

# **States of Guernsey**

## **Miscellaneous Accounts 2011**

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# CONTENTS

Public Services Department – Ports	1
Public Services Department – Guernsey Water	24
Commerce & Employment Department – Dairy Trading Account	44
Public Services Department – States Works	60
Social Security Department – Guernsey Insurance Fund	77
Social Security Department – Non Contributory Services	98
Social Security Department – Guernsey Health Service Fund	111
Social Security Department – Long-term Care Insurance Fund	130
Elizabeth College	147
Ladies’ College	160
States of Alderney	169

# States of Guernsey Public Services Department

## Ports

### Statement of activities and performance

*Year ended 31 December 2011*

#### **Principal activities**

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

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

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

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

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

#### **Financial highlights**

The turnover for the Airport for the year was £11.6m, an increase of £0.9m (8.4%) from 2010. Turnover at Guernsey Harbours for the year was £8.7m, an increase of £0.3m (2.5%) from 2010.

In terms of expenditure, the Airport had budgeted to spend £11.1m in 2011 (2010: £11.1m) and it had been forecast that the Airport would generate a net surplus for the year of £0.4m (2010: deficit £0.1m). The Airport actually incurred costs of £12.1m (2010: £11.7m), which resulted in an operating deficit of £0.4m (2010: deficit £1.0m). Guernsey Harbours had budgeted to spend £7.9m during the year (2010: £7.9m) with a forecast surplus of £0.1m (2010: deficit £0.1m). The Harbours actually incurred costs of £7.0m (2010: £7.3m) and achieved a surplus of £1.5m (2010: £1.0m).

During the year, the Guernsey Airport commenced a project to rehabilitate airside pavements and undertake necessary remedial and compliance work. The value of this work during 2011 was £6.8m (total project budget £80.4m).

#### **Operational performance**

Total passenger movements for the year ended 31 December 2011 were 1,416,791 (Guernsey Airport 902,013, Guernsey Harbours 514,778), which were 4.7% higher on the previous year. The movements attributable to Guernsey Airport were 1.5% higher and those for Guernsey Harbours 11% higher than the previous year.

There were a total of 6 full emergencies declared at Guernsey Airport during 2011 (2010:6).

The Airport employed 118 full time equivalents at the end of 2011 (2010: 114).

The Harbour employed 70 full time equivalents at the end of 2011 (2010: 75).

# States of Guernsey Public Services Department Ports

Statement of activities and performance - continued  
*Year ended 31 December 2011*

## **Board members and principal officers**

The Ports are the responsibility of the Public Services Department.

During 2011:

Board Members were:

Deputy B M Flouquet, Minister  
Deputy S J Ogier, Deputy Minister  
Deputy T M Le Pelley  
Deputy A Spruce  
Deputy J Kuttelwascher

Principal Officers were:

Mr A Lewis, Chief Officer, Public Services Department  
Mr J S N Menhenitt, Finance Director, Public Services Department  
Mr C J Le Ray, Airport Director, Guernsey Airport  
Capt. P Gill, Harbour Master  
Mr S Langlois, Finance and Administration Manager, Guernsey Airport  
Mr R Pinchemain, Commercial Manager, Guernsey Harbours

## **Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor.

# States of Guernsey Public Services Department

## Ports

### Statement of responsibilities for the preparation of financial statements

The Public Services Department (the “Department”) is responsible for preparing financial statements for each financial year and for selecting suitable accounting policies for the Guernsey Airport and the Harbours of St Peter Port and St Sampson (the “Ports”). In preparing those financial statements, the Department is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Ports will continue in business.

The Department is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time its financial position. It is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of internal financial controls

It is the responsibility of the Department to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in their care and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The Public Services Department is also responsible for the economic, efficient and effective operations and management of the Ports.

It is acknowledged that the Ports are subject to financial and manpower restrictions. Nevertheless, the Public Services Department has a duty to ensure that they fulfil their obligations to install and maintain adequate internal controls and safeguard the States’ resources for which they are responsible.

The Ports’ internal financial controls and monitoring procedures include:

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

# States of Guernsey Public Services Department Ports

## Statement of internal financial controls - continued

- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.
- Regular independent review and appraisal of the soundness, adequacy and application of internal controls by the Internal Audit, Treasury and Resources Department.

The Department strives to ensure that all staff with financial responsibilities in the Ports have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

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

## Going concern

The Department has reviewed the cash flows and projected income and expenses over the next twelve months prepared by management and deem that the Ports have adequate financial resources to meet their obligations as they fall due. The Department therefore believe that the Ports are a going concern for at least twelve months from the date of approval of the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STATES OF GUERNSEY PUBLIC SERVICES DEPARTMENT**

We have audited the financial statements of States of Guernsey Public Services Department – Ports (the “Ports”) for the year ended 31 December 2011 which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out in Note 1.

This report is made solely to the members of the States of Guernsey Public Services Department (the “Department”), as a body, in accordance with the terms of our engagement letter dated 26 November 2007 as appended to on 26 May 2009. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities for the preparation of financial statements, the Department is responsible for the preparation of the financial statements. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Ports’ circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements have been properly prepared in accordance with the accounting policies set out in Note 1.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
Guernsey  
17 April 2012

# States of Guernsey Public Services Department Ports

Revenue account  
for the year ended 31 December 2011

	<i>Notes</i>	<b>2011</b> £	2010 £
<b>Income</b>			
Airport Fees, Charges & Other Income	<i>1</i>	<b>11,623,206</b>	10,663,955
Harbour Dues, Charges & Other Income	<i>1</i>	<b><u>8,678,338</u></b>	<u>8,448,748</u>
		<b>20,301,544</b>	19,112,703
<b>Expenses</b>			
Airport		<b>10,482,527</b>	10,208,748
Harbours		<b>6,020,620</b>	6,305,928
Loss on disposal of fixed assets	<i>2</i>	-	5,000
Depreciation	<i>2</i>	<b><u>2,763,845</u></b>	<u>2,656,942</u>
		<b><u>19,266,992</u></b>	<u>19,176,618</u>
<b>Operating surplus / (deficit) on ordinary activities</b>		<b><u>1,034,552</u></b>	<u>(63,915)</u>
Interest received from States Treasury		<b><u>45,123</u></b>	<u>43,470</u>
<b>Surplus / (deficit) for the financial year</b>		<b><u>1,079,675</u></b>	<u>(20,445)</u>

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years other than as stated in the revenue account.

Notes 1 to 15 form an integral part of these financial statements.

# States of Guernsey Public Services Department Ports

## Balance sheet at 31 December 2011

	<i>Notes</i>	<b>2011</b> £	2010 £
<b>Fixed Assets</b>			
Tangible fixed assets - Airport	2	<b>42,661,315</b>	43,286,520
Tangible fixed assets - Harbours	2	<b>131,397,164</b>	132,272,217
Assets under construction	3	<b><u>6,750,795</u></b>	<u>86,327</u>
		<b><u>180,809,274</u></b>	<u>175,645,064</u>
<b>Current assets</b>			
Stock	4	<b>483,059</b>	462,730
Debtors and prepayments	5	<b>2,563,624</b>	2,420,716
Balances with States Treasury	10	<b><u>2,272,550</u></b>	<u>4,346,141</u>
		<b><u>5,319,233</u></b>	<u>7,229,587</u>
<b>Creditors: amounts falling due within one year</b>	6	<b>(2,057,981)</b>	(723,068)
<b>Net current assets</b>		<b><u>3,261,252</u></b>	<u>6,506,519</u>
<b>Total net assets</b>		<b><u>184,070,526</u></b>	<u>182,151,583</u>
<b>Reserves</b>	7	<b><u>184,070,526</u></b>	<u>182,151,583</u>

These financial statements were approved by the Public Services Department on 17 April 2012.

Signed on behalf of the Board.

B M Flouquet  
Minister

S J Ogier  
Deputy Minister

Notes 1 to 15 form an integral part of these financial statements.

# States of Guernsey Public Services Department Ports

## Cash flow statement

for the year ended 31 December 2011

	<i>Notes</i>	<b>2011</b> £	2010 £
<b>Net cash inflow from operating activities</b>	8	<b><u>4,970,073</u></b>	<b><u>3,232,248</u></b>
<b>Returns on investments and servicing of finance</b>			
Interest received		<b><u>45,123</u></b>	<b><u>43,470</u></b>
<b>Capital expenditure</b>			
Payments related to assets under construction		(6,664,468)	-
Payment to acquire tangible fixed assets		<u>(1,263,587)</u>	<u>(2,532,339)</u>
		<b><u>(7,928,055)</u></b>	<b><u>(2,532,339)</u></b>
<b>Management of liquid resources</b>			
Contribution From Capital Reserve	7	6,517,662	1,880,106
Contribution To Capital Reserve	7	<u>(5,678,394)</u>	<u>(2,641,497)</u>
Decrease in amounts held with States Treasury	9,10	<b><u>2,073,591</u></b>	<b><u>18,012</u></b>
<b>Movement in cash</b>		<b><u><u>-</u></u></b>	<b><u><u>-</u></u></b>

Notes 1 to 15 form an integral part of these financial statements.

# States of Guernsey Public Services Department Ports

## Notes to the financial statements

### 1. Principal accounting policies

The accounting policies adopted are described below.

The accounts are produced on a going concern basis. The Treasury and Resources Department monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

#### *Accounting convention*

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention, as modified for the revaluation of assets. There have been no revaluations in the current period.

#### *Income and Expenditure*

Income and expenditure are accounted for on an accruals basis.

Income comprises amounts in respect of services provided and goods supplied in the year.

#### *Tangible fixed assets*

Tangible fixed assets are subject to annual depreciation over their useful economic life.

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.

#### *Depreciation*

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated useful lives using the straight-line method.

	<b>Estimated life in years</b>	<b>Depreciation % per annum</b>
Land	-	-
Buildings	60	1.67
Plant and machinery	15	6.67
Equipment, fixtures and fittings	10	10.00
Motor vehicles and electrical equipment	5	20.00
Computers and ICT	3	33.33

#### *Stock and work in progress*

Stock and work in progress is valued at the lower of cost and net realisable value.

#### *Pension costs*

The costs of the defined benefit scheme are charged to the revenue account over the period during which the Department benefits from the employees' services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

# States of Guernsey Public Services Department Ports

## Notes to the financial statements - continued

### 2. Tangible fixed assets Airport

	1 January 2011 £	Additions £	Written off/ Disposals £	31 December 2011 £
<i>Cost</i>				
Land	2,465,437	221,714	-	<b>2,687,151</b>
Buildings	40,939,470	177,454	-	<b>41,116,924</b>
Plant and machinery	4,846,790	109,149	-	<b>4,955,939</b>
Equipment, fixtures and fittings	4,211,754	31,726	-	<b>4,243,480</b>
Motor vehicles and electrical equipment	2,482,604	429,932	-	<b>2,912,536</b>
Computers and ICT	<u>217,582</u>	<u>-</u>	<u>-</u>	<u><b>217,582</b></u>
	<u>55,163,637</u>	<u>969,975</u>	<u>-</u>	<u><b>56,133,612</b></u>
	1 January 2011 £	Charge for the year £	Written off/ Disposals £	31 December 2011 £
<i>Depreciation</i>				
Land	-	-	-	-
Buildings	4,423,655	684,420	-	<b>5,108,075</b>
Plant and machinery	2,661,730	323,632	-	<b>2,985,362</b>
Equipment, fixtures and fittings	2,900,811	421,070	-	<b>3,321,881</b>
Motor vehicles and electrical equipment	1,690,155	160,452	-	<b>1,850,607</b>
Computers and ICT	<u>200,766</u>	<u>5,606</u>	<u>-</u>	<u><b>206,372</b></u>
	<u>11,877,117</u>	<u>1,595,180</u>	<u>-</u>	<u><b>13,472,297</b></u>
<b>Net book value</b>	<u>43,286,520</u>			<u><b>42,661,315</b></u>

# States of Guernsey Public Services Department Ports

## Notes to the financial statements – continued

### Tangible fixed assets (continued)

#### Harbours

<i>Cost</i>	1 January 2011 £	Additions £	Written off/ Disposals £	31 December 2011 £
Land	87,515,374	-	-	87,515,374
Buildings	48,530,707	273,151	-	48,803,858
Plant and machinery	2,424,012	-	-	2,424,012
Equipment, fixtures and fittings	1,922,266	20,461	-	1,942,727
Motor vehicles and electrical equipment	449,663	-	-	449,663
Computers and ICT	<u>63,858</u>	<u>-</u>	<u>-</u>	<u>63,858</u>
	<u>140,905,880</u>	<u>293,612</u>	-	<u>141,199,492</u>

<i>Depreciation</i>	1 January 2011 £	Charge for the year £	Written off/ Disposals £	31 December 2011 £
Land	-	-	-	-
Buildings	5,659,249	793,968	-	6,453,217
Plant and machinery	1,289,734	161,601	-	1,451,335
Equipment, fixtures and fittings	1,210,795	195,954	-	1,406,749
Motor vehicles and electrical equipment	410,027	17,142	-	427,169
Computers and ICT	<u>63,858</u>	<u>-</u>	<u>-</u>	<u>63,858</u>
	<u>8,633,663</u>	<u>1,168,665</u>	-	<u>9,802,328</u>
<b>Net book value</b>	<u>132,272,217</u>			<u>131,397,164</u>

### 3. Assets under construction

	2011 £	2010 £
<b>Airport</b>		
Runway, Apron & Taxiway Resurfacing	6,750,795	86,327
<b>Harbour</b>	-	-
	<u>6,750,795</u>	<u>86,327</u>

# States of Guernsey Public Services Department Ports

## Notes to the financial statements – continued

### 4. Stock

	2011 £	2010 £
Airport	64,774	64,774
Harbours	<u>418,285</u>	<u>397,956</u>
	<u>483,059</u>	<u>462,730</u>

### 5. Debtors and prepayments

	2011 £	2010 £
Trade debtors	2,307,395	2,340,581
Prepayments	69,121	54,105
Other debtors	<u>187,108</u>	<u>26,030</u>
	<u>2,563,624</u>	<u>2,420,716</u>

### 6. Creditors: amounts falling due within one year

	2011 £	2010 £
Trade creditors	549,927	658,141
Accruals	1,490,216	42,965
Deferred income	16,438	20,562
Other creditors: Harbour operational licence deposits	<u>1,400</u>	<u>1,400</u>
	<u>2,057,981</u>	<u>723,068</u>

### 7. Reserves

	2011 £	2010 £
Balance 1 January	182,151,583	182,933,419
Surplus / (deficit) for financial year	1,079,675	(20,445)
Contribution From Capital Reserve	6,517,662	1,880,106
Contribution To Capital Reserve	<u>(5,678,394)</u>	<u>(2,641,497)</u>
<b>Balance 31 December</b>	<u>184,070,526</u>	<u>182,151,583</u>

# States of Guernsey Public Services Department Ports

## Notes to the financial statements – continued

### 8. Reconciliation of operating surplus to net cash inflow from operating activities

	2011 £	2010 £
Operating surplus / (deficit)	1,034,552	(63,915)
Depreciation charges and loss on sale of tangible fixed assets	2,763,845	2,661,942
(Increase) / decrease in stocks	(20,329)	22,418
(Increase) / decrease in debtors	(142,908)	583,275
Increase in creditors	<u>1,334,913</u>	<u>28,528</u>
<b>Net cash inflow from operating activities</b>	<b><u>4,970,073</u></b>	<b><u>3,232,248</u></b>

### 9. Reconciliation of net cash flow to movement in net funds

	2011 £	2010 £
Movement in cash	-	-
Decrease in liquid resources	<u>(2,073,591)</u>	<u>(18,012)</u>
	<u>(2,073,591)</u>	<u>(18,012)</u>
Net funds at 1 January	<u>4,346,141</u>	<u>4,364,153</u>
<b>Net funds at 31 December</b>	<b><u>2,272,550</u></b>	<b><u>4,364,141</u></b>

### 10. Analysis of changes in net funds

	At 1 January 2011 £	Cash Flows £	At 31 December 2011 £
Balance held with States Treasury	<u>4,346,141</u>	<u>(2,073,591)</u>	<b><u>2,272,550</u></b>

# States of Guernsey Public Services Department Ports

## Notes to the financial statements – continued

### **11. Contingent Liabilities/ Overspends**

The Accounts include the amounts already paid and agreed in respect of contractors' claims for the Airport Terminal Building, St Peter Port New Jetty cladding replacement and St Sampson's Marina development projects.

In relation to the St Sampson's Marina project previously the contractor made a claim for a further £3.1 million which was rejected by the engineer. No formal proceedings have been commenced.

It is emphasised that contractors' claims values are the amounts that the contractors themselves are seeking to claim and are not an indication of the merit or likelihood of success.

### **12. Pension Fund**

The employees of the Ports are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. The report by the actuaries on the valuation of the Superannuation Fund (the "Fund") at 31 December 2004 indicated that a deficit existed. However, the States decided to maintain the current employer's contribution rate to the Fund at 7.85% for the Airport and 7.35% for the Harbours which came into effect at 1 January 2003. The arrangements for providing pensions for public sector employees were reviewed during 2007 and it was agreed the employees contribution rate would be increased to 6.5% with effect from 1 January 2010.

During 2010 the States considered a report by the actuaries on the valuation of the Fund at 31 December 2007 which indicated that a deficit still existed. The States agreed to increase the current employer's contribution rate to the Fund to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the notes of the States of Guernsey accounts.

The Ports have applied the provisions of FRS 17 for multiemployer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £1,146,837 (2010: £1,096,776).

# States of Guernsey Public Services Department Ports

Notes to the financial statements – continued

## **13. Related party transactions**

The Department is of the opinion that there have been no related party transactions in the current or preceding financial years apart from with other States entities.

Less than 20% of the value of the Ports' annual expenditure is due to transactions with other States entities.

## **14. Statement of control**

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

## **15. Subsequent events**

Management know of no event, subsequent to the year end that would materially affect the financial statements.

## Supplemental Information

The additional information has been prepared for the accounting records of the Department. While it does not form part of the audited financial statements, it should be read information with them.

# GUERNSEY AIRPORT

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b>Net Expenditure by Category</b>		2011 Actual £'000s	2010 Actual £'000s
		<b>Income</b>			
10,157	9,968	<i>Operating Income</i>		10,132	9,313
1,403	1,519	<i>Recoveries</i>		1,491	1,351
<u>11,560</u>	<u>11,487</u>			<u>11,623</u>	<u>10,664</u>
		<b>Expenditure</b>			
		<i>Staff</i>			
		<i>Pay costs</i>			
2,595	2,290	Established Staff		2,302	2,426
771	821	Public Service Employees		838	817
2,987	3,437	Other Pay Groups		3,476	3,169
<u>6,353</u>	<u>6,548</u>			<u>6,616</u>	<u>6,412</u>
		<i>Non-Pay costs</i>			
167	131	Recruitment and Training		164	203
41	38	Other Staff Costs		38	43
109	103	<i>Communications and IT</i>		103	108
11	36	<i>Consultants' Fees</i>		58	16
75	70	<i>Contracted Out Work</i>		71	91
5	3	<i>Promotional Activities</i>		3	9
		<i>Premises</i>			
39	42	Equipment, Fixtures and Fittings		52	47
237	375	Repairs, Maintenance and Servicing		618	607
645	621	Utilities		632	605
230	234	<i>Risk Management and Insurance</i>		248	232
		<i>Supplies and Services</i>			
70	129	Plant, Machinery and Vehicles		100	146
447	457	Services and Materials		433	425
3	3	Other Operational Costs		9	9
		<i>Administration Expenses</i>			
1	1	Bank Charges		1	-
1,208	1,249	Incidental and Other costs		1,325	1,242
16	15	Postage, Stationery and Printing		12	14
<u>9,657</u>	<u>10,055</u>			<u>10,483</u>	<u>10,209</u>
1,903	1,432	<b>Operating Surplus for the financial year</b>		1,140	455
1,500	1,490	<i>Depreciation</i>		1,595	1,492
<u><b>403</b></u>	<u><b>(58)</b></u>	<b>Operating Surplus / (Deficit) transferred to the Ports Holding Account</b>		<u><b>(455)</b></u>	<u><b>(1,037)</b></u>

# GUERNSEY AIRPORT

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b>Net Expenditure by Service Area</b>	2011 Actual £'000s	2010 Actual £'000s
		<i>Income</i>		
435	435	Advertising, picketing etc	423	409
802	815	Airport Development Charge	787	778
270	-	Airport Freight Charge	-	-
750	668	Car Parking Fees	644	567
1,750	1,900	Rents	2,190	1,813
6,150	6,150	Traffic Receipts	6,089	5,746
<b>10,157</b>	<b>9,968</b>		<b>10,133</b>	<b>9,313</b>
		<i>Operational Expenditure</i>		
930	910	Administration	1,081	1,065
1,979	2,098	Aerodrome Fire Service	2,057	2,141
1,897	2,051	Airport Infrastructure	2,285	2,305
3,603	3,632	Navigational Services	3,725	3,499
<b>8,409</b>	<b>8,691</b>		<b>9,148</b>	<b>9,010</b>
(155)	(155)	<i>Recovery from Alderney Airport</i>	(155)	(152)
<b>1,903</b>	<b>1,432</b>	<b>Operating Surplus for the financial year</b>	<b>1,140</b>	<b>455</b>
1,500	1,490	<i>Depreciation</i>	1,595	1,492
<b>403</b>	<b>(58)</b>	<b>Operating Surplus / (Deficit) transferred to the Ports Holding Account</b>	<b>(455)</b>	<b>(1,037)</b>

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b>Routine Capital Expenditure</b>	2011 Actual £'000s	2010 Actual £'000s
-	-	<i>Major Construction and Development Projects</i>	173	93
370	213	<i>Miscellaneous Capital Works</i>	4	9
246	85	<i>IT Projects and Equipment</i>	-	82
1,346	486	<i>Equipment, Machinery and Vehicles</i>	571	471
<b>1,962</b>	<b>784</b>	<b>Routine Capital Expenditure</b>	<b>748</b>	<b>655</b>
25,500	9,925	Airport Pavments Project	6,782	875
2,250	-	Airport Radar	104	-
(27,750)	(9,925)	Less Transfer from Capital Reserve	(6,245)	(875)
<b>1,962</b>	<b>784</b>	<b>Net Capital Expenditure</b>	<b>1,389</b>	<b>655</b>

# HARBOUR OF ST PETER PORT

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b><u>Net Expenditure by Category</u></b>		2011 Actual £'000s	2010 Actual £'000s
		<b>Income</b>			
6,994	7,199	<i>Operating Income</i>		7,591	7,350
102	104	<i>Recoveries</i>		158	144
<u>7,096</u>	<u>7,303</u>			<u>7,749</u>	<u>7,494</u>
		<b>Expenditure</b>			
		<i>Staff</i>			
		<i>Pay costs</i>			
1,407	1,448	Established Staff		1,221	1,266
2,181	2,142	Public Service Employees		1,942	1,926
-	1	Other Pay Groups		-	-
<u>3,588</u>	<u>3,591</u>			<u>3,163</u>	<u>3,192</u>
1	1	Recruitment and Training		-	1
20	19	Other Staff Costs		21	20
128	156	<i>Communications and IT</i>		67	90
40	40	<i>Contracted Out Work</i>		52	41
28	22	<i>Promotional Activities</i>		19	28
		<i>Premises</i>			
17	17	Equipment, Fixtures and Fittings		23	17
6	7	Rents and Leasing		-	-
610	663	Repairs, Maintenance and Servicing		309	583
373	383	Utilities		325	309
86	86	<i>Risk Management and Insurance</i>		64	61
		<i>Supplies and Services</i>			
153	363	Plant, Machinery and Vehicles		356	536
757	832	Services and Materials		833	739
108	75	Other Operational Costs		52	52
		<i>Administration Expenses</i>			
222	185	Incidental and Other costs		180	108
32	33	Postage, Stationery and Printing		81	20
<u>6,169</u>	<u>6,473</u>			<u>5,545</u>	<u>5,797</u>
927	830	<b>Operating Surplus for the financial year</b>		2,204	1,697
1,050	1,000	<i>Depreciation</i>		940	936
<u>(123)</u>	<u>(170)</u>	<b>Operating (Deficit) / Surplus transferred to the Ports Holding Account</b>		<u>1,264</u>	<u>761</u>

# HARBOUR OF ST PETER PORT

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b><u>Net Expenditure by Service Area</u></b>	2011 Actual £'000s	2010 Actual £'000s
		<i>Income</i>		
2,800	3,000	Facilities charges	3,408	3,146
1,600	1,600	Local Marina and Mooring Fees	1,494	1,511
490	490	Visitor Marina and Mooring Fees	480	473
400	399	Pilotage Dues	410	380
660	680	Rents etc.	567	757
900	900	Shipping Dues	1,112	955
144	130	Sundries	120	128
<b>6,994</b>	<b>7,199</b>		<b>7,591</b>	<b>7,350</b>
		<i>Operational Expenditure</i>		
2,879	2,883	Administration	2,400	2,372
1,704	1,937	Harbour Infrastructure	1,483	1,810
894	887	Marina and Moorings	860	877
590	662	Navigational Services	644	594
<b>6,067</b>	<b>6,369</b>		<b>5,387</b>	<b>5,653</b>
<b>927</b>	<b>830</b>	<b>Operating Surplus for the financial year</b>	<b>2,204</b>	<b>1,697</b>
1,050	1,000	<i>Depreciation</i>	940	936
<b>(123)</b>	<b>(170)</b>	<b>Operating (Deficit) / Surplus for the financial year</b>	<b>1,264</b>	<b>761</b>

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b><u>Routine Capital Expenditure</u></b>	2011 Actual £'000s	2010 Actual £'000s
1,042	50	<i>Miscellaneous Capital Works</i>	-	98
-	45	<i>Equipment, Machinery and Vehicles</i>	21	79
<b>1,042</b>	<b>95</b>	<b>Routine Capital Expenditure</b>	<b>21</b>	<b>177</b>
300	-	<i>Crane Strategy</i>	273	825
320	-	<i>Pontoons</i>	-	-
(620)	-	<i>Less transfer from Capital Reserve</i>	(273)	(825)
<b>1,042</b>	<b>95</b>	<b>Net Capital Expenditure</b>	<b>21</b>	<b>177</b>

# HARBOUR OF ST SAMPSON

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b>Net Expenditure by Category</b>		2011 Actual £'000s	2010 Actual £'000s
		<b>Income</b>			
1,003	1,003	<i>Operating Income</i>		928	954
21	21	<i>Recoveries</i>		1	2
<u>1,024</u>	<u>1,024</u>			<u>929</u>	<u>956</u>
		<b>Expenditure</b>			
		<i>Staff</i>			
		<i>Pay costs</i>			
87	86	Established Staff		84	82
287	271	Public Service Employees		251	257
<u>374</u>	<u>357</u>			<u>335</u>	<u>339</u>
2	3	<i>Communications and IT</i>		3	4
		<i>Premises</i>			
54	41	Repairs, Maintenance and Servicing		55	55
51	51	Utilities		29	30
13	13	<i>Risk Management and Insurance</i>		11	14
		<i>Supplies and Services</i>			
14	14	Plant, Machinery and Vehicles		14	15
47	36	Services and Materials		28	53
-	1	Other Operational Costs		-	-
		<i>Administration Expenses</i>			
1	1	Incidental and Other costs		-	-
<u>556</u>	<u>517</u>			<u>475</u>	<u>510</u>
<u>468</u>	<u>507</u>	<b>Operating Surplus for the financial year</b>		<u>454</u>	<u>446</u>
250	230	<i>Depreciation</i>		228	228
<u><u>218</u></u>	<u><u>277</u></u>	<b>Operating Surplus transferred to the Ports Holding Account</b>		<u><u>226</u></u>	<u><u>218</u></u>

# HARBOUR OF ST SAMPSON

2011 Original Budget £'000s	2011 Probable Outturn £'000s	<b><u>Net Expenditure by Service Area</u></b>	2011 Actual £'000s	2010 Actual £'000s
		<i>Income</i>		
587	587	Facilities charges	511	521
360	360	Marina and Mooring Fees	346	355
41	41	Rents etc.	52	65
15	15	Sundries	18	13
<hr/>	<hr/>		<hr/>	<hr/>
1,003	1,003		927	954
		<i>Operational Expenditure</i>		
258	251	Administration	234	234
247	225	Harbour Infrastructure	226	236
25	15	Marina and Moorings	11	34
5	5	Navigational Services	2	4
<hr/>	<hr/>		<hr/>	<hr/>
535	496		473	508
<hr/>	<hr/>		<hr/>	<hr/>
<b>468</b>	<b>507</b>	<b>Operating Surplus for the financial year</b>	<b>454</b>	<b>446</b>
250	230	<i>Depreciation</i>	228	228
<hr/>	<hr/>		<hr/>	<hr/>
<b>218</b>	<b>277</b>	<b>Operating Surplus for the financial year</b>	<b>226</b>	<b>218</b>
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# PORTS HOLDING ACCOUNT

2011 Original Budget £'000s	2011 Probable Outturn £'000s		2011 Actual £'000s	2010 Actual £'000s
		<b>Revenue Account -</b>		
		<i>Operating Surplus before depreciation</i>		
1,903	1,432	Guernsey Airport	1,140	455
927	830	Harbour of St Peter Port	2,204	1,697
468	507	Harbour of St Sampson	454	446
<u>3,298</u>	<u>2,769</u>		<u>3,798</u>	<u>2,598</u>
50	25	<i>Investment Interest Receivable</i>	45	44
		<i>Capital Expenditure</i>		
(1,962)	(784)	Guernsey Airport	(1,389)	(655)
(1,042)	(95)	Harbour of St Peter Port	(21)	(177)
<u>(3,004)</u>	<u>(879)</u>		<u>(1,410)</u>	<u>(832)</u>
<b>344</b>	<b>1,915</b>	<b>Surplus before depreciation</b>	<b>2,433</b>	<b>1,810</b>
(2,800)	(2,720)	<i>Depreciation</i>	(2,763)	(2,656)
<b>(2,456)</b>	<b>(805)</b>	<b>(Deficit)</b>	<b>(330)</b>	<b>(846)</b>
		<i>Balance at 1st January</i>	6,506	7,338
6,320	6,506	<i>Surplus before depreciation for the year</i>	2,433	1,810
344	1,915	<i>Transfer to Capital Reserve</i>	(5,678)	(2,642)
(3,348)	(4,674)		<u>3,261</u>	<u>6,506</u>
<u>3,316</u>	<u>3,747</u>	<b>Balance at 31st December</b>		

# Guernsey Water

## Statement of activities and performance

Year ended 31 December 2011

### Principal purpose

Guernsey Water, a business unit of the Public Services Department, delivers to its customers a reliable supply of high quality drinking water in sufficient quantity that satisfies normal daily demand at lowest cost consistent with meeting a high level of customer service and confidence.

Environmental catchment protection is monitored, storage is maintained at maximum possible levels and treatment techniques and delivery systems are the most appropriate to meet international standards.

### Financial summary

	2011 £'000	2010 £'000	Change %
<b>Income</b>			
Unmeasured	3,577	3,571	+ 0.2
Measured	6,153	6,119	+ 0.6
Other trading (net)	<u>218</u>	<u>316</u>	- 31.0
Total operating income	<u>9,948</u>	<u>10,006</u>	- 0.8
<b>Expenditure</b>			
Operating	3,169	2,983	+ 6.2
Management	<u>2,057</u>	<u>1,842</u>	+ 10.5
Total expenditure	<u>5,226</u>	<u>4,825</u>	+ 8.3*
<b>Operating surplus before depreciation</b>	<u>4,722</u>	<u>5,181</u>	- 8.8
Surplus on sale of fixed assets and properties	1,518	267	
Net interest received	117	90	
Depreciation	<u>(1,636)</u>	<u>(1,478)</u>	
<b>Surplus for the year</b>	<u>4,721</u>	<u>4,060</u>	

Notes: \* Due partially to a large increase in electricity charges and water quality sampling associated with the airport project.

<b>Gross total capital expenditure</b>	<u>4,702</u>	<u>4,993</u>
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The main capital projects of 2011 were the completion of the operational depot at the St. Andrew Reservoir site, foul water drain on Route de St Andrew's, the replacement of mains, slope stabilisation work at various storage reservoirs the St Saviours Reservoir By-Pass, the additional capability of King's Mills water treatment works to act as a raw water pumping station and the on-site electrolytic chlorination plant at St Saviours.

Considerable investment was made in respect to an upgrade to the remote meter reading equipment.

A more detailed summary of capital expenditure during the year is appended to the financial statements.

# Guernsey Water

## Statement of activities and performance - continued

Year ended 31 December 2011

### Operational performance

	2011	2010	Change %
<b>Number of supplies</b>			
Paying by tax on real property	<b>9,401</b>	9,986	- 5.9
Paying by measure	<b><u>15,446</u></b>	<u>14,912</u>	+ 3.6
Total	<b><u>24,847</u></b>	<u>24,898</u>	- 0.2
<b>Volume supplied in million litres (ml)</b>			
Delivered to customers paying by measure	<b>2,632 ML</b>	2,720 ML	- 3.2
Delivered to other customers	<b>1,427 ML</b>	1,497 ML	- 4.7
Operational use, fire fighting and losses	<b><u>654 ML</u></b>	<u>460 ML</u>	+ 42.2
Total put into supply	<b><u>4,713 ML</u></b>	<u>4,677 ML</u>	+ 0.8
<b>Service</b>			
Restrictions on supply	<b>None</b>	None	
Burst mains	<b>23</b>	58	- 60.3
Discolouration – claims paid	<b>£ <u>49</u></b>	£ <u>154</u>	- 68.2
<b>Unit costs (partially weather related)</b>			
Water production	<b>£ 431 / ML</b>	£ 399 / ML	+ 8.0
Water distribution	<b>£ 29 / supply</b>	£ 29 / supply	0.0

### Other matters

2011 saw the completion of the building work for Guernsey Water's operational depot at the St. Andrew's Reservoir site. Since 3 May 2011 the new Brickfield House building has facilitated the centralisation of Guernsey Water's staff and resources, enabling efficiencies to be identified. The town office was sold on 21 September 2011 for £1,525,000 and a part disposal of the St Andrew's Reservoir site, containing the original Brickfield House, was sold to a developer for £625,000 for development into 3 houses.

The States of Guernsey introduced a charge for waste water on 1 April 2011; charges were processed within Guernsey Water's billing system and shown on Guernsey Water bills, saving stationery, postage, computer, staff and other costs. Synergies from the States of Deliberation's decision to merge the two operations will enable some further efficiency to be realised.

# Guernsey Water

## Statement of activities and performance - continued

*Year ended 31 December 2011*

Finally, once again, due to the careful harnessing of water resources and the storage capacity of the reservoirs on the Island, Guernsey Water was able to supply water to the population of Guernsey without any restrictions.

Further operational and other details can be found in Guernsey Water's 2011 Annual Report.

### **Board members**

During 2011 Public Services Department Board Members were:

Deputy BM Flouquet, Minister  
Deputy SJ Ogier, Deputy Minister  
Deputy TM Le Pelley  
Deputy A Spruce  
Deputy J Kuttelwascher (appointed 23 February 2011)

During 2011 Principal Officers were:

A Lewis, Chief Officer, Public Services Department  
JSN Menhenitt, Finance Director of Public Services Department  
AA Redhead, Director of Water Services, Guernsey Water  
C Hall, Customer Service Manager  
K Carter, Chief Accounting Officer, Guernsey Water (retired 31 August 2011)  
R Webber, Management Accounting Executive  
J Holt, Operations Manager, Guernsey Waste Water

### **Auditors**

Deloitte LLP have expressed their willingness to continue in office as auditors to Guernsey Water.

# Guernsey Water

## Statement of responsibilities for the preparation of financial statements

The Public Services Department (“the Board”) 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 at the end of the financial period, and of the surplus or deficit for that period that are in accordance with applicable laws and regulations. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Board is responsible for ensuring Guernsey Water keep proper accounting records which disclose with reasonable accuracy at any time its financial position. It is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Statement of internal financial controls

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

The Board is also responsible for the economical, efficient and effective operations and management of Guernsey Water.

Guernsey Water’s internal financial procedures include:

- An annual budget to allocate, control and monitor the use of capital and revenue resources, analysed by department and type of income/expenditure.
- The production of monthly management accounts enabling income and expenditure to be monitored against budget.
- The production of monthly management accounting reports on capital expenditure and cash flow.
- Authorisation and control of the placing of orders and payments made.
- Regular review of debts, income and expenditure by type and department.
- Regular review of charges for water supplies and other services.
- Consideration of all audit reports by the Board.

The Board strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

Guernsey Water’s internal controls and accounting policies have been and are subject to continuous review and improvement.

The board members and principal officers have reviewed the cash flow and projected income and expenses over the next twelve months and deem that Guernsey Water has adequate financial resources to meet its obligations.

From a review of the above it is therefore deemed that Guernsey Water is a going concern.

In addition the financial statements are subject to independent external audit by auditors appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE STATES OF GUERNSEY PUBLIC SERVICES DEPARTMENT**

We have audited the financial statements of Guernsey Water for the year ended 31 December 2011 which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Public Services Department ("the Board") as a body, in accordance with the terms of our engagement letter dated 26 November 2007. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board and auditor**

As explained more fully in the Statement of Responsibilities for the preparation of financial statements, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Guernsey Water's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of Guernsey Water's affairs as at 31 December 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
Guernsey  
5 April 2012

# Guernsey Water

## Revenue account

for the year ended 31 December 2011

<b>Income</b>	<i>Notes</i>	<b>2011</b> £	2010 £
<b>Water supplies</b>	<i>1</i>		
Unmeasured		<b>3,576,792</b>	3,571,114
Measured		<b><u>6,152,898</u></b>	<u>6,119,306</u>
		<b>9,729,690</b>	9,690,420
Surplus on other trading activities before management expenses and depreciation:			
Gross Income		<b>702,799</b>	595,176
Gross Expense		<b><u>(484,874)</u></b>	<u>(279,547)</u>
	<i>2</i>	<b><u>217,925</u></b>	<u>315,629</u>
<b>Total operating income</b>		<b>£ <u>9,947,615</u></b>	£ <u>10,006,049</u>
<b>Operating expenses</b>			
Water production		<b>2,032,206</b>	1,867,263
Water distribution		<b>714,847</b>	730,057
Asset management		<b><u>421,543</u></b>	<u>385,806</u>
		<b><u>3,168,596</u></b>	<u>2,983,126</u>
<b>Management expenses</b>			
Management & general		<b>232,216</b>	226,294
Compliance		<b>156,988</b>	151,590
Customer services		<b>976,731</b>	822,378
Finance	<i>14</i>	<b>323,864</b>	328,241
Support services		<b><u>366,789</u></b>	<u>313,096</u>
		<b><u>2,056,588</u></b>	<u>1,841,599</u>
<b>Total expenditure</b>		<b>£ <u>5,225,184</u></b>	£ <u>4,824,725</u>
<b>Operating surplus before depreciation and surplus on sale of fixed assets</b>		<b>4,722,431</b>	5,181,324
Depreciation	<i>4 &amp; 5</i>	<b><u>(1,636,077)</u></b>	<u>(1,477,513)</u>
(Loss)/surplus on disposal of fixed assets	<i>4</i>	<b><u>(140,870)</u></b>	<u>9,027</u>
<b>Operating surplus for the year</b>	<i>9</i>	<b>2,945,484</b>	3,712,838
Net interest receivable	<i>3</i>	<b>117,400</b>	89,484
Surplus on sale of properties		<b><u>1,658,721</u></b>	<u>257,821</u>
<b>Surplus for the year</b>	<i>8</i>	<b><u>4,721,605</u></b>	<u>4,060,143</u>

All material activities derive from continuing operations.

There are no recognised gains and losses for the current or preceding financial years other than as stated in the revenue account.

Notes 1 to 18 form an integral part of these financial statements.

# Guernsey Water

## Balance sheet

at 31 December 2011

	Notes	£	2011 £	£	2010 £
<b>Tangible fixed assets</b>	5		<b>43,678,038</b>		41,249,454
<b>Current assets</b>					
Stocks		<b>914,165</b>		787,871	
Debtors and prepayments	6	<b>1,547,591</b>		1,461,502	
Funds held with States Treasury	11	<b>9,880,943</b>		8,061,593	
Cash at bank and in hand	11	<b><u>207,058</u></b>		<u>124,907</u>	
		<b><u>12,549,757</u></b>		<u>10,435,873</u>	
<b>Current liabilities</b>					
Creditors falling due within one year	7	<b><u>593,687</u></b>		<u>772,824</u>	
<b>Net current assets</b>			<b><u>11,956,070</u></b>		<u>9,663,049</u>
<b>Total assets less current liabilities</b>			<b>£ <u>55,634,108</u></b>		£ <u>50,912,503</u>
<b>Reserves</b>					
General reserve	8		<b>14,469,999</b>		13,246,946
Property development fund	8		<b>2,630,749</b>		5,420,658
Revenue account	8		<b><u>38,533,360</u></b>		<u>32,244,899</u>
<b>Total Reserves</b>	8		<b>£<u>55,634,108</u></b>		£ <u>50,912,503</u>

These financial statements were approved by the States of Guernsey Public Services Department on 5 April 2012.

Signed on behalf of the Department

**Bernard M Flouquet**  
Minister

**Scott J Ogier**  
Deputy Minister

Notes 1 to 18 form an integral part of these financial statements.

# Guernsey Water

## Cash flow statement

for the year ended 31 December 2011

	Notes	£	2011 £	£	2010 £
<b>Net cash inflow from operating activities</b>	9		<b>4,330,911</b>		4,849,264
<b>Returns on investments and servicing of finance</b>					
Net interest received	3	<b>117,400</b>		89,484	
<b>Net cash inflow from returns on investments and servicing of finance</b>			<b>117,400</b>		89,484
<b>Capital expenditure</b>					
Payments to acquire tangible fixed assets		<b>(4,702,470)</b>		(4,993,649)	
Less: customer contributions to mains		<u><b>21,230</b></u>		<u>42,637</u>	
Additions to fixed assets	5	<b>(4,681,240)</b>		(4,951,012)	
Receipts from sale of fixed assets		<u><b>2,134,430</b></u>		<u>287,302</u>	
<b>Net cash outflow from capital expenditure</b>			<b>(2,546,810)</b>		(4,663,710)
<b>Management of liquid resources</b>					
Increase in amounts held with States Treasury	10 & 11	<u><b>(1,819,350)</b></u>		<u>(334,414)</u>	
<b>Net cash outflow from management of liquid resources</b>			<u><b>(1,819,350)</b></u>		<u>(334,414)</u>
<b>Increase / (decrease) in cash</b>	10 & 11		<b>£ <u>82,151</u></b>		<b>£ <u>(59,376)</u></b>

Notes 1 to 18 form an integral part of these financial statements.

# Guernsey Water

## Notes to the financial statements

### 1. Principal accounting policies

The following accounting policies are prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below.

#### *Accounting convention*

The financial statements are prepared under the historical cost convention.

#### *Going concern*

The Board Members and Principal Officers have reviewed the cash flow and projected income and expenses over the next twelve months and deem that Guernsey Water has adequate financial resources to meet its obligations.

From a review of the above it is therefore deemed that Guernsey Water is a going concern.

#### *Stock*

Stock, which consists of materials for capital projects and consumables, is valued at the lower of cost and net realisable value.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation.

Work of a capital nature undertaken by Guernsey Water is capitalised at the cost of materials, supplies and services used plus associated costs of labour.

#### *Depreciation*

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated useful lives using the straight-line method. The calculations are based on capital expenditure incurred at the commencement of the accounting period, with the exception of motor vehicles, where depreciation is also charged on additions during the accounting period.

	<b>Estimated life in years</b>	<b>Depreciation % per annum</b>
Dam	50	2
Mains	50 – 10	2 – 10
Land and quarries	N/A	Nil
Structures and buildings	50 – 10	2 – 10
Fixed plant	20 – 10	5 – 10
Distribution meters	12	8.3
Office furniture, fittings and equipment	10 – 5	10 – 20
Mobile plant and equipment	5	20
Motor vehicles	7	14.3
Computer equipment	3	33.3

# Guernsey Water

## Notes to the financial statements - continued

### 1. Principal accounting policies - continued

#### *Depreciation - continued*

The accounting records for mains analyse expenditure by reference to the year in which it was incurred without identifying individual items of expenditure.

The historical cost depreciation charge is inadequate to provide for the replacement of fixed assets, therefore, to meet this future expenditure, an annual transfer is made to the general reserve.

#### *Revenue*

Operating revenue is accounted for on an accruals basis and also includes the estimated value of unbilled supplies which, as at 31 December 2011, amounted to £700,163 (2010: £781,770) calculated by reference to the value at which supplies will be invoiced. This total estimated value of unbilled supplies is included in debtors.

#### *Deferred income*

Deferred income relates to income levied for service charges in advance of supply.

#### *Pension costs*

The costs of the defined benefit scheme are charged to the revenue account over the period during which Guernsey Water benefits from the employees' services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

# Guernsey Water

## Notes to the financial statements - continued

### 2. Net surplus on other trading activities before management expenses and depreciation

	2011		2010	
	£	£	£	£
<b>Miscellaneous income:</b>				
Standard charges for service laying	205,661		148,275	
Charges for work at ascertained cost	18,121		25,018	
Property rental income	107,419		107,892	
Stores issues	<u>371,598</u>		<u>313,991</u>	
	702,799		595,176	
Expenditure	<u>(484,874)</u>		<u>(279,547)</u>	
<b>Net surplus on other trading activities before management expenses and depreciation</b>		<b>£ <u>217,925</u></b>		<b>£ <u>315,629</u></b>

### 3. Net interest receivable

	2011		2010	
	£	£	£	£
<b>Interest received:</b>				
Deposit & business accounts	117,400		89,533	
<b>Interest paid:</b>				
Current account	<u>-</u>		<u>(49)</u>	
		<b>£ <u>117,400</u></b>		<b>£ <u>89,484</u></b>

### 4. Depreciation

	2011		2010	
	£	£	£	£
Depreciation charge for the year (note 5)	1,636,077		1,477,513	
Loss/(Surplus) on disposal of moveable fixed assets	<u>140,870</u>		<u>(9,027)</u>	
<b>Charge in revenue account</b>		<b>1,776,947</b>		<b>1,468,486</b>
Transfer to general reserve (note 8)		<u>1,223,053</u>		<u>1,531,514</u>
		<b>£ <u>3,000,000</u></b>		<b>£ <u>3,000,000</u></b>

The transfer to the general reserve is required because the provision for depreciation under the historic cost convention is inadequate to meet the future replacement cost of assets. The total annual depreciation provision has been set at £3,000,000.

# Guernsey Water

## Notes to the financial statements - continued

### 5. Tangible fixed assets

	1 January 2011 £	Additions £	Disposals £	31 December 2011 £
<i>Cost</i>				
Dam	309,360	-	-	<b>309,360</b>
Mains	27,173,008	276,346	-	<b>27,449,354</b>
Land and quarries	3,515,230	121,381	(468,000)	<b>3,168,611</b>
Structures and buildings	14,017,583	3,481,328	(169,749)	<b>17,329,162</b>
Fixed plant	9,880,874	541,137	(435)	<b>10,421,576</b>
Distribution meters	1,632,834	25,909	-	<b>1,658,743</b>
Office furniture, fittings and equipment	1,265,598	224,332	(36,610)	<b>1,453,320</b>
Mobile plant and equipment	543,942	10,070	(900)	<b>553,112</b>
Motor vehicles	<u>655,521</u>	<u>737</u>	<u>(1,025)</u>	<b><u>655,233</u></b>
	<b><u>58,993,950</u></b>	<b><u>4,681,240</u></b>	<b><u>(676,719)</u></b>	<b><u>62,998,471</u></b>
	1 January 2011 £	Charge for the year £	Disposals £	31 December 2011 £
<i>Depreciation</i>				
Dam	178,978	3,343	-	<b>182,321</b>
Mains	6,874,151	543,707	-	<b>7,417,858</b>
Structures and buildings	1,717,801	209,944	(37,757)	<b>1,889,988</b>
Fixed plant	5,857,092	610,604	-	<b>6,467,696</b>
Distribution meters	1,336,719	50,479	-	<b>1,387,198</b>
Office furniture, fittings and equipment	934,399	117,113	(22,383)	<b>1,029,129</b>
Mobile plant and equipment	390,893	44,281	-	<b>435,174</b>
Motor vehicles	<u>454,463</u>	<u>56,606</u>	<u>-</u>	<b><u>511,069</u></b>
	<b><u>17,744,496</u></b>	<b><u>1,636,077</u></b>	<b><u>(60,140)</u></b>	<b><u>19,320,433</u></b>
<b>Net book value</b>	<b><u>£41,249,454</u></b>			<b><u>£ 43,678,038</u></b>

Following completion of the operations depot at St Andrew's development site, the town office was sold on 21<sup>st</sup> September for £1,525,000 and part disposal of the St Andrews Reservoir Site including the old Brickfield House was sold for £625,000 resulting in a gain on sale of properties of £1,656,721.

### 6. Debtors and prepayments

	2011 £	2010 £
Estimated value of unbilled supplies	<b>690,214</b>	781,770
Customers' accounts outstanding	<b>738,226</b>	601,314
Other debtors and prepayments	<b><u>119,151</u></b>	<b><u>78,418</u></b>
	<b><u>£ 1,547,591</u></b>	<b><u>£ 1,461,502</u></b>

# Guernsey Water

## Notes to the financial statements - continued

### 7. Creditors: amounts falling due within one year

	2011 £	2010 £
General creditors	481,497	581,425
Deferred income	103,807	191,399
Amounts due to Guernsey Waste Water	<u>8,383</u>	-
	<u>593,687</u>	<u>772,824</u>

### 8. Reserves

	Property Development Fund £	General Reserve £	Revenue Account £	Total £
Balance 1 January 2011	5,420,658	13,246,946	32,244,899	<b>50,912,503</b>
Surplus for the year	-	-	4,721,605	<b>4,721,605</b>
Transfer to Property Development Fund	2,196,432		(2,196,432)	-
Transfer from Property Development Fund	(4,986,341)		4,986,341	-
Provision for future replacement of assets (note 4)	-	<u>1,223,053</u>	<u>(1,223,053)</u>	-
<b>Balance 31 December 2011</b>	<b>£ <u>2,630,749</u></b>	<b><u>14,469,999</u></b>	<b><u>38,533,360</u></b>	<b><u>55,634,108</u></b>

The property development fund was set up to fund Guernsey Water's current centralisation development. Transfers to the fund comprise of net property sales, let property income, nominal interest and the operating surplus before depreciation variance from budget. Transfers from the fund consist of all expenditure associated with the St. Andrew's Reservoir site development during 2011, including a movement on the property fund to Revenue Account representing the change of use due to the end of construction of the centralised depot and commencement of its owner-occupation. The property development fund has an ongoing requirement due to proposed development of a waste water storage unit at the St Andrew's site and future development of 11 units within the St Andrew's site, along with their infrastructure.

The general reserve is required to fund the asset base of Guernsey Water (note 4) and is being developed to provide for the eventual refurbishment or replacement of the St Saviour's Dam and the Kings Mills treatments works.

All reserves are distributable.

### 9. Reconciliation of operating surplus to net cash inflow from operating activities

	2011 £	2010 £
Operating surplus for the year	2,945,484	3,712,838
Depreciation charges and surplus on disposal of moveable fixed assets (notes 4 and 5)	1,776,947	1,468,486
Increase in stock	(126,294)	(120,550)
Increase in debtors and prepayments	(86,089)	(98,152)
(Decrease) in creditors due within one year	<u>(179,137)</u>	<u>(113,358)</u>
<b>Net cash inflow from operating activities</b>	<b>£ <u>4,330,911</u></b>	<b>£ <u>4,849,264</u></b>

# Guernsey Water

## Notes to the financial statements - continued

### 10. Reconciliation of net cash flow to movement in net funds

	2011 £	2010 £
Increase / (decrease) in cash in the year	82,151	(59,376)
Increase in balances with States Treasury	<u>1,819,350</u>	<u>334,414</u>
Change in net funds	1,901,501	275,038
Net funds at 1 January	<u>8,186,500</u>	<u>7,911,462</u>
<b>Net funds at 31 December</b>	<b>£ <u>10,088,001</u></b>	<b>£ <u>8,186,500</u></b>

### 11. Analysis of changes in net funds

	At 1 January 2011 £	Cash flows £	At 31 December 2011 £
Cash at bank and in hand	124,907	82,151	207,058
Balance with States Treasury	<u>8,061,593</u>	<u>1,819,350</u>	<u>9,880,943</u>
	<b>£ <u>8,186,500</u></b>	<b>£ <u>1,901,501</u></b>	<b>£ <u>10,088,001</u></b>

### 12. Commitments

Commitments at 31 December for which no provision has been made in these financial statements were as follows:

	2011 £	2010 £
Revenue contracted	38,352	20,216
Capital contracted	<u>899,613</u>	<u>2,699,555</u>
	<b>£ <u>937,965</u></b>	<b>£ <u>2,719,771</u></b>

# Guernsey Water

## Notes to the financial statements - continued

### 13. Pension Fund

The employees of Guernsey Water are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 8.35% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

Guernsey Water has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 was £311,901 (2010: £319,047).

### 14. Audit fees

The audit fees for Guernsey Water's 2011's financial statements are £17,580 (2010: £17,060).

### 15. Related party transactions

After making appropriate enquiries in accordance with Guidance Notes issued by the States Treasurer on 27 March 1996, Guernsey Water are of the opinion that there have been no related party transactions in the current or preceding financial years, other than as disclosed within these financial statements.

Of Guernsey Water's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.

### 16. 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 Public Services Department who have been appointed by the States of Guernsey.

# Guernsey Water

## Notes to the financial statements - continued

### 17. Guernsey Waste Water

#### **Billing & Collection of Waste Water Charges**

The States of Guernsey introduced a charge for waste water on 1 April 2011; charges were processed within Guernsey Water's billing system and shown on Guernsey Water bills, saving stationery, postage, computer, staff and other costs. All income collected from the waste water charge is periodically transferred to Guernsey Waste Water and at the year end any monies not transferred are shown as a creditor in the financial statements.

During the period from 1 April 2011 to 31 December 2011 Guernsey Water billed and collected £2,771,554 on behalf of Guernsey Waste Water. At the year end £8,383 of cash collected on behalf of Guernsey Waste Water had not been transferred and was retained as a creditor in the financial statements (see note 7).

### 18. Post Balance Sheet Events

On 8 February 2012 the States of Deliberation formally agreed to Guernsey Water becoming responsible for the financial and operational control of Guernsey Waste Water; this merger of entities being effective from 1 January 2012. The effect of this decision is that the entities are operated in the same manner, Guernsey Waste Water staff are now employed by Guernsey Water. The stock and systems are in the process of being transferred to Guernsey Water. As from 1 April 2012 the sewage investigation charge will cease to be charged.

# Guernsey Water

## Additional information

The additional information has been prepared from the accounting records of Guernsey Water. While it does not form part of the financial statements, it should be read in conjunction with them.

This information is unaudited.

### **FIXED ASSET ADDITIONS DURING 2011**

£

#### **Water Distribution**

##### **Renewal and replacement of mains**

##### **Renewal of mains**

Val de Haut, St Peters	619
Perelle Road/Rue des Crabbes, St Saviours	1,275
Rue des Marais, St Peters	26
Commercial Road, St Sampsons	11,452
Elm Grove, St Peter Port	14,110
La Gibauderie, St Peter Port	<u>194</u>

27,676

##### **Replacement of main by insertion of structural lining**

Ruette Julienne, St Saviours	1,736
La Greve, Vale	59
Fort George, St Peter Port	73
Goldcrest Avenue, Port Soif, Vale	79
Retot Lane, Castel	341
Rue a La Terre, St Saviours	483
Kings Mills to St Saviours	3,297
Le Varclin, St Martins	8,412
Fort George, St Peter Port	7,486
La Chaumette, Forest	7,600
Les Canus, St Sampsons	6,000
Rue De Cottés, St Sampsons	10,452
Les Cotils, St Peter Port	10,791
Hautes Fallaizes, Fort George, St Peter Port	2,097
Marette de Haut Clos, St Martins	7,114
Rue De La Terre Noigiot, St Saviours	2,396
Ronde Cheminee, castel	13,471
La Vielle Rue, St Sampsons	2,989
Chasse des Galliennes, Forest	8,876
Rue du Court Laurent, Torteval	10,079
Prins Estate, Vale	4,934
Le Coignet, Pleinheume, Vale	2,227
Rue de la Belle, Torteval	6,089
Saumarez Tank, Castel	5,018
Ruette des Cherfs, Cobo, Castel	4,316
Rue Charlotte, Fort George, St Peter Port	5,472
Les Abreuveurs, St Sampsons	3,426
St Andrew's Road, St Andrews	16,378
Princes Close, Fort George, St Peter Port	4,384
Rue des Blanches Terres, St Saviours	14,820
Rue des Pointes, St Andrew's	8,842

# Guernsey Water

## Additional information – continued

Clos du Fillage, St Saviours	8,289
Hauteville, St Peter Port	8,084
Les Poidevins, St Andrews	18,076
Clos du Cache, Rue du Cache, Castel	10,727
Courtil de la Lande	<u>2,189</u>
	227,102
<b>Total renewal and replacement of mains</b>	<b>254,778</b>
<b>Extension of mains and general distribution</b>	<b>£</b>
Dove Tree Villa, La Rue Fevresse, St Saviours	918
Valnord Hill, St Peter Port	373
Rue de la Greve, Vale	1,074
Rue des Marais, St Peter Port	11,750
North Clifton, St Peter Port	346
Lowlands Road, Vale	3,104
Hougue Mague Lane, St Sampsons	605
Route de Pulias, St Sampsons	11,031
Le Bordage, St Sampsons	429
Guernsey Data Park	<u>1,509</u>
	31,139
METERS	<u>25,910</u>
<b>Total extension of mains and general distribution</b>	<b>57,048</b>
<b>Total Water Distribution</b>	<b>311,827</b>
<b>Water Treatment</b>	
	26,413
Longue Hougue Water Treatment Works	589
Frie Plaidy Reservoir - WQ Improvements	15,067
Various, switchgear improvements	5,574
SCADA upgrade project - various sites	3,629
Longue Hougue - Plant Optimisation	105,549
OSEC Plant - St Saviours	52
Hot Standby PLC - St Saviours	21,916
Kings Mills - Conversion to pumping station	89,299
Forest Road remedial works - West Tank	175,439
Kings Mills - Interim Works	33,250
Juas - PLC Upgrade	37,479
Building Maintenance - Rolling Budget	104,220
Kings Mills - Upgrade WTW	<u>6,370</u>
Hot Standby PLC - Longue Hougue	
<b>Total Water Treatment</b>	<b>624,846</b>

# Guernsey Water

## Additional information – continued

<b>Water Resources</b>	<b>£</b>
Stream Flow Monitoring	16,297
Raw water pumping improvements - Vale Pond	68
Mains work, Douit Du Moulin	1,801
Mare de Carteret improvements	34
Jamblin replacement gantry	9,745
Fermain Pumping Station Improvements	(633)
Slope Stabilisation Works - General	2,450
Planned diversion works @ St Saviours Reservoir	800
OSEC Plant - St Saviours	555
Kings Mills - Conversion to pumping station	6,194
Slope stabilisation - Vale Mill & Longue Hougue	1,647
Slope stabilisation - Hougue Ricart & Jamblin	1,629
Site Security Measures - Various	6,791
Vrangue Stream, St Peter Port	69,840
Marais Stream pump improvements	5,802
Forest Road remedial works - West Tank	496
Longue Hougue slope stabilisation - North face	61,459
Kings Mills - Interim Works	739
St Saviours Reservoir By-pass (Preliminary)	128,123
St Saviours Reservoir By-Pass (Main contract)	359,705
Moulin Huet - Reurbish Pumping Station	<u>8,291</u>
<b>Total Water Resources</b>	<b>681,833</b>
<b>Capital expenditure for general purposes</b>	
Computers	21,954
St Andrews - Main Site Development	97,271
St Andrews Infrastructure Works	923
Various works, St Andrews	1,464
Update to Communication Tower @ St Andrews	15,195
Jamblin replacement gantry	368
Proposed raw water pumping Stn, Douit Du Moulin	7,920
SCADA upgrade project - various sites	79,650
GW Operational Depot - Main contract	2,111,642
GW Operational Depot - GW works	74,699
Site Security Measures - Various	44,854
Forest Road remedial works - West Tank	1,973
Waste Water Store at St Andrews	32,483
Plant & Tools - Rolling Budget	21,900
St Saviours Reservoir By-pass (Preliminary)	4,098
Various Sites - Installation of radio equipment	38,768
Foul water drain - Route de St Andrew, St Andrews	269,361
Moulin Huet - Reurbish Pumping Station	7,560
Remote Metre reading (Upgrade)	36,970
General	161,681
Minor	53,230
<b>Total General</b>	<b>3,083,964</b>
<b>Gross Total Capital Expenditure</b>	<b>4,702,470</b>

# Guernsey Water

## Additional information – continued

<b>Customer Contribution</b>	<b>£</b>
Rue du Videcocq, St Peters	(2,955)
Les Canichers, St Peter Port	(3,969)
Victoria Avenue, St Sampsons	(3,500)
La Houquette, Rue de La Houquette, St Peters	(1,260)
Gategny Esplanade, St Peter Port	(1,693)
Hougue Mague Lane, St Sampsons	(1,562)
Le Bordage, St Sampsons	(2,500)
Guernsey Data Park	<u>(3,791)</u>
	<u>(21,230)</u>
<b>Fixed Asset Additions</b>	<b>4,681,240</b>

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Statement of activities and performance

*Year ended 31 December 2011*

### **Principal purpose**

To operate the Guernsey Dairy in order to:

- Support the policies of the Commerce & Employment Department;
- Support a viable dairy industry in Guernsey by purchasing all locally produced milk;
- Satisfy the total consumer demand for fresh milk on Guernsey at an acceptable purchasing price;
- Operate efficiently and in such a manner, that over a year, the business does no worse than break even in financial terms; and
- Provide a safe and rewarding environment to all staff at the Dairy.

### **Financial Summary**

#### **Summary**

The Guernsey Dairy made an overall net surplus of £482,097 against a net surplus of £404,756 in 2010. This was higher than the forecast net surplus of £444,000 in the probable outturn published in Billet D'Etat XXII 2011. The Dairy's forecast surplus for 2012 is expected to be in line with the 2012 budgeted figure of £192,000.

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

#### **Sales**

Overall sales turnover increased by £309,419 (4.8%) compared to 2010.

#### *Liquid Milk*

Although the volume of milk sold remained fairly static throughout 2011 a rise in the price of milk resulted in an increase in sales revenue of £131,258 (2.5%) compared to 2010.

#### *Dairy Products*

Dairy product sales turnover increased by £187,328 (16.1%) in 2011 compared to 2010. The majority of sales revenue was for butter and cheese £98,059 (14.3%) and £46,170 (23.3%) respectively. Cream sales were 2% lower than in 2010. Ice cream showed a significant improvement during the year, £22,512 (19.6%), due to additional promotional activities throughout 2011 and a rise in sales prices. Promotional discounts allowed across all product lines amounted to £67,679.

#### *Sundry Income*

Sundry income amounted to £27,208, which is a decrease of £9,167 (25.2%) compared to 2010.

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Statement of activities and performance

*Year ended 31 December 2011*

### **Cost of Sales**

The cost of sales increased by £143,606 (3.2%) compared to 2010.

#### *Milk Purchases*

The cost of milk purchases rose by £70,857 (2.3%) in 2011 compared to 2010. Volumes of raw milk purchased during the year were marginally lower than volumes purchased in 2010. However, there was an increase in the price paid for raw milk in 2011.

#### *Milk – working losses*

Milk – working losses decreased by £7,172 (5.2%) compared to 2010 due to continued working efficiencies at the dairy.

#### *Offshore processing and freight*

Offshore processing and freight costs increased by £12,926 (38%) during 2011 compared to 2010. However, these costs were attributed to the increase levels of packaging butter portions off island.

### **Gross Surplus**

The gross surplus for the year 2011 increased by £165,813 (8.9%) on 2010 figures.

### **Expenses**

#### *Depreciation*

Depreciation costs increased by £18,356 (11.4%) in 2011 compared to 2010 due to some major capital projects (milk and butter packaging machines and SCADA upgrade) being completed and capitalised during the year.

#### *Fuel, Light, Power and Water*

Fuel, light, power and water costs increased by £52,669 (20.9%) compared to 2010, the main contributors of these major cost increases were fuel price rises and the additional water wastage charges incurred during 2011.

#### *Professional Fees*

Professional fees reduced by £10,335 (11.1%) in 2011 compared to 2010; although audit fees and financial support costs rose slightly in 2011, there were reductions in professional consultancy fees during the year due to the ending of a consultancy contract, which was not renewed.

#### *Provision for bad and doubtful debts*

A general provision of 0.5% of the debtors balance has been included in these financial statements which forms part of Guernsey Dairy's accounting policy; a specific provision has also been included of £25,147.

#### *Repairs, Maintenance and Insurance (plant and machinery, site and buildings)*

The total overall aggregate costs of repairs, maintenance and insurance showed a saving of £30,360 (21.3%) in 2011 compared to 2010 due to the continued capital projects program of upgrading and replacing old equipment for new during the year, resulting in lower maintenance costs.

# States of Guernsey

## Commerce and Employment Department

### Dairy Trading Account

#### Statement of activities and performance

Year ended 31 December 2011

#### Salaries and Wages

Overall costs within non-production activities have increased by £63,535 (12.7%) compared to 2010. This is due to annual pay awards and additional staff costs as a result of staff overlaps due to pending retirements.

#### Capital Expenditure

A comprehensive capital expenditure program continued in 2011 resulting in total expenditure of £866,918 against £131,247 in 2010.

Capital expenditure	2011 £	2010 £
<b>Plant &amp; Machinery</b>		
Fan Convecter Heaters for Heated Carton Store	-	2,769
Hot Water Calorifier	-	1,920
PS70 Filling Manifold	-	842
Refrigeration Equipment Unit for Cold Store 5	-	6,925
Refrigeration Equipment for Cheese Maturation Room	-	6,925
Milk Collection Systems	-	4,742
Milk Tanker Data Capture System	-	22,489
C.I.P. Up Grade to Cream Tank Controls	-	14,635
C.I.P. Pipe-Work	2,836	-
Semi Automatic Churn Washer	24,500	-
Ice Bank System Pipe-Work & Pumps	32,260	-
Scalox/Prime Delivery Pipe-Work	6,628	-
Scada Upgrade of Milk & Cream Pasteuriser	103,069	-
Shokoku S-PS60 Milk Packaging Machine	361,500	-
Brine Injector Pump	2,510	-
Rotary End Ford Butter Packaging Machine	199,950	-
LMS Cooled Brie Incubator	3,381	-
Two Ice Cream Scooping Freezers	4,340	-
MCC2 Electrical Control Panels	17,111	-
Cheese Maturation Store Racking	24,975	-
<b>Buildings</b>		
Laboratory Storeroom Refurbishment	-	1,584
Aluminium Doors	-	2,022
Guttering & Fascias	-	22,923
Tanker Office Refurbishment	-	2,694
Loading Bay Refurbishment	-	6,212
Resurface Floor in Cold Store 5	-	6,170
<b>Site &amp; Roads</b>		
Repairs to Tarmac	780	-

States of Guernsey  
 Commerce and Employment  
 Department  
 Dairy Trading Account

Statement of activities and performance  
 Year ended 31 December 2011

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Motor Vehicles</b>		
Forklift Truck	-	45
Isuzu Rodeo Denver 4x4 Pickup Truck	-	17,264
Diesel Tank for Road Vehicles	2,811	-
Tanker Chassis	36,914	-
Road Tanker, Tank & Pump Cabinet	29,383	-
Road Tanker Pump	4,677	-
<b>Other Office Equipment (F&amp;F)</b>		
HP Compaq 8000 Elite PC + Work Station	-	1,616
Upgrade to SCADA System Software	-	9,470
Electronic Safe	523	-
HP Laser Jet P4014DN Printer	1,212	-
Storage & Segregation Racking	4,780	-
HP USDT Computer, VDU & Cabling	1,625	-
Oak Desk, Pedestal & Chair	339	-
Shockproof Laptop	814	-
<b>Total Capital expenditure</b>	<b><u>£866,918</u></b>	<b><u>£131,247</u></b>

# States of Guernsey

## Commerce and Employment Department

### Dairy Trading Account

#### Statement of activities and performance

*Year ended 31 December 2011*

#### **Overall purpose and responsibilities of the Dairy Management Board**

The Dairy Management Board exists to review and advise on the strategic objectives of the Dairy and to submit recommendations on these matters to the Commerce & Employment Department. It should operate by challenging established practices and assumptions and critically reviewing annual business plans for recommendation to the Commerce and Employment Department.

#### **Department members and principal officers**

##### **Department members as at 31 December 2011**

Deputy C McNulty Bauer	-	Minister
Deputy M Laine	-	Deputy Minister
Deputy A Brouard	-	Member
Deputy R Matthews	-	Member
Deputy M Storey	-	Member

##### **Dairy Management Board members**

Mr A Child	-	Chairman
Deputy A Brouard	-	Member
Deputy M Storey	-	Member
Mr S Hogg	-	Non-States Member
Mr S Keys	-	Non-States Member
Mr R Nash	-	Member – Ex officio
Mr A Tabel	-	Member – Ex officio

##### Resignations:

Deputy R Sillars - Member  
Resigned from the Department on 26<sup>th</sup> October  
2011 and therefore no longer eligible.

##### Appointments:

Deputy A Brouard - Member  
Appointed on 30<sup>th</sup> November 2011

##### **Principal officers:**

Mr J Buckland	-	Chief Officer
Mr R Nash	-	Director of Client Services
Mr A Tabel	-	General Manager

# States of Guernsey

## Commerce and Employment Department

### Dairy Trading Account

#### Statement of responsibilities for the preparation of financial statements

The States of Guernsey Commerce and Employment Department (“the Department”) is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the States of Guernsey Commerce and Employment Department – Dairy Trading Account (“the Dairy”) and of the surplus or deficit of the Dairy for that period. In preparing those financial statements, the Department 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 Department is responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Dairy. It is also responsible for safeguarding the assets of the Dairy and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Statement of internal financial controls

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

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

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

The Department’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit;
- the requirement for all audit reports to be tabled at a meeting of the relevant States Department to ensure that all Department members are aware of their financial affairs; and
- regular review of the performance and security of the States financial assets by the Treasury and Resources Department’s Investment Sub-Committee.

The Department strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

The Department’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 auditors appointed by the States of Guernsey.

The board members and principal officers have reviewed the cashflow and projected income and expenses over the next twelve months and deem that the Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that the Dairy is a going concern for at least 12 months from the date of approval of these financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STATES OF GUERNSEY COMMERCE AND EMPLOYMENT DEPARTMENT**

We have audited the financial statements of the States of Guernsey Commerce and Employment Department - Dairy Trading Account ("the Dairy") for the year ended 31 December 2011, which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the States of Guernsey Commerce and Employment Department ("the Department"), as a body, in accordance with the terms of our engagement letter dated 26 November 2007. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities for the preparation of financial statements, the Department is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Dairy's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Dairy's affairs as at 31 December 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
St. Peter Port, Guernsey  
3<sup>rd</sup> April 2012

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Revenue account

For the year ended 31 December 2011

	Notes	£	2011 £	£	2010 £
<b>Sales</b>	<i>1</i>				
Liquid milk			<b>5,308,348</b>		5,177,090
Dairy products			<b>1,352,128</b>		1,164,800
Sundry income			<b><u>27,208</u></b>		<u>36,375</u>
<b>Total sales</b>			<b>6,687,684</b>		6,378,265
<b>Cost of sales</b>					
Opening product stock	<i>4</i>	<b>273,061</b>		258,978	
Opening packaging stock	<i>4</i>	<b><u>168,734</u></b>	<b>441,795</b>	<u>145,338</u>	404,316
Production wages		<b>766,298</b>		747,770	
Milk		<b>3,136,597</b>		3,065,740	
Milk – working losses		<b>129,717</b>		136,889	
Dairy product ingredients		<b>42,391</b>		36,060	
Packaging materials		<b>494,361</b>		523,504	
Carriage inwards		<b>14,291</b>		15,121	
Offshore processing and freight		<b>46,941</b>		34,015	
Sundries		<b><u>0</u></b>	<b>4,630,596</b>	<u>111</u>	4,559,210
Closing product stock	<i>4</i>	<b>(251,122)</b>		(273,061)	
Closing packaging stock	<i>4</i>	<b><u>(155,932)</u></b>	<b>(407,054)</b>	<u>(168,734)</u>	(441,795)
<b>Total cost of sales</b>			<b><u>4,665,337</u></b>		<u>4,521,731</u>
Gross surplus			<b>2,022,347</b>		1,856,534
Administration expenses	<i>2</i>		<b><u>(1,566,930)</u></b>		<u>(1,455,830)</u>
<b>Operating surplus for the year</b>			<b>455,417</b>		400,704
Interest receivable	<i>1</i>		<b>8,924</b>		3,992
Gain on sale of fixed assets			<b><u>17,756</u></b>		<u>60</u>
<b>Retained surplus for the year</b>	<i>7</i>		<b><u>£ 482,097</u></b>		<u>£ 404,756</u>

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the revenue account.

Notes 1 to 15 form an integral part of these financial statements.

States of Guernsey  
 Commerce and Employment Department  
 Dairy Trading Account

Balance sheet  
 at 31 December 2011

	<i>Notes</i>	<b>2011</b> £	2010 £
<b>Tangible fixed assets</b>	3	<b>2,221,787</b>	1,538,804
<b>Current assets</b>			
Stocks	4	<b>472,314</b>	506,854
Debtors and prepayments	5	<b>1,040,033</b>	1,274,271
Balances held with the States Treasury		<b>839,799</b>	332,935
Cash at bank and in hand		<b><u>131,800</u></b>	<u>618,107</u>
		<b>2,483,946</b>	2,732,167
<b>Creditors: amounts falling due within one year</b>	6	<b><u>(418,710)</u></b>	<u>(466,045)</u>
<b>Net current assets</b>		<b><u>2,065,236</u></b>	<u>2,266,122</u>
<b>Total net assets</b>		<b><u>£4,287,023</u></b>	<u>£3,804,926</u>
<b>Reserves</b>	7	<b><u>£4,287,023</u></b>	<u>£3,804,926</u>

The financial statements were approved by the States of Guernsey Commerce and Employment Department on 2<sup>nd</sup> April 2012.

Signed on behalf of the Department

**C McNulty Bauer**  
 Minister

Notes 1 to 15 form an integral part of these financial statements.

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Cash flow statement for the year ended 31 December 2011

	<i>Notes</i>	£	2011 £	£	2010 £
<b>Net cash inflow from operating activities</b>	8		<b>855,901</b>		188,710
<b>Returns on investments and servicing of finance</b>					
Interest received			<b>8,924</b>		3,992
<b>Capital expenditure</b>					
Payments to acquire tangible fixed assets		<b>(846,918)</b>		(131,247)	
Receipts from sales of tangible fixed assets		<b>2,651</b>		60	
<b>Net cash outflow from capital expenditure</b>			<b>(844,267)</b>		(131,187)
<b>Management of liquid resources</b>					
(Increase) /decrease in assets held with States Treasury	9,10		<b>(506,864)</b>		200,550
<b>(Decrease) / increase in cash</b>	9,10		<b><u>(£ 486,306)</u></b>		<b><u>£ 262,065</u></b>

Notes 1 to 15 form an integral part of these financial statements.

# States of Guernsey

## Commerce and Employment Department

### Dairy Trading Account

#### Notes to the financial statements

#### 1. Accounting policies

The financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

##### *Stock*

Stock is valued at the lower of cost and net realisable value. Cost includes an appropriate proportion of processing expenses.

##### *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation.

##### *Debtors*

Trade debtors are stated less a general provision of 0.5% of the trade debtor balance.

##### *Depreciation*

Depreciation is calculated at the following annual rates so as to write off tangible fixed assets over their anticipated useful lives using the straight line method:

	<b>Estimated life In years</b>	<b>Depreciation % per annum</b>
Site and roads	10	10
Buildings	20 – 50	2 – 5
Plant, machinery and laboratory equipment	5 – 20	5 – 20
Office furniture and fittings	5 – 8	12.5 – 20
Other office equipment	3 – 8	12.5 – 33.3
Motor vehicles (except forklifts)	5	20
Forklift trucks	15 – 20	5 – 6.7
Computer hardware	3	33.3
Computer software	3 – 5	20-33.3

##### *Income*

Sales are accounted for on an accruals basis. Interest is recognised on an accruals basis.

##### *Expenses*

Expenses are accounted for on an accruals basis.

##### *Pension costs*

The costs of the defined benefit scheme are charged to the revenue account over the period during which the Dairy benefits from the employees' services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

##### *Going concern statement*

The Board members and principal officers have reviewed the cashflow and projected income and expenses over the next 12 months and deem that the Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that the Dairy is a going concern for at least 12 months from the date of approval of these financial statements.

States of Guernsey  
 Commerce and Employment Department  
 Dairy Trading Account

Notes to the financial statements - continued

2. Administration expenses

	2011 £	2010 £
Opening non-product stock	65,059	60,997
Advertising and promotion	51,698	53,614
Carriage outwards	7,769	8,389
Cleaning materials	58,891	64,236
Depreciation	179,041	160,685
Fuel, light, power and water	305,016	252,347
General administration costs	30,332	30,582
Laboratory expenses	85,825	80,734
Motor vehicle expenses	27,650	24,336
Other expenses	45,751	46,026
Product research and development	31	-
Professional fees	82,552	92,887
Bad and doubtful debts	9,382	13
Repairs, maintenance and insurance (plant and machinery)	76,007	101,323
Repairs, maintenance and insurance (site and buildings)	36,443	41,487
Rates	425	386
Salaries and wages	564,038	500,503
Staff training and recruitment	6,280	2,344
Closing non production stock	<u>(65,260)</u>	<u>(65,059)</u>
	<b><u>£ 1,566,930</u></b>	<b><u>£ 1,455,830</u></b>

States of Guernsey  
Commerce and Employment Department  
Dairy Trading Account

Notes to the financial statements - continued

3. Tangible fixed assets

	1 January 2011 £	Additions £	Disposals £	31 December 2011 £
<i>Cost</i>				
Site and roads	966	780	-	1,746
Buildings	1,559,313	-	-	1,559,313
Plant and machinery	2,857,932	783,060	201,529	3,439,463
Motor vehicles	263,998	73,785	32,365	305,418
Laboratory equipment	122,782	-	-	122,782
Furniture and fittings	<u>152,226</u>	<u>9,293</u>	<u>-</u>	<u>161,519</u>
	<u>4,957,217</u>	<u>866,918</u>	<u>233,894</u>	<u>5,590,241</u>
	1 January 2011 £	Charge for the year £	Disposals £	31 December 2011 £
<i>Depreciation</i>				
Site and roads	965	13	-	978
Buildings	685,296	38,328	-	723,624
Plant and machinery	2,365,052	94,530	196,635	2,262,947
Motor vehicles	125,177	33,903	32,365	126,715
Laboratory equipment	121,664	1,118	-	122,782
Furniture and fittings	<u>120,259</u>	<u>11,149</u>	<u>-</u>	<u>131,408</u>
	<u>3,418,413</u>	<u>179,041</u>	<u>229,000</u>	<u>3,368,454</u>
<b>Net book value 2011</b>	<u>£1,538,804</u>			<u>£2,221,787</u>
<b>Net book value 2010</b>	<u>£1,568,242</u>			<u>£1,538,804</u>

4. Stocks

	2011 £	2010 £
Milk and Dairy products	251,122	273,061
Packaging materials	155,932	168,734
Other stock	<u>65,260</u>	<u>65,059</u>
	<u>£472,314</u>	<u>£506,854</u>

States of Guernsey  
Commerce and Employment Department  
Dairy Trading Account

Notes to the financial statements - continued

5. Debtors and prepayments

	2011 £	2010 £
Trade debtors	912,333	837,269
Prepayments	17,429	344,176
Accrued income	<u>110,271</u>	<u>92,826</u>
	<b><u>£1,040,033</u></b>	<b><u>£1,274,271</u></b>

6. Creditors: amounts falling due within one year

	2011 £	2010 £
Trade creditors	381,375	415,941
Accruals	<u>37,335</u>	<u>50,104</u>
	<b><u>£418,710</u></b>	<b><u>£466,045</u></b>

7. Reserves

	2011 Revenue Account £	2010 Revenue Account £
Balance at 1 January	3,804,926	3,400,170
Surplus for the financial year	<u>482,097</u>	<u>404,756</u>
<b>Balance at 31 December</b>	<b><u>£4,287,023</u></b>	<b><u>£3,804,926</u></b>

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

	2011 £	2010 £
Operating surplus for the year	455,417	400,704
Depreciation	179,041	160,685
Decrease/(increase) in debtors and prepayments	234,238	(310,196)
Decrease/(increase) in stocks	34,540	(41,541)
Decrease in creditors and accruals	<u>(47,335)</u>	<u>(20,942)</u>
<b>Net cash inflow from operating activities</b>	<b><u>£ 855,901</u></b>	<b><u>£ 188,710</u></b>

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Notes to the financial statements - continued

### 9. Reconciliation of net cash flow movement in net funds

	2011 £	2010 £
(Decrease) / increase in cash in the year	(486,306)	262,065
Increase in balances with States Treasury	<u>506,864</u>	<u>(200,550)</u>
Change in net funds	<b>20,558</b>	61,515
Net funds at 1 January	<b>951,041</b>	889,526
<b>Net funds at 31 December</b>	<b><u>£ 971,599</u></b>	<b><u>£ 951,041</u></b>

### 10. Analysis of the changes in net funds

	At 1 January 2011 £	Cash flows £	At 31 December 2011 £
Cash at Bank and in hand	618,106	(486,306)	<b>131,800</b>
Balances held with States Treasury	<u>332,935</u>	<u>506,864</u>	<b><u>839,799</u></b>
	<u>£ 951,041</u>	<u>£ 20,558</u>	<b><u>£ 971,599</u></b>

### 11. Superannuation fund

The employees of the States of Guernsey – Dairy are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 8.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

The States of Guernsey – Dairy has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £129,653 (2010: £125,249).

# States of Guernsey Commerce and Employment Department Dairy Trading Account

## Notes to the financial statements - continued

### **12. Related party transactions**

Since the formation of the new Commerce & Employment and Dairy Management Boards in 2004, no material related party transactions have taken place, except as disclosed in these financial statements. No member of either Board is a material supplier or customer of the Dairy.

### **13. Statement of control**

The States of Guernsey Commerce and Employment Department – Dairy Trading Account is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of the States of Guernsey Commerce and Employment Department has been delegated to the members of the Department who have been appointed by the States of Guernsey.

### **14. Subsequent events**

There have been no material subsequent events since the balance sheet date which affect these financial statements.

### **15. Commitments and contingent liabilities**

There are no commitments or contingent liabilities relating to 2011 which would affect these financial statements (2010: None).

# States of Guernsey Public Services Department

## States Works

### Statement of activities and performance

Year ended 31 December 2011

#### Principal activities

States Works, a division of the Public Services Department, operates as a trading organisation which contracts mainly with States clients to deliver a wide range of services. Those services demand the effort of a predominantly manual labour force utilising specialist plant and equipment to maintain the public services of the island.

#### Financial Highlights

	<b>Actual 2011</b>	<b>Budget 2011</b>	<b>Actual 2010</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>	<b>13,575</b>	<b>13,338</b>	<b>12,373</b>
<b>Surplus</b>	<b>531</b>	<b>585</b>	<b>408</b>
<b>Capital expenditure</b>	<b>925</b>	<b>1,196</b>	<b>917</b>

Operating turnover for the year ended 31 December 2011 exceeded the revised budget estimate by just under 2% and the equivalent 2010 turnover by 9.7%. The majority of this increase in income from 2010 is due to the inception of three new solid waste agreements which encompass all labour, material, vehicle and plant costs at the landfill and recycling sites. The income from these agreements now falls completely under the landfill and recycling business unit whereas in the past a proportion of the income sat under other units. The increase in income is offset by the increase in labour costs which States Works now incur after the staff costs were transferred from PSD Central Services with effect from 1 January 2011.

The surplus before bank interest has increased from £388k in 2010 to £504k. The operating surplus is now 3.7% of turnover (2010: 3.2%). This is a very tight margin to operate under and any reductions in the values of contracts due to the reduction in States Departments' budgets is likely to put a squeeze on this and potentially lead to operating losses.

The capital expenditure has remained at a similar level to prior year. We have purchased five new sewage tankers as part of the service level agreement, with two of these being from the 2010 budgeted allocation. We have also acquired a hook lift lorry and new hook lift skips for use at Mont Cuet, Fontaine Vinery and the Civic Amenity site. These skips had previously been provided by an outside contractor, but this contract was terminated as it was found to be more cost effective for the waste movement to be carried out by States Works. During the year we purchased two second hand refuse compactors from the UK to be used on the St Peter Port refuse round. We continue to maintain the rolling replacement programme for our vehicles which is necessary to ensure we have a working fleet.

It was agreed in January 2012 by the Public Services Department Board to make a transfer of £1.5million from States Works' retained surpluses to the States General Revenue Account.

# States of Guernsey Public Services Department

## States Works

### Statement of activities and performance (continued)

Year ended 31 December 2011

#### Operational Performance

##### Staffing Statistics

	2011	2010
Ratio of Support staff to Operational staff	13%	13%
Staff members at year end	241	235
Income generated per Employee	£56,329	£52,651

##### Emergency Call-Out

Number of calls	183	257
Man hours worked	517	856

##### Developments in 2011

In addition to the solid waste agreements, States Works have secured three service level agreements relating to vehicle maintenance with HSSD, Education and Guernsey Harbours. These agreements fulfil the target set by the Fundamental Spending Review in relation to States Works being better used by the States of Guernsey in general.

Discussions are continuing with a States Department regarding taking over their grounds maintenance, including staff transfers to States Works. As this is a sensitive issue both parties want to make sure that not only the price is right, but also that the service delivered covers all aspects of the current service provision. States Works is confident that negotiations will be concluded and an agreement signed up during 2012.

The City and Guilds horticulture apprentice scheme commenced this year at our Burnt Lane premises. This is an initiative being developed in conjunction with the College of Further Education, and is available to both the public and private sector. The first group of students have now completed their Level 1 NVQ training in Amenity Horticulture.

##### Environmental issues

A windrow turner and screen have been acquired this year and are being used to process the green waste at Mont Cuet. The quality of the soil conditioner has improved through the screening process and the introduction of the windrow turner has reduced the number of man hours required to turn the heaps. The product now looks cleaner and more consistent and is encouraging more people to take it.

We are continuing to hold a stock of CMA40 to be used in the event of snow or ice on the roads. This product is an environmental alternative to rock salt and is permitted to be used in all areas throughout the island due to its reduced salt content. Luckily in 2011, we did not have a call to utilise these stocks but will continue to store CMA40 in case of snow or ice in the future.

# States of Guernsey Public Services Department

## States Works

### **Statement of activities and performance (continued)**

*Year ended 31 December 2011*

### **Board Members and Principal Officers**

Deputy B. M. Flouquet, Minister  
Deputy S. J. Ogier, Deputy Minister  
Deputy T. M. Le Pelley  
Deputy A. Spruce  
Deputy J. Kuttelwascher

Principal Officers were:

Mr A. Lewis, Chief Officer, Public Services Department  
Mr J. S. N. Menhenitt, Finance Director, Public Services Department  
Mr N. J. Dorey, General Manager, States Works (retired 17<sup>th</sup> February 2012)  
Mr Paul Lickley, General Manager (Designate), States Works (appointed 17<sup>th</sup> October 2011)  
Mrs N. Nicholson, Senior Manager, Finance and Support Services, States Works

# States of Guernsey Public Services Department

## States Works

### **Statement of responsibilities for the preparation of financial statements**

The Public Services Department (the “Board”) is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of States Works as at the end of the financial year and of the surplus or deficit of States Works for that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume States Works will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time its financial position. The Board is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Statement of internal financial controls**

It is the responsibility of each States Department to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes and to safeguard the assets of the States of Guernsey in their care and hence for taking reasonable steps for the prevention of fraud and other irregularities. The Public Services Department is responsible for the economic, efficient and effective operations and management of States Works and has a duty to ensure that they fulfil their obligations despite financial and manpower restrictions.

The States Works internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in a detailed quarterly report which monitors actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the Public Services Department to ensure that all Board members are informed of States Works financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch, in order to ensure accuracy.
- The control of materials and stores purchases are managed using a computerised job-costing programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.

# States of Guernsey Public Services Department

## States Works

### **Statement of internal financial controls (continued)**

- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised, and the computerised job costing and financial accounts packages, which check validity, and permits reconciliation with the wage bill.
- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.
- Regular independent review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Department.

The Board strives to ensure that all staff with financial responsibility in States Works have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

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

In addition, the financial statements are subject to an independent external audit by auditors appointed by the States.

### **Going Concern**

The Board members and Principal Officers have reviewed the cashflows and projected income and expenses over the next twelve months, prepared by management, and deem that States Works has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that States Works is a going concern for at least twelve months from the date of approval of the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE STATES OF GUERNSEY PUBLIC SERVICES DEPARTMENT**

We have audited the financial statements of States Works for the year ended 31 December 2011 which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Public Services Department ("the Board"), as a body, in accordance with the terms of our engagement letter dated 26 November 2007. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board and auditor**

As explained more fully in the Statement of Responsibilities for the preparation of financial statements, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to States Works' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify any material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the States Works' affairs as at 31 December 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
Guernsey  
5 April 2012

# States of Guernsey Public Services Department

## States Works

### Revenue account

for the year ended 31 December 2011

	Notes	2011 £	2010 £
<b>Income</b>	2	<b><u>13,575,202</u></b>	<b><u>12,372,909</u></b>
<b>Expenses</b>			
Labour and direct materials	3	10,229,412	9,350,363
Transport, plant and equipment maintenance	4	975,186	832,104
Building maintenance and charges	5	345,022	375,039
Administration and general	6	<u>1,521,547</u>	<u>1,426,594</u>
		<b><u>13,071,167</u></b>	<b><u>11,984,100</u></b>
<b>Operating surplus</b>		<b>504,035</b>	<b>388,809</b>
Interest received from States Treasury		<u>26,539</u>	<u>19,655</u>
<b>Surplus for the financial year</b>	11	<b><u><u>530,574</u></u></b>	<b><u><u>408,464</u></u></b>

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 revenue account.

Notes 1 to 20 form an integral part of these financial statements.

# States of Guernsey Public Services Department

## States Works

### Balance sheet

at 31 December 2011

	Notes	2011 £	2010 £
<b>Tangible fixed assets</b>	7	<b>5,920,291</b>	<b>5,657,698</b>
<b>Current Assets</b>			
Stock and work in progress	8	341,233	377,700
Debtors	9	531,690	515,596
Balances with States Treasury	13	<u>2,891,734</u>	<u>2,716,095</u>
		<u>3,764,657</u>	<u>3,609,391</u>
<b>Creditors: amounts falling due within one year</b>	10	<u>441,782</u>	<u>434,127</u>
<b>Net current assets</b>		<u>3,322,875</u>	<u>3,175,264</u>
<b>Total net assets</b>		<u>9,243,166</u>	<u>8,832,962</u>
<b>Reserves</b>	11	<u>9,243,166</u>	<u>8,832,962</u>

These financial statements were approved by the Public Services Department on 5 April 2012  
Signed on behalf of the Board

B Flouquet  
Minister

S Ogier  
Deputy Minister

Notes 1 to 20 form an integral part of these financial statements.

# States of Guernsey Public Services Department

## States Works

### Cash flow statement

*for the year ending 31 December 2011*

	Notes	2011 £	2010 £
<b>Net cash inflow from operating activities</b>	12	<u>1,045,237</u>	<u>663,592</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		26,539	19,655
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets	7	(925,487)	(917,336)
Receipts from sales of tangible fixed assets		<u>29,350</u>	<u>20,947</u>
<b>Net cash outflow from investing activities</b>		<u>(896,137)</u>	<u>(896,389)</u>
<b>Management of liquid resources</b>			
(Increase) / decrease in amounts held with States Treasury	13	<u>(175,639)</u>	<u>213,142</u>
<b>Movement in cash</b>		<u>-</u>	<u>-</u>

Notes 1 to 20 form an integral part of these financial statements.

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements

#### 1. Principal accounting policies

The following accounting policies are prepared in accordance with applicable UK accounting standards and are described below.

##### *Accounting convention*

The financial statements are prepared under the historical cost convention and on the going concern basis as set out in the statement of internal financial controls.

##### *Revenue*

Income comprises amounts in respect of services provided and goods supplied in the year.

##### *Trade Debtors*

Trade debtors are stated less a general provision of £10,000 (2010: £10,000).

##### *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation.

##### *Depreciation*

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated useful lives using the straight line method:-

	<b>Estimated life</b>	<b>Depreciation %</b>
	<b>in years</b>	<b>per annum</b>
Plant, tools & equipment	<b>3 – 20</b>	<b>5 – 33.33</b>
Motor vehicles	<b>3 – 10</b>	<b>10 – 33.33</b>
Office equipment	<b>5</b>	<b>20</b>
Buildings and fittings	<b>10 – 50</b>	<b>2 – 10</b>
Land	<b>Unlimited</b>	<b>0</b>

##### *Stock and work in progress*

Stock and work in progress is valued at the lower of cost and net realisable value.

##### *Pension costs*

The costs of the defined benefit scheme are charged to the revenue account over the period during which the Board benefits from the employee's services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll.

##### *Interest Income*

Interest income is earned from balances held with the States Treasury at the prevailing bank rate less an administration charge.

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

#### 1. Principal accounting policies (continued)

##### *Leases*

Rentals under operating leases are charged on a straight-line basis over the lease term.

<b>2. Income</b>	<b>2011</b>	<b>2010</b>
	£	£
Building maintenance	449,705	460,590
Cleansing services	2,084,489	2,156,237
Drainage work	258,474	258,169
Electrical & mechanical work	1,043,864	1,179,120
Emergency services	101,183	117,678
Fleet hire	23,736	300,950
Fleet maintenance	501,847	505,397
Grounds maintenance	2,065,529	1,979,893
Highway repairs	1,200,353	1,029,380
Landfill & recycling	2,509,134	1,003,658
Management services	182,834	195,557
Sewage collection	2,117,364	2,028,465
Signs & lines	369,031	365,997
Administration & stores	<u>667,659</u>	<u>791,818</u>
	<u><b>13,575,202</b></u>	<u><b>12,372,909</b></u>
<b>3. Labour &amp; direct materials</b>	<b>2011</b>	<b>2010</b>
	£	£
Labour charges:		
Wages and employer's superannuation	6,665,420	5,909,500
Direct materials:		
Materials and services	2,512,161	2,511,912
Stores	619,239	628,702
Sub contractors	457,161	324,102
Less: discounts received	<u>(24,569)</u>	<u>(23,853)</u>
	<u><b>3,563,992</b></u>	<u><b>3,440,863</b></u>
	<u><b>10,229,412</b></u>	<u><b>9,350,363</b></u>

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

<b>4. Transport, plant and equipment maintenance</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Vehicles - fuel and maintenance	390,819	312,711
- depreciation	370,481	298,767
Plant & Tools - maintenance & replacements	140,221	152,714
- depreciation	<u>73,665</u>	<u>67,912</u>
	<u><b>975,186</b></u>	<u><b>832,104</b></u>
<b>5. Building maintenance and charges</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
La Hure Mare	186,126	168,353
Burnt Lane & Saumarez Lane Depot	69,630	114,449
Buildings and fittings depreciation	<u>89,266</u>	<u>92,237</u>
	<u><b>345,022</b></u>	<u><b>375,039</b></u>
<b>6. Administration and general</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Salaries, wages and employer's superannuation	1,237,921	1,112,884
Travel & training charges	59,598	79,336
Post, stationery & telephone	37,827	29,185
Computer charges	52,188	43,285
Insurance	117,994	141,166
Audit fee	14,240	13,510
Sundry office expenses	22,017	16,514
Office and equipment depreciation	9,112	3,714
Profit on disposal of fixed assets	<u>(29,350)</u>	<u>(13,000)</u>
	<u><b>1,521,547</b></u>	<u><b>1,426,594</b></u>

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

#### 7. Tangible fixed assets

<i>Cost</i>	<b>1 January 2011</b>	<b>Additions</b>	<b>Write down of transferred asset</b>	<b>Disposals</b>	<b>31 December 2011</b>
	£	£	£	£	£
Plant, tools & equipment	1,244,119	75,326	-	50,305	1,269,140
Motor vehicles	3,606,370	812,085	120,370	136,151	4,161,934
Office equipment	151,974	27,244	-	-	179,218
Buildings and fittings	3,789,492	10,832	-	-	3,800,324
Land	<u>1,274,220</u>	-	-	-	<u>1,274,220</u>
	<b>10,066,175</b>	<b>925,487</b>	<b>120,370</b>	<b>186,456</b>	<b>10,684,836</b>
<i>Depreciation</i>	<b>1 January 2011</b>	<b>Charge for the year</b>		<b>Disposals</b>	<b>31 December 2011</b>
	£	£		£	£
Plant, tools & equipment	933,812	73,665		50,305	957,172
Motor vehicles	1,909,486	370,481		136,151	2,143,816
Office equipment	129,545	9,112		-	138,657
Buildings and fittings	1,435,634	89,266		-	1,524,900
Land	-	-		-	-
	<u>4,408,477</u>	<u>542,524</u>		<u>186,456</u>	<u>4,764,545</u>
<b>Net Book Value</b>	<b><u>5,657,698</u></b>				<b><u>5,920,291</u></b>

#### 8. Stock and work in progress

	<b>2011</b>	<b>2010</b>
	£	£
Stock	201,684	190,723
Work in progress	<u>139,549</u>	<u>186,977</u>
	<u><u>341,233</u></u>	<u><u>377,700</u></u>

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

<b>9. Debtors</b>	<b>2011</b>	<b>2010</b>
	£	£
Trade debtors (Note 1)	495,340	440,100
Prepayments and other debtors	<u>36,350</u>	<u>75,496</u>
	<u><u>531,690</u></u>	<u><u>515,596</u></u>

<b>10. Creditors: amounts falling due within one year</b>	<b>2011</b>	<b>2010</b>
	£	£
Trade creditors	268,797	330,215
Accruals	<u>172,985</u>	<u>103,912</u>
	<u><u>441,782</u></u>	<u><u>434,127</u></u>

<b>11. Reserves</b>	<b>Revenue Reserve</b>	<b>Asset Transfer Reserve</b>	<b>Total</b>
	£	£	£
Balance 1 January	8,451,672	381,290	8,832,962
Asset write down	-	(120,370)	(120,370)
Surplus for financial year	<u>530,574</u>	<u>-</u>	<u>530,574</u>
Balance 31 December	<u><u>8,982,246</u></u>	<u><u>260,920</u></u>	<u><u>9,243,166</u></u>

<b>12. Reconciliation of operating surplus to net cash inflow from operating activities</b>	<b>2011</b>	<b>2010</b>
	£	£
Operating surplus	504,035	388,809
Depreciation charges and profit on sale of tangible fixed assets	513,174	449,630
Decrease / (increase) in stocks and work in progress	36,467	(80,833)
Increase in debtors	(16,094)	(211,948)
Increase in creditors	<u>7,655</u>	<u>117,934</u>
<b>Net cash inflow from operating activities</b>	<u><u>1,045,237</u></u>	<u><u>663,592</u></u>

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

#### 13. Reconciliation of net cash flow to movement in net funds

	2011 £	2010 £
Movement in cash		
Increase / (decrease) in liquid resources	<u>175,639</u>	<u>(213,142)</u>
	175,639	(213,142)
Net funds at 1 January	<u>2,716,095</u>	<u>2,929,237</u>
<b>Net funds at 31 December</b>	<u><b>2,891,734</b></u>	<u><b>2,716,095</b></u>

#### 14. Analysis of changes in net funds

	1 January 2011 £	Cash Flow £	31 December 2011 £
Cash held with States Treasury	<u>2,716,095</u>	<u>175,639</u>	<u>2,891,734</u>

#### 15. Capital Commitments

	2011 £	2010 £
Contracted for but not provided	<u>418,832</u>	<u>186,082</u>

#### 16. Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2011	2010
Expiry date		
- within one year	45,870	55,010
- between two to five years	<u>93,005</u>	<u>16,500</u>
	<u>138,875</u>	<u>71,510</u>

# States of Guernsey Public Services Department

## States Works

### Notes to the financial statements - continued

#### 17. Superannuation Fund

The employees of States Works are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 7.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

States Works has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £763,609 (2010: £692,493).

#### 18. Related party transactions

##### *Income*

The States of Guernsey Public Services Department – States Works are of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at “arms length”. There has been no change in the proportion of business between States 88% (2010: 88%) and private 12% (2010: 12%) clients.

##### *Expenditure*

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

#### 19. Statement of control

The States of Guernsey Public Services Department – States Works is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of the States of Guernsey Public Services Department – States Works has been delegated to the members of the Board who have been appointed by the States of Guernsey.

# States of Guernsey Public Services Department

## States Works

### **Notes to the financial statements - continued**

#### **20. Subsequent events**

It was agreed in January 2012 by the Public Services Department Board to make a transfer of £1.5million from States Works' retained surpluses to the States General Revenue Account.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE**  
**Year ended 31 December 2011**

**FINANCIAL HIGHLIGHTS**

**Overview**

The Guernsey Insurance Fund (“the Fund”) recorded an operating deficit of £3.95m (2010: £3.65m deficit) although less than the £5.96m deficit originally budgeted. The better than expected performance was as a result of a much smaller growth in the number of pensioners (which had been forecast to increase significantly due to the post World War II ‘baby-boomers’).

The Fund reserves for the year decreased by £23.57m (2010: £63.59m increase). This decrease was created through the net of operating deficit of £3.95m, investment income of £10.95m (2010:£7.44m), realised profit on disposal of investments of £6.26m (2010: £64.40m) and unrealised losses of £36.83m (2010: £4.59m).

At the year-end total reserves of the Fund stood at £611.36m (2010: £634.93m) with expenditure cover down from 6.0 years to 5.6 years.

**Contribution income & states grant**

Total contribution income for the contributory funds increased by 4.3% to £144.06m (2010: £138.19m) and was just below the budget of £144.29m. The income from the contribution classes is allocated as follows:

Contribution income allocated to the Guernsey Health Service Fund increased by 4.1% to £34.78m (2010: £33.40m) but marginally below the budget of £34.90m. The Long-term Care Insurance Fund allocation increased by 4.1% to £17.03m (2010: £16.37m) and below the budget of £17.11m.

After allocations to the Guernsey Health Service Fund and the Long-term Care Insurance Fund, the Guernsey Insurance Fund contribution income increased by 4.3% to £92.32m (2010: £88.49m) which was just below the budget of £92.36m.

The States’ grant, which is based on a fixed percentage of contributions, currently set at 15%, increased to £13.84m (2010: £13.26m) and just below the budget.

<b>Numbers of Contributors as at week 48</b>	<b>2011</b>	<b>2010</b>	<b>5-Year average</b>
Employers	2,393	2,419	2,431
Employed	29,254	29,209	29,197
Self-Employed	3,339	3,409	3,411
Non-Employed	4,490	5,113	4,781
Total Employed	37,083	37,731	37,389

The overall number of contributors, at week 48, decreased by 1.7% to 37,083 (2010: 37,731). The number of employed increased marginally by 0.2% while the self-employed and non-employed contributors decreased by 2.1% and 12.2% respectively.

The largest economic sector remained the financial sector, which accounted for 22% of the employed population and represented 32% of the total income received from employers and employees.

**Benefit expenditure**

Overall benefit expenditure increased by 4.6% to £104.89m (2010: £100.30m) and significantly below the budget of £106.85m; the increase included a 2.9% increase in the general rate of benefit. At the year-end there were 17,822 benefit claims in payment (2010: 17,373), of which 88.0% (2010: 86.6%) were to people in receipt of old age pension.

**Pension**

	<b>2011</b>	<b>2010</b>	<b>5-Year Average</b>
Number of claimants at the year-end	15,690	15,047	14,747
Number of approved claims during the year	1,304	835	1,016

# STATES OF GUERNSEY - GUERNSEY INSURANCE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

### FINANCIAL HIGHLIGHTS (CONTINUED)

Pension expenditure increased by 5.6% to £86.69m (2010: £82.12m) and significantly below the budget of £88.61m. The single rate of old age pension and the addition in pension in respect of a dependant wife both increasing by 2.9%. Although less than forecast, the number of pensioners increased by 4.27% at the end of the year with the number of approved new claims increasing significantly in the final quarter of 2011. It is predicted that pension numbers are set to rise considerably over the next few years as the so called 'baby-boomers' born in the years following World War II reach pension age.

#### Invalidity benefit

	2011	2010	5-Year Average
Number of claimants at the year-end	885	937	852
Number of approved claims during the year	247	405	387

Invalidity benefit increased by 4.9% to £7.77m (2010: £7.41m) but marginally below the budget of £7.78m. The Department is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick.

#### Sickness benefit

	2011	2010	5-Year Average
Number of claimants at the year-end	405	498	479
Number of approved claims during the year	11,132	11,170	11,427

Sickness benefit decreased by 1.0% to £3.33m (2010: £3.36m) and below the budget of £3.36m; the number of approved claims during the year decreased by 1%.

#### Unemployment benefit

	2011	2010	5-Year Average
Number of claimants at the year-end	243	222	206
Number of approved claims during the year	1,133	1,189	1,122

Although unemployment benefit decreased by 9.9% to £1.08m (2010: £1.20m), it masks the increase in recent months. This is a reflection of the current difficult economic times that we are in. The Department is working on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed.

#### Maternity benefit

	2011	2010	5-Year Average
<b>Maternity allowance:</b>			
Number of claimants at the year-end	123	140	131
Number of approved claims during the year	563	513	537
<b>Maternity Grant:</b>			
Number of approved claims during the year	98	83	91

Maternity benefit increased by 10.0% to £1.11m (2010: £1.01m) with the number of approved claims in respect of maternity allowance increasing by 9.75%. The increase in expenditure was significantly more than the budget of £0.96m.

#### Administration

Total administration expenditure, excluding depreciation, increased by 4.5% to £6.54m (2010: £6.26m). The cost of administration recovered from the other Funds and other States entities increased by 7.9% on the previous year at £2.48m (2010: £2.30m). Therefore, the net increase in administration after recoveries was 2.5% to £4.06m (2010: £3.96m), below the budget of £4.15m. The depreciation charge was £1.16m (2010: £1.14m) in line with budget.

## STATES OF GUERNSEY - GUERNSEY INSURANCE FUND

Controlled and managed by the  
Social Security Department

### STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

#### FINANCIAL HIGHLIGHTS (CONTINUED)

Staffing costs, which account for approximately 70% of the total administrative budget, increased by 8.4% to £4.81m (2010: £4.43m) but below the budget of £4.86m.

The average number of full-time equivalent staff including overtime, additional hours and miscellaneous duties paid to permanent and temporary staff were as follows:

Pay Groups (Full-Time Equivalents)	2011	2010
Established Staff	105.8	103.0
Supernumerary (Established)	6.3	5.5
Temporary Contracts (Established)	4.4	4.5
Public Service Employees	0.9	1.3
Total	117.4	114.3
Staff Vacancies	6.4	6.3

The average number of staff (excluding staff working in Alderney) in post were as follows:

Pay Groups (Number of Staff)	2011	2010
Established Staff	113	112
Supernumerary (Established)	8	7
Temporary Contracts (Established)	5	5
Public Service Employees	1	1
Total	127	125
Staff Vacancies	8	7

#### Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2011 had a market value of £695m (2010: £722m).

During the year £7.1m was reallocated from the Guernsey Insurance Fund, £6.0m to the Guernsey Health Services Fund and £1.1m to the Long-Term Care Insurance Fund to clear recoveries due in respect of operating activities. Furthermore, as the Guernsey Insurance Fund is currently running an operating deficit, it withdrew £4.5m from the Fund in December 2011 to strengthen its cash flow to meet obligations. The allocation between the three contributory funds is as follows:

Common Investment Fund allocation At Year-end	2011		2010	
	£m	%	£m	%
Guernsey Insurance Fund	584	83.9%	614	85.1%
Guernsey Health Service Fund	70	10.1%	66	9.1%
Long-term Care Insurance Fund	41	6.0%	42	5.8%
<b>Total</b>	<b>695</b>	<b>100.0%</b>	<b>722</b>	<b>100.0%</b>

The Department has continued to diversify its investment portfolio to maximise returns for a reduced risk. The Department measures the performance of individual investment manager's over a rolling 3-year period and the overall performance of the Common Investment Fund (gross of fees) is as follows:

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Benchmark return per annum	% RPI Guernsey Average Annual Change
1-Year	-3.07%	0.29%	3.1%
3-Year	9.90%	9.30%	1.7%
5-Year	3.11%	2.07%	2.9%

2011 was a particularly challenging year for investments and the Common Investment Fund was negatively affected by this.

## **STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**

**Controlled and managed by the  
Social Security Department**

### **STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**

**Year ended 31 December 2011**

#### **ACTIVITIES DURING THE YEAR**

The Department was in its second year of a 5-year phasing in period to increase the upper earnings limits for employed, self-employed and non-employed people. Ultimately, this will match the upper earnings limit that applies to employers.

The Department continued with the transitional programme to change its investment strategy and strategic asset allocations for the Common Investment Fund, which includes the Guernsey Insurance Fund.

The adequacy of the Fund is subject to actuarial review at least once every five years to determine the adequacy of contribution rates. The actuarial review of the Guernsey Insurance Fund for the five years to 31 December 2008, with an addendum for the year to the 31 December 2009, was completed in 2011 and published in the States Billet XV in September 2011.

The Department has continued to be actively involved in a number of work-streams of the Financial Transformation Programme during the year. Following States approval, from October 2011 the main focus is on the SAP/Shared Transaction Service Centre (STSC) project which will change the way the States of Guernsey manages the administration of finance, human resources, procurement, information technology and asset management.

During the year, the Department developed effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating.

#### **FUTURE ACTIVITIES**

The Department will engage in dialogue with the Policy Council's Fiscal and Economic Group over the rates of contribution necessary for long-term sustainability of the Fund, with a view to taking proposals to the States during 2013.

The Department will complete the transition to its revised strategic asset allocations for the Common Investment Fund.

The Department will continue to participate constructively in the Financial Transformation Programme, encouraging more corporate working in order to progress business efficiencies at a local level and States wide, the focus for 2012 being the SAP/Shared Transaction Service Centre (STSC) project.

The Department will continue to develop effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating, which was reaccredited in January 2012.

It is the intention that the travel allowance grant, which is essentially a health benefit, be transferred from the Guernsey Insurance Fund to the Guernsey Health Service Fund, although not before 2013.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**

**Controlled and managed by the  
Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**

**Year ended 31 December 2011**

**KEY STATISTICS**

<b>Number of contributors (as at week 48)</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Employers	2,393	2,419	2,398	2,492	2,451
Employed	29,254	29,209	28,831	29,531	29,157
Self-employed	3,339	3,409	3,388	3,424	3,495
Non-employed	4,490	5,113	4,961	4,745	4,597
<b>Total</b>	<b>37,083</b>	<b>37,731</b>	<b>37,180</b>	<b>37,700</b>	<b>37,249</b>

<b>Contributory Funds - General Revenue Grants</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Guernsey Insurance Fund	15%	15%	15%	15%	36%
Guernsey Health Service Fund	12%	12%	12%	12%	27%
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Guernsey Insurance Fund	13,837,430	13,262,390	12,547,679	12,122,407	23,472,978
Guernsey Health Service Fund	4,173,259	4,008,148	4,020,564	3,875,916	7,300,863
<b>Total</b>	<b>18,010,689</b>	<b>17,270,538</b>	<b>16,568,243</b>	<b>15,998,323</b>	<b>30,773,841</b>

The grant received from the States of Guernsey is based on a fixed percentage of contributions allocated to each Fund, accounted for in the relevant year.

<b>Contribution Rates - Annual Earnings/Income limits</b>		<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Class 1	<i>Employed</i>					
	Upper earnings limit - employer	120,900	117,468	115,128	108,108	53,664
	Upper earnings limit - employee	91,884	79,872	69,108	64,896	53,664
	Lower earnings limit	6,084	5,928	5,824	5,460	5,200
Class 2	<i>Self-employed</i>					
	Maximum earnings	91,884	79,872	69,108	64,896	53,664
	Minimum earnings	6,084	5,928	5,824	5,460	5,200
Class 3	<i>Non-employed</i>					
	Maximum income	91,884	79,872	69,108	64,896	53,664
	Minimum income	15,210	14,820	14,560	13,650	13,000
	Allowance	6,451	6,290	-	-	-

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**

**Controlled and managed by the  
Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**

**Year ended 31 December 2011**

**KEY STATISTICS (Continued)**

<b>Contribution Rates – Contributory Funds</b>		<b>2011 %</b>	<b>2010 %</b>	<b>2009 %</b>	<b>2008 %</b>	<b>2007 %</b>
Class 1	<i>Employer</i>					
	Guernsey Insurance Fund	4.9	4.9	4.9	4.9	4.1
	Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.4
	Long-term Care Insurance Fund	-	-	-	-	-
		<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>5.5</b>
	<i>Employee</i>					
	Guernsey Insurance Fund	3.4	3.4	3.2	3.2	3.2
	Guernsey Health Service Fund	1.3	1.3	1.4	1.4	1.4
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
	<i>Combined</i>					
	Guernsey Insurance Fund	8.3	8.3	8.1	8.1	7.3
Guernsey Health Service Fund	2.9	2.9	3.0	3.0	2.8	
Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4	
	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>11.5</b>	
Class 2	<i>Self-employed</i>					
	Guernsey Insurance Fund	6.5	6.5	6.3	6.3	6.3
	Guernsey Health Service Fund	2.7	2.7	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
Class 3	<i>Non-employed (under 65)</i>					
	Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
	Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.4	1.4	1.4	1.4	1.4
		<b>9.9</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>
	<i>Non-employed (over 65)</i>					
	Guernsey Insurance Fund	-	-	-	-	-
	Guernsey Health Service Fund	1.3	1.3	1.2	1.2	1.2
	Long-term Care Insurance Fund	1.6	1.6	1.4	1.4	1.4
		<b>2.9</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>

In 2006 the States resolved, as part of its future economic and taxation strategy, to increase substantially the upper earnings limits for all classes of contributors and employers, with compensating reductions in the grants from general revenue that apply to the contributory funds. The States further resolved that, although the revised financing of the contributory funds was to take full effect from 1 January 2008, there should be a substantial move in that direction with effect from 1 January 2007.

In 2008, as a result of the strategy adopted in 2006, the upper earnings limits were increased significantly together with a 1% increase in employers' full percentage rate contributions of which 0.8% was allocated to the Guernsey Insurance Fund and 0.2% to the Guernsey Health Service Fund, in order to compensate for the reductions in the general revenue grants.

In 2010, following the 2009 States resolutions concerning the future financing of the contributory social security schemes, the upper earnings and income limits for employed people, self-employed people and non-employed people were increased as part of the strategy to match the upper earnings limit for employers over the next 5 years. Also, an allowance on income for non-employed people was introduced and consequently the contribution rate for non-employed people over 65 was increased from 2.6% to 2.9%.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**

**Controlled and managed by the  
Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**

**Year ended 31 December 2011**

**KEY STATISTICS (Continued)**

As the increases in the upper earnings and income limits over the next 5 years are intended to increase contributions to the Guernsey Insurance Fund, the apportionment of contribution income between the Guernsey Insurance Fund, Guernsey Health Service Fund and the Long-term Care Insurance Fund was adjusted so that the two latter funds do not also receive a share of the additional income intended for the Guernsey Insurance Fund alone.

<b>Number of claimants at the year-end</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Pension	15,690	15,047	14,782	14,369	13,845
Invalidity Benefit	885	937	861	790	787
Sickness Benefit	405	498	551	518	425
Bereavement Benefits	255	276	328	346	377
Unemployment Benefit	243	222	266	182	118
Industrial Disablement Benefit	216	238	249	255	257
Industrial Injury Benefit	5	15	14	19	17
Maternity Allowance	123	140	145	121	126
<b>Total</b>	<b>17,822</b>	<b>17,373</b>	<b>17,196</b>	<b>16,600</b>	<b>15,952</b>

<b>Number of approved claims during the year</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Sickness Benefit	11,020	11,047	12,109	11,267	11,369
Pension	1,304	835	1,051	1,065	825
Unemployment Benefit	1,133	1,189	1,527	908	851
Industrial Medical Benefit	935	1,053	1,144	1,169	1,408
Maternity Allowance	563	516	590	531	495
Death Grant	485	457	519	448	425
Industrial Injury Benefit	520	578	637	620	666
Bereavement Benefits	292	294	305	281	268
Invalidity Benefit	299	405	450	420	415
Maternity Grant	98	80	74	91	102
Industrial Disablement Benefit	3	9	11	12	13
<b>Total</b>	<b>16,652</b>	<b>16,463</b>	<b>18,417</b>	<b>16,812</b>	<b>16,837</b>

<b>5-Year performance</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Financial performance</b>					
Income	106,155,586	101,750,675	96,214,556	93,028,813	88,719,811
Expenditure (including depreciation)	(110,108,173)	(105,398,951)	(101,374,253)	(92,309,733)	(85,486,325)
Operating (deficit)/surplus	(3,952,586)	(3,648,276)	(5,159,697)	719,080	3,233,486
<b>Investments</b>					
Common Investment Fund allocation	583,733,618	614,199,092	546,145,664	462,448,211	563,963,613
<b>Investment performance</b>					
Investment income	10,950,202	7,433,800	10,197,455	14,994,907	15,856,980
Realised gains/(losses)	6,260,331	64,398,242	6,659,204	(5,872,667)	31,837,712
Unrealised (losses)/gains	(36,832,038)	(4,591,927)	74,073,396	(111,145,735)	(11,278,566)
Total return on investments	(19,621,505)	67,240,115	90,930,055	(102,023,495)	36,416,126
<b>Expenditure cover</b>					
Reserves	611,358,913	634,933,004	571,341,165	485,570,807	586,876,186
Expenditure (including depreciation)	110,108,173	105,398,951	101,374,253	92,309,733	85,486,325
Number of years cover	5.6	6.0	5.6	5.3	6.9

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**Principal officers**

**Social Security Department**

Minister	Deputy M H Dorey
Deputy Minister	Deputy A H Brouard
Members	Deputy S J Ogier Deputy M W Collins Deputy A R Le Lièvre
Administrator	M Nutley

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF RESPONSIBILITIES OF THE SOCIAL SECURITY DEPARTMENT**  
**Year ended 31 December 2011**

The Social Security Department (“the Department”) is required to prepare financial statements for each financial year which give a true and fair view of the disposition of the net assets of the Guernsey Insurance Fund at the end of the financial year and of the fund account of the Guernsey Insurance Fund for that period. In preparing those financial statements, the Department is required to:

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

The Department is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Guernsey Insurance Fund and enable them to ensure that the financial statements comply with Section 100(3) of The Social Insurance (Guernsey) Law, 1978. It is also responsible for safeguarding the assets of the Guernsey Insurance Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Going Concern**

The Department members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that the Guernsey Insurance Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Guernsey Insurance Fund is a going concern.

**Statement of internal financial controls**

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

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

The Department’s internal financial procedures include:

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

The Department strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

The Department’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 auditors appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**Social Security Department  
As controller and manager of**

### **THE STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**

We have audited the financial statements of the States of Guernsey - Guernsey Insurance Fund ("the Fund") for the year ended 31 December 2011 which comprise the fund account, the balance sheet, cash flow statement and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the States of Guernsey Social Security Department ("the Department") as a body, in accordance with Section 100 (3) of the Social Insurance (Guernsey) Law, 1978. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities of the Social Security Department, the Department is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implication for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2011, and of the amount and disposition at this date of its assets and liabilities, other than the liabilities to pay benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Section 100(3) of the Social Insurance (Guernsey) Law, 1978.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
St Peter Port, Guernsey

Date: 4 April 2012

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**FUND ACCOUNT**  
**Year ended 31 December 2011**

	Note	2011 £	2010 £
<b>Income</b>			
Contributions	1(b),2	92,318,156	88,488,390
States grant	1(b)	13,837,430	13,262,285
		<u>106,155,586</u>	<u>101,750,675</u>
<b>Expenditure</b>			
Benefits payable	1(c),3	104,891,066	100,297,445
Administration	4	6,538,911	6,258,038
Recoveries	5	(2,479,232)	(2,297,762)
		<u>108,950,745</u>	<u>104,257,721</u>
<b>Operating deficit before depreciation charge</b>		(2,795,159)	(2,507,046)
Depreciation charge	7	(1,157,428)	(1,141,230)
<b>Operating deficit</b>		(3,952,586)	(3,648,276)
<b>Investing activities</b>			
Income from invested funds	1(f),6	10,950,202	7,433,800
Realised profit on disposal	8	6,260,331	64,398,242
Movement in unrealised loss on investments	8	(36,832,038)	(4,591,927)
		<u>(19,621,505)</u>	<u>67,240,115</u>
<b>Net (deficit)/surplus in the fund during the year</b>		(23,574,091)	63,591,839
<b>Net assets of the fund at 1 January</b>		<u>634,933,004</u>	<u>571,341,165</u>
<b>Net assets of the fund at 31 December</b>		<u><u>611,358,913</u></u>	<u><u>634,933,004</u></u>

All activities are derived from continuing operations.

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

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**BALANCE SHEET**  
**At 31 December 2011**

	Note	2011 £	2010 £
<b>Fixed assets</b>			
Tangible assets	7	4,790,996	5,847,347
Common investment fund	8	583,733,618	614,199,745
		<u>588,524,614</u>	<u>620,047,092</u>
<b>Current assets</b>			
Debtors due within one year	9	25,105,195	23,389,411
Debtors due after one year	10	122,459	142,632
Balances with States Treasury		5,118,639	1,959,415
Cash at bank and in hand		541,497	560,239
		<u>30,887,790</u>	<u>26,051,697</u>
<b>Current liabilities</b>			
Creditors due within one year	11	6,718,620	10,026,335
Bank overdraft		1,334,871	1,139,450
		<u>8,053,491</u>	<u>11,165,785</u>
<b>Net current assets</b>		<u>22,834,299</u>	<u>14,885,912</u>
<b>Total net assets</b>		<u>611,358,913</u>	<u>634,933,004</u>
<b>Reserves</b>		<u>611,358,913</u>	<u>634,933,004</u>

The financial statements were approved by the Social Security Department on 4 April 2012.

Signed on behalf of the Department

**M H Dorey**  
Minister

**M Nutley**  
Administrator

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**CASH FLOW STATEMENT**  
**Year ended 31 December 2011**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Operating deficit for the year</b>	(3,952,586)	(3,648,276)
Depreciation	1,157,428	1,141,230
(Increase)/decrease in debtors	(1,695,611)	791,771
(Decrease)/increase in creditors	(3,307,715)	3,127,835
<b>Net cash (outflow)/inflow from operating activities</b>	<u>(7,798,484)</u>	<u>1,412,560</u>
<b>Management of liquid resources</b>		
Tangible asset acquisitions during the year	(101,077)	(215,266)
(Decrease)/increase in cash equivalent in Common Investment Fund	(19,621,505)	67,240,115
<b>Net cash (outflow)/inflow from investing activities</b>	<u>(19,722,582)</u>	<u>67,024,849</u>
<b>(Decrease)/increase in cash and cash equivalents (including investments)</b>	(27,521,066)	68,437,409
Opening common investment funds, treasury, cash balances and overdraft	615,579,949	547,142,540
<b>Closing common investment funds, treasury, cash balances and overdraft</b>	<u><b>588,058,883</b></u>	<u><b>615,579,949</b></u>

**ANALYSIS AND RECONCILIATION OF NET FUNDS**

	<b>At</b>	<b>(Decrease)/</b>	<b>At</b>
	<b>1 January</b>	<b>increase in</b>	<b>31 December</b>
	<b>2011</b>	<b>year</b>	<b>2011</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Cash at bank and in hand	560,239	(18,742)	541,497
Overdraft *	(1,139,450)	(195,421)	(1,334,871)
Balances with States Treasury	1,959,415	3,159,224	5,118,639
	<u>1,380,204</u>	<u>2,945,061</u>	<u>4,325,265</u>
Common Investment Fund	614,199,745	(30,466,127)	583,733,618
	<u><b>615,579,949</b></u>	<u><b>(27,521,066)</b></u>	<u><b>588,058,883</b></u>

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

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with the particular accounting policies described below:

**a) Accounting convention**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of listed investments and in accordance with United Kingdom Generally Accepted Accounting Practice.

The Fund has decided not to adopt Financial Reporting Standard (“FRS”) 23 “The Effects of Changes in Foreign Exchange Rates”, FRS26 “Financial Instruments: Measurement and Recognition” and FRS29 “Financial Instruments: Disclosures”.

**Going Concern**

The Department members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that the Guernsey Insurance Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Guernsey Insurance Fund is a going concern.

**b) Contributions & States grant**

Contributions represent the amount of cash received before 1 February 2012 in respect of the financial year ended 31 December 2011 and amounts received relating to prior financial periods not accounted for in those prior periods. The grant received from the States of Guernsey is based on a fixed percentage of contributions, accounted for in the relevant period and for 2011 was 15% (2010: 15%).

**c) Benefits payable**

Benefits are accounted for on an accruals basis.

**d) Guernsey Insurance Fund**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Guernsey Insurance Fund is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review for the five-year period to 31 December 2008 with an addendum to the year ending 31 December 2009, was completed in 2011 and published in the States Billet XV in September 2011.

**e) Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation. The costs of computer development projects are capitalised as and when they are considered to be material on an individual project basis. Depreciation is provided on cost at the following annual rates so as to write off the assets over their anticipated useful lives:

	<b>Estimated life in years</b>	<b>Depreciation % per annum</b>
Freehold land and buildings	80	1.25 straight line
Furniture and fittings	10	10.00 straight line
Office equipment	5	20.00 straight line
Computer equipment and software	3	33.33 straight line
Computer development	3	33.33 straight line
Computer development – Technological migration	7	14.29 straight line

**f) Common Investment Fund**

The investment portfolio of the Guernsey Insurance Fund is combined with other Funds of the Department to form the Common Investment Fund. The allocation of the investment portfolio to the Fund is based on a percentage of amounts contributed by the Fund into the Common Investment Fund, as determined by the Department.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES (continued)**

**g) Investments**

Investments are stated in the financial statements at their fair values.

Listed investments are included in the financial statements at mid-market prices ruling at the balance sheet date. Listed investments quoted in foreign currencies and foreign exchange contracts have been translated into sterling at rates of exchange ruling at the balance sheet date.

Unlisted investment funds are stated at the year-end net asset value of the underlying funds as notified by the fund managers or administrators at the year-end. The net asset value reported by the relevant fund manager or administrator as at the year-end may be unaudited, and may differ from the amounts realised from redemption of the investment in the fund at year-end. While the members have no reason to suppose that any such valuations are unreasonable, the amounts realised from the redemption of these funds at year-end may materially differ from the reported amounts.

**Investment income**

Interest receivable is included in the financial statements on an accruals basis and is gross of withholding tax suffered at source. Dividends are recognised in the financial statements when the underlying investments become ex-dividend.

**h) Pension costs**

The costs of the defined benefit scheme are charged to the fund account over the year during which the Department benefits from the employee's services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

**i) Security lending**

Securities lending is where securities are transferred from the Fund's custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period.

Collateral received is not recorded unless it is reinvested. Income, realised and unrealised gains and losses on reinvested securities are recorded in the Fund account.

**j) Derivatives**

All open derivatives are stated at their closing market values established by reference to the applicable index.

**2. CONTRIBUTIONS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Employer contributions	65,143,403	62,950,553
Employee contributions	58,539,030	55,927,728
	<hr/>	<hr/>
	123,682,433	118,878,281
Self-employed contributions	13,265,888	12,431,804
Non-employed contributions	7,111,122	6,874,988
	<hr/>	<hr/>
	144,059,443	138,185,073
Allocation to the Guernsey Health Service Fund	(33,777,156)	(33,401,230)
Allocation to the Long-term Care Insurance Fund	(17,032,751)	(16,368,606)
	<hr/>	<hr/>
	92,249,536	88,415,237
Employer surcharge and penalty	37,909	45,715
Movement in contributions unallocated	30,711	27,438
	<hr/>	<hr/>
	92,318,156	88,488,390
	<hr/> <hr/>	<hr/> <hr/>

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**3. BENEFITS PAYABLE**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Pension	86,694,732	82,119,288
Invalidity	7,773,029	7,413,298
Sickness	3,325,951	3,360,021
Bereavement	1,871,307	2,056,615
Travel allowance grant	1,852,642	1,920,646
Unemployment	1,076,935	1,195,241
Maternity benefit	1,107,504	1,007,126
Industrial disablement	587,932	614,329
Industrial injury	204,270	233,229
Death grant	241,440	228,820
Industrial medical	112,663	122,471
	<u>104,848,405</u>	<u>100,271,084</u>
Benefit debt written-off	13,061	26,361
Doubtful debt provision - movement	29,600	-
	<u>104,891,066</u>	<u>100,297,445</u>

**4. ADMINISTRATION**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Salaries and pension costs	4,805,783	4,433,652
Computer expenses	928,770	903,897
Administration expenses	519,509	583,913
Property expenses	233,563	247,991
Actuarial expenses	19,106	53,468
Legal and professional expenses	20,930	24,067
Audit fee	11,250	11,050
	<u>6,538,911</u>	<u>6,258,038</u>

**5. RECOVERIES**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Amounts received from:		
Non Contributory Services	1,862,175	1,562,574
Guernsey Health Service Fund	460,015	450,063
Long-term Care Insurance Fund	155,839	147,980
Other States of Guernsey entities	1,203	137,145
	<u>2,479,232</u>	<u>2,297,762</u>

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**6. INCOME FROM INVESTED FUNDS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Dividends from equities	1,742,906	5,436,904
Interest from fixed interest securities	10,796,694	3,379,800
Interest from property funds	1,336,828	1,242,595
Interest on short term deposits	165,244	216,888
Interest from SWAPS	-	(327,981)
Less: withholding tax suffered	(174,260)	(277,821)
	<u>13,867,413</u>	<u>9,670,385</u>
Securities lending fees	221,062	243,171
Less: Securities lending expenses	(55,261)	(60,772)
	<u>165,801</u>	<u>182,399</u>
<b>Income of the Common Investment Fund</b>	<u>14,033,214</u>	<u>9,852,784</u>
<b>Expenditure</b>		
Investment managers' fees	3,035,488	2,654,993
Less: Rebate of management fees charged on in-house unit trusts	(423,797)	(463,933)
Less: Management fees charged directly on pooled funds	(1,568,007)	(1,132,582)
	<u>1,043,684</u>	<u>1,058,478</u>
Investment advisor's fees	60,000	90,000
Investment advisor's fees – additional work	40,000	65,000
	<u>100,000</u>	<u>155,000</u>
Global custodian – custody fees	46,298	78,504
Global custodian – performance monitoring fees	20,718	13,173
	<u>67,016</u>	<u>91,677</u>
Legal and professional fees	-	3,772
<b>Net expenditure of the Common Investment Fund</b>	<u>1,210,700</u>	<u>1,308,927</u>
<b>Net income of the Common Investment Fund</b>	12,822,514	8,543,857
<b>Net income allocated to:</b>		
Guernsey Health Services Fund	(1,222,885)	(787,916)
Long-term Care Insurance Fund	(750,343)	(496,999)
<b>Net income of the Common Investment Fund allocated to the Guernsey Insurance Fund</b>	<u>10,849,286</u>	<u>7,258,942</u>
<b>Other income</b>		
Interest on call and treasury deposits	100,916	50,404
Interest award following court judgement	-	124,454
	<u>10,950,202</u>	<u>7,433,800</u>

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**7. TANGIBLE ASSETS**

	<b>1</b>		<b>31</b>
	<b>January</b>	<b>Additions</b>	<b>December</b>
	<b>2011</b>		<b>2011</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>			
Freehold land and buildings	3,801,717	62,589	3,864,306
Furniture, fittings and office equipment	1,171,684	7,625	1,179,309
Computer equipment and software	2,475,209	30,863	2,506,072
Computer development – Technological migration	6,630,637	-	6,630,637
Computer development	2,392,150	-	2,392,150
	<u>16,471,397</u>	<u>101,077</u>	<u>16,572,474</u>
	<b>1</b>	<b>Charge</b>	<b>31</b>
	<b>January</b>	<b>for the</b>	<b>December</b>
	<b>2011</b>	<b>year</b>	<b>2011</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Accumulated Depreciation</b>			
Freehold land and buildings	1,080,494	50,260	1,130,754
Furniture, fittings and office equipment	928,926	57,552	986,478
Computer equipment and software	2,474,987	27,567	2,502,554
Computer development – Technological migration	3,951,763	935,833	4,887,596
Computer development	2,187,880	86,216	2,274,096
	<u>10,624,050</u>	<u>1,157,428</u>	<u>11,781,478</u>
<b>Net book value</b>	<u>5,847,347</u>		<u>4,790,996</u>

Freehold land and buildings comprises Edward T Wheadon House, which was valued at 31 December 2008 by Lovell & Partners Limited, a firm of estate agents and valuers, at an open market value of £11.02m (2007: £10.60m) and is carried at cost.

Depreciation commenced being charged on computer development costs associated with the technological migration project from the end of September 2006, when the new benefit system became operational.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**8. COMMON INVESTMENT FUND**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Equities and derivatives	352,958,262	391,115,945
Fixed income and derivatives	276,450,358	255,439,997
Cash and cash equivalents	23,090,568	42,196,025
Property funds	21,090,740	19,882,731
Commodities	17,259,403	8,312,704
Alternative investments and hedge funds	4,509,809	4,972,256
	<u>695,359,140</u>	<u>721,919,658</u>
Investments allocated to:		
Guernsey Health Service Fund	(70,102,304)	(66,024,659)
Long-term Care Insurance Fund	(41,523,218)	(41,695,254)
	<u>583,733,618</u>	<u>614,199,745</u>

At the year-end the Common Investment Fund value comprised of £670,504,991 of listed investments (2010: £714,219,371) and unlisted investments of £24,854,149 (2010: £7,700,287).

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Common Investment Fund movements during the year</b>		
Market value 1 January	721,919,658	641,930,312
Investment income reinvested	13,845,545	9,645,374
Realised profit on disposal	7,382,057	75,692,569
Movement on unrealised loss on investments	(43,288,120)	(5,397,506)
New monies to reduce collateral deficit	-	48,909
Withdrawal of monies invested - Guernsey Insurance Fund	(4,500,000)	-
Market value 31 December	<u>695,359,140</u>	<u>721,919,658</u>

The realised profit allocated to the Guernsey Insurance Fund for the year is £6,260,331 (2010: £64,398,242) with a movement in unrealised loss of £36,832,038 (2010: unrealised loss £4,591,927).

The Common Investment Fund is managed through six investment managers, namely Schroder Investment Management Limited, Blackrock Investment Management UK) Limited, Barings Asset Management, M&G Investment's, Legg Mason (trading name Western Asset Management) and Skagen who are Norwegian based. The governance of the Fund is supported by the Fund custodian, Northern Trust and a professional investment advisor, P-Solve.

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**9. DEBTORS DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Contributions receivable	20,846,882	20,169,421
Benefits prepaid	2,272,110	1,860,784
Recoveries due from Non Contributory Services	1,669,770	919,480
Administration expenses prepaid	146,257	192,518
States grant receivable	92,430	192,286
Trade debtors	77,746	54,922
	<u>25,105,195</u>	<u>23,389,411</u>

**10. DEBTORS DUE AFTER ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Unsecured benefit debt and recoveries	122,459	142,632
	<u>122,459</u>	<u>142,632</u>

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Recoveries due to Guernsey Health Service Fund	2,116,561	4,896,319
Recoveries due to Long-term Care Insurance Fund	2,066,575	2,614,279
Trade creditors	1,968,220	2,168,240
Other creditors and accruals	567,264	347,497
	<u>6,718,620</u>	<u>10,026,335</u>

**12. SUPERANNUATION FUND**

The employees of the Social Security Department are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 7.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

The Department has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £509,970 (2010: £483,395) of which the Guernsey Insurance Fund contributed £317,031 (2010: £308,670).

**13. RELATED PARTY TRANSACTIONS**

The Department members confirm that there have been no disclosable related party transactions with members and senior management in this financial year (2010: Nil). Of the Department's annual income and expenditure, less than 20% of their respective value for both 2010 and 2009 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 6, 8, 9, 10 and 11. Balances with the States Treasury at the year-end amounted to £5,118,639 (2010: £1,959,415).

**STATES OF GUERNSEY - GUERNSEY INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**14. STATEMENT OF CONTROL**

The Guernsey Insurance Fund is controlled and managed by the Social Security Department, as required by Section 100(1) of the Social Insurance (Guernsey) Law, 1978, as amended. The members of the Social Security Department have been appointed by the States of Guernsey.

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE**  
**Year ended 31 December 2011**

**Financial highlights**

*Overview*

The overall annual grant from the States of Guernsey increased by 5.5% to £33.86m (2010: £32.09m) and includes a 2.4% increase in the general rate of benefit. The original budget was £33.48m. Total expenditure consists of:

- Formula led expenditure of £31.22m (2010: £29.76m ) and above the original budget of £30.83m. This element is flexible in that it is driven by the level of demand for supplementary benefit, family allowance, attendance and invalid care allowances and concessionary television licenses.
- Non-Formula Led expenditure of £2.63m (2010: £2.33m). This element consists of administration costs, medical expenses assistance scheme, community and environmental projects scheme and charitable grants. Actual expenditure for 2011 was below the original budget of £2.66m (2010: £2.37m).

*Review of main formula led expenditure*

• **Supplementary benefit**

	<b>2011</b>	<b>2010</b>	<b>5-Year Average</b>
Number of claimants at the year-end	2,351	2,295	2,118

Overall supplementary benefit expenditure increased by 5.3% to £17.89m (2010: £16.99m) with continuing high levels of unemployment. In particular, the fourth quarter of 2011 saw an increase in number of supplementary benefit claimants reflecting the changing economic environment.

Overall Special grants expenditure decreased by 1.2% to £2.23m (2010: £2.21m) and below the budget which was forecast to increase by 3% to £2.28m. Medical grants increased by 1.5% to £1.78m (2010: £1.75m) with expenditure for disabled persons falling to £284k (2010: £333k).

• **Family allowance**

	<b>2011</b>	<b>2010</b>	<b>5-Year Average</b>
Number of claimants at the year-end	6,889	6,861	6,824

Expenditure increased by 2.5% to £9.31m (2010: £9.08m) with the allowance increasing from £14.60 to £15.00 per child per week. Actual expenditure for 2011 was above the original budget of £9.27m.

• **Attendance Allowance (AA) & Invalid Care Allowance (ICA)**

	<b>2011</b>	<b>2010</b>	<b>5-Year Average</b>
AA - Number of claimants at the year-end	528	488	453
ICA - Number of claimants at the year-end	303	292	263

Combined expenditure increased by 10.3% to £3.39m (2010: £3.07m). The Department has continued to advertise the availability of both allowances in 2011 and, as a result, expenditure has increased significantly although below the original budget of £3.44m

*Review of main non-formula led expenditure*

**Community and environmental projects scheme**

In support of the States' strategy to support individuals into employment the Department funded the scheme to train and up-skill, on average, just over 20 people each week. In 2011, the cost of this initiative decreased by 2.6% to £235k (2010: £241k) and above the budget of £210k. Although CEPS wage rates were reduced to bring them in line with the minimum wage, the average number of participants on the scheme was higher than expected.

**Administration**

Administration costs increased by 16.5% to £2.08m (2010: £1.78) but below the budget of £2.11m. The significant increase is due mainly to rental expenditure of £132k being charged to non-contributory services whereas in previous years was paid directly by States Property Services, Treasury and Resources Department. Staffing costs increased by 11.8% to £1.34m (2010: £1.20m) but below the budget of £1.38m.

## STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES

### Controlled and managed by the Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE

Year ended 31 December 2011

### ACTIVITIES DURING THE YEAR

The Department has continued to progress the modernisation of supplementary benefit project during the year focussing on work incentivisation, support for young adults in education, and rent rebate integration.

The high levels of unemployment, and the associated high number of job seekers requiring supplementary benefit, continued to place a heavy additional workload on the Department's staff. With the continuation of the high levels of unemployment, the Department has been actively developing initiatives, within resource constraints, to facilitate return to work.

Following a review by the Department as to the adequacy of the attendance and invalid care allowances, the States have approved changes.

The Department has continued to be actively involved in a number of work-streams of the Financial Transformation Programme during the year. Following States approval, from October 2011 the main focus is the SAP/Shared Transaction Service Centre (STSC) project which will change the way the States of Guernsey manages the administration of finance, human resources, procurement, information technology and asset management.

During the year, the Department developed effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating.

### FUTURE DEVELOPMENTS

The Department will continue to progress the modernisation of supplementary benefit project with the aim of taking proposals to the States' in early 2012.

Following the review of the attendance and invalid care allowances and approval by the States, the Department will actively promote and raise awareness of both allowances.

The Department will continue to participate constructively in the Financial Transformation Programme, encouraging more corporate working in order to progress business efficiencies at a local level and States wide, the focus for 2012 being the SAP/Shared Transaction Service Centre (STSC) project.

The Department will continue to develop effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating, which was reaccredited in January 2012.

### Key Statistics

Five-year performance	2011 £	2010 £	2009 £	2008 £	2007 £
<b>Benefits expenditure - Formula Led</b>					
Supplementary Benefit	17,893,277	16,988,145	15,884,660	14,024,153	12,966,023
Family Allowance	9,307,869	9,076,454	9,045,441	8,598,024	8,232,609
Attendance Allowance	2,339,410	2,128,514	1,894,820	1,610,421	1,486,307
Invalid Care Allowance	1,048,734	944,084	849,527	750,997	707,063
Concessionary television licences	577,078	568,964	542,707	504,728	463,788
Travel expenses assistance scheme	57,745	48,833	37,952	25,565	41,505
<b>Benefits expenditure - Non-Formula Led</b>					
Administration	2,078,362	1,784,593	1,759,543	1,623,468	1,625,044
Charitable grants	190,652	182,610	211,910	211,910	193,000
Community & Environmental Projects	234,789	241,071	216,876	190,947	200,626
Medical expenses assistance scheme	130,057	125,370	127,996	123,062	119,225

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE**  
**Year ended 31 December 2011**

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Number of claimants at year-end</b>					
Family Allowances	6,889	6,861	6,858	6,791	6,720
Supplementary Benefit	2,351	2,295	2,300	2,112	2,034
Attendance Allowance	528	488	495	382	373
Invalid Care Allowance	303	292	267	227	225

<b>Supplementary Benefit by Classification</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Number of claimants at year-end</b>					
Pensionable age or over	717	716	738	756	768
Incapacitated	543	570	508	442	405
Single parent	426	405	478	429	424
Unemployed (Job seekers)	381	308	293	218	173
Disabled	203	210	210	198	193
Others	81	86	73	69	71
	2,351	2,295	2,300	2,112	2,034

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE**  
**Year ended 31 December 2011**

**Principal officers**

**Social Security Department**

Minister	Deputy M H Dorey
Deputy Minister	Deputy A H Brouard
Members	Deputy S J Ogier Deputy M W Collins Deputy A R Le Lièvre
Administrator	M Nutley

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF RESPONSIBILITIES OF THE SOCIAL SECURITY DEPARTMENT**  
**Year ended 31 December 2011**

The Social Security Department (“the Department”) is required to prepare financial statements for each financial year which give a true and fair view of the disposition of the net assets of Non Contributory Services and of the income and expenditure of Non Contributory Services for that period. In preparing those financial statements, the Department is required to:

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

The Department is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of Non Contributory Services. It is also responsible for safeguarding the assets of the Non Contributory Services and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Going Concern**

The Department members and principal officers have reviewed the budget over the next twelve months and deem that Non Contributory Services has adequate financial resources to meet its obligations. The Department has obtained confirmation that a grant will be received from the Treasury and Resources Department and have assessed its adequacy to keep the entity a going concern. From a review of the above it is therefore deemed that Non Contributory Services is a going concern.

**Statement of internal financial controls**

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

The Department is also responsible for the economical, efficient and effective management of public funds and other resources entrusted to it. The Department’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Department;
  - the annual audit report together with the audited financial statements;
  - the annual report of observations and recommendations produced by the external auditors;
  - the annual business plan; and
  - the quarterly management accounts;
- a review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Department; and
- a requirement for internal audit reports to be tabled at a meeting of the Department.

The Department strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

The Department’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 auditors appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**Social Security Department  
As controller and manager of**

### **THE STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**

We have audited the financial statements of the States of Guernsey - Non Contributory Services ("the Fund") for the year ended 31 December 2011 which comprise the income and expenditure account, the balance sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the States of Guernsey Social Security Department ("the Department") as a body, in accordance with the terms of our engagement letter dated 26 November 2007. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities of the Social Security Department, the Department is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2011, and of the amount and disposition at this date of its assets and liabilities, other than the liabilities to pay benefits after the end of the year; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
St Peter Port, Guernsey

Date: 4 April 2012

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**INCOME AND EXPENDITURE ACCOUNT**  
**For the year ended 31 December 2011**

	Note	2011 £	2010 £
<b>Income</b>			
States of Guernsey Grant	1(b) & 2	33,857,973	32,088,638
<b>Expenditure (Formula led)</b>			
Supplementary benefit	1(f) 3	17,893,277	16,988,145
Family allowance		9,307,869	9,076,454
Attendance & invalid care allowance		3,388,144	3,072,598
Concessionary television licences		577,078	568,964
Travel expenses assistance scheme		57,745	48,833
		<u>31,224,113</u>	<u>29,754,994</u>
<b>Expenditure (Non-Formula led)</b>			
Administration	1(f) 7	2,078,362	1,784,593
Community & environmental projects		234,789	241,071
Charitable grants	6	190,652	182,610
Medical expenses assistance scheme		130,057	125,370
		<u>2,633,860</u>	<u>2,333,644</u>
<b>Total expenditure</b>		<u>33,857,973</u>	<u>32,088,638</u>
<b>Operating result for the financial year</b>		<u><u>-</u></u>	<u><u>-</u></u>

All activities are derived from continuing operations.

The entity has no recognised gains or losses in the current or previous financial year.

Notes 1 to 13 form an integral part of these financial statements.

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**BALANCE SHEET**  
**At 31 December 2011**

	Note	2011 £	2010 £
<b>Current assets</b>			
Debtors due within one year	8	1,386,903	832,096
Debtors due after one year	9	481,203	677,682
		<hr/>	<hr/>
<b>Creditors: amounts falling due within one year</b>	10	1,868,106 (1,868,106)	1,509,778 (1,509,778)
		<hr/>	<hr/>
<b>Net current assets</b>		-	-
		<hr/>	<hr/>
<b>Revenue account</b>		-	-
		<hr/>	<hr/>

These financial statements were approved by the Social Security Department on 4 April 2012.

Signed on behalf of the Department

**M H Dorey**  
*Minister*

**M Nutley**  
*Administrator*

# STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES

## Controlled and managed by the Social Security Department

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

#### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with the particular accounting policies described below:

##### a) Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practices.

A Cash Flow statement has not been prepared as the entity does not have a bank account and all payments are made through the Guernsey Insurance Fund which is reimbursed from the Treasury and Resources Department.

Going Concern - The Department members and principal officers have reviewed the budget over the next twelve months and deem that Non Contributory Services has adequate financial resources to meet its obligations. The Department has obtained confirmation that a grant will be received from the Treasury and Resources Department and have assessed its adequacy to keep the entity a going concern. From a review of the above it is therefore deemed that Non Contributory Services is a going concern.

##### b) Grant – States of Guernsey

The grants received from the States of Guernsey are set at a level equal to expenditure accounted for in the relevant period.

##### c) Benefits payable

Benefits are accounted for on an accruals basis.

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year.

##### d) Pension costs

The costs of the defined benefit scheme are charged to the income and expenditure account over the period during which the Department benefits from the employee's services. Surpluses/deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

##### e) Assets held in fiduciary capacity

Assets held in a fiduciary capacity for charitable settlements are not included in the balance sheet. These assets amounted to £39,037 at 31 December 2011 (2010: £38,429).

##### f) Formula led and Non-formula led expenditure

Formula led expenditure is largely variable in its nature as it is driven by the level of demand for a number of benefits, allowances and grants. Non-formula led expenditure is fixed in so far as it is subject to a cash limit approved by the States of Guernsey each year.

#### 2. GRANT - STATES OF GUERNSEY

It is the practice of the States to match the expenditure of Non Contributory Services with grants. The income received from the States in the financial year may therefore be analysed in the same manner and under the same headings as the expenditure. It is expected that this practice will continue for the foreseeable future.

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

<b>3. SUPPLEMENTARY BENEFIT</b>	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
Benefit and fuel allowance	4	15,629,766	14,557,212
Special grants	5	2,234,527	2,208,762
Concessionary TV licenses for 65 to 74 year olds		21,077	20,249
Emergency payments under Public Assistance Law		144	120
		<hr/>	<hr/>
		17,885,513	16,786,343
Unsecured loans and recoveries:			
Bad debt written off		183,307	27,728
Doubtful debt provision - movement		(180,450)	213,000
		<hr/>	<hr/>
		2,857	240,728
Maintenance recoveries -movements		4,906	(38,926)
		<hr/>	<hr/>
		17,893,277	16,988,145
		<hr/> <hr/>	<hr/> <hr/>
<b>4. BENEFIT AND FUEL ALLOWANCE</b>		<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
Single parents		4,758,836	4,403,935
Incapacitated		4,030,596	3,623,385
Over pensionable age		2,165,411	2,132,884
Disabled persons		1,544,931	1,476,705
Persons seeking work		2,482,077	2,257,173
Incapable of self support		397,745	427,081
Persons caring for spouse		182,328	161,974
Pregnant women		40,300	60,128
Prisoners Spouses		24,754	12,780
Persons caring for children		2,788	1,167
		<hr/>	<hr/>
		15,629,766	14,557,212
		<hr/> <hr/>	<hr/> <hr/>
<b>5. SPECIAL GRANTS</b>		<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
Medical - Treatment		1,226,349	1,200,683
- Dental		272,055	251,254
- Ophthalmic		72,315	70,004
- Medical sundries		67,367	69,821
- Chiropody		63,844	69,426
- Physiotherapy		41,632	44,619
- Hearing aids		33,529	45,337
		<hr/>	<hr/>
		1,777,091	1,751,144
Disabled persons		284,050	333,032
Funeral		104,603	75,019
Surgical and medical requisites		54,173	52,343
Exceptional needs		13,176	17,913
Exceptional needs – disabled individual		-	(29,505)
Sundries (not medical)		1,167	3,665
Travelling expenses		267	5,151
		<hr/>	<hr/>
		2,234,527	2,208,762
		<hr/> <hr/>	<hr/> <hr/>

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**6. CHARITABLE GRANTS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Guernsey Welfare Service Limited (Playgroup)	50,707	50,707
Guernsey Citizens Advice Bureau	26,450	26,450
The Methodist Church (Wesley playgroup)	30,165	30,165
Guernsey Voluntary Service	29,378	29,378
Relate	20,618	20,618
Guernsey Women's Refuge Limited	20,461	20,461
The Samaritans	4,831	4,831
The Salvation Army (Clifton Community Centre)	8,042	-
	<u>190,652</u>	<u>182,610</u>

**7. ADMINISTRATION**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Recharged from Guernsey Insurance Fund:		
Salaries and pension costs	1,340,217	1,198,459
Computer expenses	261,040	220,358
Property expenses and sundries	181,805	185,874
Bank charges	79,113	89,934
	<u>1,862,175</u>	<u>1,694,625</u>
Management costs – Community & environmental projects	149,637	145,387
Administration expenses	46,899	48,829
Medical reports	12,651	21,053
Audit fee	7,000	6,750
	<u>2,078,362</u>	<u>1,916,644</u>
Rent recovery received from the States Property Services, Treasury and Resources Department	-	(132,051)
	<u>2,078,362</u>	<u>1,784,593</u>

The Guernsey Insurance Fund charge rental on office space of £132,051 (2010: £132,051) to Non Contributory Services, the expenditure being included in property expenses. This rental is no longer paid by the States Property Services, Treasury and Resources Department.

**8. DEBTORS DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Benefits and allowances paid in advance	777,930	832,096
States grant	608,973	-
	<u>1,386,903</u>	<u>832,096</u>

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**9. DEBTORS DUE AFTER ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Unsecured debt and recoveries	216,181	432,013
Secured loans	265,022	245,669
	<u>481,203</u>	<u>677,682</u>

The unsecured debt and recoveries relate to outstanding benefit debt. The secured loans are interest free and secured by way of a registered bond against the realty of each borrower.

In previous years, the Department's long-term debt was recorded in the financial statements of the Guernsey Insurance Fund. However, in 2011 all non-contributory benefit debt was transferred to Non Contributory Services.

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Unsecured debt and recoveries at 1 January	645,013	-
Transfer of unsecured debt and recoveries from the Guernsey Insurance Fund	-	687,949
Unsecured debt and recoveries - movements	6,846	-
Bad debt written-off - supplementary benefit	(183,307)	(27,728)
Bad debt written-off - other benefits	(9,721)	(15,208)
Unsecured debt and recoveries at 31 December	<u>458,831</u>	<u>645,013</u>
Provision for doubtful debts at 1 January	(213,000)	-
Transfer of provision from the Guernsey Insurance Fund	(210,100)	-
Doubtful debt provision - movements	180,450	(213,000)
Provision for doubtful debts at 31 December	<u>(242,650)</u>	<u>(213,000)</u>
Unsecured debt and recoveries net of provision for doubtful debts at 31 December	<u>216,181</u>	<u>432,013</u>

The movement of unsecured debt and recoveries comprises of new debt less direct payments from individuals or less a deduction from benefit entitlement. The movement of the doubtful debt provision comprises of an additional provision for new and existing debt less any write-back of existing provision in respect of unsecured debt and recoveries to be written off due to being unrecoverable.

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Guernsey Insurance Fund recharges payable	1,669,770	919,276
States grant	-	403,362
Benefits and allowances payable	193,647	178,166
Other creditors and accruals	4,689	8,974
	<u>1,868,106</u>	<u>1,509,778</u>

**STATES OF GUERNSEY – NON CONTRIBUTORY SERVICES**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**11. RELATED PARTY TRANSACTIONS**

The Department members confirm that there have been no related party transactions with members or senior management in this financial year (2010: Nil).

Of the Department's annual income and expenditure, less than 20% of their respective value for both 2011 and 2010 is due to transactions with other States entities, except as disclosed in notes 1, 2, 6, 7, 8, 9 and 10.

**12. SUPERANNUATION FUND**

The employees of the Social Security Department are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 7.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

The Department has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £509,970 (2010: £483,395) of which Non-Contributory Services contributed £146,804 (2010: £130,764).

**13. STATEMENT OF CONTROL**

Non Contributory Services is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Non Contributory Services has been delegated to the members of the Social Security Department, who have been appointed by the States of Guernsey.

# STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE

Year ended 31 December 2011

### FINANCIAL HIGHLIGHTS

#### Overview

The Guernsey Health Service Fund ("the Fund") recorded an operating surplus of £3.33m (2010:£2.64m).

The Fund reserves for the year increased by £1.31m (2010: £9.86m). This was created through net of operating surplus of £3.33m, investment income of £1.22m (2010: £0.79m), realised profit on investments of £0.69m (2010: £6.9m) and unrealised losses on investments of £3.94m (2010: £0.49m losses).

At the year-end total reserves of the Fund stood at £72.20m (2010: £70.89m) with expenditure cover remaining at 2.0 years.

#### Contribution income

Contribution income increased by 4.1% to £34.78m (2010: £33.40m) and marginally below the budget of £34.90m.

#### Benefit expenditure

Overall benefit expenditure increased by 2.3% to £34.69m (2010: £33.89m) and below the budget of £35.12m.

#### • Consultation grants

	2011	2010	5-Year Average
Number of doctors grants	259,711	254,349	253,078
Number of nurses grants	81,309	75,667	77,461

Consultation Grant expenditure increased by 2.8% to 3.60m (2010: £3.51m) with the number of doctor and nurse consultation grants increasing by 2.1% and 7.5% respectively. The doctor and nurse consultation grant rates have been fixed at £12 and £6 respectively since 2004.

#### • Specialist Health Insurance Scheme

	2011	2010	5-Year Average
Medical specialist Group - full-time equivalent consultants (average)	39.0	38.8	38.1

Specialist medical benefit increased by 1.87% to £13.47m (2010: £13.22m) with the average number of consultants employed during the year increasing marginally and with a 1.6% increase in the contract price based on the September 2010 RPI.

	2011	2010	5-Year Average
Guernsey Physiotherapy Group - full-time equivalent physiotherapists & assistants (average)	28.97	28.48	27.15

Physiotherapy expenditure increased by 2.01% to £1.76m (2010: £1.73m) and was due to an increase in the average full-time equivalent physiotherapists & assistants employed during the year and with a 1.6% increase in the contract price based on the September 2010 RPI.

#### Drugs and medicines

	2011	2010	5-Year Average
Total prescriptions	1,463,627	1,411,648	1,354,415
Average basic cost	£9.38	£9.61	£9.65

Total drug and medicine expenditure increased by only 1.9% to £15.66m (2010: £15.37m). This was mainly attributable to the number of items prescribed during the year increasing by only 3.7%, below the UK average, and with average basis cost of drugs falling by 2.4% to £9.38. Furthermore, the continuation of initiatives introduced by the prescribing support unit, including the strict control of new entries to the white-list, generic prescribing and reduced wastage have helped to contain costs.

# STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

### Administration

Administration expenditure increased by 6.5% to £0.93m (2010: £0.87m). The increase is, in part, due to increased annual support costs in providing additional local primary care surgeries with a real-time decision support tool. This provides information and advice at the point of prescribing and contains patient safety messages, drug switch recommendations and other information. Additional costs were also incurred in advertising, printing and stationery.

### Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at the 31 December 2011 had a market value of £695m (2010: £722m).

During the year £7.1m was reallocated from the Guernsey Insurance Fund, £6.0m to the Guernsey Health Services Fund and £1.1m to the Long-Term Care Insurance Fund to clear recoveries due in respect of operating activities.

The allocation between the three contributory funds is as follows:

Common Investment Fund allocation at the Year-end	2011		2010	
	£m	%	£m	%
Guernsey Insurance Fund	584	83.9%	614	85.1%
Guernsey Health Service Fund	70	10.1%	66	9.1%
Long-term Care Insurance Fund	41	6.0%	42	5.8%
<b>Total</b>	<b>695</b>	<b>100.0%</b>	<b>722</b>	<b>100.0%</b>

The Department has continued to diversify its investment portfolio to maximise returns for a reduced risk. The Department measures the performance of individual investment manager's over a rolling 3-year period and the overall performance of the common investment fund (gross of fees) is as follows:

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Benchmark return per annum	% RPI Guernsey Average Annual Change
1-Year	-3.07%	0.29%	3.1%
3-Year	9.90%	9.30%	1.7%
5-Year	3.11%	2.07%	2.9%

2011 was a particularly challenging year for investments and the Common Investment Fund was negatively affected by this.

### ACTIVITIES DURING THE YEAR

In cooperation with the Health and Social Services Department, the Department introduced on a pilot basis, a primary care mental health service. The aim of the service is to develop an integrated mental health service on Guernsey to ensure that, following an assessment in the community, psychological support and therapy is available for the early intervention of mild to moderate mental health problems.

In respect of specialist health insurance scheme, the Department has focused on contract and performance monitoring of the two main suppliers. In co-operation with the Health and Social Services Department consideration is being given to long term health strategies and financing. This work will include reviewing recommendations from the Public Accounts Committee's commissioned report by Sector regarding third party secondary healthcare. This work will run beyond 2011.

The Department has remained active, through the Prescribing Support Unit in keeping pharmaceutical costs as well controlled and cost effective as possible.

The adequacy of the Guernsey Health Service Fund is subject to actuarial review at least once every five years to determine the adequacy of contribution rates. The actuarial review of the Fund was brought forward by two years, so that all three contributory funds were reviewed at the same time and that all three reviews will be in phase for the future. The actuarial review for the three years to 31 December 2009 was completed in 2011 and published in the States Billet XV in September 2011.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**ACTIVITIES DURING THE YEAR (CONTINUED)**

The Department has continued to be actively involved in a number of work-streams of the Financial Transformation Programme during the year. Following States approval, from October 2011 the main focus is the SAP/Shared Transaction Service Centre (STSC) project which will change the way the States of Guernsey manages the administration of finance, human resources, procurement, information technology and asset management.

During the year, the Department developed effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating.

**FUTURE ACTIVITIES**

The Department will continue to pilot a primary care mental health service and will monitor its progress to establish whether there is a case for making the service permanent.

The Department will continue to remain active, through the Prescribing Support Unit in keeping pharmaceutical costs as well controlled and cost effective as possible.

Contract price reviews with the Medical Specialist Group and the Guernsey Physiotherapy Group will be negotiated in 2012

It is the intention that the travel allowance grant, which is essentially a health benefit, be transferred to the Guernsey Health Service Fund from the Guernsey Insurance Fund, although not before 2013.

The Department will continue to participate constructively in the Financial Transformation Programme, encouraging more corporate working in order to progress business efficiencies at a local level and States wide, the focus for 2012 being the SAP/Shared Transaction Service Centre (STSC) project.

The Department will continue to develop effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating, which was reaccredited in January 2012.

**KEY STATISTICS**

<b>Five-year performance</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Benefits</b>					
Drugs and medicines	15,657,194	15,370,720	14,870,523	14,107,499	13,812,514
<b>Income &amp; Expenditure</b>					
Income	38,950,415	37,409,378	37,525,267	36,175,217	34,341,097
Expenditure	35,618,470	34,767,161	34,321,253	31,965,271	29,906,321
Operating surplus	3,331,945	2,642,217	3,204,014	4,209,946	4,434,776
<b>Investment performance</b>					
Investment income	1,223,379	788,162	1,027,408	1,219,044	1,166,186
Realised gains/(losses)	689,676	6,922,621	1,368,717	(453,665)	(855,765)
Unrealised (losses)/gains	(3,938,037)	(493,761)	11,335,859	(8,586,045)	2,340,792
Total return on investments	(2,024,982)	7,217,022	13,731,984	(7,820,666)	2,651,213
<b>Common Investment Fund</b>					
Allocation at market value	70,102,304	66,024,659	58,709,189	35,724,280	43,600,707
<b>Expenditure cover</b>					
Reserves	72,198,612	70,891,649	61,032,410	44,096,412	47,707,132
Expenditure	35,618,470	34,767,161	34,321,253	31,965,271	29,906,321
Number of years cover	2.0	2.0	1.8	1.4	1.6

In 2006 the States resolved, as part of its future economic and taxation strategy, to increase substantially the upper earnings limits for all classes of contributors and employers, with compensating reductions in the grants from general revenue that apply to the contributory funds. The States further resolved that, although the revised financing

# STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

### KEY STATISTICS (CONTINUED)

of the contributory funds was to take full effect from 1 January 2008, there should be a substantial move in that direction with effect from 1 January 2007.

In 2008, as a result of the strategy adopted in 2006, the upper earnings limits were increased significantly together with a 1% increase in employers' full percentage rate contributions of which 0.8% was allocated to the Guernsey Insurance Fund and 0.2% to the Guernsey Health Service Fund, in order to compensate for the reductions in the general revenue grants.

In 2010, following the 2009 States resolutions concerning the future financing of the contributory social security schemes, the upper earnings and income limits for employed people, self-employed people and non-employed people were increased as part of the strategy to match the upper earnings limit for employers over the next 5 years. Also, an allowance on income for non-employed people was introduced and consequently the contribution rate for non-employed people over 65 was increased from 2.6% to 2.9%.

As the increases in the upper earnings and income limits over the next 5 years are intended to increase contributions to the Guernsey Insurance Fund, the apportionment of contribution income between the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund was adjusted so that the two latter funds do not also receive a share of the additional income intended for the Guernsey Insurance Fund alone.

<b>Contributory Funds - General Revenue Grants</b>	<b>2011 %</b>	<b>2010 %</b>	<b>2009 %</b>	<b>2008 %</b>	<b>2007 %</b>
Guernsey Insurance Fund	15%	15%	15%	15%	36%
Guernsey Health Service Fund	12%	12%	12%	12%	27%
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Guernsey Insurance Fund	13,837,430	13,262,390	12,547,679	12,122,407	23,472,978
Guernsey Health Service Fund	4,173,259	4,008,148	4,020,564	3,875,916	7,300,863
<b>Total</b>	<b>18,010,689</b>	<b>17,270,538</b>	<b>16,568,243</b>	<b>15,998,323</b>	<b>30,773,841</b>

<b>Number of contributors (as at week 48)</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Employers	2,393	2,419	2,398	2,492	2,451
Employed	29,254	29,209	28,831	29,531	29,157
Self-employed	3,339	3,409	3,388	3,424	3,495
Non-employed	4,490	5,113	4,961	4,745	4,597
<b>Total</b>	<b>37,083</b>	<b>37,731</b>	<b>37,180</b>	<b>37,700</b>	<b>37,249</b>

<b>Contribution Rates - Annual Earnings/Income limits</b>	<b>2011 £</b>	<b>2010 £</b>	<b>2009 £</b>	<b>2008 £</b>	<b>2007 £</b>
Class 1 <i>Employed</i>					
Upper earnings limit - employer	120,900	117,468	115,128	108,108	53,664
Upper earnings limit - employee	91,884	79,872	69,108	64,896	53,664
Lower earnings limit	6,084	5,928	5,824	5,460	5,200
Class 2 <i>Self-employed</i>					
Maximum earnings	91,884	79,872	69,108	64,896	53,664
Minimum earnings	6,084	5,928	5,824	5,460	5,200
Class 3 <i>Non-employed</i>					
Maximum income	91,884	79,872	69,108	64,896	53,664
Minimum income	15,210	14,820	14,560	13,650	13,000
Allowance	6,451	6,290	-	-	-

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**KEY STATISTICS (CONTINUED)**

	<b>Contribution Rates – Contributory Funds</b>	<b>2011 %</b>	<b>2010 %</b>	<b>2009 %</b>	<b>2008 %</b>	<b>2007 %</b>
Class 1	<i>Employer</i>					
	Guernsey Insurance Fund	4.9	4.9	4.9	4.9	4.1
	Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.4
	Long-term Care Insurance Fund	-	-	-	-	-
		6.5	6.5	6.5	6.5	5.5
	<i>Employee</i>					
	Guernsey Insurance Fund	3.4	3.4	3.2	3.2	3.2
	Guernsey Health Service Fund	1.3	1.3	1.4	1.4	1.4
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		6.0	6.0	6.0	6.0	6.0
	<i>Combined</i>					
	Guernsey Insurance Fund	8.3	8.3	8.1	8.1	7.3
	Guernsey Health Service Fund	2.9	2.9	3.0	3.0	2.8
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		12.5	12.5	12.5	12.5	11.5
Class 2	<i>Self-employed</i>					
	Guernsey Insurance Fund	6.5	6.5	6.3	6.3	6.3
	Guernsey Health Service Fund	2.7	2.7	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
	10.5	10.5	10.5	10.5	10.5	
Class 3	<i>Non-employed (under 65)</i>					
	Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
	Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.4	1.4	1.4	1.4	1.4
		9.9	9.9	9.9	9.9	9.9
	<i>Non-employed (over 65)</i>					
	Guernsey Insurance Fund	-	-	-	-	-
	Guernsey Health Service Fund	1.3	1.3	1.2	1.2	1.2
	Long-term Care Insurance Fund	1.6	1.6	1.4	1.4	1.4
		2.9	2.9	2.6	2.6	2.6

<b>Drugs &amp; medicines</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Ordinary prescriptions	590,243	580,955	566,572	557,665	559,939
% change	1.59%	2.54%	1.59%	-0.41%	4.20%
Exempt prescriptions	873,384	830,693	785,128	737,389	690,105
% change	5.14%	5.80%	6.47%	6.85%	5.90%
Total prescriptions	1,463,627	1,411,648	1,351,700	1,295,054	1,250,044
% change	3.68%	4.44%	4.37%	3.60%	5.15%
Average basic cost	£9.38	£9.61	£9.55	£9.71	£10.00
% change	-2.39%	+0.63%	-1.65%	-2.90%	-2.43%

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**KEY STATISTICS (CONTINUED)**

<b>Number of Consultation grants</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<i>Guernsey</i>					
Doctors	249,417	243,827	243,460	239,921	234,477
Nurses	78,410	73,023	77,490	73,584	71,602
<b>Total</b>	<b>327,827</b>	<b>316,850</b>	<b>320,950</b>	<b>313,505</b>	<b>306,079</b>
<i>Alderney</i>					
Doctors	10,294	10,522	11,027	11,109	11,338
Nurses	2,899	2,644	2,396	2,687	2,568
<b>Total</b>	<b>13,193</b>	<b>13,166</b>	<b>13,423</b>	<b>13,796</b>	<b>13,906</b>
<i>Combined</i>					
Doctors	259,711	254,349	254,487	251,030	245,815
Nurses	81,309	75,667	79,886	76,271	74,170
<b>Total</b>	<b>341,020</b>	<b>330,016</b>	<b>334,373</b>	<b>327,301</b>	<b>319,985</b>
<b>% change</b>	<b>3.33%</b>	<b>-1.30%</b>	<b>2.16%</b>	<b>2.28%</b>	<b>0.10%</b>

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**Principal officers**

**Social Security Department**

Minister	Deputy M H Dorey
Deputy Minister	Deputy A H Brouard
Members	Deputy S J Ogier Deputy M W Collins Deputy A R Le Lièvre
Administrator	M Nutley

## **STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**

### **Controlled and managed by the Social Security Department**

#### **STATEMENT OF RESPONSIBILITIES OF THE SOCIAL SECURITY DEPARTMENT Year ended 31 December 2011**

The Social Security Department (“the Department”) is required to prepare financial statements for each financial year which give a true and fair view of the disposition of the net assets of the Guernsey Health Service Fund and of the fund account of the Guernsey Health Service Fund for that period. In preparing those financial statements, the Department is required to:

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

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

#### **Going Concern**

The Department members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that the Guernsey Health Service Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Guernsey Health Service Fund is a going concern.

#### **STATEMENT OF INTERNAL FINANCIAL CONTROLS**

It is the responsibility of the Department to identify and install an appropriate system of internal controls, including financial controls, which is adequate for its own purposes, and to safeguard the assets of Guernsey Health Service Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Department’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Department;
  - the annual audit report together with the audited financial statements;
  - the annual report of observations and recommendations produced by the external auditors;
  - the business plan; and
  - the quarterly management accounts;
- by Law, an actuarial review to determine the adequacy of the contribution rates must be undertaken at least once every five years and submitted to the Department and the States of Guernsey;
- a regular review of the performance and security of the Guernsey Health Service Fund by the Department and Combined Actuarial Performance Services Limited;
- a review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Department; and
- a requirement for internal audit reports to be tabled at a meeting of the Department.

The Department strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

The Department’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 auditors appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**Social Security Department  
As controller and manager of**

### **THE STATES OF GUERNSEY – GUERNSEY HEALTH SERVICE FUND**

We have audited the financial statements of the States of Guernsey - Guernsey Health Service Fund (“the Fund”) for the year ended 31 December 2011 which comprise the fund account, the balance sheet, cash flow statement and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the States of Guernsey Social Security Department (“the Department”) as a body, in accordance with Section 100 (3) of the Social Insurance (Guernsey) Law, 1978 and Section 1(4) of the Health Service (Benefit) (Guernsey) Law 1990. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities of the Social Security Department, the Department is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implication for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2011, and of the amount and disposition at this date of its assets and liabilities, other than the liabilities to pay benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Section 100(3) of the Social Insurance (Guernsey) Law, 1978 and Section 1(4) of the Health Service (Benefit) (Guernsey) Law 1990.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
St Peter Port, Guernsey

Date: 4 April 2012

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**FUND ACCOUNT**  
**At 31 December 2011**

	Note	2011 £	2010 £
<b>Income</b>			
Contributions allocated	1(b), 2	34,777,156	33,401,230
States grant	1(b)	4,173,259	4,008,148
		<u>38,950,415</u>	<u>37,409,378</u>
<b>Expenditure</b>			
Benefits payable	3	34,688,671	33,894,277
Administration	7	929,799	872,884
		<u>35,618,470</u>	<u>34,767,161</u>
<b>Operating surplus for the year</b>		3,331,945	2,642,217
<b>Investing activities</b>			
Income from invested funds	1(f), 8	1,223,379	788,162
Realised profit on disposal	9	689,676	6,922,621
Movement in unrealised loss on investment	9	(3,938,037)	(493,761)
		<u>(2,024,982)</u>	<u>7,217,022</u>
<b>Net surplus in the Fund during the year</b>		1,306,963	9,859,239
Net assets of the Fund at 1 January		<u>70,891,649</u>	<u>61,032,410</u>
<b>Net assets of the Fund at 31 December</b>		<u><u>72,198,612</u></u>	<u><u>70,891,649</u></u>

All activities are derived from continuing operations.

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

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**BALANCE SHEET**  
**Year ended 31 December 2011**

	Note	2011 £	2010 £
<b>Fixed assets</b>			
Common Investment Fund allocation	1(d), 9	70,102,304	66,024,659
<b>Current assets</b>			
Debtors and prepayments	10	2,133,506	4,913,111
Balances with States Treasury		32,816	32,322
		2,166,322	4,945,433
<b>Creditors: amounts falling due within one year</b>			
	11	70,014	78,443
<b>Net current assets</b>		2,096,308	4,866,990
<b>Total net assets</b>		72,198,612	70,891,649
<b>Reserves</b>		72,198,612	70,891,649

The financial statements were approved by the Social Security Department on 4 April 2012.

Signed on behalf of the Department

**M H Dorey**  
*Minister*

**M Nutley**  
*Administrator*

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**CASH FLOW STATEMENT**  
**Year ended 31 December 2011**

	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
<b>Operating surplus for the year</b>		3,331,945	2,642,217
Decrease/(increase) in debtors		2,779,605	(2,451,802)
Decrease in creditors		(8,429)	(91,720)
<b>Net cash inflow from operating activities</b>		<u>6,103,121</u>	<u>98,695</u>
<b>Management of liquid resources</b>			
(Decrease)/increase in Common Investment Fund and balances with States Treasury		(2,024,982)	7,217,022
<b>Net cash (outflow)/inflow from investing activities</b>		<u>(2,024,982)</u>	<u>7,217,022</u>
<b>Increase in cash and cash equivalents (including investments)</b>		4,078,139	7,315,717
Opening Common Investment Fund and balances with States Treasury		66,056,981	58,741,264
<b>Closing Common Investment Fund and balances with States Treasury</b>		<u><u>70,135,120</u></u>	<u><u>66,056,981</u></u>

**ANALYSIS AND RECONCILIATION OF NET FUNDS**

	<b>At</b>	<b>(Decrease)/</b>	<b>At</b>
	<b>1 January</b>	<b>increase in</b>	<b>31 December</b>
	<b>2011</b>	<b>year</b>	<b>2011</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Balances with States Treasury	32,322	494	32,816
Common Investment Fund	66,024,659	4,077,645	70,102,304
	<u>66,056,981</u>	<u>4,078,139</u>	<u>70,135,120</u>

Notes 1 to 14 form an integral part of these financial statements.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with the particular accounting policies described below:

**a) Accounting convention**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of listed investments and in accordance with United Kingdom Generally Accepted Accounting Practice.

The Fund has decided not to adopt Financial Reporting Standard (“FRS”) 23 “The Effects of Changes in Foreign Exchange Rates”, FRS26 “Financial Instruments: Measurement and Recognition” and FRS29 “Financial Instruments: Disclosures”.

**Going Concern**

The Department members and principal officers have reviewed the cash flow and projected income and expenses over the next twelve months and deem that the Guernsey Health Service Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Guernsey Health Service Fund is a going concern.

**b) Contributions allocated & States grant**

Income to the Guernsey Health Service Fund represents an allocation to that Fund of specific proportions of contribution income. The contribution income represents the amount of cash received before 1 February 2012 in respect of the financial year ended 31 December 2011 and amounts received relating to prior financial periods.

The grant received from the States of Guernsey is based on a fixed percentage of contributions, accounted for in the relevant period and for 2011 was 12% (2010: 12%).

**c) Guernsey Health Service Fund**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year.

The adequacy of the Guernsey Health Service Fund is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. The actuarial review of the Fund was brought forward by two years, so that all three contributory funds were reviewed at the same time and that all three reviews will be in phase for the future. The actuarial review for the three years to 31 December 2009 was completed in 2011 and published in the States Billet XV in September 2011.

**d) Common Investment Fund**

The investment portfolio of the Guernsey Health Service Fund is amalgamated with the other Funds of the Department to form the Common Investment Fund. The allocation of the investment portfolio to the Fund is based upon the percentage of amounts contributed by the Fund into the Common Investment Fund, as determined by the Department.

**e) Investments**

Investments are stated in the financial statements at their fair values.

Listed investments are included in the financial statements at mid-market prices ruling at the balance sheet date. Listed investments quoted in foreign currencies and foreign exchange contracts have been translated into sterling at rates of exchange ruling at the balance sheet date.

Unlisted investment funds are stated at the year-end net asset value of the underlying funds as notified by the fund managers or administrators at the year-end. The net asset value reported by the relevant fund manager or administrator as at the year-end may be unaudited, and may differ from the amounts realised from redemption of the investment in the fund at year-end. While the members have no reason to suppose that any such valuations are unreasonable, the amounts realised from the redemption of these funds at year-end may materially differ from the reported amounts.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES (CONTINUED)**

**f) Investment income**

Dividends are recognised in the financial statements when the underlying investments become ex-dividend.

Other investment income is accounted for on a receivable basis.

**g) Benefits payable**

Benefits payable are included on an accruals basis, based on returns submitted by doctors and pharmacists in respect of the year.

**h) Pension costs**

The costs of the defined benefit scheme are charged to the fund account over the period during which the Department benefits from the employees' services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

**i) Security lending**

Securities lending is where securities are transferred from the Fund's custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period.

Collateral received is not recorded unless it is reinvested. Income, realised and unrealised gains and losses on reinvested securities are recorded in the Fund account.

**j) Derivatives**

All open derivatives are stated at their closing market values established by reference to the applicable index.

**2. CONTRIBUTIONS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Employer contributions	65,143,403	62,950,553
Employee contributions	58,539,030	55,927,728
	<hr/>	<hr/>
	123,682,433	118,878,281
Self-employed contributions	13,265,888	12,431,804
Non-employed contributions	7,111,122	6,874,988
	<hr/>	<hr/>
	144,059,443	138,185,073
Contributions allocated to:		
Guernsey Insurance Fund	(92,249,536)	(88,415,237)
Long-term Care Insurance Fund	(17,032,751)	(16,368,606)
	<hr/>	<hr/>
	34,777,156	33,401,230
	<hr/> <hr/>	<hr/> <hr/>

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**3. BENEFITS PAYABLE**

	Note	2011 £	2010 £
Drugs and medicines	4	15,657,194	15,370,720
Specialist Health Insurance Scheme	5	15,301,991	15,017,367
Consultation grants	6	3,604,380	3,506,190
Primary Care Mental Health and Wellbeing (pilot)		125,106	-
		<u>34,688,671</u>	<u>33,894,277</u>

**4. DRUGS AND MEDICINES**

		2011 £	2010 £
Drugs and medicines		16,605,867	16,277,946
Appliances		601,220	584,372
Oxygen service		276,388	250,809
		<u>17,483,475</u>	<u>17,113,127</u>
Prescription charges receivable		(1,826,281)	(1,742,349)
Health and Social Services Department - reciprocal treatment		-	(58)
	3	<u>15,657,194</u>	<u>15,370,720</u>

**5. SPECIALIST HEALTH INSURANCE SCHEME**

		2011 £	2010 £
Specialist medical benefit		13,467,932	13,220,608
Physiotherapy benefit		1,762,902	1,726,724
Alderney hospital benefit		71,157	70,035
	3	<u>15,301,991</u>	<u>15,017,367</u>

The States of Guernsey entered into new contracts with the Medical Specialist Group and the Guernsey Physiotherapy Group from 1 January 2003. These contracts are for 15-year terms with major reviews after each 5 year period.

The contract with the Medical Specialist Group is based on a per-consultant contracted price adjusted annually on 1 January each year taking account of any increase or decrease in the Guernsey RPI for the previous September. The contract price for 2011 was £345,332 per consultant (2010: £339,893), including a 1.6% RPI increase.

The contract with the Guernsey Physiotherapy Group is based on a per-physiotherapist and per-assistant price, with different rates applying to different grades of physiotherapist and adjusted annually on 1 January each year taking account of any increase or decrease in the Guernsey RPI for the previous September. The contract price for 2011 includes a 1.6% RPI increase.

The contract with the Island Medical Centre for services in the Mignot Memorial Hospital in Alderney commenced on 1 March 2008. The contract price is adjusted annually on 1 January each year taking account of any increase or decrease in the Guernsey RPI.

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**6. CONSULTATION GRANTS**

	Note	2011 £	2010 £
Doctors consultation grants		3,116,526	3,052,188
Nurses consultation grants		487,854	454,002
	3	<u>3,604,380</u>	<u>3,506,190</u>

The grant goes towards the cost of seeing a primary care doctor or nurse. From 1 March 2004, a doctor's consultation grant increased from £8 to £12 with the nurse's consultation grant increasing from £4 to £6.

**7. ADMINISTRATION**

	2011 £	2010 £
Recharged from Guernsey Insurance Fund:		
Salaries and pension costs	268,844	261,228
Computer expenses	143,451	139,288
Property expenses and sundries	47,720	49,547
	<u>460,015</u>	<u>450,063</u>
Health and Social Services Department charges	183,075	161,161
Prescription pricing fees	209,758	198,967
Administration expenses	64,083	41,479
Actuarial fees and expenses	5,868	14,464
Audit fee	7,000	6,750
	<u>929,799</u>	<u>872,884</u>

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**8. INCOME FROM INVESTED FUNDS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Dividends from equities	1,742,906	5,436,904
Interest from fixed interest securities	10,796,694	3,379,800
Interest from property funds	1,336,828	1,242,595
Interest on short term deposits	165,244	216,888
Interest from SWAPS	-	(327,981)
Less: Withholding tax suffered	(174,260)	(277,821)
	<u>13,867,413</u>	<u>9,670,385</u>
Securities lending fees	221,062	243,171
Less: Securities lending expenses	(55,261)	(60,772)
	<u>165,801</u>	<u>182,399</u>
	<u>14,033,214</u>	<u>9,852,784</u>
<b>Income of the Common Investment Fund</b>		
<b>Expenditure</b>		
Investment managers' fees	3,035,488	2,654,993
Less: Rebate of management fees charged on in-house unit trusts	(423,797)	(463,933)
Less: Management fees charged directly on pooled funds	(1,568,007)	(1,132,582)
	<u>1,043,684</u>	<u>1,058,478</u>
Investment advisor's fees	60,000	90,000
Investment advisor's fees – additional work	40,000	65,000
	<u>100,000</u>	<u>155,000</u>
Global custodian – custody fees	46,298	78,504
Global custodian – performance monitoring fees	20,718	13,173
	<u>67,016</u>	<u>91,677</u>
Legal and professional fees	-	3,772
	<u>1,210,700</u>	<u>1,308,927</u>
<b>Net expenditure of the Common Investment Fund</b>		
	<u>12,822,514</u>	<u>8,543,857</u>
<b>Net income of the Common Investment Fund</b>		
<b>Net income allocated to:</b>		
Guernsey Insurance Fund	(10,849,286)	(7,258,942)
Long-term Care Insurance Fund	(750,343)	(496,999)
	<u>1,222,885</u>	<u>787,916</u>
<b>Net income of the Common Investment Fund allocated to the Guernsey Insurance Fund</b>		
<b>Other income</b>		
Interest on call and treasury deposits	494	246
	<u>1,223,379</u>	<u>788,162</u>

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**9. COMMON INVESTMENT FUND**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Equities and derivatives	352,958,262	391,115,945
Fixed income and derivatives	276,450,358	255,439,997
Cash and cash equivalents	23,090,568	42,196,025
Property funds	21,090,740	19,882,731
Commodities	17,259,403	8,312,704
Alternative investments and hedge funds	4,509,809	4,972,256
	<u>695,359,140</u>	<u>721,919,658</u>
Investments allocated to:		
Guernsey Insurance Fund	(583,733,618)	(614,199,745)
Long-term Care Insurance Fund	(41,523,218)	(41,695,254)
	<u>70,102,304</u>	<u>66,024,659</u>

At the year-end the Common Investment Fund value comprised of £670,504,991 of listed investments (2010: £714,219,371) and unlisted investments of £24,854,149 (2010: £7,700,287).

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Common Investment Fund movements during the year</b>		
Market value 1 January	721,919,658	641,930,312
Investment income reinvested	13,845,545	9,645,374
Realised profit on disposal	7,382,057	75,692,569
Movement on unrealised (loss)/profit on investments	(43,288,120)	(5,397,506)
New monies to reduce collateral deficit	-	48,909
Withdrawal of monies invested - Guernsey Insurance Fund	(4,500,000)	-
Market value 31 December	<u>695,359,140</u>	<u>721,919,658</u>

The realised profit allocated to the Guernsey Health Service Fund for the year is £689,676 (2010: £6,922,621) with a movement in unrealised loss of £3,938,037 (2010: £493,761 loss).

The Common Investment Fund is managed through six investment managers, namely Schroder Investment Management Limited, Blackrock Investment Management UK) Limited, Barings Asset Management, M&G Investment's, Legge Mason (trading name Western Asset Management) and Skagen who are Norwegian based. The governance of the Fund is supported by the Fund custodian, Northern Trust and a professional investment advisor, P-Solve.

**10. DEBTORS AND PREPAYMENTS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Recharge due from the Guernsey Insurance Fund	2,116,561	4,896,319
Other debtors and prepayments	16,945	10,644
States grant	-	6,148
	<u>2,133,506</u>	<u>4,913,111</u>

**STATES OF GUERNSEY - GUERNSEY HEALTH SERVICE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Other creditors and accruals	37,501	58,123
Benefits Payable	25,772	20,320
States grant	6,741	-
	<u>70,014</u>	<u>78,443</u>

**12. RELATED PARTY TRANSACTIONS**

The Department members confirm that there have been no disclosable related party transactions with members and senior management in this financial year (2010: Nil).

Of the Department's annual income and expenditure, less than 20 % of their respective value for both 2011 and 2010 is due to transactions with other States entities, except as disclosed in notes 1, 2, 3, 4, 5, 6, 7, 8 and 9. Balances with the States Treasury at the year-end amounted to £32,816 (2010: £32,322).

**13. STATEMENT OF CONTROL**

The Guernsey Health Service Fund is controlled and managed by the Social Security Department, as required by Section 21 of the Health Service (Benefit) (Guernsey) Law, 1990. The members of the Social Security Department have been appointed by the States of Guernsey.

**14. SUPERANNUATION FUND**

The employees of the Social Security Department are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 7.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

The Department has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £509,970 (2010: £483,395) of which the Guernsey Health Service Fund contributed £30,591 (2010: £29,123).

# STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE Year ended 31 December 2011

### FINANCIAL HIGHLIGHTS

#### Overview

The Long-term Care Insurance Fund ("the Fund") recorded an operating surplus of £0.58m (2010: £1.07m).

The Fund reserves for the year decreased by £0.76m (2010: £5.63m increase) and was created through the net of the operating surplus of £0.58m, investment income of £0.75m (2010: £0.50m), realised profit on investments of £0.43m (2010: £4.37m) and unrealised losses on investments of £2.52m (2010: £0.31m losses).

At the year-end total reserves of the Fund stood at £43.67m (2010: £44.42m) with expenditure cover down from 2.9 years to 2.7 years.

#### Contribution income

Contribution income increased by 4.1% to £17.03m (2010: £16.37m) and marginally below the budget of £17.11m.

#### Benefit expenditure

Overall benefit expenditure increased by 7.5% to £16.27m (2010: £15.13m) and marginally more than the budget which estimated an increase of 7.2% to £16.22m. The general rate of benefit was increased by 2.9%.

#### • Residential Home Care grant

	2011	2010	5-Year Average
Number of claimants at the year-end	365	357	332

At the start of the year, the Department introduced a new island-wide elderly mental infirm (EMI) rate for long-term residential home care benefit. Together with a general increase in benefit of 2.9%, this contributed to a 14.4% increase in residential home care benefit expenditure to £7.81m (2010: £6.83m) and £0.3m more than the budget of £7.51m. The number of claimants at the year-end was 365 of which 110 were in receipt of an EMI supplement.

#### • Nursing Home Care grant

	2011	2010	5-Year Average
Number of claimants at the year-end	216	234	216

The number of claims during the year decreased slightly and together with a general increase in benefit of 2.9% contributed to a 1.2% increase in benefit expenditure to £8.29m (2010: £8.19m), less than the budget of £8.48m.

#### Administration

Overall administration expenditure increased to £183k (2010: £168k) and above the budget of £162k. The increase in costs relates solely to additional actuarial fees incurred.

#### Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at the 31 December 2011 had a market value of £695m (2010: £722m).

During the year £7.1m was reallocated from the Guernsey Insurance Fund, £6.0m to the Guernsey Health Services Fund and £1.1m to the Long-Term Care Insurance Fund to clear recoveries due in respect of operating activities.

The allocation between the three contributory funds is as follows:

Common Investment Fund allocation at the Year-end	2011		2010	
	£m	%	£m	%
Guernsey Insurance Fund	584	83.9%	614	85.1%
Guernsey Health Service Fund	70	10.1%	66	9.1%
Long-term Care Insurance Fund	41	6.0%	42	5.8%
<b>Total</b>	<b>695</b>	<b>100.0%</b>	<b>722</b>	<b>100.0%</b>

## STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND

Controlled and managed by the  
Social Security Department

### STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

The Department has continued to diversify its investment portfolio to maximise returns for a reduced risk. The Department measures the performance of individual investment manager's over a rolling 3-year period and the overall performance of the common investment fund (gross of fees) is as follows:

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Benchmark return per annum	% RPI Guernsey Average Annual Change
1-Year	-3.07%	0.29%	3.1%
3-Year	9.90%	9.30%	1.7%
5-Year	3.11%	2.07%	2.9%

#### ACTIVITIES DURING THE YEAR

From the beginning of January 2011, the Department introduced a new island-wide elderly mental infirm (EMI) rate for long-term residential home care benefit.

The adequacy of the Long-term Care Insurance Fund is subject to actuarial review at least once every five years to determine the adequacy of contribution rates. The actuarial review of the Fund was brought forward by two years, so that all three contributory funds were reviewed at the same time and that all three reviews will be in phase for the future. The actuarial review for the three years to 31 December 2009 was completed in 2011 and published in the States Billet XV in September 2011.

During the year, the Department has been co-operating with the Health and Social Services Department, the Housing Department and the Treasury and Resources Department regarding the development of the older persons' long-term care strategy. This includes examining the financing models for care services currently outside the scope of long-term care insurance, including extra-care housing.

The Department has continued to be actively involved in a number of work-streams of the Financial Transformation Programme during the year. Following States approval, from October 2011 the main focus is the SAP/Shared Transaction Service Centre (STSC) project which will change the way the States of Guernsey manages the administration of finance, human resources, procurement, information technology and asset management.

During the year, the Department developed effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating.

#### FUTURE ACTIVITIES

The Department will continue to co-operate with the Health and Social Services Department, the Housing Department and the Treasury and Resources Department regarding the development of the older persons' long-term care strategy.

The Department will continue to participate constructively in the Financial Transformation Programme, encouraging more corporate working in order to progress business efficiencies at a local level and States wide, the focus for 2012 being the SAP/Shared Transaction Service Centre (STSC) project.

The Department will continue to develop effective key performance indicators and a performance reporting system to enable all staff to align and contribute to its objectives and strengthen its Investor in People status and rating, which was reaccredited in January 2012.

# STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND

Controlled and managed by the  
Social Security Department

## STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

### KEY STATISTICS

Five-year performance	2011 £	2010 £	2009 £	2008 £	2007 £
<b>Benefits (permanent care)</b>					
Residential home	7,808,525	6,828,583	5,988,564	5,372,130	4,996,742
Nursing home	8,196,100	8,099,134	7,594,142	6,631,392	5,713,650
<b>Benefits (respite care)</b>					
Residential home	173,238	112,602	115,606	89,026	85,076
Nursing home	95,446	90,863	179,973	97,859	171,331
<b>Income &amp; Expenditure</b>					
Income	17,032,751	16,368,606	16,888,577	16,203,032	14,344,604
Expenditure	(16,455,934)	(15,299,015)	(14,015,537)	(12,312,829)	(11,091,168)
Operating surplus	576,817	1,069,591	2,873,040	3,890,203	3,253,436
<b>Investment performance</b>					
Investment income	750,834	497,245	638,152	695,203	599,733
Realised gains/(losses)	432,049	4,371,707	1,077,880	(248,530)	1,190,316
Unrealised (losses)/gains	(2,518,045)	(311,815)	8,256,449	(4,703,659)	(461,087)
Total return on investments	(1,335,161)	4,557,137	9,972,481	(4,256,986)	1,328,962
<b>Common Investment Fund</b>					
Allocation at market value	41,523,218	41,659,254	37,075,459	19,570,692	23,900,150
<b>Expenditure cover</b>					
Reserves	43,666,307	44,424,652	38,798,691	25,952,403	26,319,186
Expenditure	16,455,934	15,299,015	14,015,537	12,312,829	11,091,168
Number of years cover	2.7	2.9	2.8	2.1	2.4

In 2006 the States resolved, as part of its future economic and taxation strategy, to increase substantially the upper earnings limits for all classes of contributors and employers, with compensating reductions in the grants from general revenue that apply to the contributory funds. The States further resolved that, although the revised financing of the contributory funds was to take full effect from 1 January 2008, there should be a substantial move in that direction with effect from 1 January 2007.

In 2008, as a result of the strategy adopted in 2006, the upper earnings limits were increased significantly together with a 1% increase in employers' full percentage rate contributions of which 0.8% was allocated to the Guernsey Insurance Fund and 0.2% to the Guernsey Health Service Fund, in order to compensate for the reductions in the general revenue grants.

In 2010, as a result of States Resolutions in 2009 concerning the future financing of the contributory social security schemes, the upper earnings and income limits for employed people, self-employed people and non-employed people were increased to match the upper earnings limit for employers; this change to be phased in over 5 years. Also, an allowance on income for non-employed people was introduced and consequently an increase in the contribution rate for non-employed people over 65 from 2.6% to 2.9%.

As the increases in the upper earnings and income limits over the next 5 years are intended to increase contributions to the Guernsey Insurance Fund, in 2010 the apportionment of contribution income between the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund was adjusted in order to avoid those two latter funds from also receiving a share of the additional income intended for the Guernsey Insurance Fund alone.

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**

**Controlled and managed by the  
Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**

**Year ended 31 December 2011**

**KEY STATISTICS (CONTINUED)**

	<b>Contribution Rates - Annual Earnings/Income limits</b>	<b>2011 £</b>	<b>2010 £</b>	<b>2009 £</b>	<b>2008 £</b>	<b>2007 £</b>
Class 1	<i>Employed</i>					
	Upper earnings limit - employer	120,900	117,468	115,128	108,108	53,664
	Upper earnings limit - employee	91,884	79,872	69,108	64,896	53,664
	Lower earnings limit	6,084	5,928	5,824	5,460	5,200
Class 2	<i>Self-employed</i>					
	Maximum earnings	91,884	79,872	69,108	64,896	53,664
	Minimum earnings	6,084	5,928	5,824	5,460	5,200
Class 3	<i>Non-employed</i>					
	Maximum income	91,884	79,872	69,108	64,896	53,664
	Minimum income	15,210	14,820	14,560	13,650	13,000
	Allowance	6,451	6,290	-	-	-

	<b>Contribution Rates – Contributory Funds</b>	<b>2011 %</b>	<b>2010 %</b>	<b>2009 %</b>	<b>2008 %</b>	<b>2007 %</b>
Class 1	<i>Employer</i>					
	Guernsey Insurance Fund	4.9	4.9	4.9	4.9	4.1
	Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.4
	Long-term Care Insurance Fund	-	-	-	-	-
		<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>	<b>5.5</b>
	<i>Employee</i>					
	Guernsey Insurance Fund	3.4	3.4	3.2	3.2	3.2
	Guernsey Health Service Fund	1.3	1.3	1.4	1.4	1.4
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
	<i>Combined</i>					
	Guernsey Insurance Fund	8.3	8.3	8.1	8.1	7.3
	Guernsey Health Service Fund	2.9	2.9	3.0	3.0	2.8
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>	<b>11.5</b>
Class 2	<i>Self-employed</i>					
	Guernsey Insurance Fund	6.5	6.5	6.3	6.3	6.3
	Guernsey Health Service Fund	2.7	2.7	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.3	1.3	1.4	1.4	1.4
		<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
Class 3	<i>Non-employed (under 65)</i>					
	Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
	Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.4	1.4	1.4	1.4	1.4
		<b>9.9</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>
	<i>Non-employed (over 65)</i>					
	Guernsey Insurance Fund	-	-	-	-	-
	Guernsey Health Service Fund	1.3	1.3	1.2	1.2	1.2
	Long-term Care Insurance Fund	1.6	1.6	1.4	1.4	1.4
		<b>2.9</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>

## STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND

Controlled and managed by the  
Social Security Department

### STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)

Year ended 31 December 2011

#### KEY STATISTICS (CONTINUED)

Contributory Funds - General Revenue Grants	2011 %	2010 %	2009 %	2008 %	2007 %
Guernsey Insurance Fund	15%	15%	15%	15%	36%
Guernsey Health Service Fund	12%	12%	12%	12%	27%
	£	£	£	£	£
Guernsey Insurance Fund	13,837,430	13,262,236	12,547,679	12,122,407	23,472,978
Guernsey Health Service Fund	4,173,259	4,008,148	4,020,564	3,875,916	7,300,863
<b>Total</b>	<b>18,010,689</b>	<b>17,270,384</b>	<b>16,568,243</b>	<b>15,998,323</b>	<b>30,773,841</b>

Number of contributors (as at week 48)	2011	2010	2009	2008	2007
Employers	2,393	2,419	2,398	2,492	2,451
Employed	29,254	29,209	28,831	29,531	29,157
Self-employed	3,339	3,409	3,388	3,424	3,495
Non-employed	4,490	5,113	4,961	4,745	4,597
<b>Total</b>	<b>37,083</b>	<b>37,731</b>	<b>37,180</b>	<b>37,700</b>	<b>37,249</b>

Number of Claimants at year-end	2011	2010	2009	2008	2007
Residential grant-permanent	365	357	336	308	296
Nursing grant-permanent	216	234	233	212	185
<b>Total</b>	<b>581</b>	<b>591</b>	<b>569</b>	<b>520</b>	<b>481</b>

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF ACTIVITIES AND PERFORMANCE (CONTINUED)**  
**Year ended 31 December 2011**

**Principal officers**

**Social Security Department**

Minister	Deputy M H Dorey
Deputy Minister	Deputy A H Brouard
Members	Deputy S J Ogier Deputy M W Collins Deputy A R Le Lièvre
Administrator	M Nutley

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**STATEMENT OF RESPONSIBILITIES OF THE SOCIAL SECURITY DEPARTMENT**  
**Year ended 31 December 2011**

The Social Security Department (“the Department”) is required to prepare financial statements for each financial year which give a true and fair view of the disposition of the net assets of the Long-term Care Insurance Fund and of the fund account of the Long-term Care Insurance Fund for that period. In preparing those financial statements, the Department is required to:

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

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

**Going Concern**

The Department members and principal officers have reviewed the budgeted income and expenses over the next twelve months and deem that the Long-term Care Insurance Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Long-term Care Insurance Fund is a going concern.

**STATEMENT OF INTERNAL FINANCIAL CONTROLS**

It is the responsibility of the Department to identify and install an appropriate system of internal controls, including financial controls, which is adequate for its own purposes, and to safeguard the assets of Long-term Care Insurance Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Department’s internal financial procedures include:

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

The Department strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect.

The Department’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 auditors appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

**Social Security Department  
As controller and manager of**

### **THE STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**

We have audited the financial statements of the States of Guernsey - Long-term Care Insurance Fund ("the Fund") for the year ended 31 December 2011 which comprise the fund account, the balance sheet, cash flow statement and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members of the States of Guernsey Social Security Department ("the Department") as a body, in accordance with Section 100 (3) of the Social Insurance (Guernsey) Law, 1978 and Section 1(4) of the Long Term Care Insurance (Guernsey) Law 2002. Our audit work has been undertaken so that we might state to the Department those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Department, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Department and auditor**

As explained more fully in the Statement of Responsibilities of the Social Securities Department, the Department is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 December 2011, and of the amount and disposition at this date of its assets and liabilities, other than the liabilities to pay benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Section 100(3) of the Social Insurance (Guernsey) Law, 1978 and Section 1(4) of the Long Term Care Insurance (Guernsey) Law 2002.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP  
Chartered Accountants  
St Peter Port, Guernsey

Date: 4 April 2012

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**FUND ACCOUNT**  
**Year ended 31 December 2011**

	Note	2011 £	2010 £
<b>Income</b>			
Contributions allocated	1(b), 2	17,032,751	16,368,606
<b>Expenditure</b>			
Benefits payable	1(d), 3	16,273,309	15,131,183
Administration expenses	4	182,625	167,832
		<u>16,455,934</u>	<u>15,299,015</u>
<b>Operating surplus for the year</b>		576,817	1,069,591
<b>Investing activities</b>			
Income from invested funds	1(h), 5	750,834	497,245
Realised profit on disposal	6	432,049	4,371,707
Movement in unrealised loss on investments	6	(2,518,045)	(311,815)
		<u>(1,335,162)</u>	<u>4,557,137</u>
<b>Net (deficit)/surplus in the Fund during the year</b>		(758,345)	5,626,728
Net assets of the Fund at 1 January		<u>44,424,652</u>	<u>38,797,924</u>
<b>Net assets of the Fund at 31 December</b>		<u><u>43,666,307</u></u>	<u><u>44,424,652</u></u>

All activities are derived from continuing operations.

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

Notes 1 to 11 form an integral part of these financial statements.

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**BALANCE SHEET**  
**At 31 December 2011**

	Note	2011 £	2010 £
<b>Fixed assets</b>			
Common Investment Fund allocation	1(g), 6	41,523,218	41,695,254
<b>Current assets</b>			
Debtors and prepayments	7	2,110,411	2,698,211
Balances with States Treasury		32,678	32,187
		2,143,089	2,730,398
<b>Creditors: amounts falling due within one year</b>	8	-	(1,000)
<b>Net current assets</b>		2,143,089	2,729,398
<b>Total net assets</b>		43,666,307	44,424,652
<b>Reserves</b>		43,666,307	44,424,652

The financial statements were approved by the Social Security Department on 4 April 2012.

Signed on behalf of the Department

**M H Dorey**  
*Minister*

**M Nutley**  
*Administrator*

Notes 1 to 11 form an integral part of these financial statements.

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**BALANCE SHEET**  
**At 31 December 2011**

	Note	2011 £	2010 £
<b>Operating surplus for the year</b>		576,817	1,069,591
Decrease/(increase) in debtors		587,800	(844,402)
(Decrease) in creditors		(1,000)	(162,285)
<b>Net cash inflow from operating activities</b>		<u>1,163,617</u>	<u>62,904</u>
<b>Management of liquid resources</b>			
(Decrease)/increase in Common Investment Fund and balances with the States Treasury		(1,335,162)	4,557,137
<b>Net cash (outflow)/inflow from investing activities</b>		<u>(1,335,162)</u>	<u>4,557,137</u>
<b>(Decrease)/increase in cash and cash equivalents (including investments)</b>		(171,545)	4,620,041
Opening Common Investment Fund and balances with the States Treasury		41,727,441	37,107,400
<b>Closing Common Investment Fund and balances with the States Treasury</b>		<u><u>41,555,896</u></u>	<u><u>41,727,441</u></u>

**ANALYSIS AND RECONCILIATION OF NET FUNDS**

	At 1 January 2011 £	(Decrease)/ increase in year £	At 31 December 2011 £
Balances with States Treasury	32,187	491	32,678
Common Investment Fund	<u>41,695,254</u>	<u>(172,036)</u>	<u>41,523,218</u>
	<u><u>41,727,441</u></u>	<u><u>(171,545)</u></u>	<u><u>41,555,896</u></u>

Notes 1 to 11 form an integral part of these financial statements.

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with the particular accounting policies described below:

**a) Accounting convention**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of listed investments and in accordance with applicable United Kingdom Generally Accepted Accounting Practice.

The Fund has decided not to adopt Financial Reporting Standard (“FRS”) 23 “The Effects of Changes in Foreign Exchange Rates”, FRS26 “Financial Instruments: Measurement and Recognition” and FRS29 “Financial Instruments: Disclosures”.

**Going Concern**

The Department members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that the Long-term Care Insurance Fund has adequate financial resources to meet its obligations. From a review of the above it is therefore deemed that the Long-term Care Insurance Fund is a going concern.

**b) Contributions allocated**

Income to the Long-term Care Insurance Fund represents an allocation to that Fund of specific proportions of contribution income. The contribution income represents the amount of cash received before 1 February 2012 in respect of the financial year ended 31 December 2011.

**c) Long-term Care Insurance Fund**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year.

The adequacy of the Long-term Care Insurance Fund is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. The actuarial review of the Fund was brought forward by two years, so that all three contributory funds were reviewed at the same time and that all three reviews will be in phase for the future. The actuarial review for the three years to 31 December 2009 was completed in 2011 and published in the States Billet XV in September 2011.

**d) Benefits payable**

Benefits payable are included on an accruals basis.

**e) Pension costs**

The costs of the defined benefit scheme are charged to the fund account over the period during which the Department benefits from the employees’ services. Surpluses or deficits are spread over the expected average remaining working lifetime of employees in proportion to their expected payroll costs.

**f) Investments**

Investments are stated in the financial statements at their fair values.

Listed investments are included in the financial statements at mid-market prices ruling at the balance sheet date. Listed investments quoted in foreign currencies and foreign exchange contracts have been translated into sterling at rates of exchange ruling at the balance sheet date.

Unlisted investment funds are stated at the year-end net asset value of the underlying funds as notified by the fund managers or administrators at the year-end. The net asset value reported by the relevant fund manager or administrator as at the year-end may be unaudited, and may differ from the amounts realised from redemption of the investment in the fund at year-end. While the members have no reason to suppose that any such valuations are unreasonable, the amounts realised from the redemption of these funds at year-end may materially differ from the reported amounts.

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**1. ACCOUNTING POLICIES (CONTINUED)**

**g) Common Investment Fund**

The investment portfolio of the Long-term Care Insurance Fund is combined with other Funds of the Department to form the Common Investment Fund. The allocation of the investment portfolio to the Fund is based on a percentage of amounts contributed by the Fund into the Common Investment Fund, as determined by the Department.

**h) Investment income**

Dividends are recognised in the financial statements when the underlying investments become ex-dividend. Other investment income is accounted for on a receivable basis.

**i) Security lending**

Securities lending is where securities are transferred from the Fund's custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Fund's balance sheet. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period. Collateral received is not recorded unless it is reinvested. Income, realised and unrealised gains and losses on reinvested securities are recorded in the Fund account.

**j) Derivatives**

All open derivatives are stated at their closing market values established by reference to the applicable index.

**2. CONTRIBUTIONS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Employer contributions	65,143,403	62,950,553
Employee contributions	58,539,030	55,927,728
	<hr/>	<hr/>
	123,682,433	118,878,281
Self-employed contributions	13,265,888	12,431,804
Non-employed contributions	7,111,122	6,874,988
	<hr/>	<hr/>
	144,059,443	138,185,073
Contributions allocated to:		
Guernsey Insurance Fund	(92,249,536)	(88,415,237)
Guernsey Health Service Fund	(34,777,156)	(33,401,230)
	<hr/>	<hr/>
	17,032,751	16,368,606
	<hr/> <hr/>	<hr/> <hr/>

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**3. BENEFITS PAYABLE**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Residential home care benefit		
Permanent	5,309,137	6,828,583
Permanent with EMI supplement	2,499,388	-
	<u>7,808,525</u>	<u>6,828,583</u>
Respite care	158,155	112,603
Respite care with EMI supplement	15,083	-
	<u>173,238</u>	<u>112,603</u>
	7,981,763	6,941,186
Nursing home care benefit		
Permanent	8,196,100	8,099,134
Respite care	95,446	90,863
	<u>8,291,546</u>	<u>8,189,997</u>
	<u><u>16,273,309</u></u>	<u><u>15,131,183</u></u>

In 2011, the Department introduced a new island-wide elderly mental infirm (EMI) rate for long-term residential home care benefit.

**4. ADMINISTRATION EXPENSES**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Recharged from Guernsey Insurance Fund:		
Salaries and pension costs	137,463	129,580
Computer expenses	9,563	9,286
Property expenses and sundries	8,813	9114
	<u>155,839</u>	<u>147,980</u>
Actuarial fees and expenses	19,786	13,102
Audit fee	7,000	6,750
	<u><u>182,625</u></u>	<u><u>167,832</u></u>

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**5. INCOME FROM INVESTED FUNDS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Income</b>		
Dividends from equities	1,742,906	5,436,904
Interest from fixed interest securities	10,796,694	3,379,800
Interest from property funds	1,336,828	1,242,595
Interest on short term deposits	165,244	216,888
Interest from SWAPS	-	(327,981)
Less: Withholding tax suffered	(174,260)	(277,821)
	<u>13,867,413</u>	<u>9,670,385</u>
Securities lending fees	221,062	243,171
Less: Securities lending expenses	(55,261)	(60,772)
	<u>165,801</u>	<u>182,399</u>
<b>Income of the Common Investment Fund</b>	<u>14,033,214</u>	<u>9,852,784</u>
<b>Expenditure</b>		
Investment managers' fees	3,035,488	2,654,993
Less: Rebate of management fees charged on in-house unit trusts	(423,797)	(463,933)
Less: Management fees charged directly on pooled funds	(1,568,007)	(1,132,582)
	<u>1,043,684</u>	<u>1,058,478</u>
Investment advisor's fees	60,000	90,000
Investment advisor's fees – additional work	40,000	65,000
	<u>100,000</u>	<u>155,000</u>
Global custodian – custody fees	46,298	78,504
Global custodian – performance monitoring fees	20,718	13,173
	<u>67,016</u>	<u>91,677</u>
Legal and professional fees	-	3,772
<b>Net expenditure of the Common Investment Fund</b>	<u>1,210,700</u>	<u>1,308,927</u>
<b>Net income of the Common Investment Fund</b>	12,822,514	8,543,857
<b>Net income allocated to:</b>		
Guernsey Insurance Fund	(10,849,286)	(7,258,942)
Guernsey Health Services Fund	(1,222,885)	(787,916)
<b>Net income of the Common Investment Fund allocated to the Guernsey Insurance Fund</b>	<u>750,343</u>	<u>496,999</u>
<b>Other income</b>		
Interest on call and treasury deposits	491	246
	<u>750,834</u>	<u>497,245</u>

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**6. COMMON INVESTMENT FUND**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Equities and derivatives	352,958,262	391,115,945
Fixed income and derivatives	276,450,358	255,439,997
Cash and cash equivalents	23,090,568	42,196,025
Property funds	21,090,740	19,882,731
Commodities	17,259,403	8,312,704
Alternative investments and hedge funds	4,509,809	4,972,256
	<u>695,359,140</u>	<u>721,919,658</u>
Investments allocated to:		
Guernsey Insurance Fund	(583,733,618)	(614,199,745)
Guernsey Health Service Fund	(70,102,304)	(66,024,659)
	<u>41,523,218</u>	<u>41,695,254</u>

At the year-end the Common Investment Fund value comprised of £670,504,991 of listed investments (2010: £714,219,371) and unlisted investments of £24,854,149 (2010: £7,700,287).

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
<b>Common Investment Fund movements during the year</b>		
Market value 1 January	721,919,658	641,930,312
Investment income reinvested	13,845,545	9,645,374
Realised profit on disposal	7,382,057	75,692,569
Movement on unrealised loss on investments	(43,288,120)	(5,397,506)
New monies to reduce collateral deficit	-	48,909
Withdrawal of monies invested - Guernsey Insurance Fund	(4,500,000)	-
Market value 31 December	<u>695,359,140</u>	<u>721,919,658</u>

The realised profit allocated to the Long-term Care Insurance Fund for the year is £432,049 (2010: £4,371,707) with an unrealised loss of £2,518,045 (2010: £311,815 loss).

The Common Investment Fund is managed through six investment managers, namely Schroder Investment Management Limited, Blackrock Investment Management UK) Limited, Barings Asset Management, M&G Investment's, Legge Mason (trading name Western Asset Management) and Skagen who are Norwegian based. The governance of the Fund is supported by the Fund custodian, Northern Trust and a professional investment advisor, P-Solve.

**7. DEBTORS AND PREPAYMENTS**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Recharge due from Guernsey Insurance Fund	2,066,575	2,614,279
Benefits and allowances receivable	43,836	83,932
	<u>2,110,411</u>	<u>2,698,211</u>

**STATES OF GUERNSEY - LONG-TERM CARE INSURANCE FUND**  
**Controlled and managed by the**  
**Social Security Department**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**Year ended 31 December 2011**

**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Other creditors and accruals	-	1,000
	<u>          </u>	<u>          </u>

**9. RELATED PARTY TRANSACTIONS**

The Department members confirm that there have been no disclosable related party transactions with members and senior management in this financial year (2010: Nil).

Of the Department's annual income and expenditure, less than 20% of their respective value for 2011 and 2010 is due to transactions with other States entities, except as disclosed in notes 1, 3, 4, 5 and 6. Balances with the States Treasury at the year-end amounted to £32,678 (2010: £32,187).

**10. SUPERANNUATION FUND**

The employees of the Social Security Department are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives. During 2008 the States considered a report by the actuaries on the valuation of the Superannuation Fund at 31 December 2007 that indicated that a deficit existed. The States agreed to increase the current employer's contribution rate to the Fund from 7.85% to 14.1% with effect from 1 January 2010.

Further details relating to the funding of the Superannuation Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

The Department has applied the provisions of FRS 17 for multi employer arrangements. In such circumstances, where the share of the underlying assets and liabilities of the scheme cannot be identified on a reasonable or consistent basis, the employer is only required to account for the contributions made for the current period as an expense in the revenue account. The total amount of superannuation contributions for the year ended 31 December 2011 were £509,970 (2010: £483,395) of which the Long-term Care Insurance Fund contributed £15,544 (2010: £14,808).

**11. STATEMENT OF CONTROL**

The Long-term Care Insurance Fund is controlled and managed by the Social Security Department, as required by Section 1(1) of The Long-term Care Insurance (Guernsey) Law, 2002. The members of the Social Security Department have been appointed by the States of Guernsey.

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF ELIZABETH COLLEGE - GUERNSEY**

We have audited the financial statements of Elizabeth College - Guernsey ("the College") for the year ended 31 August 2011 which comprise the Revenue Account, the Balance Sheet, the Cash Flow Statement, the related notes 1 to 16 and the Detailed Revenue Account. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice').

This report is made solely to the Board of Directors, as a body, in accordance with our engagement letter dated 19 October 2009. Our audit work is undertaken so that we might state to the Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board of Directors and auditor**

The Board of Directors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable laws and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing those financial statements the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue its operations.

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College. The Board of Directors is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is our responsibility to audit and express an opinion on the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We also report to you if, in our opinion, the College has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In this matter we draw particular attention to notes 1(b) and 3 to the financial statements.

Notes 1(b) and 3 to the financial statements explain that the historic main College buildings and playing fields are not included in fixed assets; that the costs of furniture and equipment and of minor improvements and maintenance to all buildings and grounds are written off through the revenue account when incurred; and that no depreciation is provided for on freehold properties as it is the College's policy to maintain the properties in such a condition that the estimated residual values are at least equal to their book values. We concur with these accounting policies.

**INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF  
DIRECTORS OF ELIZABETH COLLEGE - GUERNSEY  
(continued)**

**Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

BDO LIMITED

CHARTERED ACCOUNTANTS

Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

Date: 7<sup>th</sup> March 2012

**ELIZABETH COLLEGE - GUERNSEY****REVENUE ACCOUNT****FOR THE YEAR ENDED 31 AUGUST 2011**

	Note	2011	2010 (as restated)
<b>INCOME</b>	2		
States' Block Grant		2,377,985	2,272,850
Fees receivable		2,715,194	2,455,093
Sundry income		105,901	100,315
		<hr/>	<hr/>
		5,199,080	4,828,258
<b>EXPENDITURE</b>			
School and departmental expenses	3,237,482	3,228,363	
Youth training expenses	79,386	19,472	
Administrative expenses	884,868	760,551	
Maintenance of buildings and grounds	665,704	458,378	
		<hr/>	<hr/>
		(4,867,440)	(4,466,764)
<b>OPERATING SURPLUS FOR THE YEAR BEFORE INTEREST AND OTHER INCOME</b>		<hr/>	<hr/>
		331,640	361,494
Interest receivable from fixed asset investments		14,897	23,512
Interest receivable from banks		8,118	6,252
Gain on disposal of fixed asset investments		2,519	-
Interest payable		(1,250)	(1,750)
		<hr/>	<hr/>
<b>OPERATING SURPLUS FOR THE YEAR</b>	2	355,924	389,508
<i>Restricted income</i>			
Capital grant from Elizabeth College Foundation		-	308,716
Transfer to Capital Reserve - Restricted		-	(308,716)
		<hr/>	<hr/>
		-	-
<i>Elizabeth College Foundation costs</i>	14		
Amortisation of establishment costs		(2,006)	(2,006)
Annual running costs		(92,178)	(24,895)
		<hr/>	<hr/>
		(94,184)	(26,901)
Transfer to Maintenance Reserve	9	-	(150,000)
<b>RETAINED SURPLUS FOR THE FINANCIAL YEAR TRANSFERRED TO CAPITAL ACCOUNT</b>	9	<hr/>	<hr/>
		£ 261,740	£ 212,607
		<hr/>	<hr/>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

There were no recognised gains or losses other than the surplus for the financial year.  
A statement of movements on reserves is included in note 9 to the financial statements.

Notes 1 to 16 form an integral part of these financial statements.

**ELIZABETH COLLEGE – GUERNSEY****BALANCE SHEET****31 AUGUST 2011**

	Note	2011	2010 (as restated)
<b>FIXED ASSETS</b>			
Tangible assets	3	3,568,059	3,568,059
Investments	4	344,517	545,520
		<hr/>	<hr/>
		3,912,576	4,113,579
<b>CURRENT ASSETS</b>			
Stock		5,348	4,136
Debtors	5	602,370	260,571
Cash at bank and in hand		1,243,985	845,683
		<hr/>	<hr/>
		1,851,703	1,110,390
<b>CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
	6	(705,486)	(561,916)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		1,146,217	548,474
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,058,793	4,662,053
<b>CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	7	(155,000)	(20,000)
		<hr/>	<hr/>
		£ 4,903,793	£ 4,642,053
		<hr/>	<hr/>
<b>REPRESENTED BY:-</b>			
<b>RESERVES</b>	9	£ 4,903,793	£ 4,642,053
		<hr/>	<hr/>

**APPROVED BY THE BOARD OF DIRECTORS AND AUTHORISED FOR ISSUE BY:****K. Paul Mellor**.....  
Chairman**07/03/2012**.....  
Date approved by the Board

Notes 1 to 16 form an integral part of these financial statements.

**ELIZABETH COLLEGE – GUERNSEY**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 AUGUST 2011**

	Note	2011	2010 (as restated)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	10	432,854	302,012
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received from fixed asset investments	19,274	12,333	7,156
Interest received from bank deposits	8,118	7,156	7,156
Interest paid	(1,250)	(1,750)	(1,750)
<b>NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		26,142	17,739
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>			
Amounts repaid by			
non grant-aided sector	(80,342)	(8,168)	(8,168)
Elizabeth College Foundation costs	(92,178)	(24,895)	(24,895)
Purchase of tangible fixed assets	-	(748,608)	(748,608)
Sale/(purchase) of fixed asset investments	203,522	(37,691)	(37,691)
Decrease/ (increase) in cash held by brokers	(222,383)	25,923	25,923
<b>NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS</b>		(191,381)	(793,439)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>		267,615	(473,688)
<b>FINANCING</b>			
Repayment of loan from			
States Culture and Leisure Department	(10,000)	(10,000)	(10,000)
Repayment of bank loan	(4,313)	(6,198)	(6,198)
Restricted grant received from			
Elizabeth College Foundation	-	567,319	567,319
Loan received from Ernest Gardner Fund	145,000	-	-
<b>NET CASH INFLOW FROM FINANCING</b>		130,687	551,121
<b>INCREASE IN CASH FOR THE YEAR</b>		£ 398,302	£ 77,433
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
Increase in cash for the year		398,302	77,433
Cash at bank and in hand at 1 September		845,683	768,250
Cash at bank and in hand at 31 August		£ 1,243,985	£ 845,683

Notes 1 to 16 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

**1. ACCOUNTING POLICIES**

**(a) CONVENTION**

These financial statements have been prepared under the historical cost convention. The principal accounting policies which the Board of Directors has adopted within that convention are set out below.

**(b) TANGIBLE FIXED ASSETS AND DEPRECIATION**

The policy of the Board of Directors is that all College properties should be maintained to the highest standards, such that the useful economic life of all properties is considered to be in excess of 50 years.

As referred to in note 3, the historic main College buildings and playing fields are not included in fixed assets. The Board of Directors considers that the aggregate residual value of the other College properties, which are included within these financial statements at cost, is in excess of their aggregate cost, and therefore no depreciation has been provided on freehold property. In accordance with the requirements of Financial Reporting Standard No. 11 – Impairment of Fixed Assets and Goodwill, the Board of Directors carries out annual impairment reviews to ensure that the carrying value of the College's freehold properties is not greater than their recoverable amount.

Maintenance expenditure and the costs of minor improvements to all buildings and grounds are written off to the revenue account when incurred. Expenditure on furniture and equipment is also written off to the revenue account when incurred.

**(c) STOCK**

Stock is stated at the lower of cost and estimated net realisable value after making due provision for damaged, obsolete and slow moving items. The valuation was arrived at after deducting the estimated gross profit from the goods valued at selling price, in a manner consistent with that used in previous years.

**(d) PRIZE FUNDS AND BEQUESTS**

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College.

**(e) REVENUE RECOGNITION**

Fee income is recognised as receivable on the first day of each term for which pupils are enrolled. The element of the States' Block Grant relating to scholars' fees is recognised on the same basis as fee income; the element relating to the reimbursement of teachers' employment costs is recognised on the same basis as the expenditure on the related costs. All other income is recognised on an accruals basis.

**(f) FIXED ASSET INVESTMENTS**

Fixed asset investments, which comprise quoted fixed interest securities, are included at historical cost. Interest income from fixed asset investments is accounted for on an accruals basis.

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

**2. INCOME AND OPERATING SURPLUS**

The College's income and operating surplus derive wholly from continuing activities.

**3. TANGIBLE FIXED ASSETS**

The historic College buildings, being those situated at the College's original site in the Grange and in College Street, and the College Field playing fields and pavilion at King's Road, were gifted to the College at no cost. No value is attributed to these assets within the total value of tangible fixed assets included in the balance sheet.

In choosing to exclude these assets, the Board of Directors has taken advantage of the exemptions available within the Statement of Recommended Practice – Accounting and Reporting by Charities (published March 2005), as the assets are considered to be inalienable (in other words assets which the College is prohibited by virtue of its statutes from disposing of) and it would not be possible to determine a current market valuation without incurring significant expenditure.

Other College buildings are included in the financial statements at cost. These buildings comprise the modern buildings on the main College site off the Grange; and the modern changing room and groundsmen's buildings at the College Field; and the pavilion at the Memorial Field.

The policy of the Board of Directors is that all College properties should be maintained to the highest standards, such that the useful economic life of all properties is considered to be in excess of 50 years. The Board also considers that the aggregate residual value of those College properties which are included within the financial statements at cost is in excess of their aggregate cost, and therefore no depreciation is provided on freehold property. In accordance with the requirements of Financial Reporting Standard No. 11 – Impairment of Fixed Assets and Goodwill, the Board carries out annual impairment reviews to ensure that the carrying value of the College's freehold properties is not greater than their value in use or net realisable value.

As an indication of the relative value of the College's freehold property assets, and the values at which they are included within the financial statements, the following table sets out (a) the cost values at which the properties are included within the accounts and (b) their estimated insurance values, updated from June 2010 when the properties were valued for insurance purposes by a qualified Quantity Surveyor. All figures exclude land.

	<i>Cost</i>	<i>Insurance</i>
	<i>At 31.8.11</i>	<i>Valuation</i>
Main College site		
- Historic buildings	-	19,562,090
- Modern buildings	2,318,451	24,234,485
- Sixth Form Centre	388,470	432,593
College playing fields		
- CF - Old pavilion	-	579,009
- CF - Modern buildings	64,840	749,828
- MF Pavilion	796,298	815,995
	<hr/>	<hr/>
	£ 3,568,059	£ 46,374,000
	<hr/>	<hr/>

**ELIZABETH COLLEGE - GUERNSEY****NOTES TO THE FINANCIAL STATEMENTS****31 AUGUST 2011**

<b>4. INVESTMENTS</b>	<b>2011</b>	<b>2010</b>
AT COST		
Sterling fixed income securities	£ 344,517	£ 545,520
	<hr/>	<hr/>
AT MARKET VALUE		
Sterling fixed income securities	£ 357,179	£ 571,987
	<hr/>	<hr/>

The investments consist of sterling fixed income securities traded within Europe and/or the United Kingdom. The individual securities have terms to maturity of between two and four years, and it is the intention of the Board of Directors to hold the assets until maturity.

<b>5. DEBTORS</b>	<b>2011</b>	<b>2010</b>
DUE WITHIN ONE YEAR		
Fee debtors	55,093	45,436
Accrued income	6,802	11,179
Amounts due from brokers	230,245	7,862
Unamortised establishment costs – Elizabeth College Foundation (note 14)	37,347	56,020
Other debtors and prepayments	142,037	61,570
	<hr/>	<hr/>
	471,524	182,067
DUE AFTER MORE THAN ONE YEAR		
Amounts due from Elizabeth College Foundation	130,846	78,504
	<hr/>	<hr/>
TOTAL DEBTORS	£ 602,370	£ 260,571
	<hr/>	<hr/>

The amounts due from Elizabeth College Foundation will be paid as soon as the Foundation's cashflow allows. See note 16 – Prior Year Adjustment.

<b>6. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	<b>2011</b>	<b>2010</b>
Trade creditors	154,604	149,975
Fees received in advance	52,676	26,670
Loan – States Culture and Leisure Department (note 7)	10,000	10,000
Bank loan (note 8)	-	4,313
Old Elizabethan Association contribution to Elizabeth College Foundation costs (note 14)	33,332	49,999
Current account – College non grant-aided sector	565	80,907
Other creditors and accruals	331,242	195,138
Accruals for trips and other school activities	123,067	44,914
	<hr/>	<hr/>
	£ 705,486	£ 561,916
	<hr/>	<hr/>

The current account is interest free, unsecured and repayable upon demand.

**ELIZABETH COLLEGE – GUERNSEY**

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

<b>7. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	<b>2011</b>	<b>2010</b>
Loan – States Culture and Leisure Department Repayable by instalments:		
- Due within five years	10,000	20,000
Loan – Ernest Gardner Fund	145,000	-
	£ 155,000	£ 20,000

The States Culture and Leisure Department loan was advanced to the College in connection with the replacement of the artificial sports surface at Memorial Field. The loan bears interest at a rate of 5% per annum and is repayable in equal capital instalments over 10 years from 31 December 2003. The loan is secured by a registered bond in the sum of £100,000 over the Acorn House premises, King’s Road, which forms part of the fixed assets of the non grant-aided sector of the College.

The loan account from Ernest Gardner Fund is interest free, unsecured and has no fixed repayment date. The Board of Directors does not envisage that repayment would be demanded in circumstances that would leave the entity in a position where it was unable to meet its obligations to third parties as and when they fell due.

<b>8. BANK LOAN</b>	<b>2011</b>	<b>2010</b>
Wholly repayable by instalments within five years	£ -	£ 4,313

The bank loan was fully repaid during the year.

<b>9. RESERVES</b>	<u>Capital Account</u>	<u>Maintenance Reserve</u>	<u>Total</u>
Balance at 1 September 2010			
- as previously stated	4,529,635	600,000	5,129,635
- prior year adjustment (note 16)	(487,582)	-	(487,582)
Balance at 1 September 2010			
- as restated	4,042,053	600,000	4,642,053
Retained surplus for the financial year	261,740	-	261,740
Balance at 31 August 2011	£ 4,303,793	£ 600,000	£ 4,903,793

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

<b>10. RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>2011</b>	<b>2010 (as restated)</b>
Operating surplus for the year before interest	331,640	361,494
Increase in stock	(1,212)	(3,284)
Increase in operating debtors	(142,466)	(31,319)
Increase/(decrease) in operating creditors	244,892	(24,881)
	_____	_____
Net cash inflow from operating activities	£ 432,854	£ 302,012
	_____	_____

The cashflows for the year ended 31 August 2010 have been restated to show movements on the broker's account as non-operating cashflows.

**11. PENSION COSTS**

A majority of the employees of Elizabeth College are members of the States of Guernsey Superannuation Scheme ("the Scheme"). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice and which are calculated to spread the expected costs of benefits to employees over the period of those employees' expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the Scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is also not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of Elizabeth College to be determined on a reasonable and consistent basis. The Board of Directors has therefore taken advantage of the exemption available under paragraph 9(b) of Financial Reporting Standard No. 17 – Retirement Benefits from the requirement to make the full disclosures that would normally apply to an employer operating a defined benefits scheme on behalf of its employees.

The latest actuarial valuation of the Scheme was conducted at 31 December 2010. At that date the actuarial value of the assets relating to the "Public Servants' Pool" within the overall Scheme, to which the College's administration and teaching staff belong, represented 90.43% of the actuarial valuation of the liabilities relating to that group. Based on the results of the above actuarial valuation, it is recommended that the base level rate of employer contributions to be paid remains 14.1% of pensionable salary in respect of all employees.

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2011 was £536,392 (2010: £500,842). At 31 August 2010 the amount of outstanding contributions not paid over to the Scheme was £89,297 (2010: £87,433).

Further details relating to the funding of the Scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

**12. CONTROLLING PARTY**

Throughout the year the College was under the control of the Board of Directors acting in concert. In the opinion of the Board of Directors there is no single controlling party as defined by Financial Reporting Standard No. 8 - Related Party Disclosures, as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefits from their direction.

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

**13. RELATED PARTY TRANSACTIONS**

The College operates a central accounting system administered by the Bursar, elements of which cover both the grant-aided and non grant-aided sectors of the College's activities. A majority of the operating receipts and operating expenditure related to the College's activities, whether related to the grant-aided sector or otherwise, pass through common bank accounts, all of which are included in the balance sheet within these financial statements. The net movement arising from cash transactions relating to non grant-aided activities is disclosed in the cash flow statement as a movement on the current account operated between the two sectors. At each year end, account balances within the central accounting system, including individual debtor and creditor account balances, are allocated as appropriate into the financial statements of the different sectors.

During the year ended 31 August 2011 an amount of £14,000 (2010: £13,250) has been charged from the grant-aided sector of the College to the non grant-aided sector in relation to the employment expenses of administrative and accounting staff, a proportion of whose duties relate to the non grant-aided sector of the College's activities.

**14. ELIZABETH COLLEGE FOUNDATION**

The Elizabeth College Foundation comprises two charitable trusts (one UK and one Guernsey) which were established in 2006 to raise funds, principally from parents and ex-alumni of the College, to enable the College to undertake projects and activities which might otherwise be beyond the means of the school to finance from its own operations.

The Trustees of the Foundation trusts, although initially appointed by the College Board of Directors, are independent of the College and are required to act in accordance with the terms of the relevant trust deed. The basis upon which donations to the Foundation have been requested from donors is such that all monies donated are to be retained within the Foundation until such time as they may be expended as grants towards the funding of specified projects or activities for the benefit of the College. See note 16 – Prior Year Adjustment.

Other than donations and interest arising on retained funds, the Foundation trusts have no other sources of income. Therefore the Foundation is reliant upon the College to meet a substantial proportion of its annual running costs, including the employment of Foundation staff involved with fund-raising, clerical support and project development. These costs are shown as an exceptional cost within the College's Revenue Account.

The initial costs of establishing the Foundation, which was originally an initiative jointly pursued by the Board and members of the Old Elizabethan Association, were borne by the College and amounted to £112,039. This expenditure was partially covered by a donation from the Old Elizabethan Association of £100,000. The Board has determined that these net initial costs of £12,039 should be written off on a straight line basis over a six year period from 1 September 2007, this being the period over which the College is expected to benefit from the release by the Foundation of the proceeds from its initial fund-raising appeal, anticipated to amount to in the region of £1.5 million.

**15. FINANCIAL COMMITMENTS**

The College has entered into an agreement to lease certain computer equipment, in connection with the implementation of the Guernsey Integrated Learning Environment project, on a three year operating lease which terminates in 2013. Rentals paid under this agreement in the current year amount to £5,908 (2010: nil). The amount currently expected to be paid under the agreement in the next financial year (based on the equipment currently in use) is £9,316.

**NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

**15. FINANCIAL COMMITMENTS (continued)**

The College has incurred preliminary expenditure of £52,342 in relation to obtaining planning permission for the construction of a school refectory as part of a redevelopment of the existing Geography classroom block. Should planning permission be forthcoming, the budget for this project is expected to be in the region of £1.2m. The Trustees of the Elizabeth College Foundation have given a commitment to try to raise sufficient funds to meet all of the required expenditure in respect of the refectory project (see note 16). The costs incurred to date are being carried as recoverable from the Foundation in the balance sheet.

**16. PRIOR YEAR ADJUSTMENT**

During the year ended 31 August 2010, the College recognised in its financial statements capital expenditure of £796,298 in respect of the building of the Memorial Field pavilion and a capital grant receivable from the Elizabeth College Foundation of £796,298 to cover the entire costs expended on the project.

During the year ended 31 August 2011, the Board indicated to the trustees of the Elizabeth College Foundation that it would no longer be looking to the Foundation to provide funding to reimburse all of the College's expenditure in relation to the construction of the MF pavilion, as the College had in fact been able to fund a major part of the building costs out of its own operating cashflow during 2009 and 2010, and in the Board's opinion the Foundation's funds would be better utilised in assisting the College with funding for future capital projects.

This decision was formally minuted by the Trustees in November 2011, at which time it was determined that the remainder of the funds already held by the Foundation (and the funds already pledged from the first round of fund-raising, but yet to be received) would be committed to providing funding for the College's refectory project (see note 15).

As a result of the change in the Trustees' intentions regarding the MF pavilion funding, the amount of £487,582 not already received by the College from the Foundation as at 31 August 2010 in respect of that project, and previously shown as both a debtor and as a capital grant receivable in the College's 2010 financial statements, has now been written back as a prior year adjustment.

**ELIZABETH COLLEGE – GUERNSEY****DETAILED REVENUE ACCOUNT****FOR THE YEAR ENDED 31 AUGUST 2011**

	<b>2011</b>	<b>2010</b>
<b>INCOME</b>		
States' Block Grant	2,377,985	2,272,850
Fees receivable	2,715,194	2,455,093
Hire of facilities	88,073	82,732
Other income	17,828	17,583
	<hr/>	<hr/>
	5,199,080	4,828,258
	<hr/>	<hr/>
<b>EXPENDITURE</b>		
<b>SCHOOL AND DEPARTMENTAL EXPENSES</b>		
Teachers' salaries	2,334,964	2,276,857
Teachers' superannuation	296,401	284,453
Teaching ancillary salaries and superannuation	210,267	210,324
Departmental expenses	342,841	409,219
Other school expenses	9,216	7,903
Examination fees	43,793	39,607
	<hr/>	<hr/>
	3,237,482	3,228,363
	<hr/>	<hr/>
<b>YOUTH TRAINING EXPENSES</b>	79,386	19,472
	<hr/>	<hr/>
<b>ADMINISTRATIVE EXPENSES</b>		
Services	276,291	252,719
Administration salaries and superannuation	285,658	255,955
School administration	98,560	79,828
General expenses	140,494	90,682
Rates, insurance and taxes	35,537	49,060
Discounts given	34,988	29,231
Audit and accountancy	15,281	11,960
Bad debts	12,059	4,366
Recharge to non grant-aided sector	(14,000)	(13,250)
	<hr/>	<hr/>
	884,868	760,551
	<hr/>	<hr/>
<b>MAINTENANCE OF BUILDINGS AND GROUNDS</b>		
Maintenance of playing fields	99,691	124,526
Maintenance of other areas	566,013	333,852
	<hr/>	<hr/>
	665,704	458,378
	<hr/>	<hr/>
<b>OPERATING SURPLUS FOR THE YEAR BEFORE INTEREST AND OTHER INCOME</b>	£ 331,640	£ 361,494
	<hr/>	<hr/>

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE - GUERNSEY**

We have audited the financial statements of The Ladies' College - Guernsey ("the College") for the year ended 31 August 2011 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice').

This report is made solely to the Board of Governors of the College, as a body, in accordance with our engagement letter dated 02 September 2009. Our audit work is undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board of Governors and auditors**

The Board of Governors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the results of the College for that year. In preparing those financial statements the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue its operations.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College. The Board of Governors is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors, including "APB Ethical Standard – Provisions Available for Small Entities (Revised)", in the circumstances set out in note 2 to the financial statements.

We also report to you if, in our opinion, the College has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements. In this matter we draw particular attention to note 1(b) to the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF  
THE LADIES' COLLEGE - GUERNSEY  
(continued)**

**Scope of the audit of the financial statements (continued)**

Note 1(b) to the financial statements explains that the costs of furniture and equipment and of minor improvements and maintenance to all buildings and grounds are written off through the income and expenditure account when incurred and that the costs of major improvement work are met by transfers from the maintenance and improvements reserves and that no fixed assets are therefore presented in the financial statements. We concur with these accounting policies.

**Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities;

BDO LIMITED

CHARTERED ACCOUNTANTS

Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

25 APRIL 2012

Date: .....

**THE LADIES' COLLEGE - GUERNSEY**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED 31 AUGUST 2011**

	Note	2011	2010
<b>INCOME</b>	3		
States grant		921,717	941,328
Fees receivable		2,493,340	2,448,144
Bank interest received		32,477	28,127
Student registration fees		5,200	6,900
Miscellaneous income		27,591	19,921
		<hr/>	<hr/>
		3,480,325	3,444,420
<b>EXPENDITURE</b>			
School expenditure		(2,933,576)	(2,877,408)
<b>OPERATING SURPLUS FOR THE YEAR</b>	3/6	546,749	567,012
Capital improvements expenditure	10	(857,105)	(123,367)
Transfer from maintenance and improvements reserves	6	857,105	123,367
		<hr/>	<hr/>
		-	-
<b>TRANSFER TO MAINTENANCE &amp; IMPROVEMENTS RESERVE</b>	4/6	(500,000)	(450,000)
		<hr/>	<hr/>
<b>RETAINED SURPLUS FOR THE YEAR</b>		£ 46,749	£ 117,012
		<hr/>	<hr/>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

There were no recognised gains or losses other than the operating surplus for the year.

A statement of movements on reserves is included in note 6 to the financial statements.

Notes 1 to 10 form an integral part of these financial statements.

**THE LADIES' COLLEGE - GUERNSEY  
BALANCE SHEET**

**31 AUGUST 2011**

	Note	2011	2010
<b>CURRENT ASSETS</b>			
Stock of uniforms and student equipment		-	130
Fee debtors		3,107	-
Accrued bank interest		4,443	12,745
Bank balances		2,069,865	2,369,011
Cash in hand		206	168
		<hr/>	<hr/>
		2,077,621	2,382,054
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Sundry creditors and accruals	5	187,843	125,853
Fees for Autumn Term received in advance		147,280	203,347
		<hr/>	<hr/>
		(335,123)	(329,200)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>£ 1,742,498</b>	<b>£ 2,052,854</b>
		<hr/>	<hr/>
<b>REPRESENTED BY:-</b>			
Reserves	6	£ 1,742,498	£ 2,052,854
		<hr/>	<hr/>

**APPROVED ON BEHALF OF THE BOARD OF GOVERNORS AND AUTHORISED FOR  
ISSUE BY:**

P GILLSON

.....  
Chairman, the Board of Governors

25 APRIL 2012

Date .....

Notes 1 to 10 form an integral part of these financial statements.

# **THE LADIES' COLLEGE - GUERNSEY**

## **NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

### **1. ACCOUNTING POLICIES**

#### **(a) CONVENTION**

These financial statements have been prepared under the historical cost convention and in accordance with the requirements of the Financial Reporting Standard for Smaller Entities (effective April 2008). The principal accounting policies which the Board of Governors have adopted within that convention are set out below.

#### **(b) CAPITAL EXPENDITURE**

Capital expenditure on fixtures and fittings is written off in the year in which it is incurred, thus the balance sheet of the College does not disclose fixed assets. Where the College undertakes significant capital improvements, such as the capital expenditure incurred on the redevelopment of the College's buildings, these costs are met by transfers from the maintenance and improvements reserve. No asset is shown on the balance sheet as the College does not hold legal title to the land on which the College's premises are built.

#### **(c) INCOME RECOGNITION**

Student registration fees and miscellaneous income are recognised on receipt. All other income is recognised on an accruals basis.

### **2. APB ETHICAL STANDARD – PROVISIONS AVAILABLE FOR SMALL ENTITIES**

In common with many other organisations of its size and nature, the College uses its auditors to assist with the preparation of the financial statements.

### **3. INCOME AND OPERATING SURPLUS FOR THE YEAR**

Income and operating surplus for the year derive wholly from continuing activities.

### **4. MAINTENANCE & IMPROVEMENTS RESERVE**

The Board of Governors has resolved to set aside funds to meet:

- i) maintenance expenditure to which the College is committed at 31 August 2011;
- ii) maintenance needs which have been deferred;
- iii) anticipated future maintenance needs; and
- iv) anticipated expenditure in respect of future improvements to the College premises.

**THE LADIES' COLLEGE - GUERNSEY  
NOTES TO THE FINANCIAL STATEMENTS**

**31 AUGUST 2011**

**5. SUNDRY CREDITORS AND ACCRUALS**

	<b>2011</b>	<b>2010</b>
School and administrative expenses	97,817	125,853
Accruals	90,026	-
	<u>£ 187,843</u>	<u>£ 125,853</u>

**6. RESERVES**

	Income & Expenditure <u>Account</u>	Maintenance & Improvements <u>Reserve</u>	<u>Total</u>
Balance at 1 September 2010	410,974	1,641,880	2,052,854
Operating surplus for the year	546,749	-	546,749
Transfer to income and expenditure account to cover capital improvements expenditure (note 10)	-	(857,105)	(857,105)
Transfer from income & expenditure account to maintenance & improvements reserve	(500,000)	500,000	-
	<u>£ 457,723</u>	<u>£ 1,284,775</u>	<u>£ 1,742,498</u>

**7. PENSION COSTS**

A majority of the employees of the College are members of the States of Guernsey Superannuation Scheme (“the Scheme”). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice and which are calculated to spread the expected cost of benefits to employees over the period of those employees’ expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is also not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by the Financial Reporting Standard for Smaller Entities (effective April 2008). In addition, the Board of Governors considers that the additional costs which would be incurred, were it possible to do so, in providing such information considerably outweigh any benefit to the proposed users of these financial statements.

The last actuarial valuation of the Scheme was conducted at 31 December 2010. At that date the actuarial value of the assets relating to the “Public servants pool” within the overall Scheme, to which the College’s administration and teaching staff belong, represented 93% of the actuarial valuation of the liabilities relating to that group. With effect from 1 January 2010 the rate of employer’s contribution increased to 14.1% in respect of all staff.

# THE LADIES' COLLEGE - GUERNSEY

## NOTES TO THE FINANCIAL STATEMENTS

### 31 AUGUST 2011

#### 7. PENSION COSTS (continued)

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2011 was £252,638 (2010:£240,737). At 31 August 2011 the amount of outstanding contributions not paid over to the Scheme was £43,692 (2010:£41,733).

Further details relating to the funding of the superannuation scheme are provided in the Superannuation Fund section of the accounts of the States of Guernsey.

#### 8. CONTROLLING PARTIES

Throughout the year the College was under the control of the Board of Governors acting in concert. In the opinion of the Board of Governors there is no controlling party as defined by the Financial Reporting Standard for Smaller Entities (effective April 2008) as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefit from their direction.

#### 9. RELATED PARTY TRANSACTIONS

There were no material related party transactions.

#### 10. FINANCIAL COMMITMENTS

The College has entered into a contract for the development of the Art & Drama/Melrose Linked building, the minimum anticipated building costs being £2,372,000, inclusive of related professional fees, with 80% of the costs being attributable to the College and 20% to Melrose. During the financial year ended 31 August 2011, a total of £252,141 was expended in respect of this project and a further £604,964 was expended in respect of the 6<sup>th</sup> Form Centre project which commenced in the prior year and was completed during the year. All of this capital expenditure was offset by transfers from the maintenance and improvements reserve. It is anticipated that the Art & Drama/Melrose Linked building project will be completed during the next financial year, the expected proportion of future costs relating to the College being £1,642,728, exclusive of all ancillary costs such as the fitting out of the premises.

**THE FOLLOWING PAGE DOES NOT FORM A PART OF THE  
FINANCIAL STATEMENTS OF THE COLLEGE  
AND IS PRESENTED FOR INFORMATION PURPOSES ONLY**

**THE LADIES' COLLEGE - GUERNSEY****DETAILED INCOME AND EXPENDITURE ACCOUNT****FOR THE YEAR ENDED 31 AUGUST 2011**

	<b>2011</b>	<b>2010</b>
<b>INCOME</b>		
States grant	921,717	941,328
Fees receivable	2,493,340	2,448,144
Student registration fees	5,200	6,900
Bank interest received	32,477	28,127
Miscellaneous income	27,591	19,921
	<hr/>	<hr/>
	3,480,325	3,444,420
	<hr/>	<hr/>
<b>EXPENDITURE</b>		
Teachers' salaries	2,074,490	2,102,129
Staff training	6,842	3,291
Staff recruitment and relocation	20,267	9,522
Office and administration salaries	150,029	131,558
Maintenance salaries	145,044	133,028
Books, stationery and other teaching materials	68,980	75,612
Laboratory and design & technology	14,125	16,209
Sports and expeditions	18,291	18,097
Field trips	3,266	5,833
Art	7,176	9,237
Examination fees	49,444	52,565
Electricity, oil, gas, water and telephone	64,849	54,134
Rates, taxes and insurance	11,809	11,200
Routine maintenance of buildings, grounds and equipment	156,147	88,935
School supplies and equipment	74,294	61,594
General administrative expenses	20,777	28,360
Audit fee	7,500	5,925
Marketing and fundraising costs	38,577	68,492
Bank charges	1,669	1,687
	<hr/>	<hr/>
	2,933,576	2,877,408
	<hr/>	<hr/>
<b>OPERATING SURPLUS FOR THE YEAR</b>	£ 546,749	£ 567,012
	<hr/>	<hr/>

**STATEMENT OF RESPONSIBILITIES OF THE POLICY AND FINANCE COMMITTEE AND THE STATES TREASURER**

The States Treasurer is responsible for preparing accounts for each financial year which fairly summarise, in all material respects, the transactions of the States of Alderney for that period and are in accordance with the applicable law. In preparing those accounts she is required to:

- select suitable accounting policies and apply them consistently; and
- make judgements and estimates that are reasonable and prudent.

The Policy and Finance Committee acknowledges that it is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the States of Alderney and to enable them to ensure that the accounts comply with The Government of Alderney Law, 2004, as amended. They are also responsible for safeguarding the assets of the States of Alderney and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the Policy and Finance Committee**

We have audited the financial statements of The States of Alderney (the "States") for the year ended 31 December 2011 which comprise the Revenue Income and Expenditure Accounts, Capital Account, Summary of Balances and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Policy and Finance Committee, as a body, in accordance with the terms of our engagement dated 06 February 2012. Our audit work has been undertaken so that we might state to the Policy and Finance Committee those matters we have been engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the States and the Policy and Finance Committee as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the States Treasurer and auditor**

As explained more fully in the Statement of responsibilities of the Policy and Finance Committee and the States Treasurer, the States Treasurer is responsible for the preparation of the financial statements in accordance with the accounting policies set out in note 1. Our responsibility is to audit and express an opinion on the financial statements having regard to International Standards on Auditing (UK and Ireland). Those standards require compliance with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the States circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the States Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Accounts 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements fairly summarise the transactions for the year ended 31 December 2011 in accordance with the accounting policies set out in note 1.

### **Matters on which we report by exception**

We have nothing to report in respect of the following matters where the terms of our engagement letter require us to report to you if, in our opinion:

- the States has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

### **KPMG Channel Islands Limited**

*Chartered Accountants*

Guernsey

29<sup>th</sup> March 2012

## STATES OF ALDERNEY

### NOTES TO THE ACCOUNTS

#### 1. PRINCIPAL ACCOUNTING POLICIES

- a. General revenue account receipts and payments arising during the year and in the month following the year end are brought into account in the accounting year to which they relate. Rental income, numismatic revenue and Harbour account revenues are accounted for on an accruals basis.
- b. Capital expenditure from general revenue account votes is written off in the year in which it is incurred. Depreciation is therefore not provided.

#### 2. PENSION COSTS

The States provides pension arrangements for the majority of employees through a defined benefit scheme and the related costs are assessed in accordance with the advice of actuaries. The assets of this scheme are held separately from those of the States in an independently administered fund and are invested in a Unitised With-Profits Policy with Aviva. As reported to the States in March the final salary scheme has now been closed to new members from 31<sup>st</sup> December 2011, with investigations ongoing regarding an alternative scheme.

In preparing the disclosures for the States of Alderney (the "States") accounts, the States have noted the disclosure requirements of Financial Reporting Standard 17, "Retirement Benefits" (FRS 17). The States has used actuarial calculations provided by the actuary to identify the implications of any surplus/ (deficit) to the States as at 1<sup>st</sup> January 2009, the date of the last actuarial valuation.

The calculations have been carried out by a qualified independent actuary based on the results of the last full actuarial valuation, updated to 31<sup>st</sup> December 2011.

The major assumptions used by the actuary were (in nominal terms):

	Valuation at 31 December 2011	Valuation at 31 December 2010
Pensionable salary growth	4.2% pa	5.1% pa
Pension escalation in payment		
– to 31.12.2009	4.0% pa	4.0% pa
– from 01.01.2010	3.0% pa	3.0% pa
Discount rate	4.7% pa	5.3% pa
Inflation assumption	3.7% pa	4.1% pa

The assets in the scheme and the expected rate of return were:

	Value at 31 December 2011	Expected return for 2012	Value at 31 December 2010	Expected return for 2011
Fair value of plan assets	£3,752,000	5.5%	£3,244,000	5.75%

## STATES OF ALDERNEY

### PENSION COSTS (Continued)

	2011	2010
Fair value of plan assets	£3,752,000	£3,244,000
Present value of funded obligations	(£5,514,000)	(£4,875,000)
Deficit in the scheme	(£1,762,000)	(£1,631,000)
<b>Net pension liability</b>	<b>(£1,762,000)</b>	<b>(£1,631,000)</b>

Over the year to 31<sup>st</sup> December 2011 the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. Employee's Death in Service benefits were secured under a separate policy. The Actuary has based the above calculations on the assumption that 25% of scheme members will retire at age 60 and 75% at age 65.

In 2011 Employer premiums amounted to £237,129 (2010: £244,290) and Employee premiums were £77,066 (2010: £79,394). In addition the Employees Death in Service policy amounted to £16,324 (2010: £16,302). At the end of the year the total annual value of pensions paid to 33 pensioners and spouses was £215,272 (2010: £197,053, relating to 32 pensioners).

### 3. RELATED PARTY TRANSACTIONS

The States of Alderney is responsible for the functions of the Water Board, which is a separate trading entity. During 2011 the States purchased goods and services from the Board to the value of £14,029, and provided goods and services to the Board to the value of £46,796.

The Royal Connaught Residential Home Limited is a States owned Company. During 2011 the States provided goods and services to the Company (rental) to the value of £46,262.

The States has a majority share-holding in Alderney Electricity Ltd and purchases electricity, oil and specialist electrical services from the Company. In 2011 the value of these purchases was £179,631 (2010: £176,507). The States has provided goods and services to the Company during 2011 to the value of £68,942 (2010: £60,815).

Mr Ian Tugby is a member of the States of Alderney, and is also the beneficial owner of Tugby Contractors Ltd. During 2011 the States of Alderney purchased goods and services from Tugby Contractors Ltd to the value of £30,042 (2010 £20,169). In addition to this the States of Alderney employed Tugby Contractors Limited on behalf of the States of Guernsey to the value of £6,570.

### 4. BUDGET APPROVALS

The original budget for 2011 was approved by the States of Alderney at the meeting held on 20<sup>th</sup> October 2010. The Probable Outturn column reflects the "revised budget" which was approved by the States of Alderney on 19th October 2011.

### 5. ALDERNEY GAMBLING CONTROL COMMISSION

During the year the States of Alderney received a total of £4,545,650 (2010: £3,885,650) in respect of licences issued by the Commission under the Gambling (Alderney) Law 1999. This sum was transferred in total to the Commission to defray expenses with surpluses payable to the States on a quarterly basis.

An extract from the Alderney Gambling Control Commission's financial statements for 2011 will be available to the States in April.

## **STATES OF ALDERNEY**

### **6. ALDERNEY eGAMBLING LIMITED**

During 2011 Alderney eGambling Ltd, a wholly States owned company, continues to handle the promotion and development of the on-line gambling industry in Alderney. A report on the company's activity and accounts for 2011 will be available to the States in April.

### **7. ALDERNEY COMMISSION FOR RENEWABLE ENERGY**

With effect from 10th November 2008 the Alderney Commission for Renewable Energy(ACRE), was appointed by the States as a statutory body operating under the provisions of the Renewable Energy (Alderney), Law 2007. A report on the Commission's activities and accounts for 2011 will be available to the States in April.

### **8. ROYAL CONNAUGHT RESIDENTIAL HOME LIMITED**

The Royal Connaught is a States owned Company managed by the Board of Directors, with responsibility for the administration of the Jubilee & Sydney Herival House and the Royal Connaught Residential Care Home. A report on the Board's activities and accounts for 2011 will be available to the States in April.

### **9. ALDERNEY HARBOUR ACCOUNT**

The trading surplus is credited to the General Services Committee and capital expenditure is funded by the General Services Committee.

# STATES OF ALDERNEY

## SUMMARY OF GENERAL REVENUE INCOME AND EXPENDITURE

for the year ended 31 December 2011

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>INCOME ON REVENUE ACCOUNT</b>				
Building and Development Control Committee	61,118	60,000	25,000	41,132
General Services Committee	316,879	296,210	287,100	528,220
Policy and Finance Committee	784,109	778,300	750,000	731,124
<b>TOTAL INCOME ON REVENUE ACCOUNT</b>	<b>1,162,106</b>	<b>1,134,510</b>	<b>1,062,100</b>	<b>1,300,476</b>
Net revenue cash allocation from States of Guernsey	1,659,000	1,659,000	* 1,815,000	1,601,000
Use of 2010 Unspent Balances	16,058	16,058		
	<b>2,837,164</b>	<b>2,809,568</b>	<b>2,877,100</b>	<b>2,901,476</b>

\* Includes £200k Capital Allocation from Guernsey

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>EXPENDITURE ON REVENUE ACCOUNT</b>				
Building and Development Control Committee	83,815	90,600	85,000	62,359
General Services Committee	1,397,835	1,521,880	1,597,900	1,686,913
Policy and Finance Committee	1,313,792	1,197,088	1,194,200	1,252,776
<b>TOTAL EXPENDITURE ON REVENUE ACCOUNT</b>	<b>2,795,442</b>	<b>2,809,568</b>	<b>2,877,100</b>	<b>3,002,048</b>
<b>Surplus/(Deficit) for the year</b>	<b>41,722</b>	<b>-</b>	<b>-</b>	<b>(100,572)</b>
	<b>2,837,164</b>	<b>2,809,568</b>	<b>2,877,100</b>	<b>2,901,476</b>

K A HATCHER-GAUDION  
STATES TREASURER

**STATES OF ALDERNEY**  
**BUILDING AND DEVELOPMENT CONTROL COMMITTEE**

*for the year ended 31 December 2011*

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
Planning fees	61,118	60,000	25,000	39,332
Land Use Plan Inquiries - recoveries	-	-	-	1,800
<b>TOTAL REVENUE INCOME</b>	<b>61,118</b>	<b>60,000</b>	<b>25,000</b>	<b>41,132</b>

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>Administration</b>				
Staff costs	63,506	68,300	63,500	49,697
Supplies and services	7,275	8,800	8,000	6,038
Environmental Impact Assessments	-	2,500	2,500	-
Planning records system	2,541	2,500	2,500	2,279
Land Use Plan Inquiries	10,493	8,500	8,500	4,345
<b>TOTAL REVENUE EXPENDITURE</b>	<b>83,815</b>	<b>90,600</b>	<b>85,000</b>	<b>62,359</b>

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE**  
*for the year ended 31 December 2011*

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>Agriculture</b>								
Fees and charges	1,361		1,200		3,200		1,625	
Rents	6,786		7,550		7,000		7,145	
Abattoir fees	7,246		7,000		4,000		4,578	
		15,393		15,750		14,200		13,348
<b>Gardens, Cemetery and Church</b>								
Burial plots		800		1,500		1,500		950
<b>Public Services</b>								
<b>Administration</b>								
Hire vehicle fees	2,424		2,000		2,000		2,160	
Vehicle import licence fees	45,607		40,000		37,200		39,505	
	48,031		42,000		39,200		41,665	
<b>Properties - General</b>								
Rent	154,535		153,000		157,000		123,356	
<b>Properties - Housing</b>								
Rent	28,162		28,200		25,000		289,287	
<b>Refuse Collection and Disposal</b>								
Refuse charges (scrapped vehicles)	21,000		21,000		21,000		21,000	
<b>Sewage and Sanitation</b>								
Cesspit emptying fees	12,425		12,000		12,000		11,778	
		264,153		256,200		254,200		487,086
<b>Recreation</b>								
<b>Campsite</b>								
Campsite fees (net)	3,809		4,000		4,500		4,302	
Rent of showers / shop	200		200		200		200	
	4,009		4,200		4,700		4,502	
<b>Island Hall</b>								
Island Hall Rents	10,267		11,000		12,500		10,472	
		14,276		15,200		17,200		14,974
<b>Alderney Harbour Trading Surplus</b>		22,257		7,560		-		11,862
<b>TOTAL REVENUE INCOME</b>		316,879		296,210		287,100		528,220

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE (continued)**

for the year ended 31 December 2011

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>Alderney Harbour trading loss</b>		-		-		2,100		-
<b>Agriculture</b>								
Staff	115,271		120,200		118,000		126,943	
Supplies and services	27,216		28,000		21,000		22,445	
Bovine Spongiform Encephalopathy -								
Compensation	300		1,500		1,500		1,050	
Disposal costs	-		600		600		-	
Burhou and Ramsar site costs	6,075		6,000		6,000		5,733	
Dairy and land management compensation	60,845		65,000		65,000		63,993	
Foot and mouth insurance	1,304		1,300		1,400		1,380	
Abattoir costs	10,868		7,000		5,000		4,897	
Veterinary services	2,708		9,000		8,000		3,412	
	224,587		238,600		226,500		229,853	
Less: Recoveries	(4,718)		(4,000)		(3,000)		(1,156)	
		219,869		234,600		223,500		228,697
<b>Camp Site and Recreation</b>								
<b>Camp Site</b>								
Camp site expenses	7,867		8,000		8,000		6,948	
<b>Children's Playground</b>								
Supplies and services	5,240		5,000		5,000		4,443	
<b>Island Hall</b>								
Premises	6,707		7,000		7,000		6,288	
Staff	8,882		9,200		10,500		7,076	
Supplies and services	833		2,500		2,500		1,252	
	16,422		18,700		20,000		14,616	
		29,529		31,700		33,000		26,007
<b>Civil Emergency</b>								
Premises	1,771		2,000		2,000		1,465	
Supplies and services	1,638		3,500		3,500		11,895	
Environmental monitoring	18,682		20,000		20,000		18,348	
Responses to major incidents	-		2,500		2,500		141	
		22,091		28,000		28,000		31,849
<b>Fieldwork Scheme (Transferred to Apprenticeship Scheme)</b>								
Staff	-		-		8,000		81	
Supplies and services	-		-		500		-	
					8,500		81	
<b>Sea Fisheries</b>								
Staff	17,600		17,600		17,600		17,600	
Supplies and services	4,002		3,000		2,000		1,805	
		21,602		20,600		19,600		19,405
<b>Gardens, Cemetery and Church</b>								
Staff	30,541		33,750		32,000		29,619	
Supplies and services	4,645		5,500		5,000		3,784	
	35,186		39,250		37,000		33,403	
Less: Recoveries	(4,000)		(3,000)		(3,000)		(5,400)	
		31,186		36,250		34,000		28,003

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE (continued)**  
for the year ended 31 December 2011

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>Public Services</b>								
<b>Administration</b>								
Staff	94,390		100,200		63,700		82,556	
Supplies and services	22,218		16,000		16,000		15,774	
Training & equipment - Health and Safety	5,301		3,500		5,000		13,948	
Insurance	10,610		11,000		-		-	
	<u>132,519</u>		<u>130,700</u>		<u>84,700</u>		<u>112,278</u>	
<b>Fire Brigade and Cliff Rescue</b>								
Staff	24,508		25,300		22,500		20,549	
Supplies and services	16,357		16,000		15,000		16,972	
Administration of Law	5,059		4,700		2,000		2,064	
	<u>45,924</u>		<u>46,000</u>		<u>39,500</u>		<u>39,585</u>	
<b>Apprenticeship Scheme</b>								
Staff	4,170		7,750		-		-	
Associated Costs	247		200		-		-	
	<u>4,417</u>		<u>7,950</u>		<u>-</u>		<u>-</u>	
Less: Grant Recoveries	(750)		(1,100)		-		-	
	<u>3,667</u>		<u>6,850</u>		<u>-</u>		<u>-</u>	
<b>Properties - General</b>								
Staff	122,971		110,200		110,000		136,036	
Supplies and services	101,151		88,600		115,000		82,346	
	<u>224,122</u>		<u>198,800</u>		<u>225,000</u>		<u>218,382</u>	
Less: Recoveries	(65,894)		(40,000)		(30,000)		(36,918)	
	<u>158,228</u>		<u>158,800</u>		<u>195,000</u>		<u>181,464</u>	
<b>Properties - Housing</b>								
Staff	19,784		32,430		32,000		42,963	
Supplies and services	16,166		20,000		20,000		78,845	
	<u>35,950</u>		<u>52,430</u>		<u>52,000</u>		<u>121,808</u>	
<b>Refuse Collection, Separation and Disposal</b>								
<i>Household Collection and Impôt</i>								
Staff	132,553		110,000		125,000		142,760	
Supplies and services: -								
Vehicles & Plant maintenance	29,109		20,000		20,000		55,661	
Household & general waste - disposal	146,625		176,000		176,000		144,169	
Vehicles & white goods etc - disposal	1,958		10,000		30,000		13,178	
	<u>310,245</u>		<u>316,000</u>		<u>351,000</u>		<u>355,768</u>	
<i>Recycling Centre - Glacis</i>								
Refuse separation / Recycling - staff	113,979		138,900		120,000		104,060	
Refuse separation / recycling - supplies & services	27,546		39,000		39,000		25,756	
	<u>141,525</u>		<u>177,900</u>		<u>159,000</u>		<u>129,816</u>	
Less: Recoveries	(2,015)		(2,500)		(10,000)		(6,518)	
	<u>139,510</u>		<u>175,400</u>		<u>149,000</u>		<u>123,298</u>	
<b>Roads, Coasts and Beaches</b>								
Staff	42,994		57,700		56,000		34,357	
Supplies and services	40,908		44,000		140,000		219,561	
	<u>83,902</u>		<u>101,700</u>		<u>196,000</u>		<u>253,918</u>	
Less: Recoveries	(17,683)		(5,000)		(5,000)		(54,714)	
	<u>66,219</u>		<u>96,700</u>		<u>191,000</u>		<u>199,204</u>	
<b>Sewage and Sanitation</b>								
Staff	96,676		104,400		97,000		98,530	
Supplies and services	29,183		30,500		38,000		69,298	
	<u>125,859</u>		<u>134,900</u>		<u>135,000</u>		<u>167,828</u>	
Less: Recoveries	(3,737)		(5,500)		(3,000)		(4,255)	
	<u>122,122</u>		<u>129,400</u>		<u>132,000</u>		<u>163,573</u>	
<b>Vehicle Fleet</b>								
Staff	29,680		28,750		29,000		29,262	
Supplies and services	55,981		45,200		40,000		50,849	
	<u>85,661</u>		<u>73,950</u>		<u>69,000</u>		<u>80,111</u>	
Less: Recoveries	(26,486)		(15,500)		(20,000)		(24,218)	
	<u>59,175</u>		<u>58,450</u>		<u>49,000</u>		<u>55,893</u>	
	<b>1,073,558</b>		<b>1,170,730</b>		<b>1,243,200</b>		<b>1,352,871</b>	
<b>TOTAL REVENUE EXPENDITURE</b>	<b>1,397,835</b>		<b>1,521,880</b>		<b>1,597,900</b>		<b>1,686,913</b>	

**STATES OF ALDERNEY**  
**POLICY AND FINANCE COMMITTEE**

for the year ended 31 December 2011

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>Administration</b>								
Company registrations	43,049		42,000		42,000		45,600	
Court receipts	57,048		40,000		40,000		41,799	
Duty free concession	20,000		24,000		24,000		24,000	
Interest receivable	6,331		5,000		5,000		9,339	
Numismatic revenues	165,077		166,500		94,000		75,156	
Occupiers rates	450,726		450,800		448,700		449,199	
Permits and licences	18,335		22,000		22,000		19,297	
Post Office - share of philatelic profits	4,990		9,870		15,000		10,940	
Rents	35,274		35,300		35,300		35,274	
Royalties and fees	3,395		3,100		3,500		3,453	
Sundry sales and charges	18,863		16,500		15,000		14,968	
	823,088		815,070		744,500		729,025	
Less: Transfer to Currency Reserve	(56,240)		(55,000)		(15,000)		(21,528)	
		766,848		760,070		729,500		707,497
<b>Grants</b>								
Lottery profits	2,970		2,200		3,000		2,886	
Less: Distribution of Christmas Draw profits	(2,219)		(1,470)		(1,500)		(1,715)	
		751		730		1,500		1,171
<b>Marketing and Promotion</b>								
Accommodation permits	5,160		6,000		6,000		6,180	
Sale of advertising space	11,350		11,500		13,000		16,276	
		16,510		17,500		19,000		22,456
<b>TOTAL REVENUE INCOME</b>		784,109		778,300		750,000		731,124

**STATES OF ALDERNEY**  
**POLICY AND FINANCE COMMITTEE (continued)**

for the year ended 31 December 2011

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>Administration</b>								
Premises	18,951		20,000		22,000		21,487	
Staff	608,733		582,980		582,400		591,667	
Supplies and services	93,956		98,400		85,400		105,350	
Alderney Commission for Renewable Energy	-		-		-		345	
Alderney Housing Association - Set up costs	-		-		-		38,340	
Audit fees and expenses	28,714		30,000		30,000		27,429	
Breakwater maintenance contribution	15,000		15,000		15,000		15,000	
Health and safety regulation	2,419		3,000		3,000		1,995	
Insurance	9,102		6,600		30,000		21,820	
States Members allowances	90,484		90,500		90,500		81,286	
Supplementary & Retirement pensions	15,551		15,600		15,600		15,471	
Unforeseen expenditure: -	-		28,508		40,000		-	
Marina Investigations	-		-		-		5,393	
Economic Development Plan	24,000		24,000		-		-	
Business Development Exhibitions	10,000		-		-		-	
Pension Funds Transfer	105,300		-		-		-	
Review & Report on Staff Pension Scheme	1,424		1,000		-		4,600	
	1,023,634		915,588		913,900		930,183	
Less: Recoveries	(60,489)		(60,000)		(66,000)		(8,998)	
		963,145		855,588		847,900		921,185
<b>Court</b>								
Supplies and services	22,251		17,250		20,000		17,828	
Insurance	1,854		1,850		-		-	
		24,105		19,100		20,000		17,828
<b>Education and Health</b>								
Supplies and services	775		800		800		1,409	
Grant to Alderney playschools	500		500		500		500	
School bus subsidy	19,446		20,000		20,000		19,966	
Youth employment scheme (Trans to Apprenticeship Scheme)	-		-		3,000		992	
Youth Services grant	6,500		5,000		10,000		6,500	
	27,221		26,300		34,300		29,367	
<b>Social and Welfare Services</b>								
Social Services and welfare support	62,482		47,000		42,500		45,268	
Less: Recoveries	(46,767)		(30,000)		(20,000)		(37,521)	
	15,715		17,000		22,500		7,747	
		42,936		43,300		56,800		37,114
<b>Grants</b>								
Alderney Island Games Association	7,000		7,000		7,000		-	
Alderney Library	3,500		3,500		3,500		3,500	
Alderney Week	4,000		4,000		4,000		4,000	
Alderney Wildlife Trust	16,000		16,000		16,000		16,000	
Minor grants	9,991		10,000		10,000		8,501	
St. John Ambulance Brigade	42,000		42,000		31,000		30,000	
		82,491		82,500		71,500		62,001
<b>Marketing and Promotion</b>								
<b>Administration</b>								
Premises	6,986		8,200		8,200		6,702	
Staff	50,864		47,600		49,000		51,208	
Supplies and services	10,829		12,000		17,000		16,746	
	68,679		67,800		74,200		74,656	
Promotion of Tourism	132,436		128,800		123,800		139,992	
		201,115		196,600		198,000		214,648
<b>TOTAL REVENUE EXPENDITURE</b>		1,313,792		1,197,088		1,194,200		1,252,776

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE - ALDERNEY HARBOUR**  
*for the year ended 31 December 2011*

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
<b>REVENUE ACCOUNT</b>								
<b>INCOME</b>								
<b>Administration</b>								
Facilities charges	217,401		202,000		145,000		209,832	
Sundries	5,133		7,500		4,000		3,208	
	<u>222,534</u>		<u>209,500</u>		<u>149,000</u>		<u>213,040</u>	
Less concessions on charges	(1,021)		(2,000)		(3,000)		(1,542)	
	<u>221,513</u>		<u>207,500</u>		<u>146,000</u>		<u>211,498</u>	
<b>Crane dues and boat lifts</b>	60,781		60,000		60,000		61,792	
<b>Moorings and Navigation</b>								
Fees	120,182		115,000		125,000		132,527	
Pilotage fees	85,154		86,500		55,000		95,548	
	<u>205,336</u>		<u>201,500</u>		<u>180,000</u>		<u>228,075</u>	
Less: Pilots remuneration	(31,032)		(28,000)		(23,000)		(36,743)	
Concessions on charges	(3,515)		(5,000)		(6,000)		(3,115)	
	<u>170,789</u>		<u>168,500</u>		<u>151,000</u>		<u>188,217</u>	
<b>Quays and Buildings rent</b>	12,557		15,000		15,000		12,127	
<b>TOTAL INCOME</b>		<b>465,640</b>		<b>451,000</b>		<b>372,000</b>		<b>473,634</b>
<b>EXPENDITURE</b>								
<b>Administration</b>								
Staff	255,050		260,800		246,100		249,241	
Supplies and services	31,927		38,440		25,000		26,449	
Training costs	5,378		12,000		12,000		3,315	
Insurance	3,769		3,800		4,000		4,240	
Port security expenses	119		2,000		2,000		602	
	<u>296,243</u>		<u>317,040</u>		<u>289,100</u>		<u>283,847</u>	
Less: Recoveries	(50,431)		(47,000)		(46,000)		(49,868)	
	<u>245,812</u>		<u>270,040</u>		<u>243,100</u>		<u>233,979</u>	
<b>Cranes, Plant and Vehicles</b>								
Staff	36,068		38,200		35,000		35,061	
Supplies and services	19,647		26,600		25,000		76,798	
	<u>55,715</u>		<u>64,800</u>		<u>60,000</u>		<u>111,859</u>	
Less: Recoveries	(2,825)		(4,000)		(4,000)		(3,567)	
	<u>52,890</u>		<u>60,800</u>		<u>56,000</u>		<u>108,292</u>	
<b>Moorings and Navigation</b>								
Supplies and services	51,990		55,000		45,000		48,682	
Wrecks and salvage	2,120		3,000		3,000		2,120	
	<u>54,110</u>		<u>58,000</u>		<u>48,000</u>		<u>50,802</u>	
<b>Quays and Buildings</b>								
Consultancy Fees	67,334		20,600		-		46,524	
Premises	23,237		34,000		27,000		22,175	
	<u>90,571</u>		<u>54,600</u>		<u>27,000</u>		<u>68,699</u>	
<b>TOTAL EXPENDITURE</b>		<b>443,383</b>		<b>443,440</b>		<b>374,100</b>		<b>461,772</b>
<b>TRADING SURPLUS/(LOSS) FOR THE FINANCIAL YEAR FUNDED BY THE GENERAL SERVICES COMMITTEE</b>		<b>£22,257</b>		<b>£7,560</b>		<b>(£2,100)</b>		<b>£11,862</b>

# STATES OF ALDERNEY CAPITAL ACCOUNT SUMMARY

for the year ended 31 December 2011

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>INCOME ON CAPITAL ACCOUNT</b>				
General Services Committee	121,200	300,200	302,500	155
Policy and Finance Committee	319,157	1,280,300	1,376,000	734,234
<b>TOTAL INCOME ON CAPITAL ACCOUNT</b>	<b>440,357</b>	<b>1,580,500</b>	<b>1,678,500</b>	<b>734,389</b>
Routine capital allocation from States of Guernsey	200,000	200,000	-	200,000
Transfer of funds from AGCC reserves	3,061,267	2,000,000	1,600,000	3,080,929
Surplus (Deficit) for the year	1,555,747	1,181,966	(341,500)	217,730
	<b>2,145,877</b>	<b>2,598,534</b>	<b>3,620,000</b>	<b>4,233,048</b>

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>EXPENDITURE ON CAPITAL ACCOUNT</b>				
General Services Committee	2,145,877	2,598,534	3,620,000	4,233,048
Policy and Finance Committee	-	-	-	-
<b>TOTAL EXPENDITURE ON CAPITAL ACCOUNT</b>	<b>2,145,877</b>	<b>2,598,534</b>	<b>3,620,000</b>	<b>4,233,048</b>

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE**

for the year ended 31 December 2011

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
Sewerage Law contributions	1,000	1,000	3,000	-
Transfer from Housing Loans fund (re Social Housing)	100,000	299,000	299,000	-
Sale of Vehicle	20,200	200	500	155
<b>TOTAL CAPITAL INCOME</b>	<b>121,200</b>	<b>300,200</b>	<b>302,500</b>	<b>155</b>

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>Alderney Harbour capital expenditure</b>	210,757	268,217	400,000	1,764,128
<b>Alderney Water Board - Capital contribution: -</b>				
Water Filtration Plant Phase 2 - £700,000	80,000	110,000	-	-
Trigale High Level Storage Phase 3 - £420,000	350,000	350,000	375,000	550,000
Distribution Network Phase 4 (a) - prelims £3,000	-	3,000	-	-
<b>Health and Welfare</b>				
New Connaught Care Home - £2,500,000	1,193,353	1,190,000	900,000	1,716,900
<b>Public Services</b>				
Costal Protection - Corblets Footpath - £10,000	6,929	10,000	-	-
<b>Land and Property</b>				
Acquisition of land for runway safety area - £50,000	-	4,500	-	11,515
Camp Site - Improved facilities £81,000	21,204	50,000	-	-
Purchase of Abattoir Equipment £37,000	16,625	37,000	10,000	-
St. Anne's Church Roof Phase 1 £100k	136	100,000	300,000	-
Social Housing Projects - Phase 1	-	-	800,000	-
Transfer of Loans Fund to Alderney Housing Assn £299,000	100,000	299,000	299,000	-
<b>Sewage, Sanitation and Refuse</b>				
Sewerage Projects :				
Mouriaux to Platte Saline prelims - £10,000	67	-	500,000	4,648
Replacement Pumping Station - £13,700	6,973	30,000	-	-
<b>Vehicles and Plant</b>				
Fire Brigade - Water Tender replacement - £97,600	97,817	97,817	-	70
Vehicles - replacements - £25,000 & £32,500	62,016	49,000	36,000	-
Per published accounts 2010	-	-	-	185,787
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>2,145,877</b>	<b>2,598,534</b>	<b>3,620,000</b>	<b>4,233,048</b>

**STATES OF ALDERNEY**  
**POLICY AND FINANCE COMMITTEE**

*for the year ended 31 December 2011*

	Accounts 2011		Probable Outturn 2011		Budget 2011		Accounts 2010	
	£	£	£	£	£	£	£	£
Loan repayments								
Alderney Snooker Club		-		-		-		4,982
Property Transfer Duties								
Congé	302,454		270,000		220,000		198,887	
Leasehold Duty	16,704		10,000		5,000		-	
Transfer Duty	-		300		1,000		15	
		<b>319,157</b>		<b>280,300</b>		<b>226,000</b>		<b>198,902</b>
Sale of States Properties		-		1,000,000		1,050,000		530,350
Transfer from Coin Reserve account		-		-		100,000		-
<b>TOTAL CAPITAL INCOME</b>		<b>319,157</b>		<b>1,280,300</b>		<b>1,376,000</b>		<b>734,234</b>

**STATES OF ALDERNEY**  
**GENERAL SERVICES COMMITTEE - ALDERNEY HARBOUR**

*for the year ended 31 December 2011*

	Accounts 2011	Probable Outturn 2011	Budget 2011	Accounts 2010
	£	£	£	£
<b>CAPITAL ACCOUNT - EXPENDITURE</b>				
Commercial Quay renovation Phase 1 - £9,500,000	(1,341)	(1,000)	-	106,171
Commercial Quay renovation Phase 2 - £274,815	6,217	6,217	-	94,899
Commercial Quay renovation Phase 3 - £1,200,000	201,324	170,000	-	1,478,828
Commercial Quay Revetment	1,911	40,000	-	-
Glacis Boat Park	-	50,000	50,000	-
Harbour Office reconstruction - Preliminaries - £15,000 & £17,000	2,646	3,000	350,000	10,808
per published accounts 2010	-	-	-	73,422
<b>TOTAL CAPITAL EXPENDITURE FOR THE FINANCIAL YEAR FUNDED BY THE GENERAL SERVICES COMMITTEE</b>	<b>£210,757</b>	<b>£268,217</b>	<b>£400,000</b>	<b>£1,764,128</b>

# STATES OF ALDERNEY

## Summary of Balances at 31 December 2011

### LE BANQUAGE HOUSING LOANS SCHEME

	<b>2011</b>
CAPITAL ACCOUNT	£
Balance of Funds at 01.01.11	299,099
Transfer to Alderney Housing Association	(100,000)
Balance of Funds at 31.12.11	<u>199,099</u>

### COINS IN CIRCULATION ACCOUNT

Value of coins in circulation at 01.01.11	2,708,527
Value of coins issued in 2011	392,869
	<u>3,101,396</u>
Less: Value of coins withdrawn from circulation	(236)
Value of coins in circulation at 31.12.11	<u>3,101,160</u>

### CURRENCY RESERVE FUND

Balance at 01.01.11	299,743
Reserve for base metal coins issued in 2011	56,763
	<u>356,506</u>
Less: Value of coins redeemed.	(236)
Balance at 31.12.11	<u>356,270</u>

### INVESTMENTS

<b>2010</b>			<b>2011</b>	
SHARES	£		SHARES	£
<u>1,146,090</u>	<u>39,860</u>	<u>Alderney Electricity Ltd.</u>		
		Ordinary Shares at £1 each fully paid at cost		
		Balance at 01.01.11 and 31.12.11	<u>1,146,090</u>	<u>39,860</u>

<b>2010</b>			<b>2011</b>	
SHARES	£		SHARES	£
<u>11,150</u>	<u>5,659</u>	<u>Alderney Electricity Ltd.</u>		
		7% Cumulative Preference Shares at £1 each fully paid at cost		
		Balance at 01.01.11 and 31.12.11	<u>11,150</u>	<u>5,659</u>

<b>2010</b>			<b>2011</b>	
SHARES	£		SHARES	£
<u>1</u>	<u>1</u>	<u>Alderney eGambling Ltd</u>		
		Ordinary Shares at £1 each fully paid at cost		
		Balance at 01.01.11 and 31.12.11	<u>1</u>	<u>1</u>

<b>2010</b>			<b>2011</b>	
SHARES	£		SHARES	£
<u>650</u>	<u>650</u>	<u>Alderney Golf Club</u>		
		Shares at £1 each fully paid at cost		
		Balance at 01.01.11 and 31.12.11	<u>650</u>	<u>650</u>

<b>2010</b>			<b>2011</b>	
SHARES	£		SHARES	£
<u>2</u>	<u>2</u>	<u>Royal Connaught Residential Home Ltd</u>		
		Shares at £1 each fully paid at cost		
		Balance at 01.01.11 and 31.12.11	<u>2</u>	<u>2</u>

**STATES OF ALDERNEY**  
**Summary of Balances at 31 December 2011 (continued)**

<u>2010</u>	<b>Bank accounts</b>	<u>2011</u>
£	<u>Daisy Hansen St Anne's School Trust</u>	£
980	Balance at 01.01.11	983
<u>3</u>	Interest received	<u>1</u>
<u>983</u>	Balance at 31.12.11	<u>984</u>
	<u>The Anne French Hospital Annexe Fund</u>	
11,927	Balance at 01.01.11	11,957
<u>30</u>	Interest received	<u>17</u>
<u>11,957</u>	Balance at 31.12.11	<u>11,974</u>
	<u>States of Alderney Interest on Investments Account</u>	
	<u>(Educational Bequests)</u>	
11,125	Balance at 01.01.11	10,151
<u>26</u>	Interest received	<u>14</u>
11,151		10,165
<u>(1,000)</u>	Grants	<u>0</u>
<u>10,151</u>	Balance at 31.12.11	<u>10,165</u>
	<u>The Packe History Trust</u>	
1,550	Balance at 01.01.11	1,526
<u>1</u>	Interest received	<u>1</u>
1,551		1,527
<u>(25)</u>	School History Prize	<u>(25)</u>
<u>1,526</u>	Balance at 31.12.11	<u>1,502</u>

# STATES OF ALDERNEY

## Summary of Balances at 31 December 2011 (continued)

<u>2010</u> £	<b>Bank accounts</b>	<u>2011</u> £
<u>200</u>	<u>Alderney Pilotage Board</u> Balance at 01.01.11 and 31.12.11	<u>200</u>
17,353	<u>The Mary Roylance Jubilee Home Fund</u> Balance at 01.01.11	17,277
43	Interest received	<u>22</u>
17,396		17,299
(119)	Residents amenities	0
-	<b>Account Closed and balance transferred to Royal Connaught Care Home</b>	<u>(17,299)</u>
<u>17,277</u>	Balance at 31.12.11	<u>0</u>
15,273	<u>The Mary Roylance Mignot Memorial Hospital Fund</u> Balance at 01.01.11	15,431
158	Interest received	<u>192</u>
<u>15,431</u>	Balance at 31.12.11	<u>15,623</u>
34,629	<u>St Anne's Trust</u> Balance at 01.01.11	30,945
83	Interest received	<u>44</u>
34,712		30,989
(3,767)	Grants	0
<u>30,945</u>	Balance at 31.12.11	<u>30,989</u>
69,785	<u>The New Parsonage House Trust</u> Balance at 01.01.11	70,163
645	Interest received	<u>810</u>
70,430		70,973
(267)	Maintenance costs	<u>(173)</u>
<u>70,163</u>	Balance at 31.12.11	<u>70,801</u>

### Outstanding Commitments on major projects at 31.12.11

	Vote	Spend to 31.12.11	Balance outstanding
Commercial Quay Renovation - Phase 1	9,500,000	10,374,472	(874,472)
Commercial Quay Renovation - Phase 2	274,815	263,361	11,454
Commercial Quay Renovation - Phase 3	1,280,000	1,682,117	(402,117)
New Connaught Care Home	2,500,000	3,038,774	(538,774)

#### Commercial Quay:

Phase 1 was completed with an overspend of £874,472

Phase 2 was completed on time and within budget.

Phase 3 was completed with an overspend of £402,117

**Phase 1 Revetment Rebuild** The outstanding item in Phase 1 is the rock revetment. There is disagreement between the Consulting Engineer and the Contractor as to whether the design was correct, the construction was satisfactory and whether appropriate sea condition data was used. To help resolve this impasse, the States have appointed independent Consulting Engineer Mouchel and the result of their analysis is being progressed.

**New Connaught Care Home** was completed in May 2011 with an overspend of £538,774 a final retention payment is due in 2012.

## **STATES OF ALDERNEY WATER BOARD**

### **STATEMENT OF THE BOARD'S RESPONSIBILITIES**

The States of Alderney Water Board ('the Board') acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Board and of the surplus or deficit of the Board for that year.

In preparing those financial statements the Board is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and the detection of fraud and other irregularities.

## **Independent auditor's report to the members of the States of Alderney Water Board**

We have audited the financial statements of the States of Alderney Water Board ("the Water Board") for the year ended 31 December 2011 which comprise the Revenue Account, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members, as a body, in accordance with the terms of our engagement dated 6 February 2012. Our audit work has been undertaken so that we might state to the members those matters we have been engaged to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Water Board and the members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board and auditor**

As explained more fully in the Statement of the Board's Responsibilities, the Board is responsible for the preparation of the financial statements in accordance with the accounting policies set out in note 1. Our responsibility is to audit and express an opinion on the financial statements having regard to International Standards on Auditing (UK and Ireland). Those standards require compliance with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Water Board circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements fairly summarise the transactions for the year ended 31 December 2011 in accordance with the accounting policies set out in note 1.

### **Matters on which we report by exception**

We have nothing to report in respect of the following matters where the terms of our engagement letter require us to report to you if, in our opinion:

- the Board has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

### **KPMG Channel Islands Limited**

*Chartered Accountants*

Guernsey

29th March 2012

## STATES OF ALDERNEY WATER BOARD

## REVENUE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2011

REVENUE	Notes	2011		2010	
		£	£	£	£
	1				
Unmetered Supplies		475,290		442,131	
Metered Supplies		72,192		65,718	
Service Charges		1,040		5,425	
Contract Work		<u>3,064</u>		<u>1,542</u>	
			551,586		514,816
<b>EXPENSES</b>	1				
OPERATING AND MAINTENANCE EXPENSES					
Salaries and Wages		170,264		163,696	
Water Treatment and Testing		43,820		54,348	
Fuel, Electricity and Telemetry		97,321		65,516	
Maintenance		44,853		70,764	
Maintenance Contracts		13,500		0	
Health & Safety expenses		2,597		4,941	
Pension Costs	2	22,614		26,463	
Depreciation	1 & 6	<u>61,387</u>		<u>33,406</u>	
		<u>456,357</u>		<u>419,134</u>	
ADMINISTRATION AND GENERAL EXPENSES					
Administration Charge		15,533		14,567	
Rents, Rates and Taxes		7,623		8,064	
Insurance		6,948		6,951	
Motor Vehicle Expenses		7,789		7,711	
Office Expenses and Equipment		6,279		4,420	
Accountancy and Audit		6,070		5,700	
Bank Charges		797		668	
Travelling and General Expenses		1,465		1,544	
Staff Training Costs		6,283		5,745	
Consultancy Fees and Expenses		88		8,099	
Bad Debts Written off		533		0	
Fixed Asset Written off		<u>3,191</u>		<u>0</u>	
		<u>62,600</u>		<u>63,469</u>	
			(518,957)		(482,603)
OPERATING SURPLUS			<u>32,629</u>		<u>32,213</u>
OTHER INCOME					
Interest Receivable			0		61
Rents Receivable	5		<u>10,481</u>		<u>9,408</u>
<b>SURPLUS FOR THE YEAR</b>			43,110		41,682
BALANCE BROUGHT FORWARD			488,613		446,931
BALANCE CARRIED FORWARD			<u>£ 531,723</u>		<u>£ 488,613</u>

The Water Board has no recognised gains or losses other than the surplus for the year.

Notes 1 to 6 form an integral part of these financial statements.

STATES OF ALDERNEY WATER BOARD

BALANCE SHEET AS AT 31ST DECEMBER 2011

	Notes	2011		2010	
		£	£	£	£
<b>ASSETS EMPLOYED</b>					
FIXED ASSETS	1 & 6		1,565,085		1,171,378
<b>CURRENT ASSETS</b>					
Stock	1	50,145		52,057	
Debtors		115,770		282,153	
Bank balances - deposit		102		102	
Bank balances - current		<u>299,801</u>		<u>47,057</u>	
		465,819		381,369	
<b>LIABILITIES FALLING DUE WITHIN ONE YEAR</b>					
Creditors		<u>83,895</u>		<u>78,848</u>	
NET CURRENT ASSETS			<u>381,924</u>		<u>302,521</u>
NET ASSETS		£	<u>1,947,009</u>	£	<u>1,473,899</u>
<b>FINANCED BY</b>					
<b>RESERVES</b>					
General	3		86,286		86,286
Capital Contribution from States of Alderney	3		1,329,000		899,000
Revenue Account			<u>531,723</u>		<u>488,613</u>
		£	<u>1,947,009</u>	£	<u>1,473,899</u>

Notes 1 to 6 form an integral part of these financial statements.

The financial statements were approved by the States of Alderney Water Board on 27th March 2012 and are signed on its behalf by:

W Walden  
Chairman

## STATES OF ALDERNEY WATER BOARD

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the States of Alderney Water Board's financial statements:

##### **Basis of Preparation**

The financial statements have been prepared under the historical cost convention and in accordance with UK applicable accounting standards

##### **Revenue and Expenses**

Revenue and Expenditure is recognised on an accruals basis.

##### **Fixed Assets**

Fixed assets are stated at cost less depreciation. Staff time spent on capital projects is capitalised at cost.

##### **Depreciation**

Depreciation is calculated at the following annual rates so as to write off the cost of fixed assets over their anticipated useful lives using the straight line method:

	%
Mains and services	2.50
Buildings	2.50
High Level Storage Tanks	4.00
Machinery and Filtration Plant	6.66
Tools and equipment	10.00
Consumers' meters	10.00
Filtration Membranes	14.50
Motor vehicles	20.00

Calculation of depreciation is based on capital expenditure incurred at the commencement of the accounting period, and also on additions during the accounting period.

##### **Stock**

Stock is valued at the lower of cost and net realisable value.

##### **Cash Flow Statement**

Under Financial Reporting Standard No 1 the States of Alderney Water Board is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

#### 2 PENSION COSTS

The employees of the States of Alderney Water Board are members of the States of Alderney Pension Scheme. This is a defined benefit scheme, providing benefits based on final pensionable pay, funded by contributions from both employer and employee at rates which are determined periodically on the basis of actuarial advice and which are calculated to spread the expected cost over the period of those employees' expected service lives. The report by the actuary on the valuation of the pension fund as at 1st January 2009 indicated that the fund was in deficit. The next triannual report is due as at 1st January 2012. Over the year to 31st December 2011 the employer contributed at the rate of 20% of pensionable salaries, including death in service premiums, subject to review at future actuarial valuations.

Employees contribute at a rate of 6.5%.

As the scheme is a multi employer arrangement the Board is unable to identify its share of the scheme assets and liabilities on a consistent basis, as required by Financial Reporting Standard FRS17.

The pension charge to the Water Board for the year was £22,614 (2010: £26,463).

STATES OF ALDERNEY WATER BOARD

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2011

3 RESERVES

General Reserve

This is an historic record of the States of Alderney investment into the Water Board in the early years of operation.

Capital Contribution from States of Alderney.

A Capital Contribution of £420,000 was approved by the States of Alderney on 20th July 2011 to fund the installation of new water storage tanks (Phase 3) and a further £98,000 approved by the Policy & Finance Committee on 24th October 2011 for Stage A of the upgrade of the water distribution network (Phase 4).

As at 31.12.11 £430,000 had been received

4 RELATED PARTY TRANSACTIONS

In 2011 Mr W Walden was Chairman of the General Services Committee and the Water Board.

The States of Alderney has a majority shareholding in Alderney Electricity Ltd and appoints annually a director to the Board of the Company. This position was held by Mr J Beaman until 14th June 2011 and then by Mr B Kelly.

The Water Board purchases electricity, oil and specialist electrical services from Alderney Electricity Ltd. In 2011 the value of these purchases was £96,813. (2010 £99,402)

Mr I Tugby is a member of the Water Board, and is also the beneficial owner of Tugby Contractors Ltd. In 2011 the Board purchased goods and services from Tugby Contractors Ltd to the value of £20,583.

During 2011 the Water Board purchased goods and services from the States of Alderney to the value of £46,796 and supplied goods and services to the States of Alderney to the value of £14,029.

The General Services Committee is appointed by the States of Alderney to act as the Water Board.

5 RENTS RECEIVABLE

During 2011 the Board received rent from two mobile telephone companies, that utilise the Mouriaux water tower as a base station for their equipment and aerials, and from the lease of Corblets Quarry for fishing rights.

6 FIXED ASSETS

	At 1st January 2011	Additions/ Charge	Disposals and amounts written off	At 31st December 2011
	£	£	£	£
<b>COST</b>				
Land	10	-	-	10
Mains and Services	685,853	117,104	-	802,957
Buildings	19,863	65,269	-	85,132
Machinery	252,386	387,226	(5,506)	634,106
Filter Membranes	0	65,000	-	65,000
Tools and Equipment	14,127	11,773	(834)	25,066
Motor Vehicles	24,742	-	(15,244)	9,498
Consumer Meters	2,820	-	(1,713)	1,107
Assets in course of construction (Phase 2)*	403,230	(403,493)	-	(263)
Assets in course of construction (Phase 3)*	6,345	213,341	-	219,686
Assets in course of construction (Phase 4a)*	0	2,065	-	2,065
	1,409,376	458,285	(23,297)	1,844,364
<b>DEPRECIATION</b>				
Mains and Services	131,839	18,762	-	150,601
Buildings	10,827	1,437	-	12,264
Machinery	64,390	30,416	(2,315)	92,491
Tools and Equipment	10,021	2,027	(834)	11,214
Motor Vehicles	18,406	3,170	(15,244)	6,332
Consumer Meters	2,515	158	(1,713)	960
Filter Membranes	0	5,418	-	5,418
	237,998	61,388	(20,106)	279,279
<b>NET BOOK VALUE</b>	<b>£1,171,378</b>	<b>396,897</b>	<b>(3,191)</b>	<b>£1,565,085</b>

\* At 31st December 2010 £409,575 had been expended or accrued on the Potable Water Projects and is shown above as "Assets in course of construction". The balance of Phase 2 (retention payment), Phase 3 and Phase 4a will be capitalised on completion.