XVII
2018

BILLET D'ÉTAT

TUESDAY, 26th JUNE, 2018

BUSINESS OF THE MEETING

1. The States of Guernsey Accounts 2017, P.2018/45

BILLET D'ÉTAT

TO
THE MEMBERS OF THE STATES
OF THE ISLAND OF GUERNSEY

I hereby give notice that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE,** on **TUESDAY,** the **26th June, 2018** at **9.30 a.m.,** to consider the item listed in this Billet d'État which has been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey

4th June, 2018

P.2018/53

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE STATES OF GUERNSEY ACCOUNTS 2017

The States are asked to decide:

Whether, after consideration of the reports, statements and notes relating to the respective Accounts, they are of the opinion:

1. To approve the States of Guernsey Accounts 2017

2. To approve the following 2017 Accounts:
    i. Ports
    ii. Guernsey Water
    iii. Guernsey Dairy
    iv. States Works

3. To note the following Accounts:
    i. Social Security Contributory Funds
    ii. Elizabeth College
    iii. Ladies' College
    iv. States of Alderney

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

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STATES OF GUERNSEY ACCOUNTS

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PRESIDENT'S FOREWORD

This year's Accounts are the first step in the journey towards a full set of International Public Sector Accounting Standards (IPSAS) compliant financial statements. These are the first substantial changes made to the Accounts since 2008 when there was an overhaul of their presentation.

I am pleased that the Auditor's Report gives the opinion that *"the accounts for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the accounts."*

The overall surplus for 2017 was £113.9m which was attributable to the following reserves:

- General Reserve - £69m;
- Capital Reserve - £28.5m; and
- Core Investment Reserve – £16.3m.

In respect of the General Reserve the surplus, after adjusting items, was £67.9m which is £33.1m higher than originally budgeted and £17.9m more than the revised forecast included in the 2018 Budget Report. These figures indicate the strength in our economy with growth in earnings and an increase in the number employed leading to higher income tax receipts, coupled with 2017 being a strong year for document duty receipts with a substantial increase in the volume of transactions.

Therefore, after allowing for appropriations to the Capital Reserve and Core Investment Reserve; providing for Cabernet Limited's 2018 projected losses and restoration of the General Revenue Account Reserve to 5% of revenue income (£24m), there is £22.1m of surplus available for appropriation.

The 2019 Budget Report will include proposals for use of this surplus, taking into account the projected financial position for 2018 and 2019. The options for use of this surplus include:

- Further rebuilding of the Core Investment Reserve which was depleted in the years in which deficits were recorded;
- Replenish the Future Guernsey Economic Fund to enable greater support for future economic development initiatives;
- Help delivery of agreed policy priorities in the Policy & Resource Plan by enabling the acceleration of transformation; and
- Funding increases in personal income tax allowances.

The Capital Reserve had a balance of £240.2m at the end of 2017, an increase of £81m comprising £28.5m of the overall surplus and £52.5m of transfers from the General Reserve. Whilst it is pleasing that transfers to the Capital Reserve were sufficient to meet the target of being able to spend an average of 3% of GDP per annum on capital expenditure in the medium-term, it is a concern that actual expenditure incurred on programmes and projects in 2017 was only £8.2m. If we are to deliver the vision of Future Guernsey – great today, better tomorrow, we must invest in the island's infrastructure and capital plans should be accelerated where possible to ensure that our public services have the infrastructure they need and our economy benefits from this investment. It is vital that we do not merely maintain and replace existing assets, but we must invest to enable transformation of how we deliver our services and, increasingly importantly, to facilitate and drive growth in our economy.

PRESIDENT'S FOREWORD

In respect of the Core Investment Reserve, the investment return of £16.3m, together with the transfer of £5m from the General Reserve (the first such transfer in over a decade), means that the balance of the Core Investment Reserve has now increased to 39% of the 2018 General Revenue income budget. This is a small but significant step towards the target of having a full year's revenue income in that Reserve as it adds further resilience to our overall financial strength and contributes to ensuring sustainable public finances.

Whilst the financial position recorded in 2017 is undoubtedly very pleasing and positive, reflecting improvements in the fiscal and economic cycle, there were a number of non-recurring items which contributed towards the increased surplus including exceptionally strong investment returns. The current Medium Term Financial Plan set out a fiscal strategy designed to ensure the finances of the States can support the delivery of the outcomes set out in the Policy & Resource Plan. Delivery of the Plan will ensure that the States are able to achieve and maintain a balanced budget before moving into a sustainable surplus enabling the re-building of reserves and the investment in future public services in support of achieving the agreed outcomes. There remains a requirement to increase revenues and reduce the costs of public services on a sustainable and recurring basis if this Plan is to be achieved which will require financial discipline to be maintained.

STATES TREASURER'S REPORT

1. Introduction

1.1. Guernsey is a separate crown dependency situated in the Bay of St. Malo west of the Normandy coast, with its own laws and customs based originally on Norman practice. Effectively independent, yet coming under the protective wing of the British Government, Guernsey is a part of the British Isles but not the United Kingdom. The UK Government is responsible only for the Bailiwick's international representation and defence.

1.2. The Parliament is referred to as the States of Deliberation, and has the power to raise taxation, determine expenditure and pass legislation within the Bailiwick. The States of Guernsey (States) refers to the function of government.

1.3. In 2012 (Billet d'État V, 2012), the States agreed to establish a States Review Committee to undertake a comprehensive review of the structure and functions of the legislature and government in Guernsey and to make any recommendations for reform which it considered necessary to provide for the highest possible standards of good governance. Following consideration of a series of Policy Letters from the States' Review Committee, the States approved reform of the Machinery of Government which was introduced in May 2016. This resulted in the establishment of a number of Committees, Authorities and Boards, each of which is independently responsible to the States of Deliberation for the policies, decisions and administration of those functions of government which it has been allocated. The Policy & Resources Committee is the senior Committee of the States and has responsibility to advise the States and to develop and implement policies and programmes relating to:

- leadership and co-ordination of the work of the States;
- fiscal policy, economic affairs and the financial and other resources of the States;
- external relations and international and constitutional affairs; and
- other matters which have been delegated to the Committee.

1.4. There is an annual budget process through which individual Committees[1] are allocated a Cash Limit from which they provide services such as education, law enforcement and the majority of health and social care services.

2. Scope

2.1. The income and expenditure of the States contained within this Report is for 'General Revenue' only (i.e. the income accruing from general taxation and the expenditure funded therefrom), and does not include all government income and expenditure.

2.2. Income does not include revenues from Social Security contributions paid into the Social Security Funds or contributory benefits and pensions paid from these Funds. The consolidated accounts of the Social Security Funds are published in full in this Billet.

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

These Accounts includes only the General Revenue grants to Social Security Funds, non-contributory benefits and some general administration costs.

2.3. Furthermore, there is currently no consolidation in respect of the States' internal trading entities (Ports, Guernsey Water, Dairy and States Works) or for the States Trading Companies (Guernsey Post Ltd, Guernsey Electricity Ltd, the Aurigny Group and JamesCo750 Ltd). The Accounts for the States' internal trading entities are published in this Billet; those of Guernsey Post Ltd and Guernsey Electricity Ltd are published as an item for debate in a Billet d'État; the Accounts of the Aurigny Group (with minor redactions) are publicly released. For reasons of commercial confidentiality, the full Accounts of JamesCo750 Ltd are not published.

3. Changes to the Statement of Accounts

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

3.2. In 2012 a decision was taken by the States to implement International Public Sector Accounting Standards (IPSAS), a recognised accounting framework which focuses on the requirements of the public sector. As such, this framework should be more applicable to the financial reporting requirements of the States than other accounting frameworks. This accounting framework which will be transitioned to over a number of years, has a proposed methodology for first time adoption which sets out specific exemptions or provisions that impact upon the preparation of the financial statements and the extent of compliance, within prescribed timeframes.

3.3. In recognition of the substantial resource implications required for such a transition, it is intended that IPSAS will be introduced in a phased manner over a number of years. This is due to the requirement to develop systems and processes necessary for generating the appropriate financial information for the accounts.

3.4. This process has started with changes being made to these accounts in comparison to those prepared for the financial year 2016. These changes are set out within Note 2 of the Accounts and include:

1. Changes to the name and format of the principal financial statements;
2. Introduction of a Movement in Reserves Statement;
3. The aggregation of all income and expenditure within the Statement of Financial Performance;
4. Accounting for the transfer of balances between reserves, as appropriations;
5. Reclassification of currency in circulation as a liability; and
6. Third party entities that deposit cash with the States being shown as a current liability.

3.5. In order to provide comparative totals, the balances taken from the 2016 Statement of Accounts have been restated. The balance of the General Reserve, Capital Reserve, Core Investment Reserve and the States Trading Entities Reserve remain unchanged as at 31 December 2016, following on from the introduction of new accounting policies. However, with the currency in circulation being accounted for as a liability instead of a reserve, the net assets of the States have reduced by £47.1m, from £600.3m to £553.2m.

3.6. The changes introduced for the 2017 Accounts have created a platform for making further changes in forthcoming years. A detailed plan is being developed for the transition including a full assessment of the various accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB) in order to determine the level of work required to achieve compliance in the future.

3.7. However it is important to note that there are some accounting standards that would have a significant impact upon the financial statements when implemented. In particular, consideration will need to be given to the following.

IPSAS 35 – Consolidated Financial Statements

As noted above, a form of single entity accounts is prepared. If this standard is implemented, the States would be required to present the assets, liabilities, net assets, reserves, revenue, expenses and cash flows of itself and all entities it controls in the consolidated financial statements. All transactions between controlled entities would need to be eliminated on consolidation. Control would be based on whether (i) the States have power over the entity; (ii) exposure, or rights, to variable benefits from its involvement with the other entity; and (iii) the ability to use their power over the other entity to affect the nature or amount of the benefits.

IPSAS 16 – Investment Property and IPSAS 17 – Property, Plant and Equipment

The States do not recognise investment property nor property, plant and equipment in the Statement of Financial Position. Following implementation of these standards, the States will need to recognise those assets for which it is likely future economic benefits or service potential associated with the asset will flow to the entity and where the cost or fair value can be measured reliably. Investment property will be subsequently recognised using either the fair value or cost model, while property, plant and equipment will subsequently be recognised using the cost model or revaluation model. A decision would need to be taken regarding the valuation method to be applied.

IPSAS 39 – Employee Benefits

Although the States discloses financial details of the Combined Superannuation Fund in the notes to the Financial Statements in accordance with Financial Reporting Standard 102 (see note 38), they do not currently recognise any associated scheme deficit as a liability within the Statement of Financial Position, nor do they recognise the costs associated with the scheme in line with IPSAS 39. Should this standard be implemented, the net deficit of the Combined Superannuation Fund would be included within non-current liabilities in accordance with the accounting principles. Past and current service costs, net interest costs, re-measurement gains/losses on plan assets, and actuarial gains/losses on the defined benefit obligation would be included in the surplus/deficit. Contributions made by the States, which are currently accounted for as an expense, would only be adjusted within plan assets and would not be directly recognised in the Statement of Financial Performance. Consideration will need to be given as to the applicability of full adoption of this standard, given the rules, structure, funding arrangements and investment strategy for the States of Guernsey Public Sector Pension Scheme.

3.8. It is important to stress that the aforementioned IPSAS are few in number and do not constitute all of the standards that will need to be adopted by the States.

4. External Audit

4.1. The previous contract with Deloitte LLP for the external audit of the States Accounts concluded with the audit of the 2016 financial statements. The States tendered for external audit services and Grant Thornton Limited was selected as the successful bidder and performed the audit of the States 2017 financial statements in accordance with International Standards on Auditing (UK) and applicable law.

4.2. The Auditor's Report gives the opinion that *"the accounts for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the accounts."*

5. Financial Performance

5.1. The overall surplus for 2017 was £113.9m which was attributable to the following reserves:

- General Reserve - £69m;
- Capital Reserve - £28.5m; and
- Core Investment Reserve – £16.3m.

5.2. After making allowance for adjusting items (as set out in Note 45 to the Accounts) the General Reserve surplus was £67.9m compared to a budgeted surplus of £34.8m (in the 2017 Budget Report) and a Probable Outturn of £50m (included in the 2018 Budget Report). Therefore, the improvement in the surplus is £33.1m compared to the amount originally budgeted and £17.9m compared to that forecast as the outturn for 2017.

5.3. As part of the 2018 Budget Report, the States approved appropriations of part of the budgeted improvement of the 2017 surplus (£8.1m to the Capital Reserve to increase the transfer to its full value in line with agreed policy and £5m to the Core Investment Reserve). The remainder was largely held as a provision for Cabernet Limited's 2017 and 2018 losses (£6.8m and £3.9m respectively) and to restore the balance on the General Revenue Account Reserve to £24m which is in line with the policy of keeping a balance on this Reserve of 5% of revenue income.

5.4. The balance of the General Reserve at the end of 2017 was £50m. Therefore, after allowing for £24m as the General Revenue Account Reserve and £3.9m provision for Cabernet Limited's 2018 projected losses, there is £22.1m of surplus available for appropriation. The 2019 Budget Report will include proposals for use of this surplus, taking into account the projected financial position for 2018 and 2019.

5.5. Appendix II is a schedule of the Income and Expenditure Account presented in the same format as included within the annual Budget Report and previous Accounts including expenditure by Committee.

5.6. Net revenue expenditure decreased by £6m between 2016 and 2017. Excluding the effect of the suspension of the grant to the Guernsey Health Service Fund (£4.7m in 2016), this is a decrease of £1.3m or 0.3% in nominal terms which can be accounted for by the Committee *for* Health & Social Care's expenditure being £2.5m lower in 2017 than in 2016.

5.7. In real terms, this is a reduction in net revenue expenditure of 2.8% or £10.3m which continues the trend of real terms' reductions recorded in recent years.

5.8. When comparing to Authorised Budget, Committees collectively underspent by £2.7m and £2.7m remained unallocated within the revenue expenditure element of the Budget Reserve, giving a total underspend of £5.4m. There were three Committees that overspent their Authorised Budgets:

- The Committee *for* Economic Development overspent by £0.4m caused by a £1.0m provision for doubtful debts in respect of fees incurred by the Office of the Public Trustee which may prove to be unrecoverable offset by £0.6m of underspends in other areas of its budget;
- The Committee *for* Education, Sport & Culture overspent by £2.1m which is a combination of failure to meet savings targets and material overspends in certain areas, including salaries;
- The Committee *for* Home Affairs recorded a minor overspend of £57,000.

5.9. These overspends were offset by a collective underspend of £5.3m by other Committees including £2.6m by the Committee *for* Health & Social Care (after the return of £2m during the year); £1.0m by the Committee *for* Employment & Social Security and £0.6m by the States' Trading Supervisory Board.

5.10. Full Committee Accounts and accompanying narrative are included as appendices to the Policy & Resource Plan 2017 review and 2018 Update (Billet d'État XV, 2018).

5.11. The Budget Reserve is the instrument used to hold provision for pay awards and manage overall budget contingencies and deal with any one-off, unexpected, in-year cost pressures. Individual Committees do not routinely hold budget contingencies which invariably would not be fully utilised every year but funding is available from the Budget Reserve. The Policy & Resources Committee has delegated authority to approve use of the Budget Reserve and this is detailed in Appendix VII.

5.12. In 2017 there was a Budget Reserve of £7.9m which was allocated as follows:

Provision	**Notional Allocation £m**	**Required £m**
Pay awards	2.0	1.9
Turnover adjustment (established staff)	1.0	0.4
Other revenue uses	1.9	1.9
Committee *for* Health & Social Care – return of budget	-	(2.0)
Transfers to routine capital allocations	3.0	2.7
Total	**7.9**	**4.9**

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

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

6. Income

Income Tax

6.1. Income tax receipts increased from £302.7m in 2016 to £324.1m in 2017, an increase of £21.4m (7.1%). The majority of income tax is collected from individuals which increased by £8m to £253.8m which is a 3.2% nominal increase or 0.7% in real terms. This is a significant improvement of £5.9m compared to the 2017 budgeted income of £247.9m. This is a continuation of the solid real-terms' growth experienced in 2016 and is seen as an indicator of strength in the economy, supported by the increases in the numbers employed in the economy (there were 1,607 more people working in March 2017 than in March 2015).

6.2. In respect of companies, income tax receipts increased by £11.6m to £58.8m. This increase includes £9.3m from companies (other than banks) where there was £2.9m received from the extension of the 20% income tax rate to large retail business introduced in 2017 (nearly double that estimated); £2.8m in respect of a significant settlement; and growth in receipts from other sectors, particularly in regulated entities and property development / rental. However, analysis has shown that, as actual assessments in respect of 2016 have been completed, additional tax has often needed to be paid. Therefore, some of this improvement represents an adjustment in respect of 2016 and will not be sustained as part of the underlying tax base.

Other Taxes

6.3. The increase of £5.4m on Other Taxes (which totalled £79.8m in 2017 and comprises Excise and Import Duties; Tax on Real Property; Document Duty and Vehicle First Registration Duty) is largely due to a £4.3m increase in Document Duty receipts. However, this includes two exceptional transactions which generated £3.4m. 2017 was a strong year with the total number of local market conveyances up 13% over 2016 and open market conveyances increasing by 7%. Overall, the budget for Document Duty was exceeded by £2.2m in 2017.

6.4. Despite increases in duty rates, income from Excise and Import Duties remained at a similar level to 2017 due to the continuing effect of the reduction in volumes of motor spirit consumed and the volatility in volume of Tobacco imports.

Miscellaneous Income

6.5. Miscellaneous income, which totalled £96.1m in 2017 (2016: £100m), comprises net investment return; States' housing rental income; company fees; dividend income from States' trading entities; and other income.

6.6. The net investment return of £61.5m includes £56.5m in respect of investment income as a result of continued strong performance in line with global markets and £5m of interest from loans made from the proceeds of the States of Guernsey Bond Issue. This investment income has been allocated to various reserves, based upon their individual balance throughout 2017 and is detailed in Notes 21 to 34. These include the Core Investment Reserve (£16.3m); Bond Reserve (£16.2m); Capital Reserve (£14.6m); and Notes and Coins Trading Account (£4.7m).

Income from Operating Activities

6.7. Income from Operating Activities increased by £5.8m to £60.9m in 2017 including £2.3m in health and social care operating income (including £1.6m as a result of the in-house model for the Emergency Care Department).

7. Expenditure

Pay Costs

7.1. Pay costs continue to form the largest single item of expenditure totalling 49.6% of total revenue spend (2016: 48.8%) and a paid workforce of 4,535 Full Time Equivalent staff (FTEs), an increase of 52 FTEs compared to 2016. This increase is entirely within Health & Social Care whereby the repatriation of Complex Placements has resulted in an increase in the number of Healthcare Assistants and Support Workers; and the full-year effect of the replacement in September 2016 of an outsourcing contract for the Emergency Department with an in-house model has seen an increase of 18.8 FTEs. The total expenditure on pay (which includes temporary and agency staff together with States Members' remuneration) during 2017 was £223.3m which is a decrease of £2.6m or 1.2% in real terms (nominal increase of 1.3% or £2.9m).

7.2. Note 6 details the number of employees whose gross cost of employment exceeds £80,000. This £80,000 threshold does not simply relate to employees' salary or wages but to the total costs of employment which include employer pension and social insurance contributions along with any other ancillary costs. Future pay awards will lead to additional salary scales falling within the criteria each year. The increase of five employees between 2016 and 2017 is due to the introduction of the in-house model for providing the Emergency Department.

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

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

		2017			2016
Post Title	**Grade**	**Gross Pay**	**Pension Contribution**	**Total**	**Total**
Chief Executive	SO12	150,031	21,154	**171,185**	171,185
States Treasurer	SO11	137,109	18,289	**155,398**	155,572
Chief Operating Officer	SO11	124,073	16,725	**140,798**	* 92,022
Chief Information Officer	SO10	122,222	16,503	**138,725**	134,782
Chief Strategy & Policy Officer	SO10	113,393	15,443	**128,836**	* 83,279

* In post from 1 May 2016 (full-year equivalent is Chief Operating Officer: £138,033 and Chief Strategy & Policy Officer: £124,919).

7.5. The remuneration paid excludes social security contributions which are made by the employer. If these are included these employees would be placed within the following bands of the Senior Employees 2017 Gross Cost Analysis (as set out in Note 6):

- £120,000 - £139,999 : 1 employee
- £140,000 - £159,999 : 2 employees
- £160,000 - £179,999 : 1 employee
- £180,000 - £199,999 : 1 employee

Non Pay

7.6. Non pay expenditure totalled £227.1m in 2017 which is a decrease of £4.2m compared to 2016. However, the grant to the Guernsey Health Service Fund was suspended for 2017 (£4.7m in 2016), in order to assist with the General Revenue funding challenges in respect of health and social care services.

7.7. There was an increase of £1m in the provision for doubtful debts due to the inclusion of a provision for fees incurred by the Office of the Public Trustee which may prove to be unrecoverable.

Capital Receipts

7.8. As set out in Note 9 to the Accounts, during 2017 Guernsey Water repaid £18.58m of grant made from the Capital Reserve to fund the completion of Phase IV of the Belle Greve Outfall project and Guernsey Ports repaid £4.0m of the £13.4m grant made from the Capital Reserve to fund the replacement of cranes.

Impairment for Cabernet Losses

7.9. In early 2016 the States invested £25.212m in Cabernet Limited to provide for losses that had accrued in previous years plus an allowance for any potential losses in future years. The loss incurred by Cabernet Limited in 2016 was £4.779m and this was provided in full within the Statement of Financial Position leaving a carrying balance of £4.103m.

7.10. Cabernet Limited made a further loss of £5.197m in 2017 which was lower than the £6.8m forecast included in the 2018 Budget Report. The entire carrying balance within the Statement of Financial Position of £4.103m has been charged to the Statement of Financial Performance as an impairment for 2017. Whilst the States are unable to write off the remaining £1.094m to the Statement of Financial Performance, a corresponding amount has been appropriated from the General Reserve to the States Trading Entities Reserve. As a result, the General Reserve has reduced by £5.197m in relation to the loss made by Cabernet Limited during 2017.

Capital Expenditure

7.11. As set out in Note 10, capital expenditure is divided between that funded from the General Reserve (predominantly routine capital allocations made to Committees as part of their annual cash limit) and expenditure on items voted by the States from the Capital Reserve. Routine capital expenditure funded from the General Reserve reduced in 2017 to £6.9m (2016: £8.5m). Expenditure on capital votes from the Capital Reserve totalled £8.2m in 2017 (2016: £5.8m plus £25.2m to re-capitalise Cabernet Limited) and is detailed in Appendix IV.

8. Statement of Financial Position

8.1. The Statement of Financial Position (formerly the Balance Sheet) provides a snapshot of the financial position as at 31 December 2017. It sets out the assets and liabilities of the States. However, it should be noted that the assets are limited to financial assets as it is currently not the policy of the States to capitalise fixed assets but the intention is that these will be included as IPSAS are incrementally introduced.

8.2. This Statement of Financial Position does not include the deficit on the Superannuation Fund although the notes include disclosures of certain information which would be required under FRS102.

8.3. At the year end the States' net assets had increased to £667.0m (2016: £553.2m) as a result of the overall surplus.

Financial investments

8.4. The total amount of financial investments at the year end was £2,205m, held as follows:

	General Revenue £m	Fiduciary £m	Third Parties £m	Total 2017 £m	Total 2016 £m
Long-Term	411	1,426	1	1,838	1,653
Medium-Term	290	31	18	339	322
Short-Term	28	-	-	28	6
	729	**1,457**	**19**	**2,205**	**1,981**

8.5. Following strong returns in 2016, the equity markets produced further gains in 2017 with most geographical markets showing double digit returns, and emerging equities performing comfortably better than those of developed markets. Fixed income returns were more modest, with foreign holdings struggling to overcome a strengthening British pound against both the US dollar and Euro. The higher equity weighting of the Long Term Fund (LTF) produced the highest return of 11.0% for 2017 (2016: 14.3%) which was 2.8% in excess of the target of UK RPI plus 4%. The Medium Term Fund (MTF) with less equity returned 6.4% (2016: 6.8%) which was 1.3% below the target of UK RPI plus 3.5%; and the Short-term Cash Fund returned 0.35% (2016: 0.7%).

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

Reserve Performances	Trailing 1 Year	Trailing 3 Years pa	Trailing 5 Years pa
Long Term Fund	11.1%	9.1%	9.0%
Target: Retail Price Index +4%	*8.3%*	*6.7%*	*6.5%*
Medium Term Fund	6.5%	5.3%	4.4%
Target: Retail Price Index +3.5%	*7.75%*	*6.2%*	*6.0%*
Short Term Cash Fund	0.4%	0.5%	

8.7. There were no major changes across the portfolio managers of the LTF or the MTF. The decision was taken to seed a new locally managed fund with a local Guernsey investment focus, the Guernsey Investment Fund (GIF). The first cell, launched in February 2018, will focus on technology and innovation and £25m is committed to this cell with a further £17.5m raised by the fund manager. This was well received by the local community and demonstrates the States' commitment to supporting local business. An update on the Guernsey Investment Fund will be included within the 2018 Accounts.

8.8. The following table details the asset allocation within each of the Funds:

Reserve Asset Allocation	Equity	Fixed Income	Short Term/Cash	Alternatives	Private Equity	Property
Long Term Fund	53%	16%	4%	13%	2%	12%
Medium Term Fund	39%	34%	17%	10%	-	-
Short Term Cash Fund	-	-	100%	-	-	-

8.9. The strategic asset allocations of all three funds changed very little over the year. However, from 2018 the Long Term and Medium Term Funds will be amalgamated into a single fund called the Consolidated Investment Fund under the existing guidelines of the Long Term Fund. This should lead to an improved long term return.

Capital Reserve

8.10. Annual appropriations are made to the Capital Reserve from the General Reserve and the current policy is to maintain their value in real terms plus any specific additional transfers e.g. property sales. In order to balance the 2017 budget, the States agreed (Billet d'État XXVI, 2016) to reduce the 2017 appropriation by £8.1m to £29.8m. However, as a result of the improved financial position, the States subsequently agreed to transfer a further £8.1m to the Capital Reserve.

8.11. The States have agreed that, with effect from 2018, all capital expenditure will be funded from the Capital Reserve. Therefore, the balance on Committees' routine capital allocations and open votes of £13.6m has been transferred to the Capital Reserve from the General Reserve.

8.12. The balance on the Capital Reserve increased in 2017 by £81m to £240.2m.

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

	2017 £m		2016 £m	
Opening Balance		**159.2**		**139.6**
Belle Greve Outfalls – repayment of grant	18.6		-	
Cranes replacement – repayment of grant	4.0		-	
Net Investment Return	14.6		9.7	
Core Investment Reserve real terms investment return			18.5	
Guernsey Electricity Ltd – Re-purchase of shares	-		4.0	
Guernsey Post Ltd – Re-purchase of shares	-		6.0	
Expenditure	(8.7)		(31.5)	
		28.5		6.7
Transfers from General Reserve:				
Appropriation	37.9		12.9	
Guernsey Post Ltd – special dividend	1.0		-	
Routine capital	13.6		-	
		52.5		12.9
Closing Balance		**240.2**		**159.2**

8.14. During 2017, the States prioritised and approved a portfolio of capital programmes and projects for the period 2017 to 2021. At the same time, a series of pipeline projects were approved (which will be prioritised as part of the next portfolio) which can now commence detailed planning.

Core Investment Reserve

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

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

	2017 £m	2016 £m
Opening Balance	**147.1**	**144.8**
Plus:		
Appropriation from General Reserve	5.0	
Net Investment Return	16.3	20.8
Less Transfers to:		
Capital Reserve	-	(18.5)
Closing Balance	**168.4**	**147.1**

8.17. In November 2017, the States resolved that the investment return on the Core Investment Reserve should be credited to that Reserve up to the level necessary to maintain its real value as at 1 January and to delegate authority to the Policy & Resources Committee to transfer some or all of any returns exceeding that level to the Capital Reserve. In 2017, the investment return in excess of that necessary to maintain the real value of the Reserve was £12.6m and the Policy & Resources Committee has, after taking into account the projected amount available in the Capital Reserve to fund the anticipated value of the current and pipeline projects and the Core Investment Reserve target agreed that, at this stage, no transfer is made to the Capital Reserve. The balance of the Core Investment Reserve represents 39% of the 2018 General Revenue income budget.

Bond Reserve

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

Entity	Amount Agreed £m	Outstanding 31/12/2017 £m	Anticipated Repayment Date(s)	Purpose
Approved in 2015:				
Guernsey Housing Association LBG	51.0	49.1	2045	Refinancing of existing borrowings for social housing development
Guernsey Housing Association LBG	24.0	22.4	2036	Refinancing of existing borrowings for social housing development
Cabernet Ltd	31.7	26.4	2019 - 2025	Refinancing of existing borrowings for purchase of aircraft (plus additional borrowings for a new Dornier aircraft)
JamesCo750 Ltd	13.1	11.6	2028	Refinancing of existing borrowings for purchase of two tankships
H&SC Accommodation Fund	2.1	1.8	2029	Refinancing of existing borrowings for building of key worker accommodation
Approved in 2016:				
Cabernet Ltd	6.8	4.0	2027	Purchase of a new Dornier aircraft (£4.0m advanced by end of 2017)
Guernsey Housing Association LBG	5.1	4.9	2046	Development of social housing
Guernsey Housing Association LBG	10.0	-	2046	Development of social housing (advanced in 2018)
Approved in 2017:				
Guernsey Registry	0.3	0.2	2023	Introduction of a Beneficial Ownership Register (£0.2m advanced by end of 2017)
Guernsey Water	9.0	8.9	2046	Refinancing of Belle Greve Long Sea Outfall replacement
Solid Waste Trading Account	33.0	9.1	2038	Purchase of infrastructure for implementation of the solid waste strategy (£9.1m advanced by end of 2017)
Guernsey Harbour	3.3	-	2039	Refinancing of purchase of two mobile cranes
Total	**189.4**	**138.4**		

8.19. These loans have been made at rates of interest fixed in accordance with a formula which reflects the term of the borrowing, any change in market conditions compared to when the Bond was issued in 2014 and the 'credit-risk' of each entity, and range from 3.625% to slightly in excess of 4%.

8.20. The Bond issue proceeds which have not yet been lent on to entities form part of either the long-term or medium-term investment funds. Over the thirty two year life of the bond there will inevitably be periods in which there are varying amounts of funds invested due to the maturity profile of the on-lending and the investment returns in these periods will also vary and may be above or below the coupon rate. The model put in place by the Investment and Bond Management Sub-Committee (a Sub-Committee of the Policy & Resources Committee) is designed to ensure that the Bond issue can be serviced fully (i.e. the annual coupon payments made, the costs of issuance recovered and the capital sum repaid in full at the end of the term) without recourse to General Revenue.

8.21. During 2016 and 2017 the investment returns substantially exceeded the coupon payment on the unlent portion of the bond proceeds and there was an in-year surplus of £11.6m in 2016 and £9.6m in 2017. At the end of 2017, the Bond Reserve had a balance of £15.6m which will mitigate against the potential for investment returns being lower than the coupon rate in future years.

Superannuation Fund

8.22. Although Financial Reporting Standard 102 ("FRS102") has not been adopted in full and the deficit in the Fund is not included in the Statement of Financial Position, detailed disclosures pertaining to the Superannuation Fund are included as Note 38.

8.23. The Superannuation Fund exists to pay the pensions of the employees of the States of Guernsey and other members of the Scheme. It is predominantly a defined benefit scheme funded by contributions from both the employer and employee. In 2015, the States agreed revised pension arrangements for members joining after 1 May 2015 and for service from 1 March 2016 for those members who are not protected members (those close to retirement age). The revised arrangements replace the final salary defined benefit arrangements with defined benefits on a career average re-valued earnings (CARE) basis up to a salary cap (which was £87,434 up to 31 December 2017) with a defined contribution scheme for earnings in excess of this cap. The revised arrangements include a fixed cost ceiling (excluding the investment risk) on the employer's future contribution rate.

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

Superannuation Fund	2017 £m	2016 £m
Opening Balance	**1,301.2**	**1,152.4**
Plus:		
Contributions	45.8	45.2
Net appreciation of investments	141.7	163.3
Less:		
Pensions and lump sums paid	(62.5)	(59.7)
Closing Balance	**1,426.2**	**1,301.2**

8.25. The funding level under FRS102 increased to 58.2% (2016: 52.8%).

8.26. Every three years, the Policy & Resources Committee commissions an actuarial valuation of the Superannuation Fund. A valuation as at 31 December 2016 was undertaken and showed that the funding level was 93.5% (2013: 93.4%) of the accrued benefits. The Policy & Resources Committee is not recommending any changes to the contribution rates.

8.27. The reason for the difference between the FRS102 position and the funding position reported within an Actuarial Valuation is that the discount rate assumption used in the FRS102 calculation has no regard for the actual asset classes which the Superannuation Fund is invested in. The Superannuation Fund is largely invested in return seeking assets which are expected to provide substantially higher returns than corporate bonds over the long-term. The investment funds have a target rate of return of inflation plus 4% and, as set out in paragraph 8.6, actual returns over the last 5 years have averaged 6.5% above inflation per annum. The 2016 Actuarial Valuation was based on an assumption of investment returns of inflation plus 2.5% (which is in line with that used when determining the revised pension arrangements) compared to the FRS102 assumption of inflation less 0.8% (the return on an AA corporate bond). The two bases result in material differences in the calculation of liabilities and the resultant net funding position of the scheme.

9. Cash Flow Statement

9.1. This statement summarises the total cash movements during the year for both capital and revenue purposes, arising from income and payments and movements in working capital. The cash flow shows a net decrease in cash of £2.5m (2016: increase of £9.0m).

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF ANNUAL ACCOUNTS

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

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

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

STATEMENT OF INTERNAL FINANCIAL CONTROLS

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

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

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

The States internal financial controls and monitoring procedures include:

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE POLICY & RESOURCES COMMITTEE

Opinion

We have audited the accounts of the States of Guernsey ("the States") for the year ended 31 December 2017 which comprise the Statement of Financial Performance, the Movement in Reserves Statement, the Statement of Financial Position, the Cash Flow Statement and notes to the accounts including a summary of significant accounting policies.

- In our opinion, the accounts for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the accounts.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the accounts' section of our report. We are independent of the States in accordance with the ethical requirements that are relevant to our audit of the accounts in Guernsey, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Who we are reporting to

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

Other information

The Committee is responsible for the other information. The other information comprises of the President's Foreword, the States Treasurer's Report, the Statement of Responsibilities for the Preparation of Annual Accounts and the Statement of Internal Financial Controls. Our opinion on the accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the accounts are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the Committee for the accounts

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

In preparing the accounts, the Committee is responsible for assessing the States' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Committee either intend to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the accounts

Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

INDEPENDENT AUDITOR’S REPORT TO THE POLICY & RESOURCES COMMITTEE

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

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

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

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

31 May 2018

STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 31 December 2017

	Note	2017 £'000s	2016# £'000s
Income			
Income Taxes	3	324,068	302,735
Other Taxes	4	79,824	74,440
Miscellaneous Income	5	96,118	99,988
		500,010	477,163
Income from Operating Activities		60,883	55,085
Total Income		560,893	532,248
Expenditure			
Pay	6	(223,307)	(220,375)
Staff Related Non-Pay Costs	7	(5,283)	(5,325)
Support Services	7	(39,877)	(39,108)
Premises	7	(26,211)	(27,912)
Third Party Payments	7	(93,164)	(97,669)
Transport	7	(1,456)	(1,396)
Supplies and Services	7	(48,013)	(47,741)
Finance Charges and Other Costs	7	(13,108)	(12,132)
Total Revenue Expenditure		(450,419)	(451,658)
Operating Surplus		**110,474**	**80,590**
Impairment for Losses Incurred by Cabernet Limited		(4,103)	(4,779)
Capital Receipts	9	22,601	926
Capital Expenditure	10	(15,103)	(14,282)
		7,498	(13,356)
Net Surplus for the period		**113,869**	**62,455**
Retained by:			
General Reserve		69,008	38,274
Capital Reserve		28,535	3,419
Core Investment Reserve		16,326	20,762
		113,869	**62,455**

The 2016 totals have been amended for comparative purposes and details of the changes are included within Note 2.

MOVEMENT IN RESERVES STATEMENT

For the Year Ended 31 December 2016

	Total Usable Reserves £'000s	General Reserve **£'000s**	Capital Reserve **£'000s**	Core Investment Reserve **£'000s**	States Trading Entities Reserve **£'000s**
Opening Balance	**490,719**	83,234	139,608	144,779	123,098
Surplus for Year	**62,455**	38,274	3,419	20,762	-
Transfers in Year	-	12,312	16,134	(18,446)	(10,000)
Closing Balance	**553,174**	**133,820**	**159,161**	**147,095**	**113,098**

For the Year Ended 31 December 2017

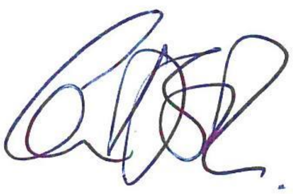
	Total Usable Reserves £'000s	General Reserve **£'000s**	Capital Reserve **£'000s**	Core Investment Reserve **£'000s**	States Trading Entities Reserve **£'000s**
Opening Balance	**553,174**	133,820	159,161	147,095	113,098
Surplus for Year	**113,869**	69,008	28,535	16,326	-
Transfers in Year	**-**	(58,647)	52,553	5,000	1,094
Closing Balance	**667,043**	**144,181**	**240,249**	**168,421**	**114,192**

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 £'000s	2016# £'000s
Investments			
Financial investments	11	2,205,548	1,980,747
Shareholdings in States' Trading Entities	12	113,098	117,201
		2,318,646	2,097,948
Loans Receivable	13	140,619	126,414
Current Assets			
Stocks		4,277	4,183
Debtors and Prepayments	14	103,319	87,255
Cash at Bank and in Hand	37	13,383	15,851
		120,979	107,289
Current Liabilities			
Trade Creditors and Accruals	15	(34,866)	(29,163)
Depositors	16	(1,502,141)	(1,372,237)
Currency in Circulation	17	(46,194)	(47,077)
		(1,583,201)	(1,448,477)
Long Term Liabilities			
Bond Issue	18	(330,000)	(330,000)
Net Assets		**667,043**	**553,174**
Represented by:			
General Reserve	19	144,181	133,820
Capital Reserve	33	240,249	159,161
Core Investment Reserve	34	168,421	147,095
States Trading Entities Reserve	35	114,192	113,098
Reserves		**667,043**	**553,174**

These financial statements were approved by the Policy & Resources Committee on 22 May 2018.



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

Bethan Haines
States Treasurer

The 2016 totals have been amended for comparative purposes and details of the changes are included within Note 2.

CASH FLOW STATEMENT

For the Year Ended 31 December 2017

	Note	2017 £'000s	2016# £'000s
Cash Flows from Operating Activities	36	33,639	4,453
Cash Flows from Investing Activities			
Capital Expenditure	10	(15,103)	(14,282)
Capital Receipts	9	22,601	926
Share Capitalisation		-	(25,212)
Share Re-purchase Scheme by Trading Entities		-	10,000
Net (Purchase)/Sale of Investments	11	(20,572)	22,905
Dividends Received	5	2,313	3,244
Issue of New Loans	13	(20,262)	(5,321)
Repayment of Loans	13	6,057	23,464
Net Cash Flows from Investing Activities		(24,966)	15,724
Cash Flows from Financing Activities			
Interest Paid		(11,141)	(11,141)
Net Cash Flow from Financing Activities		(11,141)	(11,141)
Net Increase/(Decrease) in Cash at Bank and in Hand		(2,468)	9,036
Cash and Cash Equivalents at the Beginning of the Year		15,851	6,815
Cash and Cash Equivalents at the End of the Year		**13,383**	**15,851**

The 2016 totals have been amended for comparative purposes and details of the changes are included within Note 2.

NOTES TO THE ACCOUNTS

1. States of Guernsey Accounting Policies

Basis of Accounting

i. The Accounts of the States of Guernsey, set out on pages 23 to 67, are prepared in accordance with the accounting policies included within note 1. The accounts are prepared under the historical cost convention, except for financial investments that are measured at re-valued amounts or fair values at the end of each reporting period. Unless detailed otherwise below, income and expenditure is accounted for on an accruals basis.

ii. The accounting policies noted below may depart from rules within internationally recognised accounting frameworks, in order to adhere to internal reporting conventions. Consequently these accounts have not been prepared in accordance with a particular accounting framework, but instead follow the accounting policies as noted.

Going Concern

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

Income taxes

iv. Income tax is recognised as revenue income when a taxable event has occurred. Some elements of that revenue income can only be confirmed in subsequent years and therefore consideration is given to future cash flows that may arise from assessments relating to the reporting period (and earlier), as well as levels of recoverability.

v. The total income tax reported in the Statement of Financial Performance is net of any repayment of tax receipts or reduction in tax assessment, for previous years.

Bad Debts

vi. Bad debts written off during the year are charged to the Statement of Financial Performance within the expenditure category Finance Charges and Other Costs.

vii. Any increase in the bad debt provision will also result in a charge to that category of expenditure. Conversely, any reduction in bad debt provision will result in a credit to that expenditure category.

viii. Provisions are based on the assessment of non-recoverability of debts as at the year-end date. The debtor balance shown on the Statement of Financial Position and detailed in the Notes to the Accounts, is net of any bad debt provision.

Charging for Services Across States' Functions

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

Rendering of Services

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

Lease Payments

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

Investment Returns

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

xiii. There are associated costs with managing the portfolio including investment management fees and other charges. Adjustments are made to the investment fees and other costs, in order that they are charged in the reporting period to which they relate, as opposed to when they are paid.

xiv. The investment return reported within the Statement of Financial Performance equates to the States' share of investment returns, less any associated costs. It is reported as a net amount. The net returns attributable to depositors, are credited directly to the depositors' accounts, which are shown as a liability within the Statement of Financial Position.

Capital Receipts

xv. Capital receipts generated from the sale of property are accounted for on a completion basis.

xvi. Where the States have provided a capital grant to an external entity and accounted for it as capital expenditure in a previous financial year, any refund of that grant in the current reporting period will be accounted for as a capital receipt.

Capital Expenditure

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

Pay Costs

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

Retirement Benefit Costs and Pension Disclosures

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

States of Alderney

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

Financial Investments

xxi. Investments are measured at fair value as at the year-end date.

xxii. Those investments that are listed or quoted on a recognised market are valued at the mid-market price in the relevant market as at the year-end date.

xxiii. Where investments are part of an investment fund that is neither quoted nor listed, then the valuation will be based upon the latest information available. That information will be provided by the underlying investment fund. Where the valuation date for the investment fund is not coterminous with the year end of the States, the most recent valuation before the valuation date, as received from the underlying fund manager or administrator, is used as the basis of the valuation. This basis is then adjusted for underlying fund level cash flows that have occurred between the last valuation date and the year-end date. From time to time, non-cash flow related adjustments may also be made if deemed to be of a material nature. The net asset value reported by the fund manager or administrator may be unaudited and in some cases the notified net asset value is based on estimates.

NOTES TO THE ACCOUNTS

xxiv. Derivative contracts are recognised at fair value on the date at which they are entered into and are subsequently re-measured at their fair value. Fair value is determined using market observable inputs and recognised valuation models used by third party service providers.

xxv. Where investments are in a currency other than pounds sterling (being the currency the financial statements are presented in), then these are translated into pounds sterling at the rate of exchange ruling as at the year-end.

xxvi. Where the States have future funding commitments on investments these are disclosed in the notes to the financial statements and are not recognised as a liability as at the year-end.

Investments in States Trading Entities

xxvii. Investments in respect of Guernsey Post Limited and Guernsey Electricity Limited reflect the basis of the transfer valuation attributed to the net undertaking transferred from the States Trading Boards to the commercialised entities in accordance with The States Trading Companies (Bailiwick of Guernsey) Law, 2001. There is no on-going impairment review for these entities. If shares are re-purchased by Guernsey Post Limited or Guernsey Electricity Limited, then an adjustment will be made to the carrying value of the investment on the Statement of Financial Position.

xxviii. All other trading entities are accounted for at cost less impairment/provision for losses.

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

Stock

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

Loans Receivable

xxxi. Loans made by the States, which have fixed or determinable payments and are not quoted in an active market, are measured at their outstanding capital value as at the year-end date. They are not subject to a formal impairment review for accounting purposes, but will be assessed for recoverability during the repayment period. Where the loans have been made from the proceeds of the States of Guernsey Bond Issue, then the interest received from borrowers is credited to the Statement of Financial Performance and allocated to the Bond Reserve.

xxxii. Some of the loans made by the States are internal to the organisation. These loans are linked with trading functions that operate within the States. The expenditure is capitalised and written off over the period of the internal loan, which is similar to an expected life of the related asset. These internal loans have been disclosed separately within the Notes to the Accounts.

Currency in Circulation

xxxiii. The States issue banknotes and coins in the name of The States of Guernsey. The States may issue commemorative notes and coins from time to time. All banknotes and coins issued by the States can be exchanged or redeemed at face value.

xxxiv. The value of notes and coins in circulation is accounted for as a liability within the Statement of Financial Position.

xxxv. Demand for the States' issued currency may fluctuate, consequently the liability may rise or fall depending upon the value of notes and coins in circulation at any point in time. At the end of their useful life, they are removed from circulation and destroyed. At that time they will be treated as being withdrawn from circulation, such that both the asset and liability will reduce accordingly. Any cost associated with the issue or destruction of notes and coins will be charged to the Statement of Financial Performance.

xxxvi. The net liability takes account of the intrinsic value of coinage in circulation and an estimation of the value of notes and coins in circulation that are unlikely to be redeemed.

NOTES TO THE ACCOUNTS

Long Term Liabilities

xxxvii. The issue of a States of Guernsey Government Bond has been categorised as a long term liability. Long term liabilities are included in the Statement of Financial Position at their nominal value, less any repayments of the principal sum. The associated cost of issue has been amortised and treated as a prepayment. This amortised cost is written off on a straight line basis, over the period of the long term liability. Any costs associated with the States Bond will be met from the Bond Reserve.

Reserves

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

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

xl. The balance of reserves will amount to the value of the net assets of the States.

Cash Flow Statement

xli. The Cash Flow Statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. It is presented using the indirect method, whereby a net Operating Surplus or Deficit is adjusted for the effects of transactions of a non-cash nature, as well as items that are classified as either an Investing or Financing Activity.

xlii. The investment managers may hold cash balances on behalf of the States to be used for investment purposes. Any such balances held at the reporting date will be classified as an investments, and not cash or cash equivalents.

xliii. Coupon payments associated with the bond loan are classified as Financing Activities. Any other interest charges are included within Operating Activities.

Restatement

xliv. 2016 Account's columns marked with "#" includes figures that have been restated for comparative purposes.

NOTES TO THE ACCOUNTS

2. Restatement of 2016 Accounts

A number of changes to the accounting policies have been introduced for the preparation of the 2017 Statement of Accounts. This has impacted upon the presentation of financial information within the principal financial statements. The adoption of the changes to the accounting policies has also resulted in the restatement of some balances and transactions that were otherwise reported in the 2016 States of Guernsey Accounts, in order that they can be used for comparative purposes.

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

Adjustment 1

The former Income and Expenditure Account for 2016 and previous years reported only that income and expenditure attributed to Committee functions and certain corporate activities (recovery of taxes and other non-exchange transactions, capital receipts etc). It excluded any income and expenditure associated with earmarked reserves, such as the Capital Reserve or Core Investment Reserve etc. Instead, any income and expenditure attributed to these reserves was credited or charged directly to the reserve on the face of the former Balance Sheet.

As part of the move towards the future adoption of IPSAS, the new Statement of Financial Performance now includes income and expenditure for all elements of the States (as a reporting entity). Consequently, all income and expenditure that fulfils the requirements of the States' accounting policies, will be included in the relevant line items within the Statement of Financial Performance for the comparative year 2016.

There is no impact on the overall value of net assets as at 31 December 2016, or the individual reserves as a result of this adjustment.

Adjustment 2

Certain activities within the States, namely States' Housing, Guernsey Registry and the Notes and Coins Trading Account have income and associated running costs presented as a net amount, in order to facilitate budgetary reporting. This extended to the reporting of the respective surplus as a single income total within the previous financial statements, under the heading of Miscellaneous Income. Consequently, categories of income and expenditure were understated by an equal and opposite amount.

The States have also budgeted for some demand led functions (referred to as "Formula Led" expenditure) as composite totals. Consequently the income and expenditure associated with these functions (Employment and Social Security grants and benefits, States Members' remuneration and Legal Aid costs) have been shown as net amounts within budget monitoring reports and previous financial statements. However, these functions incur costs across different expenditure types and in some cases generate income through external recharges.

All income and expenditure associated with these activities will now be categorised within the appropriate heading in the Statement of Financial Performance. The corresponding changes have been made to the 2016 totals.

There is no net impact on the overall reported surplus for the financial year 2016 as a result of these adjustments.

Adjustment 3

The Income and Expenditure Account previously included some particular amounts as either income or expenditure, which would otherwise be classified as an appropriation between reserves. This approach was driven by budgetary reporting requirements. The States have approved the creation of a number of funds and reserves for specific purposes. Where a decision is taken to increase funds/reserves and reduce others by an equal and opposite amount, then those transfers will now be reported as an appropriation through the Movement in Reserves Statement, and not be accounted for as either income or expenditure.

As these transfers do not represent true income and expenditure transactions, they have now been removed from the relevant categories of income and expenditure in the 2016 figures and accounted for as appropriations between funds/reserves.

NOTES TO THE ACCOUNTS

Adjustment 4

There are some elements of income and expenditure that have been accounted for against certain headings. The revised accounting policies requires those transactions to be included within the more appropriate category of income or expenditure.

There are two key changes.

The first relates to changes in bad debt provision and/or writing off bad debts. Previously, the accounting policy stated that these accounting adjustments should be offset against the related income stream within the former Income and Expenditure Account. The revised accounting policy requires these accounting adjustments to be reported as a cost in the Statement of Financial Performance.

The second change relates to the re-classification of a third party payment for bus services, to that of contracted out works and associated income. Whilst the budgeting process has identified a net total and previously categorised it as a third party payment, the substance of the transaction requires the quantification of an income total, separate and distinct from the cost of contracted out works.

There is no net impact on the overall reported surplus for the financial year 2016, as a result of these adjustments.

Adjustment 5

In order to more clearly reflect the States' investment in Cabernet Limited an adjustment has been made in relation to the States' recent re-capitalisation of Cabernet Limited. Within the 2016 financial statements, the sum of £25.212m was written off against the Capital Reserve. This reversed previous losses that had been charged directly to the General Reserve, without being shown as a charge within the former Income and Expenditure Account.

Under the new accounting policy, any impairment will be charged to the Statement of Financial Performance only to the extent that the carrying balance of that investment held is written down to a nil value. Any re-capitalisation of the company’s balance sheet will be added to the carrying cost of the investment. The investment value is shown at cost and details of the gross cost have been disclosed. The restatement of the 2016 comparative totals shows the re-capitalisation total of £25.212m being added to the carrying cost of the investment and an appropriation from the Capital Reserve to the General Reserve of an equivalent value. It also shows the impairment that was charged to the Statement of Financial Performance in 2016 for £4.779m.

There is no impact on the overall value of net assets as at 31 December 2016, or the individual reserves as a result of this adjustment.

Adjustment 6

The States have and continue to, hold deposits of cash on behalf of other entities and funds. Previously the value of investments shown on the face of the former Balance Sheet was reduced by an equivalent amount, the revised accounting policy requires the value of investments held by the States to be shown separately from the amount that has been calculated as a deposited total. Details of the gross value of investments were previously disclosed within the Notes to the Accounts, however the Statement of Financial Position will now show the gross value of the investments held by the States, separate to the liability that equates to the depositor balance.

This adjustment has had no impact on the overall value of net assets as at 31 December 2016.

Adjustment 7

Previously, the “Notes and Coins Reserve” was included as an earmarked reserve on the face of the former Balance Sheet. However with the changes being made, it is important that each of the reserves or earmarked funds meets with the accounting policy set out in Note 2. This balance is not considered to be a reserve, but deemed to be a liability on the premise that it represents a claim on the States in favour of the holder of that currency.

NOTES TO THE ACCOUNTS

Summary of Changes per Category of Income and Expenditure

Miscellaneous Income	**Adjustment**	**£'000s**	**£'000s**
Published 2016 Income and Expenditure Account			29,789
Earmarked funds within General Reserve	1	23,771	
Capital Reserve	1	9,725	
Core Investment Reserve	1	20,762	
			54,258
Trading Accounts	2		15,941
Adjusted 2016 Miscellaneous Income			99,988

Income from Operating Activities	**Adjustment**	**£'000s**	**£'000s**
Published 2016 Income and Expenditure Account			37,387
Earmarked funds within General Reserve	1		18,246
Trading accounts	2	189	
Formula-led activities	2	207	
			396
Re-classification of appropriations between funds and reserves	3		(2,246)
Re-classification of Income and Expenditure Activities	4		1,302
Adjusted 2016 Income from Operating Activities			55,085

Operating Expenditure	**Adjustment**	**£'000s**	**£'000s**
Published 2016 Income and Expenditure Account			400,520
Earmarked funds within General Reserve	1		37,734
Trading accounts	2	16,130	
Formula-led activities	2	207	
			16,337
Re-classification of appropriations between funds and reserves	3	(4,235)	
Re-classification of Income and Expenditure Activities	4	1,302	
			(2,933)
Adjusted 2016 Operating Expenditure			451,658

NOTES TO THE ACCOUNTS

Capital Receipts	**Adjustment**	**£'000s**	**£'000s**
Published 2016 Income and Expenditure Account			10,541
Earmarked funds within General Reserve – Corporate Housing Programme	1		385
Re-classification of appropriations between funds and reserves	3		(10,000)
Adjusted 2016 Capital Receipts			926

Capital Expenditure	**Adjustment**	**£'000s**	**£'000s**
Published 2016 Income and Expenditure Account			7,696
Earmarked funds within General Reserve	1	774	
Capital Reserve	1	5,812	
			6,586
Adjusted 2016 Capital Expenditure			14,282

Impairment for Cabernet Limited Losses	Adjustment	£'000s	£'000s
Published 2016 Income and Expenditure Account			-
Charge to the Statement of Financial Performance	5		4,779
Adjusted 2016 Impairment for Cabernet Losses			4,779

Summary Adjustments	£'000s
Surplus as reported in the published 2016 Income and Expenditure Account	46,676
Miscellaneous Income	70,199
Income from Operating Activities	17,698
Operating Expenditure	(51,138)
Capital Receipts	(9,615)
Capital Expenditure	(6,586)
Impairment for Cabernet Losses	(4,779)
Adjusted 2016 Surplus as reported in the Statement of Financial Performance	62,455

NOTES TO THE ACCOUNTS

Summary of Changes across Assets, Liabilities and Reserves

Adjustment made to 2016 comparative figures within the Statement of Financial Position	Published Accounts Balance as at 31 Dec 2016	Re-classification of Depositor Balances	Re-classification of Currency in Circulation Balances	Restated Accounts Balance as at 31 Dec 2016
		Adjustment 6	Adjustment 7	
	£'000s	£'000s	£'000s	£'000s
Investments	725,711	1,372,237		2,097,948
Loans Receivable	126,414			126,414
Current Assets	107,289			107,289
Current Liabilities	(29,163)	(1,372,237)	(47,077)	(1,448,477)
Long Term Liabilities	(330,000)			(330,000)
Net Assets	600,251	-	(47,077)	553,174
Reserves				
General Reserve	133,820			133,820
Capital Reserve	159,161			159,161
Core Investment Reserve	147,095			147,095
Notes and Coins Reserve	47,077		(47,077)	-
States Trading Entities Reserve	113,098			113,098
	600,251	-	(47,077)	553,174

NOTES TO THE ACCOUNTS

3. Income Taxes

	2017 £'000s	2016 £'000s
Individuals	253,762	245,836
Companies (including banks)	58,772	47,185
Distributed profits	11,534	9,714
Income Taxes	**324,068**	**302,735**

4. Other Taxes

	2017 £'000s	2016 £'000s
Excise and Import Duties		
Beer	3,373	3,249
Cider	815	749
Motor spirit	19,390	18,740
Spirits	3,343	2,986
Tobacco	7,050	8,448
Wine	5,399	5,150
Import duties	1,634	1,797
	41,004	41,119
Tax on Real Property	20,662	19,969
Document Duty	16,964	12,718
Vehicle First Registration Duty	1,194	634
Other Taxes	**79,824**	**74,440**

5. Miscellaneous Income

	2017 £'000s	2016# £'000s
Net investment return	61,474	64,344
Housing rental income	19,904	19,696
Company fees	11,535	11,215
Dividend income from States' trading entities	2,313	3,244
Other income	892	1,489
Miscellaneous Income	**96,118**	**99,988**

NOTES TO THE ACCOUNTS

6. Pay

Pay Costs by Pay Group	2017 £'000s	2016# £'000s
Established staff	86,022	85,388
Public service employees	16,412	16,398
Nurses and medical consultants	51,105	48,885
Teachers and learning support assistants	42,545	42,743
Fire officers	3,486	3,446
Police officers	8,803	9,021
Home support staff	2,041	1,987
Border Agency officers	3,308	3,283
Prison officers	3,442	3,374
Crown officers and judges	1,627	1,589
Other pay groups	2,661	2,407
	221,452	218,521
States Members' remuneration	1,855	1,854
	223,307	**220,375**

A breakdown of the amounts paid to each of the States' Members is provided within Note 42.

Full Time Equivalents by Pay Group	2017 Average FTE	2016# Average FTE
Established staff	1,649	1,673
Public service employees	558	504
Nurses and medical consultants	1,028	1,007
Teachers and learning support assistants	823	822
Fire officers	61	60
Police officers	146	154
Home support staff	46	52
Border Agency officers	61	58
Prison officers	76	77
Crown officers and judges	7	7
Other pay groups	80	69
	4,535	**4,483**

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

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

NOTES TO THE ACCOUNTS

Senior Employees Gross Cost Analysis	2017 Number of Employees	2016 Number of Employees
£80,000 to £99,999	130	137
£100,000 to £119,999	43	46
£120,000 to £139,999	33	28
£140,000 to £159,999	31	21
£160,000 to £179,999	12	11
£180,000 to £199,999	6	6
£200,000 to £219,999	3	3
£220,000 to £239,999	2	3
£240,000 to £249,999	-	-
£250,000 and above	1	1
	261	**256**

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

NOTES TO THE ACCOUNTS

7. Non-Pay Costs by Expenditure Category

	2017 £'000s	2016# £'000s
Staff Non Pay Costs		
Recruitment	2,438	2,523
Training	2,313	2,249
Other staff costs	532	553
	5,283	5,325
Support Services		
Advertising, marketing and public relations	2,026	2,241
Audit fees	256	177
Bank charges	156	199
Communications and IT	10,035	9,726
Consultants fees	3,836	3,100
Contracted out work	19,764	19,744
Incidental and other costs	99	-
Postage, stationery and printing	1,684	1,818
Risk management and insurance	2,021	2,103
	39,877	39,108
Premises		
Equipment, fixtures and fittings	900	1,546
Rents and leasing	3,767	3,918
Repairs, maintenance and servicing	15,670	16,716
Utilities	5,874	5,732
	26,211	27,912
Third Party Payments		
Benefit payments	38,784	39,511
Grants and subsidies	54,380	58,158
	93,164	97,669
Transport		
Vehicles and vessels	1,456	1,396
Supplies and Services		
Services	33,769	33,646
Supplies	14,244	14,095
	48,013	47,741
Finance Charges and Other Costs		
Bond issuance costs written off	456	456
Coupon payments	11,141	11,141
Bad debt expenses and adjustment in provision for bad debts	1,336	369
Notional loan charges	175	166
	13,108	12,132
Non-Pay Costs by Expenditure Category	**227,112**	**231,283**

NOTES TO THE ACCOUNTS

8. Formula-led Costs

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

	2017 £'000s	2016 £'000s
Policy & Resources Committee		
Payments to States Members	1,855	1,893
Committee *for* Employment & Social Security		
Legal Aid	2,453	1,985
Concessionary TV Licences for the Elderly	582	626
Family Allowance	8,190	9,639
Health Service Fund Grant	-	4,659
Severe Disability Benefit and Carers' Allowance	5,569	5,411
Social Insurance Fund Grant	15,668	15,256
Supplementary Benefit	21,683	20,983
	54,145	58,559
Formula-led costs	**56,000**	**60,452**

9. Capital Receipts

	2017 £'000s	2016# £'000s
Repayment of capital grant from -		
Guernsey Water	18,580	-
Ports	4,000	-
	22,580	-
Property Sales		
Cour Du Parc	-	385
Hermes House	-	345
Longue Hougue Access Rights	-	178
Other property sales	21	18
	21	926
Capital Receipts	**22,601**	**926**

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

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

NOTES TO THE ACCOUNTS

10. Capital Expenditure

The following is a breakdown of the total capital expenditure associated with the purchase or creation of fixed assets. The States' accounting policy is to write off the expenditure in the year in which it was incurred. The States fund their capital expenditure from the General Reserve (Routine Capital budget) and the Capital Reserve (large capital projects).

Total Capital Expenditure	**2017 £'000s**	**2016# £'000s**
Capital works on land, buildings and infrastructure	9,107	10,480
IT projects and equipment	2,217	1,769
Equipment, machinery and vehicles	3,779	2,033
	15,103	14,282

Capital Expenditure Funded from the Capital Reserve	**2017 £'000s**	**2016# £'000s**
Capital works on land, buildings and infrastructure	4,531	3,806
IT projects and equipment	1,250	1,263
Equipment, machinery and vehicles	2,455	743
	8,236	5,812

Capital Expenditure Funded from the General Reserve	**2017 £'000s**	**2016# £'000s**
Capital works on land, buildings and infrastructure	4,576	6,674
IT projects and equipment	967	506
Equipment, machinery and vehicles	1,324	1,290
	6,867	8,470

From 2018 onwards, all capital expenditure will be funded from the Capital Reserve. In previous years, the States have provided for any unspent Routine Capital budgets in the Unallocated Balance of the General Reserve. This allowed funding to be carried forward from one year to the next, where completion dates for the projects extended into future years.

With new arrangements being put in place for 2018, a total of £13.653m has been appropriated from the General Reserve to the Capital Reserve. This will accommodate any expenditure incurred during 2018 or beyond in relation to these legacy Routine Capital projects.

NOTES TO THE ACCOUNTS

11. Financial Investments

	2017 £'000s	2016 £'000s
Balance at 1 January	1,980,747	1,774,311
Returns on investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses	204,229	229,341
Net deposits/(withdrawals) during the year	20,572	(22,905)
Balance at 31 December	2,205,548	1,980,747
Equities	1,258,082	1,139,300
Alternatives	379,335	311,400
Bonds and fixed interest securities	359,160	330,884
Property	132,185	113,957
Cash (held by investment managers)	76,786	85,206
Balance at 31 December	2,205,548	1,980,747

During 2017, the Long Term Investment Fund was managed by sixteen managers, namely: Aberdeen Asset Managers Limited, Allan Gray Africa Equity Fund Limited, AMP Capital Investors Limited, CBRE Global Investors (UK) Funds Limited, FIL Pensions Management, GAM (U.K.) Limited, Investec Asset Management, JP Morgan Asset Management, Morgan Stanley Investment Management Limited, Newton Investment Management Limited, Partners Group (Guernsey) Limited, Sarasin & Partners LLP, Schroders Investment Management Limited, State Street Global Advisors, TIAA Henderson Real Estate Limited and Wellington Management International Ltd.

The Medium Term Investment Fund was managed by nine managers, namely: Brooks Macdonald Asset Management (International) Limited, Canaccord Genuity Wealth (International) Ltd, Credit Suisse (Channel Islands) Limited, Newton Investment Management Limited, Odey Wealth Management (C.I.) Ltd, Ravenscroft Investment Management, Rocq Capital Management Limited, Royal London Asset Management C.I. Limited and Royal London Asset Management Limited.

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

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

The States did not have any securities on loan at the year end (2016: £74.207million secured by cash and non-cash collateral of £77.042million, being 103.82% of the value of securities on loan).

NOTES TO THE ACCOUNTS

The States had the following commitments in Private Equity Funds as at 31 December 2017.

	Total Commitment 31 December 2017 £'000s	Drawn Commitment 31 December 2017 £'000s	Undrawn Commitment 31 December 2017 £'000s	Undrawn Commitment 31 December 2016 £'000s
CBRE	197,258	180,706	16,552	14,464
Morgan Stanley	51,323	31,644	19,679	21,028
Sustainable Growth Fund	8,873	4,970	3,903	-
AMP	7,402	6,988	414	4,299
JP Morgan	7,402	5,043	2,359	3,576
Partners Group	7,402	3,102	4,300	5,883
White Star	7,402	740	6,662	-
Total	287,062	233,193	53,869	49,250

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

NOTES TO THE ACCOUNTS

12. Investments in States' Trading Entities

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

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

Incorporated Trading Entities

	2017 £'000s	2016# £'000s
Guernsey Electricity Limited		
Balance at 1 January	105,209	109,209
Re-purchase of shares by Guernsey Electricity Limited	-	(4,000)
Balance at 31 December	105,209	105,209
Guernsey Post Limited		
Balance at 1 January	7,886	13,886
Re-purchase of shares by Guernsey Post Limited	-	(6,000)
Balance at 31 December	7,886	7,886
Cabernet Limited		
Gross purchase cost at 1 January	30,272	5,060
Share re-capitalisation	-	25,212
Gross purchase cost at 31 December	30,272	30,272
Provision for amounts written down due to accumulated losses at 1 January	(26,169)	(21,390)
Impairment charged to Statement of Financial Performance	(4,103)	(4,779)
Provision for amounts written down due to accumulated losses at 31 December	(30,272)	(26,169)
Balance at 31 December	-	4,103
Alderney Electricity Limited	3	3
Balance at 31 December	113,098	117,201

Guernsey Electricity Limited

The States owns all of the allotted and fully paid shares of Guernsey Electricity Limited. During 2016, Guernsey Electricity Limited re-purchased £4m of share capital, reducing the balance owned by the States from £109.209m to £105.209m. The balance remained unchanged during 2017.

The States received a dividend of £749,000 (2016: £1.044m).

The total value of Guernsey Electricity Limited's net assets as at 31 March 2017 was £85.636m (£98.186m as at 31 March 2016). However, this is after provision has been made for a pension deficit reported under FRS102 of £40.674m (2016 £26.122m).

NOTES TO THE ACCOUNTS

Guernsey Post Limited

The States owns all of the allotted and fully paid shares of Guernsey Post Limited. During 2016, Guernsey Post Limited re-purchased £6m of share capital, reducing the balance owned by the States from £13.886m to £7.886m. The balance remained unchanged during 2017.

The States received a dividend of £1.564m (2016: £200,000).

The total value of Guernsey Post Limited's net assets as at 31 March 2017 was £23.363m (£4.184m as at 31 March 2016). Whilst no pension deficit was reported under FRS102 in the year ended 31 March 2017, there was a deficit reported for the previous year amounting to £28.450m.

Cabernet Limited

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

The accumulated net losses reported up to the end of December 2017, amounted to £31.366m. This exceeds the gross cost of the investment held by the States (£30.272m), by £1.094m.

An impairment of £4.103m has been charged to the Statement of Financial Performance to reflect the write down of the investment value to nil in 2017. In order to provide for the remaining element of Cabernet's accumulated losses, an amount of £1.094m has been transferred from the General Reserve to the States Trading Entities Reserve.

Alderney Electricity Limited

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

JamesCo750 Limited

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

Un-incorporated Trading Entities

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

	2017 £'000s	2016 £'000s
Ports	236,246	241,991
Guernsey Water	138,200	137,814
States Works	11,777	10,820
Guernsey Dairy	4,691	5,046
Balance at 31 December	390,914	395,671

NOTES TO THE ACCOUNTS

Social Security – Contributory Funds

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

	2017 £'000s	2016 £'000s
Guernsey Insurance Fund	769,278	731,249
Guernsey Health Service Fund	122,528	116,347
Long-Term Care Insurance Fund	75,013	62,929
Balance at 31 December	966,819	910,525

13. Loans Receivable

External Loans	2017 £'000s	2016 £'000s
Guernsey Housing Association LBG*	76,435	78,313
Cabernet Limited*	30,466	29,487
JamesCo750 Limited*	11,588	12,179
Guernsey Water*	8,914	-
Home Loans Scheme	1,660	2,317
Higher Education Loans Fund	173	220
Farm Loans Fund	139	142
Sports Loans Fund	98	115
Balance at 31 December	129,473	122,773
Internal Loans		
Committee *for* Health & Social Care - Accommodation Fund*	1,761	1,876
Solid Waste Strategy Infrastructure*	9,107	1,606
Company Registry*	176	-
Company Registry	102	159
Balance at 31 December	11,146	3,641
Total	140,619	126,414

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

NOTES TO THE ACCOUNTS

14. Debtors and Prepayments

	2017 £'000s	2016 £'000s
Income tax	51,199	40,789
Other taxes and duties	3,069	3,256
Trade debtors	20,293	18,092
Other debtors	8,843	3,454
Balance at 31 December	83,404	65,591

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

Prepayments	2017 £'000s	2016 £'000s
Bond issuance costs	13,198	13,654
Trade prepayments	6,717	8,010
Balance at 31 December	19,915	21,664

The States issued a public bond for general sale in December 2014. There were costs associated with the issue of the bond which amounted to £14.589m. These costs have been amortised and classified as a prepayment on the Statement of Financial Position and are being written off on a straight line basis over the life of the bond.

15. Creditors and Accruals

	2017 £'000s	2016 £'000s
Trade creditors and accruals	34,824	29,147
Other creditors	42	16
Balance at 31 December	34,866	29,163

16. Depositors

	2017 £'000s	2016 £'000s
Superannuation Fund	1,425,623	1,300,339
States incorporated trading entities	14,970	12,810
States un-incorporated trading entities	11,142	24,086
Charity and other fiduciary balances	50,406	35,002
Balance at 31 December	1,502,141	1,372,237

NOTES TO THE ACCOUNTS

17. Currency in Circulation

	2017 £'000s	2016 £'000s
All notes and coins in circulation at 1 January	55,941	53,376
Issued during the year	101,049	96,542
Withdrawn during the year	(101,720)	(93,977)
All notes and coins in circulation at 31 December	55,270	55,941
Nominal value of notes and coins which are considered unlikely to be either redeemed or exchanged at 31 December		
Commemorative coins	(6,976)	(6,764)
General notes and coins	(2,100)	(2,100)
	(9,076)	(8,864)
Estimated Value of Liability at 31 December	46,194	47,077

Although the nominal value of the notes and coins in circulation amounted to £55.270m as at 31 December 2017 (2016: £55.941m), it has been estimated that a certain proportion of this total would not be redeemed at any point in the future. Consequently, it has been assumed that the liability would reduce accordingly.

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

With regard to commemorative coins, the nominal value of coins issued as at 31 December 2017 was £7.433m (2016: £7.203m). The liability has been reduced by £6.976m (2016: £6.764m), due to the negligible levels of redemption in previous years. The commemorative coins may have a market value that exceeds the nominal value, due to either the value of the metals contained within the coin, and/or its demand within the market place.

18. Long Term Liabilities

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

NOTES TO THE ACCOUNTS

19. General Reserve

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

	Note	2017 £'000s	2016 £'000s
Earmarked funds at 31 December			
Corporate Housing Programme Fund	21	27,090	30,092
Transformation and Transition Fund	22	23,326	25,115
Insurance Deductible Fund	23	10,851	10,399
Future Guernsey Economic Fund	24	5,693	6,776
Bond Reserve	25	15,610	5,907
Solid Waste Trading Account	26	3,460	3,611
Wilfred Carey Purchase Fund	27	3,419	3,261
Health and Social Care Accommodation Fund	28	1,127	1,122
Channel Islands Lottery (Guernsey) Fund	29	1,459	922
Higher Education Loans Fund	30	958	911
Overseas Aid & Development Commission Fund	31	903	590
Sports Loans Fund	32	319	319
		94,215	89,025
Unallocated balance at 31 December	20	49,966	44,795
General Reserve Balance at 31 December		144,181	133,820

20. General Reserve (Unallocated Balance)

	2017 £'000s	2016 £'000s
Balance at 1 January	44,795	1,360
Revenue Surplus	65,945	33,112
	110,740	34,472
Appropriations from		
Capital Reserve	-	2,312
States Trading Entities Reserve (Share Buyback Scheme)	-	10,000
Solid Waste Trading Account	1,595	1,595
Channel Islands Lottery (Guernsey) Fund	493	651
	2,088	14,558
Appropriations to		
Capital Reserve	(52,553)	-
Core Investment Reserve	(5,000)	-
Overseas Aid & Development Commission Fund	(2,915)	(2,885)
Insurance Deductible Fund	(1,300)	(1,350)
States Trading Entities Reserve	(1,094)	-
	(62,862)	(4,235)
Balance at 31 December	49,966	44,795

NOTES TO THE ACCOUNTS

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

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

The appropriation of £2.312m from the Capital Reserve during 2016 was made up of –

(i) £25.212m appropriation from the Capital Reserve (Billet d'État XX,2015) – Cabernet Limited recapitalisation
(ii) £18.3m appropriation to the Capital Reserve (Billet d'État XIX,2015)
(iii) £5.4m appropriation from the Capital Reserve (Billet d'État XXVI,2016)
(iv) £10m appropriation to the Capital Reserve - Share Buyback Agreement

21. Corporate Housing Programme Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	30,092	33,783
Capital receipts	-	384
Operating expenditure	(3,002)	(4,075)
Net deficit for the year	(3,002)	(3,691)
Balance at 31 December	27,090	30,092

22. Transformation and Transition Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	25,115	26,058
Operating income	27	-
Operating expenditure	(1,816)	(943)
Net deficit for the year	(1,789)	(943)
Balance at 31 December	23,326	25,115

23. Insurance Deductible Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	10,399	9,970
Operating expenditure	(848)	(921)
Appropriations -		
From General Reserve	1,300	1,350
Balance at 31 December	10,851	10,399

NOTES TO THE ACCOUNTS

24. Future Guernsey Economic Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	6,776	8,059
Operating income	96	64
Operating expenditure	(1,179)	(1,347)
Net deficit for the year	(1,083)	(1,283)
Balance at 31 December	5,693	6,776

25. Bond Reserve

	2017 £'000s	2016 £'000s
Balance at 1 January	5,907	(5,709)
Investment return	16,201	18,484
Interest received from loans	4,871	4,764
Non utilisation fees	238	-
Total income	21,310	23,248
Coupon payable	(11,141)	(11,141)
Issuance costs written off	(456)	(456)
Other expenses	(10)	(35)
Total expenditure	(11,607)	(11,632)
Net surplus for the year	9,703	11,616
Balance at 31 December	15,610	5,907

26. Solid Waste Trading Account

	2017 £'000s	2016 £'000s
Balance at 1 January	3,611	3,711
Investment return	205	233
Operating income	6,697	6,547
Operating expenditure	(5,360)	(5,285)
Capital expenditure	(98)	-
Net surplus for the year	1,444	1,495
Appropriations -		
To General Reserve	(1,595)	(1,595)
Balance at 31 December	3,460	3,611

NOTES TO THE ACCOUNTS

27. Wilfred Carey Purchase Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	3,261	3,077
Investment Return	206	229
Operating Expenditure	(48)	(45)
Net surplus for the year	158	184
Balance at 31 December	3,419	3,261

28. Health and Social Care Accommodation Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	1,122	1,076
Net investment return/(charge)	(16)	45
Operating income	1,749	1,739
Operating expenditure	(1,728)	(1,738)
Net surplus for the year	5	46
Balance at 31 December	1,127	1,122

29. Channel Islands Lottery (Guernsey) Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	922	623
Operating income	10,844	9,853
Operating expenditure	(9,502)	(8,033)
Contributions to third parties	(312)	(870)
Net surplus for the year	1,030	950
Appropriations -		
To General Reserve	(493)	(651)
Balance at 31 December	1,459	922

NOTES TO THE ACCOUNTS

30. Higher Education Loans Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	911	907
Investment return	51	53
Operating income	1	4
Operating expenditure	(5)	(53)
Net surplus for the year	47	4
Balance at 31 December	958	911

31. Overseas Aid & Development Commission Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	590	-
Overseas aid grants	(2,426)	(2,247)
Emergency disaster relief grants	(176)	(48)
Total grants payable	(2,602)	(2,295)
Appropriations -		
From General Reserve	2,915	2,885
Balance at 31 December	903	590

32. Sports Loans Fund

	2017 £'000s	2016 £'000s
Balance at 1 January	319	319
Net Surplus for the Year	-	-
Balance at 31 December	319	319

NOTES TO THE ACCOUNTS

33. Capital Reserve

	2017 £'000s	2016 £'000s
Balance at 1 January	159,161	139,608
Investment return	14,598	9,725
Capital receipts	22,580	-
Expenditure on capital votes	(8,236)	(5,812)
Operating expenditure	(407)	(494)
	28,535	3,419
Appropriations from		
General Reserve	52,553	-
Core Investment Reserve	-	18,446
	52,553	18,446
Appropriations to		
General Reserve	-	(2,312)
Balance at 31 December	240,249	159,161

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

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

The appropriation of £2.312m to the General Reserve during 2016 was made up of –

- (i) £25.212m appropriation to the General Reserve (Billet d'État XX,2015) – Cabernet Limited recapitalisation
- (ii) £18.3m appropriation from the General Reserve (Billet d'État XIX,2015
- (iii) £5.4m appropriation to the General Reserve (Billet d'État XXVI,2016)
- (iv) £10m appropriation from the General Reserve - Share Buyback Agreement

34. Core Investment Reserve

	2017 £'000s	2016 £'000s
Balance at 1 January	147,095	144,779
Investment Return	16,326	20,762
Appropriations -		
From General Reserve	5,000	-
To Capital Reserve	-	(18,446)
Balance at 31 December	168,421	147,095

35. States Trading Entities Reserve

	2017 £'000s	2016 £'000s
Alderney Electricity Limited	3	3
Guernsey Electricity Limited		
Balance at 1 January	105,209	109,209
Appropriations - To General Reserve	-	(4,000)
Balance at 31 December	105,209	105,209
Guernsey Post Limited		
Balance at 1 January	7,886	13,886
Appropriations - To General Reserve	-	(6,000)
Balance at 31 December	7,886	7,886
Cabernet Limited		
Balance at 1 January	-	-
Appropriations - From General Reserve	1,094	-
Balance at 31 December	1,094	-
Total Balance at 31 December	114,192	113,098

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

36. Reconciliation of Operating Surplus to Net Cash Inflow from Operating Activities

	2017 £'000s	2016 £'000s
Operating surplus	110,474	80,590
Adjustment for dividends received	(2,313)	(3,244)
Adjustment for coupon payment	11,141	11,141
(Gains)/losses on revaluation of investments	(204,229)	(229,341)
Increase in stocks	(94)	(220)
Increase in debtors and prepayments	(16,064)	(1,045)
Increase in creditors	134,724	146,572
Cash Flows from Operating Activities	33,639	4,453

The Operating Surplus reported within the Statement of Financial Performance includes receipts from dividends, coupon payments and gains/losses attributed to the holding of investments. These elements of income and expenditure are not considered to be Operating Activities within the Cash Flow Statement. Consequently an adjustment has been made to exclude them from Operating Activities and re-categorise them accordingly.

NOTES TO THE ACCOUNTS

37. Analysis of Cash Balances

	At 1 January 2016 £'000s	Movements in 2016 £'000s	At 31 December 2016 £'000s	Movements in 2017 £'000s	At 31 December 2017 £'000s
Cash at banks	6,760	9,038	15,798	(2,460)	13,338
Cash in hand	55	(2)	53	(8)	45
Total	6,815	9,036	15,851	(2,468)	13,383

NOTES TO THE ACCOUNTS

38. Superannuation Fund

	At 1 January 2016 £'000s	Movements in Net Funds 2016 £'000s	At 31 December 2016 £'000s	Movements in Net Funds 2017 £'000s	At 31 December 2017 £'000s
Combined Pool	1,099,836	142,811	1,242,647	120,161	1,362,808
Teachers Fund	48,862	5,691	54,553	4,572	59,125
States Members Fund	3,735	220	3,955	296	4,251
Total	1,152,433	148,722	1,301,155	125,029	1,426,184

Combined Pool	2017 £'000s	2016 £'000s
Employers' contributions	28,059	28,792
Employees' contributions	14,085	13,952
Capital payments	126	-
Refund of contributions repaid	86	125
Transfer values received	2,997	1,867
	45,353	44,736
Pensions	(44,591)	(42,756)
Lump sum payments	(11,050)	(12,534)
Contributions refunded to employees	(1,590)	(1,577)
Transfer values paid	(3,033)	(853)
	(60,264)	(57,720)
Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses	135,072	155,795
Net Increase in Fund for the Year	120,161	142,811

Teachers' Fund	2017 £'000s	2016 £'000s
Employers' contributions	193	289
Teachers' contributions	96	19
Transfer values received	27	-
	316	308
Pensions	(1,420)	(1,288)
Lump sum payments	(234)	(181)
Contributions refunded to teachers	(2)	(6)
Transfer values paid	(207)	(99)
	(1,863)	(1,574)
Returns on investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses	6,119	6,957
Net Increase in Fund for the Year	4,572	5,691

NOTES TO THE ACCOUNTS

States Members' Pension Fund	2017 £'000s	2016 £'000s
Capital payment	153	150
Pensions	(303)	(286)
Transfer values paid	(48)	(145)
	(351)	(431)
Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses	494	501
Net Increase in Fund for the Year	296	220

Consolidated Superannuation Fund	2017 £'000s	2016 £'000s
Employers' contributions	28,252	29,081
Employees' contributions	14,181	13,971
Capital payments	279	150
Refund of contributions repaid	86	125
Transfer values received	3,024	1,867
	45,822	45,194
Pensions	(46,314)	(44,330)
Lump sum payments	(11,284)	(12,715)
Contributions refunded	(1,592)	(1,583)
Transfer values paid	(3,288)	(1,097)
	(62,478)	(59,725)
Returns on Investments (including realised and unrealised profits on revaluation of investments) net of investment management fees and other expenses	141,685	163,253
Net Increase in Fund for the Year	125,029	148,722

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

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

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

A full actuarial valuation of the Fund as at 31 December 2016 was carried out. The results of this valuation will be reported to the States in July 2018. It is anticipated that the base employer rate (including teachers) will remain at 14.1%.

The total contributions payable in respect of 2017 amounting to £28.671m (2016: £29.081m) have been charged as expenses in the Statement of Financial Performance for the current year. FRS 102 has not been adopted in full and the deficit on the Fund is, therefore, not included in the Statement of Financial Position. However, the following disclosures provide certain information which would be required under FRS 102.

The valuation was updated by the actuary on an FRS 102 basis as at 31 December 2017.

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

	31 December 2017 % p.a.	**31 December 2016 % p.a.**
Discount rate at end of year	2.60%	2.60%
Discount rate at start of year	2.60%	3.70%
Rate of inflation	3.40%	3.40%
Increases to deferred benefits during deferment - Teachers Scheme	2.50%	2.50%
Increases to deferred benefits during deferment - Other Schemes	3.40%	3.40%
Increases to deferred benefits during deferment - Teachers Scheme	2.50%	2.50%
Increases to pensions in payment - Other Schemes	3.40%	3.40%
Increases to pensions in payment - Teachers Scheme	2.50%	2.50%
Increases to salaries	4.15%	4.15%
Mortality assumptions:		
Female pensioners aged 65 will live until	89	89
Male pensioners aged 65 will live until	87	86
Female employees aged 45 will live until	88	88
Male employees aged 45 will live until	90	91

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

NOTES TO THE ACCOUNTS

Analysis of changes in scheme deficit

Movements in the scheme deficit for the year were as follows

	2017 £'000s	2016 £'000s
Current Service Cost	77,151	50,845
Curtailment Gains	-	(5,028)
Net Interest on Net Defined Liability		
Interest on obligation	63,262	66,781
Interest on assets	(33,625)	(42,371)
Cumulative Amounts of re-measurements		
Return on assets (not included in interest)	(108,047)	(121,662)
(Actuarial gains)/losses on obligation	(106,486)	559,826
Administration Expenses	884	779
	(106,861)	509,170
Contributions by Employer	(28,671)	(29,231)
Net (Reduction)/Increase in Deficit for the year	(135,532)	479,939

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

	2017 £'000s	2016 £'000s
Defined benefit obligation at 1 January	2,462,415	1,833,754
Service cost	77,151	50,845
Contribution by members	14,060	13,971
Curtailment Gains	-	(5,028)
Benefits paid	(58,490)	(57,734)
Interest on obligation	63,262	66,781
Experience gains	(29,795)	(23,906)
Losses/(gains) from changes in assumptions	(76,691)	583,732
Defined benefit obligation at 31 December	2,451,912	2,462,415

NOTES TO THE ACCOUNTS

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

	2017 £'000s	2016 £'000s
Fair value of fund assets at 1 January	1,301,155	1,152,433
Interest on assets	33,625	42,371
Return on assets (not included in interest)	108,047	121,662
Contributions by employer	28,671	29,231
Contributions by members	14,060	13,971
Benefits paid	(58,490)	(57,734)
Administration expenses	(884)	(779)
Fair value of fund assets at 31 December	1,426,184	1,301,155

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

	2017 £'000s	2017 %	2016 £'000s	2016 %
Equities	852,645	60	775,672	60
Alternatives	246,183	17	195,878	15
Gilts and Bonds	198,837	14	182,870	14
Property	103,801	7	89,546	7
Cash	24,718	2	57,189	4
Total	1,426,184	100	1,301,155	100

The employer expects to contribute £29m to the Fund from 1 January 2018 to 31 December 2018.

The overall scheme deficit is as follows:

	2017 £'000s	2016 £'000s
Defined benefit obligation at 31 December	2,451,912	2,462,415
Fair value of fund assets at 31 December	(1,426,184)	(1,301,155)
Net defined benefit liability	1,025,728	1,161,260

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

NOTES TO THE ACCOUNTS

39. Non-Audit Services

The States tendered for external audit services during 2017. The previous contract with Deloitte LLP concluded with the audit of the 2016 financial statements. Grant Thornton Limited was selected as the successful bidder, and performed the audit of the States 2017 financial statements. There were no non-audit services provided by Grant Thornton Limited during 2017.

40. Contingent Liabilities

These relate to guarantees given by the States for repayment of loans (and other loan facilities) taken out by associated entities. The total of these loan guarantees has not been recognised as a liability within the Statement of Financial Position.

Cabernet Limited

On 29 June 2005 (Billet d'État IX, 2005), the States authorised the provision of guarantees relating to borrowings from third parties by Cabernet Limited (the holding company of Aurigny Air Services Limited and Anglo Normandy Engineering Limited). The Policy & Resources Committee has guaranteed a loan facility entered into by Aurigny Air Services Limited with the Royal Bank of Scotland International Limited (RBSI) for the purchase of two new ATR72-500 aircraft. The balance of the loan amounted to £9.6m as at 31 December 2017 (2016: £10.8m).

The Policy & Resources Committee has also guaranteed the company's trading operational loan facilities with RBSI Limited comprising: an overdraft facility of £1m; a credit limit utilisation of £1,500,000 for Foreign Currency Exchange Forward Contracts; and HM Customs Bonds of a maximum of £100,000. A further guarantee is in place with Barclaycard for an unlimited amount of credit card sales in respect of unflown flights.

Guernsey Housing Association Limited (by Guarantee)

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

Alderney Housing Association Limited

Under the terms of the Framework Agreement between the States of Alderney and the Alderney Housing Association Limited (AHA), the States of Alderney have Step-In rights for the assets and liabilities of the AHA in the event that the latter was unable to meet its obligations. Accordingly, the States of Alderney have provided a letter of comfort in respect of the AHA's overdraft facility of £3m with a private financial institution. If it becomes necessary for the States of Alderney to exercise their Step-In rights, then all assets and liabilities of the AHA would revert to the States of Alderney at that time. The market value of assets as at 31 December 2017 was £8.970m (2016: £8.970m). The States of Guernsey have agreed to 'step-in' if the States of Alderney were unable to service the facility or repay any amounts due.

NOTES TO THE ACCOUNTS

41. Table of Grant Payments

The States provides grant funding to a number of different entities. Details of those grants that were payable during 2016 and 2017 are as follows.

Description	2017 £'000	2016 £'000
Social Insurance Fund Grant	15,667	15,256
Rent rebate payments (various)	11,022	11,182
Health Service Fund Grant	-	4,659
Overseas aid grants (various)	2,602	2,295
St John Ambulance and Rescue Service	2,486	2,582
Guernsey Housing Association	2,291	2,853
Elizabeth College (College Grant)	2,134	2,198
The Ladies College (College Grant)	1,856	1,863
Pre-school grants (various)	1,836	-
Guille-Alles Library	1,604	1,498
Dairy farm management payments (various)	1,425	1,625
Guernsey Finance LBG	1,200	1,109
H E Lieutenant Governor	628	660
Youth Service Administration	498	399
Guernsey Employment Trust	417	411
Blanchelande College (College Grant)	404	436
Priaulx Library	319	319
Action for Children	314	297
Guernsey Training Agency	275	740
Channel Islands Brussels Office	260	340
Guernsey Sports Commission	209	226
Association of Guernsey Charities	190	213
Events Group	165	170
Dyslexia Day Centre	148	148
Grow Limited	141	141
Guernsey Competition and Regulatory Authority	140	140
Guernsey Contraceptive Service	140	140
Guernsey Arts Commission	114	141
Guernsey Enterprise Agency (Start Up Guernsey)	112	95
Floral Guernsey	1	74
2021 Island Games	100	-
Dairy & Land Management (Alderney)	65	58
Friends of St James Association	58	58
Alderney Commission for Renewable Energy	54	-
Other grant payments less than £50,000 (various)	5,505	5,832
Total	54,380	58,158

NOTES TO THE ACCOUNTS

42. Payments to States Members

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

	2016 January – April £	2016 May – December £	2016 Total £	2017 Total £
A H Adam	11,546	-	11,546	-
E G Bebb	12,164	-	12,164	-
B L Brehaut	12,612	33,891	46,503	51,617
A H Brouard	13,016	33,891	46,907	51,617
Y Burford	16,510	-	16,510	-
G M Collins	12,164	-	12,164	-
R Conder	11,687	-	11,687	-
D de G De Lisle	11,309	24,006	35,315	36,561
H L De Sausmarez	-	25,086	25,086	38,206
R Domaille	12,164	-	12,164	-
M H Dorey	12,164	25,086	37,250	38,206
A C Dudley-Owen	-	25,086	25,086	38,206
D J Duquemin	12,183	-	12,183	-
M J Fallaize	13,789	33,891	47,680	51,617
P T R Ferbrache	-	32,979	32,979	49,394
P L Gillson	16,510	-	16,510	-
J A B Gollop	13,016	25,086	38,102	38,206
R H Graham LVO, MBE	-	24,006	24,006	36,561
C J Green	11,533	33,891	45,424	51,617
M P J Hadley	12,486	-	12,486	-
S T Hansmann Rouxel	-	25,086	25,086	37,629
P A Harwood	10,257	-	10,257	-
N R Inder	-	7,587	7,587	38,206
D A Inglis	12,612	-	12,612	-
S A James MBE	12,486	-	12,486	-
L E Jean	3,800	8,192	11,992	12,287
D B Jones	14,817	9,002	23,819	-
R A Jones	13,655	-	13,655	-
J Kuttelwascher	11,687	24,006	35,693	36,561
A H Langlois	16,542	-	16,542	-
S L Langlois	-	24,276	24,276	36,008
M K Le Clerc	11,386	33,891	45,277	51,617
A R Le Lievre	11,343	-	11,343	-
P R Le Pelley	12,486	32,432	44,918	49,394
J P Le Tocq	21,910	33,891	55,801	51,617
M P Leadbeater	-	25,086	25,086	38,206
M M Lowe	10,924	32,432	43,356	48,648
P A Luxon	15,998	-	15,998	-
S D G McKinley	3,780	7,840	11,620	14,591
C P Meerveld	-	25,086	25,086	38,206
J S Merrett	-	25,086	25,086	38,206
J I Mooney	-	25,086	25,086	38,206
S J Ogier	16,510	-	16,510	-
M G O'Hara	15,661	-	15,661	-
V S Oliver	-	25,086	25,086	38,206

NOTES TO THE ACCOUNTS

42. Payments to States Members (Continued)

	2016 January – April £	2016 May – December £	2016 Total £	2017 Total £
B J E Paint	11,309	24,006	35,315	36,561
C N K Parkinson	12,164	25,086	37,250	38,896
R A Perrot	10,924	-	10,924	-
R G Prow	-	25,086	25,086	37,359
L B Queripel	12,164	25,086	37,250	37,629
L C Queripel	11,386	25,086	36,472	36,966
F W Quin	12,099	-	12,099	-
P J Roffey	-	25,086	25,086	38,206
P A Sherbourne	11,671	-	11,671	-
R W Sillars	14,817	-	14,817	-
J C S F Smithies	-	24,006	24,006	36,561
H J R Soulsby	13,789	33,891	47,680	51,617
A Spruce	11,165	-	11,165	-
G A St Pier	15,454	44,109	59,563	67,179
T J Stephens	-	32,432	32,432	49,394
K A Stewart	16,510	-	16,510	-
D A Tindall	-	25,086	25,086	38,206
R H Tooley	-	25,086	25,086	38,206
L S Trott	11,624	33,891	45,515	51,617
A M Wilkie	12,164	-	12,164	-
E A Yerby	-	25,086	25,086	37,629
	597,947	1,073,987	1,671,934	1,645,422

An election was held during April 2016, which resulted in changes to the composition of the elected assembly with effect from to 1 May 2016.

Changes were introduced to the level of States' Members remuneration from 1 May 2016. From that date, the States' Members no longer received a separate allowance for expenses, instead this was incorporated within their overall remuneration.

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

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

The entry regarding Deputy D B Jones relates to the period from 1 January 2016 to 05 July 2016 (the date of his death).

NOTES TO THE ACCOUNTS

43. Related Party Transactions

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

Mr Stuart Falla M.B.E., who is a Non-States Member of the States' Trading Supervisory Board, is a shareholder with a controlling interest in the Garenne Group. The Garenne Group charged the States' Trading Supervisory Board £576,671 in respect of goods and services provided by companies within that Group to the States' Trading Supervisory Board (non-trading responsibilities) during 2017. The Accounts of each States' Trading Supervisory Board trading entity (incorporated and unincorporated) include a related party transaction note.

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

Deputy Ferbrache, who was President of the Committee for Economic Development until 13 December 2017, is a consultant for the law firm Ferbrache & Farrell LLP. Ferbrache & Farrell LLP charged the Committee for Economic Development £456,993 in respect of services provided to the Office of the Public Trustee during 2017.

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

44. Post Balance Sheet Events

At a meeting of the States of Deliberation on 19th April 2018, it was agreed that a capital vote (to a maximum value of £32million) should be charged to the Capital Reserve for the cost of constructing the new solid waste management facilities required for the implementation of the island's solid waste strategy. The States had previously capitalised expenditure of £9.107m to 31st December 2017 in the Statement of Financial Position, via an internally funded loan from the proceeds of the States of Guernsey Bond Issue (categorised within Loans Receivable). This internal loan will be repaid in full on 19th April 2018, and an equivalent amount will be charged to the Capital Reserve in 2018. Thereafter future costs will be charged to the Capital Reserve in line with the requirements of the capital vote.

45. Segmental Analysis

The States prepared the 2017 Budget in a format that is different to that reported within these accounts. It is important to note that the Segmental Analysis (Appendix II) only includes income and expenditure attributed to Committee functions and certain corporate activities (recovery of taxes and other non-exchange transactions, capital receipts etc.). Equally, the totals within the segmental analysis includes amounts that are treated as an appropriation between reserves within these accounts.

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

NOTES TO THE ACCOUNTS

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

	Note	2017 £'000s	2016 £'000s
Surplus for the year as per the Statement of Financial Performance		113,869	62,455
Adjustments for (surplus)/deficit on earmarked balances within the General Reserve			
Corporate Housing Programme Fund	21	3,002	3691
Transformation and Transition Fund	22	1,789	943
Insurance Deductible Fund	23	848	921
Future Guernsey Economic Fund	24	1,083	1,283
Bond Reserve	25	(9,703)	(11,616)
Solid Waste Trading Account	26	(1,444)	(1,495)
Wilfred Carey Purchase Fund	27	(158)	(184)
Health and Social Care Accommodation Fund	28	(5)	(46)
Channel Islands Lottery (Guernsey) Fund	29	(1,030)	(950)
Higher Education Loans Fund	30	(47)	(4)
Overseas Aid & Development Commission Fund	31	2,602	2,295
		(3,063)	(5,162)
Adjustment for balances credited to the Capital Reserve	33	(28,535)	(3,419)
Adjustment for balances credited to the Core Investment Reserve	34	(16,326)	(20,762)
Surplus credited to General Reserve (Unallocated Balance)	20	**65,945**	**33,112**
Other adjusting items included within the Segmental Analysis			
Transfer to Overseas Aid & Development Commission Fund		(2,915)	(2,885)
Transfer to Insurance Deductible Fund		(1,300)	(1,350)
Transfer from Solid Waste Trading Account		1,595	1,595
Transfer from Channel Islands Lottery (Guernsey) Fund		493	651
		(2,127)	(1,989)
Other adjusting items excluded from the Segmental Analysis			
Impairment for Cabernet losses		4,103	4,779
Alderney capital expenditure		-	774
Re-purchase of shares by trading entities		-	10,000
		4,103	15,553
Surplus reported within the Segmental Analysis		**67,921**	**46,676**

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

GLOSSARY **Appendix I**

Accounting Boundary

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

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

Category A
General Revenue Income
Policy & Resources Committee
Committee *for* Economic Development
Committee *for* Education, Sport & Culture
Committee *for* Employment & Social Security
Committee *for the* Environment & Infrastructure
Committee *for* Health & Social Care
Committee *for* Home Affairs
Scrutiny Management Committee
Development & Planning Authority
Overseas Aid & Development Commission
States' Trading Supervisory Board
Royal Court
Law Officers
States of Alderney
Category B
Corporate Housing Programme Fund
Transformation and Transition Fund
Insurance Deductible Fund
Future Guernsey Economic Fund
Bond Reserve
Solid Waste Trading Account
Wilfred Carey Purchase Fund
Health and Social Care Accommodation Fund
Channel Islands Lottery (Guernsey) Fund
Higher Education Loans Fund
Overseas Aid & Development Commission Fund
Sports Loans Fund
Capital Reserve
Core Investment Reserve
States Trading Entities Reserve

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

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

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

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

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

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

Depositors – those connected entities and funds (outwith those functions noted in the Accounting Boundary) who place surplus funds with the States of Guernsey to be held in a fiduciary capacity.

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

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

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

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

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

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

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

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

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

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

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

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

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

SEGMENTAL ANALYSIS

Appendix II

2017 Original Budget £'000s	2017 Total Authorised £'000s		2017 Actual £'000s	2016 Actual £'000s
402,800	402,800	Revenue Income	431,832	406,964
5,000	5,000	Capital Income	18	10,541
407,800	407,800	Total Income	431,850	417,505
		Net Revenue Expenditure		
36,421	38,005	*Policy & Resources Committee*	37,678	37,014
6,295	6,314	*Committee for Economic Development*	6,755	6,091
74,674	75,153	*Committee for Education, Sport & Culture*	77,276	76,427
65,040	65,134	*Committee for Employment & Social Security*	64,133	69,886
11,797	11,860	*Committee for the Environment & Infrastructure*	11,456	11,727
118,528	117,481	*Committee for Health & Social Care*	114,877	117,378
29,773	30,248	*Committee for Home Affairs*	30,305	29,829
553	556	*Scrutiny Management Committee*	474	529
1,355	1,371	*Development & Planning Authority*	1,167	1,086
2,915	2,915	*Overseas Aid & Development Commission*	2,915	2,885
1,469	1,498	*States' Trading Supervisory Board*	885	1,323
2,414	2,820	*Royal Court*	2,800	2,479
4,489	4,611	*Law Officers*	4,592	4,594
1,830	1,847	*States of Alderney*	1,847	1,885
4,947	2,687	*Budget Reserve*	-	-
362,500	362,500	Net Revenue Expenditure	357,160	363,133
		Routine Capital Expenditure		
963	963	*Policy & Resources Committee*	297	146
72	72	*Committee for Economic Development*	-	-
554	654	*Committee for Education, Sport & Culture*	371	1,323
28	28	*Committee for Employment & Social Security*	23	-
3,559	3,721	*Committee for the Environment & Infrastructure*	2,918	2,940
1,199	2,459	*Committee for Health & Social Care*	2,224	1,481
640	1,152	*Committee for Home Affairs*	587	778
1,121	1,381	*States' Trading Supervisory Board*	322	931
100	100	*Royal Court*	4	32
83	83	*Law Officers*	23	65
1,500	1,919	*Backlog Property Maintenance*	-	-
3,000	287	*Budget Reserve*	-	-
12,819	12,819	Routine Capital Expenditure	6,769	7,696
(2,319)	(2,319)	Use of Accumulated Capital Allocation	-	-
10,500	10,500	Net Routine Capital Expenditure	6,769	7,696
373,000	373,000	Total Cash Limits	363,929	370,829
34,800	**34,800**	**Net Surplus**	**67,921**	**46,676**

ANALYSIS OF PAY COSTS AND FTE TOTALS

Appendix III

Committee	2017 Actual £'000s	2017 Average FTE	2016 Actual £'000s	2016 Average FTE
Policy & Resources Committee	21,393	388	20,650	387
Committee *for* Economic Development	2,645	42	2,690	44
Committee *for* Education, Sport & Culture	57,963	1,234	58,065	1,243
Committee *for* Employment & Social Security	3,646	77	3,678	81
Committee *for the* Environment & Infrastructure	2,654	53	2,652	55
Committee *for* Health & Social Care	86,045	1,959	84,216	1,890
Committee *for* Home Affairs	27,408	533	27,265	536
Scrutiny Management Committee	430	6	419	6
Development & Planning Authority	2,267	42	2,255	41
States' Trading Supervisory Board	4,005	64	3,982	66
Royal Court	4,040	53	3,912	53
Law Officers	4,490	41	4,584	42
States of Alderney	1,684	-	1,762	-
	218,670	4,492	216,130	4,444
Other Functions				
Transformation and Transition Fund	1,137	12	597	7
Guernsey Registry	395	7	388	6
Future Guernsey Economic Fund	353	6	307	5
Portfolio Team	353	5	465	7
Solid Waste Trading Account	241	5	315	6
Channel Islands Lottery (Guernsey) Fund	-	-	47	1
Health and Social Care Accommodation Fund	216	6	205	6
Notes and Coins Trading Account	87	2	67	1
	2,782	43	2,391	39
States' Members	1,855	-	1,854	-
Total pay costs charged to the Statement of Financial Performance and equivalent FTE's	**223,307**	**4,535**	**220,375**	**4,483**
Capital Reserve and Routine Capital Projects	1,343	15	588	7
Total pay costs and equivalent FTE's	**224,650**	**4,550**	**220,963**	**4,490**

CAPITAL RESERVE EXPENDITURE

Appendix IV

	2017 £'000s	2016 £'000s
States Capital Investment Programme		
Portfolio Administration Costs	407	494
Policy & Resources Committee		
IT Wide Area Network (£1.09m)	-	35
Cremator and Emissions Equipment Replacement	106	55
Income Tax Electronic Document and Records Management	4	31
Revenue Service Programme	428	208
Strategic Asset Management Plan Phase 1	-	170
Sir Charles Frossard House Re-Roofing (£0.8m)	11	(10)
Longue Hougue Rock Armour (£1.0m)	-	5
Cabernet Ltd Recapitalisation (£25.2m)	-	25,212
Future Digital Services	257	49
Strategic Asset Management Plan Centralisation Community Services	-	12
Office Rationalisation Project 1 Phase 1 (£2.098m)	1,523	16
SAP Roadmap	65	-
Committee *for* Education, Sport & Culture		
College of Further Education Transformation Programme	-	72
Les Beaucamps High School (£36.8m)	(102)	220
Les Nicolles Secondary and Special Needs Schools (£44.4m)	104	14
La Mare De Carteret Schools (£1.65m)	121	1,451
Education Estates Rationalisation	49	-
Committee *for the* Environment & Infrastructure		
Bus Replacement Phase 1 (£1.84m)	1,617	12
Bulwer Avenue Sea Wall (£0.8m)	-	717
Sea Wall Repointing (£1.807m)	462	188
Hydrocarbon Supplies	1,107	-
Committee *for* Health & Social Care		
Mental Health and Wellbeing Centre (£24m)	(486)	835
Electronic Health and Social Care record (£3.9m)	354	56
Radiology Equipment Replacement (£1.246m)	575	363
Princess Elizabeth Hospital Re-Profiling	28	81
Sherwill Ward Redevelopment	6	433
Committee *for* Home Affairs		
Tetra Radio (£1.8m)	-	18
New Generation Passport (£1.0m)	32	101
Linkworks Information System Replacement (£1.2m)	61	478
Replacement Prison Fencing (£1.7m)	1,708	-
Home Operational Services Transformation	88	25
States' Trading Supervisory Board		
Airport Pavements Rehabilitation (£78.2m)	25	208
Airport Radar Replacement (£3.25m)	-	113
Belle Greve Wastewater Centre (£11.03m)	37	3
St Peter Port Harbour Crane Strategy (£13.675m)	27	(159)
Alderney Airport Runway Rehabilitation	29	12
	8,643	**31,518**

CONSOLIDATED HEALTH AND SOCIAL CARE ACCOUNTS

Appendix V

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

	2017			2016		
	TOTAL	E&SS	H&SC	TOTAL	E&SS	H&SC
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Primary Health Care						
Ambulatory Services	2,586	-	2,586	2,741	-	2,741
Emergency Department	1,147	-	1,147	1,630	-	1,630
GP and Nurse Consultation Grants	3,401	3,401	-	3,466	3,466	-
	7,134	3,401	3,733	7,837	3,466	4,371
Secondary and Tertiary Health Care						
Acute Services provided Off-Island	9,123	-	9,123	9,721	-	9,721
Guernsey Therapy Group Services	2,287	2,287	-	2,273	2,273	-
Hospital Services	49,973	3,576	46,397	49,188	3,323	45,865
Medical Specialist Group Services	18,354	18,354	-	18,226	18,226	-
Prescription Drugs and Medicines	16,247	16,247	-	16,320	16,320	-
Travel Costs	2,462	2,163	299	2,491	2,192	299
	98,446	42,627	55,819	98,219	42,334	55,885
Community Care						
Children and Adult Disability Services	11,841	366	11,475	11,939	219	11,720
Children and Adult Mental Health Services	11,954	367	11,587	14,903	318	14,585
Community and Social Care Services	22,803	-	22,803	23,701	-	23,701
Older People Services	26,085	19,961	6,124	24,255	19,005	5,250
	72,683	20,694	51,989	74,798	19,542	55,256
Public Health Services						
Prevention and Awareness	2,591	-	2,591	2,546	-	2,546
Treatments	392	-	392	375	-	375
	2,983	-	2,983	2,921	-	2,921
Net cost of providing Health and Social Care Services	**181,246**	**66,722**	**114,524**	**183,775**	**65,342**	**118,433**

Notes:

The above includes an element of administrative and central costs amounting to £18.8m (2016: £21.5m) that have been apportioned across each of the expenditure lines.

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

ANALYSIS OF INCOME & EXPENDITURE ATTRIBUTABLE TO ALDERNEY

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

	Note	2017 £'000s	2016 £'000s
Income			
Taxation and duty revenue received by the States of Guernsey	1	9,148	8,758
States of Alderney - Capital receipts		6	267
Alderney Gambling Control Commission		1,972	1,803
Total Income		11,126	10,828
Expenditure			
States of Alderney - Net Revenue Expenditure	2	1,848	1,885
States of Alderney - Capital Expenditure		2,180	1,061
States of Alderney - Economic Development Expenditure		300	352
Transferred Services - Net Revenue Expenditure	3	10,045	10,280
Transferred Services - Capital Expenditure	4	282	572
Aurigny operating loss in respect of Alderney routes		3,300	2,699
Total Expenditure		17,955	16,849
Net Cost		**6,829**	**6,021**

The total direct gross economic contribution to the Bailiwick of the e-Gaming Sector in Alderney is estimated to be £25.9m in 2017 (2016: £25.7m) which comprises £5.2m in respect of Alderney (2016: £5.7m) and £20.7m in respect of Guernsey (2016: £20m) including £1.44m (2016:£1.39m) in personal income tax and social security contributions.

ANALYSIS OF SOCIAL SECURITY ATTRIBUTABLE TO ALDERNEY

Appendix VI

	2017 £'000s	2016 £'000s
Income		
Contributions		
Guernsey Insurance Fund	2,145	2,075
Guernsey Health Service Fund	796	792
Long-Term Care Insurance Fund	535	395
States Grant	313	406
Total Income	3,789	3,668
Benefits and Administration Costs		
Guernsey Insurance Fund	4,008	3,982
Guernsey Health Service Fund	1,351	1,568
Long-Term Care Insurance Fund	814	752
Total Expenditure	6,173	6,302
Investing Activities	1,587	2,215
Net Deficit	**797**	**419**

NOTES

Appendix VI

1. Taxation and duty revenue received by States of Guernsey

	2017 £'000s	2016 £'000s
Income Tax		
Individuals - ETI	3,458	3,395
Individuals - Other	2,543	2,484
Companies	412	524
Banks	32	31
Distributions	399	167
Total Income Tax	6,844	6,601
Customs - Excise and Import Duties	1,094	1,070
Tax on Real Property	822	744
Document Duty	388	343
	9,148	**8,758**

2. States of Alderney - Net Revenue Expenditure

	2017 £'000s	2016 £'000s
Building and Development Control Services		
Expenditure	369	200
Income	(34)	(16)
	335	184
General Services Committee		
Expenditure	1,396	1,701
Income	(209)	(633)
	1,187	1,068
Policy and Finance Committee		
Expenditure	1,557	1,428
Income	(1,135)	(795)
Transfer from capital allocation	(96)	-
	326	633
	1,848	**1,885**

3. Transferred Services - Net Revenue Expenditure

	2017 £'000s	2016 £'000s
Policy & Resources Committee		
Policy	85	93
External Affairs	15	17
Digimap services	(9)	(14)
Information Systems & Services	155	40
Shared Services Centre	19	20
Payments to States Members	59	59
HE Lieutenant Governor	19	23
Income Tax	89	88
Cadastre	18	18
Alderney civil service	124	128
Treasury	20	14
Insurance	40	38
	634	524

3. **Transferred Services - Net Revenue Expenditure (continued)**

	2017 £'000s	2016 £'000s
Committee *for* Economic Development	18	15
Committee *for* Education, Sport & Culture		
St Anne's School	1,551	1,589
Special Schools	7	110
College of Further Education	178	239
Higher Education	99	143
Travel, Subsistence and Accommodation	49	64
School and Pupil Support Services	2	2
Central support services and management	143	296
Special Needs Support	80	121
Other	98	54
	2,207	2,618
Committee *for* Employment & Social Security		
Administration	72	81
Legal Aid	36	29
Medical Expenses Assistance Scheme	2	2
Severe Disability Benefit and Carers' Allowances	197	172
Family Allowance	175	206
Supplementary Benefit	489	473
Concessionary TV Licences for the Elderly	32	34
Social Insurance Fund – Grant	313	311
Health Service Fund – Grant	-	95
	1,316	1,403
Committee *for the* Environment & Infrastructure		
Alderney Breakwater	74	74
Other	(25)	(25)
	49	49
Committee *for* Health & Social Care		
Mignot Memorial Hospital	1,879	1,815
Princess Elizabeth Hospital - inpatient	214	299
Diagnostic Services and Hospital Administration	721	434
Emergency & Day Patient Hospital Services	138	88
Private patient income	(121)	(143)
Children's Services	114	102
Adult Services	26	21
Off island - complex placement	62	196
Acute Off islands treatment	267	339
Management & Strategy	256	229
	3,556	3,380

3. **Transferred Services - Net Revenue Expenditure (continued)**

	2017 £'000s	2016 £'000s
Committee *for* Home Affairs		
TETRA	-	40
Domestic Abuse Strategy	4	1
Drug and Alcohol Strategy	5	1
Data Protection	5	5
Law Enforcement	1,079	1,054
Prison Service	-	8
Probation Service	3	3
Trading Standards	1	1
	1,097	1,113
Scrutiny Management Committee	15	17
Overseas Aid & Development Commission	91	90
Law Officers	236	240
States' Trading Supervisory Board		
Alderney Airport	815	818
States' Property Services	11	13
	826	831
	10,045	**10,280**

4. **Transferred Services - Capital Expenditure**

	2017 £'000s	2016 £'000s
Committee *for the* Environment & Infrastructure		
Alderney Breakwater	276	400
Committee *for* Health & Social Care	6	-
States' Trading Supervisory Board		
Alderney Airport	-	172
	282	**572**

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

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

The Committee approved the following increases in 2017 revenue budgets:

	£
Pay Awards	1,909,450
Established Staff and GBA Staff – turnover adjustment	407,800
Committee *for* Education, Sport & Culture	
Examination of two school option	68,350
Committee *for* Employment & Social Security	
Disability Strategy	68,665
Policy & Resources Committee	
Defence of legal challenges to the implementation of pension reforms	882,263
Costing and Benchmarking Reviews	230,600
EU General Data Protection Regulation preparation	138,800
Managing Brexit	97,600
Committee *for* Home Affairs	
Passport stock write-off	105,000
Royal Court	
Lieutenant Bailiff fees	150,000
Staff restructuring	100,000
Court Fees income shortfall	85,000
Miscellaneous	69,247
Total	**4,312,775**

The Committee has approved the following increase in routine capital allocations:

	£
Committee *for* Health & Social Care	
Medical Equipment replacement	560,000
Hyperbaric Chamber	440,000
IT software replacement	260,000
Committee *for* Home Affairs	
Probation Service relocation	320,000
Property maintenance (backlog)	1,133,000
Total	**2,713,000**

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

The following capital projects have been approved:

	£
Policy & Resources Committee	
Leisure Management ICT system - upgrade	175,000
SAP Vendor Invoice Management system - upgrade	100,000
States website - development	80,000
SAP Portal - upgrade	80,000
Counter receipting software - replacement	80,000
Alderney Airport meteorological system - replacement	72,000
Alderney Airport servers - replacement	20,000
Prison computers - replacement	20,000
Committee *for* Education, Sport & Culture	
Schools – building adaptions and improvements	111,000
Vale School re-roofing	90,000
Beau Sejour facilities - refurbishment	78,000
Priaulx Library boundary wall conservation - phase 2	70,000
Beau Sejour treadmills - replacement	60,000
Guernsey Museum and Art Gallery displays – refurbishment	50,000
Grammar School building survey	10,000
Minor overspends on previously approved projects	5,025
Committee for Employment & Social Security	
Chemical collection van - replacement	25,000
Committee *for the* Environment & Infrastructure	
Roads re-surfacing and reconstruction	2,384,000
Alderney Breakwater - repairs	302,000
Val de Terres – rock stabilisation works	162,000
Roads condition Survey	22,000
Cycle hoops – new	22,000
Land Management van - replacement	11,500
Home Farm - refurbishment	10,700
Minor overspends on previously approved projects	17,484
Committee *for* Health & Social Care	
Endoscopes – replacement	670,000
Windows XP - upgrade	462,400
Pathology laboratory information system - replacement	260,000
Giffard Ward - refurbishment	400,000
Incinerator – refurbishment	249,000
Hospital equipment – additional and replacement (£100k or less per item)	213,800
Emergency Department equipment - replacement	160,000
Laparoscopic Operating stacks – replacement	125,000
Vehicles – replacement	124,500
Oil Tank Infrastructure - refurbishment	105,444
Mammography equipment - replacement	100,000
On-line survey HSC Audits (increased allocation)	84,061
Giffard Ward fire detection equipment - replacement	10,000
Minor overspends on previously approved projects	202,599

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

Committee *for* Home Affairs	
Probation Service - relocation	320,000
Prison air handling units - replacement	98,000
Police vehicles - replacement	95,000
Prison flues – replacement	55,000
Prison oil storage tanks - replacement	38,500
Tasers – replacement	28,500
Community service vehicles – replacement	25,000
Minor overspends on previously approved projects	26,382
States' Trading Supervisory Board	
Town Arsenal - remedial works	175,000
Beaucamp Militia Hall - repairs	85,000
Gator truck - replacement	22,000
Minor overspends on previously approved projects	2,316
Royal Court	
Minor overspends on previously approved projects	12,157
States of Alderney	
Nunnery – refurbishment	280,000
Roads resurfacing	250,000
Water Board distribution improvements	166,000
Boat hoist – replacement	80,000
Materials baler - replacement	61,000
Air curtain burner - replacement	49,000
Green waste composter - replacement	46,000
Vehicles – replacement	33,000
Video conferencing equipment	20,000
IT equipment - replacement	15,000
Powerscythe - replacement	11,900
Side arm cutting attachment - replacement	11,500
Capital Projects funded from the Capital Reserve	
Office Rationalisation Project 1 Phase 1	2,068,000
Radiology equipment replacement	800,000
Future Digital Services	554,000
SAP Roadmap - upgrade	430,000
Hydrocarbon supplies – project planning	360,000
Education estate development – Development Phase 1	170,000
Revenue Service Programme	157,500
Coastal repairs - L'Ancresse East - refurbishment	127,000
Sea wall re-pointing	74,000
Transformation and Transition Fund	
Transforming Health & Social Care services	500,000
Population Management	495,000
Civil Service reform	470,000
Transforming other government services	413,400
Introduction of Resource Accounting and Budgeting	300,000
Procurement transformation	250,000
Implementation of States Review Committee proposals	50,000
Social Investment Commission	40,000
Public Service Reform	24,000
Transforming Education & Training Services	23,000
Future Guernsey Economic Fund	
Contribution to Guernsey Finance LBG	400,000
Marketing co-ordinated with release of 'The Guernsey Literary & Potato Peel Pie Society' Film	337,500
Guernsey University investigations	50,000
Air Route Support – Cardiff	44,000
Total	**17,368,168**

USE OF DELEGATED FINANCIAL AUTHORITY

Appendix VII

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

	£
Purchases	
Conveyance	
1-4 Mont Morin Court	1
Public Highway, Bordel and Les Marais Lane	1
Right of Way	
Rougeval Housing Estate Access Path	1
Total Purchases	**3**
Sales	
Conveyance	
Land at junction of Bulwer Avenue & Rue Dorey	19,000
Land parcels north of 'Viewers' car park (Airport)	4,000
Land at Lindsay Court	3,000
Epworth House (GHA)	1
Strip of Land Les Islets	1
Drill Field, Les Islets	1
Land at Rodley Park	1
Right of Way	
Pitronnerie Road Industrial Estate	10,000
Petite Fleur	1
Wayleave	
Entrance to Rodley Park	1
Old Slaughter House	1
Total Sales	**36,007**

States' Trading Supervisory Board
Ports

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

States' Trading Supervisory Board Members

Deputy C. Parkinson, President
Deputy J. Smithies
Mr S. Falla MBE
Mr J. Hollis

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers to the States' Trading Supervisory Board

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

Ports Board Members

Mr S. Falla MBE,	appointed Chairman 4 May 2017
Deputy C. Parkinson	appointed 4 May 2017
Mr B. Smillie	appointed as non-voting adviser 4 May 2017
Mr C. Le Ray	appointed as non-voting adviser 4 May 2017
Mr I. Merrien	appointed as non-voting adviser 4 May 2017

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

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

Further information on the role of the PB is provided under Corporate Governance in the General Manager's report.

Principal Officers to the Ports Board

Mr C. Le Ray, General Manager, Ports	
Mr A. Nicholas, Head of Aviation Services, Airport	
Captain C. Murray, Harbourmaster, Harbour	left 27 April 2018
Mrs K. Lawson, Commercial Manager, Ports	left 31 August 2017
Mr I. Merrien, Senior Finance Manager, Ports	
Mr D. Wright, Commercial Manager, Ports	joined 1 August 2017

In these Financial Statements any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the PB.

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

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Ltd
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board
Ports

Chairman's Report

Overview

The STSB has implemented improved governance arrangements across all of the States of Guernsey Trading Assets during 2017 which include the formation of a political subcommittee (company board) at the Ports. The Ports board is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other key strategic reviews and organisational drivers.

For the Ports, 2017 has been a positive year having achieved better than expected trading results in challenging trading conditions. However the business remains aware of the significant challenges it faces in the years to come with lower annual passenger numbers predicted at both harbour and airport.

Business Performance

The business continues to perform ahead of budget in the face of depressed passenger numbers. The Harbour's passenger numbers were above 2016, but still down on those before the rotation of passenger vessels to Guernsey was reduced. Airport passenger numbers were at their lowest for over 20 years. This highlights the importance of the Ports continuing to diversify revenue streams.

Financial Performance

The Ports made a surplus of £1.5m during 2017 (2016 deficit £1.1m). This turnaround was mostly due to an exceptional cost of £2.1m in 2016 which was a result of a one off legal/settlement, in addition 2017 saw a £110k improvement in revenue from cruise ships. During the year, the Ports made a £4.0m payment to the Capital Reserve as part of the target set for STSB in the 2017 Budget Report.

Our Community

As the main gateway to the island, the Ports are aware of the need to balance financial performance with the greater needs of the island. To this end, the Ports are constantly striving to minimise the impact of passenger charges on the general public. Alongside this, support for the community continues with a number of public events held in in the harbour area such as the Town Carnival and Proms on the Pier.

The Team

Whilst 2017 has been a positive year for the Ports, weather and delays have caused challenges in delivering the service required for what the island sees as 'business as usual'. The Ports are fortunate to have a loyal and committed team who continue to deliver in testing times.

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

Chairman's Report - continued

The Future

In order to remain compliant with current standards, the Airport is having to become ever more conscious with regards to security, which comes at significant cost. Simply increasing passenger charges is not desirable and so the Airport will continue to explore other avenues of revenue. The Seafront Enhancement Area Plan (Harbour Action Area Plan) will be several years in the making but in the meantime, the Ports will continue to diversify income streams where possible and continue to research any areas where it feels efficiencies can be made.

States' Trading Supervisory Board
Ports

General Manager's Report

Guernsey Ports presents its report and the audited financial statements for the year ended 31 December 2017. These comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows and the related notes 1 to 23.

Principal activities

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

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

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

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

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

'Contributions' to the States of Guernsey

During the year, the Ports made a £4.0m payment to the Capital Reserve as part of the target set for STSB in the 2017 Budget Report.

Customers

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

General Manager's Report – continued

Financial highlights

	Actual 2017 £'000	Budget 2017 £'000	Actual 2016 £'000
Airport revenue	**12,303**	12,451	12,365
Harbour revenue	**9,158**	8,914	8,780
Total revenue	**21,461**	21,365	21,145
Airport (deficit) for the financial year	**(287)**	(654)	(3,086)
Harbour surplus for the financial year	**1,701**	1,041	1,986
Net investment return	**131**	-	37
Total surplus/(deficit) for the financial year	**1,545**	387	(1,063)
Airport capital expenditure	**198**	2,695	571
Harbour capital expenditure	**242**	4,000	164
Capital expenditure	**440**	6,695	735

Operational performance

	2017	2016	Change %
Passenger movements			
Airport	**813,595**	841,914	-3.4%
Harbour	**320,255**	312,074	+2.6%
Total	**1,133,850**	1,153,988	-1.7%
Airport			
Full emergencies declared	**17**	1	+1,600%
Aircraft accidents	**-**	-	0%
Full time equivalent employees			
Airport	**123**	119	+3.4%
Harbour	**75**	77	-2.6%

General Manager's Report – continued

Corporate governance

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

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

The PB membership is a minimum of a Chairman who is not a States Member, a Political Member of the STSB, a Senior Executive of an Incorporated Company or one or more Senior Officers of the States, the General Manager and the Financial Manager.

All members of the PB other than the General Manager and the Financial Manager are appointed by the STSB.

The Chairman is responsible for:

- The proper observance of these Terms of Reference;
- Overseeing and facilitating the conduct of the PB meetings;
- Ensuring all PB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole PB for matters that may be referred to the STSB or when acting as a subcommittee;
- Setting agenda items in conjunction with the General Manager.

The PB does not hold a fiduciary responsibility.

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

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

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

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports;
- To guide and steer the business unit.

In carrying out these responsibilities the PB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives, policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; Relevant legislation.

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

In fulfilling this purpose, the PB will:

General Manager's Report – continued

- Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the business unit management team, with a view to directing the Ports as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance report;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of business unit operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the PB's delegated authority;
- Submit annual budgets and business plans in line with the States of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by the business unit;
- Consider any regulatory authority reports in relation to the business unit, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the business unit risk register and report risks in line with agreed policy;
- Receive, review and recommend action from other reports as may be requested by the PB.

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

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

The PB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the PB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the PB not less than five days prior to the meeting.

General Manager's Report – continued

Statement of responsibilities

The STSB is required to prepare financial statements for each financial year, and for selecting suitable accounting policies for the Ports. In preparing those financial statements, the STSB is required to:

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

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

Statement of financial controls and going concern

It is the responsibility of the STSB to identify and install 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 its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The STSB, is responsible for the economic, efficient and effective operations and management of the Ports and has a duty to ensure that they fulfil their obligations.

The Ports' internal financial controls and monitoring procedures include:

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

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

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

General Manager's Report – continued

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and the Ports' Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that the Ports have adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that the Ports are a going concern for at least twelve months from the approval of the financial statements.

Auditors

Grant Thornton Ltd have expressed their willingness to continue in office as auditors.

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

Opinion

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board – Ports (the "Ports") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements of the Ports for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting policies stated in note 2 to the financial statements

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Who we are reporting to

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

Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Board for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of financial statements on Page 11, the Board is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 2 to the financial statements. The Board is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Ports' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Ports or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

15 May 2018

States' Trading Supervisory Board
Ports

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
Revenue	2 & 4		
Airport fees, charges and other income		**12,303,272**	12,364,925
Harbour dues, charges and other income		**9,158,079**	8,780,356
		21,461,351	21,145,281
Expenses	2 & 6		
Airport expenses		**11,688,544**	14,219,559
Harbours expenses		**6,305,931**	5,688,058
		17,994,475	19,907,617
Operating surplus before depreciation/amortisation and loss on disposal of fixed assets		**3,466,876**	1,237,664
Depreciation/amortisation	9	**(5,392,807)**	(5,768,079)
Loss on disposal of fixed assets	9	**(2,032)**	(31,787)
Revaluation of investment property	10	**-**	(25,000)
Operating deficit for the year		**(1,927,963)**	(4,587,202)
Amortisation of asset specific contributions	2 & 16	**3,342,381**	3,487,026
Investment return	6	**130,626**	36,844
Surplus/(deficit) for the financial year	15	**1,545,044**	(1,063,332)

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

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

States' Trading Supervisory Board
Ports

Statement of Financial Position
as at 31 December 2017

	Notes	**2017** £	2016 £
Non-current assets			
Tangible fixed assets – Airport	9	**95,690,280**	99,323,341
Tangible fixed assets – Harbours	9	**137,136,108**	138,435,733
Investment property	10	**500,000**	500,000
Assets under construction	11	**109,058**	155,373
		233,435,446	238,414,447
Current assets			
Inventories	12	**366,349**	378,716
Debtors and prepayments	13	**2,770,882**	2,669,719
Bank and cash		**174**	275
Balances with States Treasury		**1,567,756**	2,087,076
		4,705,161	5,135,786
Creditors: amounts falling due within one year	14	**(1,894,957)**	(1,559,242)
Net current assets		**2,810,204**	3,576,544
Total net assets		**236,245,650**	241,990,991
Reserves	15	**236,245,650**	241,990,991

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

Deputy C. Parkinson 15 May 2018
President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott 15 May 2018
Managing Director

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

States' Trading Supervisory Board
Ports

<u>Statement of Changes in Equity</u>
for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
At 1 January		**241,990,991**	246,171,409
Surplus/(deficit) for the financial year		**1,545,044**	(1,063,332)
Amortisation of asset specific contributions	15	**(3,342,381)**	(3,487,026)
Contribution from States Capital Reserve	15	**51,996**	369,940
Contribution to States Capital Reserve	15	**(4,000,000)**	-
At 31 December	15	**236,245,650**	241,990,991

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

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	**2017** £	2016 £
Net cash flows from operating activities	17	**3,713,795**	(590,326)
Cash flows from investing activities			
Proceeds from sale of fixed assets		**10,000**	-
Purchase of fixed assets	9	**(425,838)**	(734,594)
Net cash flows used in investing activities		**(415,838)**	(734,594)
Cash flows from financing activities			
Net contribution (to)/from States Capital Reserve	15	**(3,948,004)**	369,940
Investment return received	6	**130,626**	36,844
Net cash flows (used in)/from financing activities		**(3,817,378)**	406,784
Net decrease in cash and cash equivalents		**(519,421)**	(918,136)
Cash and cash equivalents at the beginning of the year		**2,087,351**	3,005,487
Cash and cash equivalents at the end of the year		**1,567,930**	2,087,351
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		**174**	275
Cash balances with States Treasury		**1,567,756**	2,087,076
Cash and cash equivalents		**1,567,930**	2,087,351

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

Notes to the Financial Statements

1. General information

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

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

2. Principal accounting policies

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

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. In respect of the Ports' Fixed Assets the impairment review undertaken has not included a full impairment review of the Fixed Assets as the primary objective is to facilitate travel to and from the island and not generate an economic return. This is not in compliance with FRS 102 which would have a full impairment review in the light of negative operating cash flows.

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and Ports' Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that the Ports have adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that the Ports are a going concern for at least twelve months from the approval of the financial statements.

Tangible fixed assets

i) Investment properties

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

ii) Property, plant and equipment

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

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iii) Assets under construction

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

Depreciation

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

	Estimated life in years	Depreciation % per annum
Land	-	-
Infrastructure	15 - 60	6.7% - 1.7%
Buildings	25 - 60	4.0% - 1.7%
Plant and Equipment	5 - 25	20.0% - 4.0%
Motor vehicles	5 - 10	20.0% - 10.0%
Computers and ICT	3	33.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of Financial Position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The exception being as noted in section 2 Accounting Convention.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses.

ii) Trade and other creditors

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

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of the Ports. Whilst the Ports operates bank accounts, the entity will make payment and receive money via bank accounts held by the States Treasury. The net cash balance held with the States of Guernsey at the year-end is treated as Cash and Cash Equivalents on the Ports' Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Business Unit transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Business Unit, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

Revenue and expenses

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

Pension costs

Pension costs are treated as described in note 19 Employee benefits.

Amortisation of asset specific contributions

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

Net investment return

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

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Leases

i) As lessee

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

ii) As lessor

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

i) Valuation of investment property

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

ii) Depreciation rates

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

Notes to the Financial Statements – continued

4. Revenue

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

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

	2017	2016
	£	£
Guernsey Airport	**12,303,272**	12,364,925
Guernsey Harbours	**9,158,079**	8,780,356
	21,461,351	21,145,281
Advertising, picketing etc	**442,000**	365,000
Airport development charge	**731,000**	752,000
Car parking fees	**696,000**	720,000
Rents	**1,868,000**	1,878,452
Traffic receipts	**8,387,272**	8,453,925
Recovery from Alderney	**179,000**	178,000
Commercial port operations	**5,343,603**	5,307,966
Property	**1,085,624**	899,787
Leisure	**2,653,865**	2,512,755
Non-commercial port	**29,357**	16,768
Ships registry	**45,630**	43,080
Investment property rents (note 0)	**-**	17,548
	21,461,351	21,145,281

5. Expenses

	2017	2016
	£	£
Airport		
Aerodrome fire service	**2,157,000**	2,227,000
Airport infrastructure	**2,666,000**	4,959,000
Airport security	**1,795,000**	1,816,000
Navigational services	**4,079,000**	4,064,000
Administration	**991,544**	1,153,559
	11,688,544	14,219,559
Harbour		
Commercial ports operations	**2,364,232**	2,090,013
Property	**894,233**	840,015
Leisure	**1,627,233**	1,656,015
Non-commercial ports operations	**1,352,233**	1,036,015
Ships registry	**68,000**	66,000
	6,305,931	5,688,058

Notes to the Financial Statements – continued

6. Investment return

	2017 £	2016 £
Net investment return	**130,626**	36,884
	130,626	36,884

7. Surplus/(deficit) for the financial year

Surplus/(deficit) on ordinary activities is stated after charging:

	Note	2017 £	2016 £
Auditor's remuneration		**18,013**	18,132
Depreciation of tangible fixed assets	9	**5,392,808**	5,768,079
Deficit on disposal of fixed assets		**2,032**	31,787
		5,412,853	5,817,998

Notes to the Financial Statements – continued

8. Staff numbers & costs

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

	2017	2016
Airport		
Operational	**110**	107
Administration and support	**13**	12
	123	119
Harbour		
Operational	**62**	66
Administration and support	**13**	11
	75	77

Their aggregate remuneration comprised:

	Note	2017	2016
		£	£
Wages and salaries		**8,881,879**	9,098,928
Social security costs		**542,830**	495,805
Pension costs	19	**1,084,654**	1,012,247
		10,509,363	10,606,980

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

Notes to the Financial Statements – continued

9. Tangible fixed assets

Airport	1 January 2017	Additions	Adjustments/ Disposals	**31 December 2017**
	£	£	£	**£**
Cost				
Land	2,687,152	-	-	**2,687,152**
Infrastructure	64,820,134	(1,797)	-	**64,818.337**
Buildings	33,184,988	(1,084)	-	**33,183,904**
Plant & equipment	23,531,733	208,295	(146,219)	**23,593,809**
Motor vehicles	1,222,908	71,369	(29,378)	**1,264,899**
Information technology	195,707	-	(39,950)	**155,757**
	125,642,622	276,783	(215,547)	**125,703,858**
Depreciation				
Land	-	-	-	**-**
Infrastructure	8,649,620	1,887,508	-	**10,537,128**
Buildings	5,597,610	560,637	-	**6,158,247**
Plant & equipment	11,031,481	1,346,619	(146,219)	**12,231,881**
Motor vehicles	844,863	103,049	(17,347)	**930,565**
Information technology	195,707	-	(39,950)	**155,757**
	26,319,281	3,897,813	(203,516)	**30,013,578**
Net Book Value	99,323,341			**95,690,280**

Notes to the Financial Statements – continued

9. Tangible fixed assets - continued

Harbour	1 January 2017	Additions	Adjustments/ Disposals	**31 December 2017**
	£	£	£	**£**
Cost				
Land	87,515,374	-	-	**87,515,374**
Infrastructure	9,293,995	4,439	(70,422)	**9,228,012**
Buildings	48,824,180	-	-	**48,824,180**
Plant & equipment	8,868,541	156,760	41,164	**9,066,465**
Motor vehicles	198,139	14,933	-	**213,072**
Information technology	18,200	19,238	(18,200)	**19,238**
	154,718,429	195,370	(47,458)	**154,866,341**
Depreciation				
Land	-	-	-	**-**
Infrastructure	725,913	332,655	10,789	**1,069,357**
Buildings	10,510,479	809,799	-	**11,320,278**
Plant & equipment	4,846,923	346,174	(40,047)	**5,153,050**
Motor vehicles	181,181	5,298	-	**186,479**
Information technology	18,200	1,069	(18,200)	**1,069**
	16,282,696	1,494,995	(47,458)	**17,730,223**
Net Book Value	138,435,733			**137,136,108**

Notes to the Financial Statements – continued

10. Investment properties

	1 January 2017 £	Additions/ Disposals £	Revaluations £	**31 December 2017 £**
Airport	500,000	-	-	**500,000**
Harbour	-	-	-	**-**
	500,000	-	-	**500,000**

Investment properties, which are all freehold, were valued to fair value at 31 December 2017, based on a valuation undertaken by an independent valuer with recent experience in the location and class of the investment property being valued. The method of determining fair value was using the Red Book value. There are no restrictions on the realisability of investment property.

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

As set out in note 4, property rental income earned during the year was nil (2016: £17,548). No contingent rents have been recognised as income in the current or prior year.

At the Statement of Financial Position date, the Ports was not contracted with tenants for any future minimum lease payments on investment properties (2016: nil)

11. Assets under construction

	1 January 2017 £	Additions £	Transfers to Tangible Fixed Assets £	**31 December 2017 £**
Airport	105,663	197,511	(276,783)	**26,391**
Harbour	49,710	228,327	(195,370)	**82,667**
2017 Total	155,373	425,838	(472,153)	**109,058**
2016 Total	149,420	734,594	(728,641)	**155,373**

Assets under construction completed in 2017 and transferred to fixed assets includes wind and cloud base monitoring equipment, car park pay stations, replacement vehicles and pontoons.

Assets under construction as at 31 December 2017 related principally to administration block refurbishment and an IT project.

Notes to the Financial Statements – continued

12. Inventories

	2017	2016
	£	£
Airport	**64,774**	64,774
Harbours	**301,575**	313,942
	366,349	378,716

13. Debtors and prepayments

	2017	2016
	£	£
Trade debtors	**2,645,113**	2,563,251
Prepayments	**125,769**	106,468
	2,770,882	2,669,719

14. Creditors: amounts falling due within one year

	2017	2016
	£	£
Trade creditors	**534,916**	561,456
Accruals	**591,960**	740,032
Deferred income	**765,581**	255,304
Harbour operational license and security deposits	**2,500**	2,450
	1,894,957	1,559,242

Notes to the Financial Statements – continued

15. Reserves

	2017	2016
	£	£
Balance at 1 January	**241,990,991**	246,171,409
Surplus/(deficit) for financial year	**1,545,044**	(1,063,332)
Amortisation of asset specific contributions	**(3,342,381)**	(3,487,026)
Contribution (to)/from States Capital Reserve	**(3,948,004)**	369,940
Balance at 31 December	**236,245,650**	241,990,991

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

All reserves are distributable

16. Asset specific contributions

	2017	2016
	£	£
As at 1 January	**73,980,358**	77,097,444
Contributions (payable)/receivable	**(3,398,238)**	369,940
	70,582,120	77,467,384
Released to Statement of Comprehensive Income during the year	**(3,342,381)**	(3,487,026)
As at 31 December	**67,239,739**	73,980,358

Notes to the Financial Statements – continued

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

	2017	2016
	£	£
Operating deficit for the year	**(1,927,963)**	(4,587,202)
Depreciation charges	**5,392,807**	5,768,079
Loss/(profit) on disposal of tangible assets	**2,032**	31,787
Revaluation of investment property	**-**	25,000
Decrease/(increase) in inventories	**12,367**	(1,313)
Increase in debtors	**(101,163)**	(132,195)
Increase/(decrease) in creditors due within one year	**335,715**	(1,694,482)
Net cash flows from operating activities	**3,713,795**	(590,326)

18. Financial commitments

The Ports have no financial commitments as at 31 December 2017 (2016: nil) which are not provided for in the financial statements.

Notes to the Financial Statements – continued

19. Employee benefits

The employees of the Ports are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify the Ports' share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Ports are considered to be ultimately employees of the States of Guernsey.

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

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £1,084,654 (2016: £1,012,247).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2017.

20. Subsequent events

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

Notes to the Financial Statements – continued

21. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length".

The total remuneration for key management personnel for the period totalled £360,104 (2016: £439,768).

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

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

22. Statement of control

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

23. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2017 which would affect these financial statements (2016: None).

Supplemental Information

-

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

GUERNSEY AIRPORT

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Net Expenditure by Category	2017 Actual £'000s	2016 Actual £'000s
		Income		
12,451	11,677	Operating Income	12,303	12,365
		Expenditure		
(6,993)	(7,024)	Pay Costs	(7,067)	(7,211)
		Non-Pay costs		
(247)	(281)	*Staff Non-Pay costs*	(202)	(198)
(1,131)	(1,228)	*Support Services*	(1,172)	(3,340)
(1,270)	(1,302)	*Premises*	(1,193)	(1,361)
(38)	(47)	*Transport*	(45)	(117)
(2,192)	(2,124)	*Supplies & Services*	(2,009)	(1,992)
(4,878)	(4,982)		(4,621)	(7,008)
580	(329)	**Operating surplus/(deficit) for the financial year**	615	(1,854)
(1,234)	(1,262)	*Depreciation (net of amortisation of asset specific contributions)*	(902)	(1,217)
(654)	**(1,591)**	**Operating (deficit)**	**(287)**	**(3,071)**

GUERNSEY AIRPORT

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Net Expenditure by Service Area	2017 Actual £'000s	2016 Actual £'000s
		Income		
388	372	Advertising, picketing etc	442	365
782	698	Airport Development Charge	731	752
790	713	Car Parking Fees	696	720
1,954	2,073	Rents	2,085	2,080
8,357	7,823	Traffic Receipts	8,387	8,426
12,271	11,679		12,341	12,343
		Operational Expenditure		
(1,030)	(1,322)	Administration	(1,209)	(1,310)
(2,098)	(2,143)	Aerodrome Fire Service	(2,157)	(2,227)
(2,627)	(2,720)	Airport Infrastructure	(2,666)	(4,958)
(2,015)	(1,891)	Airport Security	(1,795)	(1,816)
(4,101)	(4,112)	Navigational Services	(4,079)	(4,064)
(11,871)	(12,188)		(11,906)	(14,375)
180	180	*Recovery from Alderney Airport*	180	178
580	(329)	**Operating surplus/(deficit) for the financial year**	615	(1,854)
(1,234)	(1,262)	*Depreciation (net of amortisation of asset specific contributions)*	(902)	(1,217)
(654)	**(1,591)**	**Operating (deficit)**	**(287)**	**(3,071)**

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Routine Capital Expenditure	2017 Actual £'000s	2016 Actual £'000s
(1,770)	(387)	*Miscellaneous Capital Works*	(5)	-
-	-	*IT Projects and Equipment*	-	-
(925)	(180)	*Equipment, Machinery and Vehicles*	(167)	(250)
(2,695)	(567)	**Routine Capital Expenditure**	(172)	(250)
-	-	Airports Pavements Project	7	(208)
-	-	Airport Radar	(33)	(113)
-	-	Less Transfer from Capital Reserve	26	321
(2,695)	**(567)**	**Net Capital Expenditure**	**(172)**	**(250)**

GUERNSEY HARBOURS

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Net Expenditure by Category	2017 Actual £'000s	2016 Actual £'000s
		Income		
8,914	8,964	Operating Income	9,158	8,780
		Expenditure		
(3,435)	(3,218)	Pay Costs	(3,443)	(3,396)
		Non-Pay costs		
(189)	(120)	*Staff Non-Pay costs*	(88)	(58)
-	(7)	*Peripheral Activities*	(199)	(17)
(883)	(820)	*Support Services*	(871)	(868)
(1,548)	(1,482)	*Premises*	(1,345)	(969)
(139)	(143)	*Transport*	(78)	(69)
(358)	(363)	*Supplies & Services*	(255)	(311)
(3,117)	(2,935)		(2,836)	(2,292)
2,362	2,811	**Operating surplus for the financial year**	2,879	3,092
(1,321)	(1,267)	*Depreciation (net of amortisation of asset specific contributions)*	(1,178)	(1,096)
1,041	**1,544**	**Operating surplus**	**1,701**	**1,996**

GUERNSEY HARBOURS

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Net Income / Expenditure by Service Area	2017 Actual £'000s	2016 Actual £'000s
3,007	3,217	Commercial Ports Operations	2,865	3,510
(111)	(37)	Property	233	(153)
851	871	Leisure	1,076	772
(1,358)	(1,214)	Non-Commercial Ports Operations	(1,272)	(1,014)
(27)	(26)	Ships Registry	(23)	(23)
-	-	Other	-	-
2,362	2,811		2,879	3,092
(1,321)	(1,267)	*Depreciation (net of amortisation of asset specific contributions)*	(1,178)	(1,096)
1,041	**1,544**	**Operating surplus**	**1,701**	**1,996**

2017 Original Budget £'000s	2017 Probable Outturn £'000s	Routine Capital Expenditure	2017 Actual £'000s	2016 Actual £'000s
(2,650)	(110)	*Miscellaneous Capital Works*	(15)	(88)
(250)	(50)	*IT Projects and Equipment*	(75)	-
(1,100)	(9)	*Equipment, Machinery and Vehicles*	(125)	(26)
(4,000)	(169)	**Routine Capital Expenditure**	(215)	(114)
-	-	Crane Strategy	(27)	(50)
-	-	Deep Water Berth Investigations	-	-
(900)	-	Hydrocarbons	-	-
900	-	Less Transfer from Capital Reserve	27	50
(4,000)	**(169)**	**Net Capital Expenditure**	**(215)**	**(114)**

PORTS HOLDING ACCOUNT

2017 Original Budget £'000s	2017 Probable Outturn £'000s		2017 Actual £'000s	2016 Actual £'000s
		Revenue Account		
		Operating (Deficit)/Surplus before depreciation		
580	(329)	Guernsey Airport	615	(1,854)
2,361	2,812	Guernsey Harbour	2,879	3,092
2,941	2,483		3,494	1,238
-	40	*Investment Interest Receivable*	131	37
		Capital Expenditure		
(2,695)	(567)	Guernsey Airport	(172)	(250)
(4,000)	(169)	Guernsey Harbour	(215)	(114)
(6,695)	(736)		(387)	(364)
(3,754)	**1,787**	**Surplus before depreciation**	**3,238**	**911**
(2,555)	(2,529)	Depreciation (net of amortisation of asset specific contributions)	(2,080)	(2,313)
(6,309)	**(742)**	**Surplus/(deficit) after depreciation**	**1,158**	**(1,402)**
2,944	3,576	*Balance at 1st January*	3,577	2,666
(3,754)	1,787	*Surplus for the year before depreciation*	3,238	911
-	-	*Contribution to Capital reserve*	(4,000)	-
(810)	**5,363**	**Balance at 31st December**	**2,815**	**3,577**

States’ Trading Supervisory Board
Guernsey Water

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

States' Trading Supervisory Board Members

Deputy C. Parkinson, President
Deputy J. Smithies
Mr S. Falla MBE
Mr J. Hollis

The constitution of the States’ Trading Supervisory Board (“STSB”) provides that the membership of the STSB shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States’ Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy and Resources Committee.

Principal Officers to the States' Trading Supervisory Board

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

Guernsey Water Board Members

Mr J. Hollis	appointed Chairman 4 May 2017
Deputy J. Smithies	appointed 4 May 2017
Mr A. Bates	appointed as non-voting adviser 4 May 2017
Mr S. Langlois	appointed as non-voting adviser 4 May 2017
Mr A. Morton	appointed as non-voting adviser 4 May 2017

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

The constitution of the Guernsey Water Board (“GWB”) was determined by the STSB at its meeting 4 May 2017.

Further information on the role of the GWB is provided under Corporate Governance in the General Manager’s report.

Principal Officers to the Guernsey Water Board

Mr S. Langlois, General Manager, Guernsey Water
Mr C. Hall, Customer Services Manager, Guernsey Water
Mr J. Holt, Operations Manager, Guernsey Water
Mrs M. McGuiness, Water Quality Risk Manager, Guernsey Water
Mr A. Morton, Senior Finance Manager, Guernsey Water
Mr M. Walker, Capital Delivery Manager, Guernsey Water

In these Financial Statements any reference to “President” refers to the President of the STSB and any reference to “Chairman” refers to the Chairman of the GWB.

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

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Ltd
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board
Guernsey Water

Chairman's Report

Overview

The STSB has implemented improved governance arrangements across all of the States of Guernsey Trading Assets during 2017 which include the formation of a political subcommittee (company board) at Guernsey Water. The GWB is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other key strategic reviews and organisational drivers.

2017 was another year of fiscal challenge. In 2016 the States supported the Policy & Resources Committee's budget proposition for Guernsey Water to refinance its Belle Greve sea outfalls replacement by refunding the £18.6m invested in Belle Greve outfalls to the States' Capital Reserve, helping the States meet its fiscal challenges.

This investment is already delivering benefit for customers. It has been funded by redistributing £9.6m of cash reserves, the balance being borrowed from the States of Guernsey Bond. The STSB agreed that this is the most appropriate funding mechanism for both Guernsey Water customers and the States.

I remain confident that Guernsey Water can deliver planned savings and efficiencies to enable it to delivering its business plan and constrain bill increases for customers. This view was reinforced in 2017 when Guernsey Water was able to reduce revenue expenses by 3.9% from 2016.

Despite ongoing cost pressures our financial performance during the year remained strong and stable. Savings and efficiencies were made in both revenue and capital expenses to maintain control of overall expenditure.

We invested £4.5m of capital into maintaining and improving our infrastructure during 2017. This included a major sewerage scheme at Vale Road to will make provision for growth, reduce sewer flooding and improve bathing water quality; delivery commenced in 2017 and continues into 2018. We have also made good progress with delivery of our water treatment strategy and remain on track to re-commission Juas water treatment works and begin decommissioning Longue Hougue water treatment works in 2018.

Business Performance

Overall drinking water compliance in 2017 was 99.82%. This maintains our good record but is the lowest level of compliance since 2011 when it was 99.75%. There were no restrictions on water use during the year, which started with lower stored water levels than normal. However, resources quickly recovered during a wet first quarter and remained above ten-year average levels for much of the remaining year.

Intense rainfall during July and August caused flooding for some customers and gave a reminder of the need to address both current issues and future flood risk due to climate change. However, we were also encouraged by those customers who had avoided flood damage due to our recent investment in protection of their property. Whilst this investment continues we have made good progress with the development of a long term strategy to manage flooding. We have also continued to invest in understanding the mechanisms of flooding in St Peter Port and will develop proposals to deal with them in 2018.

Chairman's Report - continued

Financial Performance

Guernsey Water made a surplus of £387k in 2017 (2016 - £706k). The performance continues to be impacted by costs associated with the Water Treatment Strategy, the current phase of which will be completed in 2018 with the re-commissioning of Juas Water Treatment Works and the decommissioning of Longue Hougue Water Treatment Works.

In addition Guernsey Water benefitted from high levels of returns from the States of Guernsey investments, accounting for £496k of income in 2017 (2016 - £882k). This is lower than the amount achieved in 2016 but during 2017 £9.6m of cash reserves was reimbursed to the Capital Reserve as part of the payment for the Belle Greve Wastewater Outfalls.

In a difficult operating environment Guernsey Water was able to reduce the level of expenditure in 2017 by £428k (a reduction of 3.9%).

Our Community

Guernsey Water is committed to contribute to the Policy & Resource Plan's vision that: "We will be among the happiest and healthiest places in the world, where everyone has equal opportunity to achieve their potential. We will be a safe and inclusive community, which nurtures its unique heritage and environment and is underpinned by a diverse and successful economy."

Guernsey Water collects surface water and treats it to provide clean and safe drinking water. Then Guernsey Water ensures the safe return of our wastewater to the environment. This helps to protect the environment and helps to ensure a Healthy Community.

Guernsey Water recognises the importance of educating the younger generation about water-related matters, so we work regularly with schools and organisations to get these vital messages across. As part of this Guernsey Water has put together a Water Management Plan guidance pack for schools, which will allow teachers and pupils to make a few small changes to their water usage and enjoy much cheaper bills.

During 2017, Guernsey Water continued to maintain the Millennium Walk around St Saviours Reservoir for the island community.

The Team

Guernsey Water has a committed team of operational (including capital delivery) and support staff. People are at the heart of our business and we're proud to say that the average length of service for our employees is 12 years.

This year has been a challenging year with a number of vacancies in various departments that the team has not allowed to impact on the services provided to our customers.

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

The Future

In the future Guernsey Water will need to become more flexible to meet new regulatory requirements, increasing demands from the States of Guernsey and keep up with the rapid pace of technological change to meet ever increasing customer expectations. In accord with 'Service Guernsey', we also need to get much closer to our customers to understand and meet their changing needs. This will all be set against a backdrop of growing pressure on our island's resources and a squeeze on household budgets. These challenges cannot be met by

Chairman's Report - continued

Guernsey Water alone, so cross-committee collaboration and partnership working will become even more important in the future.

How we plan to meet these challenges is set out within our business plan; 'Running Water' which is our integrated water and wastewater plan to 2025 and it is aligned with States of Guernsey political and Public Services reforms. 'Running Water' is outcome-focused

- Being valued by customers,
- Water that is safe and good to drink
- Effective drainage for the island,
- Help protect our environment,
- Sufficient and resilient water and wastewater systems, and
- Firm financial foundations for Guernsey Water

The Business Plan has three key themes of Strategy, Service and Efficiency that will lead us towards a collective vision that we will continually strive for:

"Customers always value the quality of our drinking water and the safe return of our wastewater to the environment."

General Manager's Report

Guernsey Water presents their report and the audited financial statements for the year ended 31 December 2017. These comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows and the related notes 1 to 24.

Principal activities

Guernsey Water, a business unit of the STSB, delivers to its customers:

- A reliable supply of high quality drinking water in sufficient quantity that satisfies normal daily demand at the lowest cost consistent with meeting a high level of customer service and confidence.
- A reliable wastewater collection service which treats and returns flow to the environment sustainably and efficiently.

'Contributions' to the States of Guernsey

On 1 July 2017 Guernsey Water returned £18.6m to the Capital Reserve in accordance with the States of Guernsey resolution on 2 November 2016. This return relates to the reimbursement of the cost of the Belle Greve Wastewater Outfalls.

Guernsey Water did not make any other financial contribution to the States of Guernsey (2016 - £1.5m)

Customers

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

	2017	2016	Change %
Number of supplies:			
Paying by tax on real property	**8,414**	8,558	-1.7%
Paying by measure	**17,469**	17,205	+1.5%
Total	**25,883**	25,763	+0.5%

General Manager's Report – continued

Financial highlights

	Actual 2017 £'000	Budget 2017 £'000	Actual 2016 £'000
Revenue	**15,689**	16,334	15,707
Surplus for the financial year	**387**	688	706
Capital expenditure	**4,489**	6,884	4,788

During 2017 there were significant changes that had a material impact on the financial position.

i) Following the approval of the Water Treatment Strategy in 2016, Juas Water Treatment Works is being re-commissioned and once completed Longue Hougue Water Treatment Works will be decommissioned in 2018. As a result of this, those assets that cannot be utilised have had their useful life shortened and hence additional depreciation of £526k (2016 - £477k) has been incurred.

ii) The States of Guernsey resolved on 2 November 2016 to direct Guernsey Water to transfer a maximum of £19.9m to the Capital Reserve to reimburse the total cost of Belle Greve Wastewater Outfalls Project. On 1 July 2017 Guernsey Water transferred £18.6m to the Capital Reserve of which £9.0m was borrowed from the States of Guernsey Bond (see note 16), the balance was funded from cash reserves.

iii) As a result of the performance of the States of Guernsey's investments, Guernsey Water has accounted for £496k (2016 - £882k) in investment return on balances held with States Treasury despite returning £9.6m from cash reserves to the Capital Reserve.

In relation to capital expenditure, the major works completed include the rolling capital programme, Fort George outfall and the slip lining of Water Mains.

Operational performance

	2017	2016	Change %
Volume supplied in million litres (ML):			
Delivered to customers paying by measure	**2,612**	2,620	-0.3%
Delivered to other customers	**1,205**	1,269	-5.0%
Operational use, fire fighting and losses	**725**	685	+5.8%
Total put into supply	**4,542**	4,574	-0.7%
Service:			
Restrictions on supply	**None**	None	None
Burst mains	**38**	41	-7.3%
Discolouration - claims paid	**5**	3	+66.7%
Unit costs (partially weather related):			
Water production (per ML)	**£398**	£386	+3.2%
Water distribution (per supply)	**£18**	£20	-8.7%
Full time equivalent employees	**81**	83	-2.4%
Average number of full time employees	**80**	80	±0.0%

General Manager's Report – continued

Corporate governance

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

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

The GWB membership is a minimum of a Chairman who is not a States Member, a Political Member of the STSB, a Senior Executive of an Incorporated Company or one or more Senior Officers of the States, the General Manager and the Financial Manager.

All members other than the General Manager and the Financial Manager are appointed by the STSB.

As a subcommittee of the States, the quorum will be two members of the STSB.

The Chairman is responsible for:

- The proper observance of the Terms of Reference;
- Overseeing and facilitating the conduct of the GWB meetings;
- Ensuring all GWB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole GWB for matters that may be referred to the STSB or when acting as a subcommittee;
- Setting agenda items in conjunction with the General Manager.

The GWB does not hold a fiduciary responsibility.

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

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

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

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports;
- To guide and steer Guernsey Water.

In carrying out these responsibilities the GWB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; Relevant legislation.

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

General Manager's Report – continued

In fulfilling this purpose, the GWB will:

- Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the Guernsey Water management team, with a view to directing Guernsey Water as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance report;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of Guernsey Water operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the GWB's delegated authority;
- Submit annual budgets and business plans in line with the States of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by Guernsey Water;
- Consider any regulatory authority reports in relation to Guernsey Water, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the Guernsey Water risk register and report risks in line with agreed policy;
- Receive, review and recommend action from other reports as may be requested by the GWB.

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

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

The GWB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the GWB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the GWB not less than 5 days prior to the meeting.

Statement of responsibilities for the preparation of financial statements

The STSB is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of Guernsey Water and of the surplus or deficit of Guernsey Water for that period. In preparing those financial statements, the STSB is required to:

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

General Manager's Report – continued

- state whether applicable accounting standards have been followed.

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

Statement of financial controls

It is the responsibility of the STSB to identify and install 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 its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The STSB is responsible for the economic, efficient and effective operations and management of Guernsey Water and has a duty to ensure that they fulfil their obligations.

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

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual revenue and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and GWB, to ensure that all board members are informed of Guernsey Water's financial affairs.
- Customer invoices are subjected to a range of pre-determined integrity checks prior to dispatch in order to ensure accuracy.
- Regular review of debtors to ensure that any delinquent debtors are identified at an early stage and dealt with appropriately.
- The control of materials and purchases are managed using a computerised programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Group which is constituted from the Principal Officers of Guernsey Water.
- Regular review of charges for water supplies and other services.
- Consideration of all audit reports by the STSB.

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

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and Guernsey Water's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

General Manager's Report – continued

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Water has adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Water is a going concern for at least twelve months from the approval of the financial statements.

Auditors

Grant Thornton Ltd have expressed their willingness to continue in office as auditors.

Independent auditor's report to the members of The States of Guernsey - States' Trading Supervisory Board - Guernsey Water

Opinion

We have audited the financial statements of the States of Guernsey – States' Trading Supervisory Board – Guernsey Water ("the Business Unit") for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of the Business Unit's affairs as at 31 December 2017 and of its surplus for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Business Unit's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of The States of Guernsey - States' Trading Supervisory Board - Guernsey Water - continued

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of financial statements on Page 11, the Board is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Business Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Business Unit or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

15 May 2018

States' Trading Supervisory Board
Guernsey Water

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
Revenue	2 & 4		
Water supplies		**10,666,647**	10,627,330
Waste water supplies		**3,464,837**	3,400,024
Other income		**1,557,111**	1,679,200
		15,688,595	15,706,554
Expenses	2 & 5		
Operating expenses		**7,174,976**	7,360,277
Management expenses		**3,246,237**	3,488,442
		10,421,213	10,848,719
Operating surplus before depreciation/ amortisation and profit/(loss) on disposal of fixed assets		**5,267,382**	4,857,835
Depreciation/amortisation	9 & 10	**(5,225,796)**	(4,998,494)
Profit/(loss) on disposal of fixed assets	10	**10,989**	(36,568)
Operating surplus/(deficit) for the year		**52,575**	(177,227)
Investment return and net interest receivable	6	**496,757**	883,568
Interest payable		**(162,736)**	-
Surplus for the financial year		**386,596**	706,341

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board
Guernsey Water

Statement of Financial Position
as at 31 December 2017

	Notes	2017 £	2016 £
Non-current assets			
Intangible fixed assets	9	**141,313**	180,913
Tangible fixed assets	10	**147,400,879**	151,075,213
Investment property	11	**650,000**	650,000
Assets under construction	12	**4,733,359**	1,761,513
		152,925,551	153,667,639
Current assets			
Inventories	13	**1,414,699**	1,383,000
Debtors and prepayments	14	**2,111,809**	2,171,940
Cash at Bank		**882,839**	177,539
Balances with States Treasury		**3,099,805**	11,874,258
		7,509,152	15,606,737
Creditors: amounts falling due within one year	15	**(2,137,424)**	(20,032,720)
Net current assets/(liabilities)		**5,371,728**	(4,425,983)
Creditors: amounts falling due after more than one year	16	**(20,097,157)**	(11,428,130)
Total net assets		**138,200,122**	137,813,526
Reserves	17	**138,200,122**	137,813,526

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

Deputy C. Parkinson 15 May 2018
President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott 15 May 2018
Managing Director

Notes 1 to 24 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
At 1 January		**137,813,526**	138,607,185
Surplus for the financial year		**386,596**	706,341
Contribution to States of Guernsey General Revenue		**-**	(1,500,000)
At 31 December	17	**138,200,122**	137,813,526

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board
Guernsey Water

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 £	2016 £
Net cash flows from operating activities	18	**(12,844,191)**	4,536,500
Cash flows from investing activities			
Purchase of fixed assets	12	**(4,489,153)**	(4,788,498)
Proceeds from disposal of assets		**16,434**	-
Net cash flows used in investing activities		**(4,472,719)**	(4,788,498)
Cash flows from financing activities			
Contribution to States of Guernsey General Revenue		**-**	(1,500,000)
Investment return and interest received		**496,757**	943,567
Loans taken out in period		**9,000,000**	-
Capital repaid		**(86,264)**	-
Interest paid		**(162,736)**	-
Net cash flows from financing activities		**9,247,757**	(556,433)
Net decrease in cash and cash equivalents		**(8,069,153)**	(808,431)
Cash and cash equivalents at the beginning of the year		**12,051,797**	12,860,228
Cash and cash equivalents at the end of the year		**3,982,644**	12,051,797
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		**882,839**	177,539
Balances with States Treasury		**3,099,805**	11,874,258
Cash and cash equivalents		**3,982,644**	12,051,797

Notes 1 to 24 form an integral part of these financial statements.

Notes to the Financial Statements

1. General information

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

Guernsey Water's principal place of business is Brickfield House, St Andrew, Guernsey, GY1 3AS.

2. Principal accounting policies

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

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include Investment Properties at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and Guernsey Water's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Water has adequate financial resources to meet its obligations as they fall due. The GWB therefore believe that Guernsey Water is a going concern for at least twelve months from the approval of the financial statements.

Intangible assets

i) Long-term strategies

Expenditure on reports that are designed to inform the long-term strategies of Guernsey Water are capitalised as an intangible fixed asset and amortised over the period for which the GWB expects to be able to rely on the usefulness of the recommendations within the report. This period is five years. Provision is made for any impairment.

If the expenditure is only relevant to a decision in relation to a single asset then the expenditure is expensed as incurred. Expenditure on reports into the implementation of GWB decisions are capitalised as part of the tangible fixed asset constructed as a result of those decisions.

Tangible fixed assets

i) Investment properties

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

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

ii) Property, plant and equipment

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

iii) Assets under construction

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

Depreciation

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

	Estimated life in years	Depreciation % per annum
Land		
Land and quarries	-	-
Land and quarries improvements	10 - 50	2% - 10%
Buildings		
Structures and buildings	10 - 50	2% - 10%
Infrastructure		
Dam	50	2%
Distribution meters	12	8.3%
Fixed plant (machinery)	15 - 5	6.7% - 20%
Mains	50 - 10	2% -10%
Mobile plant and tools	5	20%
Pumping stations – Civil	50	2%
Pumping stations – Mechanical and Electrical	15	6.7%
Pumping stations – Control/Instrumentation	10	10%
Rising Mains	50	2%
Rolling Capital Programmes	7	14.3%
Sewers – Pipes	70	1.4%
Sewers – Chambers	20	5%
Sewers – Manhole Covers	5	20%
Furniture, fixtures and fittings		
Computer equipment	5	20%
Office furniture, fittings and equipment	10 - 5	10% - 20%
Motor vehicles		
Motor vehicles	7	14.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of comprehensive income. An asset is impaired where there is objective

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include materials and is calculated using the average cost method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a specific provision against debtor balances that are identified as irrecoverable.

ii) Trade and other creditors

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

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Water. Whilst Guernsey Water operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as Cash and Cash Equivalents on Guernsey Water's Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Business Unit transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Business Unit, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis and also includes the estimated value of unbilled water and waste water supplies and cesspit emptying income which is calculated by reference to the value at which supplies will be invoiced. This total estimated value of unbilled supplies is included in debtors.

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

Notes to the Financial Statements - continued

2. Principal accounting policies - continued

Pension costs

Pension costs are treated as described in note 20 Employee benefits.

Capital grants

Grants from the States of Guernsey relating to tangible fixed assets are treated as deferred income and released to the Statement of Comprehensive Income over the anticipated useful life of the assets concerned on a basis consistent with the depreciation of the underlying asset. Other grants are credited to the Statement of Comprehensive Income as the related expenditure is incurred.

Investment return and interest receivable/payable

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

Leases

i) As lessee

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

ii) As lessor

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Notes to the Financial Statements - continued

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

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

i) Valuation of investment property

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

ii) Depreciation rates

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

iii) Reassessment of the useful life of Longue Hougue Water Treatment Works assets

As a result of the approval of Guernsey Water's Water Treatment Strategy in March 2016, the decision has been taken to decommission the Longue Hougue Water Treatment Works in December 2018. The assets that constitute the Longue Hougue Water Treatment Works have been reviewed and have been split between those that will still have value to the business after the decommissioning and those that will have no value. Those assets that will have no value are now being depreciated over the period until decommissioning.

Management has estimated the cost of the individual assets based on the value of works originally tendered. Additionally where it has been determined that only part of an asset will be retained, management has estimated the proportion of the asset that will be retained based on the knowledge of staff with the most expertise and experience dealing with these assets. The results of this are disclosed in note 10.

iv) Rolling capital and meters

As a result of past experience and due to the nature of these assets, management has automatically treated these assets as disposals when they are at the end of their useful lives.

v) Unbilled services

Measured and unmeasured water supplies and waste water and cesspit emptying are billed on a quarterly cycle which means at the year-end a significant volume of water has been supplied and wastewater treated that has not been invoiced. Management estimates the value of these services based on subsequent invoicing.

Notes to the Financial Statements - continued

4. Revenue

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

An analysis of Guernsey Water's revenue by class of business is set out below:

	2017	2016
	£	£
Water Supplies		
Unmeasured	**3,623,934**	3,586,807
Measured	**7,042,713**	7,040,523
	10,666,647	10,627,330
Waste Water Supplies		
Unmeasured	**1,277,573**	1,238,777
Measured	**2,187,264**	2,161,247
	3,464,837	3,400,024
Cesspit emptying income	**1,082,585**	1,083,122
Net surplus on other trading activities (see below)	**205,785**	393,342
Grant released (note 16)	**268,741**	202,736
	15,688,595	15,706,554
Net surplus on other trading activities		
Standard charges for service laying	**146,078**	238,574
Charges for work at ascertained cost	**30,098**	34,755
Property rental income	**115,606**	127,140
Stores issues	**539,257**	432,268
	831,039	832,737
Expenditure	**(625,254)**	(439,395)
	205,785	393,342

Notes to the Financial Statements - continued

5. Expenses

	2017 £	2016 £
Operating expenses		
Water production	**1,808,016**	1,765,153
Water distribution	**472,279**	514,814
Asset management	**353,437**	434,358
Pumping	**1,313,454**	1,293,818
Sewers	**3,227,790**	3,352,134
	7,174,976	7,360,277
Management expenses		
Management and general	**1,067,758**	969,100
Water quality and risk management	**523,303**	650,915
Customer services	**728,923**	861,230
Finance and support services	**926,253**	1,007,197
	3,246,237	3,488,442
Total expenditure	**10,421,213**	10,848,719

6. Investment return and net interest receivable

	2017 £	2016 £
Investment return	**496,492**	882,170
Interest receivable and similar income	**265**	1,398
	496,757	883,568

7. Surplus/(deficit) for the financial year

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

	Note	2017 £	2016 £
Auditor's remuneration		**17,347**	23,385
Government grants released	16	**(268,741)**	(202,736)
Amortisation of intangible fixed assets	9	**46,498**	32,845
Depreciation of tangible fixed assets	10	**5,179,298**	4,965,649
Impairment of tangible fixed assets		**-**	92,873
(Gain)/Loss on disposal of fixed assets		**(10,989)**	36,568
		4,963,413	4,948,584

Notes to the Financial Statements - continued

8. Staff numbers and costs

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

	2017	2016
Capital delivery	**11**	10
Operations	**37**	37
Customer services	**21**	17
Administration and support	**2**	8
Water quality risk management	**9**	8
	80	80

Their aggregate remuneration comprised:

	Note	2017 £	2016 £
Wages and salaries		**3,115,941**	3,196,752
Social security costs		**202,626**	201,870
Other pension costs	20	**410,229**	414,551
Remuneration costs transferred to capital assets		**(547,089)**	(273,181)
		3,181,707	3,539,992

Other pension costs include only those items within operating and management expenses.

9. Intangible fixed assets

	1 January 2017 £	Additions £	Write offs/ Disposal £	31 December 2017 £
Cost				
Long-term strategies	268,991	6,897	-	**275,888**
	268,991	6,897	-	**275,888**

	1 January 2017 £	Charge for the year £	Write offs/ disposals £	31 December 2017 £
Amortisation				
Long-term strategies	88,078	46,497	-	**134,575**
	88,078	46,497	-	**134,575**
Net Book Value	180,913			**141,313**

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

Notes to the Financial Statements - continued

10. Tangible fixed assets

	1 January 2017 £	Additions £	Write offs/ Disposal £	**31 December 2017 £**
Cost				
Land	3,141,359	-	-	**3,141,359**
Infrastructure	189,754,573	1,349,033	(24,278)	**191,079,328**
Buildings	15,540,292	14,700	-	**15,554,992**
Motor vehicles	855,064	136,516	(266,614)	**724,966**
Office equipment	878,935	10,161	-	**889,096**
	210,170,223	1,510,410	(290,892)	**211,389,741**

	1 January 2017 £	Charge for the year £	Write offs/ disposals £	**31 December 2017 £**
Depreciation				
Land	178,346	29,965	-	**208,311**
Infrastructure	54,512,669	4,609,191	(18,833)	**59,103,027**
Buildings	3,001,658	437,283	-	**3,438,941**
Motor vehicles	708,747	45,628	(266,614)	**487,761**
Office equipment	693,590	57,232	-	**750,822**
	59,095,010	5,179,299	(285,447)	**63,988,862**
Net Book Value	151,075,213			**147,400,879**

The planned decommissioning of Longue Hougue Water Treatment Works has resulted in additional depreciation being charged for the year of £525,555.

11. Investment properties

	1 January 2017 £	Additions/ Disposals £	Revaluations £	**31 December 2017 £**
Investment properties	650,000	-	-	**650,000**
	650,000	-	-	**650,000**

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

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

Notes to the Financial Statements - continued

12. Assets under construction

	1 January	Expenditure in the year	Transfer to Tangible & Intangible Fixed Assets	**31 December**
	£	£	£	£
2017 Total	**1,761,513**	**4,489,153**	**(1,517,307)**	**4,733,359**
2016 Total	1,404,871	4,788,498	(4,431,856)	1,761,513

Assets under construction completed in 2017 and transferred to fixed assets include rolling capital work (£277,805), the Fort George outfall (£117,364), slip lining of Water Mains (£105,575) and a new lorry (£97,354).

Assets under construction as at 31 December 2017 relate principally to the Vale Road sewer (£1,443,276), the relining of the raw water main from Juas to Longue Hougue (£472,032) and the refurbishment of Juas Water Treatment Works (£927,198).

13. Inventories

	2017	2016
	£	£
Water production	**437,989**	510,322
Water distribution	**549,420**	453,919
Waste water	**427,290**	418,759
	1,414,699	1,383,000

14. Debtors and prepayments

	2017	2016
	£	£
Amounts falling due within one year:		
Unbilled water supplies	**749,890**	753,075
Unbilled waste water	**241,504**	235,871
Customers' billed accounts outstanding	**679,039**	578,626
Cesspit emptying income receivable	**16,214**	17,076
Unbilled cesspit income	**180,122**	171,621
Electricity prepayment	**132,355**	77,941
Other debtors and prepayments	**112,685**	324,786
Grants receivable	**-**	12,944
	2,111,809	2,171,940

Notes to the Financial Statements - continued

15. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	**861,561**	522,395
Accruals	**1,126,876**	859,925
States of Guernsey creditor, see note 16.	**-**	18,579,639
Deferred income	**148,987**	70,761
	2,137,424	20,032,720

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

	2017 £	2016 £
Loan from States of Guernsey Bond	**8,913,736**	-
Deferred income	**11,183,421**	11,428,130
	20,097,157	11,428,130

	2017 £	2016 £
Capital grants		
At beginning of year	**11,428,130**	30,236,426
Grants receivable	**24,032**	13,599
Grants to be repaid	**-**	(18,619,159)
	11,452,162	11,630,866
Released to revenue account during the year	**(268,741)**	(202,736)
At end of year	**11,183,421**	11,428,130

As a result of the States of Guernsey decision on 2 November 2016 the grant received in relation to the Belle Greve Outfall Project has now been repaid (see note 15).

The States of Guernsey creditor was repaid on 1 July 2017 from cash reserves and a loan of £9,000,000 was taken out from the States of Guernsey Bond which is due for repayment on 31 December 2046. The interest rate on the loan is fixed at 3.625% over the life of the loan.

An amount of £268,741 was released to the Statement of Comprehensive Income in 2017 (2016: £202,736). This represents an apportionment of the States grants received over the life of the assets to which the grants relate. This offsets the depreciation on those assets. The release of the grant is commenced on the date of recognition of the asset.

Notes to the Financial Statements - continued

17. Reserves

	Property Development Fund £	Funding from the States of Guernsey - Merger Reserve £	Revenue Account £	Total £
Balance at 1 January 2017	**129,004**	**75,178,135**	**62,506,387**	**137,813,526**
Surplus for financial year	-	-	386,596	386,596
Transfer of non-water profits	198,215	-	(198,215)	-
Balance at 31 December 2017	**327,219**	**75,178,135**	**62,694,768**	**138,200,122**

The property development fund was set up to fund Guernsey Water's centralisation development. Transfers to the fund comprise net property surpluses, let property income and nominal interest and other surpluses. In 2016 Guernsey Water made a one-off distribution from this reserve to the States of Guernsey General Revenue of £1,500,000. It was decided that the reserve should be reset to nil from 1 January 2016. It will continue to be used to hold reserves generated from property related surpluses and other non-water/non-waste water related surpluses.

Funding from the States of Guernsey – Merger Reserve represents the net book value of the assets transferred by the States of Guernsey Public Services Department ("PSD") to Guernsey Water on the amalgamation of Guernsey Water and Guernsey Waste Water effective 1 January 2012.

All reserves are distributable.

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

	2017 £	2016 £
Operating surplus/(deficit) for the year	**52,575**	(177,227)
Depreciation and amortisation charges	**5,225,796**	4,998,494
(Profit)/loss on sale of tangible assets	**(10,989)**	36,568
Government grants released	**(268,741)**	(202,736)
Increase in inventories	**(31,699)**	(104,839)
Decrease/(increase) in debtors	**60,131**	(206,570)
(Decrease)/increase in creditors due within one year	**(17,895,296)**	18,798,370
Increase/(decrease) in Government grants	**24,032**	(18,605,560)
Net cash flows from operating activities	**(12,844,191)**	4,536,500

Notes to the Financial Statements - continued

19. Financial commitments

	2017	2016
	£	£
Commitments at 31 December for which no provision has been made in these financial statements	**2,621,163**	1,288,339

Financial commitments relate mainly to the refurbishment of Gele Road pumping station (£1.0m) and upsizing the Vale Road sewer (£0.9m).

20. Employee benefits

The employees of Guernsey Water are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Water's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Water are considered to be ultimately employees of the States of Guernsey. Consequently, Guernsey Water has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of Comprehensive Income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £410,229 (2016: £414,551).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2017.

21. Subsequent events

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

Notes to the Financial Statements - continued

22. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length".

The total direct remuneration of key management personnel in 2017 (including salaries and other benefits) was £430,398 (2016: £433,104).

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

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any STSB or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

23. Statement of control

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

24. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 19 relating to 2017 which would affect these financial statements (2016: None).

States’ Trading Supervisory Board
Guernsey Dairy

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

States' Trading Supervisory Board Members

Deputy C. Parkinson, President
Deputy J. Smithies
Mr S. Falla
Mr J. Hollis

The constitution of the States’ Trading Supervisory Board (“STSB”) provides that the membership of the STSB shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States’ Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers to the States' Trading Supervisory Board

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

Dairy Management Board Members

Mr S. Hogg	appointed as Chairman 1 January 2017
Deputy J. Smithies	appointed 21 November 2017
Mr S. Keys	resigned 31 December 2017
Mr R. Waters	GFA representative
Mr R. Evans	appointed as STSB representative 1 January 2017
Mr R. Nash	non-voting adviser
Mr A. Tabel	non-voting adviser
Mrs C. Edwards	appointed as non-voting adviser 18 July 2017
Mr S. Langlois	appointed as non-voting adviser 21 November 2017

The constitution of the Dairy Management Board ("DMB") is laid out in Billet XIII dated 5 April 2007 and amended in Billet XX dated 15 August 2014 and is further supplemented by the STSB with a non-voting advisor.

Further information on the role of the DMB is provided under Corporate Governance in the General Manager's report.

Principal Officers to the Dairy Management Board

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

Further information on the role of the DMB is provided in Corporate Governance in the General Manager's report.

In these Financial Statements any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the DMB.

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

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Ltd
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board
Guernsey Dairy

Chairman's Report

Overview

The Dairy Management Board (DMB) is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other key strategic reviews and organisational drivers.

Consistent with work undertaken across all of the States of Guernsey Trading Assets during 2017, the STSB implemented improved governance arrangements at the Dairy, including changes to the DMB. These arrangements will help the Dairy with delivery of its Five-Year Business Plan and return to making a surplus.

Although partly due to one-off costs, the Dairy recorded an operating deficit in 2017, significant progress was made in the year with the Dairy's capital expenditure programme to address the issue of ageing buildings and equipment. This included considerable reactive maintenance work resulting in a particularly high repairs and maintenance spend. A key aspect of the work undertaken on the fabric of the buildings was to ensure a minimum 4 Star OEHPR Hygiene Rating was maintained, something I am pleased was achieved.

A prioritised capital plan is in place to replace ageing equipment and additional funding will need to be sourced to fully implement this plan.

Working closely with the STSB, the Guernsey Farmers' Association ("GFA") and the Committee for the Environment and Infrastructure, 2017 saw completion of a Five-Year Business Plan and I look forward to working with these partners to ensure delivery and implementation of its objectives, with an operating surplus sufficient to underpin the capital investment plan now expected.

Business Performance

Supply of milk to the Island's population is the Dairy's primary responsibility and purpose with liquid milk sales accounting for 79.0% of product turnover. Butter, cheese, cream and ice-cream is produced from the cream left over from the manufacture of milk.

Following a product mix review in 2016, use of surplus cream was primarily utilised for butter rather than cheese production, something that continued throughout 2017 and helped offset supply issues caused by an unprecedented increase in wholesale butter prices whilst adding to product margins. Milk pricing continues to be affected by the reduction in the Dairy Farm Management Payment, a payment made direct by the Committee *for the* Environment & Infrastructure to farmers. The States of Guernsey approved the reduction of this payment by £200k per annum from £2.085m in 2014 to £1.085m by 2019. Compensation for this had the effect of adding 2.56 pence per litre to the milk price.

Although work on the fabric of the buildings is scheduled to continue, major expenditure is planned on equipment replacement and upgrades in 2018 and beyond, to be financed via a combination of cash reserves and long-term borrowing, the latter being a first for the Dairy.

Work continues with the GFA to improve quality, efficiency and stability of supply and agreement by the farmers to introduce the RSPCA Farm Assurance Scheme collectively is welcome and will help improve welfare and production standards. This and ongoing work with Agriculture, Countryside and Land Management Services is also expected to benefit both the Island's countryside and environment.

Chairman’s Report - continued

Financial Performance

The Dairy made a deficit in 2017 of £355k (2016 operating deficit £791k). In 2016 an exceptional expense relating to ex-gratia payments to milk distributers was incurred.

There were some one off costs in the year including an £89k impairment loss following a review of our fixed assets register, and the late implementation of the milk price increase in April rather than January, which affected revenues by approximately £60k. Excluding these and other one offs the Dairy made a deficit of £128k (2016: £41K deficit)

In order to produce safe, drinkable milk, Guernsey Dairy operates a significant amount of specialised complex mechanical and electrical equipment, plant and machinery. A high proportion of the equipment, plant and machinery is ageing and is either at the end of its life, or approaching the end of its life. As a result, repairs and maintenance costs have been very high in the year. This is an ongoing risk, however, during the year we have conducted surveys on our plant and equipment and now have a plan to deal with the issues that have been identified. The first stage of this over the next few years is the capital investment to ensure that essential plant and equipment that is at risk of failure is replaced in order to ensure continuity of supply.

The Dairy's fixed asset base of £2.2m has been reviewed for impairment. The original land and buildings that the Dairy operate from is an asset of the States of Guernsey.

The net cash outflow was £301k: £179k was spent on fixed assets and £78k interest was received. Net cash outflows from operating activities was £199k. Cash and cash equivalents at the end of the year were £1.5m (2016: £1.8m).

At the year-end our debtors and prepayments were £1.1m (2016: £909k), an increase of £149k. The level of aged debt has stayed relatively consistent while the current debt has increased, since the last year-end. We continue to work with our valued customers to ensure good credit management policies are in place at the Dairy.

Reserves have decreased by £355k from £5.0m to £4.7m, because of the deficit in the year.

Our Community

The Dairy is committed to contribute to the Policy & Resource Plan's vision that: “We will be among the happiest and healthiest places in the world, where everyone has equal opportunity to achieve their potential. We will be a safe and inclusive community, which nurtures its unique heritage and environment and is underpinned by a diverse and successful economy.”

The Dairy industry provides a sustainable-farmed countryside and thereby protects the environment and biodiversity of the Island, so ensuring a Healthy Community and a Safe and Secure Place to Live. Through providing a financially viable Dairy and dairy farming business, the Dairy protects and promotes our unique identity and rich heritage, ensuring our island is Strong, Sustainable and Growing.

In 2017 the Dairy continued to sponsor the Guernsey Annual Father's Day Milk Run, a popular community half marathon event run in association with the Guernsey Athletics Club.

The Dairy also contributed to several local charities throughout the year including the production of a limited edition cheese in support of a local charity, with the team at the dairy volunteering their time and skills to produce the cheese.

Chairman's Report - continued

The Team

The Dairy has a small, committed team of production and support staff.

2017 has been a year with a number of challenges for the team. The production and engineering teams have dealt with ageing plant and equipment and turnover in some key positions with resulting vacancies while recruitment took place. There were also changes in governance arrangements with the STSB which had implications for some of our ways of working.

Despite these challenges and changes, the team continue to be committed to ensuring continuity of supply of milk and in planning to improve what we do mindful of the Dairy Industry Group's Report and the States Resolution in 2014.

My thanks to the team for all their hard work and commitment throughout the year.

The Future

In 2018 the Dairy produced and published its five year Business Plan. The Plan takes into account the business priorities of the wider dairy industry, as it is recognised that the farming industry and the Guernsey herd are inextricably linked to the future of the Guernsey Dairy. The DMB has developed the key outcomes and business objectives for the next five years with the co-operation and engagement of the GFA and the Committee *for the* Environment & Infrastructure.

There is a focus on the Dairy making a positive financial contribution, whilst balancing this with the need to provide the infrastructure necessary to support the dairy farming business, which protects the welfare of the Guernsey herd and promotes our unique identity and rich heritage for the benefit of Islanders.

A critical assessment has been made of the additional dairy products that are produced, in addition to the core business; the supply of high quality, fresh milk for all Islanders. Whilst the Dairy will ensure a strong focus on the consistent supply of its core product, other products that profitably utilise the cream (a by-product of the skimming process) and excess raw milk will also continue to be produced.

The fabric of the Dairy needs reinvestment to ensure that the facilities remain fit for purpose and up to date with the latest environmental health and quality control requirements. The Plan includes the need for a business case to identify the options for the long-term Dairy improvements, from new build to replacement or refurbishment.

Above all, the Business Plan identifies the importance of the brand and the desire for strong customer loyalty to Guernsey Dairy's products amongst Islanders. A marketing strategy will be developed to promote the uniqueness of the Guernsey breed and the Dairy as an ethical premium product producer.

The Business Plan will be delivered over the next five years to ensure a modern, efficient, fit for purpose Dairy industry which is still the 'original and best'.

States' Trading Supervisory Board
Guernsey Dairy

General Manager's Report

The Guernsey Dairy presents its report and the audited financial statements for the year ended 31 December 2017. These comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows and the related notes 1 to 21.

Principal activities

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

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

'Contributions' to the States of Guernsey

The Dairy did not make any financial contributions to the States of Guernsey in 2017 (2016: nil).

Customers

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

Financial highlights

	Actual 2017 £'000	Budget 2017 £'000	Actual 2016 £'000
Revenue	**7,729**	7,646	7,454
(Deficit)/surplus for the financial year	**(355)**	41	(791)
Capital expenditure	**179**	500	575

General Manager's Report – continued

Operational performance

Guernsey Dairy made an overall deficit of £355k in 2017, compared to a budgeted surplus of £41k; £396k below budget. The key reasons for this are:

- There was a timing difference between the price increase to farmers in January, and the increase in Gate price in April;
- Repairs and maintenance costs were higher than budget, due to essential reactive maintenance on key Dairy equipment and buildings;
- A review of the Dairy's fixed assets has led to an impairment loss of £89k being recognised in the financial statements;
- Packaging costs were also higher than budget, but in line with 2016's packaging expenditure.

The overall deficit was an improvement on 2016's position of £791k; however, in 2016 an exceptional expense relating to ex-gratia payments to milk distributers was incurred. Excluding this, 2016's performance was a deficit of £41k.

When the one off costs including impairment loss and the impact of the delay in increasing the Gate price are excluded from 2017 the deficit for the year was £128k.

The key reason for this worsening year on year position was the high repairs and maintenance costs as described above.

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

i) Revenue:

Overall revenues were £275k (3.7%) higher than 2016.

Liquid milk revenues were +3.4% ahead of the previous year. The gate price for liquid milk increased by 7.6p (7%) in April 2017. Milk sales in litres were down 1.2% against 2016.

A decision to prioritise the production of butter over cheese with excess milk led to a 44.0% reduction in cheese revenues and a 9.2% increase in butter revenues. This also led to an increase in butter exports with a 26.4% increase in UK revenues.

The cream and butter market in the UK/EU saw unprecedented demand, shortages and resulting increased commodity prices in 2017. Guernsey Dairy also saw strong demand for its butter throughout the year and toward the end of the year demand outstripped supply with continuity of supply being periodically affected.

Prices were benchmarked against other like-for-like products and gate prices were amended in August and again in November to reflect market conditions, demand and availability.

ii) Cost of Sales:

The total cost of raw milk purchases increased by 3.5% in 2017.

The price paid to Farmers was increased by 3p per litre (6%) on 1 January 2017, to compensate farmers for inflationary increases as well as the reduction in the States of Guernsey's Dairy Farm Management Payment Scheme, approved by the States in 2014.

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

General Manager's Report – continued

Volume of milk intake at the dairy reduced by 0.6% (49k) litres on the same period in 2016. This is a result of the Dairy and farmers working together to ensure the ideal production of liquid milk for the islands' needs with as little over or under production as possible.

The Dairy also improved its raw milk utilisation; the amount of raw milk received against 'working loss' across all production processes. The raw milk utilisation figure for 2017 (2.2% of the raw milk intake from farms) reflects a year-on-year reduction of £49k or 32.4% (27.4% by volume) year-on-year.

iii) Administration Expenses:

Total Administration expenses were £472k lower than 2016. However when the exceptional ex-gratia payment is excluded, costs were £278k higher than 2016. The key reasons for this are:

- Repairs and maintenance was £181k higher than the previous year due to reactive maintenance on ageing equipment;
- Professional fees were also higher than the previous year; partly due to management recharges from the STSB and charges for central services provided by the States of Guernsey's Hub.

iv) Capital Expenditure:

The Dairy's capital expenditure programme continued in 2017, resulting in expenditure of £179k in the year.

In 2017, surveys were commissioned on the Dairy buildings and equipment, and a robust plan to deal with issues that these surveys highlighted has been developed.

Corporate governance

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

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

DMB membership is primarily defined in Billet XIII 5th April 2007 and amended in Billet XX 15 August 2014. At its meeting of 4 May 2017, the STSB agreed to establish company Boards for the trading assets including Guernsey Dairy. The DMB has therefore been supplemented with the addition of either a Senior Executive of an Incorporated Company or one or more Senior Officers of the States, the General Manager and the Financial Manager.

All members other than the General Manager and the Financial Manager are appointed by the STSB

The quorum is the Chairman, the Political Member of STSB and the Senior Executive of an Incorporated Company or one or more Senior Officers of the States.

The Chairman is responsible for:

- The proper observance of the Terms of Reference;
- Overseeing and facilitating the conduct of the DMB meetings;
- Ensuring all DMB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole DMB for matters that may be referred to the STSB or when acting as a subcommittee;
- Setting agenda items in conjunction with the General Manager.

General Manager's Report – continued

The DMB does not hold a fiduciary responsibility.

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

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

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

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports;
- To guide and steer the Guernsey Dairy.

In carrying out these responsibilities the DMB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; Relevant legislation.

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

In fulfilling this purpose, the DMB will:

- Receive regular operational, sales/management information and financial reports from the General Manager and, as appropriate, reports from the Guernsey Dairy management team, with a view to directing the Guernsey Dairy as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance reports;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of Guernsey Dairy operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the DMB's delegated authority;
- Submit annual budgets and business plans in line with the States of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by Guernsey Dairy;
- Consider any regulatory authority reports in relation to Guernsey Dairy, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the Guernsey Dairy risk register and report risks in line with agreed policy;
- Receive, review and recommend action from other reports as may be requested by the DMB.

General Manager's Report – continued

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

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

The DMB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the DMB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the DMB not less than five days prior to the meeting.

The DMB acts as a political subcommittee of the STSB.

Statement of responsibilities for the preparation of financial statements

The STSB is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for Guernsey Dairy and of the surplus or deficit of Guernsey Dairy for that period. In preparing those financial statements, the STSB is required to:

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

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

Statement of internal financial controls

It is the responsibility of the STSB to identify and install 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 its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The STSB is responsible for the economic, efficient and effective operations and management of Guernsey Dairy and has a duty to ensure that they fulfil their obligations.

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

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and DMB, to ensure that all board members are informed of Guernsey Dairy financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.

General Manager's Report – continued

- The control of materials and stores purchases are managed using Guernsey Dairy's stores database programme with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, which maintains detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Group, which is constituted from the principal officers of the Guernsey Dairy.
- Regular review of milk and other product prices.
- Consideration of all audit reports by the STSB.

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

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and Guernsey Dairy's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Dairy has adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements.

Auditors

Grant Thornton Ltd have expressed their willingness to continue in office as auditors.

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

Opinion

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board - Guernsey Dairy (the "Business Unit") for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of the Business Unit's affairs as at 31 December 2017 and of deficit for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Business Unit's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of the financial statements on Page 12, the Board is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Business Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

15 May 2018

States' Trading Supervisory Board
Guernsey Dairy

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	2017 £	2016 £
Revenue	2 & 4		
Liquid milk		**6,088,744**	5,886,132
Dairy products		**1,620,109**	1,548,736
Sundry income		**20,260**	19,161
		7,729,113	7,454,029
Expenses	2 & 5		
Production costs		**5,876,291**	5,765,071
Administration expenses		**1,954,269**	2,426,438
		7,830,560	8,191,509
Operating deficit before depreciation and loss on disposal of fixed assets		**(101,447)**	(737,480)
Depreciation	9	**(242,028)**	(221,050)
Loss on disposal of fixed assets		**(89,221)**	-
Operating deficit for the year		**(432,696)**	(958,530)
Investment return and net interest receivable	6	**78,027**	167,369
Deficit for the financial year		**(354,669)**	(791,161)

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board
Guernsey Dairy

Statement of Financial Position
as at 31 December 2017

	Notes	**2017** £	2016 £
Non-current assets			
Tangible fixed assets	9	**2,182,564**	2,322,935
Assets Under Construction	10	**13,395**	25,052
		2,195,959	2,347,987
Current assets			
Inventories	11	**608,537**	635,309
Debtors and prepayments	12	**1,058,042**	909,362
Balances with States Treasury		**1,174,572**	1,548,710
Cash at bank and in hand		**326,076**	252,597
		3,167,227	3,345,978
Creditors: amounts falling due within one year	13	**(671,996)**	(648,106)
Net current assets		**2,495,231**	2,697,872
Total net assets		**4,691,190**	5,045,859
Reserves	14	**4,691,190**	5,045,859

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

Deputy C. Parkinson 15 May 2018
President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott 15 May 2018
Managing Director

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board
Guernsey Dairy

Statement of Changes in Equity
for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
At 1 January		**5,045,859**	5,837,020
Deficit for the financial year		**(354,669)**	(791,161)
At 31 December	14	**4,691,190**	5,045,859

Notes 1 to 21 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	**2017** **£**	2016 £
Net cash flows from operating activities	15	**(199,463)**	(770,915)
Cash flows from investing activities			
Proceeds from sale of fixed assets		**-**	-
Purchase of fixed assets	9 & 10	**(179,223)**	(575,192)
Net cash flows used in investing activities		**(179,223)**	(575,192)
Cash flows from financing activities			
Investment return and interest received		**78,027**	167,369
Net cash flows from financing activities		**78,027**	167,369
Net decrease in cash and cash equivalents		**(300,659)**	(1,178,738)
Cash and cash equivalents at the beginning of the year		**1,801,307**	2,980,045
Cash and cash equivalents at the end of the year		**1,500,648**	1,801,307
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		**326,076**	252,597
Cash Balances with States Treasury		**1,174,572**	1,548,710
Cash and cash equivalents		**1,500,648**	1,801,307

Notes 1 to 21 form part of these financial statements.

Notes to the Financial Statements

1. General information

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

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

2. Principal accounting policies

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

Accounting convention

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

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and Guernsey Dairy's Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

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

Tangible fixed assets

i) Property, plant and equipment

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

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Depreciation

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

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

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of comprehensive income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses. Cost is calculated using the FIFO (first-in, first-out method). Provision is made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a general provision for all amounts exceeding 90 days.

ii) Trade and other creditors

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

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Dairy. Whilst Guernsey Dairy operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as Cash and Cash Equivalents on Guernsey Dairy's Statement of financial position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Dairy transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Dairy, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis.

Pension costs

Pension costs are treated as described in note 17 Employee benefits.

Investment return and interest receivable/payable

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

Leases

i) As lessee

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

ii) As lessor

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

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

i) Depreciation rates

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

4. Revenue

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

	2017	2016
	£	£
Bailiwick of Guernsey	**7,321,227**	7,130,132
UK	**333,286**	263,777
The Netherlands	**74,600**	60,120
	7,729,113	7,454,029

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

	2017	2016
	£	£
Milk	**6,073,730**	5,861,658
Organic milk	**15,014**	24,474
Butter	**1,067,898**	977,975
Cheese	**90,078**	160,889
Cream	**281,100**	272,381
Ice-cream	**181,033**	177,469
Promotional discounts allowed	**-**	(39,978)
Carton advertising	**2,200**	-
Other income	**18,060**	19,161
	7,729,113	7,454,029

Notes to the Financial Statements – continued

5. Expenses

	2017	2016
	£	£
Cost of sales		
Production wages	**923,052**	951,311
Milk	**4,158,193**	3,963,928
Milk - working loss	**102,871**	152,072
Dairy product ingredients	**37,529**	37,431
Packaging materials	**573,320**	576,495
Freight	**81,326**	83,834
	5,876,291	5,765,071
Administration expenses		
Advertising and promotion	**51,500**	57,926
Cleaning materials	**65,289**	59,356
Fuel, light, power, water, rates	**281,709**	308,853
General administration costs	**53,998**	72,251
Laboratory materials and equipment	**90,454**	93,107
Motor vehicles	**34,325**	15,457
Professional fees	**421,914**	317,040
Provision for bad debts	**(6,365)**	(11,071)
Repairs, maintenance and insurance	**368,436**	187,090
Salaries	**531,259**	519,745
Other expenses	**61,750**	806,684
	1,954,269	2,426,438

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at its meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750,000 in total all of which has been included as part of "Other expenses". £40,000 remains unpaid at 31 December 2017 (2016: £80,000).

6. Investment return and net interest receivable

	2017	2016
	£	£
Investment return	**77,987**	167,146
Interest receivable and similar income	**40**	223
	78,027	167,369

Notes to the Financial Statements – continued

7. Surplus/(deficit) for the financial year

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

	Note	2017 £	2016 £
Auditor's remuneration		**15,000**	18,230
Depreciation of tangible fixed assets	9	**242,028**	221,050
Loss on disposal of fixed assets		**89,221**	-
Ex-gratia payments		**-**	750,000
		346,249	989,280

8. Staff numbers & costs

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

	2017	2016
Production staff	**30**	29
Administration staff	**7**	7
	37	36

Their aggregate remuneration comprised:

	Note	2017 £	2016 £
Wages and salaries		**1,233,238**	1,252,840
Social security costs		**81,412**	80,622
Other pension costs	17	**139,661**	137,594
		1,454,311	1,471,056

Other pension costs include only those items within production costs and administration expenses.

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2017 £	Additions £	Adjustments/ Disposal £	**31 December 2017 £**
Cost				
Buildings	1,670,221	4,830	(99,536)	**1,575,515**
Plant & equipment	4,384,829	180,856	(945,161)	**3,620,524**
Motor vehicles	283,858	-	(19,768)	**264,090**
Information technology	37,214	5,194	(3,274)	**39,134**
	6,376,122	190,880	(1,067,739)	**5,499,263**
Depreciation				
Buildings	929,274	42,468	(86,682)	**885,060**
Plant & equipment	2,834,580	191,832	(873,091)	**2,153,320**
Motor vehicles	261,115	2,903	(15,469)	**248,549**
Information technology	28,218	4,825	(3,274)	**29,770**
	4,053,187	242,028	(978,516)	**3,316,699**
Net Book Value	2,322,935			**2,182,564**

10. Assets Under Construction

	2017 £	2016 £
As at 1 January	**25,052**	-
Expenditure in the year	**179,223**	575,192
Transfers to fixed assets	**(190,880)**	(550,140)
As at 31 December	**13,395**	25,052

The £25,052 Assets Under Construction balance for 2016 has been reclassified from Debtors and prepayments to Non-current assets.

11. Inventories

	2017 £	2016 £
Milk and dairy products	**328,541**	353,582
Packaging materials	**217,510**	215,377
Other inventories	**62,486**	66,350
	608,537	635,309

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2017	2016
	£	£
Trade debtors	**918,231**	615,880
Accrued income	**139,280**	285,886
Other debtors and prepayments	**531**	7,596
	1,058,042	909,362

13. Creditors: amounts falling due within one year

	2017	2016
	£	£
Trade creditors	**418,952**	478,874
Accruals & Deferred Income	**253,044**	169,232
	671,996	648,106

Included as part of Accruals is £40,000 of unpaid Ex-gratia payments (2016: £80,000).

14. Reserves

	Development & Continuity Reserve	**Revenue Account**	**Total**
	£	**£**	**£**
Balance at 1 January 2017	**1,450,000**	**3,595,859**	**5,045,859**
Deficit for financial year	-	(354,669)	(354,669)
Transfer to revenue account	(1,450,000)	1,450,000	-
Balance at 31 December 2017	**-**	**4,691,190**	**4,691,190**

The Development and Continuity Reserve was created in 2015 to set aside funds for future major capital plant and equipment replacements and enhancements. The funding of the asset base is not dependent on the values in this reserve and as such it has been a notional reserve which does nothing to contribute to that intent. It was decided to transfer the balance on this reserve to the revenue account.

All reserves are distributable.

Notes to the Financial Statements – continued

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

	2017	2016
	£	£
Operating deficit for the year	**(432,696)**	(958,530)
Depreciation charges and loss on sale of tangible assets	**331,249**	221,050
Decrease/(increase) in inventories	**26,772**	(18,477)
Decrease/(increase) in debtors	**(148,677)**	(162,559)
(Decrease)/increase in creditors due within one year	**23,889**	147,601
Net cash flows from operating activities	**(199,463)**	(770,915)

The comparative figures for 2016 have adjusted, see note 10.

16. Financial commitments

The Guernsey Dairy has no financial commitments as at 31 December 2017 (2016: nil) which are not provided for in the financial statements.

17. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Dairy's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Dairy are considered to be ultimately employees of the States of Guernsey. Consequently, Guernsey Dairy has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of comprehensive income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £139,661 (2016: £137,594).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2017.

Notes to the Financial Statements – continued

18. Subsequent events

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

19. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. One member of the Dairy Management Board is a milk supplier contracted at "arm's length" on the same terms as other milk suppliers.

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

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

20. Statement of control

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

21. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2017 which would affect these financial statements (2016: none).

States' Trading Supervisory Board
States Works

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

States' Trading Supervisory Board Members

Deputy C. Parkinson, President
Deputy J. Smithies
Mr S. Falla MBE
Mr J. Hollis

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and one member who shall be members of the States and two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers to the Board

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

States Works Board Members

Mr J. Hollis	appointed Chairman 4 May 2017
Deputy J. Smithies	appointed 4 May 2017
Mr M Darby	appointed as non-voting adviser 4 May 2017
Mr P. Lickley	appointed as non-voting adviser 4 May 2017
Mrs N. Nicholson	appointed as non-voting adviser 4 May 2017
Mr M. Hardwick	appointed as non-voting adviser 29 June 2017

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

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

Further information on the role of the SWB is provided under Corporate Governance in the General Manager's report.

Principal Officers to the States Works Board

Mr P. Lickley, General Manager, States Works
Mrs N. Nicholson, Senior Manager, Finance and Support Services, States Works
Mr M. Hardwick, Senior Manager, Technical, States Works
Mr M. Torode, Senior Manager, Operations, States Works

In these financial statements any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the SWB.

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

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Ltd
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board
States Works

Chairman's report

Overview

The STSB has implemented improved governance arrangements across all of the States of Guernsey Trading Assets during 2017 which include the formation of a political subcommittee (company board) at States Works. The States Works board is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other key strategic reviews and organisational drivers.

For States Works 2017 has been a positive year having achieved as far as reasonably practical all objectives as defined in our business plan and with trading results better than expected.

Trading results have been better than expected for States Works for 2017. However the business remains aware of the significant challenges it faces with the reduction in budgets across the States of Guernsey and increasing pressure from our predominantly States clients to market test, or at least benchmark our services against the commercial sector.

Business Performance

The business continues to perform well and has delivered fully on our client's requirements in a challenging climate. States Works clients are predominantly States of Guernsey committees, which have been tasked with achieving significant savings in order to meet targets laid down by the Policy & Resources Committee. States Works continue to work closely with our clients to assist in realising these savings through efficiencies using smarter, leaner working practices rather than service cuts. These challenges will continue as phase 2 of the Policy & Resource Plan takes effect, a challenge that States Works recognises as having a part to play in its delivery.

Financial Performance

States Works made a surplus of £957k during 2017 (2016 surplus £900k). This was due in part to the favourable investment return which was £172k higher than budget. The replacement of capital plant and vehicles has been slower than originally forecast which has resulted in depreciation expense being lower than forecast. States Works continue to keep operating costs as low as possible in order to provide value for money to clients.

Our Community

States Works is committed to contributing to the Policy & Resource Plan. States Works provides an Emergency Response resource to the Island which promotes the outcome of a Safe and Secure place to live. As part of the Land Management contract with States of Guernsey committees, States Works maintain the grounds of the States of Guernsey sites across the Island including the town roundabout, Candie Gardens, Saumarez Park, the Island's playing fields and recreational areas, conservation sites, cemeteries, cliff paths, commons and beach headlands on a year round basis. The results of our expertise in growing plants within our plant propagation facility at Burnt Lane, St Martins can also be seen all over the bailiwick and which makes the most of Guernsey's micro climate. However, many of our other services go unnoticed, whether this be managing the island's waste and recycling, or cleansing the islands network of roads and public areas.

Chairman's Report - continued

At the end of November 2017 States Works donated their time to transporting and placing the Christmas Tree at the Town Church for the Rotary Club.

States Works also contributes to the island through employment and its efforts in training and developing school leavers and other employees, through apprenticeships, specialist and other training. It also provides employment related opportunities and skill experience for those wishing to return to work after a sustained period of absence, this through our Community and Environmental Projects Scheme and other related initiatives.

The Team

The focus during 2017 has been to maintain and deliver core business activities. This in recognition of the ongoing resource shortfall created by the States Works General Manager secondment to Guernsey Waste to lead the programme tasked with delivering the Islands solid waste strategy programme.

There have been difficulties during the year recruiting skilled staff in areas such as Electrical and Mechanical Engineering and Fleet Maintenance. This is due to a shortage of skilled staff in these areas in Guernsey which on a long term basis will only be addressed through working with education services and other service providers to promote the industries and the training and development opportunities available across the Island.

States Works staff operate daily providing a service provision across the Island on call 24 hours a day 365 days a year. I would like to thank the dedicated staff and employees for all their hard work and commitment throughout the year.

The Future

States Works is shortly due to publish its 3 year Business Plan. A key focus of the plan will be the development of an optimum operating model for the business and the commissioning of an independent review to highlight to management where opportunities for improved operations, services and efficiency may be feasible. The latter aimed at demonstrating to clients the steps being taken to demonstrate value for money in the absence of direct market test in some areas.

It is also recognised, that successful delivery of the aims and objectives of this new plan will not be realised without understanding and listening to the most important assets of States Works, its customers and people. Both aspects feature heavily in the plan as States Works seeks to develop a people plan which promotes engagement and innovation through life-long learning, training and development and reinforced through positive performance management and succession planning. States Works also seeks to understand its customers' needs and expectations and deliver upon the Customer Promises enshrined in the States of Guernsey Customer Charter.

All of this underpinning States Works' commitment to the vision and direction of Service Guernsey that is shaping the future provision of public services.

States' Trading Supervisory Board
States Works

General Manager's report

States Works presents their report and the audited financial statements for the year ended 31 December 2017. These comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows and the related notes 1 to 21.

Principal activities

States Works, a business unit of the STSB, operates as a trading organisation which contracts mainly with States clients to deliver a wide range of services. Those services demand the effort of a predominantly manual labour force utilising specialist plant and equipment to maintain the public services of the Island.

'Contributions' to the States of Guernsey

States Works did not make any financial contributions to the States of Guernsey in 2017 (2016: £500k)other than assisting clients in achieving their own target reductions. This required root and branch reviews of many contracts to be undertaken to identify efficiencies and savings whilst also seeking to minimise noticeable impacts on services.

Customers

States Works client base is predominantly other States of Guernsey committees for which we undertake work based on formal service level agreements. The remaining 11% of turnover is undertaken for private clients including local parishes.

Financial highlights

	Actual 2017 £'000s	Budget 2017 £'000s	Actual 2016 £'000s
Revenue	**14,636**	15,001	15,171
Surplus for the financial year	**957**	364	900
Capital expenditure	**1,643**	1,763	1,049

Operational performance

	2017	2016
Staffing Statistics		
Number of staff members at year end	**216**	230
Income generated per employee	**£67,875**	£65,962
Full time equivalent employees	**235**	247
Emergency call-out		
Number of calls	**200**	113
Man hours worked	**573**	911

General Manager's report - continued

States Works made a surplus of £957k in 2017 compared to a budgeted surplus of £364k, £593k above budget. The key reasons for this were:

- The rate of return on investment was higher than predicted and actual interest received was £184k compared to a budgeted figure of £12k.
- There was a delay in the purchase of plant and vehicles which resulted in depreciation being lower than expected. Actual depreciation was £1.1m against budget of £1.2m.
- Staff costs are lower than budget due to a reduction in overtime and staff numbers.

Operating income for 2017 was £14.6m which is £365k lower than budget. The reason for this decrease was a fall in income for Engineering Services due to lower than expected Flygt pumps sales which can vary from year to year. There was also a fall in income for Highway Services due to a reduction in private reinstatement works during the year. There has also been a drop in Fleet Maintenance income partly due to an increase in the use of leased cars by other States of Guernsey committees and a reduction of staff numbers in the garage due to recruitment issues (skills shortage).

The fall in operating income against budget is matched by a proportionally higher decrease in expenditure. There has been a reduction in staff numbers during the year due to recruitment issues for skilled staff and staff not being replaced in sections where work has decreased. The direct expenditure costs which include wages and materials are £603k below budget.

Capital purchases of vehicles and plant were delayed in 2016/17 which has resulted in depreciation being £157k lower than budget.

The total investment return for the year is £184k which similar to the previous year.

The combination of the reduction in depreciation and the increase in expected interest and a reduction in direct costs has resulted in an increase of £593k in surplus against the original budget.

The overtime for the past 12 months is £40k lower than the same period in prior year. There have been decreases in overtime from Land Management and Highway Services compared to the prior year.

Corporate governance

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

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

The SWB membership is a minimum of a Chairman who is not a States Member, a Political Member of the STSB, a Senior Executive of an Incorporated Company or one or more senior Officers of the States, the General Manager and the Financial Manager.

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

The Chairman is responsible for:

- The proper observance of these Terms of Reference;
- Overseeing and facilitating the conduct of the SWB meetings;
- Ensuring all SWB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;

General Manager's report - continued

- Seeking consensus from the whole SWB for matters that may be referred to the STSB or when acting as a subcommittee;
- Setting agenda items in conjunction with the General Manager.

The SWB does not have a fiduciary responsibility.

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

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

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

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports;
- To guide and steer States Works.

In carrying out these responsibilities the SWB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives, policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; Relevant legislation.

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

In fulfilling this purpose, the SWB will:

- Receive regular operational, sale/management information and financial reports from the General Manager and, as appropriate, reports from the States Works management team, with a view to directing States Works as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance report;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of States Works operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the Board's delegated authority;
- Submit annual budgets and business plans in line with the States Of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by States Works;
- Consider any regulatory authority reports in relation to States Works, including the Health and Safety Executive, review options and take action to ensure compliance;

General Manager's report - continued

- Own the States Works risk register and report risks in line with agreed policy;
- Receive, review and recommend action from other reports as may be requested by the SWB.

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

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

The SWB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the SWB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the SWB not less than 5 days prior to the meeting.

Statement of responsibilities for the preparation of financial statements

The STSB is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for States Works and of the surplus of States Works for that period. In preparing those financial statements, the STSB is required to:

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

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

Statement of financial controls

It is the responsibility of the STSB to identify and install 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 its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The STSB is responsible for the economic, efficient and effective operations and management of States Works and has a duty to ensure that they fulfil their obligations.

States Works internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB, to ensure that all STSB Members are informed of States Works financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.

General Manager's report - continued

- The control of materials and stores purchases are managed using a computerised job-costing programme with specific authorisation limits for purchases and segregated areas of responsibility for processing of payments, all of which maintain detailed audit trails.
- Manpower expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to strict valuation guidelines and purchase procedures.

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

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and States Works' Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

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

Auditors

Grant Thornton Ltd have expressed their willingness to continue in office as auditors.

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

Opinion

We have audited the financial statements of the States of Guernsey – States' Trading Supervisory Board – States Works ("the Business Unit") for the year ended 31 December 2017, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of the Business Unit's affairs as at 31 December 2017 and of its surplus for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Business Unit's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of responsibilities for preparation of financial statements on Page 10, the Board is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Business Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Business Unit or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

15 May 2018

States' Trading Supervisory Board
States Works

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	**2017** £	2016 £
Revenue	2 & 4	**14,635,671**	15,163,198
Expenses	2 & 5		
Operating expenses		**10,671,764**	11,341,142
Administration and general expenses		**2,128,158**	2,153,766
		12,799,922	13,494,908
Operating surplus before depreciation and surplus on disposal of fixed assets		**1,835,749**	1,668,290
Depreciation	9	**(1,089,237)**	(959,679)
Gain on disposal of fixed assets	9	**25,804**	8,011
Operating surplus for the year		**772,316**	716,622
Investment return and net interest receivable	6	**184,519**	183,548
Surplus for the financial year		**956,835**	900,170

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

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

States' Trading Supervisory Board
States Works

Statement of Financial Position
as at 31 December 2017

	Notes	**2017**	2016
		£	£
Non-current assets			
Tangible fixed assets	9	**6,292,602**	5,774,783
Investment property	0	**500,000**	500,000
		6,792,602	6,274,783
Current assets			
Inventories and work in progress	11	**348,316**	387,856
Debtors and prepayments	12	**1,681,905**	1,070,554
Balances with States Treasury		**3,553,975**	3,654,364
		5,584,196	5,112,774
Creditors: amounts falling due within one year	13	**599,532**	567,118
Net current assets		**4,984,664**	4,545,656
Total net assets		**11,777,266**	10,820,439
Reserves	14	**11,777,266**	10,820,439

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

Deputy C. Parkinson 15 May 2018
President

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott 15 May 2018
Managing Director

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

Statement of Changes in Equity
for the year ended 31 December 2017

	Notes	**2017**	2016
		£	£
At 1 January		**10,820,439**	10,446,730
Surplus for the financial year		**956,835**	900,170
Transfer to States of Guernsey General Revenue		**-**	(500,000)
Write down of assets		**(8)**	(26,461)
At 31 December	14	**11,777,266**	10,820,439

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

States' Trading Supervisory Board
States Works

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 £	2016 £
Net cash flows from operating activities	15	**1,330,579**	1,697,425
Cash flows from investing activities			
Proceeds from sale of fixed assets		**61,451**	14,881
Purchase of fixed assets	9	**(1,642,711)**	(1,049,290)
Net cash flows used in investing activities		**(1,581,260)**	(1,034,409)
Cash flows from financing activities			
Contribution to States of Guernsey General Revenue	14	**-**	(500,000)
Investment return received		**150,292**	243,548
Net cash flows from financing activities		**150,292**	(256,452)
Net (decrease)/increase in cash and cash equivalents		**(100,389)**	406,564
Cash and cash equivalents at the beginning of the year		**3,654,364**	3,247,800
Cash and cash equivalents at the end of the year		**3,553,975**	3,654,364
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		**50**	50
Balances with States Treasury		**3,553,925**	3,654,314
Cash and cash equivalents		**3,553,975**	3,654,364

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

Notes to the Financial Statements

1. General information

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

States Works' principal place of business is La Hure Mare, Vale, Guernsey, GY3 5UD.

2. Principal accounting policies

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

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention as modified to include Investment Properties at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

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

Going concern

The financial statements are produced on a going concern basis. The Policy & Resources Committee, in conjunction with the STSB and States Works' Principal Officers, monitors and projects the States of Guernsey income and expenditure and confirms the appropriateness of this basis.

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

Tangible fixed assets

i) Investment properties

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

ii) Property, plant and equipment

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

Depreciation

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

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

	Estimated life in years	Depreciation % per annum
Plant and equipment	3 – 20	5% - 33.3%
Motor vehicles	3 – 10	10% - 33.3%
Office equipment	5	20%
Buildings and fittings	10 – 50	2% - 10%
Land	-	-

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at each Statement of Financial Position date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

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

Work in progress

Work in progress is valued at cost.

Basic financial instruments

i) Trade and other debtors

Trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses.

ii) Trade and other creditors

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

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of States Works. Whilst States Works operates a treasury account, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as Cash and Cash Equivalents in States Works' Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Business Unit transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Business Unit, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

Revenue and expenses

Revenue is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Revenue from the sale of goods is recognised when the goods are physically delivered to the customer. Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Pension costs

Pension costs are treated as described in note 17 Employee benefits.

Investment return

Investment return on balances held with the States of Guernsey is accounted for on an accruals basis.

Leases

i) As lessee

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

ii) As lessor

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

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

i) Valuation of investment property

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

Notes to the Financial Statements – continued

4. Revenue

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

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

	2017	2016
	£	£
Building maintenance	**4,261**	95,664
Cleansing	**1,382,293**	1,401,706
Drainage	**335,045**	335,396
Electrical and mechanical	**1,034,390**	1,336,854
Emergency services	**90,603**	118,079
Fleet Hire	**79,887**	74,887
Fleet maintenance	**554,918**	631,372
Highway repair	**1,273,846**	1,393,226
Land management	**2,124,325**	2,102,656
Landfill and recycling	**3,388,368**	3,270,151
Management services	**207,115**	214,400
Sewage collection	**2,384,752**	2,352,329
Signs and lines	**429,955**	444,144
Waste collection	**851,591**	794,458
Administration and stores	**494,322**	597,876
	14,635,671	15,163,198

Notes to the Financial Statements – continued

5. Expenses

	2017 £	2016 £
Operating Expenses		
Direct labour	**6,516,844**	6,801,705
Direct materials	**3,490,739**	3,846,487
Vehicles – fuel costs	**279,736**	289,768
Plant and tools – maintenance and replacements	**168,190**	98,942
Building maintenance and charges	**216,255**	304,240
	10,671,764	11,341,142
Administration and general expenses		
Salaries, wages and employer's superannuation	**1,511,303**	1,542,641
Travel and training charges	**80,443**	123,873
Post, stationery and telephone	**43,387**	42,639
Computer charges	**79,790**	63,350
Insurance	**120,000**	109,767
Audit fee	**17,500**	15,804
Sundry office expenses	**275,735**	254,563
Debt write off	**-**	1,129
	2,128,158	2,153,766
Total expenses	**12,799,922**	13,494,908

6. Investment return

	2017 £	2016 £
Investment return	**184,519**	183,548
	184,519	183,548

7. Surplus/(deficit) for the financial year

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

	Note	2017 £	2016 £
Auditor's remuneration		**17,500**	15,804
Gain on disposal of fixed assets		**(25,804)**	(8,011)
Depreciation of tangible fixed assets	9	**1,089,237**	959,679
		1,080,933	967,472

Notes to the Financial Statements – continued

8. Staff numbers & costs

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

	2017	2016
Operational staff	**203**	215
Administration staff	**32**	32
	235	247

Their aggregate remuneration comprised:

	Note	**2017**	2016
		£	£
Wages and salaries		**7,054,778**	7,374,829
Social security costs		**463,176**	475,271
Other pension costs	17	**820,292**	831,958
		8,338,246	8,682,058

Other pension costs include only those items within operating and management expenses.

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2017 £	Additions £	Reduction of cost of transferred assets £	Write offs/ Disposal £	**31 December 2017 £**
Cost					
Land	649,220	-	-	-	**649,220**
Buildings & fittings	3,993,919	182,836	-	-	**4,176,755**
Plant & equipment	1,613,613	526,838	-	(160,692)	**1,979,759**
Motor vehicles	6,857,231	888,960	(8)	(411,331)	**7,334,852**
Office equipment	205,474	44,077	-	-	**249,551**
	13,319,457	1,642,711	(8)	(572,023)	**14,390,137**
Depreciation					
Land	-	-	-	-	**-**
Buildings & fittings	2,003,190	107,723	-	-	**2,110,913**
Plant & equipment	1,224,839	194,226	-	(146,611)	**1,272,454**
Motor vehicles	4,130,115	776,502	-	(389,765)	**4,516,852**
Office equipment	186,530	10,786	-	-	**197,316**
	7,544,674	1,089,237	-	(536,376)	**8,097,535**
Net Book Value	5,774,783				**6,292,602**

Notes to the Financial Statements – continued

10. Investment Property

	1 January 2017 £	Additions/ Disposals £	Revaluations £	**31 December 2017 £**
Investment Property	500,000	-	-	**500,000**
	500,000	-	-	**500,000**

This investment property, which is freehold, was purchased on 1 January 2007. The fair value of this property at 31 December 2016 was based on a valuation undertaken by States Property Services, an independent valuer approved by RICS with recent experience in the location and class of the investment property being valued. The historic cost of this property was £625,000.

Operating lease of investment property

The investment property is rented out under an operating lease.

At the Statement of Financial Position date, States Works had contracted with tenants for the following future minimum lease payments:

	2017 £	2016 £
Within one year	**35,571**	35,011
	35,571	35,011

11. Inventories and work in progress

	2017 £	2016 £
Inventories	**233,093**	245,315
Work in progress	**115,223**	142,541
	348,316	387,856

12. Debtors and prepayments

	2017 £	2016 £
Trade debtors	**1,623,857**	1,040,279
Prepayments and other debtors	**58,048**	30,275
	1,681,905	1,070,554

Notes to the Financial Statements – continued

13. Creditors: amounts falling due within one year

	2017	2016
	£	£
Trade creditors	**269,389**	300,485
Accruals	**330,143**	266,633
	599,532	567,118

14. Reserves

	Revenue reserve	**Asset transfer reserve**	**Total**
	£	£	£
Balance at 1 January 2017	**10,820,417**	**22**	**10,820,439**
Surplus for the financial year	956,835	-	956,835
Asset write down (note 9)	-	(8)	(8)
Balance at 31 December 2017	**11,777,252**	**14**	**11,777,266**

All reserves are distributable

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

	2017	2016
	£	£
Operating surplus for the year	**772,316**	716,622
Depreciation charges and gain on sale of tangible assets	**1,063,433**	951,668
Decrease/(increase) in inventories and work in progress	**39,540**	(3,815)
(Increase)/decrease in debtors	**(611,351)**	44,103
Increase/(decrease) in creditors due within one year	**32,414**	(11,153)
Increase in accrued interest	**34,227**	-
Net cash flows from operating activities	**1,330,579**	1,697,425

Notes to the Financial Statements – continued

16. Financial commitments

	2017 £	2016 £
Commitments at 31 December for which no provision has been made in these financial statements.	**581,262**	393,901
	581,262	393,901

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

17. Employee benefits

The employees of States Works are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify States Work's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of States Works are considered to be ultimately employees of the States of Guernsey.

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

The total cost of employer contributions included within the statement of comprehensive income amounted to £820,292 (2016: £831,958).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2017.

18. Subsequent events

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

Notes to the Financial Statements – continued

19. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. All transactions are conducted as normal business arrangements carried out at "arm's length". There has been a small change in the proportion of business between States 89% (2016: 89%) and private 11% (2016: 11%) clients.

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

The total remuneration for key management personnel for the period totalled £321,492 (2016: £321,792). The key management personnel of States Works are the Senior Management Team.

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

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla, as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

20. Statement of control

States Works is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of States Works has been delegated to the members of the States' Trading Supervisory Board appointed by the States of Guernsey.

21. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 16 relating to 2017 which would affect these financial statements (2016: None).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

PRINCIPAL OFFICERS

Committee *for* Employment & Social Security – Membership post General Election

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

STATEMENT OF ACTIVITIES

ACTIVITIES DURING THE YEAR

During 2017, as part of the States' property rationalisation project, all Housing staff were relocated to Edward T Wheadon House. There are operational benefits in having the great majority of the Committee's staff under the same roof, beyond the benefits of the more efficient use of office space. In addition to the Housing staff, the new Corporate Customer Services counter went live in Edward T Wheadon House in September. Customers are now able to come to one location for payments of all States accounts and general enquiries for Income Tax and Social Security Contributions.

Contribution rates for employees and employers were increased by 0.1% each to the Guernsey Insurance Fund, in order to fund the new package of Parental Benefits which was implemented on 1 January 2017. Contribution rates for all contributors, but not employers, were increased by a further 0.5% to add support to the sustainability of the Long-term care Insurance Fund.

The demographic shift to an older population increasingly impacts on benefit expenditure across the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund. At the end of the year, 17,964 pensions were in payment, an increase of 311 (1.8%) on the previous year.

Mitigating the financial effects of the ageing population on public revenues is a factor in some of the Committee's main policy activities. Preparations are being made for the first step, in 2020, of the incremental increase in pension age, which will reach 70 by 2049. During the year, the Committee held workshops and focus groups in order to consult with stakeholders for the Longer Working Lives project. A Policy Letter containing proposals to encourage and enable longer working lives was submitted for debate in December, but was deferred until early 2018. Good progress was made with a separate project, but one which is also connected with the ageing population, in the form of secondary pensions. With States' approval in principle already given, the Committee is working on detailed proposals. This includes a tender to identify a scheme provider. At the end of the year, potential providers had been invited to attend a 'bidder day' early 2018 to discuss the draft specification and the procurement process.

The Committee continues to invest in support for individuals with an illness, injury, or disability, in order to help them stay in work or get back into work more quickly. It has been recognised that not all employers have access to occupational health advice and may be unsure of how to deal with sickness related absence. Therefore, during 2017, Social Security worked closely with employers to promote the Supporting Occupational Health and Wellbeing (SOHWELL) project. Two public events were also held regarding 'Health and wellbeing in the workplace' and 'A Good Day at Work', respectively. The Committee is aware that a reduction in sickness absence and changes in behaviour will take time, but is committed to continued engagement with stakeholders in this important area.

Unemployment rates remained low throughout 2017, as the Job Centre continues to develop and expand the range of initiatives it offers to assist and support jobseekers to secure employment or improve their employment prospects.

Turning to the Guernsey Health Service Fund, a new contract between the States and the Medical Specialist Group was signed in March 2017, effective from 1 January 2018. Unlike the previous contract, the States will act through the Committee *for* Health & Social Care only, with involvement from the Committee *for* Employment & Social Security limited to the provision of funding. Key Performance Indicators have been included in the contract, which will enable the service to be monitored closely. A 12 month rolling contract has been introduced with the Guernsey Therapy Group, replacing the contract that expired on 31 December 2017.
2017 saw a favourable outcome for the cost of drugs, medicines and appliances, where there was a reduction of 1.1% in the number of items prescribed and a reduction of 0.4% in total costs. Fewer antibiotics and hypnotics were prescribed and significant costs were avoided by the controlled entry of new drugs onto the prescribing list.

STATEMENT OF ACTIVITIES (CONTINUED)

ACTIVITIES DURING THE YEAR (CONTINUED)

In December 2017, a trial programme of free contraceptive services for under 21 year-olds was launched. Subject to evaluation, this is expected to be established as a permanent benefit under the Health Service Law.

Following a Resolution from the February 2016 States debate on the Supported Living and Ageing Well Strategy (SLAWS), the Committee proposed an increase in contribution rates in its annual Policy Letter on benefit and contribution rates. This increase of 0.5% to the Long-term Care Insurance Fund, was implemented from 1 January 2017, with the aim of improving the future sustainability of the Fund. As a result, contribution income into the Fund has increased by approximately £7m, when compared to 2016 income. However, expenditure has also increased, primarily due to the nature of an ageing population, which means that more people are claiming from the Fund, and for longer than previous generations.

Further Resolutions from the February 2016 SLAWS Debate directed the Committee to investigate whether the Long-term Care Insurance Fund should cover the cost of care and support only, and that funding for accommodation and living expenses should be separated and paid for by the individual. A policy officer has been appointed to progress this work stream. The wider work on SLAWS is being co-ordinated by the Policy & Resources Committee, also in conjunction with the work streams that involve the Committee *for* Health & Social Care.

FUTURE ACTIVITIES

The next phase of the Secondary Pensions project is to select a provider of the new scheme. It is expected that the specification will be issued in February 2018. In addition, the scheme branding will be finalised and the economic impact assessment will be published. Following the selection of a scheme provider and the working up of further details of the scheme, the Committee will report back to the States early in 2019 for approval of the scheme and to seek approval for the preparation of legislation.

The Longer Working Lives Policy Letter is due to go before the States in early 2018. Following the debate, the Committee will prioritise the actions approved by the States and will progress the drafting of the relevant legislation to enact the right of employees to request flexible working and to prevent age discrimination in employment.

In relation to SLAWS, Committee workshops will be arranged in order to discuss how other jurisdictions support and fund long-term care in their communities, and to discuss the cost analysis of current long-term care provision, which is being undertaken in early 2018. The outcomes of this work will be reported to the States towards the end of 2018.

In January 2018, the re-accreditation assessment for Investors in People will be undertaken. This will involve three days of assessments with staff, following which, a report and action plan will be created.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

STATEMENT OF PERFORMANCE

Overview
The Social Security Contributory Funds comprising the Guernsey Insurance Fund (GIF), Guernsey Health Service Fund (GHSF) and Long-term Care Insurance Fund (LTCIF) recorded an operating deficit of £15.7m (2016: £20.2m deficit). A breakdown of the operating results is as follows:

- GIF: operating deficit of £19.5m (2016: £22.1m deficit).
- GHSF: operating deficit of £3.0m (2016: £1.3m surplus).
- LTCIF: operating surplus of £6.9m (2016: £0.7m surplus).

Total Reserves for the year increased by £56.3m (2016: £74.8m increase). This increase comprised the operating deficit of £15.7m (2016: £20.2m deficit) and an increase from investing activities of £72.0m (2016: £95.0m increase). The increase in Reserves is allocated as follows:

- GIF: +£38.0m (2016: +£54.4m) and comprised the operating deficit of £19.6m (2016: £22.1m deficit) and increase from investing activities of £57.6m (2016: £76.6m increase);
- GHSF: +£6.2m (2016: +£13.3m) and comprised the operating deficit of £3.0m (2016: £1.3m surplus) and increase from investing activities of £9.2m (2016: £12.0m increase). The operating deficit is as a direct result of the states grant of £4.7m being suspended in 2017 in order to assist with the General Revenue funding challenges in respect of health and social care services.
- LTCIF: +12.1m (2016: +£7.1m) and comprised the operating surplus of £6.9m (2016: £0.7m surplus) and increase from investing activities of £5.2m (2016: £6.4m increase). The reporting of an operating surplus is as a direct result of contribution rates across all classes being increased in 2017 raising an additional £7m of income for the LTCIF.

At the year-end total reserves stood at £966.6m (2016: £910.5m) and allocated as follows:

- GIF: £769.3m (2016: £731.2m) with expenditure cover 5.4 years (2016: 5.2 years);
- GHSF: £122.5m (2016: £116.3m) with expenditure cover 2.9 years (2016: 2.8 years); and
- LTCIF: £75.0m (2016: £62.9m) with expenditure cover 3.8 years (2016: 3.4 years).

Contribution income and states grant

Total contribution income increased by 7.7% to £172.7m (2016: +2.1% to £160.4m). The increase comprises of underlying growth of 2% based on economic factors, the remainder from the increase in rates.

As part of the Supported Living and Ageing Well Strategy (SLAWS), to improve the sustainability of the LTCIF, from 1 January 2017, contributions were increased by 0.5% across all classes except employers. In addition, an increase of 0.1% on both the employer and employee contributions increased by 0.1% in order to fund improved parental benefits with the states grant to GIF reducing by 0.3% to 14.7% so that the increase in contribution income remained cost neutral to general revenue.

Contribution income in respect of employed persons increased by 8.0% to £146.7m, (2016: +2.2% to £135.8m). Income from self-employed persons increased by 2.8% to £16.3m (2016: +2.5% to £15.6m) and non-employed persons increased by 11.1% to £9.5m (2016: +0.9% to £8.5m).

STATEMENT OF PERFORMANCE (CONTINUED)

Contribution income and states grant (continued)

Numbers of Contributors as at week 48	2017	2016	5-Year average
Employers	**2,333**	**2,386**	**2,403**
Employed	28,909	28,769	28,798
Self-Employed	3,108	3,124	3,192
Non-Employed	5,783	5,691	5,612
Total Contributors (excluding employers)	**37,800**	**37,584**	**37,602**

The overall number of contributors, at week 48, increased by 0.6% to 37,800 (2016: 37,584). The number of employed increased by 0.5% (2016: +0.2% increase) while self-employed decreased by 0.5% (2016: 2.2% decrease). Non-employed contributors increased by 1.6% (2015: +2.1%). The largest economic sector remained the financial sector, which accounted for 22% (2016: 22%) of the employed population and represented 32% (2016: 32%) of the total income received from employers and employees.

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

- GIF: +4.5% to £106.6m (2016: +1.9% to £102.0m). The grant received from the States of Guernsey, being a fixed percentage of contributions (14.7%), increased to £15.7m (2016: £15.3m);

- GHSF: +1.5% to £39.5m (2016: +2.1% to £39.0m). As a one-off, no grant was received from the States of Guernsey (2016: £4.7m); and

- LTCIF: +36.8% to £26.6m (2016: +2.6% to £19.4m).

Benefit expenditure

Overall benefit expenditure increased by 2.0% to £197.9m (2016: +3.4% to £193.95m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 0.8% (2016: 2.1%). The allocation between the Funds is as follows:

- GIF: +1.9% to £137.3m (2016: +3.7% to £134.6m);

- GHSF: +1.0% to £41.2m (2016: +2.6% to £40.8m); and

- LTCIF: +5.2% to £19.4m (2016: +3.0% to £18.5m).

Details of major areas of benefit expenditure follow:

GIF: Pension	2017	2016	5-Year Average
Number of claimants at the year-end	17,964	17,653	17,329
Number of approved claims during the year	1,056	1,006	1,040

Pension expenditure accounts for over 85% of the total benefit expenditure of GIF and for the year increased by 1.8% to £117.5m (2016: +4.3% to £115.4m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 0.8% (2016: 2.1%).

STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

GIF: Incapacity benefit	**2017**	**2016**	**5-Year Average**
Number of claimants at the year-end	856	851	860
Number of approved claims during the year	216	253	250

Incapacity benefit decreased by 1.3% to £8.0m (2016: -0.3% £8.1m). The Committee is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick and the number of active and approved claims for the year were below the 5-year average.

GIF: Unemployment benefit	**2017**	**2016**	**5-Year Average**
Number of claimants at the year-end	153	183	189
Number of approved claims during the year	790	971	1,008

Unemployment benefit decreased by 27% to £1.0m (2016: +1.3% to £1.37m). The Committee continues to work on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed. Both the number of active claims and approved claims for the year decreased and were well below the 5-year average.

GHSF: Specialist Health Insurance Scheme	**2017**	**2016**	**5-Year Average**
Medical specialist Group *full-time equivalent consultants (average)*	45.8	44.8	42.6
Guernsey Therapy Group *full-time equivalent physiotherapists & assistants (average)*	36.8	36.1	34.4

Medical specialist expenditure increased by 2.0% to £18.05m (2016: +3.9% to £17.69m) with the contract price increasing by 0.9% based on the September 2016 RPI. A fourth orthopaedic consultant was appointed in July 2018 followed by a fifth paediatric consultant in October. Prior to these appointments being made, locums were employed.

The Physiotherapy contract is provided by the Guernsey Therapy Group. For the year, expenditure increased marginally to £2.22m (2016: +0.6% to £2.21m) with the contract price decreasing by 0.1%, based on the September 2016 RPIX of 1.1% less 1%.

The Alderney contract increased significantly to £285k (2016: £164k) following negotiations with the Alderney Doctors regarding additional support.

GHSF: Drugs and medicines	**2017**	**2016**	**5-Year Average**
Total prescriptions	1,511,093	1,526,712	1,516,243
Average basic cost per item	£8.93	£8.99	£8.65

For the year, overall expenditure in respect of drugs and medicines decreased by 0.4% to £16.25m (2016: +1.8% to £16.3m). New drugs to the White List continue to be well controlled with the number of items dispensed decreasing slightly compared to the previous year with the basic drug costs also decreasing marginally.

STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

LTCIF: Residential Home Care grant	**2017**	**2016**	**5-Year Average**
Number of claimants at year-end - Permanent	282	262	268
Number of claimants at year-end - Permanent with EMI	122	98	102
Total	**404**	**360**	**370**
12-month rolling average	390	347	366

Residential Home Care benefit expenditure increased by 14.2% to £9.84m (2016: £8.62m) and saw the 12-month rolling average in active claims increase by 8.7%. The 12 month rolling average in respect of EMI patients increased by 22.8 % due to Greenacres Care Home opening in February 2018 with an increased provision of EMI beds.

LTCIF: Nursing Home Care grant	**2017**	**2016**	**5-Year Average**
Number of claimants at the year-end	202	227	220
12-month rolling average	227	230	n/a

Nursing Home Care benefit expenditure decreased by 2.6% to £9.6m (2016: £9.8m). Although the general rate of benefit increased by 0.6%, the 12-month rolling average was down 1.6%.

Administration

Total administration expenditure decreased by 6.2% to £7.9m (2016: £8.4m) with the recharge of administrative expenditure to Non Contributory Services (NCS) decreasing by 1.3% to £1.78m (2016:£1.80m). Overall staffing costs decreased by 2.2% to £5.1m (2016: £5.2m). The decrease is a result of the IT function being centralised with the Policy and Resource committee with IT staff costs of £412k being recharged to the contributory funds and included under Policy and Resources Committee charges; these costs were included under salaries and pension costs in 2016.

Furthermore, in 2017 expenditure in respect of IT and communication and the recharge under amounts received from General Revenue do not include the General Revenue element of these IT costs.

Full-time Equivalent Staff	**2017**	**2016**
Contributory Funds	80.1	84.6
Non Contributory Funds (General Revenue)	34.4	37.3
	114.5	**121.9**

The reduction in staff full-time equivalents is primarily due to staff vacancies. In 2017, the IT function was centralised with the Policy and Resource committee and as a result the 2016 comparative FTE numbers have been adjusted accordingly.

The Committee's total full-time equivalent staff numbers in 2017 was 157.0 (2016:165.2) with 76.9 FTE's (2016: 80.6) paid directly from General Revenue and therefore excluded from the above analysis.

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

- GIF: -5.2% to £4.5m (2016: +5.2% to £4.7m);
- GHSF: -14.6% to £1.3m (2016: -2.5% to 1.6m); and
- LTCIF: -0.43% at £0.3m (2016: +0.0% to 0.3m).

STATEMENT OF PERFORMANCE (CONTINUED)

Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2017 had a market value of £939.9m (2016: £881.2m).

As the Guernsey Insurance Fund and Guernsey Health Service Fund are currently running operating deficits, £14.9m (2016: £23m) was withdrawn from the Common Investment Fund during the year for cash flow to meet obligations. The allocation between the three contributory funds at the year-end is as follows:

Common Investment Fund allocation	**2017**		**2016**	
At Year-end	**£'000s**	**%**	**£'000s**	**%**
Guernsey Insurance Fund	752,020	80.0%	707,580	80.3%
Guernsey Health Service Fund	119,779	12.7%	112,790	12.8%
Long-term Care Insurance Fund	68,140	7.3%	60,801	6.9%
Total	**939,939**	**100.0%**	**881,171**	**100.0%**

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

Common Investment Fund (CIF) Investment Performance	**% CIF return per annum**	**% Target Return per annum ***	**% RPI Guernsey Average Annual Change**
1-Year	8.4%	5.4%	2.5%
3-Year	6.4%	7.2%	1.7%
5-Year	6.4%	7.2%	1.6%

**The Target Return is Guernsey RPIX +3.5%.*

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

STATEMENT OF PERFORMANCE (CONTINUED)

KEY STATISTICS

	Contribution Rates - Annual Earnings/Income limits	**2017 £**	**2016 £**	**2015 £**	**2014 £**	**2013 £**
Class 1	*Employed*					
	Upper earnings limit - employer	138,684	137,592	135,252	132,444	129,792
	Upper earnings limit - employee	138,684	137,592	135,252	132,444	119,340
	Lower earnings limit	6,968	6,916	6,812	6,656	6,500
Class 2	*Self-employed*					
	Maximum earnings	138,684	137,592	135,252	132,444	119,340
	Minimum earnings	6,968	6,916	6,812	6,656	6,500
Class 3	*Non-employed*					
	Maximum income	138,684	137,592	135,252	132,444	119,340
	Minimum income	17,420	17,290	17,030	16,640	16,250
	Allowance	7,875	7,336	7,223	7,059	6,895

	Contribution Rates – Contributory Funds	**2017 %**	**2016 %**	**2015 %**	**2014 %**	**2013 %**
Class 1	*Employer*					
	Guernsey Insurance Fund	5.0	4.9	4.9	4.9	4.9
	Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.6
	Long-term Care Insurance Fund	-	-	-	-	-
		6.6	**6.5**	**6.5**	**6.5**	**6.5**
	Employee					
	Guernsey Insurance Fund	3.5	3.4	3.4	3.4	3.4
	Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
	Long-term Care Insurance Fund	1.8	1.3	1.3	1.3	1.3
		6.6	**6.0**	**6.0**	**6.0**	**6.0**
	Combined					
	Guernsey Insurance Fund	8.5	8.3	8.3	8.3	8.3
	Guernsey Health Service Fund	2.9	2.9	2.9	2.9	2.9
	Long-term Care Insurance Fund	1.8	1.3	1.3	1.3	1.3
		13.2	**12.5**	**12.5**	**12.5**	**12.5**
Class 2	*Self-employed*					
	Guernsey Insurance Fund	6.5	6.5	6.5	6.5	6.5
	Guernsey Health Service Fund	2.7	2.7	2.7	2.7	2.7
	Long-term Care Insurance Fund	1.8	1.3	1.3	1.3	1.3
		11.0	**10.5**	**10.5**	**10.5**	**10.5**
Class 3	*Non-employed (under 65)*					
	Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
	Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
	Long-term Care Insurance Fund	1.9	1.4	1.4	1.4	1.4
		10.4	**9.9**	**9.9**	**9.9**	**9.9**
	Non-employed (over 65)					
	Guernsey Insurance Fund	-	-	-	-	-
	Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
	Long-term Care Insurance Fund	2.1	1.6	1.6	1.6	1.6
		3.4	**2.9**	**2.9**	**2.9**	**2.9**

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

STATEMENT OF PERFORMANCE (CONTINUED)
Key Statistics (continued)

Number of contributors (as at week 48)	2017	2016	2015	2014	2013
Employers	**2,333**	**2,386**	**2,431**	**2,435**	**2,432**
Employed	28,909	28,769	28,713	28,771	28,827
Self-employed	3,108	3,124	3,195	3,251	3,280
Non-employed	5,783	5,691	5,690	5,574	5,324
Total Contributors	**37,800**	**37,584**	**37,598**	**37,596**	**37,431**

Contributory Funds - General Revenue Grants - % of contributions	2017 %	2016 %	2015 %	2014 %	2013 %
Guernsey Insurance Fund	14.7%	15.0%	15.0%	15.0%	15.0%
Guernsey Health Service Fund*	0%	12.0%	12.0%	12.0%	12.0%
	£m	**£m**	**£m**	**£m**	**£m**
Guernsey Insurance Fund	15.7	15.3	15.0	14.9	14.4
Guernsey Health Service Fund	-	4.7	4.6	4.5	4.4
Total	**15.7**	**20.0**	**19.6**	**19.4**	**18.8**

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

GIF: Number of claimants at the year-end	2017	2016	2015	2014	2013
Pension	17,964	17,653	17,381	17,072	16,575
Incapacity Benefit	856	851	856	872	865
Sickness Benefit	400	388	418	440	320
Bereavement Benefits	200	208	188	205	227
Unemployment Benefit	153	183	213	179	217
Industrial Disablement Benefit	165	170	185	192	204
Industrial Injury Benefit	12	11	13	15	14
Maternity Allowance*	Not available	119	129	125	142
Total	**19,750**	**19,583**	**19,383**	**19,100**	**18,564**

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

GIF: No. of approved claims during the year	2017	2016	2015	2014	2013
Sickness Benefit	9,748	10,358	10,177	10,042	10,533
Pension	1,056	1,006	956	1,110	1,070
Unemployment Benefit	790	971	1,016	1,088	1,175
Industrial Medical Benefit	795	762	900	1,124	957
Travelling Allowance Grant	923	875	1,014	1,026	983
Death Grant	681	645	570	510	514
Industrial Injury Benefit	342	455	499	603	557
Bereavement Benefits	345	347	281	280	311
Incapacity Benefit	216	253	226	271	284
Industrial Disablement Benefit	5	6	7	3	9
Maternity Allowance*	Not available	531	521	521	557
Maternity Grant*	Not available	73	70	61	83
Total	**14,901**	**16,282**	**16,237**	**16,639**	**17,033**

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

STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (continued)

GHSF: Drugs & medicines	**2017**	**2016**	**2015**	**2014**	**2013**
Ordinary prescriptions	536,170	552,606	562,306	571,524	555,296
% change	-3.0%	-1.7%	-1.6%	+2.9%	-3.4%
Exempt prescriptions	974,923	974,106	969,296	957,767	927,223
% change	+0.1%	+0.5%	+1.2%	+3.3%	+1.7%
Total prescriptions	1,511,093	1,526,712	1,531,602	1,529,291	1,482,519
% change	-1.0%	-0.3%	+0.2%	+3.2%	-0.3%
Average basic cost	£8.93	£8.99	£8.63	£8.29	£8.40
% change	-0.7%	+4.2%	+5.4%	-2.5%	-2.3%
Ordinary prescriptions as a % of total	35.5%	36.2%	36.7%	37.4%	37.5%
Exempt prescriptions as a % of total	64.5%	63.8%	63.3%	62.6%	62.5%

GHSF: Consultation grants	**2017**	**2016**	**2015**	**2014**	**2013**
Doctors	236,477	241,749	243,500	254,747	250,998
% change	-2.2%	-0.7%	-4.4%	+1.5%	-4.8%
Nurses	77,401	77,360	78,833	81,531	79,527
% change	+0.1%	-1.9%	-3.3%	+2.5%	-1.4%
Total	**313,878**	**319,109**	**322,333**	**336,278**	**330,525**
% change	-1.6%	-1.0%	-4.1%	+1.7%	-4.0%

LTCIF: Number of claimants at year-end	**2017**	**2016**	**2015**	**2014**	**2013**
Residential & EMI grant-permanent	404	360	349	365	372
Nursing grant-permanent	202	227	227	220	210
TOTAL	**606**	**587**	**576**	**585**	**582**

STATEMENT OF PERFORMANCE (CONTINUED)

GIF: 5-Year Financial Performance	**2017 £m**	**2016 £m**	**2015 £m**	**2014 £m**	**2013 £m**
Income	122.3	117.3	115.1	113.9	110.9
Expenditure	(141.7)	(139.4)	(134.5)	(129.5)	(125.5)
Operating deficit	(19.5)	(22.1)	(19.4)	(15.6)	(14.6)
Investing activities	57.6	76.5	(5.9)	25.4	54.7
Net surplus/(deficit) during the year	**38.0**	**54.4**	**(25.3)**	**9.8**	**40.1**
Net assets of the Fund at 1 January	731.2	676.8	702.1	692.3	652.2
Net assets of the Fund at 31 December	**769.3**	**731.2**	**676.8**	**702.1**	**692.3**
Expenditure cover in number of years	5.4	5.2	5.0	5.4	5.5

GHSF: 5-Year Financial Performance	**2017 £m**	**2016 £m**	**2015 £m**	**2014 £m**	**2013 £m**
Income	39.5	43.6	42.7	42.2	40.9
Expenditure	(42.5)	(42.3)	(41.3)	(38.4)	(36.0)
Operating (Deficit)/Surplus	(3.0)	1.3	1.4	3.8	4.9
Investing activities	9.1	12.0	(0.9)	3.6	7.3
Net surplus during the year	**6.1**	**13.3**	**0.5**	**7.4**	**12.2**
Net assets at 1 January	116.4	103.1	102.6	95.2	83.0
Net assets at 31 December	**122.5**	**116.4**	**103.1**	**102.6**	**95.2**
Expenditure cover in number of years	2.9	2.8	2.5	2.7	2.6

LTCIF: 5-Year Financial Performance	**2017 £m**	**2016 £m**	**2015 £m**	**2014 £m**	**2013 £m**
Income	26.6	19.4	18.9	18.5	18.1
Expenditure	(19.7)	(18.7)	(18.2)	(18.2)	(17.4)
Operating Surplus	6.9	0.7	0.7	0.3	0.7
Investing activities	5.2	6.4	(0.5)	2.0	4.2
Net surplus/(deficit) during the year	**12.1**	**7.1**	**0.2**	**2.3**	**4.9**
Net assets at 1 January	62.9	55.8	55.6	53.3	48.4
Net assets at 31 December	**75.0**	**62.9**	**55.8**	**55.6**	**53.3**
Expenditure cover in number of years	3.8	3.4	3.1	3.1	3.1

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

GOING CONCERN

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

STATEMENT OF INTERNAL CONTROLS

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

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

The Committee's internal financial procedures include:

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

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

In addition, the financial statements are subject to an independent external audit by the auditor appointed by the States of Guernsey. Deloitte LLP having reached the end of its five year appointment, the States of Guernsey after undertaking a tender process appointed Grant Thornton as its new auditor.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
States of Guernsey – Committee *for* Employment & Social Security
As controller and manager of

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Opinion
We have audited the financial statements of the States of Guernsey – Contributory Funds ("the Fund") for the year ended 31 December 2017 which comprise the Aggregated Fund Account, the Aggregated Balance Sheet, the Aggregated Statement of Cash Flows, the Analysis and Reconciliation of Net Funds and the notes to the financial statements, including a summary of significant accounting policies.

- In our opinion, the financial statements of the Fund for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the financial statements

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter — Basis of Accounting and Restriction on Distribution and Use
We draw attention to note 1 to the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Fund and should not be distributed to or used by parties other than the Fund. Our opinion is not modified in respect of this matter.

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

Other information
The Committee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Fund; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
States of Guernsey – Committee *for* Employment & Social Security
As controller and manager of

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Responsibilities of the committee for the financial statements
As explained more fully in the Statement of Responsibilities of the Committee *for* Employment & Social Security set out on page 14, the Committee is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 1 to the financial statements. The Committee is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Committee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Committee either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey
Date: 1 May 2018

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

AGGREGATED FUND ACCOUNT	Note	2017 £'000s	2016 £'000s
Income			
Contributions	1(b),2	172,713	160,432
States grant	1(b)	15,668	19,981
		188,381	**180,413**
Expenditure			
Benefits payable	1(c),3,4,5,6	197,875	193,903
Administration	7	6,118	6,616
		203,993	**200,519**
Operating deficit before depreciation charge		(15,612)	(20,106)
Depreciation charge	9	(93)	(116)
Operating deficit		**(15,705)**	**(20,222)**
Investment returns	1(g),8	71,999	94,992
Net surplus/(deficit)		**56,294**	**74,770**
Net assets at 1 January		910,525	835,755
Net assets at 31 December		**966,819**	**910,525**

All activities are derived from continuing operations.

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

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

AGGREGATED BALANCE SHEET	Note	31.12.17	31.12.16
		£'000s	£'000s
Non-current assets			
Tangible assets	9	2,925	2,533
Financial Instruments	10	939,939	881,171
Debtors due after one year	12	108	36
		942,972	**883,740**
Current assets			
Debtors due within one year	11	29,074	29,105
Balances with States Treasury		213	2,217
Cash at bank and in hand		298	172
		29,585	31,494
Current liabilities			
Creditors: Amounts falling due within one year	13	3,706	2,835
Bank overdraft		2,032	1,874
		5,738	4,709
Net current assets		**23,847**	**26,785**
Total net assets		**966,819**	**910,525**
Reserves			
Guernsey Insurance Fund		769,278	731,249
Guernsey Health Service Fund		122,528	116,347
Long-term Care Insurance Fund		75,013	62,929
		966,819	**910,525**

The financial statements on pages 17 to 41 were approved by the Committee *for* Employment & Social Security on 1 May 2018.

Signed on behalf of the Committee

M K Le Clerc
President

M Nutley
Chief Secretary

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

AGGREGATED STATEMENT OF CASH FLOWS	Note	2017 £'000s	2016 £'000s
Cash flows from operating activities			
Operating deficit for the year		**(15,705)**	**(20,222)**
Adjustments for:			
Tangible asset acquisitions during the year		(485)	-
Depreciation		93	116
(Increase)/(decrease) in debtors		(41)	(2,344)
(Decrease)/increase in creditors		871	(2,749)
Net cash used in operating activities		**(15,267)**	**(25,199)**
Cash flows from investing activities			
Increase/(decrease) in cash equivalent in financial instruments		71,999	94,992
Net cash from investing activities		71,999	94,992
Net increase/(decrease) in cash and cash equivalents (including investments)		**56,732**	**69,793**
Financial instruments, treasury, cash balances and overdraft at 1 January		881,686	811,893
Financial instruments, treasury, cash balances and overdraft at 31 December		**938,418**	**881,686**

ANALYSIS AND RECONCILIATION OF NET FUNDS	At 1.1.17 £'000s	(Increase)/ decrease £'000s	At 31.12.17 £'000s
Cash at bank and in hand	172	126	298
Overdraft	(1,874)	(158)	(2,032)
Balances with States Treasury	2,217	(2,004)	213
	515	(2,036)	(1,521)
Financial instruments	881,171	58,768	939,939
	881,686	**56,732**	**938,418**

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Social Security – Contributory Funds (the Contributory Funds") comprise the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-Term Care Fund formed in accordance with Section 100(3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002.

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

a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) The Financial Reporting Standard applicable in the UK and Republic of Ireland" except for certain disclosures required to be prepared by financial institutions in respect of financial instruments mainly in relation to level 3 investments. Given the complexity and extensive requirements of these disclosures, the Committee has not provided all the relevant disclosures required by FRS 102. The Committee, in conjunction with the Policy & Resources Committee, will consider providing such disclosures in future years.

Going Concern

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

b) Contributions & States grant

Contributions represent the amount of cash received before 1 February 2018 in respect of the financial year ended 31 December 2017 and amounts received relating to prior financial periods not accounted for in those prior periods.

The grants received from the States of Guernsey are based on a fixed percentage of contributions, accounted for in the relevant period and for 2017 was 14.7% (2016: 15.0%) in respect of the Guernsey Insurance Fund. The grant to the Guernsey Health Service Fund was suspended in 2017 (2016: 12.0%) in order to assist with the General Revenue funding challenges in respect of health and social care services.

c) Benefits payable

Benefits are accounted for on an accruals basis.

d) Actuarial Review

The financial statements summarise the transactions of the Contributory Funds and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Contributory Funds is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review for the five year period 2010 to 2014 was undertaken in 2015 and the results published in the November 2016 Billet D'Etat XXVII.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

e) Tangible fixed assets (continued)

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

f) Common Investment Fund

The investments of the Contributory Funds form the Common Investment Fund. The allocation to the individual Contributory Funds is based on a percentage of amounts contributed by each fund into the Common Investment Fund, as determined by the Committee.

g) Financial instruments

Financial assets and financial liabilities are recognised when the Contributory Funds become a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investments

Investments are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Committee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principle assumptions are given in the notes to the financial statements where used. The methods of determining fair value for the principle classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before year end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Investments (continued)

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated, through consultation with its advisors, by the Committee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realization at the value, in which case adjustment is made.

- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.

- Swaps are valued at the net present value of future cash flows arising therefrom.

- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.

- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

- Partnership investments are valued on the basis of the latest available net asset value if it is within one month prior to the year-end or where there has been a significant investment in the partnership subsequent to the latest valuation, to estimate the fair value of the partnership by using the price at which the amount of any significant investments is made.

Derivatives

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

Security Lending

Securities lending is where securities are transferred from the 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 Statement of Net Assets. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period. Collateral received is not recorded unless it is reinvested. Income and realised and unrealised gains/losses on reinvested securities are recorded in the Fund account.

Capital movements – Realised and unrealised

Realised profits and losses on investments are calculated by reference to the net proceeds on disposal and the average cost attributable to those investments. Realised surpluses and deficits on the partial sale of investments are arrived at by deducting the average cost of such investments from the sales proceeds. The purchase and sales of investments are accounted for on the trade date. Unrealised profits and losses on investments are calculated by reference to the carrying value at the year end and the carrying costs of investments held. All realised and unrealised profits and losses on investments are reflected in the Aggregated Fund Account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

Other assets

Debtors are recognised at amortised cost, less any impairment losses. These comprise mainly contributions due and benefits prepaid at the balance sheet date and are short term in nature.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of the Contributory Funds. Whilst the Contributory Funds operates four bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year end is treated as Cash and Cash Equivalents on the Contributory Funds' statement of financial position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Fund transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Fund, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

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

h)* Foreign *Currency

Functional and presentational currency

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

i) Pension costs

As described in note 14, the Committee has applied the provisions of FRS 102, section 27 in respect of defined contribution arrangements.

j) Critical accounting judgements and estimates

As stated above, investments in unlisted funds (including limited partnerships) are valued at the net asset value of that investment as determined in accordance with the terms of the funds' constitutive documents and notified by the fund manager or administrator as at the valuation date.

The valuation date of each fund may not always be co-terminus with the valuation date of the Contributory Funds, and in such cases, the valuation of the fund as at the last valuation date of the fund is used i.e. the latest available price is used on the valuation date. The net asset values reported by the relevant fund manager or administrator and used by the Committee as at 31 December 2017 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2017. However, it is the belief of the Investment Manager and the Committee that the latest available net asset value used on the valuation date will not be materially different from the net asset value used to realise these investments held at 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CONTRIBUTIONS

	2017 £'000s	2016 £'000s
Employer contributions	73,621	70,845
Employee contributions	73,075	64,939
	146,696	135,784
Self-employed contributions	16,296	15,852
Non-employed contributions	9,488	8,541
Employer surcharge and penalty	4	48
Movement in contributions unallocated	229	207
	172,713	**160,432**
Contribution income allocated to:		
Guernsey Insurance Fund	106,582	102,035
Guernsey Health Service Fund	39,541	38,964
Long-term Care Insurance Fund	26,590	19,433
	172,713	**160,432**

3. BENEFITS PAYABLE

	Note	2017 £'000s	2016 £'000s
Guernsey Insurance Fund	**4**	137,246	134,649
Guernsey Health Service Fund	**5**	41,213	40,804
Long-term Care Insurance Fund	**6**	19,416	18,450
		197,875	**193,903**

4. BENEFITS PAYABLE: GUERNSEY INSURANCE FUND

	Note	2017 £'000s	2016 £'000s
Pension		117,477	115,436
Incapacity		7,990	8,095
Sickness		3,862	3,778
Bereavement		1,551	1,550
Travelling allowance grant		2,043	2,070
Unemployment		998	1,373
Parental		2,130	1,208
Industrial disablement		496	512
Industrial injury		181	185
Death grant		373	346
Industrial medical		128	101
		137,229	134,654
Benefit debt written-off		3	17
Doubtful debt provision - movement		14	(22)
	3	**137,246**	**134,649**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. BENEFITS PAYABLE: GUERNSEY HEALTH SERVICE FUND

	Note	2017 £'000s	2016 £'000s
Drugs and medicines	**5(a)**	16,247	16,320
Specialist Health Insurance Scheme	**5(b)**	20,553	20,066
Consultation grants	**5(c)**	3,302	3,365
Visiting medical consultants		760	751
Primary Care Mental Health and Wellbeing		351	302
	3	**41,213**	**40,804**

5(a). DRUGS AND MEDICINES

	Note	2017 £'000s	2016 £'000s
Drugs and medicines		17,159	17,317
Appliances		889	817
Oxygen Service		386	368
		18,434	18,502
Prescription charges receivable		(2,187)	(2,182)
	5	**16,247**	**16,320**

5(b). SPECIALIST HEALTH INSURANCE SCHEME

	Note	2017 £'000s	2016 £'000s
Specialist medical benefit		18,046	17,695
Physiotherapy benefit		2,222	2,207
Alderney hospital benefit		285	164
	5	**20,553**	**20,066**

The States of Guernsey entered into revised agreements for the last five years of the contracts with the Medical Specialist Group and the Guernsey Physiotherapy Group (now Guernsey Therapy Group) from 1 January 2014 to 31 December 2017.

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 annual Guernsey RPI for the previous September.

The contract with the Guernsey Therapy 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 annual Guernsey RPIX for the previous September less 1%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5(c). CONSULTATION GRANTS

	Note	2017 £'000s	2016 £'000s
Doctors consultation grants		2,838	2,901
Nurses consultation grants		464	464
	5	**3,302**	**3,365**

6. BENEFITS PAYABLE: LONG-TERM CARE INSURANCE FUND

	Note	2017 £'000s	2016 £'000s
Residential home care benefit			
Permanent		6,119	5,543
Permanent with EMI supplement		3,570	2,907
Respite care		103	144
Respite care with EMI supplement		47	21
		9,839	**8,615**
Nursing home care benefit			
Permanent		9,471	9,708
Respite care		106	127
		9,577	**9,835**
	3	**19,416**	**18,450**

7. ADMINISTRATION

	2017 £'000s	2016 £'000s
Salaries and pension costs	5,127	5,244
Other staff costs	14	37
IT and communication	638	717
Consultancy and contracted out work	439	447
Administration	312	361
Premises	204	177
Health and Social Services Committee charges	185	360
Policy & Resources Committee charges	734	802
Supplies and Services	191	216
Audit fee	53	58
	7,897	**8,419**
Amounts received from General Revenue	(1,779)	(1,803)
	6,118	**6,616**
Administration expenses allocated to:		
Guernsey Insurance Fund	4,486	4,744
Guernsey Health Service Fund	1,321	1,547
Long-term Care Insurance Fund	311	325
	6,118	**6,616**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. ADMINISTRATION (CONTINUED)

In 2017, the IT function was centralised with the Policy and Resource committee and as a result the 2016 comparative figures have been adjusted accordingly.

8. INVESTMENT RETURNS

	Note	2017 £'000s	2016 £'000s
Income			
Interest from fixed interest securities		8,925	14,618
Dividends from equities		106	784
Distributions from property funds		124	317
Interest on short term deposits and bank interest		127	128
Securities lending (less expenses)		36	145
Venture capital and partnerships		1,265	70
Less: Withholding tax suffered		(24)	(46)
		10,559	**16,016**
Expenditure			
Investment managers' fees		1,229	1,475
Investment advisor's fees		360	367
Custody fees		31	30
Performance monitoring fees		24	19
Policy & Resources Committee charges		14	-
		1,658	**1,891**
Net investment income		**8,901**	**14,125**
Realised loss on disposal		(13,382)	(15,414)
Movement on unrealised profit		76,480	96,281
Total surplus/(deficit) for the year		**71,999**	**94,992**
Investing activities allocated to:			
Guernsey Insurance Fund		57,604	76,581
Guernsey Health Service Fund		9,175	11,971
Long-term Care Insurance Fund		5,220	6,440
		71,999	**94,992**

Investment managers' fees relate to fees paid by the contributory fund and exclude management fees and other expenses charged directly on pooled funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. TANGIBLE ASSETS

	1.1.2017 £'000s	Additions £'000s	31.12.2017 £'000s
Cost			
Freehold land and buildings	3,774	124	3,898
Plant and equipment	1,004	30	1,034
Information technology	9,348	331	9,679
	14,126	485	14,611
	1.1.2017 £'000s	**Depreciation £'000s**	**31.12.2017 £'000s**
Accumulated Depreciation			
Freehold land and buildings	1,358	47	1,405
Plant and equipment	910	23	933
Information technology	9,325	23	9,348
	11,593	93	11,686
Net book value	**2,533**		**2,925**

Freehold land and buildings comprises Edward T Wheadon House, which was valued at 31 December 2008 by a firm of estate agents and valuers, at an open market value of £11.02m.

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2016: £Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS

Common Investment Fund (CIF) at Fair Value	**31.12.2017 £'000s**	**31.12.2016 £'000s**
Equities and derivatives	378,904	444,449
Alternative investments and hedge funds	311,267	86,340
Cash and cash equivalents	132,013	75,006
Fixed income and derivatives	88,334	249,575
Venture Capital & Partnerships	24,705	20,293
Property funds	4,716	3,648
Commodities	-	1,860
	939,939	**881,171**
Investments allocated to:		
Guernsey Insurance Fund	752,020	707,580
Guernsey Health Service Fund	119,779	112,790
Long-term Care Insurance Fund	68,140	60,801
	939,939	**881,171**

CIF movements during the year	**2017 £'000s**	**2016 £'000s**
Market value 1 January	881,171	807,301
Investment income reinvested	10,570	16,034
Realised profit on disposal reinvested	76,480	(15,435)
Movement on unrealised profit/(loss) on investments	(13,382)	96,271
	954,839	904,171
Withdrawal of monies invested	(14,900)	(23,000)
Market value 31 December	**939,939**	**881,171**

During 2017, the Common Investment Fund was managed by nine investment managers, namely: BlackRock Investment Management (UK) Limited; Legg Mason Global Asset Management; Morgan Stanley Investment Management Limited, GMO UK Limited, CQS Global Funds, AQR Funds, M&G Investments, MAN funds and Apollo.

The governance of the Fund is supported by the custodian, Northern Trust Global Services Limited and a professional investment adviser, Redington Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

Fair Value Measurement

FRS102 requires disclosure surrounding the level in fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities in the Balance Sheet. The determination of the fair value for financial assets and liabilities for which there is no observable price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective. The investments of common investment fund are categorized using the following hierarchy as defined by FRS 102:

- Level 1 - Quoted market prices in an active market for an identical instrument;
- Level 2 - Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that bare considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; or
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all investments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses within the fair value hierarchy the Common Investment Fund measured at fair value at the year-end date:

Fair Value at 31.12.2017	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000**
Equities and derivatives	250,382	(314)	128,836	378,904
Alternative investments and hedge	145,201	-	166,066	311,267
Cash and cash equivalents	130,567	1,446	-	132,013
Fixed income and derivatives	85,563	2,770	-	88,333
Venture capital and partnerships	-	-	24,706	24,706
Property funds	-	-	4,716	4,716
Common Investment Fund	**611,712**	**3,902**	**324,324**	**939,939**

Fair Value at 31.12.2016	**Level 1 £'000s**	**Level 2 £'000s**	**Level 3 £'000s**	**Total £'000**
Equities and derivatives	433,398	750	-	434,148
Alternative investments and hedge	3,294	-	93,346	96,640
Cash and cash equivalents	51,662	23,345	-	75,007
Fixed income and derivatives	233,069	16,506	-	249,575
Venture capital and partnerships	-	-	20,293	20,293
Property funds	-	-	3,648	3,648
Commodities	1,860	-	-	1,860
Common Investment Fund	**723,283**	**40,601**	**117,287**	**881,171**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

The fair valuation of any level 3 investments require the exercise of professional skill and judgement and naturally the fair values derived will have an element of estimation uncertainty as well as a likely range of potential valuation outcomes.

The level 3 investments consist of pooled investment funds, private equity and venture capital funds, real estate funds and infrastructure funds which typically involve the purchase and redemption of shares from the fund itself rather than a secondary market. The majority of level 3 investments have therefore been measured at fair value using the reported net asset value ("NAV") as this is the approximate value at which shares are redeemable and therefore a basis for current transactions. No adjustment has been made for restrictions on redemption, which are all for periods of greater than 3 months, or for factors such as the marketability of the investment due to it not being listed.

Transfers between levels

There have been no transfers between the levels during the year (2016: None).

Assets at 31.12.2017	**Fair Value through profit or loss**	**Amortised Cost**	**Total**
	£'000s	**£'000s**	**£'000s**
Financial instruments (Common Investment Fund)	939,939	-	939,939
Tangible fixed assets	-	2,925	2,925
Treasury deposit and other cash	-	(1,521)	(1,521)
Trade and other receivables	-	29,182	29,182
Trade and other payables	-	(3,706)	(3,706)
	939,939	**26,880**	**966,819**

Assets at 31.12.2016	**Fair Value through profit or loss**	**Amortised Cost**	**Total**
	£'000s	**£'000s**	**£'000s**
Financial instruments (Common Investment Fund)	881,171	-	881,171
Tangible fixed assets	-	2,533	2,533
Treasury deposit and other cash	-	515	515
Trade and other receivables	-	29,141	29,141
Trade and other payables	-	(2,835)	(2,835)
	881,171	**29,354**	**910,525**

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The Committee do not believe that there is any material difference between the fair value and the amortised cost equivalent other than tangible fixed assets other than Freehold Land and Buildings included in tangible fixed assets which were valued at £11.02m at 31 December 2008. (see note 9).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. DEBTORS DUE WITHIN ONE YEAR

	31.12.17 £'000s	**31.12.16 £'000s**
Contributions receivable	25,067	22,997
States of Guernsey Intercompany debtors	1,349	3,203
Benefits and allowances prepaid	2,347	2,623
Administration expenses prepaid	211	229
Trade debtors	100	53
	29,074	**29,105**

12. DEBTORS DUE AFTER ONE YEAR

	31.12.17 £'000s	**31.12.16 £'000s**
Benefit debt	201	113
Provision for doubtful debts	(93)	(77)
	108	**36**

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.17 £'000s	**31.12.16 £'000s**
Benefits and allowance payable	1,760	1,539
Other creditors and accruals	1,919	1,276
Trade creditors	27	20
	3,706	**2,835**

14. SUPERANNUATION FUND

The employees of Committee *for* Employment and Social Security are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £87,434) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. SUPERANNUATION FUND (CONTINUED)

Although the scheme is a multi-employer plan, it is not possible to identify the Committee's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Committee are considered to be ultimately employees of the States of Guernsey. Consequently, the Committee has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Fund Account. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2017.

15. RELATED PARTY TRANSACTIONS

The Committee members confirm that there have been no related party transactions to disclose with members and senior management in this financial year (2016: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2017 and 2016 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States Treasury at the year-end amounted to £213k (2016: £2.2m).

Key management personnel compensation disclosure

For the year, total staffing costs associated with the Committee's key management was £1.05m (2016: £1.16m), comprising 12.90 full-time equivalent staff (2016: 13.5 F.T.E.). The increase in the number of key management is due to the new Committee's wider mandate following structural changes from 1 May 2016. Approximately £0.51m of total costs are allocated to the Contributory Funds (2016: £0.62m), the balance being charged to General Revenue.

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS

The Committee's activities expose it to a number of financial and associated risks, especially with regard to the investing activities of the Common Investment Fund and the possibility that an event or situation arises that reduces the likelihood of achieving its financial objectives.

In respect of the Common Investment Fund, there are many different types of specific risk including: governance risk, financial exposure market risk; performance risk; demographic exposure risk; and operational risk.

Governance Risk

The risk associated with poor governance essentially occurs where there is a failure to act as issues emerge.

Governance is the framework within which other risks are considered. The result of this consideration should, where appropriate, lead to action. Key controls and risk mitigation include:

- Objectives are well understood;
- Fund manager and other provider mandates are well defined; and
- Fund managers and providers are asked to articulate how their strategies might perform in different market and economic conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Governance Risk (Continued)

Once this is done, the risks in the other areas can be defined and evaluated. The focus is then on designing metrics and benchmarks that are consistent with the conditions identified above.

Financial Exposure Risk

Financial exposure risk is the potential for losses (compared to objectives) from falling asset values resulting from market movements.

The Committee considers financial exposure risk in three categories and makes use of three modelling approaches to help understand each of these.

Risk	Cause	Indicative magnitude of loss	Time to recover
Regular Market Volatility	Trading activity and market sentiment	10%-15%	Months to one year
Market Stress	Market issues e.g. credit/currency or demand/supply issues	20%	1 to 2 years
Permanent Loss	Overvaluation or economic regime change	50%-85%	Can be decades

Regular Market Volatility can be measured using a value-at-risk type model which can estimate the expected volatility of an investment strategy in normal market conditions. Market Stress is measured by calculating the effect of one off market shocks e.g. a sharp fall in equity values or significant rise in inflation. To measure the risk of permanent loss, a range of economic scenarios is identified and projections made as to how the strategy would perform in each of these situations.

In each case the Committee will develop with each investment manager, explicit constraints within which risk is managed. The risk of Permanent Loss is the initial focus of any analysis as these are the biggest and longest-lived risks faced by the Committee.

In order to fully test an investment strategy all three of the models will be used to assess how robust the strategy is against the three different types of risk. When considering a strategy the Committee will use models to test robustness and as a useful comparison between strategies, but will also apply a qualitative assessment of the strategy to ensure the results are sensible, defendable and meet the non-financial needs of the Committee.

Market risk

The fair value of future cash flows of a financial instrument held by the Common Investment Fund may fluctuate because of changes in market prices.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Market price risk sensitivity

The following table illustrates the sensitivity of the Common Investment Fund to a decrease in the fair values of the all asset classes. A 5% increase in the fair values would have resulted in an equal but opposite effect.

	31.12.2017 £'000s	31.12.2016 £'000s
Fair value at year-end	939,939	881,171
Decrease of 5% in fair value	(46,997)	(44,059)

The market risk comprises of five other elements – currency risk, interest rate risk, credit risk, counterparty risk and liquidity risk. Information to enable an evaluation of the nature of these four elements is given in (i) to (iv) below, together with sensitivity analyses where appropriate.

The Committee reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. Each investment manager assesses their exposure to market risk when making each investment decision and monitors the overall level of market risk on the investment portfolio under its management on an ongoing basis.

Open Option Contracts

There were 3 (2016: 3) open option contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Purchase Price	31.12.17 Fair Value £'000s	31.12.16 Fair value £'000s
MSCI World C @ 1960.000	27/07/2020	16,220	23,068	11,322
MSCI World P @ 2260.000	27/07/2020	(5,304)	(8,672)	(51)
MSCI World P @ 1275.000	27/07/2020	(3,044)	(1,940)	(288)
		7,872	**12,456**	**10,983**

(i) Currency risk

Certain of the Common Investment Fund's assets and liabilities and income are denominated in currencies other than sterling, which is the base currency of the Fund and the Committee's financial statements. As a result, movements in exchange rates will affect the Sterling value of those items.

Management of currency risk

The investment managers are responsible for managing currency risk and monitoring exposure to foreign currencies. Investment managers are permitted to use forward foreign currency exchange contracts to limit the exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Income denominated in foreign currencies is converted into Sterling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Open forward foreign currency contracts

There were 5 (2016: 6) open forward currency contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.17 Fair value £'000s
Forward FX Purchase	1 month	GBP	114,930	114,930
Forward FX Sale	1 month	AUD	(791)	(799)
Forward FX Sale	1 month	CAD	(1,101)	(1,119)
Forward FX Sale	1 month	EUR	(5,787)	(5,801)
Forward FX Sale	1 month	USD	(107,251)	(105,843)
			-	**1,368**

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.16 Fair value £'000s
Forward FX Purchase	1 month	EUR	425	429
Forward FX Purchase	1 month	GBP	147,162	147,162
Forward FX Sale	1 month	EUR	(5,597)	(5,693)
Forward FX Sale	1 month	CAN	(1,136)	(1,141)
Forward FX Sale	1 month	GBP	(425)	(425)
Forward FX Sale	1 month	USD	(140,429)	(144,157)
			-	**(3,825)**

Foreign currency exposure

At the year-end, the net currency exposure of the Contributory Funds, including the Common Investment Fund (CIF), was as follows:

31.12.17	Monetary Assets £'000s	Monetary Liabilities £'000s	Non-Monetary Assets £'000s	Non-Monetary Liabilities £'000s	Forward FX Contracts £'000s	Total £'000s
GBP	128,836	(2)	703,900	(12,770)	114,930	934,894
AUD	-	-	824	-	(800)	24
CAD	8	-	889	-	(1,119)	(222)
EUR	112	(107)	5,807	-	(5,801)	11
USD	1,799	-	119,887	(10,611)	(105,843)	5,232
Total (CIF)	130,755	(109)	831,307	(23,381)	1,367	939,939
GBP	511	(2,032)	32,107	(3,706)	-	26,880
Grand Total	**131,266**	**(2,141)**	**863,414**	**(27,087)**	**1,367**	**966,819**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Foreign currency exposure (continued)

31.12.16	Monetary Assets £'000s	Monetary Liabilities £'000s	Non-Monetary Assets £'000s	Non-Monetary Liabilities £'000s	Forward FX Contracts £'000s	Total £'000s
GBP	78,310	(291)	665,960	(10,670)	146,737	880,046
EUR	415	-	4,685	-	(5,263)	(163)
USD	390	-	145,030	-	(144,157)	1,263
CAD	8	-	1,158	-	(1,141)	25
Total (CIF)	79,123	(291)	816,833	(10,670)	(3,824)	881,171
GBP	2,389	(1,874)	31,674	(2,835)	-	29,354
Grand Total	**81,512**	**(2,165)**	**848,507**	**(13,505)**	**(3,824)**	**910,525**

At 31 December 2017, had the GBP strengthened by 5% in relation to other currency exposure of the Common Investment Fund (CIF), with all other variables held constant, the valuation of the CIF would have changed by the amounts shown below. The analysis is performed on the same basis for 2016. A 5% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect.

Foreign Currency Exposure – Sensitivity Analysis	31.12.2017 £'000s	31.12.2016 £'000s
AUD	(1)	-
CAD	11	-
EUR	(1)	8
USD	(261)	(63)
Total	**(252)**	**(55)**

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Management of interest rate risk

The interest rate profile of the Contributory Funds at year-end is as follows:

Interest rate profile 31.12.17	Fixed £'000	Floating £'000	Total £'000
Cash and cash equivalents	-	19,107	19,107
Total	**-**	**19,107**	**19,107**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Management of interest rate risk (continued)

Interest rate profile 31.12.16	**Fixed**	**Floating**	**Total**
	£'000	**£'000**	**£'000**
Fixed income	68,297	-	68,297
Cash and cash equivalents	-	75,521	75,521
Total	**68,297**	**75,521**	**143,818**

The majority of investments with fixed and floating rates are held in pooled investment funds and, as such, the interest rate risk is managed by the underlying investment managers. These exposures are therefore not included in the above tables.

The Common Investment Fund has no direct holdings in fixed interest securities (2016: 2 at 8.75%) and floating rate assets comprise cash held within the Common Investment Fund. For the purposes of the above exposure summary, the interest rate for cash and cash equivalent has been estimated at 0.5% in line with the current base rate of the Bank of England (2016: 0.5%). No sensitivity analysis has been provided on the basis that any movement would not be material to the Common Investment Fund.

(iii) Credit risk

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Contributory Funds.

It is the responsibility of the investment managers to monitor dealing activity to ensure best execution, which involves measuring various indicators including the quality of the trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Investment managers' credit committees.

The Committee's Custodian is Northern Trust Limited which has a credit rating of AA- from Standard & Poor's, Aa2 from Moody's, AA from Fitch Ratings and AA from DBRS. The Committee's investments are held in accounts which are segregated from the Custodian's own trading assets. If the Custodian were to become insolvent, the Committee's right of ownership is clear and they are therefore protected. However, the Committee cash balances, which are held with the Custodian, may be at risk in this instance as the Committee would rank alongside other creditors of the Custodian.

(iv) Counterparty risk

Counterparty risk is the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

(v) Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the cash flow requirements of the Committee need to be monitored to control the timing of investment and divestment to and from the Common Investment Fund. As the Committee has entered a long-term period of annual operating deficits, cash flow management including increased short-term fixed income features increasingly in the management and governance of the Common Investment Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

The liquidity analysis of the Contributory Funds at year-end is as follows:

Liquidity Analysis	Within 1 month £'000s	1 to 3 months £'000s	3 to 12 months £'000s	Over 12 months £'000s	31.12.17 Total £'000s
Financial instruments	20,474	560,153	277,688	81,624	939,939
Tangible assets	-	-	-	2,925	2,925
Treasury Deposit and other cash	(1,521)	-	-	-	(1,521)
Trade and other receivables	29,074	-	-	108	29,182
Trade and other payables	(3,706)	-	-	-	(3,706)
Total	**44,321**	**560,153**	**277,688**	**84,657**	**966,819**
% of Total	**4.6%**	**57.9%**	**28.7%**	**8.8%**	**100.0%**

Liquidity Analysis	Within 1 month £'000s	1 to 3 months £'000s	3 to 12 months £'000s	Over 12 months £'000s	31.12.16 Total £'000s
Financial instruments	75,006	644,064	141,058	21,043	881,171
Tangible assets	-	-	-	2,533	2,533
Treasury Deposit and other cash	515	-	-	-	515
Trade and other receivables	29,105	-	-	36	29,141
Trade and other payables	(2,835)	-	-	-	(2,835)
Total	**101,791**	**644,064**	**141,058**	**23,612**	**910,525**
% of Total	**11.2%**	**70.7%**	**15.5%**	**2.6%**	**100.0%**

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The investments categorised under the level 1 Fair Value hierarchy are valued at £612m at the year-end (2016: £723m). Investments with quoted prices and traded on an active market could usually be liquidated within one month. However, due to the size of certain of the level 1 holdings, it is assumed it that may take longer to liquidate some of these holdings and as such they have been analysed as 1-3 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT

The Committee's objectives when managing capital include safeguarding its ability to continue as a going concern and to ensure that each of the Contributory Funds has adequate financial resources to meet its obligations both in the short and long-term.

The Contributory Funds have no externally imposed capital requirements.

As part of its capital management, the Committee is responsible in law for setting investment policy, strategy and implementation. In discharging this responsibility, the Committee contracts advice from expert external advisers. The committee has delegated the responsibility for the direct governance of its investment funds to an Investment Sub-Committee.

In addition to the Committees financial risk management as detailed in note 18, the management of other associated and qualitative risks as follows:

Demographic Risk

The risk of an increased cash flow requirement from the Fund resulting from demographic changes such as an increase in life expectancy, or reduction in working population.

Financial exposure risks are important, but the impact of demographics on the commitments of the funds may be just as relevant.

The demographics risks may affect the drawdown from the Fund in a number of ways:

- Mortality: Where benefits are related to death, the value of the benefit will be driven by this. This is particularly an issue in relation to the provision of pensions, where payments are made until the death of the beneficiary. Improvements in life expectancy would naturally result in paying out more than expected, which represents a risk to the Fund;

- Ill-Health: Some benefits relate to the incidence of ill-health, for example where this is in respect of invalidity or long-term care costs. Changes in this can result in paying benefits for longer, or greater overall levels of benefits; and

- Structure of population: The ability to finance the various funds is affected by the level of contributions, which in turn is related to the structure of the population. Therefore, a long run risk to the Fund is the relationship between those "paying" for the benefits and those receiving them.

These risks are important in absolute terms, but can intensify when combined with financial risks. For example, the "intensity" of an increase in longevity is magnified if the investment return on the Fund is expected to be lower. This has a very real effect on the risks of the Fund, if it affects the recommended contributions. Hence, these risks are not only about their effect on the long term cost, but also on the effect of the incidence of contributions in the short and medium term. The Actuarial Reviews that are undertaken at least every five years provide relevant information for this type of risk.

Performance Risk

As well as financial exposure risk, poor performance of Fund Managers and providers, including the Investment Adviser, can also have a significant effect. The key contributing risks are identified as below:

- It should be well understood what the objectives of Fund Managers and providers are and the time horizon over which these operate;

- There should be evidence that added-value is skilful (rather than lucky or the result of a persistent systemic position). The basis for skill – i.e. what it is and why it is expected to persist – should be clear and understood. If this evidence does not exist, it is difficult to have confidence in the ability of performance to be delivered;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT (CONTINUED)

Performance Risk (continued)

- All mandates involve constraints within which the Fund manager or provider must operate. It is important that operations are within the mandate and that there have been no breaches (or any breaches have been rectified quickly); and
- it is important to understand in advance how the Fund Manager or provider is expected to perform in a range of different conditions, in order that returns generated over various time horizons may be interpreted effectively.

The Committee takes advice from its Investment Adviser prior to appointing Fund Managers. All Fund Managers sign an Investment Management Agreement with the Committee setting out the legal mandate in terms of objectives, constraints and the roles and responsibilities of all related parties. The Committee monitors Fund Managers' performance to ensure they are delivering their objectives in line with their mandates.

Review of historical performance

Having set the performance tolerances above, these can be measured on a regular basis by comparing actual performance with the target, benchmark and where appropriate a Governance comparable figure (i.e. the Fund Manager's performance might be exaggerated or impaired because of factors that affect all similar managers in the same way).

Operational Risk

The risk is associated with losses resulting from weak controls, process or security. Operational risks can be either internal or external. Internal risks mainly refer to cash flow management. The Committee must ensure it plans for future cash flows and that all payments will be made in a timely manner (See: Liquidity Risk above).

Where funds are required to be moved quickly, the Committee needs to be being able to act quickly on an investment or disinvestment. External risks primarily relate to the process and control errors caused by external parties, such as Fund Managers, custodian or advisers. These risks are mitigated by thorough research and due diligence.

18. STATEMENT OF CONTROL

The Contributory Funds are controlled by the Committee *for* Employment & Social Security as a Principal Committee. The Committee can exercise powers and perform duties conferred on it by legislation and extant States' resolutions, including but not limited to, conferred functions on the former Social Security Department. The members of the Committee have been appointed by the States of Guernsey.

19. SUBSEQUENT EVENTS

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the Year ended 31 December 2017

CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

	Note	GIF 2017 £'000s	GHSF 2017 £'000s	LTCIF 2017 £'000s	TOTAL 2017 £'000s	TOTAL 2016 £'000s
Income						
Contributions	**1(b),2**	106,582	39,541	26,590	172,713	160,432
States grant	**1(b)**	15,668	-	-	15,668	19,981
		122,250	**39,541**	**26,590**	**188,381**	**180,413**
Expenditure						
Benefits payable	**1(c),3,4,5,6**	137,246	41,213	19,416	197,875	193,903
Administration	**7**	4,486	1,321	311	6,118	6,616
		141,732	**42,534**	**19,727**	**203,993**	**200,519**
Operating (deficit)/surplus before depreciation charge		**(19,482)**	**(2,993)**	**6,863**	**(15,612)**	**(20,106)**
Depreciation charge	**9**	(93)	-	-	(93)	(116)
Operating (deficit)/surplus		**(19,575)**	**(2,993)**	**6,863**	**(15,705)**	**(20,222)**
Investment returns	**1(g),8**	57,604	9,175	5,220	71,999	94,992
Net surplus		**38,029**	**6,182**	**12,083**	**56,294**	**74,770**
Net assets at 1 January		731,249	116,346	62,930	910,525	835,755
Net assets at 31 December		**769,278**	**122,528**	**75,013**	**966,819**	**910,525**

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

Elizabeth College – Upper School

Report of the Board of Directors
For the year ended 31 August 2017

The Board of Directors submits its report and the audited financial statements of Elizabeth College – Upper School (the "College") for the year ended 31 August 2017.

Elizabeth College, founded in 1563 by Queen Elizabeth I, is a day school located in St Peter Port in Guernsey. The College includes the Upper School which is reported in these financial statements. The Pre-School and Pre-Preparatory School (Acorn House), and Preparatory School (Beechwood), are reported in separate financial statements as Elizabeth College – Junior School, Beechwood & Acorn House.

Directors' responsibilities statement

The Board of Directors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable laws. In preparing those financial statements the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in operation.

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable it to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities

The principal activity of the College is the provision of education.

Results

The results of the College for the year are set out in detail on the Statement of Income and Retained Funds.

Board of Directors

The Board of Directors of Elizabeth College who served during the year and since the year end were:

The Very Reverend Timothy Barker (Chairman)	
Deputy Lyndon Trott	Appointed 6 January 2017
Mr Kevin Roberts	Resigned 20 February 2017
Mr David Preston	Resigned 6 January 2018
Advocate Davey Le Marquand	Resigned 6 January 2018
Mr John Perkins	Resigned 6 January 2017
Mr Mike Buchanan	
Ms Anne-Marie Collivet	
Mr Mark Thompson	
Mr Stephen Falla	
Mrs Kate Ovenden	Appointed 13 June 2017
Mr Stephen Sharman	Appointed 6 January 2018
Mr Andreas Tautscher	Appointed 6 January 2018

Independent auditor

BDO Limited have expressed their willingness to continue in office.

Disclosure of information to auditor

Each of the persons who are directors at the time when this report of the Board of Directors is approved has confirmed that:

- so far as each director is aware, there is no relevant audit information of which the College's auditor is unaware; and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any audit information and to establish that the College's auditor is aware of that information.

Approved by the Board of Directors and signed on its behalf by:

....	....
The Very Reverend Timothy Barker	**Mr Mark Thompson**
Chairman	Director

Date: ....

Independent Auditor's Report to the Board of Directors of Elizabeth College – Upper School

Opinion

We have audited the financial statements of Elizabeth College – Upper School ("the College") for the year ended 31 August 2017 which comprise of the Statement of Income and Retained Funds, the Statement of Financial Position, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2017 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the College in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors

As explained more fully in the Directors' responsibilities statement in the Report of the Board of Directors, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Board of Directors of Elizabeth College – Upper School (continued)

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the College's Board of Directors, as a body. Our audit work has been undertaken so that we might state to the College's Board of Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date:

Elizabeth College – Upper School

Statement of Income and Retained Funds
For the year ended 31 August 2017

	Note	2017	2017	2016	2016
		£	£	£	£
Income					
States' block grant			413,565		591,887
Fees receivable			5,466,942		5,156,142
Other income			358,788		352,004
			6,239,295		6,100,033
Expenses					
School and departmental expenses		4,583,953		4,595,065	
Administrative expenses		1,345,795		1,340,333	
Maintenance of buildings and grounds		343,551		372,754	
			(6,273,299)		(6,308,152)
Operating deficit before interest			(34,004)		(208,119)
Interest receivable			90,575		16,931
Operating surplus/(deficit) for the year			56,571		(191,188)
Restricted income					
Grants from Elizabeth College Foundation	13		60,693		188,031
Surplus/(deficit) for the year			117,264		(3,157)
Retained funds at 1 September			6,372,063		6,375,220
Retained funds at 31 August			6,489,327		6,372,063

All income for the year derives wholly from continuing activities.

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

Elizabeth College – Upper School

Statement of Financial Position
As at 31 August 2017

	Note	2017 £	2017 £	2016 £	2016 £
Fixed assets					
Tangible assets	5		4,763,924		4,694,713
Current assets					
Stock		910		3,638	
Debtors	6	143,664		185,181	
Cash and cash equivalents	7	2,866,996		2,648,824	
		3,011,570		2,837,643	
Creditors - amounts falling due within one year	8	(1,286,167)		(1,160,293)	
Net current assets			1,725,403		1,677,350
Net assets			6,489,327		6,372,063
Represented by:					
Retained funds	10		6,489,327		6,372,063

Approved by the Board of Directors and authorised for issue by:

....
Chairman

....
Date approved by the Board

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

Elizabeth College – Upper School

Statement of Cash Flows
For the year ended 31 August 2017

	Note	2017 £	2017 £	2016 £	2016 £
Cash flows from operating activities					
Surplus/(deficit) for the financial year		117,264		(3,157)	
Adjustments for:					
Depreciation	5	257,221		233,492	
Increase in stock		2,728		4,023	
Decrease in operating debtors		41,517		83,808	
Increase/(decrease) in operating creditors		105,544		(74,259)	
Increase in current account – EC Junior School		20,330		220,548	
Interest receivable		(90,575)		(16,931)	
Net cash inflows from operating activities			454,029		447,524
Investing activities					
Tangible fixed assets acquired	5	(326,432)		(184,309)	
Interest received		90,575		16,931	
Net cash outflows from investing activities			(235,857)		(167,378)
Net increase in cash and cash equivalents			218,172		280,146
Cash and cash equivalents at the beginning of the year	7		2,648,824		2,368,678
Cash and cash equivalents at the end of the year	7		2,866,996		2,648,824

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

Notes to the Financial Statements
For the year ended 31 August 2017

1. General information

Elizabeth College is a day school located in St Peter Port, Guernsey that was founded in 1563 and is governed by statutes dated 28 December 1852. These financial statements only include the results of the Upper School. Separate financial statements are presented for Elizabeth College - Junior School, Beechwood and Acorn House as set out in the Report of the Board of Directors.

2. Significant accounting policies

(a) Basis of preparation of the financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102 ("FRS 102"), the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies (see note 3).

The following principal accounting policies have been applied:

(b) Income recognition

The States' Block Grant comprises a general grant from The States of Guernsey and is recognised on receipt of funds, or when entitlement of receipt by the College is certain. The general grant is being reduced over a 7-year period with effect from 1 September 2012, in accordance with a States Resolution dated 28 September 2011.

School fee income is recognised as receivable on the first day of each term for which pupils are enrolled. Fees received in respect of future years are carried forward as fees received in advance within creditors and are recognised in income in the school term when the pupil attends or is otherwise refunded. Discounts given on fees are recognised in the same period as the associated fees and recorded within administrative expenses.

Other income, including the hire of facilities and catering income, is recognised in the period that the goods or services are provided.

Investment income is recognised when the College can measure the amount reliably; this is normally upon notification of the investment income receivable by the States.

(c) Expenses

All expenses are accounted for on an accruals basis in the period to which the cost relates and are classified under headings that aggregate all costs related to each relevant category. Costs recharged to the Junior School are offset against the Upper School's expenses in the period in which the costs are incurred.

The costs of maintenance are charged in the period in which they are incurred.

(d) Pension costs

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Funds to spread the cost of the pensions over the employees' working lives.

(e) Elizabeth College Foundation

Capital grants received from the Foundation are recognised in the Statement of Income and Retained Funds when received or when entitlement of receipt by the College is certain.

2. Significant accounting policies (continued)

(f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Only assets with a cost of £1,000 or more are capitalised as tangible fixed assets and this level is periodically reviewed by the Board, along with the need for a formal impairment review.

College buildings comprise the modern buildings on the main College site off the Grange, the modern changing room and groundsmen's buildings at the College Field and the pavilion at the Memorial Field.

The historic College buildings, being those situated at the College's original site in the Grange and in College Street, and the College Field playing fields and pavilion at King's Road, were gifted to the College at no cost. College buildings which have been held for 50 years or more have not been capitalised as they are considered to have been fully depreciated.

Depreciation is provided to write off the cost of the assets, less their estimated residual values over the period of their expected useful lives, on a straight line basis at the following annual rates:

College buildings	- 2%
Furniture and equipment	- 10%
Computer equipment	- 33.33%
Plant and machinery	- 10%
Motor vehicles	- 20%

(g) Financial instruments

The College only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities. All financial instruments entered into by the College are measured at amortised cost.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Funds.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(h) Prepayments

A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. A prepaid expense is measured at the transaction price and carried on the Statement of Financial Position as a current asset at cost until it is consumed.

(i) Cash and cash equivalents

Cash is represented by current accounts, cash in hand and deposits with financial institutions. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

(j) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

(k) Prize funds and bequests

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College, nor does the College have control over the associated bank accounts.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Directors have made the following judgements:

Tangible fixed assets (see note 5)
Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are reviewed annually and may vary depending on a number of factors. In reviewing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as original assumptions, future market conditions, the remaining life of the asset and projected disposal values.

4. Taxation

The College is registered under the Charities and Non Profit Organisations (Registration) (Guernsey) Law, 2008 and has been granted exempt status under Section 40(k) of the Income Tax (Guernsey) Law, 1975. The College's income is therefore not subject to tax.

5. Tangible assets

	College buildings	Furniture & equipment	Computer equipment	Plant & machinery	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 September 2016	5,455,057	476,047	199,589	217,332	26,322	6,374,347
Additions	-	211,000	91,668	23,764	-	326,432
Disposals	-	-	(12,204)	-	-	(12,204)
At 31 August 2017	5,455,057	687,047	279,053	241,096	26,322	6,688,575
Depreciation						
At 1 September 2016	1,249,251	184,807	150,147	83,539	11,890	1,679,634
Charge for the year	111,949	53,925	59,247	22,368	9,732	257,221
Disposals-	-	-	(12,204)	-	-	(12,204)
At 31 August 2017	1,361,200	238,732	197,190	105,907	21,622	1,924,651
Net book value						
At 31 August 2017	4,093,857	448,315	81,863	135,189	4,700	4,763,924
At 31 August 2016	4,205,806	291,240	49,442	133,793	14,432	4,694,713

As an indication of the relative value of the College's freehold property assets, and the values at which they are included within the financial statements, the following table sets out (a) the cost values at which the properties are included within the accounts and (b) their estimated insurance values as at 1 March 2017. All figures exclude land.

5. Tangible assets (continued)

	Cost At 31.8.16	Cost Additions	Cost At 31.8.17	Insurance Valuation
	£	£	£	£
Main College site				
- Historic buildings	-	-	-	19,910,438
- Modern buildings	4,120,619	-	4,120,619	24,651,018
- Sixth Form Centre	388,470	-	388,470	474,058
College playing fields				
- CF - Old pavilion	-	-	-	862,067
- CF - Modern buildings	149,670	-	149,670	1,724,134
- MF Pavilion	796,298	-	796,298	2,411,367
	5,455,057	-	5,455,057	50,033,082

6. Debtors

	2017	2016
	£	£
Fee debtors	21,604	35,619
Sundry debtors	40,929	36,186
Prepayments and accrued income	81,131	113,376
	143,664	185,181

Included in prepayments and accrued income is £2,755 (2016: £2,501) due from the Ernest Gardner Bursary Fund.

7. Cash and cash equivalents

	2017	2016
	£	£
Cash at bank and in hand	1,346,827	1,216,551
States' Treasury Cash Pool Deposit	1,265,641	1,178,223
Short-term fixed deposit	254,528	254,050
	2,866,996	2,648,824

Amounts totalling £323,695 (2016: £330,839) held by the Ernest Gardner Bursary Fund are excluded from these financial statements on the basis that they represent monies held on behalf of third parties.

8. Creditors – amounts falling due within one year

	2017	2016
	£	£
Creditors and accruals	170,553	266,834
Payroll creditors	409,242	215,455
Fees received in advance	118,159	99,263
Other sundry creditors	87,710	98,568
Current account: Elizabeth College – Junior School, Beechwood & Acorn House	500,503	480,173
	1,286,167	1,160,293

The current account due to the Elizabeth College – Junior School, Beechwood & Acorn House is interest free, unsecured and payable upon demand (note 12).

9. 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 determined on the basis of actuarial advice, 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 the College to be determined on a reasonable and consistent basis, as required by FRS 102. In addition, the Board of Directors considers that the additional costs which would be incurred were it possible to do so, in providing such information, considerably outweigh any benefit to the proposed users of these financial statements.

The latest actuarial valuation of the Scheme was conducted at 31 December 2013. 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 92.2% of the actuarial valuation of the liabilities relating to that group. Based on the results of the above actuarial valuation, it was 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 2017 was £508,136 (2016: £475,543). At 31 August 2017 the amount of outstanding contributions not paid over to the Scheme was £315,976 (2016: £125,421). Further details relating to the funding of the Scheme are provided in the Superannuation Fund section of the accounts of The States of Guernsey.

10. Retained funds

Retained funds represent accumulated surpluses and deficits net of any adjustments. These funds provide working capital and resources for the operation of the College.

11. Controlling party

Throughout the year the College was under the control of the Board of Directors acting in concert. In the opinion of the Board of Directors there is no single controlling party as defined by FRS 102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefits from their direction.

12. Related party disclosures

Elizabeth College operates a central accounting system administered by the Finance Bursar, elements of which cover both the Upper School and Junior School of the College's activities. The junior school has its own bank account however, a majority of the operating receipts and some operating expenditure related to the College's activities, whether related to the Upper School or otherwise, pass through common bank accounts, all of which are included in the balance sheet within these financial statements. The net movement arising from cash transactions relating to non-Upper School activities are disclosed in the Statement of cash flows as a movement on the current account operated between the two Schools (note 8). Periodically and at each year end, account balances within the central accounting system, including individual debtor and creditor account balances, are allocated as appropriate into the financial statements of the different Schools.

During the year ended 31 August 2017 an amount of £167,745 (2016: £158,250) was recharged from the Upper School of the College to the Junior School in relation to the employment expenses of administrative and accounting staff, a proportion of whose duties relate to the Junior School. At 31 August 2017 £500,503 (2016: £480,173) was due to Elizabeth College – Junior School, Beechwood & Acorn House and is included in creditors (note 8).

Key management personnel includes all directors and a number of senior managers across the College who together have authority and responsibility for planning, directing and controlling the activities of the College. The Directors are unpaid. The total compensation paid to key management personnel for services provided to the College was £489,164 (2016: £474,588).

13. Elizabeth College Foundation

The Elizabeth College Foundation comprises two charitable trusts (one UK and one Guernsey) which were established in 2006 to raise funds, principally from parents and alumni of Elizabeth College, to enable Elizabeth College to undertake projects and activities which might otherwise be beyond the means of the school to finance from its own operations. The Trustees of the Foundation trusts, although initially appointed by the College's Board of Directors, are independent of Elizabeth College and are required to act in accordance with the terms of the relevant trust deeds.

The basis upon which donations to the Foundation have been requested from donors is such that all monies donated are to be retained within the Foundation until such time as they may be expended as grants towards the funding of specified projects or activities for the benefit of Elizabeth College.

Other than donations and interest arising on retained funds, the Foundation trusts have no other sources of income. Therefore, the Foundation is reliant upon Elizabeth College to meet a substantial proportion of its annual running costs, including the employment of Foundation staff involved with fund-raising, clerical support and project development. Included in administrative expenses for the year are costs of £50,154 (2016: £57,528) paid on behalf of The Foundation.

In addition to the Grants received during the year recognised in the Statement of Income and Retained Funds, the Elizabeth College Foundation also funded a further phase of an Archiving and Digitisation project on the College's behalf, for which it paid £3,328 directly to the supplier. This project is ongoing.

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS

FOR THE YEAR ENDED 31 AUGUST 2017

The Board of Governors submit their report and the audited financial statements of The Ladies' College – Guernsey (the "College") for the year ended 31 August 2017.

BOARD OF GOVERNORS' RESPONSIBILITIES STATEMENT

The Board of Governors is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit of the College for that period and are in accordance with applicable laws. In preparing those financial statements the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the College will continue in operations.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and which enable them to ensure that the financial statements have been properly prepared in accordance with applicable law. It is also responsible for safeguarding the assets of the College and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are on the Board of Governors at the time that this report is approved has confirmed that:

- so far as each Governor is aware, there is no relevant audit information of which the College's auditor is unaware; and
- each Governor has taken all of the steps that ought to have been taken as a Governor in order to be aware of any audit information and to establish that the College's auditor is aware of that information.

PRINCIPAL ACTIVITY

The Ladies' College, founded in 1872, is a girls' day school located in St Peter Port in Guernsey. The College includes the Senior School and Sixth Form which are reported on in these financial statements. The Ladies' College, Melrose and the Pre-Preparatory Department are reported in separate financial statements as The Ladies' College Melrose.

The principal activity of the College is the provision of education.

RESULTS

The results of the College for the year are set out in detail on the Statement of Income and Retained Funds.

THE LADIES' COLLEGE, GUERNSEY

REPORT OF THE BOARD OF GOVERNORS

FOR THE YEAR ENDED 31 AUGUST 2017

BOARD OF GOVERNORS

The Board of Governors of the College who served during the year were:-

Mrs Kathryn Richards	
Mr John Marren	
Advocate Caroline Chan	(appointed 7 June 2017)
Ms Cathy Perkins	(appointed 1 February 2017)
Advocate Ben Morgan	(retired 31 May 2017)
Mrs Stephanie Nickolls	(retired 31 December 2016)
Dr Mary Short	
Deputy Heidi Soulsby	
Mrs Catharine Walter	

INDEPENDENT AUDITOR

BDO Limited have expressed their willingness to continue in office.

APPROVED BY THE BOARD OF GOVERNORS

K M N Richards	J M Marren
....	....
Chairman	Governor

Date…12 December 2017

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE, GUERNSEY

Opinion

We have audited the financial statements of The Ladies' College (the "College") for the year ended 31 August 2017 which comprise the Statement of Income and Retained Funds, the Balance Sheet and the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the state of the College's affairs as at 31 August 2017 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the College in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board of Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of Governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the College's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board of Governors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE LADIES' COLLEGE, GUERNSEY (CONTINUED)

Responsibilities of the Board of Governors

As explained more fully in the Board of Governors' Responsibilities Statement, the Board of Governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Board of Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Governors are responsible for assessing the College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Governors either intend to liquidate the College or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the College's Board of Governors, as a body, in accordance with our letter of engagement dated 6 October 2015. Our audit work has been undertaken so that we might state to the College's Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the College's Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

Date: 13 December 2017

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF INCOME AND RETAINED FUNDS

FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017 £	2016 £
INCOME	2(a)		
States grant		329,547	460,995
Fees receivable		3,834,569	3,486,197
Student registration fees		6,400	9,500
Miscellaneous income		30,252	27,069
		4,200,768	3,983,761
EXPENDITURE			
School expenditure	2(c)	(3,848,726)	(3,785,339)
OPERATING SURPLUS		352,042	198,422
Fundraising and other donations received	2(b)	212,264	551,844
Bank interest received		119	3,865
Interest payable		(47,014)	(2,714)
SURPLUS FOR THE YEAR		517,411	751,417
Retained funds at 1 September		3,137,093	2,385,676
RETAINED FUNDS AT 31 AUGUST		3,654,504	3,137,093

There were no recognised gains or losses other than the surplus for the financial year.

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

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF INCOME AND RETAINED FUNDS

FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017 £	2016 £
FIXED ASSETS			
Tangible assets	4	6,679,793	6,581,430
CURRENT ASSETS			
Fee debtors		10,246	14,129
Other debtors and prepayments	5	56,799	50,384
Cash at bank and in hand	6	1,084,119	588,840
		1,151,164	653,353
CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR	7	(934,632)	(1,368,668)
NET CURRENT ASSETS/ (LIABILITIES)		216,532	(715,315)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,896,325	5,866,115
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	8	(3,241,821)	(2,729,022)
NET ASSETS		3,654,504	3,137,093
CAPITAL AND RESERVES			
RETAINED FUNDS		3,654,504	3,137,093

APPROVED BY THE BOARD OF GOVERNORS AND AUTHORISED FOR ISSUE ON THEIR BEHALF BY:

K M N Richards	J M Marren
....	....
Chairman	Governor

Date .....12 December 2017

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

THE LADIES' COLLEGE, GUERNSEY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 AUGUST 2017

	Note	2017 £	2017 £	2016 £	2016 £
Cash flows from operating activities					
Surplus for the financial year		517,411		751,417	
Adjustments for:					
Depreciation	4	180,907		12,623	
Loss on disposal of tangible asset		-		206	
Interest receivable		(119)		(3,865)	
Interest payable		47,014		2,714	
(Increase)/decrease in operating debtors		(2,532)		1,595	
Increase in operating creditors		140,978		106,628	
Cash from operations			883,659		871,318
Interest received		119		8,715	
Net cash generated by operations			883,778		880,033
Cash flows from investing activities					
Tangible assets purchased		(1,025,200)		(4,917,344)	
Net cash outflow from investing activities			(1,025,200)		(4,917,344)
Cash flows from financing activities					
Loan advances		1,774,670		1,225,330	
Repayment of bank loan		(120,000)		-	
Interest paid on bank loan		(10,291)		(33,000)	
(Decrease)/increase in account with Melrose		(1,000,000)		1,500,000	
Repayment of finance lease		(7,678)		(4,998)	
Net cash inflow from financing activities			636,701		2,687,332
Net increase/(decrease) in cash and cash equivalents			495,279		(1,349,979)
Cash and cash equivalents at the beginning of the year	6		588,840		1,938,819
Cash and cash equivalents at the end of the year	6		1,084,119		588,840

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

1. GENERAL INFORMATION

The College is established under The Ladies' College (Guernsey) Law, 1962 as amended. The registered address is set out on the information page and the principal activity of the College is the provision of education.

2. ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (" FRS 102").

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying accounting policies (see note 3).

The following principal accounting policies have been consistently applied:

(a) INCOME RECOGNITION

Fee income is recognised as receivable on the first day of each term for which pupils are enrolled since it is non-refundable. Fee income received in advance of the term is deferred and released on the first day of the applicable term.

The States' Block Grant relating to the General (Non Special Place Holder) Grant is recognised termly on receipt. The General Grant is being reduced over a 7 year period with effect from 1 September 2012, in accordance with a States Resolution on 28 September 2011.

Student registration fees and miscellaneous income are recognised on receipt. All other operating income is recognised on an accruals basis.

(b) FUNDRAISING AND OTHER DONATIONS RECEIVED

'Gift for learning' donations receivable for the phase three development of the College premises are recognised on a cash receipts basis. All other donations are recognised on an accruals basis when entitlement to the funds is certain.

(c) SCHOOL EXPENDITURE RECOGNITION

School supplies and equipment including books and teaching materials are recognised in relation to the academic year in which they are to be used as designated by the school budget agreed by the Governors. All other expenses are recognised on an accruals basis.

(d) TAXATION

The College has been registered under the Charities and Non Profit Organisations (Registration) (Guernsey) Law, 2008 and has therefore been granted exempt status under Section 40(k) of the Income Tax (Guernsey) Law, 1975. The College's income is therefore not subject to taxation.

2. ACCOUNTING POLICIES (continued)

(e) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at historical cost, net of depreciation and any provision for impairment. Assets with a cost of £1,000 or more are capitalised as tangible assets and this level is periodically reviewed by the Board, together with a review of the need for any impairment reviews. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date management assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised in the Statement of Income and Retained Funds where the carrying amount exceeds the recoverable amount.

Freehold land is not depreciated. Depreciation is charged on leasehold assets over the expected lease term of 50 years (see notes 3, 10 and 11). Depreciation on other tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of their estimated useful economic lives, at the following annual rates: -

Fixtures, fittings, and equipment	- 10% straight line
Computer equipment	- 33⅓% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'School expenditure' in the Statement of Income and Retained Funds.

(f) FINANCIAL INSTRUMENTS

The College only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities. All financial instruments entered into by the College are measured at amortised cost.

Financial assets that are measured at amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Income and Retained Funds.

Short term creditors are measured at the transaction price.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(g) CASH AT BANK AND IN HAND

Cash at bank and in hand is represented by cash, current bank accounts and deposits with financial institutions repayable without penalty on notice.

2. ACCOUNTING POLICIES (continued)

(h) FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Obligations for loans and borrowings are recognised when the College becomes party to the related contracts and are initially measured at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

(i) PENSION COSTS

The College operates a defined benefit multi-employer pension scheme and superannuation contributions are charged to the Statement of Income and Retained Funds to spread the cost of the pensions over the employees' working lives.

(j) RETAINED FUNDS

Retained funds represent cumulative surpluses and deficits net of any adjustments.

(k) PRIZE FUNDS AND BEQUESTS

Prize funds and other charitable bequests are not included in these financial statements as they do not constitute part of the day-to-day activities of the College.

(l) BORROWING COSTS

Finance costs directly attributable to leasehold improvement additions are added to the cost of the leasehold improvements. Capitalisation of these finance costs ceased once the asset was substantially complete.

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Board of Governors have made the following significant judgements in the preparation of these financial statements:

Tangible fixed assets (note 4)
Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual useful lives of the assets and residual values are reviewed annually and may vary on a number of factors. The leasehold property is depreciated over 50 years since, in the judgement of the Board of Governors, the requirements will be met to allow the Board to exercise the option to extend the current lease from 25 years to 50 years (see also notes 10 and 11). The Board have therefore also recognised the financial commitment of the lease over that period (see note 11).

Balance with The Ladies' College, Melrose (note 8)
The balance with The Ladies College, Melrose is classified as payable after more than one year as whilst there are no fixed terms for repayment, the amount due will not be repaid until such time that The Ladies College have sufficient net assets to repay the amount and its other creditors.

4. TANGIBLE ASSETS

	Freehold land	Leasehold property	Leasehold asset in the course of construction	Fixtures fittings, and equipment	Computer equipment	Total
	£	£	£	£	£	£
COST						
At 1 September 2016	1	-	6,524,851	52,141	17,353	6,594,346
Additions	-	48,818	-	202,801	27,651	279,270
Transfers		6,287,672	(6,524,851)	229,043	8,136	-
At 31 August 2017	1	6,336,490	-	483,985	53,140	6,873,616
DEPRECIATION						
At 1 September 2016	-	-	-	8,505	4,411	12,916
Charge for the year	-	126,719	-	36,464	17,724	180,907
At 31 August 2017	-	126,719	-	44,969	22,135	193,823
NET BOOK VALUE						
At 31 August 2017	1	6,209,771	-	439,016	31,005	6,679,793
At 31 August 2016	1	-	6,524,851	43,636	12,942	6,581,430

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. The lease runs through to 31 December 2039 with an option to extend to 31 December 2065.

Included within the leasehold property are capitalised interest and finance costs amounting to £33,000 (2016: £33,000 within leasehold asset in the course of construction).

5. OTHER DEBTORS AND PREPAYMENTS

	2017	**2016**
	£	**£**
Prepayments	43,411	44,010
Other debtors	13,388	6,374
	56,799	50,384

6. CASH AT BANK AND IN HAND

	2017 £	2016 £
Cash in hand	166	1,486
Operating cash	914,615	376,702
	914,781	378,188
Gift for learning	169,338	210,652
	1,084,119	588,840

The Gift for learning funds relate to donations received for the phase three development of the College premises.

7. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
School and administrative expenses	363,720	256,840
Fees for autumn term received in advance	246,541	214,327
Amount payable on building contract	135,784	743,798
Bank loan (see note 8)	180,000	147,040
Net capital obligations under finance leases	8,587	6,663
	934,632	1,368,668

8. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR

	2017 £	2016 £
Bank loan	2,737,323	1,078,290
Balance with The Ladies' College, Melrose	500,000	1,500,000
Net capital obligations under finance leases	4,498	8,329
Retention on building contract	-	142,403
	3,241,821	2,729,022

8. CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR (continued)

The maturity of the bank loan is as follows:

	2017	2016
	£	£
Repayable in instalments:		
Within 1 year	180,000	147,040
Later than 1 year and not later than 5 years	720,000	687,040
Over 5 years	2,017,323	391,250
	2,917,323	1,225,330

The bank loan with the Royal Bank of Scotland International Limited (trading as NatWest) (the "Bank") was obtained to assist with the construction of Phase 3. The loan facility, to an amount of £4 million, was agreed in two parts – the initial, flexible and interest only element known as the Revolving Credit Facility ("RCF"), which was available until practical completion of Phase 3 and the "Term Out" option which enabled the Board of Governors to invoke the "Term Out" option which converted the "RCF" (inclusive of accrued interest) to a capital and interest repayment loan over a period of up to 20 years. Interest is repayable at 1.75% above Base Rate during the RCF and 1.45% above Base Rate during the Term Out option. The Term Out option was invoked during the year for a total amount of £3 million. The States of Guernsey has undertaken to assume The Ladies' College's obligations to the Bank under the loan agreement should there be an event of default under that loan agreement.

The balance with The Ladies' College, Melrose reflects the shared use of resources across the College (note 3)

9. PENSION COSTS

A majority of the employees of the College are members of the States of Guernsey Superannuation Scheme ("the Scheme"). This is a defined benefit pension scheme, funded by contributions from both employer and employee, at rates which are determined on the basis of actuarial advice and which are calculated to spread the expected cost of benefits to employees over the period of those employees' expected working lives.

The Scheme is a multi-employer scheme and the level of contributions made to the scheme by each employer will be affected by actuarial risks relating to the employees of other employers. It is not possible for the underlying pension assets and liabilities within the Scheme relating to the employees of the College to be determined on a reasonable and consistent basis, as required by FRS 102. In addition, the Board of Governors considers that the additional costs which would be incurred were it possible to do so, in providing such information considerably outweigh any benefit to the proposed users of these financial statements.

The last actuarial valuation of the Scheme was conducted at 31 December 2013. 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 92.2% 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.

9. PENSION COSTS (continued)

The total amount of superannuation contributions payable by the College to the Scheme for the year ended 31 August 2017 was £343,274 (2016: £322,207). At 31 August 2017 the amount of outstanding contributions not paid over to the Scheme was £84,662 (2016: £82,838).

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

10. CAPITAL COMMITMENT

In 2015 the College entered into an agreement with the Treasury and Resources department of the States of Guernsey for a lease of the land and buildings used by the College. Under the terms of the lease the College is required to invest an aggregate of not less than £10,000,000 on the property at Ladies College by 31 December 2035. The amount is subject to increase in line with the Guernsey retail price index and does not include finance costs. As at 31 August 2017 a total amount of £6,672,944 has been invested (2016: £6,581,430).

11. FINANCIAL COMMITMENT

The College has entered into a lease over the land and buildings occupied by the College. The lease runs to 31 December 2039 with an option to extend to 31 December 2065 provided that capital has been invested as outlined in note 11.

The total future minimum rentals payable under the lease until 2065 are as follows:

	2017 £	2016 £
Within 1 year	254	250
Later than 1 year and not later than 5 years	1,016	1,000
Over 5 years	10,922	11,000
	12,192	12,250

12. 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 FRS 102 as no party has the ability to direct the financial and operating policies of the College with a view to gaining economic benefit from their direction.

13. RELATED PARTY TRANSACTIONS

Key management personnel includes all Governors and a number of senior managers across the College who together have authority and responsibility for planning, directing and controlling the activities of the College. The Governors are unpaid. The total compensation paid to key management personnel for services provided to the College was £428,698 (2016: £421,147).

During the year the College received £2,804 (2016: £nil) in the form of donations from members of the Board of Governors and their close family members. These amounts have been disclosed within fundraising donations received in the Statement of Income and Retained Funds.

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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time that the financial statements comply with The Government of Alderney Law, 2004, as amended. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the States of Alderney and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE POLICY AND FINANCE COMMITTEE

Our opinion is unmodified

We have audited the financial statements of The States of Alderney (the "States") which comprise the Summary of Income and Expenditure Account for the year ended 31 December 2017, Summary of Balances as at 31 December 2017 and the related notes. The Financial Statements have been prepared under the accounting policies set out therein.

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2017, have been prepared, in all material respects, in accordance with the accounting policies set out in note 1 and The Government of Alderney Law, 2004.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the States in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of Matter – Special Purpose Basis of Accounting

We draw attention to Note 1 to the Financial Statements, which describes the basis of accounting. The financial statements are prepared to assist the States to comply with the provisions of The Government of Alderney Law, 2004. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Respective responsibilities
Policy and Finance Committee and States Treasurer responsibilities

As explained more fully in their statement set out on page 1, the Policy and Finance Committee and the States Treasurer are responsible for: the preparation of the Financial Statements including being satisfied that they are prepared in accordance with the accounting policies set out in note 1; and such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE POLICY AND FINANCE COMMITTEE (Continued)

Independent Auditor's Report to the Policy and Finance Committee (continued)

The purpose of this report and restrictions on its use by persons other than the States

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

KPMG Channel Islands Limited

Chartered Accountants, Guernsey

16 May 2018

STATES OF ALDERNEY

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

a. Revenue income and expenditure account receipts and payments arising during the year and in the month following the year end are brought into account in the accounting year to which they relate.

b. Capital expenditure is written off in the year in which it is incurred. Depreciation is therefore not provided.

c. The States of Alderney 1982 pension scheme has been presented as far as practicable having regard to FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"). Pension costs charged to the Summary Income and Expenditure Account are the contributions paid in line with the latest actuarial valuations, see note 2 for further details; other movements in the net pension liability are not reflected in the Summary Income and Expenditure account.

2. PENSION COSTS

The States of Alderney 1982 Pension Scheme

The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of this scheme are held separately from those of the States in an independently administered fund which up until 2013 were invested with Aviva.

Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role. In 2015 the investment management services were further improved to ensure that the portfolio and underlying funds are continually monitored by specialist and portfolio managers. In September, 2016 Aviva were appointed as Scheme Actuary with Gower Financial Services Limited continuing to provide administrative and investment support.

In preparing the disclosures for the States of Alderney (the "States") accounts, the States have noted the disclosure requirements of FRS 102, section 28. The States has used actuarial calculations provided by the actuary to identify the implications of any surplus/(deficit) to the States as at 1 January 2015, 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 December 2017. The pensionable salary growth has been directly linked to the inflation assumption, as the scheme is now closed to new entrants, those remaining in the scheme have no further known increments due, and pay awards have been, and are expected to be, lower than UK inflation assumption figure in the foreseeable future.

2. PENSION COSTS (continued)

The major assumptions used by the actuary were (in nominal terms):

	Valuation at 31 December 2017	Valuation at 31 December 2016
Pensionable salary growth	3.1% pa	3.0% pa
Pension escalation in payment		
– to 31.12.2009	4.0% pa	4.0% pa
– from 01.01.2010	3.0% pa	3.0% pa
Discount rate	2.5% pa	2.7% pa
Inflation assumption	3.1% pa	3.0% pa

The assets in the scheme and the expected rate of return were:

	2017	2016
Fair value of plan assets	£5,894,000	£5,322,000
Present value of funded obligations	(£10,196,000)	(£9,221,000)
Deficit in the scheme	(£4,302,000)	(£3,899,000)
Net pension liability	**(£4,302,000)**	**(£3,899,000)**

The balance sheet position of the Scheme has deteriorated by £403,000 over the year. The Actuary has based the above calculations on slightly different early retirement assumptions from those used in previous year's disclosures. In particular, the 1 January 2017 valuation assumes that all deferred members who have the option to retire on an unreduced pension at age 60 will do so, (compared to 25% last year). The impact of this change has been to increase the present value of the liabilities by approximately £300,000.

Other factors in addition to this include the employer contributions being less than the cost of a years accruals of benefits. These factors have been partially offset by the return of assets being higher than the interest income, and pensionable salaries increasing at a lower rate than expected.

Over the year to 31 December 2017 the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. Employee's Death in Service benefits are secured under a separate policy.

In 2017 Employer premiums amounted to £123,067 (2016: £139,893), and Employee premiums were £39,537 (2016: £45,465).

2. PENSION COSTS (continued)

The States of Alderney 2013 Pension Scheme

As approved by the States of Alderney, the new Defined Contributions Scheme, came into effect from 1 January 2013, and is administered by BWCI. There were 5 new entrants to the scheme during 2017. The employee contribution is set at 6.5% (as per the existing scheme), and the employers contribution rate at 7.5%, increasing annually by 0.5% up to a maximum of 12.5%.

In 2017 the Employer premium amounted to £38,530 (2016: £34,821), and the Employee contribution amounted to £31,463 (2016: £64,206).

In addition the Employees Death in Service policy amounted to £11,866 (2016: £9,810), relating to both Schemes. Of this amount £1,580 related to the 2013 Scheme members, and £10,286 related to the 1982 Scheme members.

3. RELATED PARTY TRANSACTIONS

The States of Alderney is responsible for the functions of the Water Board, which is a separate trading entity. During 2017 the States purchased goods and services from the Water Board to the value of £15,765 (2016: £16,807), and provided goods and services to the Board to the value of £69,852 (2016: £65,781).

The Royal Connaught Residential Home Limited is a States owned company. During 2017 the States provided goods and services to the company to the value of £56 (2016: £84,220). The new operating agreement became effective from 01.01.17 which removed the rental requirement.

The States has a majority share-holding in Alderney Electricity Ltd and purchases electricity, oil and specialist electrical services from the company. In 2017 the value of these purchases was £1,284,051 (2016: £167,837). This includes the capital payments in respect of the improvements to the distribution network. The States has provided goods and services to the company during 2017 to the value of £60,358 (2016: £57,672).

Mr Ian Tugby is a member of the States of Alderney, and is also the beneficial owner of Tugby Contractors Ltd. During 2017 the States of Alderney purchased goods and services from Tugby Contractors Ltd to the value of £3,635 (2016: £54,838).

Mr M. Dean is a member of the States of Alderney, and is also the beneficial owner of Auto-Motion. During 2017 the States of Alderney purchased goods and services from Auto-Motion to the value of £702.

4. BUDGET APPROVALS

The original budget for 2017 was approved by the States of Alderney at the meeting held on 19 October 2016, with the revised budget approved by the States of Alderney on 18 October 2017.

5. ALDERNEY GAMBLING CONTROL COMMISSION

During the year the States of Alderney received a total of £4,432,500 (2016: £4,365,500) in respect of licences issued by the Commission under the Gambling (Alderney) Law 1999. This sum was transferred in total to the Commission to defray expenses with surpluses payable to the States on a quarterly basis. In 2017 the surplus received from the Commission amounted to £1,972,649 (2016: £1,803,268). An extract from the Alderney Gambling Control Commission's financial statements for 2017 will be available to the States in June 2018.

NOTES TO THE ACCOUNTS – continued

6. ALDERNEY eGAMBLING LIMITED

During 2017 Alderney eGambling Ltd (AeGL), a wholly States owned company, continues to handle the promotion and development of the on-line gambling industry in Alderney. As reported in 2016, it was agreed that the advisory and consultancy services to regulators, previously undertaken by Alderney eGambling Advisors Limited, would be transferred to the responsibility of the AeGL and this alteration to duties continues to work well. A report on the company's activity and accounts for 2017 will be available to the States in June 2018.

7. ALDERNEY COMMISSION FOR RENEWABLE ENERGY

With effect from 10 November 2008 the Alderney Commission for Renewable Energy (ACRE), was appointed by the States of Alderney as a statutory body operating under the provisions of the Renewable Energy (Alderney), Law 2007. Due to the non-payment of block fees, ACRE required a subsidy in 2017 of £54,000, with a further subsidy budgeted for 2018. A report on the Commission's activities and accounts for 2017 will be available to the States later in 2018.

8. ROYAL CONNAUGHT RESIDENTIAL HOME LIMITED

The Royal Connaught Residential Home Limited is a States owned company managed by the Board of Directors, with responsibility for the administration of the Jubilee & Sydney Herival House and the Royal Connaught Residential Care Home. A report on the Board's activities and accounts for 2017 will be available to the States later in 2018.

9. ECONOMIC DEVELOPMENT RESERVE FUND

The Economic Development Reserve Fund has been approved as being funded by Alderney Gambling Control Commission reserves at £300k per annum. As this is a fund, any unspent balances are carried forward into the following year, and as such is now being shown as a separate fund on page 9. The balance of the fund as at year end amounted to £272,155.

STATES OF ALDERNEY

Summary Income and Expenditure Account 2017

Accounts 2016 Exp. £	Inc. £	Net £	Revenue Income and Expenditure	Accounts 2017 Exp. £	Inc. £	Net £
			Operational activities			
200,357	15,740	184,617	**Building and development control services**	368,864	33,340	335,524
			General Services			
1,203,613	26,597	1,177,016	States Works	1,270,691	22,770	1,247,921
33,664	20,628	13,036	Recreation	26,789	20,817	5,972
38,384	-	38,384	Fire Brigade	47,476	-	47,476
22,235	-	22,235	Civil Emergency	22,300	-	22,300
28,459	-	28,459	Grants	28,999	-	28,999
374,231	300,783	73,448	Alderney Harbour	353,245	315,732	37,514
			Policy and Finance			
790,946	42,791	748,155	Corporate and democratic services	1,002,974	40,938	962,036
163,310	72,032	91,278	Court	170,269	86,824	83,445
224,256	17,416	206,840	Tourism and marketing	216,183	11,734	204,449
32,741	-	32,741	Education and health	32,010	-	32,010
125,722	113,780	11,942	Social and welfare services	77,245	60,795	16,451
90,899	-	90,899	Grants	118,692	-	118,692
3,328,817	**609,767**	**2,719,050**	**Cost of services**	**3,735,737**	**592,949**	**3,142,788**
			Other operating income			
		233,603	Property and land rents-GSC			156,412
		41,729	Rents - PFC			42,574
		(17,967)	Interest receivable			22,365
		51,166	Vehicle import licence fees			46,893
		79,459	Numismatic and philatelic profits			135,572
			Property and other taxation/grant income			
		1,884,500	Grant from States of Guernsey (Net)			1,847,400
		466,915	Occupiers Rates			498,916
		-	Property Transfer Duty			277,307
		28,857	Duty free concession			25,000
		49,212	**Surplus/(Deficit) on provision of services**			**(90,351)**
		49,499	Transfer to coin reserve			5,504
		(287)	**Surplus/(Deficit) for the year**			**(95,855)**
		-	Transfer from AGCC Reserves			95,855
		(287)	**Balance Year End**			**0**

Accounts 2016 Exp. £	Inc. £	Net £	Capital Income and Expenditure	Accounts 2017 Exp. £	Inc. £	Net £
769,297	-		General Services Committee	1,027,004	-	
291,935	-		Policy and Finance Committee	1,153,346	-	
300,000	-		Transfer to Economic Development Fund	300,000	-	
-	-		Transfer to Revenue Account (from AGCC Reserves)	95,855		
1,361,232	-	**1,361,232**	**Total capital expenditure**	2,576,205	-	**2,576,205**
			Sources of Funding			
-	1,803,268		AGCC profit transfer	-	1,972,649	
-	232,732		Property transfer duties	-	-	
-	34,505		Asset sales	-	5,000	
-	-		Other	-	1,000	
-	2,070,505	**2,070,505**	**Total capital income**	-	1,978,649	**1,978,649**
		709,273	**Surplus/(Deficit)**			**(597,556)**

The summary of the accounts were approved by the Policy and Finance Committee on 15th May 2018 and are signed on its behalf by:

Mr J Dent
Chairman, Policy and Finance Committee

STATES OF ALDERNEY

Summary of Balances at 31 December 2017

			£
COINS IN CIRCULATION			
Value of coins in circulation at 01.01.17			4,006,977
Value of coins issued in 2017			98,318
			4,105,295
Less: Value of coins withdrawn from circulation			-
Value of coins in circulation at 31.12.17			4,105,295
CURRENCY RESERVE FUND			
Balance at 01.01.17			571,020
Reserve for base metal coins issued in 2017			5,504
			576,524
Less: Value of coins redeemed			-
Balance at 31.12.17			576,524
INSURANCE DEDUCTABLE RESERVE ACCOUNT			
Balance at 01.01.17			256,698
Transfer to Reserve 2017			47,736
Balance at 31.12.17			304,434
ECONOMIC DEVELOPMENT RESERVE FUND			
Income	AGCC funding - (accumulation of 2014-2016 balance)		212,256
	AGCC funding 2017		300,000
Expenditure 2017	Administration/Consultancy	27,371	
	Small Business Start Up Grants	2,500	
	Blockchain Technology Research	37,377	
	Review of Company Law	26,188	
	Development of Niche Tourism	25,013	
	Review of Financial Relationship with Guernsey	5,240	
	Aviation Fuel Subsidy (Avgas)	37,825	
	Review of Governance	15,350	
	Transport Strategy Advice	16,953	
	Marine Management Plan	8,071	
	Ferry Subsidy	31,805	
	Airport Rehabilitation Project - York Aviation Feasibility Study	6,408	
Total expenditure 2017			240,101
Balance carried forward at 31.12.17			**272,155**

INVESTMENTS

2016 SHARES	£		**2017** SHARES	£
		Alderney Electricity Ltd. Ordinary Shares at £1 each fully paid at cost		
1,146,090	39,860	Balance at 01.01.17 and 31.12.17	1,146,090	39,860

2016 SHARES	£		**2017** SHARES	£
		Alderney Electricity Ltd. 7% Cumulative Preference Shares at £1 each fully paid at cost		
11,150	5,659	Balance at 01.01.17 and 31.12.17	11,150	5,659

2016 SHARES	£		**2017** SHARES	£
		Alderney eGambling Ltd Ordinary Shares at £1 each fully paid at cost		
1	1	Balance at 01.01.17 and 31.12.17	1	1

2016 SHARES	£		**2017** SHARES	£
		Alderney Golf Club Shares at £1 each fully paid at cost		
650	650	Balance at 01.01.17 and 31.12.17	650	650

2016 SHARES	£		**2017** SHARES	£
		Royal Connaught Residential Home Ltd Shares at £1 each fully paid at cost		
2	2	Balance at 01.01.17 and 31.12.17	2	2

STATES OF ALDERNEY

Summary of Balances at 31 December 2017 (Continued)

2016	Bank accounts	2017
£	Daisy Hansen St Anne's School Trust	£
949	Balance at 01.01.17	914
-	Interest received	-
949		914
(35)	Audit report	(35)
914	Balance at 31.12.17	879
	The Anne French Hospital Annexe Fund	
12,694	Balance at 01.01.17	12,850
156	Interest received	104
12,850		12,955
-	Audit report	(40)
12,850	Balance at 31.12.17	12,915
	States of Alderney Interest on Investments Account (Educational Bequests)	
3,678	Balance at 01.01.17	978
-	Interest received	-
3,678		978
(2,700)	Grants	-
-	Audit Reports	-
978	Balance at 31.12.17	978
	The Packe History Trust	
1,479	Balance at 01.01.17	1,479
-	Interest received	-
1,479		1,479
-	School History Prize	(20)
1,479	Balance at 31.12.17	1,459
	Alderney Pilotage Board	
500	Balance at 01.01.17 and 31.12.17	500
	The Mary Roylance Mignot Memorial Hospital Fund	
16,574	Balance at 01.01.17	15,705
421	Interest received (2016 underestimated adjustment & estimated Q4 2017)	1,728
16,995		17,433
(1,291)	Grants	-
15,705	Balance at 31.12.17	17,433
	St Anne's Trust	
32,780	Balance at 01.01.17	33,108
328	Interest received	269
33,108		33,376
-	Grants	-
33,108	Balance at 31.12.17	33,376
	The New Parsonage House Trust	
76,859	Balance at 01.01.17	74,897
1,954	Interest received (2016 underestimated adjustment & estimated Q4 2017)	6,986
78,813		81,883
(3,916)	Maintenance costs	(6,444)
74,897	Balance at 31.12.17	75,439
	Charitable Trust Fund	
192,561	Balance at 01.01.17	182,165
2,078	Interest received	1,424
194,639		183,589
(12,314)	Grants issued in year	(11,529)
(160)	Bank and general administration costs	(208)
182,165	Balance at 31.12.17	171,853

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 fairly summarise in all material respects, the transactions of the Board for that period and are in accordance with the applicable law.

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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They also have a general responsibility for taking such steps as are reasonably open to it, to safeguard the assets of the Board, and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the States of Alderney Water Board

Our opinion is unmodified

We have audited the financial statements of The States of Alderney Water Board (the "Water Board") which comprise the Revenue Account, Balance sheet and the related notes. The Financial Statements have been prepared under the accounting policies set out therein.

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2017, have been prepared, in all material respects, in accordance with the accounting policies set out in note 1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Water Board in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of Matter – Special Purpose Basis of Accounting

We draw attention to Note 1 to the Financial Statements, which describes the basis of accounting. The financial statements are prepared to assist the Water Board to comply with the provisions of The Government of Alderney Law, 2004. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

Respective responsibilities

The Water Board's responsibilities

As explained more fully in their statement set out on page 1, the Water Board is responsible for: the preparation of the Financial Statements including being satisfied that they are prepared in accordance with the accounting policies set out in note 1; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Water Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

Independent Auditor's Report to the States of Alderney Water Board

Auditor's responsibilities (continued)

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Water Board

This report is made solely to the Water Board, in accordance with the terms of our engagement letter. Our audit work has been undertaken so that we might state to the Water 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 Water Board for our audit work, for this report, or for the opinions we have formed.

KPMG Channel Islands Limited
Chartered Accountants, Guernsey

16 May 2018

STATES OF ALDERNEY WATER BOARD
REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017		2016	
REVENUE		£	£	£	£
	1				
Unmetered Supplies		551,185		545,530	
Metered Supplies		97,305		91,030	
Service Charges		3,808		5,739	
Contract Work		2,077		6,486	
Sale of Fixed Assets		150		(211)	
			654,525		648,574
EXPENSES	1				
OPERATING AND MAINTENANCE EXPENSES					
Salaries and Wages		180,894		160,227	
Water Treatment and Testing		29,504		25,193	
Fuel, Electricity and Telemetry		119,382		86,422	
Maintenance		35,875		57,257	
Maintenance Contracts		26,876		23,490	
Health & Safety expenses		2,494		3,172	
Pension Costs	2	30,784		29,396	
Depreciation	1 & 6	127,591		119,967	
		553,400		505,124	
ADMINISTRATION AND GENERAL EXPENSES					
Administration Charge		41,860		36,522	
Rents, Rates and Taxes		20,091		17,076	
Insurance		5,955		5,561	
Motor Vehicle Expenses		6,983		5,751	
Office Expenses and Equipment		7,587		5,848	
Accountancy and Audit		6,825		6,532	
Bank Charges		1,799		1,943	
Travelling and General Expenses		2,301		1,642	
Staff Training Costs		-		527	
Consultancy Fees and Expenses		1,893		1,994	
PFOS Related Expenses		-		12,489	
Bad Debts Written off		58		896	
Fixed Assets Written Off		3,712		-	
		99,064		96,781	
			(652,465)		(601,905)
OPERATING SURPLUS			2,060		46,669
OTHER INCOME					
Interest and other Receivable			63		417
Rents Receivable	5		12,120		11,315
SURPLUS FOR THE YEAR			14,243		58,401
BALANCE BROUGHT FORWARD			680,078		621,677
BALANCE CARRIED FORWARD			694,321		680,078

The Water Board has no recognised gains or losses other than the surplus for the year.

Notes 1 to 6 form part of these financial statements.

STATES OF ALDERNEY WATER BOARD
BALANCE SHEET
AS AT 31 DECEMBER 2017

	Notes	2017		2016	
		£	£	£	£
ASSETS EMPLOYED					
FIXED ASSETS	1 & 6		2,245,402		2,197,320
CURRENT ASSETS					
Stock	1	73,908		71,951	
Debtors		77,806		55,535	
Bank balances - deposit		400,513		400,485	
Bank balances - current		602,640		523,869	
		1,154,867		1,051,840	
LIABILITIES FALLING DUE WITHIN ONE YEAR					
Creditors		87,960		117,096	
NET CURRENT ASSETS			1,066,907		934,744
NET ASSETS			3,312,309		3,132,064
FINANCED BY					
RESERVES					
General	3		86,286		86,286
Capital Contribution from States of Alderney	3		2,531,700		2,365,700
Revenue Account			694,321		680,078
			3,312,309		3,132,064

Notes 1 to 6 form part of these financial statements.

The financial statements were approved by the States of Alderney Water Board on 15th May 2018 and are signed on its behalf by:

Mrs N. Paris

Chairman, General Services Committee

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 the applicable accounting policies.

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.

2 PENSION COSTS

The employees of the States of Alderney Water Board (the " Board") are members of the States of Alderney (the "States") Pension Scheme. The States provides pension arrangements for the majority of employees through a defined benefit scheme (the “1982 Scheme”) and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of the 1982 Scheme are held separately from those of the States of Alderney in an independently administered fund which up until 2013 were invested with Aviva. Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role.

Over the year to 31 December 2017, under the 1982 Scheme, 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.

The Actuary has based their calculations on slightly different early retirement assumptions from those used in previous year’s disclosures. In particular, the 1 January 2017 valuation assumes that all deferred members who have the option to retire on an unreduced pension at age 60 will do so, (compared to 25% last year). As the scheme is a multi employer arrangement the Board is unable to identify its share of the scheme assets and liabilities.

Employee’s Death in Service benefits are secured under a separate policy.

The new Defined Contributions Scheme, administered by BWCI came into effect on 1st January 2013 "the 2013 Scheme". There is currently one member of this Scheme from the Water Board. Since 1st January, 2017 until 31st December, 2017 the employer contributed 8% of pensionable salary, with the employee contribution of 6.5% of pensionable salary.

The total pension charge to the Water Board for the year was £30,784 (2016: £29,396).

3 RESERVES

General Reserve

This is a historic record of the States of Alderney investment into the Water Board in the early years of operation.

Capital Contribution from States of Alderney.

Since 2008 capital contributions amounting to £2,531,700 have been awarded by way of grants from the States of Alderney in order to upgrade the Water Board infrastructure. The latest of these, relating to the distribution networks (Phases 8, 10 & 11), were approved in 2017 to the total of £166,000 (Phase 8 £93,000, Phase 10 £33,000 & Phase 11 £40,000). As at 31 December 2017 this amount had been received in full.

4 RELATED PARTY TRANSACTIONS

In 2017 Mrs N Paris 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 M Birmingham during 2017.

The Water Board purchases electricity, oil and specialist electrical services from Alderney Electricity Ltd. In 2017 the value of these purchases was £109,973 (2016: £77,430).

Mr I Tugby is a States Member, and is also the beneficial owner of Tugby Contractors Ltd. In 2017 the Board purchased goods and services from Tugby Contractors Ltd to the value of £117,892 (2016: £109,215).

Mr M Dean is a member of the Water Board, and is also the beneficial owner of Auto-Motion. In 2017 the Board purchased goods and services from Auto-Motion to the value of £78.

During 2017 the Water Board purchased goods and services from the States of Alderney to the value of £69,852 (2016 £65,781) and supplied goods and services to the States of Alderney to the value of £15,765 (2016 £16,807).

The General Services Committee is appointed by the States of Alderney to act on behalf of the Water Board.

5 RENTS RECEIVABLE

During 2017 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 1 January 2017	Additions/ Charge	Disposals / Written off & Transfers	At 31 December 2017
	£	£	£	£
COST				
Land	3,737	-	-	3,737
Mains and Services	1,452,032	239,654	-	1,691,686
Buildings	211,604	-	-	211,604
Storage Tanks	104,449	-	-	104,449
Machinery	936,588	2,745	(13,915)	925,418
Filter Membranes	65,000	-	-	65,000
Tools and Equipment	28,531	4,656	-	33,187
Motor Vehicles	18,450	12,795	-	31,245
Consumer Meters	6,158	1,378	-	7,536
Assets in course of construction (Phase 6)*	102,513	14,193	(116,706)	-
Assets in course of construction (Phase 8)*	10,639	77,859	(88,498)	-
Assets in course of construction (Phase 9)*	9,821	3,204	(1,104)	11,921
Assets in course of construction (Phase 10)*	-	33,573	(33,573)	-
Assets in course of construction (Phase 11)*	-	27,462	-	27,462
Assets in course of construction (Phase 12)*	-	1,746	-	1,746
	2,949,521	419,265	(253,796)	3,114,991
DEPRECIATION				
Mains and Services	280,906	39,145	-	320,051
Buildings	34,850	4,954	-	39,804
Storage Tanks	17,666	4,178	-	21,844
Machinery	343,892	61,868	(10,203)	395,558
Filter Membranes	51,861	9,288	-	61,149
Tools and Equipment	13,440	3,024	-	16,464
Motor Vehicles	7,687	4,511	-	12,199
Consumer Meters	1,899	623	-	2,522
	752,201	127,591	(10,203)	869,589
NET BOOK VALUE	2,197,320	291,674	(243,593)	2,245,402

*Assets in the course of construction. No depreciation is charged on assets in the course of construction until they are brought into operational use in the business, at which point the assets are transferred into the relevant asset category on the fixed asset register and depreciated over their useful economic life. In the year ended 31 December 2017, assets in the course of construction relate to Phases 6, 8, 9,10,11 & 12. Phases 6, 8 & 10 were completed and capitalised during 2017.