



## POLICY & FINANCE COMMITTEE CHAIRMANS REPORT AUDITED ACCOUNTS 2017

In accordance with Section 61 (5) of The Government of Alderney Law 2004, as amended, and the mandate of the Policy and Finance Committee, I attach the accounts of the States of Alderney and the States of Alderney Water Board, together with the Auditors' Reports thereon, which were approved unanimously at the Policy & Finance Committee and General Services Committee meetings held on 15<sup>th</sup> May 2018.

As previously reported the accounts are being shown in the revised and streamlined format, showing the breakdown of the income and expenditure between the three Committees, together with details of the accounts for 2016 also shown for comparative purposes.

The following comments highlight, in round figures, some of the material differences between 2017 and the previous year.

### **STATES OF ALDERNEY – REVENUE ACCOUNT**

**Summary** – Overall a significant improvement compared to the expected out turn as reported in late summer, as part of the 2017 revised budget. At that stage a shortfall of £435k was expected mainly due to additional costs outside of the normal routine revenue expenditure which were not known or budgeted for at the end of 2016. These large one-off expenditure costs included consultants advice in relation to FABlink issues, additional expenditure on the Land Use Plan and Inquiry (section 12 changes relating to major projects, additional call for sites, responses to FABlink etc), together with recruitment costs in respect of the vacant Chief Executive post etc. However following the years activities I am pleased to report a deficit of only £95.8k (funded from AGCC reserves). This improvement was achieved mainly by savings in areas, capitalisation of minor projects, slightly less legal & consultancy fees than initially expected, together with additional income from property transfer fees and harbour dues collected.

**Building & Development Control** – Overall shows a net increase of £150k mainly due to the Land Use Plan and associated work (as mentioned above). Offset by a small increase in income from planning & building fees of £17.6k.

**General Services Committee** - The General Services Committee has continued to deliver the wide range of public services under its mandate. Overall the revenue account shows a net increase in operational activities of £37.6k. Allocated by Department this is mainly attributable to an increase in States Works expenditure of £70k, offset by a reduction in the harbour deficit of £36k. In addition to the increase in operational costs there was a decrease in rental income of £77k relating to the new agreement at the Connaught.

**Policy and Finance Committee** – Overall shows an increase in operational activities of £235k. Allocated by department this is mainly attributable to additional Corporate & Democratic services (additional recruitment costs, legal & consultancy costs (FABlink advice etc), together with net increase in grants of £27k (ACRE subsidy etc). The increase in operational activity expenditure is more than offset by increased income from numismatic & philatelic profits of £56k due to improved contracts, plus property transfer duty of £277k.

### **STATES OF ALDERNEY – CAPITAL ACCOUNT**

**Summary** - Overall capital expenditure exceeded income by £597k, after taking into account the transfers to Economic Development Fund of £300k, and revenue account of £95k (see page 8). This balance will be taken from capital reserves which have built up due to previous capital slippage over several years which we are hoping to address during 2018.

**Capital Income** – I am pleased to report an increase in the AGCC surplus which at £1.9M, (net of payment to AeGL of £615k), is £170k higher than in 2016. Overall capital income is £91k lower than previous year due to the change in treatment of property transfer duty at £232k, together with lower income from asset sales (£29k), which are variable each year.

**Capital Expenditure** – Overall capital expenditure amounted to £2,180k (excluding the transfers mentioned above) which is £1,120k higher than in 2016. The main projects carried out during 2017 related to :-

#### **General Services –**

- St Annes Church roof repairs £379k
- SWD/Agricultural vehicles & plant £205k
- Water Board grants (distribution improvements) £166k
- Nunnery refurbishment £131k
- Connaught/Jubilee projects £95k
- Harbour capital projects £44K

#### **Policy & Finance –**

- AEL distribution grid £1,110k
- IT & Telephone improvements £23k
- Sport Centre Trust (Pool) matched funding £20k

Looking forward to 2018 the capital programme provides for the following improvements to the Islands infrastructure:-

Water Board Grants £750k, Road & land projects £415k, Sewerage projects £390k, Jubilee/Connaught improvements £200k, Coastal protection works £75k, Recreation projects £50k, together with plant and vehicle replacements and numerous smaller projects as per the 2018 budget. Each of these projects will be required to follow the necessary costing and approval process in accordance with the financial procedures.

## **SUNDRY ACCOUNTS**

**Economic Development Reserve Fund** - The Economic Development Reserve Fund (EDRF) has been funded by AGCC reserves at £300k per annum since 2014, and continues to fund a number of economic development initiatives. The Reserve is shown as a separate fund and any balances can be rolled forward into the following year. Total expenditure during 2017 amounted to £240k, with the reserve balance of £272k carried forward into 2018.

The initiatives carried out in 2017 are individually listed on page 9. Often a project can span more than one financial year, and can be voted in incremental stages as the projects progress.

The main areas of expenditure during 2017 related to: -

**EDRF Administration/Consultancy** – Relates to the staff costs, expenses and support services incurred in implementing the Economic Development Initiatives. In 2017 the new post of Director of Business Development was created in order to progress the number of initiatives being considered by the States.

**Ferry Subsidy** – As part of the States strategic commitment to explore alternative travel opportunities, a further subsidy was awarded to Bumblebee Marine Ltd in 2017 to promote ferry travel between Alderney and Guernsey. In 2017 the company ran 97 return sailings between Guernsey and Alderney and carried almost 1,400 people, thus delivering an overall benefit to the Alderney economy. Bumblebee has now sold its ferry, and efforts are being made to find a ferry operator willing to serve the Guernsey-Alderney route.

**Development of Niche Tourism** – As part of its role, Visit Alderney has focussed on the development of events and attractions which appeal to specialised niche markets such as heritage and literary tourism. This expenditure covers marketing costs incurred in these niche areas which is over and above general marketing expenditure and which promotes the island as a whole.

**Review of the Financial Relationship with Guernsey** – Following approval of relevant policy letters in both the Guernsey and Alderney States in 2016, relating to the change in the financial relationship between the Islands, this expenditure relates to the additional capacity commissioned to progress the numerous workstreams and initiatives identified.

**Aviation Fuel Subsidy** - This initiative commenced in 2015 in order to subsidise AEL with the provision of Avgas, as without this intervention there would have been no fuel available at Alderney Airport. This subsidy continued through 2017. However as a result of re-tendering the fuel concession a new operator commenced the service early in 2018, and the provision of fuel at Alderney Airport does not now require a subsidy.

**Blockchain Technology Research** – This expenditure was incurred during the previous year and transferred to the suspense account pending the establishment of a new company on a similar model to Alderney eGambling Ltd, to which the expenditure was due to be charged. It was subsequently decided not to incorporate the company, therefore the expenditure has been accounted for in 2017.

**Currency Reserve Fund** – These funds are held in a separate account and relate to a percentage of the base metal coins sold which is reserved in case of redemption. As part of the new improved contract the Commonwealth Mint have guaranteed that they will be responsible for any redeemed coins that they have issued. Therefore only £5.5k was required to be transferred from revenue during 2017, relating to the previous contract holder. No coins were redeemed during the year.

**Insurance Deductible Fund** – This fund has been established to cover the potential insurance liability i.e. the excess limit of the current year together with any balance from previous years, in order to assist in retaining/reducing annual premiums. It has been increased incrementally each year and now amounts to £304k which covers our potential liability as at the end of 2017.

## **WATERBOARD – REVENUE ACCOUNT**

The General Services Committee also fulfils the functions of the Water Board, which in 2017 returned a surplus on revenue account of £14.2k, which is in line with the revised budget. The ultimate aim of the Board is to achieve an operating surplus with a view to building the depleted reserves in order to fund future capital requirements. Main areas worthy of note include :-

**Income** - The small increase in income is the result of the 2017 increase in rates, which was partially offset by the reduction in the hose pipe charges (subsequently eliminated in 2018).

**Expenditure - Salaries & Wages** – the figure shown for salaries & wages at £180k is the net figure, after the transfer of £18k from capital project recoveries as a result of using in-house labour & supervision.

**Fuel, Electricity & Telemetry** – increase in costs due to electricity charges (pumping costs).

**Depreciation** – the depreciation figure will continue to increase due to the capital investment in the Water Board infrastructure.

**Maintenance** – 2017 was significantly lower than 2016 which included particularly high plant & equipment repair costs. Additional maintenance contracts are now in place resulting in fewer high cost repairs, partially offset by a small increase in contract costs.

**Administration Charge** - The Water Board revenue account is subsidised by the States of Alderney, with only £41k charged to cover the full administration of the service, which would be significantly higher should the Board be treated as an independent Company with full overhead charges. Therefore, as previously agreed, this figure is being increased incrementally.

## **WATERBOARD - CAPITAL ACCOUNT**

The ongoing improvements at the Water Board continue, funded by capital grants from the States of Alderney, totalling in excess of £2.5m as at the end of 2017.

Phase 8 relating to Braye Road and Phase 10 relating to Coastguards have been completed in 2017. Phase 11 relating to The Arsenal, Whitegates & Essex areas, is well underway.

These works have been prioritised in order to achieve financial savings by “trench-sharing” with Alderney Electricity Ltd as part of their ongoing project. Further distribution and related improvements are scheduled to continue in 2018 and beyond.

## **PENSION SCHEME**

The deficit on the States of Alderney Public Employee Pension Scheme (1982 scheme), a defined benefits scheme, has been the largest liability of the States of Alderney for several years. This fund was closed to new employees in April 2013, and since then new States of Alderney employees have joined a defined contribution scheme.

Since January 2014 an amended investment strategy commenced using several fund managers to take on the Aviva role. Initially this was spread over 4 investment funds, which has been extended to 12 funds by the end of 2017. The value of the funds under management in the scheme increased from 5.1m at the end of 2016 to £5.8m at the end of 2017.

At the end of 2017 the extract from the Actuarial Report shows that the Pension Scheme deficit has increased from £3.9m to £4.3m. This was mainly due to the reduction in the assumption of the discount rate for future benefit payments reducing from 2.7% to 2.5%, with slightly different calculations used for the early retirement assumptions. The actuarial assumption reflects market expectations on the basis of prescribed parameters. The deficit calculation is in accordance with current accounting standards which also require the loss to be recognised in the year of account. Further details are shown in note no 2 to the accounts on pages 4-6.

## **CONCLUSION**

Overall 2017 has been an extremely busy year, commencing with the first term of office for 4 newly elected Members (including myself), together with the interim appointment of our Chief Executive following the resignation of the previous postholder in March. In addition to the day to day delivery of services and ongoing issues there were significant workstreams on the Land Use Plan which came to fruition in 2018, and now provides a robust and transparent framework for BDCC going forwards. Given these changes 2017 was a satisfactory financial year, resulting in a deficit of £95k met by AGCC reserves which, as reported earlier, was a significant improvement on the expected out turn.

However, the revenue account remains under significant pressure due mainly to the reduction in the cash allocation from Guernsey, and as is demonstrated does not allow for large one off items which arise from time to time. This emphasises the continued need for financial stewardship, effective forecasting wherever possible in order to identify extraordinary expenditure at an early stage, together with value for money in all areas of activity.

The contribution to the capital account from the license fee income from e-gaming is the major source of income and at approx £2 million (net) per year has enabled the States of Alderney to build a firm capital base in order to assist with the Islands infrastructure requirements. The States needs to ensure that the capital program is delivered on time, without further slippage (due to resourcing issues), in order to ensure our assets and infrastructure are fit for purpose.

Transport links remain our priority and we will continue to work with third parties wishing to explore commercial opportunities to improve our air and sea links. The States of Alderney believes that the economic benefits from improved links will almost certainly outweigh any modest financial support. As was reported last year, these will need to be negotiated and will not be open-ended.

We are, consequently, now also working with Guernsey on a new approach to financing our lifeline air links. These have been defined as our routes to both Guernsey and Southampton. For both of these routes we are developing, with Guernsey, the framework and details for competitively let Public Service Obligation contracts and are, at the same time, lobbying for a more comprehensive approach to the agreed economic-enabling roles assigned by both Guernsey and Alderney to our air service providers.

Last year we noted that much work is urgently needed for rehabilitating our runway, and that we would have to work closely with those in Guernsey to ensure that there are no further delays. Sadly those delays continue. The airport is a States of Guernsey responsibility and as such the capital expenditures required should not impinge on States of Alderney finances. The States of Alderney are however exploring options for additional work at the airport that would still further improve our main gateway to the outside world. This work could be undertaken in parallel with any States of Guernsey financed work.

A number of options have been explored in regard to new ferry services. Unfortunately despite offers of financial assistance, no risk-free affordable solutions have been identified. The SoA nonetheless is continuing to explore options and will be willing to provide modest financial, though not-open ended, support.

The Governance Sub-Committee formed in January 2017 reported in September. The reform process has, however, stalled. It is nonetheless recognised that Alderney if it is to achieve efficient Government there will have to be some changes. The financial implications of such actions are however unknown and will depend on the outcome of any consultation process centred on the process to be adopted.

We have sought a better commercial deal with FABlink and some substantial progress has been made. The ARE commercial and seabed licences have been terminated and ACRE is now seeking to recover moneys owed to them and to others by ARE. As soon as the current legal proceedings are resolved, we hope to revisit the market and negotiate new renewable energy resource deals – to this end we are preparing the ground for a new policy on renewable energy.

The review of the Financial Relationship between Alderney and Guernsey continues. Subject to States approval we still hope to improve our financial freedom and flexibility through introduction of a single Property Tax by 2020, as well as retaining other duties currently paid to Guernsey. There is also a commitment to develop Service Level Agreements for the Transferred Services provided for Alderney by the States of Guernsey.

Improvements to our digital connectivity is now progressing. In 2017 as part of the Economic Development initiatives the States of Alderney committed funds to subsidise the delivery of superfast broadband. As a result there is now interest from IT firms looking at Alderney as a place to relocate to.

We have adopted a new approach to Brexit, more compatible with our resources and working with Guernsey wherever we can. We are however pursuing a different approach to Guernsey on fisheries and territorial waters, as we believe there are valuable resources that can be captured by Alderney

The General Services Committee has started to meet on a quarterly basis with the Committee for Infrastructure and Environment in order to work more closely with regard to the maintenance schedule for the Breakwater and the future use of Fort Grosnez. Extra funding from the States of Guernsey was made available to extend the 2017 diving contract but, unfortunately, bad weather prevented this extension from being carried out. It is anticipated that a sonar survey of the mound will be carried out as a matter of urgency early in 2018.

Looking ahead, we remain committed to significant workstreams to improve services, the way we work and the longer economic outlook of the island. There are some signs that our economy, after a period of decline, is now improving and I hope next year that we will be able to confirm that recovery.

We are also taking the opportunity of publishing extracts from the 2017 financial statements of the Alderney Gambling Control Commission and Alderney e-Gambling Ltd for information purposes. The financial statements relating to the Alderney Commission for Renewable Energy and the Royal Connaught Residential Home Ltd will be published at a later date in 2018.

Finally thanks to all of our staff who have worked so hard and kept us focused on the issues. Their work has been challenging and not always easy.

J. Dent  
Chairman, Policy & Finance Committee  
25 May 2018

# **STATES OF ALDERNEY**

## **ACCOUNTS 2017**



## **STATES OF ALDERNEY**

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### **STATEMENT OF RESPONSIBILITIES OF THE POLICY AND FINANCE COMMITTEE AND THE STATES TREASURER**

The States Treasurer is responsible for preparing accounts for each financial year which fairly summarise, in all material respects, the transactions of the States of Alderney for that period and are in accordance with the applicable law. In preparing those accounts she is required to:

- select suitable accounting policies and apply them consistently; and
- make judgements and estimates that are reasonable and prudent.

The Policy and Finance Committee are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time that the financial statements comply with The Government of Alderney Law, 2004, as amended. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the States of Alderney and to prevent and detect fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE POLICY AND FINANCE COMMITTEE**

### ***Our opinion is unmodified***

We have audited the financial statements of The States of Alderney (the "States") which comprise the Summary of Income and Expenditure Account for the year ended 31 December 2017, Summary of Balances as at 31 December 2017 and the related notes. The Financial Statements have been prepared under the accounting policies set out therein.

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2017, have been prepared, in all material respects, in accordance with the accounting policies set out in note 1 and The Government of Alderney Law, 2004.

### ***Basis for Opinion***

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

### ***Emphasis of Matter – Special Purpose Basis of Accounting***

We draw attention to Note 1 to the Financial Statements, which describes the basis of accounting. The financial statements are prepared to assist the States to comply with the provisions of The Government of Alderney Law, 2004. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### ***Respective responsibilities***

#### ***Policy and Finance Committee and States Treasurer responsibilities***

As explained more fully in their statement set out on page 1, the Policy and Finance Committee and the States Treasurer are responsible for: the preparation of the Financial Statements including being satisfied that they are prepared in accordance with the accounting policies set out in note 1; and such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

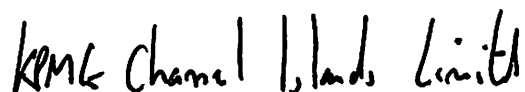
#### ***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**Independent Auditor's Report to the Policy and Finance Committee (continued)*****The purpose of this report and restrictions on its use by persons other than the States***

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

A handwritten signature in black ink that reads "KPMG Channel Islands Limited". The signature is written in a cursive, slightly stylized font.

**KPMG Channel Islands Limited**  
*Chartered Accountants, Guernsey*

**16 May 2018**

## **STATES OF ALDERNEY**

### **NOTES TO THE ACCOUNTS**

#### **1. PRINCIPAL ACCOUNTING POLICIES**

- a. Revenue income and expenditure account receipts and payments arising during the year and in the month following the year end are brought into account in the accounting year to which they relate.
- b. Capital expenditure is written off in the year in which it is incurred. Depreciation is therefore not provided.
- c. The States of Alderney 1982 pension scheme has been presented as far as practicable having regard to FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"). Pension costs charged to the Summary Income and Expenditure Account are the contributions paid in line with the latest actuarial valuations, see note 2 for further details; other movements in the net pension liability are not reflected in the Summary Income and Expenditure account.

#### **2. PENSION COSTS**

##### **The States of Alderney 1982 Pension Scheme**

The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of this scheme are held separately from those of the States in an independently administered fund which up until 2013 were invested with Aviva.

Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role. In 2015 the investment management services were further improved to ensure that the portfolio and underlying funds are continually monitored by specialist and portfolio managers. In September, 2016 Aviva were appointed as Scheme Actuary with Gower Financial Services Limited continuing to provide administrative and investment support.

In preparing the disclosures for the States of Alderney (the "States") accounts, the States have noted the disclosure requirements of FRS 102, section 28. The States has used actuarial calculations provided by the actuary to identify the implications of any surplus/(deficit) to the States as at 1 January 2015, the date of the last actuarial valuation.

The calculations have been carried out by a qualified independent actuary based on the results of the last full actuarial valuation, updated to 31 December 2017. The pensionable salary growth has been directly linked to the inflation assumption, as the scheme is now closed to new entrants, those remaining in the scheme have no further known increments due, and pay awards have been, and are expected to be, lower than UK inflation assumption figure in the foreseeable future.

**STATES OF ALDERNEY****NOTES TO THE ACCOUNTS - continued****2. PENSION COSTS (continued)**

The major assumptions used by the actuary were (in nominal terms):

	Valuation at 31 December 2017	Valuation at 31 December 2016
Pensionable salary growth	3.1% pa	3.0% pa
Pension escalation in payment		
– to 31.12.2009	4.0% pa	4.0% pa
– from 01.01.2010	3.0% pa	3.0% pa
Discount rate	2.5% pa	2.7% pa
Inflation assumption	3.1% pa	3.0% pa

The assets in the scheme and the expected rate of return were:

	2017	2016
Fair value of plan assets	£5,894,000	£5,322,000
Present value of funded obligations	(£10,196,000)	(£9,221,000)
Deficit in the scheme	(£4,302,000)	(£3,899,000)
Net pension liability	(£4,302,000)	(£3,899,000)

The balance sheet position of the Scheme has deteriorated by £403,000 over the year. The Actuary has based the above calculations on slightly different early retirement assumptions from those used in previous year's disclosures. In particular, the 1 January 2017 valuation assumes that all deferred members who have the option to retire on an unreduced pension at age 60 will do so, (compared to 25% last year). The impact of this change has been to increase the present value of the liabilities by approximately £300,000.

Other factors in addition to this include the employer contributions being less than the cost of a years accruals of benefits. These factors have been partially offset by the return of assets being higher than the interest income, and pensionable salaries increasing at a lower rate than expected.

Over the year to 31 December 2017 the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries. Employee's Death in Service benefits are secured under a separate policy.

In 2017 Employer premiums amounted to £123,067 (2016: £139,893), and Employee premiums were £39,537 (2016: £45,465).

## **STATES OF ALDERNEY**

### **NOTES TO THE ACCOUNTS – continued**

#### **2. PENSION COSTS (continued)**

##### **The States of Alderney 2013 Pension Scheme**

As approved by the States of Alderney, the new Defined Contributions Scheme, came into effect from 1 January 2013, and is administered by BWCI. There were 5 new entrants to the scheme during 2017. The employee contribution is set at 6.5% (as per the existing scheme), and the employers contribution rate at 7.5%, increasing annually by 0.5% up to a maximum of 12.5%.

In 2017 the Employer premium amounted to £38,530 (2016: £34,821), and the Employee contribution amounted to £31,463 (2016: £64,206).

In addition the Employees Death in Service policy amounted to £11,866 (2016: £9,810), relating to both Schemes. Of this amount £1,580 related to the 2013 Scheme members, and £10,286 related to the 1982 Scheme members.

#### **3. RELATED PARTY TRANSACTIONS**

The States of Alderney is responsible for the functions of the Water Board, which is a separate trading entity. During 2017 the States purchased goods and services from the Water Board to the value of £15,765 (2016: £16,807), and provided goods and services to the Board to the value of £69,852 (2016: £65,781).

The Royal Connaught Residential Home Limited is a States owned company. During 2017 the States provided goods and services to the company to the value of £56 (2016: £84,220). The new operating agreement became effective from 01.01.17 which removed the rental requirement.

The States has a majority share-holding in Alderney Electricity Ltd and purchases electricity, oil and specialist electrical services from the company. In 2017 the value of these purchases was £1,284,051 (2016: £167,837). This includes the capital payments in respect of the improvements to the distribution network. The States has provided goods and services to the company during 2017 to the value of £60,358 (2016: £57,672).

Mr Ian Tugby is a member of the States of Alderney, and is also the beneficial owner of Tugby Contractors Ltd. During 2017 the States of Alderney purchased goods and services from Tugby Contractors Ltd to the value of £3,635 (2016: £54,838).

Mr M. Dean is a member of the States of Alderney, and is also the beneficial owner of Auto-Motion. During 2017 the States of Alderney purchased goods and services from Auto-Motion to the value of £702.

#### **4. BUDGET APPROVALS**

The original budget for 2017 was approved by the States of Alderney at the meeting held on 19 October 2016, with the revised budget approved by the States of Alderney on 18 October 2017.

## **STATES OF ALDERNEY**

### **NOTES TO THE ACCOUNTS – continued**

#### **5. ALDERNEY GAMBLING CONTROL COMMISSION**

During the year the States of Alderney received a total of £4,432,500 (2016: £4,365,500) in respect of licences issued by the Commission under the Gambling (Alderney) Law 1999. This sum was transferred in total to the Commission to defray expenses with surpluses payable to the States on a quarterly basis. In 2017 the surplus received from the Commission amounted to £1,972,649 (2016: £1,803,268). An extract from the Alderney Gambling Control Commission's financial statements for 2017 will be available to the States in June 2018.

#### **6. ALDERNEY eGAMBLING LIMITED**

During 2017 Alderney eGambling Ltd (AeGL), a wholly States owned company, continues to handle the promotion and development of the on-line gambling industry in Alderney. As reported in 2016, it was agreed that the advisory and consultancy services to regulators, previously undertaken by Alderney eGambling Advisors Limited, would be transferred to the responsibility of the AeGL and this alteration to duties continues to work well. A report on the company's activity and accounts for 2017 will be available to the States in June 2018.

#### **7. ALDERNEY COMMISSION FOR RENEWABLE ENERGY**

With effect from 10 November 2008 the Alderney Commission for Renewable Energy (ACRE), was appointed by the States of Alderney as a statutory body operating under the provisions of the Renewable Energy (Alderney), Law 2007. Due to the non-payment of block fees, ACRE required a subsidy in 2017 of £54,000, with a further subsidy budgeted for 2018. A report on the Commission's activities and accounts for 2017 will be available to the States later in 2018.

#### **8. ROYAL CONNAUGHT RESIDENTIAL HOME LIMITED**

The Royal Connaught Residential Home Limited is a States owned company managed by the Board of Directors, with responsibility for the administration of the Jubilee & Sydney Herival House and the Royal Connaught Residential Care Home. A report on the Board's activities and accounts for 2017 will be available to the States later in 2018.

#### **9. ECONOMIC DEVELOPMENT RESERVE FUND**

The Economic Development Reserve Fund has been approved as being funded by Alderney Gambling Control Commission reserves at £300k per annum. As this is a fund, any unspent balances are carried forward into the following year, and as such is now being shown as a separate fund on page 9. The balance of the fund as at year end amounted to £272,155.



# STATES OF ALDERNEY

## Summary of Balances at 31 December 2017

		£
<b>COINS IN CIRCULATION</b>		
Value of coins in circulation at 01.01.17		4,006,977
Value of coins issued in 2017		98,318
		4,105,295
Less: Value of coins withdrawn from circulation		0
Value of coins in circulation at 31.12.17		4,105,295

## CURRENCY RESERVE FUND

Balance at 01.01.17	571,020
Reserve for base metal coins issued in 2017	5,504
	576,524
Less: Value of coins redeemed	0
Balance at 31.12.17	576,524

## INSURANCE DEDUCTABLE RESERVE ACCOUNT

Balance at 01.01.17	256,698
Transfer to Reserve 2017	47,736
Balance at 31.12.17	304,434

## ECONOMIC DEVELOPMENT RESERVE FUND

Income	AGCC funding - (accumulation of 2014-2016 balance)	212,256
	AGCC funding 2017	300,000
Expenditure	Administration/Consultancy	27,371
	Small Business Start Up Grants	2,500
	Blockchain Technology Research	37,377
	Review of Company Law	26,188
	Development of Niche Tourism	25,013
	Review of Financial Relationship with Guernsey	5,240
	Aviation Fuel Subsidy (Avgas)	37,825
	Review of Governance	15,350
	Transport Strategy Advice	16,953
	Marine Management Plan	8,071
	Ferry Subsidy	31,805
	Airport Rehabilitation Project - York Aviation Feasibility Study	6,408
Total expenditure 2017		240,101
Balance carried forward at 31.12.17		272,155

## INVESTMENTS

<u>2016</u>				<u>2017</u>	
SHARES	£			SHARES	£
		<u>Alderney Electricity Ltd.</u>			
		Ordinary Shares at £1 each fully paid at cost			
1,146,090	39,860	Balance at 01.01.17 and 31.12.17		1,146,090	39,860
<u>2016</u>				<u>2017</u>	
SHARES	£			SHARES	£
		<u>Alderney Electricity Ltd.</u>			
		7% Cumulative Preference Shares			
		at £1 each fully paid at cost			
11,150	5,659	Balance at 01.01.17 and 31.12.17		11,150	5,659
<u>2016</u>				<u>2017</u>	
SHARES	£			SHARES	£
		<u>Alderney eGambling Ltd</u>			
		Ordinary Shares at £1 each fully paid at cost			
1	1	Balance at 01.01.17 and 31.12.17		1	1
<u>2016</u>				<u>2017</u>	
SHARES	£			SHARES	£
		<u>Alderney Golf Club</u>			
		Shares at £1 each fully paid at cost			
650	650	Balance at 01.01.17 and 31.12.17		650	650
<u>2016</u>				<u>2017</u>	
SHARES	£			SHARES	£
		<u>Royal Connaught Residential Home Ltd</u>			
		Shares at £1 each fully paid at cost			
2	2	Balance at 01.01.17 and 31.12.17		2	2



**Summary of Balances at 31 December 2017 (continued)**

<b>2016</b>	<b>Bank accounts</b>	<b>2017</b>
£	<u>Daisy Hansen St Anne's School Trust</u>	£
949	Balance at 01.01.17	914
0	Interest received	0
949		914
(35)	Audit report	(35)
914	Balance at 31.12.17	879
	<u>The Anne French Hospital Annexe Fund</u>	
12,694	Balance at 01.01.17	12,850
156	Interest received	104
12,850		12,955
0	Audit report	(40)
12,850	Balance at 31.12.17	12,915
	<u>States of Alderney Interest on Investments Account</u> <u>(Educational Bequests)</u>	
3,678	Balance at 01.01.17	978
0	Interest received	0
3,678		978
(2,700)	Grants	0
0	Audit Reports	0
978	Balance at 31.12.17	978
	<u>The Packe History Trust</u>	
1,479	Balance at 01.01.17	1,479
0	Interest received	0
1,479		1,479
0	School History Prize	(20)
1,479	Balance at 31.12.17	1,459
	<u>Alderney Pilotage Board</u>	
500	Balance at 01.01.17 and 31.12.17	500
	<u>The Mary Roylance Mignot Memorial Hospital Fund</u>	
16,574	Balance at 01.01.17	15,705
421	Interest received (2016 underestimated adjustment & estimated Q4 2017)	1,728
16,995		17,433
(1,291)	Grants	0
15,705	Balance at 31.12.17	17,433
	<u>St Anne's Trust</u>	
32,780	Balance at 01.01.17	33,108
328	Interest received	269
33,108		33,376
0	Grants	0
33,108	Balance at 31.12.17	33,376
	<u>The New Parsonage House Trust</u>	
76,859	Balance at 01.01.17	74,897
1,954	Interest received (2016 underestimated adjustment & estimated Q4 2017)	6,986
78,813		81,883
(3,916)	Maintenance costs	(6,444)
74,897	Balance at 31.12.17	75,439
	<u>Charitable Trust Fund</u>	
192,561	Balance at 01.01.17	182,165
2,078	Interest received	1,424
194,639		183,589
(12,314)	Grants issued in year	(11,529)
(160)	Bank and general administration costs	(208)
182,165	Balance at 31.12.17	171,853

**STATES OF ALDERNEY**

**WATER BOARD**

**FINANCIAL STATEMENTS 2017**



## **STATES OF ALDERNEY WATER BOARD**

### **STATEMENT OF THE BOARD'S RESPONSIBILITIES**

The States of Alderney Water Board ('the Board') acknowledges that it is responsible for preparing financial statements for each financial year which fairly summarise in all material respects, the transactions of the Board for that period and are in accordance with the applicable law.

In preparing those financial statements the Board is required to:

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They also have a general responsibility for taking such steps as are reasonably open to it, to safeguard the assets of the Board, and to prevent and detect fraud and other irregularities.

## **Independent Auditor's Report to the States of Alderney Water Board**

### ***Our opinion is unmodified***

We have audited the financial statements of The States of Alderney Water Board (the "Water Board") which comprise the Revenue Account, Balance sheet and the related notes. The Financial Statements have been prepared under the accounting policies set out therein.

In our opinion the financial statements, which summarise the transactions for the year ended 31 December 2017, have been prepared, in all material respects, in accordance with the accounting policies set out in note 1.

### ***Basis for Opinion***

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

### ***Emphasis of Matter – Special Purpose Basis of Accounting***

We draw attention to Note 1 to the Financial Statements, which describes the basis of accounting. The financial statements are prepared to assist the Water Board to comply with the provisions of The Government of Alderney Law, 2004. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### ***We have nothing to report on going concern***

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

### ***Respective responsibilities***

#### ***The Water Board's responsibilities***

As explained more fully in their statement set out on page 1, the Water Board is responsible for: the preparation of the Financial Statements including being satisfied that they are prepared in accordance with the accounting policies set out in note 1; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Water Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditor's responsibilities***

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

## **Independent Auditor's Report to the States of Alderney Water Board (continued)**

### ***Auditor's responsibilities (continued)***

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### ***The purpose of this report and restrictions on its use by persons other than the Water Board***

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

*KPMG Channel Islands Limited*

**KPMG Channel Islands Limited**  
*Chartered Accountants, Guernsey*

16 May 2018

## REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
REVENUE		£	£
	1		
Unmetered Supplies		551,185	545,530
Metered Supplies		97,305	91,030
Service Charges		3,808	5,739
Contract Work		2,077	6,486
Sale of Fixed Assets		150	(211)
		<u>654,525</u>	<u>648,574</u>
<b>EXPENSES</b>	1		
<b>OPERATING AND MAINTENANCE EXPENSES</b>			
Salaries and Wages		180,894	160,227
Water Treatment and Testing		29,504	25,193
Fuel, Electricity and Telemetry		119,382	86,422
Maintenance		35,875	57,257
Maintenance Contracts		26,876	23,490
Health & Safety expenses		2,494	3,172
Pension Costs	2	30,784	29,396
Depreciation	1 & 6	127,591	119,967
		<u>553,400</u>	<u>505,124</u>
<b>ADMINISTRATION AND GENERAL EXPENSES</b>			
Administration Charge		41,860	36,522
Rents, Rates and Taxes		20,091	17,076
Insurance		5,955	5,561
Motor Vehicle Expenses		6,983	5,751
Office Expenses and Equipment		7,587	5,848
Accountancy and Audit		6,825	6,532
Bank Charges		1,799	1,943
Travelling and General Expenses		2,301	1,642
Staff Training Costs		-	527
Consultancy Fees and Expenses		1,893	1,994
PFOS Related Expenses		-	12,489
Bad Debts Written off		58	896
Fixed Assets Written Off		3,712	-
		<u>99,064</u>	<u>96,781</u>
		(652,465)	(601,905)
<b>OPERATING SURPLUS</b>		<b>2,060</b>	<b>46,669</b>
<b>OTHER INCOME</b>			
Interest and other Receivable		63	417
Rents Receivable	5	12,120	11,315
<b>SURPLUS FOR THE YEAR</b>		<b>14,243</b>	<b>58,401</b>
<b>BALANCE BROUGHT FORWARD</b>		<b>680,078</b>	<b>621,677</b>
<b>BALANCE CARRIED FORWARD</b>		<b>694,321</b>	<b>680,078</b>

The Water Board has no recognised gains or losses other than the surplus for the year.

The Notes on pages 6 and 7 form part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2017

	Notes	2017	2016
		£	£
<b>ASSETS EMPLOYED</b>			
<b>FIXED ASSETS</b>	<b>1 &amp; 6</b>	<b>2,245,402</b>	<b>2,197,320</b>
<b>CURRENT ASSETS</b>			
Stock	1	73,908	71,951
Debtors		77,806	55,535
Bank balances - deposit		400,513	400,485
Bank balances - current		602,640	523,869
		<u>1,154,867</u>	<u>1,051,840</u>
<b>LIABILITIES FALLING DUE WITHIN ONE YEAR</b>			
Creditors		87,960	117,096
<b>NET CURRENT ASSETS</b>		<u>1,066,907</u>	<u>934,744</u>
<b>NET ASSETS</b>		<u>3,312,309</u>	<u>3,132,064</u>
<b>FINANCED BY</b>			
<b>RESERVES</b>			
General	3	86,286	86,286
Capital Contribution from States of	3	2,531,700	2,365,700
Revenue Account		694,321	680,078
		<u>3,312,309</u>	<u>3,132,064</u>

The Notes on pages 6 and 7 form part of these financial statements.

The financial statements on pages 4 to 7 were approved by the States of Alderney Water Board on 15th May 2018 and are signed on its behalf by:



Mrs N. Paris  
Chairman, General Services Committee

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 PRINCIPAL ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the States of Alderney Water Board's financial statements:

**Basis of Preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the applicable accounting policies.

**Revenue and Expenses**

Revenue and Expenditure is recognised on an accruals basis.

**Fixed Assets**

Fixed assets are stated at cost less depreciation. Staff time spent on capital projects is capitalised at cost.

**Depreciation**

Depreciation is calculated at the following annual rates so as to write off the cost of fixed assets over their anticipated useful lives using the straight line method:

	%
Mains and services	2.50
Buildings	2.50
High Level Storage Tanks	4.00
Machinery and Filtration Plant	6.66
Tools and equipment	10.00
Consumers' meters	10.00
Filtration Membranes	14.50
Motor vehicles	20.00

Calculation of depreciation is based on capital expenditure incurred at the commencement of the accounting period, and also on additions during the accounting period.

**Stock**

Stock is valued at the lower of cost and net realisable value.

**2 PENSION COSTS**

The employees of the States of Alderney Water Board (the "Board") are members of the States of Alderney (the "States") Pension Scheme. The States provides pension arrangements for the majority of employees through a defined benefit scheme (the "1982 Scheme") and the related costs are assessed in accordance with the advice of the Scheme Actuary. As previously reported the final salary scheme has been closed to new entrants from 31 December 2011.

The assets of the 1982 Scheme are held separately from those of the States of Alderney in an independently administered fund which up until 2013 were invested with Aviva. Since January 2014 an amended investment strategy commenced, using several alternative fund managers to take on the Aviva role.

Over the year to 31 December 2017, under the 1982 Scheme, the employer contributed at the rate of 20% of pensionable salaries, subject to review at future actuarial valuations. The employee's contribution was 6.5% of pensionable salaries.

The Actuary has based their calculations on slightly different early retirement assumptions from those used in previous year's disclosures. In particular, the 1 January 2017 valuation assumes that all deferred members who have the option to retire on an unreduced pension at age 60 will do so, (compared to 25% last year). As the scheme is a multi employer arrangement the Board is unable to identify its share of the scheme assets and liabilities.

Employee's Death in Service benefits are secured under a separate policy.

The new Defined Contributions Scheme, administered by BWCI came into effect on 1st January 2013 "the 2013 Scheme". There is currently one member of this Scheme from the Water Board. Since 1st January, 2017 until 31st December, 2017 the employer contributed 8% of pensionable salary, with the employee contribution of 6.5% of pensionable salary.

The total pension charge to the Water Board for the year was £30,784 (2016: £29,396).

**3 RESERVES**

**General Reserve**

This is a historic record of the States of Alderney investment into the Water Board in the early years of operation.

**Capital Contribution from States of Alderney.**

Since 2008 capital contributions amounting to £2,531,700 have been awarded by way of grants from the States of Alderney in order to upgrade the Water Board infrastructure. The latest of these, relating to the distribution networks (Phases 8, 10 & 11), were approved in 2017 to the total of £166,000 (Phase 8 £93,000, Phase 10 £33,000 & Phase 11 £40,000). As at 31 December 2017 this amount had been received in full.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**4 RELATED PARTY TRANSACTIONS**

In 2017 Mrs N Paris was Chairman of the General Services Committee and the Water Board.

The States of Alderney has a majority shareholding in Alderney Electricity Ltd and appoints annually a director to the Board of the Company. This position was held by Mr M Birmingham during 2017.

The Water Board purchases electricity, oil and specialist electrical services from Alderney Electricity Ltd. In 2017 the value of these purchases was £109,973 (2016: £77,430).

Mr I Tugby is a States Member, and is also the beneficial owner of Tugby Contractors Ltd. In 2017 the Board purchased goods and services from Tugby Contractors Ltd to the value of £117,892 (2016: £109,215).

Mr M Dean is a member of the Water Board, and is also the beneficial owner of Auto-Motion. In 2017 the Board purchased goods and services from Auto-Motion to the value of £78.

During 2017 the Water Board purchased goods and services from the States of Alderney to the value of £69,852 (2016 £65,781) and supplied goods and services to the States of Alderney to the value of £15,765 (2016 £16,807).

The General Services Committee is appointed by the States of Alderney to act on behalf of the Water Board.

**5 RENTS RECEIVABLE**

During 2017 the Board received rent from two mobile telephone companies, that utilise the Mouriaux water tower as a base station for their equipment and aerials, and from the lease of Corblets Quarry for fishing rights.

**6 FIXED ASSETS**

	At 1 January 2017	Additions/ Charge	Disposals / Written off & Transfers	At 31 December 2017
	£	£	£	£
<b>COST</b>				
Land	3,737	-	-	3,737
Mains and Services	1,452,032	239,654	-	1,691,686
Buildings	211,604	-	-	211,604
Storage Tanks	104,449	-	-	104,449
Machinery	936,588	2,745	(13,915)	925,418
Filter Membranes	65,000	-	-	65,000
Tools and Equipment	28,531	4,656	-	33,187
Motor Vehicles	18,450	12,795	-	31,245
Consumer Meters	6,158	1,378	-	7,536
Assets in course of construction (Phase 6)*	102,513	14,193	(116,706)	-
Assets in course of construction (Phase 8)*	10,639	77,859	(88,498)	-
Assets in course of construction (Phase 9)*	9,821	3,204	(1,104)	11,921
Assets in course of construction (Phase 10)*	-	33,573	(33,573)	-
Assets in course of construction (Phase 11)*	-	27,462	-	27,462
Assets in course of construction (Phase 12)*	-	1,746	-	1,746
	<b>2,949,521</b>	<b>419,265</b>	<b>(253,796)</b>	<b>3,114,991</b>
<b>DEPRECIATION</b>				
Mains and Services	280,906	39,145	-	320,051
Buildings	34,850	4,954	-	39,804
Storage Tanks	17,666	4,178	-	21,844
Machinery	343,892	61,868	(10,203)	395,558
Filter Membranes	51,861	9,288	-	61,149
Tools and Equipment	13,440	3,024	-	16,464
Motor Vehicles	7,687	4,511	-	12,199
Consumer Meters	1,899	623	-	2,522
	<b>752,201</b>	<b>127,591</b>	<b>(10,203)</b>	<b>869,589</b>
<b>NET BOOK VALUE</b>	<b>2,197,320</b>	<b>291,674</b>	<b>(243,593)</b>	<b>2,245,402</b>

\*Assets in the course of construction. No depreciation is charged on assets in the course of construction until they are brought into operational use in the business, at which point the assets are transferred into the relevant asset category on the fixed asset register and depreciated over their useful economic life. In the year ended 31 December 2017, assets in the course of construction relate to Phases 6, 8, 9, 10, 11 & 12. Phases 6, 8 & 10 were completed and capitalised during 2017.