Excerpt from the States of Guernsey Accounts 2017: Note 1 - 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.

Excerpt from the States of Guernsey Accounts 2017: Note 1 - Accounting Policies

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.

Excerpt from the States of Guernsey Accounts 2017: Note 1 - Accounting Policies

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.

Excerpt from the States of Guernsey Accounts 2017: Note 1 - Accounting Policies

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.