

The DMB acts as a political subcommittee of the STSB.

States' Trading Supervisory Board

Guernsey Dairy

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

Opinion

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board - Guernsey Dairy (the "Business Unit") for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, 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 deficit 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 is 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 Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy – 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 where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not 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 the 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 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
Lefebvre House,
Lefebvre Street,
St Peter Port
Guernsey GY1 3TF

16 May 2019

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Revenue	2 & 4		
Liquid milk		6,305,003	6,088,744
Dairy products		1,876,989	1,620,109
Sundry income		15,902	20,260
		<u>8,197,894</u>	<u>7,729,113</u>
Expenses	2 & 5		
Production costs		6,414,152	5,876,291
Administration expenses		1,919,251	1,954,269
		<u>8,333,403</u>	<u>7,830,560</u>
Operating deficit before depreciation and loss on impairment of fixed assets		(135,509)	(101,447)
Depreciation	9	(242,818)	(242,028)
Loss on impairment of fixed assets		<u>(70,488)</u>	<u>(89,221)</u>
Operating deficit for the year		<u>(448,815)</u>	<u>(432,696)</u>
Investment (loss)/return and net interest receivable	6	<u>(37,055)</u>	<u>78,027</u>
Deficit for the financial year		<u>(485,870)</u>	<u>(354,669)</u>

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 part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Tangible fixed assets	9	2,164,400	2,182,564
Assets under construction	10	16,881	13,395
		2,181,281	2,195,959
Current assets			
Inventories	11	707,073	608,537
Debtors and prepayments	12	775,109	1,058,042
Balances with States Treasury		1,225,874	1,174,572
Cash at bank and in hand		329,419	326,076
		3,037,475	3,167,227
Creditors: amounts falling due within one year	13	(1,013,436)	(671,996)
Net current assets		2,024,039	2,495,231
Total net assets		4,205,320	4,691,190
Reserves	14	4,205,320	4,691,190

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 part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	2018 £	2017 £
At 1 January		4,691,190	5,045,859
Deficit for the financial year		(485,870)	(354,669)
At 31 December	14	4,205,320	4,691,190

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash flows from operating activities	15	390,328	(199,463)
Cash flows from investing activities			
Purchase of fixed assets	9 & 10	(298,628)	(179,223)
Net cash flows used in investing activities		(298,628)	(179,223)
Cash flows from financing activities			
Investment (loss)/return and interest received	6	(37,055)	78,027
Net cash flows from financing activities		(37,055)	78,027
Net increase/(decrease) in cash and cash equivalents		54,645	(300,659)
Cash and cash equivalents at the beginning of the year		1,500,648	1,801,307
Cash and cash equivalents at the end of the year		1,555,293	1,500,648
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		329,419	326,076
Cash Balances with States Treasury		1,225,874	1,174,572
Cash and cash equivalents		1,555,293	1,500,648

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements

1. General information

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

Guernsey Dairy's principal place of business is Bailiff's Cross, St Andrews, Guernsey, GY6 8RJ.

2. Principal accounting policies

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

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis.

The 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 Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements.

Tangible fixed assets

i) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment are depreciated over their expected useful life.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Depreciation

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

	Estimated life in years	Depreciation % per annum
Buildings	10 - 50	2% - 10%
Plant and machinery	5 - 20	5% - 20%
Motor vehicles	5 - 20	5% - 20%
Information technology	3 - 5	20% - 33.3%

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 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 using the FIFO (first-in, first-out) method. Provisions are made for obsolete and slow-moving 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.

ii) Trade and other creditors

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

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Dairy. Whilst Guernsey Dairy operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as Cash and Cash Equivalents on Guernsey Dairy's Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States 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

Guernsey Dairy

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 Dairy transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Dairy, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis.

Pension costs

Pension costs are treated as described in note 17.

Investment return and interest receivable/payable

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

Leases

i) As lessee

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

ii) As lessor

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

i) Depreciation rates

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

4. Revenue

A geographical analysis of the Dairy's Revenue is set out below.

	2018 £	2017 £
Bailiwick of Guernsey	7,787,756	7,321,227
UK	347,058	333,286
The Netherlands	63,080	74,600
	8,197,894	7,729,113

An analysis of the Dairy's revenue by class of business is set out below:

	2018 £	2017 £
Milk	6,287,392	6,073,730
Organic milk	17,611	15,014
Butter	1,286,794	1,067,898
Cheese	99,902	90,078
Cream	314,860	281,100
Ice-cream	175,433	181,033
Carton advertising	-	2,200
Other income	15,902	18,060
	8,197,894	7,729,113

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

5. Expenses

	2018 £	2017 £
Production costs		
Production wages	957,479	923,052
Milk	4,553,061	4,158,193
Milk - working loss	112,472	102,871
Dairy product ingredients	32,672	37,529
Packaging materials	662,576	573,320
Freight	95,892	81,326
	6,414,152	5,876,291
Administration expenses		
Advertising and promotion	38,613	51,500
Cleaning materials	52,143	65,289
Fuel, light, power, water, rates	347,901	281,709
General administration costs	62,290	53,998
Laboratory materials and equipment	97,243	90,454
Motor vehicles	31,340	34,325
Professional fees	342,314	421,914
Bad debts charge adjustment	1	(6,365)
Repairs, maintenance and insurance	274,157	368,436
Salaries	606,263	531,259
Other expenses	66,986	61,750
	1,919,251	1,954,269

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at its meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750,000 in total. £40,000 remains unpaid at 31 December 2018 (2017: £40,000).

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

	2018 £	2017 £
Investment (loss)/return	(37,368)	77,987
Interest receivable and similar income	313	40
	(37,055)	78,027

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

7. Surplus/(deficit) for the financial year

Surplus/(deficit) is stated after charging/(crediting):

		2018	2017
		£	£
Auditor's remuneration		10,000	15,000
Depreciation of tangible fixed assets	9	242,818	242,028
Loss on impairment of fixed assets		70,488	89,221
		323,306	346,249

8. Staff numbers & costs

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

	2018	2017
Production staff	31	30
Administration staff	7	7
	38	37

Their aggregate remuneration comprised:

	Note	2018	2017
		£	£
Wages and salaries		1,321,570	1,233,238
Social security costs		87,198	81,412
Pension costs	17	154,971	139,661
		1,563,739	1,454,311

Pension costs include only those items within Production costs and Administration expenses.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2018 £	Additions £	Adjustments/ Disposal £	31 December 2018 £
Cost				
Buildings	1,575,515			1,575,515
Plant & equipment	3,620,524	295,142	(186,388)	3,729,278
Motor vehicles	264,090			264,090
Information technology	39,134		(7,650)	31,484
	<u>5,499,263</u>	<u>295,142</u>	<u>(194,038)</u>	<u>5,600,367</u>
Depreciation				
Buildings	885,060	39,243		924,303
Plant & equipment	2,153,320	197,322	(118,578)	2,232,064
Motor vehicles	248,549	2,902		251,451
Information technology	29,770	3,351	(4,972)	28,149
	<u>3,316,669</u>	<u>242,818</u>	<u>(123,547)</u>	<u>3,435,967</u>
Net Book Value	<u><u>2,182,564</u></u>	<u>52,324</u>	<u>(70,488)</u>	<u><u>2,164,400</u></u>

10. Assets Under Construction

	2018 £	2017 £
As at 1 January	13,395	25,052
Expenditure in the year	298,628	179,223
Transfers to fixed assets	<u>(295,142)</u>	<u>(190,880)</u>
As at 31 December	<u><u>16,881</u></u>	<u><u>13,395</u></u>

11. Inventories

	2018 £	2017 £
Milk and dairy products	234,664	328,541
Packaging materials	366,143	217,510
Other inventories	<u>106,266</u>	<u>62,486</u>
	<u><u>707,073</u></u>	<u><u>608,537</u></u>

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2018 £	2017 £
Trade debtors	609,581	918,231
Accrued income	165,042	139,280
Other debtors and prepayments	486	531
	<u>775,109</u>	<u>1,058,042</u>

13. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	395,630	418,952
Accruals & Deferred Income	617,806	253,044
	<u>1,013,436</u>	<u>671,996</u>

Included as part of Accruals is £40,000 of unpaid Ex-gratia payments (2017: £40,000).

14. Reserves

	2018 £	2017 £
Balance at 1 January	4,691,190	5,045,859
Deficit for financial year	<u>(485,870)</u>	<u>(354,669)</u>
Balance at 31 December	<u>4,205,320</u>	<u>4,691,190</u>

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

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

	2018 £	2017 £
Operating deficit for the year	(448,815)	(432,696)
Depreciation charges and loss on impairment of tangible assets	313,306	331,249
(Increase)/decrease in inventories	(98,536)	26,772
Decrease/(increase) in debtors	282,933	(148,677)
Increase in creditors due within one year	341,440	23,889
Net cash flows from operating activities	390,328	(199,463)

16. Financial commitments

The Guernsey Dairy has no financial commitments as at 31 December 2018 (2017: nil) which are not provided for in the financial statements beyond that disclosed in note 18.

17. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £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 Dairy's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Dairy are considered to be ultimately employees of the States of Guernsey. Consequently, Guernsey Dairy has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of comprehensive income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £154,971 (2017: £139,661).

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

18. Subsequent events

In 2018 Guernsey Dairy has agreed a transaction to the value of £1m to bring the value of the land on which the Dairy sits onto its balance sheet at fair value. This transaction is scheduled for completion in 2019.

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. One member of the Dairy Management Board is a milk supplier contracted at “arm’s length” on the same terms as other milk suppliers.

Total compensation for key management personnel for the period totalled £263,638 (2017: £250,415). The key management personnel of Guernsey Dairy are the Senior Management Team.

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

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 MBE; 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

Guernsey Dairy is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Guernsey Dairy has been delegated to the members of the STSB appointed by the States of Guernsey.

21. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2018 which would affect these financial statements (2017: none).

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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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	<u>530,000</u>	<u>500,000</u>
		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		<u>2,783,606</u>	<u>3,553,975</u>
		5,191,871	5,584,196
Creditors: amounts falling due within one year	13	<u>(886,255)</u>	<u>(599,532)</u>
Net current assets		4,305,616	4,984,664
Total net assets		11,495,811	11,777,266
Reserves	14	<u>11,495,811</u>	<u>11,777,266</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 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
	<u>500,000</u>	<u>-</u>	<u>30,000</u>	<u>530,000</u>

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
	<u>35,571</u>	<u>35,571</u>

11. Inventories and work in progress

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

12. Debtors and prepayments

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

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).

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

SOCIAL SECURITY CONTRIBUTORY FUND ACCOUNTS 2018

The States are asked to decide:-

1. Whether they are of the opinion to note the Committee *for* Employment & Social Security's approval of the Social Security Contributory Fund 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.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Incorporating:

Guernsey Insurance Fund

Guernsey Health Service Fund

Long-term Care Insurance Fund

**Controlled and managed by the
States of Guernsey – Committee *for* Employment & Social Security**

Reports and Financial Statements

For the year ended 31 December 2018

REPORTS AND FINANCIAL STATEMENTS

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SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the year ended 31 December 2018

PRINCIPAL OFFICERS

Committee *for* Employment & Social Security

Title	Name	Date of Election / Resignation
President	Deputy M K Le Clerc	11 May 2016
Vice President* & Member	Deputy S L Langlois	18 May 2016 25 May 2016*
Member	Deputy J A B Gollop Deputy E A Yerby Deputy P J Roffey Deputy M J Fallaize	18 May 2016 18 May 2016 12 December 2018 18 May 2016 - 12 December 2018
Non-Voting Member	Mr M J Brown Mr A R Le Lièvre	3 June 2016 3 June 2016
Chief Secretary	Mr M Nutley	

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the year ended 31 December 2018

STATEMENT OF ACTIVITIES

ACTIVITIES DURING THE YEAR

2018 was another very busy year for the Committee *for* Employment & Social Security.

Contribution percentage rates were not increased in 2018. This decision was taken following two changes to the contribution rates for 2017 which had been used to improve the sustainability of the Long-term Care Insurance Fund and to fund the new package of parental benefits. It must be acknowledged that contribution increases will need to be made in the future to ensure the sustainability of the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund. This is primarily due to the well-known and largely predictable future increases in the number of pensioners, and the less predictable future cost of healthcare and long-term care in an older age society.

The upper and lower contribution limits and rates and contributory benefits were increased by 2.8% for 2018, according to the uprating policy, and in line with inflation.

There was a slight reduction in the number of items dispensed in the pharmaceutical service and a fall in the total annual cost of the service despite the approval of several new specialist drugs and fluctuations in the price of generic drugs. There was a reduction in prescribing opioid analgesics, antibiotics and hypnotics and a large saving achieved from a reduction in the prescribing of high cost and low value products. Significant costs were avoided by the continued controlled entry of new drugs onto the prescribing list. In 2018, the Pharmaceutical Benefit Advisory Committee and the Drugs and Therapeutics Committee, being separate bodies that advised the Committee *for* Employment & Social Security and the Committee *for* Health & Social Care respectively, combined into a single advisory body for the entry of new drugs across States services.

The 15 year contract with the Medical Specialist Group ended on 31st December 2017. A new contract was agreed, and has been in place since 1st January 2018. The new contract, signed by the Committee *for* Health & Social Care on behalf of the States, has been designed to support the ongoing transformation of Health & Social care services and funding models, in line with the delivery of the Partnership of Purpose work streams. The contract includes an annual savings target for the first three years of the contract. The contract for physiotherapy services, also expired at the end of 2017, but was extended while the Committee *for* Health & Social Care undertakes its review.

In December 2017, the Committee *for* Health & Social Care and the Committee *for* Employment & Social Security commenced a pilot scheme under the Guernsey Health Service Fund to provide free contraceptive options to people under 21 years of age, with the objective of reducing teenage pregnancies. The service is available through all GP practices, as well as the sexual health clinics. The initial results are very encouraging.

On 22 October 2018, the new Revenue Service was launched bringing together income tax and social security contribution functions. The Committee *for* Employment & Social Security remains responsible for policy matters concerning social security contributions, but the Policy & Resources Committee has become responsible for collection and administration of contributions, in order to take advantage of efficiencies in a combined collection service with income tax.

The Committee made good progress in 2018 towards bringing to the States proposals for anti-discrimination legislation. An outcome of the States debate of the Policy & Resources Plan (Billet d'Etat XV of 2018) was that the Committee *for* Employment & Social Security should expand its existing programme of work to develop detailed policy proposals for disability discrimination legislation into a project that develops proposals for multiple-grounds of protection against discrimination, including disability. Throughout 2018, the Committee continued to be assisted with this work by experts from the University of Galway. This work has links with the Guernsey Insurance Fund in terms of elimination or reduction of some of the barriers to employment and, consequently, increased contributions on earnings and reductions in benefit expenditure.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

*Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018*

STATEMENT OF ACTIVITIES (Continued)

ACTIVITIES DURING THE YEAR (Continued)

The Committee also made good progress with developing detailed proposals for a secondary pension scheme which, in time, will complement the basic old age pension scheme. The secondary pension scheme is intended to be an auto-enrolment scheme with voluntary opt-out, similar to that which applies in the UK. The work in 2018 was centred on the finalisation of a detailed specification which was put out to tender. By the end of the year, the Committee was in detailed post-tender discussions with two firms that had been shortlisted for the pension provider organisation.

The Committee continued to consider and develop proposals for reform of the long-term care insurance scheme as required by Resolutions of the States on the Supported Living and Ageing Well Strategy (Billet d'Etat III of 2016). This has proved to be a complex and challenging piece of policy development.

The Data Protection (Bailiwick of Guernsey) Law 2017 came into force on 25 May 2018 and work is ongoing to ensure all social security data will be processed in accordance with the 2017 Law ready for the implementation of regulations in May 2019. The project team continues to update all customer-facing documents and ensuring all service areas are compliant with the legislation.

In February, Employment & Social Security was re-accredited with Investors in People. This was the first assessment against the revised 'Framework for Excellence'. At a time of change in the public sector, the Committee and staff were very pleased to achieve the silver level of accreditation.

FUTURE ACTIVITIES

Beyond business as usual, activities in 2019 will see some of the major projects that have been in development throughout 2018 proceed to reports to the States of Guernsey for approval.

A Policy Letter on reforms to long-term care insurance is expected to go to the States in 2019, as is a policy letter on secondary pensions. In the case of the latter, the States will be asked to approve detailed proposal sufficient for legislative drafting, and also asked to approve the firm selected to be the pension provider.

Following joint working between the Committee for Employment & Social Security, the Committee for Health & Social Care and the Policy & Resources Committee it is expected that a Policy letter will be taken to the States in 2019 recommending a fundamental amendment of the Health Service (Benefit) Law, 1990. The purpose of the amendments would be to repeal the statutory basis of all of the health benefits, with the exception of the pharmaceutical service. The intention would be to transfer responsibility of all health benefits to the mandate of the Committee for Health & Social Care. Under the proposal being developed, social security contributions would still be used as a source of funding for health care, but instead of an allocation from contribution receipts going into the Guernsey Insurance Fund, an allocation would instead go to General Revenue as a partial contribution to an expanded and comprehensive Health & Social Care budget.

The proposals for anti-discrimination legislation referred to in the previous section (Activities during the Year) will progress to public consultation in 2019. The Committee will also take a Policy Letter to the States for funding of a non-statutory Equality and Rights Organisation ("ERO"). This embryonic ERO is intended to focus on awareness, education and training concerning discrimination and to contribute to the proposals under development.

The Committee will also report to the States with proposals for a limited scheme of medical cover for Guernsey and Alderney residents travelling to the UK. The proposed cover will be available where the individuals can demonstrate, prior to travelling, that they cannot obtain health insurance cover at a reasonable cost because of their health conditions.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
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STATEMENT OF PERFORMANCE

Overview

The Social Security Contributory Funds comprising the Guernsey Insurance Fund (GIF), Guernsey Health Service Fund (GHSF) and Long-term Care Insurance Fund (LTCIF) recorded a combined operating deficit of £18.3m (2017: £15.7m deficit). A breakdown of the operating results is as follows:

- GIF: operating deficit of £23.6m (2017: £19.6m deficit).
- GHSF: operating deficit of £2.8m (2017: £3.0m deficit).
- LTCIF: operating surplus of £8.1m (2017: £6.9m surplus).

Total Reserves for the year decreased by £60.7m (2017: £56.3m increase). This decrease comprised the operating deficit of £18.3m (2017: £15.7m deficit) and a decrease from investing activities of £42.3m (2017: £72.0m increase). The decrease in Reserves is allocated as follows:

- GIF: -£56.8m (2017: +£38.0m) and comprised the operating deficit of £23.6m (2017: £19.6m deficit) and decrease from investing activities of £33.1m (2017: £57.6m increase);
- GHSF: -£8.1m (2017: +£6.2m) and comprised the operating deficit of £2.8m (2017: £3.0m surplus) and decrease from investing activities of £5.3m (2017: £9.2m increase). The operating deficit is as a direct result of not receiving the states grant of £4.7m which was suspended since 2017 in order to assist with the General Revenue funding challenges in respect of Health & Social care services, and remains suspended in 2018 pending a review into healthcare funding.
- LTCIF: +£4.2m (2017: +£12.1m) and comprised the operating surplus of £8.1m (2017: £6.9m surplus) and decrease from investing activities of £3.9m (2017: £5.2m increase).

At the year-end total reserves stood at £906.2m (2017: £966.6m) and allocated as follows:

- GIF: £712.5m (2017: £769.3m) providing expenditure cover of 4.8 years (2017: 5.4 years);
- GHSF: £114.4m (2017: £122.5m) providing expenditure cover of 2.6 years (2017: 2.9 years); and
- LTCIF: £79.2m (2017: £75.0m) providing expenditure cover of 4.0 years (2017: 3.8 years).

Contribution income and states grant

Total contribution income increased by 3.5% to £178.8m (2017: +7.7% to £172.7m). The increase is attributed mainly to employed persons, which saw an increase of 3.7% to £152.1m (2017: +8.0% to £146.7m). Income from self-employed persons increased by 2.8% to £16.8m (2017: +2.8% to £16.3m), and non-employed persons increased by 4.0% to £9.9m (2017: +11.1% to £9.5m).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Contribution income and states grant (continued)

Numbers of Contributors as at week 48	2018	2017	5-Year average
Employers	2,325	2,333	2,382
Employed	29,106	28,909	28,854
Self-Employed	3,044	3,108	3,144
Non-Employed	5,946	5,783	5,737
Total Contributors (excluding employers)	38,096	37,800	37,735

The overall number of contributors, at week 48, increased by 0.8% to 38,096 (2017: 37,800). The number of employed increased by 0.7% (2017: +0.5%) while self-employed decreased by 2.1% (2017: -0.5%). Non-employed contributors increased by 2.8% (2017: +1.6%). The largest economic sector remained the financial sector, which accounted for 23% (2017: 22%) of the employed population and represented 32% (2017: 32%) of the total income received from employers and employees.

The contribution income from the contribution classes is allocated as follows:

- GIF: +3.0% to £109.8m (2017: +4.5% to £106.6m). The grant received from the States of Guernsey, being a fixed percentage of contributions (14.7%), increased to £16.1m (2017: £15.7m);
- GHSF: +3.8% to £41.0m (2017: +1.5% to £39.5m). No grant was received from the States of Guernsey (2017: nil); and
- LTCIF: +5.4% to £28.0m (2017: +36.8% to £26.6m).

Benefit expenditure

Overall benefit expenditure increased by 4.5% to £206.7m (2017: +2.0% to £197.9m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 2.8% (2017: 0.8%). The allocation between the Funds is as follows:

- GIF: +5.6% to £144.9m (2017: +1.9% to £137.3m);
- GHSF: +2.4% to £42.2m (2017: +1.0% to £41.2m); and
- LTCIF: +1.1% to £19.6m (2017: +5.2% to £19.4m).

Details of major areas of benefit expenditure follow:

GIF: Pension	2018	2017	5-Year Average
Number of claimants at the year-end	18,229	17,964	17,664
Number of approved claims during the year	999	1,056	1,025

Pension expenditure accounts for over 85% of the total benefit expenditure of GIF and for the year increased by 5.1% to £123.5m (2017: +1.8% to £117.5m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 2.8% (2017: 0.8%).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

GIF: Incapacity benefit	2018	2017	5-Year Average
Number of claimants at the year-end	865	856	860
Number of approved claims during the year	316	216	328

Incapacity benefit increased by 7.3% to £8.6m (2017: -1.3% £8.0m). The Committee is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick.

GIF: Unemployment benefit	2018	2017	5-Year Average
Number of claimants at the year-end	107	153	167
Number of approved claims during the year	627	790	898

Unemployment benefit decreased by 11% to £0.9m (2017: -27% to £1.0m). The Committee continues to work on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed. Both the number of active claims and approved claims for the year decreased and were well below the 5-year average.

GHSF: Specialist Health Insurance Scheme	2018	2017	5-Year Average
Medical specialist Group <i>full-time equivalent consultants (average)</i>	47.0	45.8	44.0
Guernsey Therapy Group <i>full-time equivalent physiotherapists & assistants (average)</i>	36.0	36.8	35.6

Medical specialist expenditure increased by 0.5% to £18.14m (2017: +2.0% to £18.05m) with the average number of consultants increasing by 1.2 for the year. A new 5 year contract came in to effect on 1 January 2018.

The Physiotherapy contract is provided by the Guernsey Therapy Group. For the year, expenditure increased by 4.2% to £2.3m (2017: +0.6% to £2.2m).

The Alderney contract decreased slightly to £274k (2017: £285k), however Alderney Doctors are still providing additional support.

GHSF: Drugs and medicines	2018	2017	5-Year Average
Total prescriptions	1,523,919	1,511,093	1,531,424
Average basic cost per item	£9.31	£8.93	£8.81

For the year, overall net expenditure in respect of drugs and medicines, after prescription charges, increased by 3.5% to £16.8m (2017: -0.4% to £16.25m). New drugs to the White List continue to be well controlled, however the number of items dispensed has increased slightly in comparison to the previous year, with the basic drug costs also increasing by 4.2% (2017: -0.7%).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

LTCIF: Residential Home Care grant	2018	2017	5-Year Average
Number of claimants at year-end - Permanent	260	282	264
Number of claimants at year-end - Permanent with EMI	132	122	110
Total	392	404	374
12-month rolling average	408	390	374

Residential Home Care benefit expenditure increased by 8.3% to £10.6m (2017: £9.84m) and saw the 12-month rolling average in active claims increase by 4.6%. The number of Residential Home Care with Elderly Mental Infirmary (“EMI”) patients increased by 22.8% due to Greenacres Care Home opening in February 2018 with an increased provision of EMI beds.

LTCIF: Nursing Home Care grant	2018	2017	5-Year Average
Number of claimants at the year-end	205	202	216
12-month rolling average	205	227	n/a

Nursing Home Care benefit expenditure decreased by 6.2% to £9.0m (2017: £9.6m). Although the general rate of benefit increased by 6.2%, the 12-month rolling average was down 9.7%.

Administration

Total administration expenditure increased by 5.6% to £8.4m (2017: £7.9m) with the recharge of administrative expenditure to Non Contributory Services (“NCS”) increasing by 7.2% to £1.91m (2017:£1.78m). Overall staffing costs increased by 5.2% to £5.4m (2017: £5.1m). The increase is a result of finalised pay awards for established staff, filling of vacancies during the year, and the inclusion of staff recharged back to the Policy & Resources Committee, as a result of the transfer of services from the Committee for Health & Social Care to this Committee during the year.

Full-time Equivalent Staff	2018	2017
Total employed directly	116.4	114.5
Staff recharged to Non Contributory Funds (General Revenue)	(35.5)	(34.4)
Contributory Funds Allocation	80.9	80.1

The small increase in staff full-time equivalents is primarily due to filling of staff vacancies. The Committee’s total full-time equivalent (“FTE”) staff numbers in 2018 was 162.8 (2017:157.0) with 46.4 FTEs (2017: 42.5) paid directly from General Revenue and therefore excluded from the above analysis.

The allocation of administration costs between the Funds is as follows:

- GIF: +2.3% to £4.5m (2017: -5.2% to £4.5m);
- GHSE: +22.8% to £1.6m (2017: -14.6% to £1.3m); and
- LTCIF: -0.1% at £0.3m (2017: -0.43% at £0.3m).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

STATEMENT OF PERFORMANCE (CONTINUED)

Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2018 had a market value of £874.9m (2017: £939.9m).

As the Guernsey Insurance Fund and Guernsey Health Service Fund are currently running operating deficits, £24.0m (2017: £14.9m) was withdrawn from the Common Investment Fund during the year for cash flow to meet obligations. The allocation between the three contributory funds at the year-end is as follows:

Common Investment Fund allocation At Year-end	2018		2017	
	£'000s	%	£'000s	%
Guernsey Insurance Fund	687,918	78.7%	752,020	80.0%
Guernsey Health Service Fund	110,493	12.6%	119,779	12.7%
Long-term Care Insurance Fund	76,476	8.7%	68,140	7.3%
Total	874,887	100.0%	939,939	100.0%

The Committee has continued to diversify its investment portfolio to maximise returns for a reduced risk. The performance of the Common Investment Fund on annualised 1, 3 and 5 year periods is shown below:

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Target Return per annum *
1-Year	(4.2%)	4.2%
3-Year	5.2%	4.2%
5-Year	3.7%	4.2%

*The Target Return is 6-month LIBOR +3.5%.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
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STATEMENT OF PERFORMANCE (CONTINUED)

KEY STATISTICS

Contribution Rates - Annual Earnings/Income limits	2018 £	2017 £	2016 £	2015 £	2014 £
Class 1 <i>Employed</i>					
Upper earnings limit	142,896	138,684	137,592	135,252	132,444
Lower earnings limit	6,968	6,968	6,916	6,812	6,656
Class 2 <i>Self-employed</i>					
Upper earnings limit	142,896	138,684	137,592	135,252	132,444
Lower earnings limit	7,176	6,968	6,916	6,812	6,656
Class 3 <i>Non-employed</i>					
Maximum income	142,896	138,684	137,592	135,252	132,444
Minimum income	17,940	17,420	17,290	17,030	16,640
Allowance	8,110	7,875	7,336	7,223	7,059

Contribution Rates – Contributory Funds	2018 %	2017 %	2016 %	2015 %	2014 %
Class 1 <i>Employer</i>					
Guernsey Insurance Fund	5.0	5.0	4.9	4.9	4.9
Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.6
Long-term Care Insurance Fund	-	-	-	-	-
	6.6	6.6	6.5	6.5	6.5
<i>Employee</i>					
Guernsey Insurance Fund	3.5	3.5	3.4	3.4	3.4
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	6.6	6.6	6.0	6.0	6.0
<i>Combined</i>					
Guernsey Insurance Fund	8.5	8.5	8.3	8.3	8.3
Guernsey Health Service Fund	2.9	2.9	2.9	2.9	2.9
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	13.2	13.2	12.5	12.5	12.5
Class 2 <i>Self-employed</i>					
Guernsey Insurance Fund	6.5	6.5	6.5	6.5	6.5
Guernsey Health Service Fund	2.7	2.7	2.7	2.7	2.7
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	11.0	11.0	10.5	10.5	10.5
Class 3 <i>Non-employed (under 65)</i>					
Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
Long-term Care Insurance Fund	1.9	1.9	1.4	1.4	1.4
	10.4	10.4	9.9	9.9	9.9
<i>Non-employed (over 65)</i>					
Guernsey Insurance Fund	-	-	-	-	-
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	2.1	2.1	1.6	1.6	1.6
	3.4	3.4	2.9	2.9	2.9

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (continued)

Number of contributors (as at week 48)	2018	2017	2016	2015	2014
Employers	2,325	2,333	2,386	2,431	2,435
Employed	29,106	28,909	28,769	28,713	28,771
Self-employed	3,044	3,108	3,124	3,195	3,251
Non-employed	5,946	5,783	5,691	5,690	5,574
Total Contributors	38,096	37,800	37,584	37,598	37,596

Contributory Funds - General Revenue Grants - % of contributions	2018 %	2017 %	2016 %	2015 %	2014 %
Guernsey Insurance Fund	14.7%	14.7%	15.0%	15.0%	15.0%
Guernsey Health Service Fund*	0%	0%	12.0%	12.0%	12.0%
	£m	£m	£m	£m	£m
Guernsey Insurance Fund	16.1	15.7	15.3	15.0	14.9
Guernsey Health Service Fund	-	-	4.7	4.6	4.5
Total	16.1	15.7	20.0	19.6	19.4

* The grant to the Guernsey Health Service Fund was suspended for 2017 and 2018, in order to assist with the General Revenue funding challenges in respect of health and social care services.

GIF: Number of claimants at the year-end	2018	2017	2016	2015	2014
Pension	18,229	17,964	17,653	17,381	17,072
Incapacity Benefit	865	856	851	856	872
Sickness Benefit	424	400	388	418	440
Bereavement Benefits	159	200	208	188	205
Unemployment Benefit	107	153	183	213	179
Industrial Disablement Benefit	162	165	170	185	192
Industrial Injury Benefit	22	12	11	13	15
Maternity Allowance*	Not available	Not available	119	129	125
Total	19,968	19,750	19,583	19,383	19,100

* Following the introduction of improved parental benefits, a separate analysis of maternity allowance is unavailable.

GIF: No. of approved claims during the year	2018	2017	2016	2015	2014
Sickness Benefit	10,866	9,748	10,358	10,177	10,042
Pension	999	1,056	1,006	956	1,110
Unemployment Benefit	627	790	971	1,016	1,088
Industrial Medical Benefit	909	795	762	900	1,124
Travelling Allowance Grant	953	923	875	1,014	1,026
Death Grant	619	681	645	570	510
Industrial Injury Benefit	487	342	455	499	603
Bereavement Benefits	338	345	347	281	280
Incapacity Benefit	316	216	253	226	271
Industrial Disablement Benefit	11	5	6	7	3
Maternity Allowance*	Not available	Not available	531	521	521
Maternity Grant*	Not available	Not available	73	70	61
Total	16,125	14,901	16,282	16,237	16,639

* Following the introduction of improved parental benefits, a separate analysis of maternity allowance and maternity grant is unavailable.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
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STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (continued)

GHSF: Drugs & medicines	2018	2017	2016	2015	2014
Ordinary prescriptions	530,091	536,170	552,606	562,306	571,524
% change	-1.1%	-3.0%	-1.7%	-1.6%	+2.9%
Exempt prescriptions	993,828	974,923	974,106	969,296	957,767
% change	+1.9%	+0.1%	+0.5%	+1.2%	+3.3%
Total prescriptions	1,523,919	1,511,093	1,526,712	1,531,602	1,529,291
% change	+0.8%	-1.0%	-0.3%	+0.2%	+3.2%
Average basic cost	£9.31	£8.93	£8.99	£8.63	£8.29
% change	+4.3%	-0.7%	+4.2%	+4.1%	-2.5%
Ordinary prescriptions as a % of total	34.8%	35.5%	36.2%	36.7%	37.4%
Exempt prescriptions as a % of total	65.2%	64.5%	63.8%	63.3%	62.6%

GHSF: Consultation grants	2018	2017	2016	2015	2014
Doctors	242,960	236,477	241,749	243,500	254,747
% change	+2.7%	-2.2%	-0.7%	-4.4%	+1.5%
Nurses	78,917	77,401	77,360	78,833	81,531
% change	+2.0%	+0.1%	-1.9%	-3.3%	+2.5%
Total	321,877	313,878	319,109	322,333	336,278
% change	+2.5%	-1.6%	-1.0%	-4.1%	+1.7%

LTCIF: Number of claimants at year-end	2018	2017	2016	2015	2014
Residential & EMI grant-permanent	392	404	360	349	365
Nursing grant-permanent	205	202	227	227	220
TOTAL	597	606	587	576	585

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
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STATEMENT OF PERFORMANCE (CONTINUED)

GIF: 5-Year Financial Performance	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income	125.9	122.3	117.3	115.1	113.9
Expenditure	(149.5)	(141.7)	(139.4)	(134.5)	(129.5)
Operating deficit	(23.6)	(19.5)	(22.1)	(19.4)	(15.6)
Investing activities	(33.1)	57.6	76.5	(5.9)	25.4
Net (deficit)/surplus during the year	(56.8)	38.0	54.4	(25.3)	9.8
Net assets of the Fund at 1 January	769.3	731.2	676.8	702.1	692.3
Net assets of the Fund at 31 December	712.5	769.3	731.2	676.8	702.1
Expenditure cover in number of years	4.8	5.4	5.2	5.0	5.4

GHSF: 5-Year Financial Performance	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income	41.0	39.5	43.6	42.7	42.2
Expenditure	(43.8)	(42.5)	(42.3)	(41.3)	(38.4)
Operating (Deficit)/Surplus	(2.8)	(3.0)	1.3	1.4	3.8
Investing activities	(5.3)	9.1	12.0	(0.9)	3.6
Net (deficit)/surplus during the year	(8.1)	6.1	13.3	0.5	7.4
Net assets at 1 January	122.5	116.4	103.1	102.6	95.2
Net assets at 31 December	114.4	122.5	116.4	103.1	102.6
Expenditure cover in number of years	2.6	2.9	2.8	2.5	2.7

LTCIF: 5-Year Financial Performance	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income	28.0	26.6	19.4	18.9	18.5
Expenditure	(19.9)	(19.7)	(18.7)	(18.2)	(18.2)
Operating Surplus	8.1	6.9	0.7	0.7	0.3
Investing activities	(3.9)	5.2	6.4	(0.5)	2.0
Net surplus during the year	4.2	12.1	7.1	0.2	2.3
Net assets at 1 January	75.0	62.9	55.8	55.6	53.3
Net assets at 31 December	79.2	75.0	62.9	55.8	55.6
Expenditure cover in number of years	4.0	3.8	3.4	3.1	3.1

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

The Committee for Employment & Social Security (the “Committee”) is required to prepare financial statements for each financial year which are properly prepared in accordance with the accounting policies set out in note 1. In preparing those financial statements, the Committee is required to:

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

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Contributory Funds and enable them to ensure that the financial statements comply with Section 100(3) of The Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002. It is also responsible for safeguarding the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GOING CONCERN

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

STATEMENT OF INTERNAL CONTROLS

It is the responsibility of the Committee to identify and install a system of internal controls, including financial control, which is adequate for its own purposes, and to safeguard the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Committee’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Committee;
 - the annual audit report together with the audited financial statements;
 - the annual report of observations and recommendations produced by the external auditor;
 - the annual policy and resource plan; and
 - the quarterly management accounts;
- by Law, an actuarial review to determine the adequacy of the contribution rates must be undertaken at least once every five years and submitted to the Committee and the States of Guernsey;
- a regular review of the performance and security of the Contributory Funds by the Committee;
- occasional review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Unit; and
- a requirement for internal audit reports to be tabled at a meeting of the Committee.

The Committee strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect. The Committee’s internal controls and accounting policies have been and are subject to continuous review and improvement.

In addition, the financial statements are subject to an independent external audit by Grant Thornton, the auditor appointed by the States of Guernsey.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STATES OF GUERNSEY – COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY
AS CONTROLLER AND MANAGER OF
SOCIAL SECURITY – CONTRIBUTORY FUNDS**

Opinion

We have audited the financial statements of the States of Guernsey – Contributory Funds (the “Contributory Funds”) for the year ended 31 December 2018 which comprise the Aggregated Fund Account, the Aggregated Statement of Financial Position, the Aggregated Statement of Cash Flows and notes 1 to 19 to the financial statements, including a summary of significant accounting policies.

- In our opinion, the financial statements of the Contributory Funds for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the financial statements.

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 Contributory Funds 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.

Emphasis of Matter — Basis of Accounting and Restriction on Distribution and Use

We draw attention to note 1 to the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Contributory Funds and should not be distributed to or used by parties other than the Contributory Funds. Our opinion is not modified in respect of this matter.

Who we are reporting to

This report is made solely to the members of the States of Guernsey – Committee *for* Employment & Social Security (the “Committee”) as a body, in accordance with our engagement letter dated 7 September 2017. Our audit work has been undertaken so that we might state to the members of the Committee those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Committee, for our audit work, for this report, or for the opinions we have formed.

Other information

The Committee is 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. 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 by the Contributory Fund; 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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
STATES OF GUERNSEY – COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY
AS CONTROLLER AND MANAGER OF
SOCIAL SECURITY – CONTRIBUTORY FUNDS**

Responsibilities of the Committee for the financial statements

As explained more fully in the Statement of Responsibilities of the Committee *for* Employment & Social Security, the Committee is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 1 to the financial statements. The Committee is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Committee is responsible for assessing the Contributory Funds' 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 Committee either intend to liquidate the Contributory Funds 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.

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

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

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.

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

Grant Thornton Limited

Chartered Accountants
St Peter Port
Guernsey

21 May 2019

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

AGGREGATED FUND ACCOUNT

	Note	2018 £'000s	2017 £'000s
Income			
Contributions	1(b),2	178,826	172,713
States grant	1(b)	16,135	15,668
		194,961	188,381
Expenditure			
Benefits payable	1(d),3,4,5,6	206,738	197,875
Administration	7	6,463	6,118
		213,201	203,993
Operating deficit before depreciation charge		(18,240)	(15,612)
Depreciation charge	9	(78)	(93)
Operating deficit		(18,318)	(15,705)
Investment returns	1(h),8	(42,330)	71,999
Net (deficit)/surplus		(60,648)	56,294
Net assets at 1 January		966,819	910,525
Net assets at 31 December		906,171	966,819

All activities are derived from continuing operations.

The Contributory Funds have no recognised surplus or deficit in the current or previous financial year other than those passing through the Fund Account.

Notes 1 to 19 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
As at 31 December 2018

AGGREGATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.18 £'000s	31.12.17 £'000s
Non-current assets			
Tangible assets	9	3,459	2,925
Financial Instruments	10	874,887	939,939
Debtors due after one year	12	114	108
		878,460	942,972
Current assets			
Debtors due within one year	11	33,574	29,074
Balances with States Treasury		-	213
Cash and cash equivalents		349	298
		33,923	29,585
Current liabilities			
Creditors: Amounts falling due within one year	13	5,488	3,706
Bank overdraft		724	2,032
		6,212	5,738
Net current assets		27,711	23,847
Total net assets		906,171	966,819
Reserves			
Guernsey Insurance Fund		712,517	769,278
Guernsey Health Service Fund		114,444	122,528
Long-term Care Insurance Fund		79,210	75,013
		906,171	966,819

The financial statements were approved by the Committee *for* Employment & Social Security on 2019.

Signed on behalf of the Committee

M K Le Clerc
President

M Nutley
Chief Secretary

Notes 1 to 19 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

AGGREGATED STATEMENT OF CASH FLOWS

Note	2018 £'000s	2017 £'000s
Cash flows from operating activities		
Operating deficit for the year	(18,318)	(15,705)
<i>Adjustments for:</i>		
Tangible asset acquisitions during the year	(612)	(485)
Depreciation	78	93
Increase in debtors	(4,506)	(41)
Increase in creditors	1,782	871
Net cash used in operating activities	(21,576)	(15,267)
Cash flows from investing activities		
(Decrease)/increase in cash equivalents in financial instruments	(42,330)	71,999
Net cash (used in)/from investing activities	(42,330)	71,999
Net (decrease)/increase in cash and cash equivalents (including investments)	(63,906)	56,732
Financial instruments, treasury, cash balances and overdraft at 1 January	938,418	881,686
Financial instruments, treasury, cash balances and overdraft at 31 December	874,512	938,418

ANALYSIS AND RECONCILIATION OF NET FUNDS	At 1.1.18 £'000s	Increase/ (decrease) £'000s	At 31.12.18 £'000s
Cash at bank and in hand	298	51	349
Overdraft	(2,032)	1,308	(724)
Balances with States Treasury	213	(213)	-
	(1,521)	1,146	(375)
Financial instruments	939,939	(65,052)	874,887
	938,418	(63,906)	874,512

The overdraft arises as a result of timing differences only and is therefore a technical overdraft arising due to accounting treatments.

Notes 1 to 19 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Social Security – Contributory Funds (the “Contributory Funds”) comprise the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-Term Care Fund formed in accordance with Section 100(3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002.

The financial statements are prepared in accordance with the particular accounting policies described below:

a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (“FRS 102”) “The Financial Reporting Standard applicable in the UK and Republic of Ireland” except for certain disclosures required to be prepared by financial institutions in respect of financial instruments mainly in relation to level 3 investments. Given the complexity and extensive requirements of these disclosures, the Committee has not provided all the relevant disclosures required by FRS 102. The Committee is working to provide such disclosures in future years.

b) Going Concern

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

c) Contributions & States grant

Contributions represent the amount of cash received before 1 February 2019 in respect of the financial year ended 31 December 2018 and amounts received relating to prior financial periods not accounted for in those prior periods.

The grants received from the States of Guernsey are based on a fixed percentage of contributions, accounted for in the relevant period and for 2018 was 14.7% (2017: 14.7%) in respect of the Guernsey Insurance Fund. The grant to the Guernsey Health Service Fund was again suspended in 2018 (2017: nil) in order to assist with the General Revenue funding challenges in respect of Health & Social care services.

d) Benefits payable

Benefits are accounted for on an accruals basis.

e) Actuarial Review

The financial statements summarise the transactions of the Contributory Funds and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Contributory Funds is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review for the five year period 2010 to 2014 was undertaken in 2015 and the results published in the November 2016 Billet D’Etat XXVII.

f) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The costs of computer development projects are capitalised as and when they are considered to be material on an individual project basis. Depreciation is provided on cost at the following annual rates so as to write off the assets over their anticipated useful lives:

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

e) Tangible fixed assets (continued)

Fixed asset categories	Estimated useful life in	Depreciation % per annum
Buildings	80	1.25 straight line
Furniture and fittings	10	10.00 straight line
Office equipment	5	20.00 straight line
Computer equipment and software	3	33.33 straight line
Computer development	3	33.33 straight line
Computer development – Technological migration	7	14.29 straight line

g) Common Investment Fund

The investments of the Contributory Funds form the Common Investment Fund. The allocation to the individual Contributory Funds is based on a percentage of amounts contributed by each fund into the Common Investment Fund, as determined by the Committee.

h) Financial instruments

Financial assets and financial liabilities are recognised when the Contributory Funds become a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Committee intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investments

Investments are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Committee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principle assumptions are given in the notes to the financial statements where used. The methods of determining fair value for the principle classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before year end.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Investments (continued)

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated, through consultation with its advisors, by the Committee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at the value, in which case adjustment is made.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Partnership investments are valued on the basis of the latest available net asset value if it is within one month prior to the year-end or where there has been a significant investment in the partnership subsequent to the latest valuation, to estimate the fair value of the partnership by using the price at which the amount of any significant investments is made.

Derivatives

All open derivatives are stated at their closing market values established by reference to the applicable index.

Security Lending

Securities lending is where securities are transferred from the Funds' custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Funds' Statement of Net Assets. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period. Collateral received is not recorded unless it is reinvested. Income and realised and unrealised gains/losses on reinvested securities are recorded in the Fund account.

Capital movements – Realised and unrealised

Realised profits and losses on investments are calculated by reference to the net proceeds on disposal and the average cost attributable to those investments. Realised surpluses and deficits on the partial sale of investments are arrived at by deducting the average cost of such investments from the sales proceeds. The purchase and sales of investments are accounted for on the trade date. Unrealised profits and losses on investments are calculated by reference to the carrying value at the year end and the carrying costs of investments held. All realised and unrealised profits and losses on investments are reflected in the Aggregated Fund Account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Other assets

Debtors are recognised at amortised cost, less any impairment losses. These comprise mainly contributions due and benefits prepaid at the reporting date and are short term in nature.

Cash and cash equivalents

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

De-recognition of basic financial instruments

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

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

i) Foreign Currency

Functional and presentational currency

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

j) Pension costs

As described in note 14, the Committee has applied the provisions of FRS 102, section 27 in respect of defined contribution arrangements.

k) Critical accounting judgements and estimates

As stated above, investments in unlisted funds (including limited partnerships) are valued at the net asset value of that investment as determined in accordance with the terms of the funds' constitutive documents and notified by the fund manager or administrator as at the valuation date.

The valuation date of each fund may not always be co-terminus with the valuation date of the Contributory Funds, and in such cases, the valuation of the fund as at the last valuation date of the fund is used i.e. the latest available price is used on the valuation date. The net asset values reported by the relevant fund manager or administrator and used by the Committee as at 31 December 2018 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2018. However, it is the belief of the Investment Manager and the Committee that the latest available net asset value used on the valuation date will not be materially different from the net asset value used to realise these investments held at 31 December 2018.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CONTRIBUTIONS

	2018	2017
	£'000s	£'000s
Employer contributions	76,414	73,621
Employee contributions	75,677	73,075
	152,091	146,696
Self-employed contributions	16,753	16,296
Non-employed contributions	9,873	9,488
Employer surcharge and penalty	41	4
Movement in contributions unallocated	68	229
	178,826	172,713
Contribution income allocated to:		
Guernsey Insurance Fund	109,764	106,582
Guernsey Health Service Fund	41,024	39,541
Long-term Care Insurance Fund	28,038	26,590
	178,826	172,713

3. BENEFITS PAYABLE

	Note	2018	2017
		£'000s	£'000s
Guernsey Insurance Fund	4	144,918	137,246
Guernsey Health Service Fund	5	42,188	41,213
Long-term Care Insurance Fund	6	19,632	19,416
		206,738	197,875

4. BENEFITS PAYABLE: GUERNSEY INSURANCE FUND

	Note	2018	2017
		£'000s	£'000s
Pension		123,455	117,477
Incapacity		8,577	7,990
Sickness		4,134	3,862
Bereavement		1,498	1,551
Travelling allowance grant		2,785	2,043
Unemployment		898	998
Parental		2,268	2,130
Industrial disablement		528	496
Industrial injury		267	181
Death grant		350	373
Industrial medical		139	128
		144,899	137,229
Benefit debt written-off		10	3
Doubtful debt provision - movement		9	14
	3	144,918	137,246

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. BENEFITS PAYABLE: GUERNSEY HEALTH SERVICE FUND

	Note	2018 £'000s	2017 £'000s
Drugs and medicines	5(a)	16,813	16,247
Specialist Health Insurance Scheme	5(b)	20,725	20,553
Consultation grants	5(c)	3,389	3,302
Visiting medical consultants		798	760
Under 21 Contraception		84	-
Healthy Minds (<i>formerly Primary Care Mental Health & Wellbeing</i>)		379	351
	3	42,188	41,213

5(a). DRUGS AND MEDICINES

	Note	2018 £'000s	2017 £'000s
Drugs and medicines		17,627	17,159
Appliances		961	889
Oxygen Service		459	386
		19,047	18,434
Prescription charges receivable		(2,234)	(2,187)
	5	16,813	16,247

5(b). SPECIALIST HEALTH INSURANCE SCHEME

	Note	2018 £'000s	2017 £'000s
Specialist medical benefit		18,135	18,046
Physiotherapy benefit		2,316	2,222
Alderney hospital benefit		274	285
	5	20,725	20,553

A new contract between the States and the Medical Specialist Group was signed in March 2017, effective from 1 January 2018. Unlike the previous contract, the States will act through the Committee for Health & Social Care only, with involvement from the Committee for Employment & Social Security limited to the provision of funding. Key Performance Indicators have been included in the contract, which will enable the service to be monitored closely.

A 12 month rolling contract has been introduced with the Guernsey Therapy Group, replacing the contract that expired on 31 December 2017.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5(c). CONSULTATION GRANTS

Note	2018 £'000s	2017 £'000s
Doctor consultation grants	2,916	2,838
Nurse consultation grants	473	464
5	3,389	3,302

6. BENEFITS PAYABLE: LONG-TERM CARE INSURANCE FUND

Note	2018 £'000s	2017 £'000s
Residential home care benefit		
Permanent	6,460	6,119
Permanent with EMI supplement	4,043	3,570
Respite care	65	103
Respite care with EMI supplement	36	47
	10,604	9,839
Nursing home care benefit		
Permanent	8,985	9,471
Respite care	43	106
	9,028	9,577
3	19,632	19,416

7. ADMINISTRATION

	2018 £'000s	2017 £'000s
Salaries and pension costs	5,395	5,127
Other staff costs	15	14
IT and communication	634	638
Consultancy and contracted out work	416	439
Administration	283	312
Premises	225	204
Health & Social Services Committee charges	455	185
Policy & Resources Committee charges	700	734
Supplies and Services	194	191
Audit fee	53	53
	8,370	7,897
Amounts received from General Revenue	(1,907)	(1,779)
	6,463	6,118
Administration expenses allocated to:		
Guernsey Insurance Fund	4,533	4,486
Guernsey Health Service Fund	1,622	1,321
Long-term Care Insurance Fund	308	311
	6,463	6,118

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. INVESTMENT RETURNS

Note	2018 £'000s	2017 £'000s
Income		
Interest from fixed interest securities	2,699	8,925
Dividends from equities	-	106
Distributions from property funds	137	124
Interest on short term deposits and bank interest	2,075	127
Securities lending (less expenses)	-	36
Venture capital and partnerships	1,843	1,265
Less: Withholding tax suffered	(10)	(24)
	6,744	10,559
Expenditure		
Investment managers' fees	592	1,229
Investment advisor's fees	360	360
Custody fees	26	31
Performance monitoring fees	33	24
Policy & Resources Committee charges	59	14
	1,070	1,658
Net investment income	5,674	8,901
Realised gain/(loss) on disposal	9,225	76,480
Movement on unrealised profit	(57,229)	(13,382)
Total (deficit)/surplus for the year	(42,330)	71,999
Investing activities allocated to:		
Guernsey Insurance Fund	(33,132)	57,604
Guernsey Health Service Fund	(5,298)	9,175
Long-term Care Insurance Fund	(3,900)	5,220
	(42,330)	71,999

Investment managers' fees relate to fees paid by the contributory fund and exclude management fees and other expenses charged directly on pooled funds.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TANGIBLE ASSETS

	1.1.2018	Additions	31.12.2018
	£'000s	£'000s	£'000s
Cost			
Freehold land and buildings	3,898	146	4,044
Plant and equipment	1,034	10	1,044
Information technology	9,679	456	10,135
	14,611	612	15,223
	1.1.2018	Depreciation	31.12.2018
	£'000s	£'000s	£'000s
Accumulated Depreciation			
Freehold land and buildings	1,405	49	1,454
Plant and equipment	933	24	957
Information technology	9,348	5	9,353
	11,686	78	11,764
Net book value	2,925		3,459

Freehold land and buildings comprises Edward T Wheadon House, which was valued at 31 December 2008 by a firm of estate agents and valuers, at an open market value of £11.02m.

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2017: £Nil).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS

Common Investment Fund (CIF) at Fair Value	31.12.2018 £'000s	31.12.2017 £'000s
Equities and derivatives	396,290	378,904
Alternative investments and hedge funds	249,845	311,267
Cash and cash equivalents	105,109	132,013
Fixed income and derivatives	75,808	88,334
Venture Capital & Partnerships	40,788	24,705
Property funds	7,047	4,716
	874,887	939,939
Investments allocated to:		
Guernsey Insurance Fund	687,922	752,020
Guernsey Health Service Fund	110,491	119,779
Long-term Care Insurance Fund	76,474	68,140
	874,887	939,939

CIF movements during the year	2018 £'000s	2017 £'000s
Market value 1 January	939,939	881,171
Investment income reinvested	6,952	10,570
Realised (loss)/profit on disposal reinvested	9,225	76,480
Movement on unrealised (loss)/profit on investments	(57,229)	(13,382)
	898,887	954,839
Withdrawal of monies invested	(24,000)	(14,900)
Market value 31 December	874,887	939,939

During 2018, the Common Investment Fund was managed by ten (2017: nine) investment managers, namely: BlackRock Investment Management (UK) Limited; Legg Mason Global Asset Management; Morgan Stanley Investment Management Limited, GMO UK Limited, CQS Global Funds, AQR Funds, M&G Investments, MAN funds, Apollo and 24AM Vontobel.

The governance of the Fund is supported by the custodian, Northern Trust Global Services Limited and a professional investment adviser, Redington Limited.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

Fair Value Measurement

FRS 102 requires disclosure surrounding the level in fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities in the Balance Sheet. The determination of the fair value for financial assets and liabilities for which there is no observable price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective. The investments of common investment fund are categorised using the following hierarchy as defined by FRS 102:

- Level 1 - Quoted market prices in an active market for an identical instrument;
- Level 2 - Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; or
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all investments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses within the fair value hierarchy the Common Investment Fund measured at fair value at the year-end date:

Fair Value at 31.12.2018	Level 1	Level 2	Level 3	Total
	£'000s	£'000s	£'000s	£'000
Equities and derivatives	-	388,550	7,740	396,290
Alternative investments and hedge funds	-	229,450	20,395	249,845
Cash and cash equivalents	105,263	(154)	-	105,109
Fixed income and derivatives	-	60,690	15,118	75,808
Venture capital and partnerships	-	-	40,788	40,788
Property funds	-	-	7,047	7,047
Common Investment Fund	105,263	678,536	91,088	874,887

Fair Value at 31.12.2017	Level 1	Level 2	Level 3	Total
	£'000s	£'000s	£'000s	£'000
Equities and derivatives	250,382	(314)	128,836	378,904
Alternative investments and hedge funds	145,201	-	166,066	311,267
Cash and cash equivalents	130,567	1,446	-	132,013
Fixed income and derivatives	85,563	2,770	-	88,333
Venture capital and partnerships	-	-	24,706	24,706
Property funds	-	-	4,716	4,716
Common Investment Fund	611,712	3,902	324,324	939,939

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

The fair valuation of any level 3 investments require the exercise of professional skill and judgement and naturally the fair values derived will have an element of estimation uncertainty as well as a likely range of potential valuation outcomes.

The level 3 investments consist of pooled investment funds, private equity and venture capital funds, real estate funds and infrastructure funds which typically involve the purchase and redemption of shares from the fund itself rather than a secondary market. The majority of level 3 investments have therefore been measured at fair value using the reported net asset value ("NAV") as this is the approximate value at which shares are redeemable and therefore a basis for current transactions. No adjustment has been made for restrictions on redemption, which are all for periods of greater than 3 months, or for factors such as the marketability of the investment due to it not being listed.

Transfers between levels

There have been no transfers between the levels during the year (2017: None).

Assets at 31.12.2018	Fair Value through profit or loss £'000s	Amortised Cost £'000s	Total £'000s
Financial instruments (Common Investment Fund)	874,887	-	874,887
Tangible fixed assets	-	3,459	3,459
Treasury deposit and other cash	-	(375)	(375)
Trade and other receivables	-	38,205	38,205
Trade and other payables	-	(10,005)	(10,005)
	874,887	31,284	906,171

Assets at 31.12.2017	Fair Value through profit or loss £'000s	Amortised Cost £'000s	Total £'000s
Financial instruments (Common Investment Fund)	939,939	-	939,939
Tangible fixed assets	-	2,925	2,925
Treasury deposit and other cash	-	(1,699)	(1,699)
Trade and other receivables	-	29,182	29,182
Trade and other payables	-	(3,706)	(3,706)
	939,939	26,702	966,641

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The Committee do not believe that there is any material difference between the fair value and the amortised cost equivalent other than Freehold Land and Buildings included in tangible fixed assets which were valued at £11.02m at 31 December 2008 (see note 9).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. DEBTORS DUE WITHIN ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Contributions receivable	25,987	25,067
States of Guernsey Intercompany debtors	2,900	1,349
Benefits and allowances prepaid	4,245	2,347
Administration expenses prepaid	224	211
Trade debtors	195	100
	33,551	29,074

12. DEBTORS DUE AFTER ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Benefit debt	201	201
Provision for doubtful debts	(87)	(93)
	114	108

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Benefits and allowance payable	3,883	1,760
Other creditors and accruals	999	1,919
Trade creditors	606	27
	5,488	3,706

14. SUPERANNUATION FUND

The employees of Committee *for* Employment & Social Security are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. SUPERANNUATION FUND (CONTINUED)

Although the scheme is a multi-employer plan, it is not possible to identify the Committee's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Committee are considered to be ultimately employees of the States of Guernsey. Consequently, the Committee has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Fund Account. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

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

15. RELATED PARTY TRANSACTIONS

The Committee members confirm that there have been no related party transactions to disclose with members and senior management in this financial year (2017: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2018 and 2017 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States Treasury at the year-end amounted to £nil (2017: £213k).

Key management personnel compensation disclosure

For the year, total staffing costs associated with the Committee's key management was £1.19m (2017: £1.05m), comprising 13.9 full-time equivalent staff (2017: 12.9 FTE). The increase in the number of key management is due to the filling of vacancies during the year. Approximately £0.58m of total costs is allocated to the Contributory Funds (2017: £0.50m), the balance being charged to General Revenue.

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS

The Committee's activities expose it to a number of financial and associated risks, especially with regard to the investing activities of the Common Investment Fund and the possibility that an event or situation arises that reduces the likelihood of achieving its financial objectives.

In respect of the Common Investment Fund, there are many different types of specific risk including: governance risk; financial exposure market risk; performance risk; demographic exposure risk; and operational risk.

Governance Risk

The risk associated with poor governance essentially occurs where there is a failure to act as issues emerge.

Governance is the framework within which other risks are considered. The result of this consideration should, where appropriate, lead to action. Key controls and risk mitigation include:

- Objectives are well understood;
- Fund manager and other provider mandates are well defined;
- Strategic review of the Contributory Funds is undertaken regularly; and
- Fund managers and providers are asked to articulate how their strategies might perform in different market and economic conditions.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Governance Risk (Continued)

Once this is done, the risks in the other areas can be defined and evaluated. The focus is then on designing metrics and benchmarks that are consistent with the conditions identified above.

Financial Exposure Risk

Financial exposure risk is the potential for losses (compared to objectives) from falling asset values resulting from market movements.

The Committee considers financial exposure risk in three categories and makes use of three modelling approaches to help understand each of these.

Risk	Cause	Indicative magnitude of loss	Time to recover
Regular Market Volatility	Trading activity and market sentiment	10%-15%	Months to one year
Market Stress	Market issues e.g. credit/currency or demand/supply issues	20%	1 to 2 years
Permanent Loss	Overvaluation or economic regime change	50%-85%	Can be decades

Regular Market Volatility can be measured using a value-at-risk type model which can estimate the expected volatility of an investment strategy in normal market conditions. Market Stress is measured by calculating the effect of one off market shocks e.g. a sharp fall in equity values or significant rise in inflation. To measure the risk of permanent loss, a range of economic scenarios is identified and projections made as to how the strategy would perform in each of these situations.

In each case the Committee will develop with each investment manager, explicit constraints within which risk is managed. The risk of Permanent Loss is the initial focus of any analysis as these are the biggest and longest-lived risks faced by the Committee.

In order to fully test an investment strategy all three of the models will be used to assess how robust the strategy is against the three different types of risk. When considering a strategy the Committee will use models to test robustness and as a useful comparison between strategies, but will also apply a qualitative assessment of the strategy to ensure the results are sensible, defensible and meet the non-financial needs of the Committee.

Market risk

The fair value of future cash flows of a financial instrument held by the Common Investment Fund may fluctuate because of changes in market prices.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Market price risk sensitivity

The following table illustrates the sensitivity of the Common Investment Fund to a movement in the fair values of the all asset classes. A 5% variance in the fair values would have resulted in an increase or decrease of equal value.

	31.12.2018	31.12.2017
	£'000s	£'000s
Fair value at year-end	874,887	939,939
Variance of 5% in fair value	±43,744	±46,997

The market risk comprises of five other elements – currency risk, interest rate risk, credit risk, counterparty risk and liquidity risk. Information to enable an evaluation of the nature of these four elements is given in (i) to (iv) below, together with sensitivity analyses where appropriate.

The Committee reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. Each investment manager assesses their exposure to market risk when making each investment decision and monitors the overall level of market risk on the investment portfolio under its management on an ongoing basis.

Open Option Contracts

There were 3 (2017: 3) open option contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Purchase Price	31.12.18 Fair Value £'000s	31.12.17 Fair value £'000s
MSCI World C @ 1960.000	27/07/2020	16,220	11,378	23,068
MSCI World P @ 2260.000	27/07/2020	(5,304)	(2,743)	(8,672)
MSCI World P @ 1275.000	27/07/2020	(3,044)	(2,022)	(1,940)
		7,872	6,613	12,456

(i) Currency risk

Certain of the Common Investment Fund's assets and liabilities and income are denominated in currencies other than sterling, which is the base currency of the Fund and the Committee's financial statements. As a result, movements in exchange rates will affect the Sterling value of those items.

Management of currency risk

The investment managers are responsible for managing currency risk and monitoring exposure to foreign currencies. Investment managers are permitted to use forward foreign currency exchange contracts to limit the exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Income denominated in foreign currencies is converted into Sterling.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Open forward foreign currency contracts

There were 5 (2017: 5) open forward currency contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.18 Fair value £'000s
Forward FX Purchase	1 month	GBP	80,192	80,192
Forward FX Sale	1 month	AUD	(1,197)	(1,167)
Forward FX Sale	1 month	CAD	(2,951)	(2,881)
Forward FX Sale	1 month	EUR	(6,097)	(6,078)
Forward FX Sale	1 month	USD	(69,947)	(70,299)
			-	(233)

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.17 Fair value £'000s
Forward FX Purchase	1 month	GBP	114,930	114,930
Forward FX Sale	1 month	AUD	(791)	(799)
Forward FX Sale	1 month	CAD	(1,101)	(1,119)
Forward FX Sale	1 month	EUR	(5,787)	(5,801)
Forward FX Sale	1 month	USD	(107,251)	(105,843)
			-	1,368

Foreign currency exposure

At the year-end, the net currency exposure of the Contributory Funds, including the Common Investment Fund (CIF), was as follows:

31.12.18	Monetary Assets £'000s	Monetary Liabilities £'000s	Non-Monetary Assets £'000s	Non-Monetary Liabilities £'000s	Forward FX Contracts £'000s	Total £'000s
GBP	100,096	(2)	695,676	-	80,192	875,962
AUD	-	-	1,148	-	(1,167)	(19)
CAD	119	-	2,820	-	(2,881)	58
EUR	-	-	6,047	-	(6,078)	(31)
USD	5,120	-	68,861	(4,765)	(70,299)	(1,083)
Total (CIF)	105,335	(2)	774,552	(4,765)	(233)	874,887
GBP	349	(724)	37,147	(5,488)	-	31,284
Total	105,684	(726)	811,699	(10,253)	(233)	906,171

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Foreign currency exposure (continued)

31.12.17	Monetary Assets	Monetary Liabilities	Non- Monetary Assets	Non- Monetary Liabilities	Forward FX Contracts	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
GBP	128,836	(2)	703,900	(12,770)	114,930	934,894
AUD	-	-	824	-	(800)	24
CAD	8	-	889	-	(1,119)	(222)
EUR	112	(107)	5,807	-	(5,801)	11
USD	1,799	-	119,887	(10,611)	(105,843)	5,232
Total (CIF)	130,755	(109)	831,307	(23,381)	1,367	939,939
GBP	333	(2,032)	32,107	(3,706)	-	26,702
Total	131,088	(2,141)	863,414	(27,087)	1,367	966,641

At 31 December 2018, had the GBP strengthened by 5% in relation to other currency exposure of the Common Investment Fund (CIF), with all other variables held constant, the valuation of the CIF would have changed by the amounts shown below. The analysis is performed on the same basis for 2016. A 5% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect.

Foreign Currency Exposure – Sensitivity Analysis	31.12.2018	31.12.2017
	£'000s	£'000s
AUD	(1)	(1)
CAD	3	11
EUR	(1)	(1)
USD	(52)	(261)
Total	(51)	(252)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Management of interest rate risk

The interest rate profile of the Contributory Funds at year-end is as follows:

Interest rate profile 31.12.18	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	102,393	102,393
Equities and derivatives	6,613	-	6,613
Fixed income and derivatives	-	74,962	74,962
Total	6,613	177,355	183,968

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Management of interest rate risk (continued)

Interest rate profile 31.12.17	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	19,107	19,107
Total	-	19,107	19,107

The majority of investments with fixed and floating rates are held in pooled investment funds and, as such, the interest rate risk is managed by the underlying investment managers. These exposures are therefore not included in the above tables.

The Common Investment Fund has 3 direct holdings in fixed interest securities (2017: None) and floating rate assets comprise cash held within the Common Investment Fund. No sensitivity analysis has been provided on the basis that any movement would not be material to the Common Investment Fund.

(iii) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Contributory Funds.

It is the responsibility of the investment managers to monitor dealing activity to ensure best execution, which involves measuring various indicators including the quality of the trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Investment managers' credit committees.

The Committee's Custodian is Northern Trust Limited which has a credit rating of AA- from Standard & Poor's, Aa2 from Moody's, AA from Fitch Ratings and AA from DBRS. The Committee's investments are held in accounts which are segregated from the Custodian's own trading assets. If the Custodian were to become insolvent, the Committee's right of ownership is clear and they are therefore protected. However, the Committee cash balances, which are held with the Custodian, may be at risk in this instance as the Committee would rank alongside other creditors of the Custodian.

(iv) Counterparty risk

Counterparty risk is the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

(v) Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the cash flow requirements of the Committee need to be monitored to control the timing of investment and divestment to and from the Common Investment Fund. As the Committee has entered a long-term period of annual operating deficits, cash flow management including increased short-term fixed income features increasingly in the management and governance of the Common Investment Fund.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

The liquidity analysis of the Contributory Funds at year-end is as follows:

Liquidity Analysis	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.18 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Financial instruments	6,494	550,981	250,552	66,860	874,887
Tangible assets	-	-	-	3,459	3,459
Treasury Deposit and other cash	(375)	-	-	-	(375)
Trade and other receivables	33,574	-	-	114	33,688
Trade and other payables	(5,488)	-	-	-	(5,488)
Total	34,205	550,981	250,552	70,433	906,171
% of Total	3.8%	60.8%	27.6%	7.8%	100.0%

Liquidity Analysis	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.17 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Financial instruments	20,474	560,153	277,688	81,624	939,939
Tangible assets	-	-	-	2,925	2,925
Treasury Deposit and other cash	(1,699)	-	-	-	(1,699)
Trade and other receivables	29,074	-	-	108	29,182
Trade and other payables	(3,706)	-	-	-	(3,706)
Total	44,143	560,153	277,688	84,657	966,641
% of Total	4.6%	57.9%	28.7%	8.8%	100.0%

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The investments categorised under the level 1 Fair Value hierarchy are valued at £105m at the year-end (2017: £612m). Investments with quoted prices and traded on an active market could usually be liquidated within one month. However, due to the size of certain of the level 1 holdings, it is assumed it that may take longer to liquidate some of these holdings and as such they have been analysed as 1-3 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT

The Committee's objectives when managing capital include safeguarding its ability to continue as a going concern and to ensure that each of the Contributory Funds has adequate financial resources to meet its obligations both in the short and long-term.

The Contributory Funds have no externally imposed capital requirements.

As part of its capital management, the Committee is responsible in law for setting investment policy, strategy and implementation. In discharging this responsibility, the Committee contracts advice from expert external advisers. The committee has delegated the responsibility for the direct governance of its investment funds to an Investment Sub-Committee.

In addition to the Committees financial risk management as detailed in note 18, the management of other associated and qualitative risks as follows:

Demographic Risk

The risk of an increased cash flow requirement from the Fund resulting from demographic changes such as an increase in life expectancy, or reduction in working population.

Financial exposure risks are important, but the impact of demographics on the commitments of the funds may be just as relevant.

The demographics risks may affect the drawdown from the Fund in a number of ways:

- **Mortality:** Where benefits are related to death, the value of the benefit will be driven by this. This is particularly an issue in relation to the provision of pensions, where payments are made until the death of the beneficiary. Improvements in life expectancy would naturally result in paying out more than expected, which represents a risk to the Fund;
- **Ill-Health:** Some benefits relate to the incidence of ill-health, for example where this is in respect of invalidity or long-term care costs. Changes in this can result in paying benefits for longer, or greater overall levels of benefits; and
- **Structure of population:** The ability to finance the various funds is affected by the level of contributions, which in turn is related to the structure of the population. Therefore, a long run risk to the Fund is the relationship between those "paying" for the benefits and those receiving them.

These risks are important in absolute terms, but can intensify when combined with financial risks. For example, the "intensity" of an increase in longevity is magnified if the investment return on the Fund is expected to be lower. This has a very real effect on the risks of the Fund, if it affects the recommended contributions. Hence, these risks are not only about their effect on the long term cost, but also on the effect of the incidence of contributions in the short and medium term. The Actuarial Reviews that are undertaken at least every five years provide relevant information for this type of risk.

Performance Risk

As well as financial exposure risk, poor performance of Fund Managers and providers, including the Investment Adviser, can also have a significant effect. The key contributing risks are identified as below:

- It should be well understood what the objectives of Fund Managers and providers are and the time horizon over which these operate;
- There should be evidence that added-value is skilful (rather than lucky or the result of a persistent systemic position). The basis for skill – i.e. what it is and why it is expected to persist – should be clear and understood. If this evidence does not exist, it is difficult to have confidence in the ability of performance to be delivered;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT (CONTINUED)

Performance Risk (continued)

- All mandates involve constraints within which the Fund manager or provider must operate. It is important that operations are within the mandate and that there have been no breaches (or any breaches have been rectified quickly); and
- it is important to understand in advance how the Fund Manager or provider is expected to perform in a range of different conditions, in order that returns generated over various time horizons may be interpreted effectively.

The Committee takes advice from its Investment Adviser prior to appointing Fund Managers. All Fund Managers sign an Investment Management Agreement with the Committee setting out the legal mandate in terms of objectives, constraints and the roles and responsibilities of all related parties. The Committee monitors Fund Managers' performance to ensure they are delivering their objectives in line with their mandates.

Review of historical performance

Having set the performance tolerances above, these can be measured on a regular basis by comparing actual performance with the target, benchmark and where appropriate a Governance comparable figure (i.e. the Fund Manager's performance might be exaggerated or impaired because of factors that affect all similar managers in the same way).

Operational Risk

The risk is associated with losses resulting from weak controls, process or security. Operational risks can be either internal or external. Internal risks mainly refer to cash flow management. The Committee must ensure it plans for future cash flows and that all payments will be made in a timely manner (See: Liquidity Risk above).

Where funds are required to be moved quickly, the Committee needs to be being able to act quickly on an investment or disinvestment. External risks primarily relate to the process and control errors caused by external parties, such as Fund Managers, custodian or advisers. These risks are mitigated by thorough research and due diligence.

18. STATEMENT OF CONTROL

The Contributory Funds are controlled by the Committee *for* Employment & Social Security as a Principal Committee. The Committee can exercise powers and perform duties conferred on it by legislation and extant States' resolutions, including but not limited to, conferred functions on the former Social Security Department. The members of the Committee have been appointed by the States of Guernsey.

19. SUBSEQUENT EVENTS

There have been no material subsequent events since the reporting date which affect these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2018

CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

	Note	GIF 2018 £'000s	GHSF 2018 £'000s	LTCIF 2018 £'000s	TOTAL 2018 £'000s	TOTAL 2017 £'000s
Income						
Contributions	1(c),2	109,764	41,024	28,038	178,826	172,713
States grant	1(c)	16,135	-	-	16,135	15,668
		125,899	41,024	28,038	194,961	188,381
Expenditure						
Benefits payable	1(d),3,4,5,6	144,918	42,188	19,632	206,738	197,875
Administration	7	4,533	1,622	308	6,463	6,118
		149,451	43,810	19,940	213,201	203,993
Operating (deficit)/surplus before depreciation charge		(23,552)	(2,786)	8,098	(18,240)	(15,612)
Depreciation charge	9	(78)	-	-	(78)	(93)
Operating (deficit)/surplus		(23,630)	(2,786)	8,098	(18,318)	(15,705)
Investment returns	1(h),8	(33,132)	(5,298)	(3,900)	(42,330)	71,999
Net (deficit)/surplus		(56,762)	(8,084)	4,198	(60,648)	56,294
Net assets at 1 January		769,278	122,528	75,013	966,819	910,525
Net assets at 31 December		712,516	114,444	79,211	906,171	966,819

This additional information has been prepared from the accounting records of the Contributory Funds. While it does not form part of the financial statements, it should be read in conjunction with them.

STATES' TRADING SUPERVISORY BOARD

CHANNEL ISLANDS LOTTERY – 2018 REPORT AND ACCOUNTS

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

1.1 States' Trading Supervisory Board Members:

- Deputy Charles Parkinson (resigned 27 June 2018);
- Deputy Peter Ferbrache (appointed 27 June 2018);
- Deputy Jeremy Smithies;
- Deputy Jan Kuttelwascher (appointed 25 September 2018);
- Mr Stuart Falla MBE;
- Mr John 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.

1.2 Principal Officers to the States' Trading Supervisory Board:

- Mr Simon Elliott, Managing Director, States of Guernsey Trading Assets;
- Mr Richard Evans, Deputy Managing Director, States of Guernsey Trading Assets;
- Mr Simon Gardiner, Finance Business Partner, States of Guernsey Trading Assets;
- Mr Alastair Ford, Head of Shareholder Executive, States of Guernsey Trading Assets.

1.3 The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016 directs that the Gambling (Channel Islands Lottery) (Bailiwick of Guernsey) Ordinance, 1975 is transferred from the Culture and Leisure Department to the STSB. Specifically, the STSB have responsibilities and oversight of the delivery of the administration and promotion of the Channel Islands Lottery.

1.4 Channel Islands Lottery Sub-Committee:

- Deputy Jeremy Smithies, Chair (appointed 15 February 2018);
- Deputy Charles Parkinson (appointed 15 February 2018, resigned 27 June 2018);
- Deputy Peter Ferbrache (appointed 26 July 2018);
- Mr Richard Evans, non-voting member (appointed 15 February 2018);
- Mr Simon Gardiner, non-voting member (appointed 15 February 2018);
- Mr Jon Taylor, non-voting member (appointed 1 May 2018).

1.5 Principal Officers of the Channel Islands Lottery Sub-Committee:

- Mr Richard Evans, Deputy Managing Director, States of Guernsey Trading Assets;
- Mr Simon Gardiner, Finance Business Partner, States of Guernsey Trading Assets;
- Mrs Catriona Edwards, Senior Finance Manager, States of Guernsey Trading Assets;
- Mr Jon Taylor, Senior Lottery Officer, States of Guernsey Trading Assets.

1.6 In these Report and Accounts any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the Channel Islands Lottery Sub-Committee.

2 Chairman's Report - Overview

2.1 I am pleased to be able to provide a report on the Bailiwick of Guernsey's performance within the Channel Islands (CI) Lottery for 2018. The requirement to report is contained within section 2(5) of The Gambling (Channel Islands Lottery) (Bailiwick of Guernsey) Ordinance, 1975 (as amended). The report is included as an appendix to a Billet d'Etat.

2.2 Over the last twelve months, the CI Lottery has become increasingly scrutinised by States' Members and the community at large. In observing local social media conversations, media reports and general discussions about the CI Lottery, there is still some work for the STSB to do in communicating how the lottery works, who benefits and what we are doing to run the series of scratch card games responsibly. Ultimately, we are here to generate much needed funds for the purpose of helping our community through local charities and good causes.

2.3 The STSB's vision for the CI Lottery is quite clear in that it wishes to ensure the instant lottery games continue to be a positive experience for participants, providing the best return to the charity sector and other notable good causes,

whilst carrying out operations in a responsible manner.

- 2.4 The STSB operates the lottery in Guernsey but it is effectively a joint operation between the States of Guernsey and States of Jersey. Its foundation is tied up in legislation and States of Guernsey Resolutions. In its infancy, Jersey and Guernsey utilised the revenues towards helping fund the operations of their respective leisure centres at Fort Regent and Beau Sejour. By 1980 a Charity Christmas Draw was introduced and remains popular today, albeit with declining sales over the last few years.
- 2.5 In 2003 the instant-win format replaced the fortnightly draws, however sales declined and in 2011 the States entered into a strategic partnership with Scientific Games International (SGI). The CI Lottery has experienced significant growth (scratch card games) with our game maker partner SGI.
- 2.6 The CI Lottery at present has two component formats: firstly, there are the regular instant-win games (at any one time there are six paper based instant win scratch games in circulation); the second game is the CI Christmas Lottery which is a draw/instant game with a rising drawn top prize, a range of significant secondary drawn prizes and an instant element.
- 2.7 In May 2016, the STSB took over responsibility for the Guernsey Bailiwick side of the Lottery from the Culture & Leisure Department. Since that time the CI Lottery has been managed on a daily basis by a small Lottery Team led by the Senior Lottery Officer. The CI Lottery Sub-Committee has responsibility for the strategic direction of the lottery.
- 2.8 Following the transfer to the STSB, the Lottery Team initiated a two phase CI Lottery review.
- 2.9 Phase one of this review focused on the short-term future of the lottery, taking into consideration its operational and governance arrangements and mitigating immediate risks. This part of the review has been completed and appropriate actions have been accomplished. Phase two has focused on the long-term future of the lottery taking into consideration its strategic purpose and objectives, in particular increasing the return to good causes.
- 2.10 Furthermore, the review provided the opportunity to formalise governance structures and align contracts to ensure the CI Lottery continues to be a well-regulated and appropriately managed operation.
- 2.11 The review proposed that consideration be given towards the future target operating model to ensure the continued operational success of the lottery.
- 2.12 The STSB's mandate is the oversight of the administration and promotion of the

CI Lottery and it wishes to do this in a responsible manner. Therefore, over the next year and beyond, it will be helping where able, to support the Committee for Health and Social Care in its plans for a gambling health impact assessment and a broader gambling prevalence survey into all types of gambling.

3 Chairman's Report – Business Performance

- 3.1 The CI Lottery continues to perform well. Sales in the scratch game have grown in Guernsey by 21.2% over the last 12 months to £13.0 million. The biggest prize in the instant game portfolio is £100,000 on the 'Casino' game £10 scratch card. A set percentage of the sales value of tickets in each game is assigned to prizes (72% is the highest on the £10 game, 60.5% is the average across the various price points).
- 3.2 The large prize percentage makes the scratch card games a very popular form of gambling in Guernsey due to the prevalence and frequency of prizes paid out. In particular, the £10 games contributed to 36% of sales having grown by 104% on 2017 sales. However, the £5 tickets still contribute the most to sales, generating approximately 41% of total sales (£5.4m).
- 3.3 In 2019 there will be an expansion of the game portfolio with an increase from six to eight instant games at any one time.

4 Chairman's Report – Raising Funds Towards Good Causes

- 4.1 The Guernsey Lottery was established in 1971 as a means of providing funding for special States led projects of benefit to the community. In the following year the States of Deliberation agreed to refine the objective of the Lottery in order for it to contribute only to the Beau Sejour Leisure Centre, which was then under development. When the Lotteries of Guernsey and Jersey merged to form the Channel Islands Lottery in 1975, a States' Resolution determined that the Guernsey portion of the proceeds should continue to be directed towards the operation of Beau Sejour in recognition of its value to the local people. This has evolved over time and now net proceeds from the annual Christmas Draw are donated to the Association of Guernsey Charities (AGC). £218k was distributed to charities via the AGC from Christmas Lottery revenues in 2018, an increase of 14.8% on 2017.
- 4.2 The annual net proceeds of the CI Lottery Instant Games, continues to be transferred to the Beau Sejour Leisure Centre up to the level of the Centre's operating deficit, in 2018 this was £616k (2017: £493K).

- 4.3 Any scratch card net proceeds exceeding the operating deficit of Beau Sejour, excluding the Christmas Draw, are retained within the States of Guernsey Appropriation Account and are used for major projects that will enhance Education, Sport and Culture Committee's (ESC) properties or for the funding of events which have a particularly special significance to the Island's heritage and unique cultural identity or (as approved at the November 6th 2018 States meeting) to fund initiatives designed to help and support individuals experiencing gambling problems locally.
- 4.4 The Lottery continues to provide important funding and since 2013 £6.8m has been raised in Guernsey which then goes towards charity, to funding Beau Sejour's operating deficit and to good causes that benefit the Island's community. £1.4m of this has been distributed to charities via the AGC over the last five years from the proceeds of the Christmas Draw.

5 Chairman's Report – CI Christmas Lottery 2018

- 5.1 The 2018 Christmas Lottery was reviewed and a new prize structure introduced to include more drawn prizes than in previous years. In Guernsey, 395,000 tickets were sold in 2018 contributing £1.2m to total sales (9.1%) compared with 538,750 draw tickets sold in 2017 contributing £1.0m to total sales. This represents a 26.6% drop in ticket sales to generate a 9.9% uplift in sales revenues with a ticket price increase from £2 to £3.
- 5.2 A total of 666,160 tickets were sold in Jersey contributing £2.0m to total sales (21.9%) compared with 977,050 draw tickets sold in 2017 generating £2.0m sales. This represents a 31.8% drop in ticket sales to generate a 2.2% uplift in sales revenues.
- 5.3 For the first time in its history the draw was made 'live' as part of the Channel TV Broadcast on Thursday 20th December at Beau Sejour Centre in Guernsey. The draw was carried out by a team of lottery officers and officials and adjudicated by the States Auditor. Chair of the Guernsey Community Foundation performed the new role of 'peoples' observer'. Assistant Minister for Economic Development, Tourism, Sport and Culture represented the States of Jersey at the draw.
- 5.4 As part of the continued efforts to maintain the Christmas draw's popularity, an Island-wide public survey will be launched in 2019 to gather feedback which in turn will help shape the Christmas game in years to come.

6 Chairman's Report – The CI Lottery and our Community

- 6.1 The STSB 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."
- 6.2 The CI Lottery continues to distribute much needed funds towards charity and good causes throughout the Bailiwick of Guernsey and Jersey.
- 6.3 The CfHSC with the support of other committees including STSB, will now lead the problem gambling research.
- 6.4 The work being carried out by the CfHSC into problem gambling in Guernsey and Alderney recognises that, whilst most people who gamble do so responsibly most of the time, problem gambling can be harmful for some. This includes binge gambling, excessive gambling, periods of loss of control and a more serious gambling addiction. The resulting harm impacts not only on the gambler, but also on families, friends, communities and employers. It is therefore important we understand the prevalence of the problem so we can develop services to address identified areas of concern.

7 Chairman's Report – The Future

- 7.1 Following the conclusion of a two phase internal review of the CI Lottery operation there is ongoing work to make further efficiencies to ensure a greater proportion of the revenues generated through the scratch card game is available to charity and good causes. These initiatives will focus on achieving greater value through negotiating new contract arrangements with the Game Maker and the lottery distribution agents. A tender to procure one or more main lottery agents will be announced in 2019. This is intended to further improve the efficiencies of the lottery and in turn result in more funding available for charity and good causes.

8 Senior Lottery Officer's Report – Lottery Proceeds and How They Are Distributed

- 8.1 In September 2014, the States considered a report from the Culture and Leisure Department (Billet d'Etat XX, dated 15th August 2014) to change a number of

operational arrangements from which nine resolutions arose. The majority of these resolutions concerned changes to the distribution of Lottery proceeds or to provide flexibility to conduct special draws, namely:

- To agree that the proceeds from the annual Christmas Draw be donated to registered, local charitable bodies as authorised by the Treasury and Resources Department upon the recommendation of the Culture and Leisure Department;
- To confirm that the annual proceeds of the Channel Islands Lottery, aside from the annual Christmas Draw, continue to be transferred to the Beau Sejour Centre up to the level of the Centre's operating deficit for that same calendar year;
- To direct that any Channel Islands Lottery proceeds exceeding the operating deficit of the Beau Sejour Centre, excluding the Christmas Draw, is to be retained within the Appropriation Account to be used either for major projects that will enhance the Department's properties or for the funding of events which have a particularly special significance to the Island's heritage and unique cultural identity;
- To delegate authority to the Treasury and Resources Department to approve use of the Appropriation Account;
- To direct the preparation of an Ordinance under the Gambling (Guernsey) Law, 1971 to enable additional public lotteries to be conducted by the Culture and Leisure Department in support of such community, sporting or other events, or such public purposes for the benefit of Guernsey and its inhabitants, as the Department may determine with the approval of the Treasury and Resources Department, without necessitating the involvement of the States of Jersey and the banner of the Channel Islands Lottery; and
- To direct that the operating surplus from any such additional public lotteries be transferred to the Appropriation Account.

9 Senior Lottery Officer's Report – Sale of Tickets

- 9.1 Five main distribution Agents are appointed to sell Lottery tickets within the Bailiwick of Guernsey; three in Guernsey, one in Alderney and one in Sark. The Agents purchase tickets from the States of Guernsey and ensure that the tickets are on sale as widely as possible through a chain of sub-agents and retail outlets.
- 9.2 There has been, substantial year-on-year growth in scratch card sales revenue in Guernsey since 2011, coinciding with the commencement of the partnership agreement with Scientific Games and returning a higher percentage back to players as prizes.
- 9.3 Guernsey scratch card sales have exceeded Jersey in 2018 for the eight consecutive year, however Jersey sells more Christmas Tickets than Guernsey. A

ratio of 65% sold in Jersey to 35% sold in Guernsey.

9.4 Ticket revenue since 2007 has been as follows:

Year	Scratch Card Revenue £000s		Christmas Draw Revenue £000s	
	Bailiwick of Guernsey	Jersey	Bailiwick of Guernsey	Jersey
2007	822	1,144	600	900
2008	756	956	598	1,100
2009	686	864	760	1,240
2010	640	796	880	1,420
2011	891	795	927	1,380
2012	2,815	1,934	815	1,308
2013	4,199	2,014	1,177	1,785
2014	6,789	3,423	1,226	2,260
2015	7,726	4,518	1,232	2,199
2016	8,603	5,837	1,200	2,122
2017	9,648	7,949	1,077	1,954
2018	11,815	7,102	1,185	1,998

10 Senior Lottery Officer's Report – CI Lottery Profits Disbursed Towards Charity and Good Causes

- 10.1 Over a period of six years, a total of £6.7m has been raised for charity and good causes. Local charities have received £1.4m over this period. Beau Sejour Centre receives a significant amount which is utilised for the centre's operating deficit. In 2018 this equated to £616k. The Island Games Association has received £200k over the last two years to be used for the operation of Guernsey's 2021 Island Games, a total of £600K has been committed to this event in total, with the outstanding commitment now £400k.
- 10.2 The profits from the Christmas Charity Draw are paid to the Association of Guernsey Charities (AGC) for distribution to charitable groups. In 2018, due to the restructured ticket and increase in ticket price, sales revenues increased and the donation to AGC was up by 14.8% to £218k. With the STSB's agreement the AGC has distributed the funds as detailed in Appendix 2 at the end of this document.

10.3 Summary of all amounts distributed or retained since 2013, all retentions are accumulated within the Appropriation Account:

£000's	Christmas	Scratch Cards			
	AGC	Beau Sejour	Island Games	Liberation Day	Retained
Brought Forward					242
2013	209	550			73
2014	389	550			132
2015	220	672		50	176
2016	213	651			298
2017	190	493	100		538
2018	218	616	100		473
Total	1,439	3,352	200	50	1,932

Notes:

- (i) The 2014 distribution to the AGC included £97k from the forfeited prizes account which was closed with effect from 1 January 2014 with its balance distributed proportionately to the AGC, Alderney, Sark and the appropriation account. .
- (ii) The remaining commitment to Island Games 2021 is £400k

10.4 Prizes which are not claimed are forfeited after a given period of time, usually 12 months after the final issue of tickets for each game/draw. The total value of prizes unclaimed in the Bailiwick of Guernsey amounted to £87k in 2018 (2017: £118k). These forfeited prizes contribute to the proceeds available for good causes.

11 Senior Lottery Officer's Report – Impact of Gambling – Review Planned

- 11.1 The CfHSC will be working in partnership with the CfHA and the STSB to conduct a health impact assessment of gambling. The aim of the review is to look at gambling participation and behaviours locally, with a focus on problem gambling.
- 11.2 Like many countries throughout the world, problem gambling is becoming an increasing challenge. While internet based platforms remain a common form of gambling, in particularly relating to sports betting, the CI Lottery Scratch Card

game is under continued scrutiny from States Members and the general public alike.

11.3 Problem Gambling is sometimes described as gambling to a degree that compromises, disrupts or damages family, personal or recreational pursuits. An understanding of the magnitude and type of gambling, including problem gambling, will enable CfHSC to use this evidence base to inform local service provision for problem gamblers.

11.4 In correspondence to the STSB, the President, CfHSC, has said:

"The Committee for Health & Social Care is planning to work in partnership with the Committee for Home Affairs and the States' Trading Supervisory Board, subject to the availability of funding, to conduct a health impact assessment of gambling. The aim of the review is to look at gambling participation and behaviours locally, with a focus on problem gambling. Once HSC have secured an evidence-base, scoping the prevalence, type and severity of gambling-related problems locally, they can then use this to customise a service provision. This will ensure maximum clinical and cost-efficacy of services to support problem gambling. The aim is to complete this work by the end of the fourth quarter of 2019. "

The proposed project deliverables of the impact assessment are as follows:

- the collection and collation of information of gambling prevalence and type though the conducting of a population-based survey;
- the identification within the population-based survey, using a standard screening instrument based on the American Psychiatric Association Diagnostic and Statistics Manual — IV (DSM-IV) or equivalent tool, of the severity of problems experienced by individuals, including those at-risk of experiencing gambling-related harm;
- a comparison of gambling patterns locally with those in similar jurisdictions, for example the Isle of Man, Jersey and England;
- a collation of the qualitative information obtained from stakeholder interviews, including gamblers;
- an assessment of the impact of gambling on the health and wellbeing of local gamblers, with a focus on problem gambling;
- a consideration of the effect of problem gambling on family members;
- an appraisal of current services available and an analysis of service gaps; and
- an analysis of scratch card use and methods of sale in Guernsey, with a comparison to other jurisdictions; a specific consideration of the health impact of scratch card use in Guernsey.

12 Corporate Governance

- 12.1 The purpose of the CI Lottery Sub-Committee is to support the delivery of the STSB's mandate, ensuring the efficient and effective management of the CI Lottery games. The CI Lottery Sub-Committee is accountable to the STSB.
- 12.2 Sub-Committee membership consists of two STSB Members, plus the Deputy Managing Director, STSB, Senior Finance Business Partner STSB, and Senior Lottery Officer.
- 12.3 The Sub-Committee will normally focus attention on strategic issues and a number of critical items, in particular those with potential to have the greatest impact on, and risk to, lottery operations whether financial, regulatory, environmental or reputational.
- 12.4 The key roles and responsibilities of the Sub-Committee include:
- Oversight of the lottery operation;
 - To work with CI Lottery Jersey political representation with a view to continue improvement in the way the CI Lotteries are delivered across both islands;
 - To work with the lottery management team to ensure that the appropriate level of governance is established and working effectively; and
 - To oversee and monitor policies and procedures for the CI Lottery (Guernsey) within the States objectives and policies.
- 12.5 The Chairman of the Sub-Committee is responsible for:
- The proper observance of the Terms of Reference;
 - Overseeing and facilitating the conduct of the Sub-Committee meetings;
 - Ensuring all Sub-Committee members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
 - Seeking consensus from the whole Sub-Committee for matters that may be referred to the STSB or when acting as a subcommittee; and
 - Setting agenda items in conjunction with the Senior Lottery Officer.
- 12.6 The Sub-Committee does not hold any fiduciary responsibility.
- 12.7 The Sub-Committee will take into account the States' political direction with regard to the operation of CI Lottery, as directed from time to time by the STSB. It must ensure that the CI Lottery operation and operational policies align with the wider strategy and policy framework of the States of Guernsey and/or the

STSB. The Sub-Committee may generate policy for endorsement by the STSB and onward to the States of Guernsey as required.

12.8 The Sub-Committee should operate by challenging established practices and assumptions, and creating, developing and critically reviewing, long-term business plans and budgets to be set before the STSB for approval.

12.9 The STSB specifically confers the following responsibilities and delegated authority to the Sub-Committee:

- 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 the Channel Islands Lottery Management Team.

12.10 In carrying out these responsibilities the Sub-Committee 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.

12.11 The Sub-Committee has the authority delegated by the STSB to direct the CI Lottery Senior Officer in the day-to-day operation of the CI Lottery in line with approved budget and business plans.

12.12 In fulfilling this purpose, the Sub-Committee will:

- Receive regular operational, sales/management information and financial reports from the Senior Lottery Officer and, as appropriate, reports from the Lottery management team, with a view to directing the CI Lottery 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 CI Lottery operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the Sub-Committee'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 games operated by the CI Lottery;
 - Consider any regulatory authority reports in relation to CI Lottery, including the Guernsey Problem Gambling Steering Group, review options and take action to ensure compliance;
 - Own the CI Lottery 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 Sub-Committee.
- 12.13 A recommendation by the Sub-Committee to the STSB to amend the Terms of Reference must be made by majority of all Sub-Committee members.
- 12.14 The STSB can supplement the defined Sub-Committee membership at any time with non-voting advisers.
- 12.15 The Sub-Committee 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.
- 12.16 In the event of due process not being followed, the Sub-Committee must render itself unable to make a decision until such time process has been followed.
- 12.17 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 Sub-Committee not less than five days prior to the meeting.
- 12.18 The Sub-Committee acts as a political Sub-Committee of the STSB.

13 Accounts

- 13.1 The accounts for the CI Lottery (Guernsey) Fund for 2018 are included appendix 1. These reveal that the promotion of the Lottery in the Bailiwick of Guernsey produced proceeds of £1.4m in 2018 (2017: £1.3m) (scratch cards and Christmas Draw combined), which was shared within the Bailiwick in proportion to the number of tickets sold on each Island as follows:

<i>All figures in £000s</i>	<i>2018</i>	<i>2017</i>	<i>2016</i>
<i>States of Guernsey</i>	1,407	1,321	1,168
<i>States of Alderney</i>	3	3	3
<i>Chief Pleas - Sark</i>	4	3	2
<i>Totals</i>	1,414	1,328	1,163

The balance of the appropriation account amount as at the end of 2018 is £1.9m.

- 13.2 See Appendix 1 for detailed analysis of the Operating Account and the Appropriation Account.

APPENDIX 1 - CHANNEL ISLANDS LOTTERY (GUERNSEY) FUND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

Operating Account

	2018	2017
	Actual	Actual
	£'000s	£'000s
Sale of Tickets	13,000	10,725
Forfeited Prizes	87	118
Contribution to prize fund inc. forfeited prizes	(9,011)	(7,357)
Distribution Agent Commission	(1,776)	(1,452)
Game maker Commission	(714)	(584)
Staff Costs	(106)	(47)
Handling and Storage Charges	(49)	(46)
Grant re: problem gambling	0	(15)
Other expenses	(17)	(14)
	-----	-----
Gross surplus	1,414	1,328
	-----	-----
Lottery Proceeds Share		
Chief Pleas of Sark	(4)	(3)
States of Alderney	(3)	(3)
	-----	-----
Net surplus transferred to Appropriation Account for Guernsey	1,407	1,321

Appropriation account

	2018	2017
	Actual	Actual
	£'000s	£'000s
Balance at 1 January	1,459	921
Net surplus transferred from Operating Account	1,407	1,321
Contribution towards 2021 Island Games	(100)	(100)
Donation to Association of Guernsey Charities	(218)	(190)
Transfers to Beau Sejour Centre	(616)	(493)
	-----	-----
Balance at 31 December	1,932	1,459
	-----	-----

Notes:

The remaining commitment to the Island Games 2021 is £400,000

In accordance with the States resolutions of 26 September 2014 made following consideration of the Culture and Leisure Department's Report entitled "Channel Islands Lottery – Administration Arrangements, Forfeited Prizes Account and 2011-13 Accounts" (Billet d'Etat XX, 2014) and the States Resolutions of 9 November 2018 Budget Billet XXIV, 2018:

1. The Forfeited Prizes Account was closed, with effect from 1 January 2014 and its balance was distributed proportionately to the Association of Guernsey Charities, Alderney, Sark and the Appropriation Account;
2. The Guernsey proceeds of the Channel Islands Lottery Christmas Draw are donated to the Association of Guernsey Charities for subsequent distribution to registered, local charitable bodies;
3. A transfer is made from Guernsey's proceeds of the Channel Islands Lottery (excluding the Christmas Draw) to the Beau Sejour Leisure Centre up to the level of the Centre's operating deficit for that same calendar year;

4. Guernsey proceeds of the Channel Islands Lottery (excluding the Christmas Draw) which exceed the operating deficit of the Beau Sejour Leisure Centre are retained within the Appropriation Account to be used for major projects that will enhance the Culture and Leisure Department's properties or for the funding of events which have a particularly special significance to the Island's heritage and unique cultural history or (as approved at the November 6th 2018 States meeting) to fund initiatives designed to help and support individuals experiencing gambling problems locally.

APPENDIX 2 - Channel Island Christmas Lottery - 2018

Guernsey Charitable Grant Allocation - The Association of Guernsey Charities

CHARITY	AGC MEMBER	GRANT	PURPOSE
Access for All	446	£950.00	Funding to enable an Access for All Rep to visit Alderney and for the accessible town project
Alderney Broadcasting Company	441	£750.00	To pay for central heating and offset some electricity charges
Alderney Performing Arts Festival Foundation	371	£4,500.00	Pay for technical services, performer costs, marketing, website maintenance
Amalgamated Boxing Club	404	£5,000.00	Towards rebuilding costs for boxing club, itemised works that will be spent within 12 months
Amherst Primary School PTA	295	£2,150.00	Match funding for purchase of Chromebook to aid and enhance children's learning
Autism Guernsey LBG	373	£6,295.00	To provide Early bird Teen Life programme to families
Bailiwick of Guernsey Victim Support and Witness Service	211	£1,000.00	Towards training costs to raise public awareness of fraud
CLIC Sargent	321	£5,586.00	Accommodation for families of young cancer patients from Guernsey
Cystic Fibrosis Guernsey	437	£5,000.00	To purchase new airway clearance device for those with chronic respiratory conditions
Drug Concern	153	£7,650.00	Training costs for service provisions towards problem gambling.
Girl Guiding Guernsey	012	£1,500.00	Match funding for an off-island trip to take part and complete Baden Powell badge
Grow Limited	052	£15,000.00	To purchase growing equipment, and garden trolleys, for 100 flood trays and towards uniform lockers.
GSPCA	003	£7,500.00	New wildlife cages
Guernsey (ATC) Air Cadets	413	£800.00	Purchase of 20 camp beds for overnight courses

Guernsey Botanical Trust LBG	285	£5,000.00	Toward the build of the Gatehouse and Learning Centre, itemised works that will be completed within 12 months.
Guernsey Cardiac Action Group	222	£2,834.00	To install two PAD sites strategically placed to give access to large numbers of the general public
Guernsey Cheshire Home	035	£26,549.62	To cover utility costs of the home, gas/electricity/water and petrol
Guernsey Child Contact Centre	232	£3,500.00	To provide "Children First Course" to parents who are separating or divorcing
Guernsey Disability Alliance (GDA)	306	£1,500.00	Redevelop the gda website www.gda.org.gg
Guernsey DriveAbility	310	£7,500.00	To fit out a new disability driving assessment vehicle
Guernsey Multiple Myeloma Support Group	444	£3,000.00	To provide on-Island training to medical profession on this incurable cancer
Guernsey Multiple Sclerosis Society	011	£7,800.00	To pay for weekly specialised exercise classes at Beau SejourBeau Sejour
Guernsey Sailing Trust	117	£2,600.00	To purchase various sailing gear and equipment
Guernsey Sports Commission	260	£1,200.00	To replace flood lights and pop up goals
Guernsey Voluntary Service	057	£19,014.00	Funding for running of Meals-on-wheels cars and mini buses that are used for day centre client transportation
Helping Wings Guernsey	376	£1,500.00	To fund the flying day for disabled and disadvantaged young persons of the Bailiwick
Home-Start Guernsey LBG	305	£10,000.00	To cost of training volunteers
Le Rondin School Parents, Staff and Friends Association	278	£7,000.00	Match funding for an off-Island residential trip for all year 6 pupils to Calvert trust, Exmoor
Les Bourgs Hospice	141	£10,000.00	Towards general running costs
Orca Charitable LBG	424	£1,000.00	To fund the cost of the annual fundraising event
Paws for Support	573	£3,000.00	Training costs and promotional material
Philippi Guernsey LBG	270	£7,000.00	To assist with costs of training Counsellors

Relate Guernsey Ltd	024	£9,000.00	To cover the costs of various training courses
Set Sail Trust	323	£6,000.00	Herm weekend for vulnerable or disadvantaged families
St Mary & St Michael Catholic School PTFA	363	£1,600.00	Match funding for updating sound equipment and to procure lighting for school and outside user events.
Styx Centre LBG	130	£2,108.51	Manufacture and fit handrails for disabled safety
Town Centre Partnership	234	£2,500.00	21 Sunday afternoon concerts in Candie Garden
Trustees of the Guille-Alles Library	184	£5,000.00	To install a chair lift
Wellbeing Animals Guernsey (WAG)	575	£400.00	To fund a recruitment campaign
Youth Commission for Gsy and Alderney	368	£10,000.00	Towards replacement of minibuses
TOTAL		£220,287.13	Grant from Channel Island Christmas Lottery 2018 £218,117.80. The difference is funded from AGC reserves.

Elizabeth College - Upper School

**Annual Report and Audited
Financial Statements**

**Year ended
31 August 2018**

Elizabeth College - Upper School

Annual Report and Audited Financial Statements For the year ended 31 August 2018

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**Annual Report and Audited Financial Statements
For the year ended 31 August 2018**

Information

Board of Directors

The Very Reverend Tim Barker (Chairman)
Deputy Lyndon Trott
Ms Anne-Marie Collivet
Mr Mark Thompson
Mr Stephen Falla
Mrs Kate Ovenden
Mr Stephen Sharman
Mr Andreas Tautscher

Address

Elizabeth College
The Grange
St Peter Port
Guernsey
GY1 2PY

Independent Auditor

BDO Limited
Place du Pré
Rue du Pré
St Peter Port
GY1 3LL

Report of the Board of Directors For the year ended 31 August 2018

The Board of Directors submits its report and the audited financial statements of Elizabeth College – Upper School (the “College”) for the year ended 31 August 2018.

Elizabeth College, founded in 1563 by Queen Elizabeth I, is a day school located in St Peter Port in Guernsey. The College includes the Upper School which is reported in these financial statements. The Junior School is reported in separate financial statements as Elizabeth College – Junior School.

Directors' responsibilities statement

The Board of Directors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable law and generally accepted accounting practice. In preparing those financial statements the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable it to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The principal activity of the College is the provision of education.

Results

The results of the College for the year are set out in detail on page 6.

Board of Directors

The Board of Directors of Elizabeth College who served during the year and to date were:

The Very Reverend Tim Barker (Chairman)

Deputy Lyndon Trott

Mr David Preston

Resigned 6 January 2018

Advocate Davey Le Marquand

Resigned 6 January 2018

Mr Mike Buchanan

Resigned 6 January 2019

Ms Anne-Marie Collivet

Mr Mark Thompson

Mr Stephen Falla

Mrs Kate Ovenden

Mr Stephen Sharman

Appointed 6 January 2018

Mr Andreas Tautscher

Appointed 6 January 2018

Report of the Board of Directors (continued)
For the year ended 31 August 2018

Independent auditor

BDO Limited have expressed their willingness to continue in office.

Disclosure of information to auditor

Each of the persons who are directors at the time when this report of the Board of Directors is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the College's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any audit information and to establish that the College's auditor is aware of that information.

Approved by the Board of Directors and signed on its behalf by:

.....
The Very Reverend Tim Barker
Chairman

.....
Mr Andreas Tautscher
Director

Date:

Independent Auditor's Report to the Board of Directors of Elizabeth College – Upper School

Opinion

We have audited the financial statements of Elizabeth College – Upper School (“the College”) for the year ended 31 August 2018 which comprise the Statement of Income and Retained Funds, the Statement of Financial Position, the Statement of Cash Flows and the 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 (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102, ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’.

In our opinion, the financial statements:

- give a true and fair view of the state of the College’s affairs as at 31 August 2018 and of its surplus for the year then ended; and
- have been properly prepared 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 College in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (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.

Conclusions relating to going concern

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

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College’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 directors 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.

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 in 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.

Independent Auditor's Report to the Board of Directors of Elizabeth College – Upper School (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement within the Report of the Board of Directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors 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 directors are responsible for assessing the College'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 directors either intend to liquidate the College or to cease operations, or have 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 at the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the College's Board of Directors, as a body, in accordance with our engagement letter dated 27 November 2018. Our audit work has been undertaken so that we might state to the College's Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date:

Statement of Income and Retained Funds
For the year ended 31 August 2018

	Note	2018 £	2018 £	2017 £	2017 £
Income					
States' block grant			284,859		413,565
Fees receivable			5,882,948		5,466,942
Other income			340,044		358,788
			<u>6,507,851</u>		<u>6,239,295</u>
Expenses					
School and departmental expenses		4,642,755		4,583,953	
Administrative expenses		1,477,310		1,345,795	
Maintenance of buildings and grounds		534,889		343,551	
			<u>(6,654,954)</u>		<u>(6,273,299)</u>
Operating deficit before interest			(147,103)		(34,004)
Interest receivable			90,488		90,575
			<u>(56,615)</u>		<u>56,571</u>
Operating (deficit)/surplus for the year					
<i>Restricted income</i>					
Grants from Elizabeth College Foundation	14		60,000		60,693
Other donations			50,000		-
			<u>53,385</u>		<u>117,264</u>
Surplus for the year					
Retained funds at 1 September			6,489,327		6,372,063
Retained funds at 31 August			<u>6,542,712</u>		<u>6,489,327</u>

All income for the year derives wholly from continuing activities.

The notes on pages 9 to 14 form an integral part of these financial statements.

Statement of Financial Position
As at 31 August 2018

	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	5		4,914,524		4,763,924
Current assets					
Stock		4,865		910	
Debtors	6	111,993		143,664	
Cash and cash equivalents	7	3,025,524		2,866,996	
			3,142,382	3,011,570	
Creditors - amounts falling due within one year	8	(1,514,194)		(1,286,167)	
Net current assets			1,628,188		1,725,403
Net assets			6,542,712		6,489,327
Represented by:					
Retained funds	10		6,542,712		6,489,327

Approved by the Board of Directors and authorised for issue by:

.....
Chairman

.....
Date approved by the Board

The notes on pages 9 to 14 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 August 2018

	Note	2018 £	2018 £	2017 £	2017 £
Cash flows from operating activities					
Surplus for the financial year		53,385		117,264	
Adjustments for:					
Depreciation	5	291,898		257,221	
(Increase)/decrease in stock		(3,955)		2,728	
Decrease in operating debtors		31,671		41,517	
Increase in operating creditors		9,147		105,544	
Increase in current account – Elizabeth College Junior School		218,880		20,330	
Interest receivable		(90,488)		(90,575)	
Net cash inflows from operating activities			510,538		454,029
Investing activities					
Tangible fixed assets acquired	5	(442,498)		(326,432)	
Interest received		90,488		90,575	
Net cash outflows from investing activities			(352,010)		(235,857)
Net increase in cash and cash equivalents			158,528		218,172
Cash and cash equivalents at the beginning of the year	7		2,866,996		2,648,824
Cash and cash equivalents at the end of the year	7		3,025,524		2,866,996

The notes on pages 9 to 14 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 August 2018

1. General information

Elizabeth College is a day school located in St Peter Port, Guernsey that was founded in 1563 and is governed by statutes dated 28 December 1852. The College was registered as a Non-Profit Organisation up to 19 September 2018, and with effect from 20 September 2018, the College is registered as a Guernsey Charity under the Charities and Non-Profit Organisations (Registration Guernsey) (Guernsey) Law, 2008. These financial statements only include the results of the Upper School. Separate financial statements are presented for Elizabeth College - Junior School as set out in the Report of the Board of Directors.

2. Significant accounting policies

(a) Basis of preparation of the financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102, the 'Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies (see note 3).

The following principal accounting policies have been consistently applied:

(b) Income recognition

The States' Block Grant comprises a general grant from The States of Guernsey and is recognised on receipt of funds, or when entitlement of receipt by the College is certain. The general grant is being reduced over a 7-year period with effect from 1 September 2012, in accordance with a States Resolution dated 28 September 2011.

School fee income is recognised as receivable on the first day of each term for which pupils are enrolled. Fees received in respect of future years are carried forward as fees received in advance within creditors and are recognised in income in the school term when the pupil attends or is otherwise refunded. Discounts given on fees are recognised in the same period as the associated fees and recorded within administrative expenses.

Other income, including the hire of facilities and catering income, is recognised in the period that the goods or services are provided.

Investment income is recognised when the College can measure the amount reliably; this is normally upon notification of the investment income receivable by the States.

(c) Expenses

All expenses are accounted for on an accruals basis in the period to which the cost relates and are classified under headings that aggregate all costs related to each relevant category. Costs recharged to the Junior School are offset against the College's expenses in the period in which the costs are incurred.

The costs of maintenance are charged in the period in which they are incurred.

(d) Pension costs

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Funds to spread the cost of the pensions over the employees' working lives.

(e) Elizabeth College Foundation

Capital grants received from the Foundation are recognised in the Statement of Income and Retained Funds when received or when entitlement of receipt by the College is certain.

(f) Other Donations

Other donations received relate to capital or project expenses which were underwritten by the donor and are recognised in the year that the capital item or project relate to.

Notes to the Financial Statements (continued)

For the year ended 31 August 2018

2. Significant accounting policies (continued)

(g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation and any provision for impairment. Only assets with a cost of £1,000 or more are capitalised as tangible fixed assets and this level is periodically reviewed by the Board, along with the need for a formal impairment review.

College buildings comprise the modern buildings on the main College site off the Grange, the modern changing room and groundsman's buildings at the College Field and the pavilion at the Memorial Field.

The historic College buildings, being those situated at the College's original site in the Grange and in College Street, and the College Field playing fields and pavilion at King's Road, were gifted to the College at no cost. College buildings which have been held for 50 years or more have not been capitalised as they are considered to have been fully depreciated.

Depreciation is provided to write off the cost of the assets, less their estimated residual values over the period of their expected useful lives, on a straight-line basis at the following annual rates:

College buildings	- 2% - 10%
Furniture and equipment	- 10%
Computer equipment	- 33.33%
Plant and machinery	- 10%
Motor vehicles	- 20%

(h) Financial instruments

The College only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities. All financial instruments entered into by the College are measured at amortised cost.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Funds.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(i) Prepayments

A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. A prepaid expense is measured at the transaction price and carried on the Statement of Financial Position as a current asset at cost until it is consumed.

(j) Cash and cash equivalents

Cash is represented by current accounts, cash in hand and deposits with financial institutions. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

(k) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

(l) Prize funds and bequests

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College, nor does the College have control over the associated bank accounts.

Notes to the Financial Statements (continued)
For the year ended 31 August 2018

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Directors have made the following key judgements:

Tangible fixed assets (see note 5)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are reviewed annually and may vary depending on a number of factors. In reviewing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as original assumptions, future market conditions, the remaining life of the asset and projected disposal values.

4. Taxation

The College is registered under the Charities and Non Profit Organisations (Registration) (Guernsey) Law, 2008 and has been granted exempt status under Section 40(k) of the Income Tax (Guernsey) Law, 1975. The College's income is therefore not subject to tax.

5. Tangible assets	<u>College buildings</u>	<u>Furniture & equipment</u>	<u>Computer equipment</u>	<u>Plant & machinery</u>	<u>Motor vehicles</u>	<u>Total</u>
	£	£	£	£	£	£
Cost						
At 1 September 2017	5,455,057	687,047	279,053	241,096	26,322	6,688,575
Additions	71,741	156,960	165,125	48,672	-	442,498
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2018	5,526,798	844,007	444,178	289,768	26,322	7,131,073
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At 1 September 2017	1,361,200	238,732	197,190	105,907	21,622	1,924,651
Charge for the year	111,609	73,656	79,560	24,723	2,350	291,898
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2018	1,472,809	312,388	276,750	130,630	23,972	2,216,549
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 31 August 2018	4,053,989	531,619	167,428	159,138	2,350	4,914,524
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 August 2017	4,093,857	448,315	81,863	135,189	4,700	4,763,924
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

As an indication of the relative value of the College's freehold property assets, and the values at which they are included within the financial statements, the following table sets out (a) the cost values at which the properties are included within the accounts and (b) their estimated insurance values as at 27 April 2018. All figures exclude land.

Notes to the Financial Statements (continued)
For the year ended 31 August 2018

5. Tangible assets (continued)

	Cost At 31 August 2017 £	Cost Additions £	Cost At 31 August 2018 £	Insurance Valuation £
Main College site				
- Historic buildings	-	-	-	20,408,199
- Modern buildings	4,120,619	71,741	4,192,360	25,267,294
- Sixth Form Centre	388,470	-	388,470	485,909
College playing fields				
- CF - Old pavilion	-	-	-	883,619
- CF - Modern buildings	149,670	-	149,670	1,767,237
- MF Pavilion	796,298	-	796,298	2,471,651
	<hr/>	<hr/>	<hr/>	<hr/>
	5,455,057	71,741	5,526,798	51,283,909
	<hr/>	<hr/>	<hr/>	<hr/>

6. Debtors	2018 £	2017 £
Fee debtors	55,875	21,604
Sundry debtors	29,904	40,929
Prepayments and accrued income	26,214	81,131
	<hr/>	<hr/>
	111,993	143,664
	<hr/>	<hr/>

Included in prepayments and accrued income is £162 (2017: £2,755) due from the Ernest Gardner Bursary Fund.

7. Cash and cash equivalents	2018 £	2017 £
Cash at bank and in hand	919,047	1,346,827
States' Treasury Cash Pool Deposit	1,850,933	1,265,641
Short-term fixed deposit	255,544	254,528
	<hr/>	<hr/>
	3,025,524	2,866,996
	<hr/>	<hr/>

Amounts totalling £32,827 (2017: £323,695) held by the Ernest Gardner Bursary Fund are excluded from these financial statements on the basis that they represent monies held on behalf of third parties.

Notes to the Financial Statements (continued)
For the year ended 31 August 2018

8. Creditors – amounts falling due within one year	2018	2017
	£	£
Creditors and accruals	350,669	170,553
Payroll creditors	223,187	409,242
Fees received in advance	127,889	118,159
Other sundry creditors	93,066	87,710
Current account: Elizabeth College – Junior School	719,383	500,503
	<hr/>	<hr/>
	1,514,194	1,286,167
	<hr/>	<hr/>

The current account due to the Elizabeth College – Junior School is interest free, unsecured and payable upon demand (note 12).

9. Pension costs

A majority of the employees of the College are members of the States of Guernsey Superannuation Scheme (“the Scheme”). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice, which are calculated to spread the expected cost of benefits to employees over the period of those employees’ expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by FRS 102. In addition, the Board of Directors considers that the additional costs which would be incurred were it possible to do so, in providing such information considerably outweigh any benefit to the proposed users of these financial statements.

The last actuarial valuation of the Scheme was conducted at 31 December 2016. At that date the actuarial value of the assets relating to the “Combined pool” within the overall Scheme, to which the College’s staff belong, represented 93% of the actuarial valuation of the liabilities relating to that group. The rate of employer’s contribution remained at 14.1% in respect of all staff after the valuation.

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2018 was £511,432 (2017: £508,136). At 31 August 2018 the amount of outstanding contributions not paid over to the Scheme was £128,652 (2017: £315,976).

Further details relating to the funding of the superannuation scheme are provided in the Superannuation Fund section of the accounts of The States of Guernsey.

10. Retained funds

Retained funds represent accumulated surpluses and deficits net of any adjustments. These funds provide working capital and resources for the operation of the College.

11. Controlling party

Throughout the year the College was under the control of the Board of Directors acting in concert. In the opinion of the Board of Directors there is no single controlling party as defined by FRS 102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefits from their direction.

Notes to the Financial Statements (continued)
For the year ended 31 August 2018

12. Related party disclosures

Elizabeth College operates a central accounting system administered by the Finance Bursar, elements of which cover both the Upper School and Junior School of the College's activities. The Junior School has its own bank account however, a majority of the operating receipts and some operating expenditure related to the College's activities, whether related to the Upper School or otherwise, pass through common bank accounts, all of which are included in the balance sheet within these financial statements. The net movement arising from cash transactions relating to non-Upper School activities are disclosed in the Statement of Cash Flows as a movement on the current account operated between the two Schools (note 8). Periodically and at each year end, account balances within the central accounting system, including individual debtor and creditor account balances, are allocated as appropriate into the financial statements of the different Schools.

During the year ended 31 August 2018 an amount of £176,971 (2017: £167,745) was recharged from the Upper School of the College to the Junior School in relation to the employment expenses of administrative and accounting staff, a proportion of whose duties relate to the Junior School. At 31 August 2018 £719,383 (2017: £500,503) was due to Elizabeth College – Junior School and is included in creditors (note 8).

Key management personnel includes all directors and a number of senior managers across the College who together have authority and responsibility for planning, directing and controlling the activities of the College. The Directors are unpaid. The total compensation paid to key management personnel for services provided to the College was £461,496 (2017: £489,164).

13. Capital commitments

The Directors entered into an agreement on 28 August 2018 formalising the College's intent to acquire a neighbouring property, subject to certain conditions being met in the future. This agreement remains in force at the date the Directors' approved the financial statements and give either party the ability to withdraw from the transaction in the event that these conditions are not met.

14. Elizabeth College Foundation

The Elizabeth College Foundation comprises two charitable trusts (one UK and one Guernsey) which were established in 2006 to raise funds, principally from parents and alumni of Elizabeth College, to enable Elizabeth College to undertake projects and activities which might otherwise be beyond the means of the school to finance from its own operations. The Trustees of the Foundation trusts, although initially appointed by the College's Board of Directors, are independent of Elizabeth College and are required to act in accordance with the terms of the relevant trust deeds.

The basis upon which donations to the Foundation have been requested from donors is such that all monies donated are to be retained within the Foundation until such time as they may be expended as grants towards the funding of specified projects or activities for the benefit of Elizabeth College.

Other than donations and interest arising on retained funds, the Foundation trusts have no other sources of income. Therefore, the Foundation is reliant upon Elizabeth College to meet a substantial proportion of its annual running costs, including the employment of Foundation staff involved with fund-raising, clerical support and project development. Included in administrative expenses for the year are costs of £67,737 (2017: £50,154) paid on behalf of The Foundation.

In addition to the Grants received in the Statement of Income and Retained Funds during the year ended 31 August 2017, the Elizabeth College Foundation also funded a further phase of an Archiving and Digitisation project on the College's behalf, for which it paid £3,328 directly to the supplier.

THE LADIES' COLLEGE, GUERNSEY

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

31 AUGUST 2018

THE LADIES' COLLEGE, GUERNSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

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THE LADIES' COLLEGE, GUERNSEY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

INFORMATION

MEMBERS OF THE BOARD OF GOVERNORS

Mrs Kathryn Richards
Advocate Caroline Chan
Mr Peter Miller
Ms Cathy Perkins
Dr Mary Short
Deputy Heidi Soulsby
Mrs Catharine Walter

ADDRESS

The Ladies' College
Les Gravees
St Peter Port
Guernsey
GY1 1RW

INDEPENDENT AUDITOR

BDO Limited
P O Box 180
Place du Pre
Rue du Pre
St Peter Port
Guernsey
GY1 3LL

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS

FOR THE YEAR ENDED 31 AUGUST 2018

The Board of Governors submit their report and the audited financial statements of The Ladies' College, Guernsey (the "College") for the year ended 31 August 2018.

BOARD OF GOVERNORS' RESPONSIBILITIES STATEMENT

The Board of Governors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable laws. In preparing those financial statements the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in operations.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable them to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are on the Board of Governors at the time that this report is approved has confirmed that:

- so far as each Governor is aware, there is no relevant audit information of which the College's auditor is unaware; and
- each Governor has taken all of the steps that ought to have been taken as a Governor in order to be aware of any audit information and to establish that the College's auditor is aware of that information.

PRINCIPAL ACTIVITY

The Ladies' College, founded in 1872, is a girls' day school located in St Peter Port in Guernsey. The College includes the Senior School and Sixth Form which are reported on in these financial statements. The Ladies' College, Melrose and the Pre-Preparatory Department are reported in separate financial statements as The Ladies' College - Melrose.

The principal activity of the College is the provision of education.

RESULTS

The results of the College for the year are set out in detail on page 7.

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS

FOR THE YEAR ENDED 31 AUGUST 2018

BOARD OF GOVERNORS

The Board of Governors of the College who served during the year were:-

Mrs Kathryn Richards

Mr John Marren (retired 31st May 2018)

Advocate Caroline Chan

Ms Cathy Perkins

Dr Mary Short

Deputy Heidi Soulsby

Mrs Catharine Walter

Mr Peter Miller (appointed 1st June 2018)

INDEPENDENT AUDITOR

BDO Limited have expressed their willingness to continue in office.

APPROVED BY THE BOARD OF GOVERNORS

This report was approved by the Board of Governors and signed on its behalf by:

K M N Richards

.....

Chairman

P Miller

.....

Governor

Date..... 7 December 2018

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE, GUERNSEY

Opinion

We have audited the financial statements of The Ladies' College, Guernsey (the "College") for the year ended 31 August 2018 which comprise the Statement of Income and Retained Funds, the Balance Sheet, 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 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 College's affairs as at 31 August 2018 and of its surplus for the year then ended; and
- have been properly prepared 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 College in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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.

Conclusions relating to going concern

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

- the Board of Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of Governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College'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 of Governors 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.

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

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE, GUERNSEY

Responsibilities of the Board of Governors

As explained more fully in the Board of Governors' Responsibilities Statement, the Board of Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Board of Governors determine 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 of Governors are responsible for assessing the College'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 of Governors either intend to liquidate the College or to cease operations, or have 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 at the FRC's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the College's Board of Governors, as a body, in accordance with our letter of engagement dated 4 October 2018. Our audit work has been undertaken so that we might state to the College's Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date: 7 December 2018

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF INCOME AND RETAINED FUNDS

FOR THE YEAR ENDED 31 AUGUST 2018

	Note	2018 £	2017 £
INCOME	2(a)		
States grant		222,837	329,547
Fees receivable		4,158,614	3,834,569
Student registration fees		11,315	6,400
Miscellaneous income		25,859	30,252
		<hr/>	<hr/>
		4,418,625	4,200,768
EXPENDITURE			
School expenditure	2(b)	(4,065,143)	(3,848,726)
		<hr/>	<hr/>
OPERATING SURPLUS		353,482	352,042
Fundraising and other donations received	2(c)	88,412	212,264
Bank interest received		2,510	119
Interest payable	2(l)	(55,820)	(47,014)
		<hr/>	<hr/>
SURPLUS FOR THE YEAR		388,584	517,411
		<hr/>	<hr/>
Retained funds at 1 September		3,654,504	3,137,093
RETAINED FUNDS AT 31 AUGUST		4,043,088	3,654,504
		<hr/>	<hr/>

All amounts relate to continuing activities derived wholly in Guernsey.

The notes on pages 10 to 17 form an integral part of these financial statements.

THE LADIES' COLLEGE, GUERNSEY**BALANCE SHEET****AS AT 31 AUGUST 2018**

	Note	2018 £	2017 £
FIXED ASSETS			
Tangible assets	4	6,705,037	6,679,793
CURRENT ASSETS			
Fee debtors		13,235	10,246
Other debtors and prepayments	5	53,007	56,799
Cash at bank and in hand	6	1,153,764	1,084,119
		<hr/>	<hr/>
		1,220,006	1,151,164
CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR	7	(1,019,346)	(934,632)
		<hr/>	<hr/>
NET CURRENT ASSETS		200,660	216,532
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		6,905,697	6,896,325
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	8	(2,862,609)	(3,241,821)
		<hr/>	<hr/>
NET ASSETS		4,043,088	3,654,504
		<hr/>	<hr/>
CAPITAL AND RESERVES			
RETAINED FUNDS		<hr/>	<hr/>
		4,043,088	3,654,504

**APPROVED BY THE BOARD OF GOVERNORS AND AUTHORISED FOR ISSUE
ON THEIR BEHALF BY:**

K M N Richards

.....

Chairman

Date:..... 7 December 2018

The notes on pages 10 to 17 form an integral part of these financial statements.

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF CASH FLOWS

AS AT 31 AUGUST 2018

	Note	2018 £	2018 £	2017 £	2017 £
Cash flows from operating activities					
Surplus for the financial year		388,584		517,411	
Adjustments for:					
Depreciation	4	213,137		180,907	
Interest receivable		(2,510)		(119)	
Interest payable		55,820		47,014	
Decrease/(increase) in operating debtors		803		(2,532)	
Increase in operating creditors		89,712		140,978	
Cash from operations			745,546		883,659
Interest received		2,510		119	
Net cash generated from operations			748,056		883,778
Cash flows from investing activities					
Tangible assets purchased		(238,381)		(1,025,200)	
Net cash used in investing activities			(238,381)		(1,025,200)
Cash flows from financing activities					
Loan advances		-		1,774,670	
Repayment of bank loan		(127,472)		(120,000)	
Interest paid on bank loan		(52,528)		(10,291)	
Decrease in account with Melrose		(250,000)		(1,000,000)	
Capital element of repayment of finance lease		(10,030)		(7,678)	
Net cash (outflow)/inflow from financing activities			(440,030)		636,701
Net increase in cash and cash equivalents			69,646		495,279
Cash and cash equivalents at the beginning of the year	6		1,084,119		588,840
Cash and cash equivalents at the end of the year	6		1,153,765		1,084,119

The notes on pages 10 to 17 form an integral part of these financial statements.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

1. GENERAL INFORMATION

The College is established under The Ladies' College (Guernsey) Law, 1962 as amended. The registered address is set out on the information page and the principal activity of the College is the provision of education.

2. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying accounting policies (see note 3).

The following principal accounting policies have been consistently applied:

(a) INCOME RECOGNITION

Fee income is recognised as receivable on the first day of each term for which pupils are enrolled since it is non-refundable. Fee income received in advance of the term is deferred and released on the first day of the applicable term.

The States' Block Grant relating to the General (Non Special Place Holder) Grant is recognised termly on receipt. The General Grant is being reduced over a 7 year period with effect from 1 September 2012, in accordance with a States Resolution on 28 September 2011.

Student registration fees and miscellaneous income are recognised on receipt. All other operating income is recognised on an accruals basis.

(b) SCHOOL EXPENDITURE RECOGNITION

School supplies and equipment including books and teaching materials are recognised in relation to the academic year in which they are to be used as designated by the school budget agreed by the Governors. All other expenses are recognised in the period to which they relate.

(c) FUNDRAISING AND OTHER DONATIONS RECEIVED

'Gift for learning' donations receivable for the phase three development of the College premises are recognised on a cash receipts basis. All other donations are recognised when entitlement to the funds is certain.

(d) TAXATION

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

2. ACCOUNTING POLICIES (continued)

(e) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at historical cost, net of depreciation and any provision for impairment. Assets with a cost of £1,000 or more are capitalised as tangible assets and this level is periodically reviewed by the Board, together with a review of the need for any impairment reviews. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date management assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised in the Statement of Income and Retained Funds where the carrying amount exceeds the recoverable amount.

Freehold land is not depreciated. Depreciation is charged on leasehold assets over the expected lease term of 50 years (see notes 3, 10 and 11). Depreciation on other tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates: -

Leasehold improvements	- 10% straight line
Fixtures, fittings, and equipment	- 10% straight line
Computer equipment	- 33⅓% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'School expenditure' in the Statement of Income and Retained Funds.

(f) FINANCIAL INSTRUMENTS

The College only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities. All financial instruments entered into by the College are measured at amortised cost.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Funds.

Short term creditors are measured at the transaction price.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(g) CASH AT BANK AND IN HAND

**THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 AUGUST 2018

2. ACCOUNTING POLICIES (continued)

(h) FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Obligations for loans and borrowings are recognised when the College becomes party to the related contracts and are initially measured at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

(i) PENSION COSTS

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Funds to spread the cost of the pensions over the employees' working lives.

(j) RETAINED FUNDS

Retained funds represent cumulative surpluses and deficits net of any adjustments.

(k) PRIZE FUNDS AND BEQUESTS

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College.

(l) BORROWING COSTS

Finance costs directly attributable to leasehold property are added to the cost of the leasehold property. Capitalisation of these finance costs ceased once the asset was substantially complete. Subsequently finance costs are charged to the Statement of Income & Retained Surplus over the term of the debt using the effective interest method so that the amount is at a constant rate on the carrying amount.

**3. SIGNIFICANT JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY
SOURCES OF ESTIMATION UNCERTAINTY**

The Board of Governors have made the following significant judgements in the preparation of these financial statements:

Tangible fixed assets (note 4)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual useful lives of the assets and residual values are reviewed annually and may vary on a number of factors. The leasehold property is depreciated over 50 years since, in the judgement of the Board of Governors, the requirements will be met to allow the Board to exercise the option to extend the current lease from 25 years to 50 years (see also notes 10 and 11). The Board have therefore also recognised the financial commitment of the lease over that period (see note 11).

Balance with The Ladies' College, Melrose (note 8)

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

4. TANGIBLE ASSETS

	Freehold land £	Leasehold property £	Leasehold improvements £	Fixtures fittings, and equipment £	Computer equipment £	Total £
COST						
At 1 September 2017	1	6,336,490	-	483,985	53,140	6,873,616
Additions	-	4,020	57,851	67,974	108,536	238,381
At 31 August 2018	1	6,340,510	57,851	551,959	161,676	7,111,997
DEPRECIATION						
At 1 September 2017	-	126,719	-	44,969	22,135	193,823
Charge for the year	-	126,808	482	55,676	30,171	213,137
At 31 August 2018	-	253,527	482	100,645	52,306	406,960
NET BOOK VALUE						
At 31 August 2018	1	6,086,983	57,369	451,314	109,370	6,705,037
At 31 August 2017	1	6,209,771	-	439,016	31,005	6,679,793

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. The lease runs through to 31 December 2039 with an option to extend to 31 December 2065.

Included within the leasehold property are capitalised interest and finance costs amounting to £33,000 (2017:

5. OTHER DEBTORS AND PREPAYMENTS

	2018 £	2017 £
Prepayments	44,644	43,411
Other debtors	8,363	13,388
	53,007	56,799

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

6. CASH AT BANK AND IN HAND

	2018	2017
	£	£
Cash in hand	304	166
Operating cash	975,758	914,615
	<hr/>	<hr/>
Gift for learning	976,062	914,781
	177,702	169,338
	<hr/>	<hr/>
	1,153,764	1,084,119
	<hr/>	<hr/>

The Gift for learning funds relate to donations received for the phase three development of the College premises.

**7. CREDITORS – AMOUNTS FALLING
DUE WITHIN ONE YEAR**

	2018	2017
	£	£
School and administrative expenses	466,814	363,720
Fees for autumn term received in advance	308,624	246,541
Amount payable on building contract	60,319	135,784
Bank loan (see note 8)	180,000	180,000
Net capital obligations under finance leases	3,589	8,587
	<hr/>	<hr/>
	1,019,346	934,632
	<hr/>	<hr/>

**8. CREDITORS – AMOUNTS FALLING
DUE AFTER ONE YEAR**

	2018	2017
	£	£
Bank loan	2,611,647	2,737,323
Balance with The Ladies' College, Melrose	250,000	500,000
Net capital obligations under finance leases	962	4,498
	<hr/>	<hr/>
	2,862,609	3,241,821
	<hr/>	<hr/>

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

**8. CREDITORS – AMOUNTS FALLING
DUE AFTER ONE YEAR (continued)**

The maturity of the bank loan is as follows:

	2018	2017
	£	£
Repayable in instalments:		
Within 1 year	180,000	180,000
Later than 1 year and not later than 5 years	720,000	720,000
Over 5 years	1,891,647	2,017,323
	<hr/>	<hr/>
	2,791,647	2,917,323
	<hr/>	<hr/>

The bank loan with the Royal Bank of Scotland International Limited (trading as NatWest) (the “Bank”) was obtained to assist with the construction of Phase 3. The loan facility, to an amount of £4 million, was agreed in two parts – the initial, flexible and interest only element known as the Revolving Credit Facility (“RCF”), which was available until practical completion of Phase 3 and the “Term Out” option which enabled the Board of Governors to invoke the “Term Out” option which converted the “RCF” (inclusive of accrued interest) to a capital and interest repayment loan over a period of up to 20 years. Interest is repayable at 1.75% above the Bank of England Base Rate during the RCF and 1.45% above the Bank of England Base Rate during the Term Out option. The Term Out option was invoked during the year to August 2017 for a total amount of £3 million. The States of Guernsey has undertaken to assume The Ladies’ College’s obligations to the Bank under the loan agreement should there be an event of default under that loan agreement.

9. PENSION COSTS

A majority of the employees of the College are members of the States of Guernsey Superannuation Scheme (“the Scheme”). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice and which are calculated to spread the expected cost of benefits to employees over the period of those employees’ expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by FRS 102. In addition, the Board of Governors considers that the additional costs which would be incurred were it possible to do so, in providing such information considerably outweigh any benefit to the proposed users of these financial statements.

The last actuarial valuation of the Scheme was conducted at 31 December 2016. At that date the actuarial value of the assets relating to the “Combined pool” within the overall Scheme, to which the College’s staff belong, represented 93.5% of the actuarial valuation of the liabilities relating to that group. The rate of employer’s contribution remained at 14.1% in respect of all staff after the valuation.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

9. PENSION COSTS (continued)

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2018 was £369,373 (2017: £343,274). At 31 August 2018 the amount of outstanding contributions not paid over to the Scheme was £98,897 (2017: £84,662).

Further details relating to the funding of the superannuation scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

10. CAPITAL COMMITMENT

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. Under the terms of the lease the College is required to invest an aggregate of not less than £10,000,000 on the property at Ladies College by 31 December 2035. The amount is subject to increase in line with the Guernsey retail price index and does not include finance costs. As at 31 August 2018 a total amount of £6,749,959 has been invested (2017: £6,672,944).

11. FINANCIAL COMMITMENT

The College has entered into a lease over the land and buildings occupied by the College. The

The total future minimum rentals payable under the lease until 2065 are as follows:

	2018	2017
	£	£
Within 1 year	254	254
Later than 1 year and not later than 5 years	1,016	1,016
Over 5 years	10,668	10,922
	<hr/>	<hr/>
	11,938	12,192
	<hr/>	<hr/>

12. CONTROLLING PARTY

Throughout the year the College was under the control of the Board of Governors acting in concert. In the opinion of the Board of Governors there is no controlling party as defined by FRS 102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefit from their direction.

THE LADIES' COLLEGE, GUERNSEY
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

13. RELATED PARTY TRANSACTIONS

Key management personnel includes all Governors and a number of senior managers across the College who together have authority and responsibility for planning, directing and controlling the activities of the College. The Governors are unpaid. The total compensation paid to key management personnel for services provided to the College was £460,495 (2017: £428,698).

During the year the College received £1,690 (2017: £2,804) in the form of donations from members of the Board of Governors and their close family members. These amounts have been

STATES OF ALDERNEY

ACCOUNTS 2018



STATES OF ALDERNEY

STATEMENT OF RESPONSIBILITIES OF THE POLICY AND FINANCE COMMITTEE AND THE STATES TREASURER

The States Treasurer is responsible for preparing accounts for each financial year which fairly summarise, in all material respects, the transactions of the States of Alderney for that period and are in accordance with the applicable law. In preparing those accounts they are required to:

- select suitable accounting policies and apply them consistently; and
- make judgements and estimates that are reasonable and prudent.

The Policy and Finance Committee are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time that the financial statements comply with The Government of Alderney Law, 2004, as amended. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the States of Alderney and to prevent and detect fraud and other irregularities.

The States Treasurer is responsible for maintenance and the integrity of the corporate and financial information included on the States' website, and for the preparation and dissemination of financial statements.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR’S REPORT TO THE POLICY AND FINANCE COMMITTEE

Our opinion is unmodified

We have audited the financial statements of The States of Alderney (the “States”) which comprise the Summary Income and Expenditure Account for the year ended 31 December 2018, Summary of Balances as at 31 December 2018 and the related notes. The Financial Statements have been prepared under the accounting policies set out therein.

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2018, have been prepared, in all material respects, in accordance with the accounting policies set out in note 1 and The Government of Alderney Law, 2004.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the States in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of Matter – Special Purpose Basis of Accounting

We draw attention to Note 1 to the Financial Statements, which describes the basis of accounting. The financial statements are prepared to assist the States to comply with the provisions of The Government of Alderney Law, 2004. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Respective responsibilities

Policy and Finance Committee and States Treasurer responsibilities

As explained more fully in their statement set out on page 1, the Policy and Finance Committee and the States Treasurer are responsible for: the preparation of the Financial Statements including being satisfied that they are prepared in accordance with the accounting policies set out in note 1; and such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities

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 our opinion in an auditor’s report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC’s website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Policy and Finance Committee (continued)***The purpose of this report and restrictions on its use by persons other than the States***

This report is made solely to the States, in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the States 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 States for our audit work, for this report, or for the opinions we have formed.

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

15 May 2019

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

- a. Revenue income and expenditure account receipts and payments arising during the year and in the month following the year end are brought into account in the accounting year to which they relate.
- b. Capital expenditure is written off in the year in which it is incurred. Depreciation is therefore not provided.
- c. The States of Alderney 1982 pension scheme has been presented as far as practicable having regard to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Pension costs charged to the Summary Income and Expenditure Account are the contributions paid in line with the latest actuarial valuations, see note 2 for further details; other movements in the net pension liability are not reflected in the Summary Income and Expenditure account.

2. PENSION COSTS

The States of Alderney 1982 Pension Scheme

The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of this scheme are held separately from those of the States in an independently administered fund which up until 2013 were invested with Aviva.

Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role. In 2015 the investment management services were further improved to ensure that the portfolio and underlying funds are continually monitored by specialist and portfolio managers. In September, 2016 Aviva were appointed as Scheme Actuary with Gower Financial Services Limited continuing to provide administrative and investment support.

In preparing the disclosures for the States of Alderney (the "States") accounts, the States have noted the disclosure requirements of FRS 102, section 28. The States has used actuarial calculations provided by the actuary to identify the implications of any surplus/(deficit) to the States as at 1 January 2017, the date of the last actuarial valuation.

The calculations have been carried out by a qualified independent actuary based on the results of the last full actuarial valuation, rolled forward and adjusted to 31 December 2018 for key changes in assumptions. The pensionable salary growth has been directly linked to the inflation assumption. As the scheme is now closed to new entrants, those remaining in the scheme have no further known increments due, and pay awards have been, and are expected to be, lower than UK inflation assumption figure in the foreseeable future.

STATES OF ALDERNEY**NOTES TO THE ACCOUNTS - continued****2. PENSION COSTS (continued)**

The major assumptions used by the actuary were (in nominal terms):

	Valuation at 31 December 2018	Valuation at 31 December 2017
Pensionable salary growth	3.3% pa	3.1% pa
Pension escalation in payment		
– to 31.12.2009	4.0% pa	4.0% pa
– from 01.01.2010	3.0% pa	3.0% pa
Discount rate	2.8% pa	2.5% pa
Inflation assumption	3.3% pa	3.1% pa

The assets in the scheme and the expected rate of return were:

	2018	2017
Fair value of plan assets	£5,388,000	£5,894,000
Present value of funded obligations	(£9,939,000)	(£10,196,000)
Deficit in the scheme	(£4,551,000)	(£4,302,000)
Net pension liability	(£4,551,000)	(£4,302,000)

The balance sheet position of the Scheme has deteriorated by £249,000 over the year.

This is mainly as a result of the employer contributions being less than the cost of a year's accruals of benefits on the FRS 102 basis, together with the actual return on assets over the accounting period being lower than the interest income. These factors have been partially offset by actual pensionable salary growth increasing at a lower rate than expected and, overall, the actuarial assumptions adopted have reduced the present value of the liabilities.

In regard to early retirement assumptions, as in 2017, the valuation assumes that 25% of active members and all deferred members who have the option to retire on an unreduced pension at age 60 will do so.

Over the year to 31 December 2018 the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. Employee's Death in Service benefits are secured under a separate policy.

In 2018 Employer premiums amounted to £125,079 (2017: £123,067), and Employee premiums were £40,651 (2017: £39,537). Included in these amounts are pensions costs related to the Water Board, which is paid by the States of Alderney and recharged to the Water Board. The total pension charge to the Water Board for the year was £26,202 (2017: £25,959)

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS – continued

2. PENSION COSTS (continued)

The States of Alderney 2013 Pension Scheme

As approved by the States of Alderney, the new Defined Contributions Scheme, came into effect from 1 January 2013, and is administered by BWCI. There were 6 new entrants to the scheme during 2018. The employee contribution is set at 6.5% (as per the existing scheme), and the employers contribution rate at 7.5%, increasing annually by 0.5% up to a maximum of 12.5%.

In 2018 the Employer premium amounted to £50,401 (2017: £38,530), and the Employee contribution amounted to £38,584 (2017: £31,463). Included in these amounts are pensions costs related to the Water Board, which is paid by the States of Alderney and recharged to the Water Board. The total pension charge to the Water Board for the year was £1,755 (2017: £2,273).

In addition the Employees Death in Service policy amounted to £14,719 (2017: £11,866), relating to both Schemes. Of this amount £1,965 related to the 2013 Scheme members, and £12,754 related to the 1982 Scheme members. Included in these amounts are costs related to the Water Board, which is paid by the States of Alderney and recharged to the Water Board. The total charge to the Water Board for the year was £2,678 (2017: £2,456) for the 1982 scheme and £157 (2017: £95) for the 2013 scheme.

3. RELATED PARTY TRANSACTIONS

The States of Alderney is responsible for the functions of the Water Board, which is a separate trading entity. During 2018 the States purchased goods and services from the Water Board to the value of £17,029 (2017: £15,765), and provided goods and services to the Board to the value of £82,666 (2017: £69,852). Capital grants to the Water Board in 2018 totalled £95,000 (2017: £166,000).

The Royal Connaught Residential Home Limited is a States owned company. During 2018 the States provided goods and services to the company to the value of £1,350 (2017: £56). Capital expenditure on Connaught projects in 2018 totalled £101,881 (2017: £95,188).

The States has a majority share-holding in Alderney Electricity Ltd and purchases electricity, oil and specialist electrical services from the company. In 2018 the value of these purchases were £166,553 (2017: £1,284,051). It should be noted however that the 2017 figures included capital payments in respect of the improvements to the distribution network. The States has provided goods and services to the company during 2018 to the value of £68,376 (2017: £60,358).

Mr I. Tugby was a member of the States of Alderney in 2018, and is also the beneficial owner of Tugby Contractors Ltd. During 2018 the States of Alderney purchased goods and services from Tugby Contractors Ltd to the value of £9,549 (2017: £3,635).

Mr M. Dean is a member of the States of Alderney, and is also the beneficial owner of Auto-Motion. During 2018 the States of Alderney purchased goods and services from Auto-Motion to the value of £270 (2017: £702).

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS – continued

4. BUDGET APPROVALS

The original budget for 2018 was approved by the States of Alderney at the meeting held on 18 October 2017, with the revised budget approved by the States of Alderney on 10 October 2018.

5. ALDERNEY GAMBLING CONTROL COMMISSION

During the year the States of Alderney received a total of £4,885,500 (2017: £4,432,500) in respect of licences issued by the Commission under the Gambling (Alderney) Law 1999. This sum was transferred in total to the Commission to defray expenses with surpluses payable to the States on a quarterly basis. In 2018 the surplus received from the Commission amounted to £2,642,107 (2017: £1,972,649). An extract from the Alderney Gambling Control Commission's financial statements for 2018 will be available to the States in June 2019.

6. ALDERNEY eGAMBLING LIMITED

During 2018 Alderney eGambling Ltd (AeGL), a wholly States owned company, continues to handle the promotion and development of the on-line gambling industry in Alderney. As reported in 2017, it was agreed that the advisory and consultancy services to regulators, previously undertaken by Alderney eGambling Advisors Limited, would be transferred to the responsibility of the AeGL and this alteration to duties continues to work well. A report on the company's activity and accounts for 2018 will be available to the States in June 2019.

7. ALDERNEY COMMISSION FOR RENEWABLE ENERGY

With effect from 10 November 2008 the Alderney Commission for Renewable Energy (ACRE), was appointed by the States of Alderney as a statutory body operating under the provisions of the Renewable Energy (Alderney), Law 2007. ACRE again required a subsidy in 2018 of £237,000. Of this, £130,000 related to legal fees with regards to non-payment of Block Fees. Provision has been made in the 2019 budget for a further subsidy. A report on the Commission's activities and accounts for 2018 will be available to the States in June 2019.

8. ROYAL CONNAUGHT RESIDENTIAL HOME LIMITED

The Royal Connaught Residential Home Limited is a States owned company managed by the Board of Directors, with responsibility for the administration of the Jubilee & Sydney Herival House and the Royal Connaught Residential Care Home. A report on the Board's activities and accounts for 2018 will be available to the States in 2019.

9. ECONOMIC DEVELOPMENT RESERVE FUND

The Economic Development Reserve Fund has been approved as being funded by Alderney Gambling Control Commission reserves at £300k per annum. As this is a fund, any unspent balances are carried forward into the following year, and as such is now being shown as a separate fund on page 10. The balance of the fund as at year end amounted to £293,931.

States of Alderney Summary Income and Expenditure Account 2018									
Accounts 2017			Revenue Income and Expenditure			Accounts 2018			
Exp.	Inc.	Net				Exp.	Inc.	Net	
£	£	£				£	£	£	
368,864	33,340	335,524	Operational activities			87,539	43,743	43,796	
			Building and development control services						
			General Services						
1,270,691	22,770	1,247,921	States Works			1,380,013	24,347	1,355,666	
26,789	20,817	5,972	Recreation			30,174	22,020	8,154	
47,476	-	47,476	Fire Brigade			49,738	-	49,738	
22,300	-	22,300	Civil Emergency			22,735	-	22,735	
28,999	-	28,999	Grants			37,796	-	37,796	
353,245	315,732	37,514	Alderney Harbour			390,679	324,975	65,704	
			Policy and Finance						
1,002,974	40,938	962,036	Corporate and democratic services			846,442	32,961	813,481	
170,269	86,824	83,445	Court			185,800	78,991	106,809	
216,183	11,734	204,449	Tourism and marketing			206,140	13,830	192,310	
32,010	-	32,010	Education and health			27,232	-	27,232	
77,245	60,795	16,451	Social and welfare services			11,741	-	11,741	
118,692	-	118,692	Grants			290,247	-	290,247	
3,735,737	592,949	3,142,788	Cost of services			3,566,276	540,867	3,025,409	
			Other operating income						
		156,412	Property and land rents-GSC					155,430	
		42,574	Rents - PFC					45,109	
		22,365	Interest receivable					54,372	
		46,893	Vehicle import licence fees					45,705	
		135,572	Numismatic and philatelic profits					163,674	
			Property and other taxation/grant income						
		1,847,400	Grant from States of Guernsey (Net)					1,891,250	
		498,916	Occupiers Rates					530,613	
		277,307	Property Transfer Duty					253,887	
		25,000	Duty free concession					25,000	
		(90,351)	Surplus/(Deficit) on provision of services					139,631	
		(5,504)	Transfer to coin reserve					(3,055)	
		(95,855)	Surplus/(Deficit) for the year					136,576	
		95,855	Transfer from AGCC Reserves					-	
		0	Balance Year End					136,576	
Accounts 2017			Capital Income and Expenditure			Accounts 2018			
Exp.	Inc.	Net				Exp.	Inc.	Net	
£	£	£				£	£	£	
1,027,004	-		General Services Committee			793,992	-		
1,153,346	-		Policy and Finance Committee			158,480	-		
300,000	-		Transfer to Economic Development Fund			300,000	-		
95,855	-		Transfer to Revenue Account (from AGCC Reserves)			-	-		
2,576,205	-	2,576,205	Total capital expenditure			1,252,472	-	1,252,472	
			Sources of Funding						
-	1,972,649		AGCC profit transfer			-	2,642,107		
-	-		Exceptional income			-	-		
-	5,000		Asset sales			-	37,510		
-	1,000		Other			-	28,697		
-	1,978,649	1,978,649	Total capital income			-	2,708,314	2,708,314	
		(597,556)	Surplus/(Deficit)					1,455,842	

The summary of the accounts were approved by the Policy and Finance Committee on 14th May 2019 and are signed on its behalf by:

Mr J D Dent
Chairman, Policy and Finance Committee

States of Alderney Summary Income and Expenditure Account 2018

31st December 2018 (final)

Revised Budget 2018			Revenue Income and Expenditure	Accounts 2018		
Exp. £	Inc. £	Net £		Exp. £	Inc. £	Net £
91,750	33,000	58,750	Operational activities			
			Building and development control services	87,539	43,743	43,796
			General Services			
1,436,080	23,400	1,412,680	States Works	1,380,013	24,347	1,355,666
33,000	21,680	11,320	Recreation	30,174	22,020	8,154
49,650	-	49,650	Fire Brigade	49,738	-	49,738
22,600	-	22,600	Civil Emergency	22,735	-	22,735
31,180	-	31,180	Grants	37,796	-	37,796
396,950	309,075	87,875	Alderney Harbour	390,679	324,975	65,704
			Policy and Finance			
894,678	28,750	865,928	Corporate and democratic services	846,442	32,961	813,481
187,400	66,800	120,600	Court	185,800	78,991	106,809
222,800	13,500	209,300	Tourism and marketing	206,140	13,830	192,310
30,900	-	30,900	Education and health	27,232	-	27,232
16,300	-	16,300	Social and welfare services	11,741	-	11,741
289,780	-	289,780	Grants	290,247	-	290,247
3,703,068	496,205	3,206,863	Cost of services	3,566,276	540,867	3,025,409
			Other operating income			
-	157,397	157,397	Property and land rents - GSC	-	155,430	155,430
-	45,100	45,100	Rents - PFC	-	45,109	45,109
-	57,500	57,500	Interest receivable	-	54,372	54,372
-	45,000	45,000	Vehicle import licence fees	-	45,705	45,705
-	161,000	161,000	Numismatic and philatelic profits	-	163,674	163,674
			Property and other taxation/grant income			
-	1,891,250	1,891,250	Grant from States of Guernsey (Net)	-	1,891,250	1,891,250
-	532,500	532,500	Occupiers Rates	-	530,613	530,613
-	200,000	200,000	Property Transfer Duty	-	253,887	253,887
-	25,000	25,000	Duty free concession	-	25,000	25,000
		(92,116)	Surplus/(Deficit) on provision of services			139,631
		105,000	Transfer from AGCC Reserves			-
		(1,500)	Transfer to coin reserve			(3,055)
		11,384	Surplus current year			136,576

Revised Budget 2018			Capital Income and Expenditure	Accounts 2018		
Exp. £	Inc. £	Net £		Exp. £	Inc. £	Net £
1,671,000	-	1,671,000	General Services Committee	793,992	-	793,992
321,000	-	321,000	Policy and Finance Committee	158,480	-	158,480
300,000	-	300,000	Transfer to Economic Development Fund	300,000	-	300,000
105,000	-	105,000	Transfer to Revenue Account	-	-	-
2,397,000	-	2,397,000	Total capital expenditure	1,252,472	-	1,252,472
			Sources of Funding			
-	1,620,000	1,620,000	AGCC profit transfer	-	2,642,107	
-	37,510	37,510	Asset sales	-	37,510	
-	24,700	24,700	Other	-	28,697	
	1,682,210	1,682,210	Total capital income	-	2,708,314	2,708,314
		(714,790)	Surplus/(Deficit)			1,455,842

STATES OF ALDERNEY

Summary of Balances at 31 December 2018

<u>COINS IN CIRCULATION</u>					
Value of coins in circulation at 01.01.18					4,105,295
Value of coins issued in 2018					11,842
					4,117,137
Less: Value of coins withdrawn from circulation					(792)
Value of coins in circulation at 31.12.18					4,116,345
<u>CURRENCY RESERVE FUND</u>					
Balance at 01.01.18					576,524
Reserve for base metal coins issued in 2018					3,847
					580,371
Less: Value of coins redeemed					(792)
Transfer of funds to SoA Revenue Account					
Balance at 31.12.18					579,579
<u>INSURANCE DEDUCTABLE RESERVE ACCOUNT</u>					
Balance at 01.01.18					304,434
Transfer to Reserve 2018					27,058
Balance at 31.12.18					331,492
<u>ECONOMIC DEVELOPMENT RESERVE FUND</u>					
Income	AGCC funding - (accumulation of 2014-2017 balance)				272,155
	AGCC funding 2018				300,000
Expenditure 2018	ED Administration/Consultancy	88,836			
	Small Business Start Up grants (ex YES)	-			
	Review of Financial Relationship	154			
	Airlines - Independent Advice on PSO (50% share with SoG)	4,650			
	Island's Tourism Product (Niche Tourism)	435			
	Transport Strategy Advice	7,778			
	Marine Management Plan - WCMC	4,016			
	Marine Management Implementatiion	1,736			
	New Sea Ferry Service Subsidy	69,386			
	Digital Connectivity - E-enabling Alderney	83,427			
	Tourism & Marketing - Delivery and Strategy Development	2,452			
	Tourism & Marketing - Enhanced Digital Marketing	3,223			
	Alderney Island Pride	2,610			
	Review of Governance	3,517			
	Fort Tourgis - due diligence/consultancy etc	6,004			
Total expenditure 2018					278,224
Balance carried forward at 31.12.18					293,931
<u>INVESTMENTS</u>					
<u>2017</u>				<u>2018</u>	
SHARES	£			SHARES	£
		<u>Alderney Electricity Ltd.</u>			
		Ordinary Shares at £1 each fully paid at cost			
1,146,090	39,860	Balance at 01.01.18 and 31.12.18		1,146,090	39,860
<u>2017</u>				<u>2018</u>	
SHARES	£			SHARES	£
		<u>Alderney Electricity Ltd.</u>			
		7% Cumulative Preference Shares			
		at £1 each fully paid at cost			
11,150	5,659	Balance at 01.01.18 and 31.12.18		11,150	5,659
<u>2017</u>				<u>2018</u>	
SHARES	£			SHARES	£
		<u>Alderney eGambling Ltd</u>			
		Ordinary Shares at £1 each fully paid at cost			
1	1	Balance at 01.01.18 and 31.12.18		1	1
<u>2017</u>				<u>2018</u>	
SHARES	£			SHARES	£
		<u>Alderney Golf Club</u>			
		Shares at £1 each fully paid at cost			
650	650	Balance at 01.01.18 and 31.12.18		650	650
<u>2017</u>				<u>2018</u>	
SHARES	£			SHARES	£
		<u>Royal Connaught Residential Home Ltd</u>			
		Shares at £1 each fully paid at cost			
2	2	Balance at 01.01.18 and 31.12.18		2	2

STATES OF ALDERNEY

Summary of Balances at 31 December 2018 (continued)

2017	Bank accounts	2018
£	<u>Daisy Hansen St Anne's School Trust</u>	£
914	Balance at 01.01.18	879
-	Interest received	-
914		879
(35)	Audit report	-
-	School Prize	(25)
879	Balance at 31.12.18	854
	<u>The Anne French Hospital Annexe Fund</u>	
12,850	Balance at 01.01.18	12,914
104	Interest received	97
12,954		13,011
(40)	Audit report	-
12,914	Balance at 31.12.18	13,011
	<u>States of Alderney Interest on Investments Account</u> <u>(Educational Bequests)</u>	
978	Balance at 01.01.18	978
-	Interest received	-
978		978
-	Grants	(978)
-	Audit Reports	-
978	Balance at 31.12.18	-
	<u>The Packe History Trust</u>	
1,479	Balance at 01.01.18	1,459
-	Interest received	-
1,479		1,459
(20)	School History Prize	(20)
1,459	Balance at 31.12.18	1,439
	<u>Alderney Pilotage Board</u>	
500	Balance at 01.01.18 and 31.12.18	600
	<u>The Mary Roylance Mignot Memorial Hospital Fund</u>	
15,705	Balance at 01.01.18	17,433
1,728	Interest received	311
17,433		17,744
-	Grants	-
17,433	Balance at 31.12.18	17,744
	<u>St Anne's Trust</u>	
33,108	Balance at 01.01.18	33,377
269	Interest received	250
33,377		33,627
-	Grants	-
33,377	Balance at 31.12.18	33,627
	<u>The New Parsonage House Trust</u>	
74,897	Balance at 01.01.18	75,439
6,986	Interest received	1,137
81,883		76,576
(6,444)	Maintenance costs	(3,750)
75,439	Balance at 31.12.18	72,826
	<u>Charitable Trust Fund</u>	
182,165	Balance at 01.01.18	171,852
1,424	Interest received	1,198
183,589		173,050
(11,529)	Grants issued in year	(22,019)
(208)	Bank and general administration costs	(241)
171,852	Balance at 31.12.18	150,790

**IN THE STATES OF THE ISLAND OF GUERNSEY
ON THE 28th DAY OF JUNE, 2019**

Adjourned from 25th June 2019

**The States resolved as follows concerning Billet d'État No XI
dated 25th June, 2019**

**POLICY & RESOURCES COMMITTEE
THE STATES OF GUERNSEY ACCOUNTS 2018
P.2019/50**

I. To agree with the Policy & Resources Committee's approval of the States of Guernsey Accounts for the year ending 31 December 2018.

**STATES' TRADING SUPERVISORY BOARD
PORTS ACCOUNTS 2018
P.2019/51**

II. To agree with the States' Trading Supervisory Board's approval of the Ports Accounts for the year ending 31 December 2018.

**STATES' TRADING SUPERVISORY BOARD
GUERNSEY WATER ACCOUNTS 2018
P.2019/52**

III. To agree with the States' Trading Supervisory Board's approval of the Guernsey Water Accounts for the year ending 31 December 2018.

**STATES' TRADING SUPERVISORY BOARD
GUERNSEY DAIRY ACCOUNTS 2018
P.2019/53**

IV. To agree with the States' Trading Supervisory Board's approval of the Guernsey Dairy Accounts for the year ending 31 December 2018.

**STATES' TRADING SUPERVISORY BOARD
STATES WORKS ACCOUNTS 2018
P.2019/54**

V. To agree with the States' Trading Supervisory Board's approval of the States Works Accounts for the year ending 31 December 2018.

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY
SOCIAL SECURITY CONTRIBUTORY FUND ACCOUNTS 2018
P.2019/55

VI. To note the Committee *for* Employment & Social Security's approval of the Social Security Contributory Fund Accounts for the year ending 31 December 2018.

S M D ROSS
HER MAJESTY'S DEPUTY GREFFIER