

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

STATES WORKS ACCOUNTS 2020

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the States Works Accounts for the year ending 31 December 2020.

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

States of Guernsey
States' Trading Supervisory Board
States Works

Report and Financial Statements

For the year ended 31 December 2020

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

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

Principal Officers to the States' Trading Supervisory Board

- Mr S. Elliott, Managing Director, States Trading Group
- Mr S. Gardiner, Finance Business Partner, States Trading Group
- Mr A. Ford, Head of Shareholder Executive, States Trading Group
- Mr R. Evans, Deputy Managing Director, States Trading Group resigned 1 November 2020

States Works Board Members

Mr J. Hollis	Chairman	
Deputy P. Roffey	appointed 5 March 2020	term ended 15 October 2020
Deputy N. Moakes		appointed 29 October 2020
Mr M. Polli	non-voting adviser	
Mr P. Lickley	non-voting adviser	
Mr I. Merrien	non-voting adviser	
Deputy J. Kuttelwascher		deceased 23 January 2020
Mr M. Darby	non-voting adviser	retired 2 December 2020
Mr M. Hardwick	non-voting adviser	resigned 26 March 2021

States' Trading Supervisory Board

States Works

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

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

Principal Officers to the States Works Board

Mr P. Lickley, Managing Director, 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

Mr M. Hardwick, Senior Manager, Technical, States Works resigned 26 March 2021

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 municipal and maintenance 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 support service to unplanned incidents, the cost of which is in part amortised across all its activities. This is an added benefit that helps to maintain the safety and security of the island.

States Works was affected by Covid-19 lockdown, but with well documented and tested business continuity plans in place to deal with such circumstances, States Works was well placed to respond to this challenge. Business activities were limited to those required to maintain continuity of essential services during lockdown, and all non-essential operational activity was put on hold until restrictions were eased. This impacted the business' 2020 financial results which fell short of the budgeted surplus, and several areas had to meet subsequent budgetary constraints imposed by our clients. Despite this a £500k cash contribution was still provided to the States of Guernsey as part of the Medium Term Financial Plan.

Business performance

2020 revenues reduced whilst restrictions on working were in place, but thereafter the situation largely recovered towards pre-lockdown levels.

Contracts with Guernsey Waste are operated on a cost plus basis and these in particular saw savings being passed back to the client. This resulted in income from this section being £1.1m adverse to budget, a situation that was partly offset by the stay at home requirement, home working and wet weather which resulted in the Sewage Service collecting an additional c.10,000 loads during 2020.

Our community

States Works mission is to be a 'community focused provider of essential environmental and infrastructure services operating for the long term benefit of the island.'

This benefit is partly achieved through the diverse range of services provided, the majority of which touch on the lives of the whole community in some way. These services not only ensure the maintenance, safety and security of the island's natural and built environment, but also help to promote and support the island's natural beauty for islanders and visitors.

The business supports a number of work rehabilitation and return to work initiatives aimed at helping individuals back into the work place following a period of absence, or to overcome barriers to employment.

States' Trading Supervisory Board

States Works

Chairman's Report - continued

Our team

The way our team responded to this unprecedented situation of dealing with barriers in day-to-day operations due to Covid-19 restrictions demonstrated the resilience of the business and the importance to the island of maintaining a dedicated resource capable of responding to significant emergency situations.

The team at States Works delivers a number of essential services, which is why a significant portion of the business continued to work during the initial lockdown.

Our staff who worked during these very difficult and often challenging circumstances must be commended, and I would like to thank them all for their dedication, hard work and commitment to providing an excellent service.

We also recognise the importance of investing in our people and have established a proactive training and development framework to support our staff and the next generation of skilled operatives. This is helping to address the growing skills shortage on island.

Our business strategy and future

An independent benchmarking and efficiency review of our activities undertaken in 2019 highlighted a number of opportunities to improve services, increase efficiency, and deliver greater value for money. These are enshrined within States Works' new business plan, published in 2020. The plan sets the scene for a period of significant change and transformation and will lead to the establishment of an optimum operating model for the business, based around six outcomes:

- Improved resilience;
- Customer and client satisfaction;
- Resource optimisation (assets, people, systems and processes);
- Return in the best interest of islanders;
- Corporate social responsibility; and
- Environmental sustainability to ensure continued exploring and promotion of sustainable working practices.

States' Trading Supervisory Board

States Works

Managing Director's Report

STSB presents its report and the audited financial statements for States Works for the year ended 31 December 2020. These comprise 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 22.

Principal activities

States Works operates as a trading business delivering a wide range of services. Those services require a predominantly manual labour force utilising specialist plant and equipment to maintain the island's public infrastructure and associated services.

Our customers

States Trading Group businesses account for 57% of States Works revenue, with other States of Guernsey committees representing a further 30%. The remaining 13% of revenue is undertaken for private clients including local Parish Douzaines.

Financial performance

	Actual	Budget	Actual
	2020	2020	2019
	£'000	£'000	£'000
Revenue	16,153	17,584	17,092
Surplus for the financial year	682	878	1,178
Capital expenditure	2,321	2,918	1,205

States' Trading Supervisory Board

States Works

Managing Director's report - continued

Operational performance

	2020	2019
Staffing Statistics		
Number of staff members at year end	224	224
Income generated per employee	£72,112	£76,302
Full time equivalent employees	241	239
Emergency call-out		
Number of calls	267	237
Man hours worked	508	459

States Works made a surplus of £682k in 2020 compared to a budgeted surplus of £878k:

- Revenue for 2020 was £16,153k, £1,431k below budget. Covid-19 impacted revenues due to restrictions on working that required the provision of all non-essential works to be paused during lockdown. This mainly affected areas such as Highways and Land Management Services. The amount charged for operation of the waste sites was also lower than budgeted, this was due to lower volumes and associated maintenance costs.
- Expenses for 2020 were £14,178k, which reflects the reduction in operations during lockdown, resulting in expenditure being £874k below budget.
- Capital purchases of vehicles and plant were delayed which resulted in depreciation being £167k lower than budget.
- The total investment return for the year was £212k favourable to budget.

Contributions to the States of Guernsey

States Works made a £500k financial contribution to the States of Guernsey in 2020 (2019: £1,750k) and assisted clients in achieving their own target reductions in a way that minimised noticeable impacts on services.

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,

States' Trading Supervisory Board

States Works

Managing Director's report - continued

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

Statement of financial controls

The STSB is responsible for the economic, efficient and effective operations and management of 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

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

All members of the SWB other than the Managing Director and the Financial Manager are appointed by the STSB.

As a sub-committee of the States of Guernsey, the quorum will be two members of the STSB.

The SWB does not hold a fiduciary responsibility.

The SWB will take into account the States of Guernsey's 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 Managing Director 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 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("United Kingdom Generally Accepted Accounting Practice").

In our opinion, the financial statements:

- give a true and fair view of the state of States Works' affairs as at 31 December 2020 and of its surplus for the year then ended; and
- are in accordance with United Kingdom Generally Accepted Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of States Works in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

States' Trading Supervisory Board

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 in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the STSB for the financial statements

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

In preparing the financial statements, the STSB is responsible for assessing 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 intend to liquidate States Works or to cease operations, or have 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

States' Trading Supervisory Board

States Works

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

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

Use of our report

This report is made solely to the members of the STSB. Our audit work has been undertaken so that we might state to the members of STSB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than 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

20 May 2021

States' Trading Supervisory Board

States Works

Statement of Comprehensive Income

for the year ended 2020

	Notes	2020 £'000	2019 £'000
Revenue	2 & 4	<u>16,153</u>	<u>17,092</u>
Expenses	2 & 5		
Operating expenses		(11,266)	(12,300)
Administration and general expenses		<u>(2,912)</u>	<u>(2,628)</u>
		<u>(14,178)</u>	<u>(14,928)</u>
Operating surplus before depreciation, impairment and (loss)/gain on disposal of fixed assets		1,975	2,164
Depreciation	8	(1,446)	(1,362)
(Loss)/gain on disposal of fixed assets	7	(18)	31
Impairment of fixed assets	8	<u>(41)</u>	<u>-</u>
Operating surplus for the year		<u>470</u>	<u>833</u>
Investment return		<u>212</u>	<u>345</u>
Surplus for the financial year		<u><u>682</u></u>	<u><u>1,178</u></u>

All material activities derive from continuing operations.

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Financial Position

as at 31 December 2020

	Notes	2020 £'000	2019 £'000
Non-current assets			
Tangible fixed assets	8	7,315	6,499
Investment property	9	530	530
		<u>7,845</u>	<u>7,029</u>
Current assets			
Inventories and work in progress	11	543	438
Debtors and prepayments	12	2,079	2,042
Balances with States Treasury		3,218	2,834
		<u>5,840</u>	<u>5,314</u>
Creditors: amounts falling due within one year	13	<u>(2,579)</u>	<u>(1,419)</u>
Net current assets		<u>3,261</u>	<u>3,895</u>
Total net assets		<u>11,106</u>	<u>10,924</u>
Reserves	14	<u>11,106</u>	<u>10,924</u>

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

Deputy P. Roffey
President

20 May 2021

Signed on behalf of the States Trading Group

Mr S. Elliott
Managing Director

20 May 2021

Notes 1 to 22 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 2020

	Notes	2020 £'000	2019 £'000
Balance at 1 January		10,924	11,496
Surplus for the financial year		682	1,178
Transfer to States of Guernsey General Revenue	14	<u>(500)</u>	<u>(1,750)</u>
Balance at 31 December	14	<u>11,106</u>	<u>10,924</u>

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Net cash flows from operating activities	15	<u>3,094</u>	<u>2,884</u>
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	35
Purchase of fixed assets	10	<u>(2,321)</u>	<u>(1,205)</u>
Net cash flows used in investing activities		<u>(2,321)</u>	<u>(1,170)</u>
Cash flows from financing activities			
Contribution to States of Guernsey General Revenue	14	<u>(500)</u>	<u>(1,750)</u>
Investment return received		<u>111</u>	<u>86</u>
Net cash flows from financing activities		<u>(389)</u>	<u>(1,664)</u>
Net increase in cash and cash equivalents		384	50
Cash and cash equivalents at the beginning of the year		<u>2,834</u>	<u>2,784</u>
Cash and cash equivalents at the end of the year		<u>3,218</u>	<u>2,834</u>
Reconciliation to cash at bank and in hand:			
Balances with States Treasury		<u>3,218</u>	<u>2,834</u>
Cash and cash equivalents		<u>3,218</u>	<u>2,834</u>

Notes 1 to 22 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, 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 12 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 12 months from approval of the financial statements.

Notes 1 to 22 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.

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
Land	-	-
Buildings & fittings	10 – 50	2% - 10%
Plant & equipment	3 – 20	5% - 33.3%
Motor vehicles	3 – 10	10% - 33.3%
Office equipment	5	20%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value

Notes 1 to 22 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

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 22 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) Derecognition of basic financial instruments

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

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

Revenue and expenses

Revenue 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 22 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 22 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 22 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:

	2020	2019
	£'000	£'000
Administration and stores	494	550
Cleansing	1,358	1,366
Drainage	324	320
Electrical and mechanical	1,032	1,115
Emergency services	102	90
Fleet hire	92	96
Fleet maintenance	685	485
Highway repair	925	1,566
Household Waste Recycling Centre and Waste Transfer Station	2,243	2,247
Land management	1,797	2,101
Landfill and recycling	1,859	2,154
Management services	116	199
Sewage collection	3,004	2,741
Signs and lines	459	469
Waste collection	1,663	1,593
	<u>16,153</u>	<u>17,092</u>

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

5. Expenses

	2020	2019
	£'000	£'000
Operating expenses		
Direct labour	6,871	6,808
Direct materials	3,701	4,713
Vehicles – fuel costs	253	278
Plant and tools – maintenance and replacements	203	268
Building maintenance and charges	238	233
	<u>11,266</u>	<u>12,300</u>
Administration and general expenses		
Salaries, wages and employer's pension costs	1,962	1,860
Travel and training	48	75
Post, stationery and telephone	46	43
Information technology	44	77
Insurance	297	161
Audit fee	20	18
Professional fees and office expenses	494	394
Debt write off	1	-
	<u>2,912</u>	<u>2,628</u>
Total expenses	<u>14,178</u>	<u>14,928</u>

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board States Works

Notes to the Financial Statements – continued

6. Staff numbers and costs

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

	2020	2019
Operational staff	202	202
Administration staff	39	37
	241	239

Their aggregate remuneration comprised:

	Note	2020	2019
		£'000	£'000
Wages and salaries		7,376	7,468
Social security costs		485	490
Pension costs	18	882	867
		8,743	8,825

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

Notes 1 to 22 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	2020 £'000	2019 £'000
Auditor's remuneration		20	18
Depreciation of tangible fixed assets	8	1,446	1,362
Loss/(gain) on disposal of fixed assets		18	(31)
Impairment of tangible fixed assets		41	-
		1,525	1,349

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

8. Tangible fixed assets

	1 January 2020 £'000	Additions £'000	Write offs/ Disposals £'000	31 December 2020 £'000
Cost				
Land	649	-	-	649
Buildings & fittings	4,222	76	(29)	4,269
Plant & equipment	1,860	273	-	2,133
Motor vehicles	9,031	1,972	(167)	10,836
Office equipment	283	-	-	283
	<u>16,045</u>	<u>2,321</u>	<u>(196)</u>	<u>18,170</u>
	1 January 2020 £'000	Charge for the year £'000	Write offs/ Disposals £'000	31 December 2020 £'000
Accumulated Depreciation and Impairment				
Land	-	-	-	-
Buildings & fittings	2,327	103	30	2,460
Plant & equipment	1,348	198	-	1,546
Motor vehicles	5,640	1,126	(167)	6,599
Office equipment	231	19	-	250
	<u>9,546</u>	<u>1,446</u>	<u>(137)</u>	<u>10,855</u>
Net Book Value	<u>6,499</u>			<u>7,315</u>

During the year an impairment of £41k was made on buildings and fittings to reflect a shorter remaining life on the tarmac surfaces at the Hure Mare site.

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

9. Investment property

	1 January 2020 £'000	Additions/ Disposals £'000	Revaluations £'000	31 December 2020 £'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 2020 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:

	2020 £'000	2019 £'000
Within one year	<u>37</u>	<u>36</u>
	<u>37</u>	<u>36</u>

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board States Works

Notes to the Financial Statements – continued

10. Assets under construction

	1 January 2020 £'000	Expense in the year £'000	Transfers to Tangible Fixed Assets £'000	31 December 2020 £'000
2020 Total	-	2,321	(2,321)	-
2019 Total	-	1,205	(1,205)	-

Assets under construction completed in 2020 and transferred to fixed assets primarily comprises replacement plant and vehicles.

11. Inventories and work in progress

	2020 £'000	2019 £'000
Inventories	315	293
Work in progress	228	145
	543	438

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2020 £'000	2019 £'000
Trade debtors	1,727	1,707
Prepayments and other debtors	<u>140</u>	<u>224</u>
	1,867	1,931
Accrued investment return	<u>212</u>	<u>111</u>
	<u><u>2,079</u></u>	<u><u>2,042</u></u>

13. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	540	331
Accruals and deferred income	<u>2,039</u>	<u>1,088</u>
	<u><u>2,579</u></u>	<u><u>1,419</u></u>

14. Reserves

	2020 £'000	2019 £'000
Balance at 1 January	10,924	11,496
Surplus for the financial year	682	1,178
Transfer to States of Guernsey General Revenue	<u>(500)</u>	<u>(1,750)</u>
Balance at 31 December	<u><u>11,106</u></u>	<u><u>10,924</u></u>

All reserves are distributable

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

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

	2020	2019
	£'000	£'000
Operating surplus for the year	470	833
Depreciation charges	1,446	1,362
Loss/(gain) on disposal of fixed assets	18	(31)
Impairment of fixed assets	41	-
(Increase)/decrease in inventories and work in progress	(105)	100
(Increase)/decrease in debtors	64	87
Increase in creditors due within one year	1,160	533
Net cash flows from operating activities	3,094	2,884

16. Financial commitments and contingent liabilities

	2020	2019
	£'000	£'000
Commitments at 31 December for which no provision has been made in these financial statements.	362	1,167

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

States Works has a contingent liability of £22k as at 31 December 2020 (2019: £Nil).

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

17. Financial instruments

States Works' financial instruments may be analysed as follows:

	2020	2019
	£'000	£'000
Financial assets at amortised cost		
Cash and cash equivalents	3,218	2,834
Debtors	1,727	1,707
Financial liabilities at amortised cost		
Creditors: amounts falling due within one year	(540)	(331)

Notes 1 to 22 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 (£92,236 as at 31 December 2020) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify 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 periodic valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £882k (2019: £867k).

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

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

19. 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.

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".

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 2020 (including salaries and other benefits) was £345k (2019: £338k).

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

	2020	2019
	£'000	£'000
Garenne Group		
Expenses	1,085	304
Revenue	186	365
	<u>1,271</u>	<u>669</u>
Trade Debtors	98	97
Trade Creditors	13	17

Of which £902k (2019: £149k) was the result of open tenders for the acquisition of specialist vehicles.

Notes 1 to 22 form an integral part of these financial statements.

States' Trading Supervisory Board

States Works

Notes to the Financial Statements – continued

21. Subsequent events

Covid-19

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

During lockdown, and in line with our business continuity plan and the advice of the Civil Contingencies Authority and Public Health, States Works business activities were limited to those required to maintain continuity of essential services (sewage collection service, waste management services and the essential maintenance and repair of property and mobile assets. Many office based staff were instructed to work from home which was made easier thanks to modern technology, and operational staff involved in non-essential activity were placed on standby until the spread of the virus was brought under control and restrictions eased. Those staff members being called back as required to cover staff absenteeism and staff who were self-isolating or shielding in accordance with Public Health advice.

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 2020 have not been adjusted to reflect their impact.

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

22. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 16 relating to 2020 which would affect these financial statements (2019: None).

Notes 1 to 22 form an integral part of these financial statements.