

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

STATES WORKS ACCOUNTS 2019

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the States Works Accounts for the year ending 31 December 2019.

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

States of Guernsey
States' Trading Supervisory Board
States Works

Report and Financial Statements

For the year ended 31 December 2019

States' Trading Supervisory Board

States Works

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States' Trading Supervisory Board

States Works

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

States' Trading Supervisory Board Members

Deputy P. Ferbrache,	President	
Deputy J. Kuttelwascher		deceased 23 January 2020
Deputy J. Smithies		
Deputy P. Roffey		appointed 26 February 2020
Mr S. Falla MBE		
Mr J. Hollis		

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

Principal Officers to the States' Trading Supervisory Board

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

States Works Board Members

Mr J. Hollis	Chairman	
Deputy J. Kuttelwascher		deceased 23 January 2020
Deputy P. Roffey		appointed 5 March 2020
Mr M. Darby	non-voting adviser	
Mr M. Polli	non-voting adviser	appointed 25 July 2019
Mr P. Lickley	non-voting adviser	
Mr M. Hardwick	non-voting adviser	
Mr I. Merrien	non-voting adviser	

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 of 4 May 2017.

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

States' Trading Supervisory Board

States Works

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

Principal Officers to the States Works Board

Mr P. Lickley, General Manager, States Works
Mr M. Hardwick, Senior Manager, Technical, States Works
Mr M. Torode, Senior Manager, Operations, States Works
Mr I. Merrien, Senior Finance Manager, States Works
Miss C. Prout, Senior Manager, Business and Support Services, 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.

Legal Advisers

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

Independent Auditor

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

States' Trading Supervisory Board

States Works

Chairman's report

Overview

States Works is responsible for the provision of a number of essential services that either maintain and develop the island's infrastructure, or help promote Guernsey's natural beauty for islanders and visitors. Due to the diversity and scale of its service offering, States Works is also able to deploy its resources in providing an emergency response resource to unplanned incidents, the cost of which is borne across all its activities. This is an added benefit that helps to maintain the safety and security of the island.

States Works' 2019 financial results exceeded budget and provided a £1.75m cash contribution to the States of Guernsey, this as part of the States of Guernsey's Medium Term Financial Plan. This is a credit to all members of States Works.

States of Guernsey Trading Businesses represent circa 53% of States Works business activities and other States of Guernsey customers represent a further 33%. The management executive has been successful in working closely with clients to meet budgetary constraints whilst seeking to mitigate against, or at the very least minimise impacts to frontline services.

During 2019, a benchmarking and efficiency review was undertaken which recommended that all services are retained in States Works at present. This was based on there being effective delivery of the current Service Level Agreements and where available benchmark data has demonstrated that the services are within the benchmark range. However, there is a range of recommendations to address the findings from the review and to support States Works to be a more efficient and effective business.

Business Performance

During 2019, States Works successfully negotiated the renewal of its key contracts with States clients but also developed and secured a number of additional revenue generating opportunities. These included the expansion of the businesses commercial waste and recycling collection services and the maintenance and operation of Guernsey Waste's new Waste Transfer Station and Household Waste Recycling Centre at Longue Hougue. The latter form part of the implementation of the island's Solid Waste Strategy, a project that has taken considerable staff effort to move to business as usual, and has only been achieved as a result of the dedication and commitment of staff across the business.

The Future

States Works management have commenced work on an Implementation Plan to address the recommendations of the benchmarking and efficiency review and this work will also inform our new Business Plan which is under development. Transformation and change always brings further challenges, but the States Works Board and management executive remain optimistic that the outcomes will contribute to a stronger States Works business.

States' Trading Supervisory Board

States Works

General Manager's report

STSB presents its report and the audited financial statements for States Works for the year ended 31 December 2019. 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

States Works, a business unit of the STSB, operates as a trading business which contracts mainly with States of Guernsey 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 island's public infrastructure and associated services.

Contributions to the States of Guernsey

States Works made a £1.75m financial contribution to the States of Guernsey in 2019 (2018: £1m) as well as 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' customer base is predominantly other States of Guernsey committees and trading businesses for which it undertakes work based on formal service level agreements. The remaining 14% of turnover is undertaken for private clients including local Parish Douzaines.

Financial highlights

	Actual 2019 £'000	Budget 2019 £'000	Actual 2018 £'000
Revenue	17,092	16,594	15,606
Surplus for the financial year	1,178	616	719
Capital expenditure	1,205	1,991	1,596

States' Trading Supervisory Board

States Works

General Manager's report - continued

Operational performance

	2019	2018
Staffing Statistics		
Number of staff members at year end	224	207
Income generated per employee	£76,302	£75,391
Full time equivalent employees	239	230
Emergency call-out		
Number of calls	237	145
Man hours worked	459	480

States Works made a surplus of £1,178k in 2019 compared to a budgeted surplus of £616k, £562k above budget:

Revenue for 2019 was £17,092k which is £498k above budget. The main reasons for this are increased work on the collection element of waste, an increase in work undertaken by Highways Repair and an increase in contribution for the Sewage Collection service. The amount charged for operation of the waste sites was lower than budgeted, due to lower volumes and lower maintenance costs.

The increase in revenue against budget is proportionally matched by an increase in expenditure, including in respect of additional staff. There are recruitment challenges for skilled staff in certain areas, driving increased overtime. Operating expenses, including wages and materials are £688k adverse to budget, partly offset by administrative salaries being £154k favourable compared to the budget.

Capital purchases of vehicles and plant were delayed which has resulted in depreciation being £218k lower than budget.

The total investment return for the year is £345k favourable compared to the budget.

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 or deficit 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.

States' Trading Supervisory Board

States Works

General Manager's report - continued

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

The STSB is responsible for the economic, efficient and effective operations and management of 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 revenue and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the company board and STSB, to ensure that all STSB Members are informed of States Works financial affairs,
- Customer invoices are subjected to a range of pre-determined computerised 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 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,
- Regular review of charges, and
- Consideration of all audit reports by the STSB.

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' Trading Supervisory Board

States Works

General Manager's report - continued

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 have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months (including the assessment of the impact of COVID-19), prepared by management, and deem that States Works, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that States Works is a going concern for at least twelve months from approval of the financial statements.

Auditors

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

States' Trading Supervisory Board

States Works

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 accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other strategic reviews and organisational drivers.

The 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.

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

The SWB does not hold 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 operations 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 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,
- Approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB,
- Approve and issue annual reports, and
- Guide and steer 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; and 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.

The SWB acts as a political sub-committee of the STSB.

States' Trading Supervisory Board States Works

Corporate Governance - continued

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

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.

States' Trading Supervisory Board

States Works

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 ("STSB") – States Works for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of States Works' affairs as at 31 December 2019 and of its surplus for the year then ended and are in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of 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.

Conclusions relating to going concern

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

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

States' Trading Supervisory Board

States Works

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

Other information

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

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of the STSB for the financial statements

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

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

States' Trading Supervisory Board

States Works

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Grant Thornton Limited

Chartered Accountants

St Peter Port

Guernsey

8 June 2020

States' Trading Supervisory Board

States Works

Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Revenue	2 & 4	17,092	15,606
Expenses	2 & 5		
Operating expenses		12,300	11,242
Administration and general expenses		2,628	2,489
		14,928	13,731
Operating surplus before depreciation and gain on disposal of fixed assets		2,164	1,875
Depreciation	9	(1,362)	(1,227)
Gain on disposal of fixed assets	9	31	116
Fair value movement on investment property	10	-	30
Operating surplus for the year		833	794
Investment return/(loss) and net interest receivable	6	345	(75)
Surplus for the financial year		1,178	719

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

States Works

Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Tangible fixed assets	9	6,499	6,660
Investment property	10	530	530
		<u>7,029</u>	<u>7,190</u>
Current assets			
Inventories and work in progress	12	438	538
Debtors and prepayments	13	2,042	1,870
Balances with States Treasury		2,834	2,784
		<u>5,314</u>	<u>5,192</u>
Creditors: amounts falling due within one year	14	<u>(1,419)</u>	<u>(886)</u>
Net current assets		<u>3,895</u>	<u>4,306</u>
Total net assets		<u>10,924</u>	<u>11,496</u>
Reserves	15	<u>10,924</u>	<u>11,496</u>

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

Deputy P. Ferbrache
President

8 June 2020

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott
Managing Director

8 June 2020

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

States' Trading Supervisory Board

States Works

Statement of Changes in Equity

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Balance at 1 January		11,496	11,777
Surplus for the financial year		1,178	719
Transfer to States of Guernsey General Revenue	15	<u>(1,750)</u>	<u>(1,000)</u>
Balance at 31 December	15	<u>10,924</u>	<u>11,496</u>

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

States' Trading Supervisory Board

States Works

Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Net cash flows from operating activities	16	2,884	1,602
Cash flows from investing activities			
Proceeds from sale of fixed assets		35	117
Purchase of fixed assets	11	(1,205)	(1,596)
Net cash flows used in investing activities		(1,170)	(1,479)
Cash flows from financing activities			
Contribution to States of Guernsey General Revenue	15	(1,750)	(1,000)
Investment return received		86	107
Net cash flows from financing activities		(1,664)	(893)
Net increase/(decrease) in cash and cash equivalents		50	(770)
Cash and cash equivalents at the beginning of the year		2,784	3,554
Cash and cash equivalents at the end of the year		2,834	2,784
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		-	-
Balances with States Treasury		2,834	2,784
Cash and cash equivalents		2,834	2,784

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

States' Trading Supervisory Board

States Works

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 and have been rounded to the nearest thousand.

Going concern

The financial statements have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months (including the assessment of the impact of COVID-19), prepared by management, and deem that States Works, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that States Works is a going concern for at least twelve months from approval of the financial statements.

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

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.

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 month of the acquisition of an asset.

	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 the end of each reporting period. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

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 and are calculated at average value method. Provisions are made for obsolete and slow-moving items where appropriate.

Work in progress

Work in progress is valued at cost.

Basic financial instruments

i) Trade debtors

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

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of 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 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iii) Trade creditors

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

iv) 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. Expenses are accounted for on an accruals basis.

Pension costs

Pension costs are treated as described in note 18.

Investment return

Investment return on balances held with the States of Guernsey is accounted for on an accruals basis.

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

States' Trading Supervisory Board

States Works

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.

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

States' Trading Supervisory Board

States Works

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.

ii) Depreciation rates

States Works' building and equipment 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 building and equipment assets has been disclosed in note 2.

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

States' Trading Supervisory Board

States Works

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 by class of business is set out below:

	2019	2018
	£'000	£'000
Administration and stores	550	514
Cleansing	1,366	1,344
Drainage	320	319
Electrical and mechanical	1,115	1,068
Emergency services	90	187
Fleet hire	96	99
Fleet maintenance	485	571
Highway repair	1,566	1,361
Household Waste Recycling Centre and Waste Transfer Station	2,247	-
Land management	2,101	2,086
Landfill and recycling	2,154	3,729
Management services	199	204
Sewage collection	2,741	2,585
Signs and lines	469	485
Waste collection	1,593	1,054
	<u>17,092</u>	<u>15,606</u>

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

5. Expenses

	2019 £'000	2018 £'000
Operating expenses		
Direct labour	6,808	6,603
Direct materials	4,713	3,950
Vehicles – fuel costs	278	276
Plant and tools – maintenance and replacements	268	193
Building maintenance and charges	233	220
	<u>12,300</u>	<u>11,242</u>
Administration and general expenses		
Salaries, wages and employer's pension costs	1,860	1,741
Travel and training	75	72
Post, stationery and telephone	43	44
Information technology	77	85
Insurance	161	120
Audit fee	18	18
Professional fees and office expenses	394	409
	<u>2,628</u>	<u>2,489</u>
Total expenses	<u>14,928</u>	<u>13,731</u>

6. Investment return/(loss)

	2019 £'000	2018 £'000
Investment return/(loss)	<u>345</u>	<u>(75)</u>
	<u>345</u>	<u>(75)</u>

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

7. Surplus for the financial year

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

	Note	2019 £'000	2018 £'000
Auditor's remuneration		18	18
Depreciation of tangible fixed assets	9	1,362	1,227
Gain on disposal of fixed assets		(31)	(116)
		<u>1,349</u>	<u>1,129</u>

8. Staff numbers and costs

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

	2019	2018
Operational staff	202	195
Administration staff	37	35
	<u>239</u>	<u>230</u>

Their aggregate remuneration comprised:

	Note	2019 £'000	2018 £'000
Wages and salaries		7,468	7,235
Social security costs		490	471
Pension costs	18	867	820
		<u>8,825</u>	<u>8,526</u>

Pension costs include only those items within operating and administration and general expenses.

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2019 £'000	Additions £'000	Write offs/ Disposals £'000	31 December 2019 £'000
Cost				
Land	649	-	-	649
Buildings & fittings	4,177	45	-	4,222
Plant & equipment	1,711	160	(11)	1,860
Motor vehicles	8,388	985	(342)	9,031
Office equipment	268	15	-	283
	<u>15,193</u>	<u>1,205</u>	<u>(353)</u>	<u>16,045</u>
	1 January 2019 £'000	Charge for the year £'000	Disposals £'000	31 December 2019 £'000
Depreciation				
Land	-	-	-	-
Buildings & fittings	2,218	109	-	2,327
Plant & equipment	1,157	202	(11)	1,348
Motor vehicles	4,946	1,032	(338)	5,640
Office equipment	212	19	-	231
	<u>8,533</u>	<u>1,362</u>	<u>(349)</u>	<u>9,546</u>
Net Book Value	<u>6,660</u>			<u>6,499</u>

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

10. Investment Property

	1 January 2019 £'000	Additions/ Disposals £'000	Revaluations £'000	31 December 2019 £'000
Investment Property	530	-	-	530
	<u>530</u>	<u>-</u>	<u>-</u>	<u>530</u>

This investment property, which is freehold, was purchased on 1 January 2007. The fair value of this property at 31 December 2019 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 £625k.

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:

	2019 £'000	2018 £'000
Within one year	<u>36</u>	<u>36</u>
	<u>36</u>	<u>36</u>

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

11. Assets under construction

	1 January 2019 £'000	Expense in the year £'000	Transfers to Tangible Fixed Assets £'000	31 December 2019 £'000
2019 Total	-	1,205	(1,205)	-
2018 Total	-	1,596	(1,596)	-

Assets under construction completed in 2019 and transferred to fixed assets primarily comprises replacement plant and vehicles.

12. Inventories and work in progress

	2019 £'000	2018 £'000
Inventories	293	223
Work in progress	145	315
	438	538

13. Debtors and prepayments

	2019 £'000	2018 £'000
Trade debtors	1,707	1,841
Prepayments and other debtors	335	29
	2,042	1,870

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

14. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	331	487
Accruals and deferred income	<u>1,088</u>	<u>399</u>
	<u>1,419</u>	<u>886</u>

15. Reserves

	Revenue reserve £'000	Total £'000
Balance at 1 January	11,496	11,496
Surplus for the financial year	1,178	1,178
Transfer to States of Guernsey General Revenue	<u>(1,750)</u>	<u>(1,750)</u>
Balance at 31 December	<u>10,924</u>	<u>10,924</u>

All reserves are distributable

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

16. Reconciliation of operating surplus to net cash flows from operating activities

	2019	2018
	£'000	£'000
Operating surplus for the year	833	794
Depreciation charges	1,362	1,227
Gain on disposal of tangible assets	(31)	(116)
Decrease/(increase) in inventories and work in progress	100	(190)
Decrease/(increase) in debtors	87	(371)
Increase/(decrease) in creditors due within one year	533	288
Revaluation of investment property	-	(30)
Net cash flows from operating activities	<u>2,884</u>	<u>1,602</u>

17. Financial commitments and contingent liabilities

	2019	2018
	£'000	£'000
Commitments at 31 December for which no provision has been made in these financial statements.	<u>1,167</u>	<u>672</u>

Financial commitments are for orders placed for new vehicles not yet delivered.

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

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

18. 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 (which was £87,434 from 1 May 2016, increasing to £92,236 from 1 December 2019) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify States Works' 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 £867k (2018: £820k).

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

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

19. Subsequent events

COVID-19

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

Overall risk to operations

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

The relationship between States Works and the wider States of Guernsey means that 2020 commercial activity will potentially see reductions, as the States of Guernsey seeks to reduce its general revenue expenditure.

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

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

20. 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 of Guernsey Trading Business 53% (2018: 52%), other States of Guernsey 33% (2018: 36%) and private 14% (2018: 12%) clients.

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

The total compensation of key management personnel in 2019 (including salaries and other benefits) was £338k (2018: £321k).

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 STSB or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

21. 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.

22. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 17 relating to 2019 which would affect these financial statements (2018: None).

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

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

23. Financial instruments

States Works' financial instruments may be analysed as follows:

	2019	2018
	£'000	£'000
Financial assets at amortised cost		
Cash and cash equivalents	2,834	2,784
Debtors	1,707	1,841
Financial liabilities at amortised cost		
Creditors: amounts falling due within one year	(331)	(487)

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