

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY WATER ACCOUNTS 2019

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 2019.

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 2019

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	
Deputy J. Kuttelwascher		deceased 23 January 2020
Deputy J. Smithies		
Deputy P. Roffey		appointed 26 February 2020
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		deceased 23 January 2020
Deputy J. Smithies		appointed 5 March 2020
Mr A. Bates	non-voting adviser	
Mr M. Lawther	non-voting adviser	appointed 25 July 2019
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 of 4 May 2017.

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

States' Trading Supervisory Board

Guernsey Water

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

Principal Officers to the Guernsey Water Board

Mr S. Langlois, General Manager, Guernsey Water
Mr C. Falla, Capital Delivery Manager, Guernsey Water appointed 9 December 2019
Mr J. Holt, Operations Manager, Guernsey Water
Mr P. Marquis, Customer Services Manager, Guernsey Water
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 resigned 13 December 2019

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

This year Guernsey Water rebalanced its charges to better reflect the costs of providing its services and as a result of savings made in previous years was able to make a return to most customers by freezing their overall bill.

Towards the end of 2019 Guernsey Water was also able to make a return to the States of Guernsey. A repayment was made of £1,309k in relation to grants previously received from the States, which will help the STSB achieve the target for returns that was set in the States of Guernsey Medium Term Financial Plan.

During the year Guernsey Water invested £4,130k in improving and maintaining its services. This included completion of the refurbishment of Juas Water Treatment Works, which enabled the decommissioning of Longue Hougue Water Treatment Works. 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. This led to the development of a 'Licence to Operate' competency framework in 2019. Implementation is planned for our Water Distribution team in 2020.

Guernsey Water also commenced refurbishment of the Harbour St Sampson wastewater pumping station in 2019. This was the final of four projects representing a total investment of £5,000k in improving drainage in the north of the island. This programme has reduced the risk of sewer flooding and pollution from sewer overflows, created capacity for growth and dealt with some significant health and safety concerns at the Harbour St Sampson wastewater pumping station.

In addition to these improvements, Guernsey Water remained focused on the ongoing maintenance of its assets. During the year 0.5km of sewer was rehabilitated which was less than in recent years. This is due to the scale and complexity of the sewer lining project in the Grand Bouet, which required significant planning and resources. Guernsey Water also replaced 4.5km of water mains, which exceeded our target of 3.6km.

The GWB is considering the future of Guernsey Water's wastewater services, in particular the cesspit emptying service and access to the public sewer. As a principle, Guernsey Water is committed to making its level of service more equitable and the cost of these services fairer for all. During 2019 this led to the development of a programme of work, focusing initially on replacement of the cesspit emptying management system that States Works operates for Guernsey Water. Implementation of the new system is planned for 2020.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

Business Performance

Drinking water is vital for public health so we strive to provide wholesome water at all times. We have robust sampling programmes in place for both drinking water compliance and raw water monitoring. In 2019, our water quality remained high at 99.85% compliance with drinking water standards, a slight decrease from 99.91% in 2018.

Total rainfall during 2019 was 5% above the average for the last 10 years. Despite this it was 21% below the 10 year average by the end of August and water resource levels fell to 77.6% in September. However, the remaining months were wet and by the end of the year reservoir levels had recovered to 100% full. Investment in more effective capture of water from streams during the last decade played an important role in enabling this rapid recharge of water levels.

Financial Performance

Whilst Guernsey Water has reported a deficit in 2019 this is primarily due to the need to write off a number of assets and stock items that were previously being held for repurposing as a result of the decommissioning of the Longue Hogue Water Treatment Works. Guernsey Water is of the opinion that it is no longer possible to repurpose those items, therefore a one-off write down of £530k has been accounted for during the year.

Operating surplus for the year was £4,564k, a reduction of 22% from 2018. This is primarily due to a slight reduction in the demand for water, a freeze in the overall bill for customers and an increase in operational maintenance costs. In addition, a revenue adjustment of £204k was required on grants repaid in the year. Nevertheless, Guernsey Water was able to keep operating and management expenses 1% under budget.

This year Guernsey Water's resources have been more focussed on the maintenance of its assets than the creation of new assets, as shown by the reduction of £838k in the amount spent in 2019 on capital projects compared to 2018.

In addition, 2019 saw the completion of two large projects for Guernsey Water where most of the required investment had been made in prior years. These were the recommissioning of Juas Water Treatment Works and the construction of a new sewer in La Hure Mare, which was phase 3 of the work to help alleviate flooding and pollution from sewer overflows in St Sampson.

Our Community

Guernsey Water is committed to contributing 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,

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

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 high quality 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.

2019 was another busy year for Guernsey Water in the community. We continued to support and promote the Refill Guernsey initiative, including supporting a wide range of island sports events by providing temporary standpipes to enable the public to refill their bottles with tap water. These refill points have been well received so we are planning to install two permanent refill stations in 2020.

Guernsey Water continues to maintain the Millennium Walk around St Saviours Reservoir for the island community. With the help of Floral St Saviours and The Art of Living Guernsey, in 2019 people from Guernsey Water helped to clear an area of land near St. Saviours reservoir. These efforts are helping to restore a wet meadow habitat to enhance biodiversity in the area.

The Team

People are at the heart of our business which is why we introduced a new business outcome in 2019; 'Proud Performing People'.

During a regular anonymous pulse survey, in August 2019 we asked 'how likely would you be to recommend Guernsey Water as a great place to work?' 43% of our people responded and the average rating was 7.7 out of 10. This question is asked periodically to understand people satisfaction over time. Following significant improvement in 2018 people satisfaction in Guernsey Water has held steady.

This year has been a challenging year with a number of vacancies in various departments. However, the average length of service at Guernsey Water remains high at 11 years and the team has not allowed these vacancies to impact on the service provided to our customers.

I would like to thank all our people for their dedication, hard work and commitment to providing excellent service throughout the year.

The Future

In the future Guernsey Water will need to become more flexible to meet new regulatory requirements, 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.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

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. This plan is aligned with the States of Guernsey's Public Service reform. 'Running Water' is outcome-focused, these outcomes are;

- Proud performing people,
- Valued by customers,
- Safe and good to drink,
- Effective drainage,
- Protect our environment,
- Sufficient and resilient,
- Firm financial foundations,

"Proud performing people" was added during 2019.

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

STSB presents its report and the audited financial statements for Guernsey Water for the year ended 31 December 2019. 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 27.

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 2019 Guernsey Water repaid grants received in relation to wastewater assets of £1,309k to the States of Guernsey (2018: £Nil).

Customers

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

	2019	2018	Change %
Number of supplies:			
Paying by tax on real property	8,080	8,236	-1.9%
Paying by measure	<u>18,130</u>	<u>17,831</u>	<u>1.7%</u>
Total	<u>26,210</u>	<u>26,067</u>	<u>0.5%</u>

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

Financial highlights

	Actual 2019 £'000	Budget 2019 £'000	Actual 2018 £'000
Revenue	16,003	16,376	16,622
(Deficit)/surplus for the financial year	(768)	(47)	126
Capital expenditure	4,130	4,214	4,968

During 2019 there were significant changes that had a material impact on the financial position:

- i) Guernsey Water rebalanced its charges for water and wastewater services to better reflect the cost to Guernsey Water of providing the service in line with the States of Guernsey's principle that the "User pays". As part of this exercise the overall bill for the majority of customers was frozen.
- ii) Assets that were being retained within the business at Longue Hougue Water Treatment Works were deemed to no longer be able to be repurposed and due to the nature of those assets cannot be sold so a write down of £530k is reflected in this year's financial statements.

In relation to capital expenditure, the major works completed include work on HSS improvement works (completion of Phase 3 and starting Phase 4), Juas Water Treatment Works recommissioning and the replacement of water mains.

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

Operational performance

	2019	2018	Change %
Volume supplied in million litres (ML):			
Delivered to customers paying by measure	2,754	2,745	0.3%
Delivered to other customers	1,167	1,249	-6.6%
Operational use, fire fighting and losses	774	532	45.5%
Total put into supply	4,695	4,526	3.7%
Service:			
Restrictions on supply	None	None	
Burst mains	37	30	23.3%
Discolouration - claims paid	4	4	0.0%
Unit costs (partially weather related):			
Water production (per ML)	£414	£368	12.5%
Water distribution (per supply)	£16	£17	-5.9%
Full time equivalent employees	80	82	-2.4%
Average number of full time employees	81	83	-2.4%

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,

States' Trading Supervisory Board

Guernsey Water

General Manager's Report – continued

- 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, and
- 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.

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 have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months (including the assessment of the impact of COVID-19), prepared by management, and deem that Guernsey Water, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to 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 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 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,
- Approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB,
- Approve and issue annual reports, and
- 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. 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.

The GWB acts as a political sub committee of the STSB.

States' Trading Supervisory Board Guernsey Water

Corporate Governance - continued

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

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.

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 ("STSB") – Guernsey Water for the year ended 31 December 2019, 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 Guernsey Water's affairs as at 31 December 2019 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 Guernsey Water 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.

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 STSB's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the STSB has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Guernsey Water'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.

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

Other information

The STSB 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; 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 STSB 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 STSB is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the STSB 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 STSB is responsible for assessing Guernsey Water'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 STSB either intends to liquidate Guernsey Water or to cease operations, or has no realistic alternative but to do so.

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

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.

Use of our report

This report is made solely to the members of the States of Guernsey – States' Trading Supervisory Board ("STSB"), 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 STSB 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 Guernsey Water and the members of STSB as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited

Chartered Accountants

St Peter Port

Guernsey

8 June 2020

States' Trading Supervisory Board

Guernsey Water

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	2 & 4		
Water supplies		5,692	11,262
Waste water supplies		9,128	3,663
Other income		1,183	1,697
		16,003	16,622
Expenses	2 & 5		
Operating expenses		7,637	7,291
Management expenses		3,802	3,467
		11,439	10,758
Operating surplus before depreciation/amortisation and gain on disposal of fixed assets		4,564	5,864
Depreciation/amortisation	9 & 10	(4,792)	(5,347)
Impairment of assets	10	(532)	(3)
Gain on disposal of fixed assets		9	-
Operating (deficit)/surplus for the year		(751)	514
Investment return/(loss) and net interest receivable	6	297	(67)
Interest payable		(314)	(321)
(Deficit)/surplus for the financial year		(768)	126

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 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Intangible fixed assets	9	186	192
Tangible fixed assets	10	147,468	146,710
Investment property	11	650	650
Assets under construction	12	3,043	4,991
		<u>151,347</u>	<u>152,543</u>
Current assets			
Inventories	13	1,648	1,517
Debtors and prepayments	14	2,116	2,134
Cash at bank and in hand		1,061	1,474
Balances with States Treasury		1,561	2,614
		<u>6,386</u>	<u>7,739</u>
Creditors: amounts falling due within one year	15	<u>(3,496)</u>	<u>(3,797)</u>
Net current assets		<u>2,890</u>	<u>3,942</u>
Creditors: amounts falling due after more than one year	16	<u>(16,679)</u>	<u>(18,159)</u>
Total net assets		<u>137,558</u>	<u>138,326</u>
Reserves	19	<u>137,558</u>	<u>138,326</u>

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

Deputy P. Ferbrache
President

8 June 2020

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott
Managing Director

8 June 2020

Notes 1 to 27 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 2019

	Notes	2019 £'000	2018 £'000
Balance at 1 January		138,326	138,200
(Deficit)/surplus for the financial year		<u>(768)</u>	<u>126</u>
Balance at 31 December	19	<u>137,558</u>	<u>138,326</u>

Notes 1 to 27 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	2019 £'000	2018 £'000
Net cash flows from operating activities	20	4,162	5,639
Cash flows from investing activities			
Purchase of fixed assets	12	(4,130)	(4,968)
Proceeds from disposal of assets		11	-
Net cash flows used in investing activities		(4,119)	(4,968)
Cash flows from financing activities			
Grants repaid in year	18	(1,309)	-
Capital repaid	17	(183)	(177)
Interest paid		(314)	(321)
Investment return/(loss) and interest received		297	(67)
Net cash flows from financing activities		(1,509)	(565)
Net (decrease)/increase in cash and cash equivalents		(1,466)	106
Cash and cash equivalents at the beginning of the year		4,088	3,982
Cash and cash equivalents at the end of the year		2,622	4,088
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		1,061	1,474
Balances with States Treasury		1,561	2,614
Cash and cash equivalents		2,622	4,088

Notes 1 to 27 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 and have been rounded to the nearest thousand.

Going concern

The financial statements have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months (including the assessment of the impact of COVID-19), prepared by management, and deem that Guernsey Water, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to 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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

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.

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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

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 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%

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at 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 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 debtors

Invoiced trade 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) 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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

iii) Trade creditors

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

iv) Loans from the States of Guernsey

Loans from the States of Guernsey are initially recognised at cost. These loans are subsequently measured at amortised cost.

v) 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 and also includes the estimated value of unbilled water and waste water supplies and cesspit emptying income which is calculated by reference to the value at which supplies will be invoiced. This total estimated value of unbilled supplies is included in debtors.

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

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Pension costs

Pension costs are treated as described in note 22.

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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of Guernsey Water's accounting policies, which are described in note 2, the 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 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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

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

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.

Notes 1 to 27 form an integral part of these financial statements.

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:

	2019	2018
	£'000	£'000
Water Supplies		
Unmeasured	1,780	3,668
Measured	3,912	7,594
	5,692	11,262
Waste Water Supplies		
Unmeasured	3,095	1,305
Measured	6,033	2,358
	9,128	3,663
Cesspit emptying income	1,207	1,175
Net (deficit)/surplus on other trading activities (below)	(84)	253
Grant released (note 18)	60	269
	1,183	1,697
	16,003	16,622

In 2019 Guernsey Water rebalanced its charges to more closely reflect the costs of providing water and dealing with wastewater in line with the States of Guernsey "User Pays" principle.

As a result the charges for water were reduced by 51%, whilst the charges for wastewater were increased by 161%. The changes in prices were also set to ensure that the impact on the majority of customers was that the total cost for water and wastewater did not change.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

4. Revenue - continued

	2019 £'000	2018 £'000
Net (deficit)/surplus on other trading activities		
Standard charges for service laying	(16)	189
Charges for work at ascertained cost	31	40
Property rental income	112	138
Cost of items issued from Stores	543	557
	<hr/>	<hr/>
	670	924
Expenditure	(754)	(671)
	<hr/>	<hr/>
	(84)	253
	<hr/>	<hr/>

5. Expenses

	2019 £'000	2018 £'000
Operating expenses		
Water production	1,946	1,667
Water distribution	422	436
Asset management	431	408
Pumping	1,318	1,232
Sewers	3,520	3,548
	<hr/>	<hr/>
	7,637	7,291
	<hr/>	<hr/>
Management expenses		
Management and general	1,321	1,179
Water quality and risk management	540	537
Customer services	955	756
Finance and support services	986	995
	<hr/>	<hr/>
	3,802	3,467
	<hr/>	<hr/>
Total expenditure	<hr/> 11,439 <hr/>	<hr/> 10,758 <hr/>

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

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

	2019	2018
	£'000	£'000
Investment return/(loss)	295	(69)
Interest receivable and similar income	2	2
	<u>297</u>	<u>(67)</u>

7. (Deficit)/surplus for the financial year

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

	Note	2019	2018
		£'000	£'000
Auditor's remuneration		19	19
Government grants released	18	(60)	(269)
Amortisation of intangible fixed assets	9	77	60
Depreciation of tangible fixed assets	10	4,715	5,287
Impairment of tangible fixed assets	10	532	3
Gain on disposal of fixed assets		(9)	-
		<u>5,274</u>	<u>5,100</u>

Notes 1 to 27 form an integral part of these financial statements.

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:

	2019	2018
Capital delivery	11	11
Operations	34	36
Customer services	22	21
Administration and support	6	6
Water quality risk management	8	9
	81	83

Their aggregate remuneration comprised:

	Note	2019 £'000	2018 £'000
Wages and salaries		3,266	3,200
Social security costs		215	210
Pension costs	22	429	422
Remuneration costs transferred to capital assets		(421)	(582)
		3,489	3,250

Pension costs include only those items within operating and management expenses.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

9. Intangible fixed assets

	1 January 2019 £'000	Additions £'000	Disposals £'000	31 December 2019 £'000
Cost				
Long-term strategies	387	71	-	458
	<u>387</u>	<u>71</u>	<u>-</u>	<u>458</u>
Amortisation				
Long-term strategies	195	77	-	272
	<u>195</u>	<u>77</u>	<u>-</u>	<u>272</u>
Net Book Value	<u>192</u>			<u>186</u>

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

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

10. Tangible fixed assets

	1 January			31
	2019	Additions	Disposals	December
	£'000	£'000	£'000	2019
				£'000
Cost				
Land	3,141	-	-	3,141
Infrastructure	195,261	4,050	(7)	199,304
Buildings	15,775	1,771	-	17,546
Motor vehicles	725	131	(76)	780
Office equipment	955	55	-	1,010
	<u>215,857</u>	<u>6,007</u>	<u>(83)</u>	<u>221,781</u>
	1 January	Charge for		31
	2019	the year	Disposals	December
	£'000	£'000	£'000	2019
				£'000
Depreciation				
Land	238	30	-	268
Infrastructure	63,689	4,650	(7)	68,332
Buildings	3,877	456	-	4,333
Motor vehicles	536	53	(74)	515
Office equipment	807	58	-	865
	<u>69,147</u>	<u>5,247</u>	<u>(81)</u>	<u>74,313</u>
Net Book Value	<u>146,710</u>			<u>147,468</u>

As a result of changes to the planned reuse of assets at Longue Hougue Water Treatment Works £530k has been written off the value of these assets. This has been included in depreciation charge for the year for the appropriate class of tangible fixed asset.

In addition, an impairment of £2k has been made against Motor vehicles.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

11. Investment properties

	1 January 2019 £'000	Additions/ Disposals £'000	Revaluations £'000	31 December 2019 £'000
Investment properties	650	-	-	650
	<u>650</u>	<u>-</u>	<u>-</u>	<u>650</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 £254k.

At the end of the year Guernsey Water was not contracted with tenants for any future minimum lease payments on investment properties (2018: £Nil).

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

12. Assets under construction

	1 January £'000	Expense in the year £'000	Transfer to Tangible & Intangible Fixed Assets £'000	31 December £'000
2019 Total	4,991	4,130	(6,078)	3,043
2018 Total	4,733	4,968	(4,710)	4,991

Assets under construction completed in 2019 and transferred to fixed assets include work to recommission Juas Water Treatment Works (£1,582k), HSS Phase 3 (£1,249k), work on replacement of water mains (£541k) and work on the raw water main from Juas to Longue Hougue (£485k).

Assets under construction as at 31 December 2019 relate principally to HSS Phase 4 (£1,179k) and work on sewer rehabilitation (£369k).

13. Inventories

	2019 £'000	2018 £'000
Water production	500	549
Water distribution	479	426
Wastewater	669	542
	1,648	1,517

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

14. Debtors and prepayments

	2019	2018
	£'000	£'000
Unbilled water supplies	383	795
Unbilled waste water	646	256
Customers' billed accounts outstanding	578	713
Cesspit emptying income receivable	21	18
Unbilled cesspit income	198	183
Electricity prepayment	102	67
Other debtors and prepayments	188	102
	2,116	2,134

15. Creditors: amounts falling due within one year

	Note	2019	2018
		£'000	£'000
Trade creditors		516	904
Accruals		1,460	1,277
Loan from States of Guernsey	17	191	183
Capital grants	18	1,229	1,309
Deferred income		100	124
		3,496	3,797

The balances for 2018 have been restated to provide a more comprehensive presentation. The changes were merely a reclassification of the Loan from States of Guernsey and the Capital grants between amounts falling due within one year and amounts falling due after more than one year.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

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

	Note	2019 £'000	2018 £'000
Loan from States of Guernsey	17	8,362	8,553
Capital grants	18	<u>8,317</u>	<u>9,606</u>
		<u>16,679</u>	<u>18,159</u>

The balances for 2018 have been restated to provide a more comprehensive presentation. The changes were merely a reclassification of the Loan from States of Guernsey and the Capital grants between amounts falling due within one year and amounts falling due after more than one year.

17. Loan from States of Guernsey

	2019 £'000	2018 £'000
Balance at 1 January	8,736	8,913
Capital repaid	<u>(183)</u>	<u>(177)</u>
Balance at 31 December	<u>8,553</u>	<u>8,736</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%.

	2019 £'000	2018 £'000
Within one year	191	183
Between one to two years	197	191
Between two to five years	638	614
More than five years	<u>7,527</u>	<u>7,748</u>
	<u>8,553</u>	<u>8,736</u>

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

18. Capital grants

	2019	2018
	£'000	£'000
Balance at 1 January	10,915	11,184
Grants repaid	<u>(1,309)</u>	<u>-</u>
	9,606	11,184
Released to revenue account during the year	(264)	(269)
Reversal of amounts released in relation to grants repaid	<u>204</u>	<u>-</u>
Balance at 31 December	<u>9,546</u>	<u>10,915</u>

An amount of £264k was released to the Statement of Comprehensive Income in 2019 (2018: £269k). 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.

On 30 November 2019 Guernsey Water repaid £1,309k (2018 - £Nil) in relation to grants previously received from the States of Guernsey resulting in an adjustment of £204k for the value of those grants released to the revenue account prior to the repayment.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

19. Reserves

	Property Development Fund £'000	Funding from the States of Guernsey - Merger Reserve £'000	Revenue Account £'000	Total £'000
Balance at 1 January	452	75,178	62,696	138,326
Deficit for the financial year	-	-	(768)	(768)
Transfer of non-water surplus	166	-	(166)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	618	75,178	61,762	137,558

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.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

20. Reconciliation of operating (deficit)/surplus to net cash inflow from operating activities

	2019	2018
	£'000	£'000
Operating (deficit)/surplus for the year	(751)	514
Depreciation and amortisation charges	4,792	5,347
Impairment of assets	532	3
Gain on sale of tangible assets	(9)	-
Government grants released	(60)	(269)
Increase in inventories	(131)	(103)
Decrease/(increase) in debtors	18	(22)
(Decrease)/increase in creditors due within one year	(229)	169
Net cash flows from operating activities	4,162	5,639

21. Financial commitments and contingent liabilities

	2019	2018
	£'000	£'000
Commitments for fixed asset acquisitions at 31 December for which no provision has been made in these financial statements	250	1,133

There are no significant financial commitments that have not been accounted for.

Guernsey Water has no contingent liabilities as at 31 December 2019 (2018: £Nil).

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

22. 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 (which was £87,434 from 1 May 2016, increasing to £92,236 from 1 December 2019) 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.

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 £429k (2018: £422k).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2019.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

23. Subsequent events

COVID-19

The World Health Organisation's declaration that the Covid-19 outbreak was a public health emergency of international concern did not take place until 31 January 2020. Subsequently, the STSB considers that the impact of COVID-19 is a non-adjusting subsequent event for all of its financial statements in the year ending 31 December 2019.

Overall risk to operations

Since 31 December 2019, the spread of Covid-19 has severely impacted many local economies around the globe, the States of Guernsey is no exception. Businesses are being forced to cease or limit operations for a long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Guernsey Water has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. The duration and impact of the Covid-19 pandemic, as well as the effectiveness of government response, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of Guernsey Water for future periods.

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

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

24. 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 2019 (including salaries and other benefits) was £461k (2018: £486k).

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.

	2019	2018
	£'000	£'000
Garenne Group		
Expenses	116	5
Assets under construction	520	2,073
	636	2,078
Trade Creditors	6	77

Of which £418k (2018: £1,529k) was the result of open public tenders and £82k (2018: £477k) of the remainder coming from a pre existing framework agreement and the balance of £136k (2018: £72k) being ad hoc work.

Notes 1 to 27 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Water

Notes to the Financial Statements - continued

25. 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.

26. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 21 relating to 2019 which would affect these financial statements (2018: None).

27. Financial instruments

Guernsey Water's financial instruments may be analysed as follows:

	2019	2018
	£'000	£'000
Financial assets at amortised cost		
Cash and cash equivalents	2,622	4,088
Debtors	599	731
Financial liabilities at amortised cost		
Creditors: amounts falling due within one year	(707)	(1,087)
Creditors: amounts falling due after more than one year	(8,362)	(8,553)

Notes 1 to 27 form an integral part of these financial statements.