

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY WATER ACCOUNTS 2020

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 2020.

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 2020

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. Roffey	President	elected 21 October 2020
Deputy C. Parkinson		elected 21 October 2020
Deputy N. Moakes		elected 21 October 2020
Mr S. Falla MBE		
Mr J. Hollis		
Deputy P. Ferbrache	President	term ended 15 October 2020
Deputy J. Smithies		term ended 15 October 2020
Deputy J. Kuttelwascher		deceased 23 January 2020
Deputy P. Roffey	elected 26 February 2020	term ended 15 October 2020

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and up to 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 Trading Group
 Mr S. Gardiner, Finance Business Partner, States Trading Group
 Mr A. Ford, Head of Shareholder Executive, States Trading Group
 Mr R. Evans, Deputy Managing Director, States Trading Group resigned 1 November 2020

Guernsey Water Board Members

Mr J. Hollis	Chairman	
Deputy C. Parkinson		appointed 29 October 2020
Mr A. Bates	non-voting adviser	
Mr M. Lawther	non-voting adviser	
Mr S. Langlois	non-voting adviser	
Mr A. Morton	non-voting adviser	
Deputy J. Smithies		term ended 15 October 2020

States' Trading Supervisory Board

Guernsey Water

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

At its meeting of 4 May 2017, the STSB agreed to establish political sub-committees (company boards) for the trading businesses 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.

Principal Officers to the Guernsey Water Board

Mr S. Langlois, Managing Director, Guernsey Water

Mr C. Falla, Capital Delivery Manager, Guernsey Water

Mr J. Holt, Operations Manager, Guernsey Water

Mrs M. McGuinness, Water Quality Risk Manager, Guernsey Water

Mr A. Morton, Senior Finance Manager, Guernsey Water

Mr P. Marquis, Customer Services Manager, Guernsey Water resigned 10 December 2020

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

2020 was challenging but successful for Guernsey Water. We can be proud that despite the Covid-19 pandemic, our people were able to maintain a high standard of service throughout the year. This was down to business continuity planning, flexible resourcing and a readiness to adapt to changes to ways of working.

Despite the impact of lockdown on our capital programme, we invested £4,363k in improving and maintaining services in 2020. This included work on the Harbour St Sampson (HSS) wastewater pumping station, which was the final one of four major investments in drainage in the north of the island. This programme has reduced the risk of sewer flooding for customers and created capacity for growth. Investment in HSS ensures that it meets health and safety requirements, it has also prevented pollution of the marine environment from sewer overflows and protected bathing water quality at Bordeaux.

We also invested in improving our ability to manage drinking water quality risks at our treated water storage facility on Forest Road and began enabling works for refurbishment of our water treatment works in St Saviour. In addition to these improvements, Guernsey Water remained focused on the ongoing maintenance of its assets and 4.4km of water mains were rehabilitated, which exceeded our target of 4.2km.

Towards the end of 2020 Guernsey Water made a repayment to the States of Guernsey of £1,229k (2019: £1,309k) in relation to grants previously received.

The GWB continues to plan for the future of Guernsey Water's wastewater service, in particular cesspit emptying and access to the public sewer. Guernsey Water is committed to making the level of service and cost more equitable for cesspit customers. During 2020 we commenced replacement of the cesspit emptying management system that States Works operates for Guernsey Water, the new system will go live in 2021. At the same time Guernsey Water will take direct responsibility for cesspit customer contact and billing.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

Business performance

Water quality is vital for public health so we always strive to protect the water environment from source to sea. We have robust sampling programmes in place for monitoring the water quality of streams, drinking water and wastewater discharges from Bellegreve wastewater facility.

Overall compliance with drinking water standards was 99.95% in 2020 (2019: 99.85%), making it our best year of drinking water quality since we began reporting this in 2011.

Leakage levels remained low during 2020 and we achieved our target for water supply interruptions due to mains bursts. Total rainfall during 2020 was 25% above the average for the period 1981-2010. A wet October and December meant that water resources were 100% full by the end of the year.

Investment in more effective capture of water from streams during the last decade played an important role in enabling the recharge of water levels by the end of 2020. However, climate change is expected to make winters wetter and summers hotter and drier. The GWB is considering how we will need to develop our water capture and storage systems to ensure resilience to climate change in the future.

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, 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.

2020 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 2021.

Guernsey Water continues to maintain the Millennium Walk around St Saviours Reservoir for the island community. To enable more islanders to use the walk a more accessible section is being developed, which will help the States of Guernsey deliver their disability and inclusion strategy. The accessible walkway will also connect with a new outdoor learning space for schools and community groups to use, which will help the States of Guernsey deliver their Strategy for Nature.

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

Our team

In 2020, we introduced a Licence to Operate framework which was taken up by almost all eligible Public Sector Employee staff. This increased the proportion of people on Established Staff terms and conditions from 68% to 87%. The framework will link progression for our operational technicians to their development against a competency framework. The aim of this is to upskill our technicians, improve retention and attract further talent into vital operational roles.

Our annual people survey showed that 91% of respondents were proud to work for Guernsey Water, an increase from 72% in 2016.

We also asked people about the statement 'I would recommend Guernsey Water as a great place to work', 89% of the 44 respondents agreed or strongly agreed with it. This question is asked periodically to understand people satisfaction over time. Following significant improvement in people satisfaction during 2018, engagement scores continue to be maintained or improved.

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

During a particularly challenging year due to the Covid-19 pandemic, I would like to thank all our people for their dedication, hard work and commitment to providing excellent service.

Our business strategy and 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.

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,
- Drinking water of choice,
- Sustainable drainage,
- Protect our environment,

States' Trading Supervisory Board

Guernsey Water

Chairman's Report - continued

- Sufficient and resilient, and
- Firm financial foundations,

"Drinking water of choice" and "Sustainable drainage" were amended during 2020.

The current 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."

2020 has seen the start of a revised business planning process and the development of a new business plan which we aim to have in place by the end of 2021.

States' Trading Supervisory Board

Guernsey Water

Managing Director's Report

STSB presents its report and the audited financial statements for Guernsey Water for the year ended 31 December 2020. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 27.

Principal activities

Guernsey Water 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.

Our 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.

	2020	2019	Change %
Number of supplies:			
Paying by tax on real property	7,953	8,080	(1.57%)
Paying by measure	18,393	18,130	1.45%
Total	26,346	26,210	0.52%

States' Trading Supervisory Board

Guernsey Water

Managing Director's Report – continued

Financial performance

Guernsey Water has reported a deficit of £329k in 2020 (2019: £768k), this is primarily due to the additional costs incurred in relation to the cesspit emptying service.

Operating surplus for the year was £4,603k, an improvement of 0.85% from 2019. The additional revenue from the cesspit emptying service as a result of wet weather in 2020 and the fact that Guernsey went into lockdown resulting in additional pressure on the service, is offset by the additional cost incurred as the service is subsidised. In addition, a revenue adjustment of £197k (2019: £204k) was required on grants repaid in the year. Nevertheless, Guernsey Water was able to keep operating and management expenses to just 0.5% over budget.

This year Guernsey Water's resources were once again more focussed on the maintenance of its assets than the creation of new assets, as shown by the level of expenditure on capital projects in 2020. This split between revenue expenditure and capital expenditure was also impacted by the restrictions imposed as a result of Covid-19.

	Actual 2020 £'000	Budget 2020 £'000	Actual 2019 £'000
Revenue	16,370	16,271	16,003
Expenditure	11,767	11,711	11,439
Deficit for the financial year	(329)	(413)	(768)
Capital expenditure	4,363	4,857	4,130

During 2020 there were no significant changes that had a material impact on the financial position.

In relation to capital expenditure, the major works include work on HSS improvement works (Phase 4) (£672k), enabling works at St Saviours Water Treatment Works (£386k), work on the treated water storage at Forest Road (£201k) and the replacement of water mains (£435k).

States' Trading Supervisory Board

Guernsey Water

Managing Director's Report – continued

Operational performance

	2020	2019	Change %
Volume supplied in million litres (ML):			
Delivered to customers paying by measure	2,706	2,754	(1.74%)
Delivered to other customers	1,194	1,167	2.31%
Operational use, fire fighting and losses	601	774	(22.40%)
Total put into supply	4,501	4,695	(4.13%)
Service:			
Restrictions on supply	None	None	
Burst mains	28	37	(24.3%)
Discolouration - claims paid	3	4	(25.0%)
Unit costs (partially weather related):			
Water production (per ML)	£365	£368	(0.82%)
Water distribution (per supply)	£18	£16	12.5%
Full time equivalent employees	77	81	(4.94%)
Average number of employees	78	81	(3.70%)

The 2019 figure for the unit cost of water production has been adjusted to exclude the tactical support costs. Using the previous basis the cost would have been £437 per ML (2019: £414).

Contributions to the States of Guernsey

During 2020 Guernsey Water repaid grants received in relation to wastewater assets of £1,229k to the States of Guernsey Capital Reserve (2019: £1,309k).

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,

States' Trading Supervisory Board

Guernsey Water

Managing Director's Report – continued

- 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 identifying and installing internal controls, including financial controls, which are adequate for its own purposes and to safeguard the assets of Guernsey Water's and the States of Guernsey in its care, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of financial controls

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, 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.

States' Trading Supervisory Board

Guernsey Water

Managing Director'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 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 12 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 12 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 of Guernsey, the Guernsey Water Managing Director and the Financial Manager.

All members other than the Guernsey Water Managing Director and the Financial Manager are appointed by the STSB.

As a sub-committee of the States of Guernsey, 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 of Guernsey's 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 Managing Director 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 2020, 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 2020 and of its deficit for the year then ended; and
- are in accordance with United Kingdom Generally Accepted Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, , 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.

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 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.

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 Managing Director'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 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 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 intend to liquidate Guernsey Water or to cease operations, or have 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Guernsey Water's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 Guernsey Water'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 Guernsey Water to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Use of our report

This report is made solely to the members of the STSB. 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

20 May 2021

States' Trading Supervisory Board

Guernsey Water

Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	2 & 4		
Water supplies		5,506	5,692
Wastewater supplies		9,349	9,128
Other income		1,515	1,183
		<u>16,370</u>	<u>16,003</u>
Expenses	2 & 5		
Operating expenses		(8,095)	(7,637)
Management expenses		(3,672)	(3,802)
		<u>(11,767)</u>	<u>(11,439)</u>
Operating surplus before depreciation and amortisation, impairment and (loss)/gain on disposal of fixed assets		4,603	4,564
Depreciation and amortisation	9 & 10	(4,696)	(4,792)
Impairment of assets	10	-	(532)
(Loss)/gain on disposal of fixed assets		(31)	9
		<u>(124)</u>	<u>(751)</u>
Operating deficit for the year		(124)	(751)
Investment return and net interest receivable	7	102	297
Interest payable	7	(307)	(314)
		<u>(329)</u>	<u>(768)</u>
Deficit for the financial year		(329)	(768)

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 2020

	Notes	2020 £'000	2019 £'000
Non-current assets			
Intangible fixed assets	9	112	186
Tangible fixed assets	10	145,119	147,468
Investment property	11	837	650
Assets under construction	12	4,910	3,043
		150,978	151,347
Current assets			
Inventories	13	1,708	1,648
Debtors and prepayments	14	2,021	2,116
Cash at bank and in hand		1,455	1,061
Balances with States Treasury		864	1,561
		6,048	6,386
Creditors: amounts falling due within one year	15	(4,414)	(3,496)
Net current assets		1,634	2,890
Creditors: amounts falling due after more than one year	16	(15,383)	(16,679)
Total net assets		137,229	137,558
Reserves	19	137,229	137,558

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

Deputy P. Roffey
President

20 May 2021

Signed on behalf of the States Trading Group

Mr S. Elliott
Managing Director

20 May 2021

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 2020

	Notes	2020 £'000	2019 £'000
Balance at 1 January		137,558	138,326
Deficit for the financial year		<u>(329)</u>	<u>(768)</u>
Balance at 31 December	19	<u>137,229</u>	<u>137,558</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 2020

	Notes	2020 £'000	2019 £'000
Net cash flows from operating activities	20	5,494	4,162
Cash flows from investing activities			
Purchase of fixed assets	12	(4,177)	(4,130)
Proceeds from disposal of assets		5	11
Net cash flows used in investing activities		(4,172)	(4,119)
Cash flows from financing activities			
Grants repaid in year	18	(1,229)	(1,309)
Capital repaid	17	(191)	(183)
Interest paid		(307)	(314)
Investment return and interest received		102	297
Net cash flows from financing activities		(1,625)	(1,509)
Net decrease in cash and cash equivalents		(303)	(1,466)
Cash and cash equivalents at the beginning of the year		2,622	4,088
Cash and cash equivalents at the end of the year		2,319	2,622
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		1,455	1,061
Balances with States Treasury		864	1,561
Cash and cash equivalents		2,319	2,622

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, 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 Managing Director'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 12 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 12 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.

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 Business Unit 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) Derecognition 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 transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the business, 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 wastewater 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 23.

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 St Saviours Water Treatment Works assets

As a result of the approval of Guernsey Water's Water Treatment Strategy in September 2020, the decision was taken to replace the membranes at St Saviours Water Treatment Works with Rapid Gravity Filters. The assets that constitute the membranes have been reviewed and their end of life has been adjusted in line with the expected completion of the project. 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 wastewater 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:

	2020	2019
	£'000	£'000
Water Supplies		
Unmeasured	1,749	1,780
Measured	3,757	3,912
	5,506	5,692
Wastewater Supplies		
Unmeasured	3,074	3,095
Measured	6,275	6,033
	9,349	9,128
Other Income		
Cesspit emptying income	1,320	1,207
Net surplus/(deficit) on other trading activities (below)	156	(84)
Net grant released (note 18)	39	60
	1,515	1,183
	16,370	16,003

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

	2020 £'000	2019 £'000
Net surplus/(deficit) on other trading activities		
Standard charges for service laying	168	(16)
Charges for work at ascertained cost	7	31
Property rental income	123	112
Notional rental income	7	-
Cost of items issued from stores	(40)	543
	265	670
Expenditure	(109)	(754)
	156	(84)

5. Expenses

	2020 £'000	2019 £'000
Operating expenses		
Tactical support	322	224
Water production	1,644	1,722
Water distribution	464	422
Asset management	411	431
Pumping	1,293	1,318
Sewers	3,961	3,520
	8,095	7,637
Management expenses		
Management and general	1,326	1,321
Water quality and risk management	517	540
Customer services	848	955
Finance and support services	981	986
	3,672	3,802
Total expenditure	11,767	11,439

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. Staff numbers and costs

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

	2020	2019
Capital delivery	9	11
Operations	34	34
Customer services	22	22
Administration and support	4	6
Water quality risk management	8	8
	77	81

Their aggregate remuneration comprised:

	Note	2020 £'000	2019 £'000
Wages and salaries		3,272	3,266
Social security costs		211	215
Pension costs	23	427	429
Remuneration costs transferred to capital assets		(326)	(421)
		3,584	3,489

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

7. Interest

	2020	2019
	£'000	£'000
Interest receivable		
Investment return	101	295
Interest receivable and similar income	1	2
	102	297
 Interest payable		
Interest payable on loans	(307)	(314)
	(307)	(314)

8. Deficit for the financial year

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

	Note	2020	2019
		£'000	£'000
Auditor's remuneration		21	19
Net government grants released	18	(39)	(60)
Notional rental income		(7)	-
Amortisation of intangible fixed assets	9	74	77
Depreciation of tangible fixed assets	10	4,622	4,715
Impairment of tangible fixed assets	10	-	532
Loss/(gain) on disposal of fixed assets		31	(9)
		4,702	5,274

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 2020 £'000	Additions £'000	Disposals £'000	31 December 2020 £'000
Cost				
Long-term strategies	458	-	-	458
	458	-	-	458
Amortisation				
Long-term strategies	272	74	-	346
	272	74	-	346
Net Book Value	186			112

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 2020 £'000	Additions £'000	Disposals £'000	31 December 2020 £'000
Cost				
Land	3,141	-	(1)	3,140
Infrastructure	199,304	2,186	-	201,490
Buildings	17,546	116	(36)	17,626
Motor vehicles	780	-	(30)	750
Office equipment	1,010	7	-	1,017
	<u>221,781</u>	<u>2,309</u>	<u>(67)</u>	<u>224,023</u>
	1 January 2020 £'000	Charge for the year £'000	Disposals £'000	31 December 2020 £'000
Depreciation				
Land	268	30	-	298
Infrastructure	68,332	4,034	-	72,366
Buildings	4,333	448	(2)	4,779
Motor vehicles	515	55	(29)	541
Office equipment	865	55	-	920
	<u>74,313</u>	<u>4,622</u>	<u>(31)</u>	<u>78,904</u>
Net Book Value	<u>147,468</u>			<u>145,119</u>

Guernsey Water disposed of two quarries (Irene & Robin) in 2020, these quarries represented less than 1% of total resources by volume and therefore the Guernsey Water Board was of the opinion that the significant cost of maintenance did not justify their retention.

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 2020 £'000	Additions/ Disposals £'000	Revaluations £'000	31 December 2020 £'000
Investment properties	650	187	-	837
	<u>650</u>	<u>187</u>	<u>-</u>	<u>837</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 original book value of the investment properties was £254k.

On 29 April 2020 Guernsey Water signed a lease with Guernsey Housing Association LBG in relation to Shamrock Cottage for a term of 15.5 years. The terms of the lease provided for the cost of the property refurbishment to be borne by the lessee in return for a rental of £1 per annum over the life of the lease. Guernsey Water is able to void the lease at any time should the property be required for operational reasons by paying the lessee the outstanding balance on the loan taken out by the lessee to cover the cost of the refurbishments.

Guernsey Water has accounted for the cost of the refurbishments carried out by the lessee (£186k) as an addition to the value of the property and is holding a balance of deferred income that represents the balance of the loan taken out by the lessee. As the lessee makes capital repayments the value of those repayments is charged to the revenue account as rental income. Guernsey Water spent a further £1k on the property.

In 2020, Guernsey Water received £7k in notional rent for the property.

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
2020 Total	3,043	4,363	(2,496)	4,910
2019 Total	4,991	4,130	(6,078)	3,043

Assets under construction completed in 2020 and transferred to fixed assets include work on the water mains replacement programme (£435k), enabling works for the replacement of the membranes at St Saviours Water Treatment Works (£404k) and work on the Bellegreve Penstock Chambers (£217k).

Assets under construction as at 31 December 2020 relate principally to HSS Phase 4 (£1,865k), work on sewer rehabilitation (£372k) and work on the treated water storage at Forest Road (£354k).

13. Inventories

	2020 £'000	2019 £'000
Water production	543	500
Water distribution	499	479
Wastewater	666	669
	1,708	1,648

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

	2020	2019
	£'000	£'000
Customers' billed accounts outstanding	488	578
Cesspit emptying income receivable	19	21
	<hr/> 507	599
Unbilled water supplies	399	383
Unbilled wastewater	678	646
Unbilled cesspit income	228	198
Electricity prepayment	-	102
Other debtors and prepayments	209	188
	<hr/> 2,021	<hr/> 2,116

15. Creditors: amounts falling due within one year

	Note	2020	2019
		£'000	£'000
Trade creditors		902	516
Accruals		1,718	1,460
Deferred income		358	100
		<hr/> 2,978	2,076
Loan from States of Guernsey	17	197	191
Capital grants	18	1,229	1,229
Deferred income (below)		10	-
		<hr/> 4,414	<hr/> 3,496

In 2020 Guernsey Water entered into a lease agreement for Shamrock Cottage with Guernsey Housing Association LBG (see note 11). As a result of this transaction £10k (2019: nil) of deferred income has been recognised as due within 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	2020 £'000	2019 £'000
Loan from States of Guernsey	17	8,165	8,362
Capital grants	18	7,049	8,317
Deferred income		169	-
		15,383	16,679

The deferred income represents notional rental income that is due after more than one year in relation to Shamrock Cottage (see note 11).

17. Loan from States of Guernsey

	2020 £'000	2019 £'000
Balance at 1 January	8,553	8,736
Capital repaid	(191)	(183)
Balance at 31 December	8,362	8,553

The loan from the States of Guernsey is repayable on a quarterly basis over a period of 29.5 years commencing on 30 September 2017 at an annual interest rate of 3.625%.

	2020 £'000	2019 £'000
Within one year	197	191
Between one to two years	205	197
Between two to five years	661	638
More than five years	7,299	7,527
	8,362	8,553

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

	2020	2019
	£'000	£'000
Balance at 1 January	9,546	10,915
Grants repaid	<u>(1,229)</u>	<u>(1,309)</u>
	<u>8,317</u>	<u>9,606</u>
Released to revenue account during the year	(236)	(264)
Reversal of amounts released in relation to grants repaid	<u>197</u>	<u>204</u>
	<u>(39)</u>	<u>(60)</u>
Balance at 31 December	<u><u>8,278</u></u>	<u><u>9,546</u></u>

An amount of £236k was released to the Statement of Comprehensive Income in 2020 (2019: £264k). This represents an apportionment of the States of Guernsey 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 31 December 2020 Guernsey Water repaid £1,229k (2019 - £1,309k) in relation to grants previously received from the States of Guernsey resulting in an adjustment of £197k 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	618	75,178	61,762	137,558
Deficit for the financial year	-	-	(329)	(329)
Transfer of non-water surplus	185	-	(185)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	803	75,178	61,248	137,229

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-wastewater 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 Wastewater 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 to net cash inflow from operating activities

	2020	2019
	£'000	£'000
Operating deficit for the year	(124)	(751)
Notional rental income received	(7)	-
Depreciation and amortisation charges	4,696	4,792
Impairment of assets	-	532
Loss/(gain) on sale of tangible assets	31	(9)
Government grants released	(39)	(60)
Increase in inventories	(60)	(131)
Decrease in debtors	95	18
Increase/(decrease) in creditors due within one year	902	(229)
Net cash flows from operating activities	<u>5,494</u>	<u>4,162</u>

21. Financial commitments and contingent liabilities

	2020	2019
	£'000	£'000
Commitments for fixed asset acquisitions at 31 December for which no provision has been made in these financial statements	<u>850</u>	<u>250</u>

The financial commitments are in relation to projects where elements have been awarded to suppliers but the work has not yet been undertaken. The most significant of these relate to the scheduling system for the Future of Wastewater Services Project (£243k) and the implementation of the St Saviours Water Treatment Works Strategy (£281k).

Guernsey Water has no contingent liabilities as at 31 December 2020 (2019: £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. Financial instruments

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

	Note	2020 £'000	2019 £'000
Financial assets at amortised cost			
Cash and cash equivalents		2,317	2,622
Debtors	14	507	599
Financial liabilities at amortised cost			
Creditors: amounts falling due within one year	15	(1,099)	(707)
Creditors: amounts falling due after more than one year	16	(8,165)	(8,362)

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. 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 (£92,236 as at 31 December 2020) 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 periodic valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £427k (2019: £429k).

Further details relating to the funding of the Superannuation Scheme are included within the States of Guernsey Accounts 2020.

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. 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.

25. 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 2020 (including salaries and other benefits) was £456k (2019: £461k).

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.

	2020 £'000	2019 £'000
Garenne Group		
Expenses	66	116
Assets under construction	1,171	520
	1,237	636
Trade Creditors	2	6

Of which £796k (2019: £418k) was the result of open public tenders and £248k (2019: £82k) of the remainder coming from a pre-existing framework agreement and the balance of £193k (2019: £136k) 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

26. Subsequent events

Covid-19

On 23 January 2021 Guernsey entered into a second full lockdown due to the Covid-19 pandemic. This lasted until Monday 22 March 2021 when the island entered stage 3 of lockdown with a return to a normal level of activity within the Bailiwick, with social, recreation and business activity able to take place.

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 2020 have not been adjusted to reflect their impact.

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

27. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 21 relating to 2020 which would affect these financial statements (2019: None).

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