

ALDERNEY COMMISSION FOR RENEWABLE ENERGY

FINANCIAL STATEMENTS 2018

FOR INFORMATION PURPOSES

Alderney Commission for Renewable Energy

Commissioners' Report and Financial Statements

For the year ended 31 December 2018

Contents

Commission information..... 1

Chairman's statement..... 2

Statement of Commissioners' responsibilities 4

Independent Auditor's report..... 5

Statement of Comprehensive Income..... 7

Statement of Financial Position..... 8

Notes to the financial statements..... 9 - 14

Alderney Commission for Renewable Energy

Commission information

Commissioners

Captain R. P. Barton (Chairman)
Professor J. V. Sharp (Commissioner)
Mrs. R. Gaudion (Commissioner)

Secretary

Mrs. R. Gaudion

Independent Auditor

KPMG Channel Islands Limited
Chartered Accountants
Gategny Court
Gategny Esplanade
St Peter Port
Guernsey
GY1 1WR

Banker

HSBC
53a Victoria Street
Alderney
GY9 3TA

Office

A6 Ollivier Court
Ollivier Street
Alderney
GY9 3TD

Alderney Commission for Renewable Energy

Chairman's Statement

For the year ended 31 December 2018

The Renewable Energy (Alderney) Law, 2007 established the Alderney Commission for Renewable Energy ('the Commission' or 'ACRE') with powers to license and regulate the operation, deployment, use or management of all forms of renewable energy on the island of Alderney and in its territorial waters.

The Commission is an independent statutory body that is separate from the States of Alderney ('the States'). Since its establishment the Commission has been primarily focused on the development of tidal power, Alderney having one of the largest tidal power resources in Europe.

In 2008, Alderney Renewable Energy Limited ('ARE') was granted a 65 year licence from the States and the Commission for approximately 50% of Alderney's waters in order to begin to plan for the development of a large scale tidal power operation. ARE is a private commercial company funded by its shareholders and is unconnected to the States or the Commission.

Following the termination of the 2008 commercial agreement with ARE in May 2017 and the revocation of their Statutory Licence in September 2017 for the non-payment of Block Fees, the Commission served a summons upon ARE claiming payment of all debts including the Convertible Loan Agreement ('CLA'). At the same time, ARE served a summons upon the Commission launching a statutory appeal against the revocation of the Statutory Licence together with a counter claim for all Block Fees paid under the 2008 Agreement.

Trial proceedings were issued with a trial set for the week starting 17 September 2018. The Commission has been focussed throughout the year in preparing for this complex trial and dealing with the aftermath of the case when it was settled out of court on Friday 14 September 2018 two days before the trial was due to start. The detailed terms of the Settlement Agreement are the subject of a confidentiality clause but in summary ARE have agreed to pay the full amount owing to the Commission and full costs, additionally ARE have dropped their counter claim and statutory appeal.

Commission structure and finances

The settlement in September 2018 has released the Commission from all commercial aspects of seabed licencing and the States now have responsibility for the commercial (non-statutory) aspects of the Commission's role. The Commission continues to be solely responsible for regulation and issuing of statutory licences for all renewable energy activities in Alderney's territorial waters and on land.

Captain Robert Barton has continued to act as Chairman, Dr. John Sharp and Mrs Ruth Gaudion remain in post as Commissioners.

Having paid over its reserves to the States of Alderney in 2017 the Commission remains funded by the States of Alderney under the 'Indemnity Agreement' and expects to continue on this basis for 2019. The Commission limits its activities to the absolute minimum necessary to carry out its statutory functions and legal obligations and is working closely with the States Treasurer to minimise and monitor expenditure. The Commission remains the beneficiary of the Settlement Agreement with ARE.

Alderney Commission for Renewable Energy

Chairman's Statement (continued)

For the year ended 31 December 2018

Commission activities and priorities for 2019

The States of Alderney have notified the Commission of its intention to keep the Commission as a going concern. It is the States of Alderney view is that the Commission can continue with a reduced level of expenditure in order to cover any statutory requirements and retain the scope to invest additional resources in the future if and when a route to significant tidal power generation is apparent. As a result, the States of Alderney has decided the best way to achieve this position is to bring the current employment arrangements for the Commissioners and staff at ACRE to an end and to give notice to terminate the lease for the office premises.



Chairman

Date: 28th February 2019

Alderney Commission for Renewable Energy

Statement of the Commissioners' responsibilities

For the year ended 31 December 2018

The Commissioners of the Alderney Commission for Renewable Energy ('the Commission') acknowledges they are responsible for preparing financial statements for each financial year. The Commissioners have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Section 1A of Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

The financial statements are required by law to give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that year.

In preparing those financial statements the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Commission's ability to continue as a going concern, disclosing as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

The Commissioners are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission and enable them to ensure that the financial statements comply with applicable laws. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Commission and to prevent and detect fraud and other irregularities. The Commissioners are responsible for the maintenance and integrity of the corporate and financial information included on the Commission's website. Legislation in Alderney governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

The Commissioners who held office at the date of approval of this Commissioners' report confirm that, so far as they are each aware, there is no relevant audit information of which the Commission auditor is unaware; and each Commissioner has taken all the steps that they ought to have taken as a Commissioner to make themselves aware of any relevant audit information and to establish that the Commission's auditor is aware of that information.

Independent Auditor

KPMG Channel Islands Limited were reappointed as auditor of the Commission during the period.

Independent auditor's report to the Commissioners of Alderney Commission for Renewable Energy

Our opinion is unmodified

We have audited the financial statements of Alderney Commission for Renewable Energy (the "Commission"), which comprise the Statement of Financial Position as at 31 December 2018, Statement of comprehensive income for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Commission as at 31 December 2018, and of the Commission's financial performance for the year then ended; and
- are prepared in accordance with Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Commission in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We have nothing to report on the other information in the statement of Commissioners' responsibilities

The Commissioners are responsible for the Statement of Commissioners' responsibilities. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon or any form of assurance conclusion thereon.

Our responsibility is to read the Statement of Commissioners' responsibilities and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the information presented in the Statement of Commissioners' responsibilities.

Independent auditor's report to the Commissioners of Alderney Commission for Renewable Energy (continued)

Respective responsibilities

Commissioners' responsibilities

As explained more fully in their statement set out on page 4, the Commissioners are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Commissioners as a body

This report is made solely to the Commissioners, as a body, in accordance with our engagement letter dated 18 December 2018. Our audit work has been undertaken so that we might state to the Commissioners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

28 February 2019

Alderney Commission for Renewable Energy

Statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £	2017 £
Operating income and expenses			
Income	2	237,000	458,248
Administrative expenses	2	(236,721)	(92,890)
Impairment of assets	7	(55,979)	(466,348)
Operating (deficit)		(55,700)	(100,990)
Other interest receivable and similar income			
Interest receivable	1	55,979	62,100
		279	(38,890)
Interest payable and similar expenses			
Interest payable		-	-
Bank charges		(121)	(99)
Gain/(deficit) on ordinary activities before taxation		158	(38,989)
Total comprehensive income for the year		158	(38,989)

All activities are derived from continuing activities.

The Commission has no components of 'other comprehensive income'.

The notes on pages 9 to 14 form an integral part of these financial statements.

Alderney Commission for Renewable Energy

Statement of Financial Position

As at 31 December 2018

	Notes	2018 £	2017 £
Non current assets			
Convertible loan	1	-	-
Tangible fixed assets	5	368	735
		<u>368</u>	<u>735</u>
Current assets			
Debtors: Accrued income: amounts falling due within one year	8	-	20,000
Prepayments and other debtors		3,217	2,500
Cash and cash equivalents	6	20,772	1,240
Total current assets		<u>23,989</u>	<u>23,740</u>
Current liabilities			
Creditors: amounts falling due within one year	9	7,333	7,609
Total current liabilities		<u>7,333</u>	<u>7,609</u>
Net assets		<u>17,024</u>	<u>16,866</u>
General reserves:			
Reserves	10	17,024	16,866
Shareholders' funds		<u>17,024</u>	<u>16,866</u>

The notes on pages 9 to 14 form an integral part of these financial statements.

The financial statements on pages 7 to 14 were approved by the Alderney Commission for Renewable Energy on 28th February 2019 and are signed on their behalf by:



Captain Robert P Barton
Chairman

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

1 Accounting policies

Basis of preparation

The Alderney Commission for Renewable Energy ("the Commission" or "ACRE") was established by the Renewable Energy (Alderney) Law, 2007. The Commission has offices at A6 Ollivier Court, Alderney, GY9 3TD.

The Commission's financial statements have been prepared in compliance with United Kingdom Accounting Standards including FRS 102 (Section 1A), the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The Financial statements were prepared on a historical cost basis.

The financial statements are prepared in sterling which is the functional currency of the Commission. The Commissioners consider sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Going concern

The States of Alderney ("the States") indemnifies ACRE against all its operating on going expenses that it may incur, where all reasonable efforts will be made to keep within the mutually agreed budget and all legal and other costs that it incurs of whatever description and all liabilities in relation to the termination of the Agreement and in particular (without limiting the generality) the costs of recovering all sums due to ACRE under the Agreement or any ancillary or other document and enforcing any judgement or order that ACRE may obtain or any liability arising from any order made against ACRE. This Indemnity ("States Indemnity Agreement") was entered into by the authorised signatories of the States and ACRE and by the Commissioners on 23 August 2017.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Computer equipment and related equipment	33% per annum
Office furniture	25% per annum
Office refitting	20% per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Revenue recognition

Revenue is recognised to the extent that the Commission has the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

1 Accounting policies (continued)

Income: Block Fees

The Commission received income in the form of Block Fees under the terms of the Agreement granted on 13 November 2008 ("The Agreement") to Alderney Renewable Energy Limited ("ARE"). The fees were non-refundable and were recognised in the Income account on an accrual basis. Block Fees were not paid in 2017 and the 2008 Agreement was duly terminated. Block Fees due from 1 July 2016 onwards were subject to cumulative RPI increase by instruction of the States of Alderney on 1 February 2017. Unpaid Block Fee debts, having been impaired, were the subject of legal proceedings.

Income: Upfront payment

Under the terms of the Agreement dated 13 November 2008, Alderney Renewable Energy Limited ("ARE") agreed to pay an annual sum of £200,000 to the Commission. The £200,000 payment was intended to be remitted directly to Alderney Electricity Limited where it was used to subsidise the fuel cost component on electricity bills for residents and businesses on Alderney. Following the settlement agreement on 14 September 2018 which provided clarity that the statutory licence entered into in 2008 is no longer in place, no Upfront payments were received in 2018.

Income: States Indemnity Subsidy

The Commission receives cash subsidy payments from the States of Alderney under the terms of the States Indemnity Agreement. Payments are requested in tranches by the Commission as necessary in line with the agreed budget and are recognised as a claim for expenses.

Interest receivable

Interest receivable is recognised as interest accrues using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position, comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price less attributable costs. Any losses arising from impairment are recognised in the Statement of Comprehensive Income. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Expenses

Expenses, including administration and other expenses are accounted for on an accruals basis and are recognised in the Statement of Comprehensive Income on the transaction date. See Note 11 for related party expenses.

Reserves

The Commission does not hold any financial reserves. During 2017, the Commission released its financial reserves to the States of Alderney in the sum of £200,750 to be offset by the States of Alderney against legal fees incurred by the States, subject to and in exchange for the States giving the indemnities to ACRE and the Commissioners set out in the States Indemnity Agreement. See above Note 'Going concern'.

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

1 Accounting policies (continued)

Convertible loan agreement

The Commission entered in to a convertible loan agreement ("CLA") with ARE on 30 September 2016. The CLA is a financial instrument and is measured at amortised cost using the effective interest method less any impairment losses.

The CLA was initially recorded at its fair value, the transaction price. In the year to 31 December 2016, the Commissioners determined that the full value of the CLA £517,500 plus £15,653 interest receivable should be impaired due to the assessed risk of these sums being irrecoverable. In the current year the impairment loss of £55,979 (2017: £62,100) interest receivable has been recognised within the Statement of Comprehensive Income. The total value of these impaired debts were subject to legal proceedings. Of the interest receivable, £44,236 was subject to legal proceedings and £11,743 was from the legal proceedings. A settlement agreement was reached on 14 September 2018, whereby ARE agreed to full payment of the outstanding fees, these fees remain unpaid. It is the opinion of the Commissioners, that recovery of the debt in the short to medium term is unlikely and therefore should remain fully impaired.

Consent order and Settlement agreement

A Consent Order from the Court of Alderney was issued on 16 February 2018 setting out directions for trial between the Commission and ARE. The Commission and ARE agreed terms in a Settlement Agreement dated 14 September 2018. ARE agreed to withdraw the counter claim and Statutory Appeal and terms have been agreed between the parties for the payment of the full amount of ACRE's money claim including costs. In addition, the agreement provided clarity that statutory licence entered into in 2008 is no longer in place. Details of the full settlement remain legally privileged.

Lease commitments

Rentals payable under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the lease term.

Taxation

The Commission is not liable to Guernsey income tax.

2 Income and operating surplus

The income and operating surplus is derived wholly from continuing activities.

	2018	2017
	£	£
Income		
Income from block fees	-	204,248
States of Alderney Indemnity subsidy	237,000	54,000
Upfront payment	-	200,000
	<u>237,000</u>	<u>458,248</u>

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

2	Income and operating surplus (continued)	Notes	2018	2017
	Administrative expenses		£	£
	Commissioners fees	4	54,304	42,268
	Staff salaries	4	27,879	22,806
	Premises		1,570	1,402
	Rent	12	3,640	9,353
	I.T. costs		1,188	3,315
	Conferences and general travel		895	1,523
	Telephone, stationery and postage		1,912	2,209
	Insurance		607	1,230
	Audit and accountancy fees	3	7,370	6,040
	Legal fees		136,216	1,950
	Depreciation		367	648
	Sundry		5	146
	Staff training		768	-
			<u>236,721</u>	<u>92,890</u>

3 Auditor's remuneration
The remuneration of the auditors is further analysed as follows:

	2018	2017
Audit	£	£
Audit of financial statements	6,200	5,890
	<u>6,200</u>	<u>5,890</u>

4	Staff costs	2018	2017
(a)		£	£
	Salaries	26,152	21,394
	Social security costs	1,727	1,412
		<u>27,879</u>	<u>22,806</u>

The average monthly number of employees during the year was as follows:

	2018	2017
Employees	No.	No.
	<u>1</u>	<u>1</u>

(b)	2018	2017
Commissioners fees	£	£
	<u>54,304</u>	<u>42,268</u>

During 2018, Commissioners' fees of £54,304 (2017: £42,268) were paid to three Commissioners. Mark Wordsworth resigned on 22 March 2017 and provided his services without charge and was therefore not paid Commissioner fees. On 24 March 2017 Captain Robert Barton became Chairman and Mrs Ruth Gaudion (Operations Manager) a Commissioner. Mrs Ruth Gaudion receives one third of the Commissioners fee in recognition of her dual role. From 1 July 2017 all Commissioners voluntarily took a 50% fee reduction to reduce costs following the termination of the Agreement. From 1 November 2017 full fee payment was re-introduced upon commencement of complex legal proceedings between ARE and ACRE.

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

5	Fixed assets		Computer equipment	Total
	Cost or valuation		£	£
	As at 1 January 2018		5,021	5,021
	Additions		-	-
	Write off/disposals		-	-
	As at 31 December 2018		<u>5,021</u>	<u>5,021</u>
	Depreciation			
	As at 1 January 2018		4,286	4,286
	Charge for the year		367	367
	Write off/disposals		-	-
	As at 31 December 2018		<u>4,653</u>	<u>4,653</u>
	Net book value			
	As at 31 December 2018		<u>368</u>	<u>368</u>
	Net book value			
	As at 31 December 2017		<u>735</u>	<u>735</u>
6	Cash and cash equivalents		2018	2017
			£	£
	Cash at bank		20,672	1,140
	Petty cash		100	100
			<u>20,772</u>	<u>1,240</u>
7	Impairment of assets			
	31 December 2018	Amount	Impairment	Total
		£	£	£
	Trade debtors	-	-	-
	Interest receivable	55,979	(55,979)	-
		<u>55,979</u>	<u>(55,979)</u>	<u>-</u>
	31 December 2017	Amount	Impairment	Total
		£	£	£
	Trade debtors	404,248	(404,248)	-
	Interest receivable	62,100	(62,100)	-
		<u>466,348</u>	<u>(466,348)</u>	<u>-</u>

Trade debtors represented both the Block Fee for 1 January 2017 (£204,248) and the Upfront payment due on 1 January 2017 (£200,000) payable by ARE. These payments were not received. The Commission agreed to impairment of the balance to account for the doubtful debt. See Note 1 for additional detail.

Alderney Commission for Renewable Energy

Notes to the financial statements

For the year ended 31 December 2018

8 Debtors - amounts falling due within one year	2018	2017
	£	£
Prepayments and other debtors	3,217	-
Accrued Income - States subsidy	-	20,000
	<u>3,217</u>	<u>20,000</u>
9 Creditors - amounts falling due within one year	2018	2017
	£	£
States of Alderney	-	609
Accruals	7,333	7,000
	<u>7,333</u>	<u>7,609</u>
10 Reconciliation of movements in general reserves		2018
		£
Balance as at 31 December 2017		16,866
Loss for the year		158
Balance as at 31 December 2018		<u><u>17,024</u></u>

11 Related party transactions

During the course of the year, ACRE received States of Alderney indemnity subsidies of £237,000 (2017 £54,000) for the payment of expenses incurred by ACRE. There were no amounts (2017: £20,000) outstanding at year end.

12 Tenancy agreement

On 18 February 2014, the Commission entered into a tenancy agreement for an office located at A6 Ollivier Court, Ollivier Street, Alderney commencing on 1 March 2014. The annual rental was £10,000. A deposit of £2,500 was paid on 1 March 2014 and this is included in prepayments. The lease was renewed in March 2017 on a three month rolling lease basis. On 1 July 2017 three months notice was given to move to a smaller property to reduce cost. The landlord agreed to reduce the monthly rent to £303.34 which was payable from 1st November 2017, and the notice was withdrawn. The landlord continues to allow the Commission to continue occupancy at the existing premises at the reduced rent. At the request of the States of Alderney, 3 months notice to terminate the lease of the office premises was given to the landlord on the 1 February 2019.

	2018	2017
	£	£
Amounts falling due in less than 1 year	910	910

13 Events after the reporting period

On the 17 January 2019, The States of Alderney notified the Commission of its intention to keep the Commission as a going concern. It is the States of Alderney view is that the Commission can continue with a reduced level of expenditure in order to cover any statutory requirements and retain the scope to invest additional resources in the future if and when a route to significant tidal power generation is apparent. As a result, the States of Alderney has decided the best way to achieve this position is to bring the current employment arrangements for the Commissioners and staff at ACRE to an end and to give notice to terminate the lease for the office premises.