



2019 Annual Report

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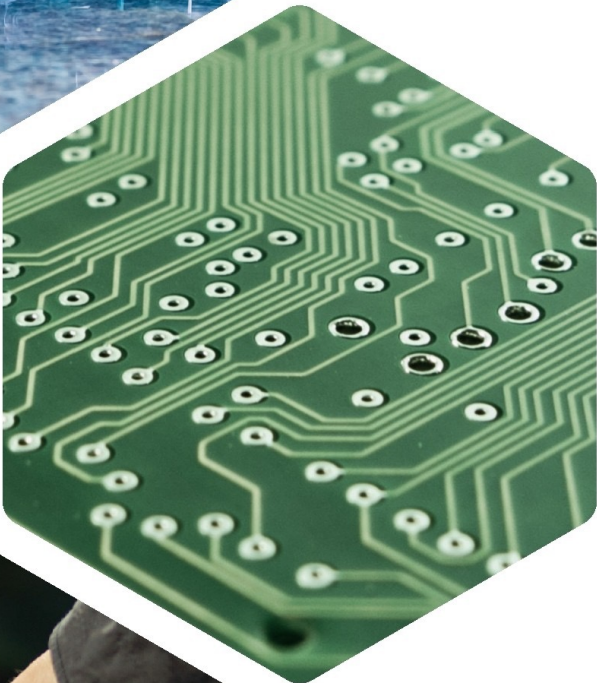
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Message from the Chair

As we embrace 2020 and the challenges it has brought, it is my pleasure to present the third Annual Report of the Utility Regulation and Competition Office (the 'Office' or 'OfReg'), following the third anniversary of the establishment of the Office. This report presents the performance and accomplishments achieved over the period 1 January 2019 to 31 December 2019 and fulfils the statutory requirement of the Office to be accountable to consumers, Government and industry for its budget and processes. I am pleased to report that OfReg had numerous achievements across the four sectors that it regulates.

Consumers continue to benefit from the ongoing work of the Office's hard-working team in ensuring that utility services are of high quality, reliable and safe. The Office has focused its efforts on applying the regulatory framework in a fair, robust, consistent and accountable manner. In collaborating closely with stakeholders, we remain committed to fostering competition where it is possible and regulating where it is not. In doing so, we continue to create an environment that is conducive to investment in infrastructure and innovation.

On 5 April 2019, the Office held a strategic retreat for the Board of Directors and Senior Management team. During this retreat we focused on how this collective group could best work to ensure that OfReg continues to make improvements in meeting the needs of our stakeholders through a guided consideration of what has made us successful, while reviewing our current reality, and assessing the strategic priorities likely to impact the organisation in the future to assist planning our way forward.

This retreat was followed by a larger workshop involving the Board of Directors and all OfReg staff, held from 2-3 December 2019. This workshop provided some well received team building and allowed us to work to embed our "One OfReg" mantra, while focusing on developing strategies in the areas of stakeholder engagement and working with decision makers, performance management and capacity building, including training and development. We also reviewed our mission, vision and core values, with an eye to steps that we can take to ensure that the organisation exemplifies integrity, fairness, trust and effectiveness.

A major focus for the energy sector during 2019 was on diversifying renewable energy infusion onto the grid, and the Office is consulting on the competitive bidding rules for the provision of renewable sources of energy. A milestone for the Office in 2019 was the issuance of a Consultation Paper on a Renewable Energy Auction Scheme ('REAS'). Successful implementation of the REAS will translate into lower electricity costs for consumers and will assist with meeting the Government's National Energy Policy ('NEP') goals of having 70% of energy generated from renewables by 2037. As a Government Policy, the Office is statutorily obligated to promote and be guided by the NEP. The Office also awarded new non-exclusive Generation and Transmission & Distribution licences to Cayman Brac Power & Light Co. Ltd. ('CBP&L') to replace its previous licence which expired in December 2018. The new Generation Licence allows CBP&L to obtain and produce electricity from renewable sources besides fossil fuel, which it was restricted from doing under its old licence.

Licence negotiations were a primary objective for the water sector team during 2019. Capacity building and completing a new licence with Cayman Water Company is a 2020 priority for the Office, and the Office intends to conduct an independent Cost of Service Study to assist with this process. Licence negotiations with Water Authority Cayman will commence in 2020 and licencing of other water providers and operators are also sector priorities.

2019 was a busy year for the information and communications technology ('ICT') sector, with the team consulting on Consumer Protection Regulations and proposed ICT Licensing Framework. The ICT team increased enforcement activities, ensuring FM and TV broadcast licensees met their license obligations for fees and reporting. There are also multiple projects ongoing with a variety of departments and agencies.

The operation of the fuel market was considered relatively stable and reliable during 2019. The Fuel Standards Committee continues to make progress towards the implementation of National Fuel Quality Standards. The Office also supported the accomplishment of a successful mock audit as part of the Cayman Islands' compliance with the Interagency Maritime Organization III Code requirements. Significant efforts continue to be made by the fuel team in preparation for a full audit in 2020. Monitoring and posting of fuel prices throughout the Cayman Islands are being done on a consistent basis and posted weekly to www.ofreg.ky for the benefit of the public. Analyses of local price trends is also available for public access at the Office's website.

Identifying and protecting Critical National Infrastructure ('CNI') is an ongoing objective for the Office. Significant advancements have been made by the ICT sector in this regard, and it is a key focus for the energy and fuel sectors in 2020.

Due to the protracted recruitment process for the CEO throughout 2018 and 2019, the three Executive Directors (Gregg Anderson, Duke Munroe and Alee Fa'amoe) all participated in providing leadership in the interim, until the new CEO was onboarded in mid-September 2019 and I thank them for their service. I am pleased to welcome Malike Cummings to the role of CEO of OfReg. Malike brings 10 years of utility regulatory experience and continues to build on the work being progressed by the Office, including implementing systems for improved governance and operational effectiveness.

I also welcome the appointment of three new Non-Executive Directors to the Board: Paul Byles, Gene Banks and Phillip Ebanks. They bring a wealth of diverse knowledge, skills and experience from which the Board benefited and will continue to benefit.

While sustainable funding was secured for the fuel sector, the lack of funding for the water sector has impeded the Office's ability to acquire and deploy the resources necessary to properly regulate the sector. Although several attempts have been made to resolve the funding issue, little progress has been made. This resource-constrained situation affects the Office's independence as well as the operational efficiency of the whole energy sector.

I am grateful for the continued commitment and professionalism of the Non-Executive Directors, the Executive Directors, their teams, and the dedicated and knowledgeable staff of OfReg, as we continue with the implementation of our strategic plan, and to satisfy the goals articulated in our Vision and Mission Statements.

Mr. Rudy Ebanks **Chair of the Board of Directors**

Note: Dr. Linford Pierson resigned from the post of Chairman of the Board of Directors on May 31, 2021. Mr. Rudy Ebanks was appointed to the post of Chairman with effect from August 31, 2021. Mr. Ebanks served as a Non-Executive Director since October 2017.



Message from the Chief Executive Officer

I am grateful for the opportunity to report on the achievements of the Office for 2019. The success of OfReg is contingent on the continued dedication and commitment of the exceptional and talented team, unifying efforts around a common goal to protect the interest of consumers and success in balancing the interest of stakeholders.

OfReg's Strategic Plan drives specific deliverables for each year, which are documented in the Annual Plan in the form of deliverables and key performance indicators. While each sector has its own unique priorities and objectives to achieve throughout each year, there are initiatives that are common across all sectors. These strategic objectives span across the three core elements that drive the work of OfReg and which formed the basis for its creation: Consumer Protection, Protecting Infrastructure and Promoting Economic Growth & Innovation.

The 2019 Annual Report documents the extent to which the priorities for the year have been achieved. The Office focused on delivering benefits to consumers by promoting and/or implementing regulatory tools and mechanisms for service providers to improve availability, reliability, quality and safety of utility services. Emphasis was placed on promoting consumer protection regulations to augment the existing framework for each sector. Recognising the importance of infrastructure to delivering reliable cost-effective services to consumers and the critical role they play in sustaining and modernising the Cayman Islands economy; emphasis was also placed on protecting CNI during 2019, and will continue to be our focus going forward.

While my tenure as CEO began on the 15th of September 2019, I am pleased to report the achievement of a number of strategic objectives during 2019 that were set out in the Office's 2019 Annual Plan. These included significant advancements in the areas of the Consumer Protection Regulations, Truth in Advertising Rules, Anti-Competitive Practices Rules, identification and protection of CNI, Water Sector Regulations, new licensing frameworks, compliance monitoring, investigation procedures and enforcement processes.

The systematic approach to reviewing and modernising the regulatory frameworks augurs well for the Office and the future regulation of the sectors under our remit.

A number of organisational policies were implemented to provide guidelines for decision making processes to ensure transparency, accountability and uniformity of actions and to provide for proper internal controls to improve compliance with good governance principles. OfReg is still in that phase of development and emphasis will be on ensuring alignment of sector goals and the unification of efforts for attainment of our strategic objectives. The establishment and reinforcement of the organisational culture is inextricable to the successful accomplishment of OfReg's objectives and goals.

I look forward to building on the successes of the Office to achieve the objectives set for 2020 and ensuring that the Office continues to play an essential role in promoting the economic and social development of the Cayman Islands.

Our most valuable resources are the dedicated and committed individuals that make up the OfReg team. The success of OfReg is contingent on the continued dedication and commitment of the exceptional and talented team, unifying efforts around a common goal to protect the interest of consumers and success in balancing the interest of stakeholders.

I express sincere thanks and appreciation for their support and look forward to leveraging the talent and expertise that will allow us to satisfy our regulatory obligations and ultimately the furtherance of socioeconomic development of the Cayman Islands.

Malike Cummings
CEO

Introduction

This is the 2019 Annual Report for the Utility Regulation and Competition Office (the 'Office' or 'OfReg') for the period 1 January 2019 to 31 December 2019.

This report is submitted in accordance with the reporting requirements of section 52 of the Public Management and Finance Act (as revised) (the 'PMFA') and section 43 of the Utility Regulation and Competition Act (as revised) (the 'URC Act'). The report is prepared for Cabinet, to whom OfReg is accountable, as well as the general public and licensees.

OfReg was established as a multi-sector regulator by section 4(1) of the URC Act with the principal functions to promote objectives set out in policies; promote effective and fair competition; protect the short term and long term interests of consumers in relation to utility services and to promote innovation and facilitate economic and national development of the Cayman Islands. The Public Authorities Act, 2017 (2020 Revision) (the 'PAA'), which came into force on 1 June 2017 via a Cabinet Order¹, regulates the management and governance of the Office.

Vision

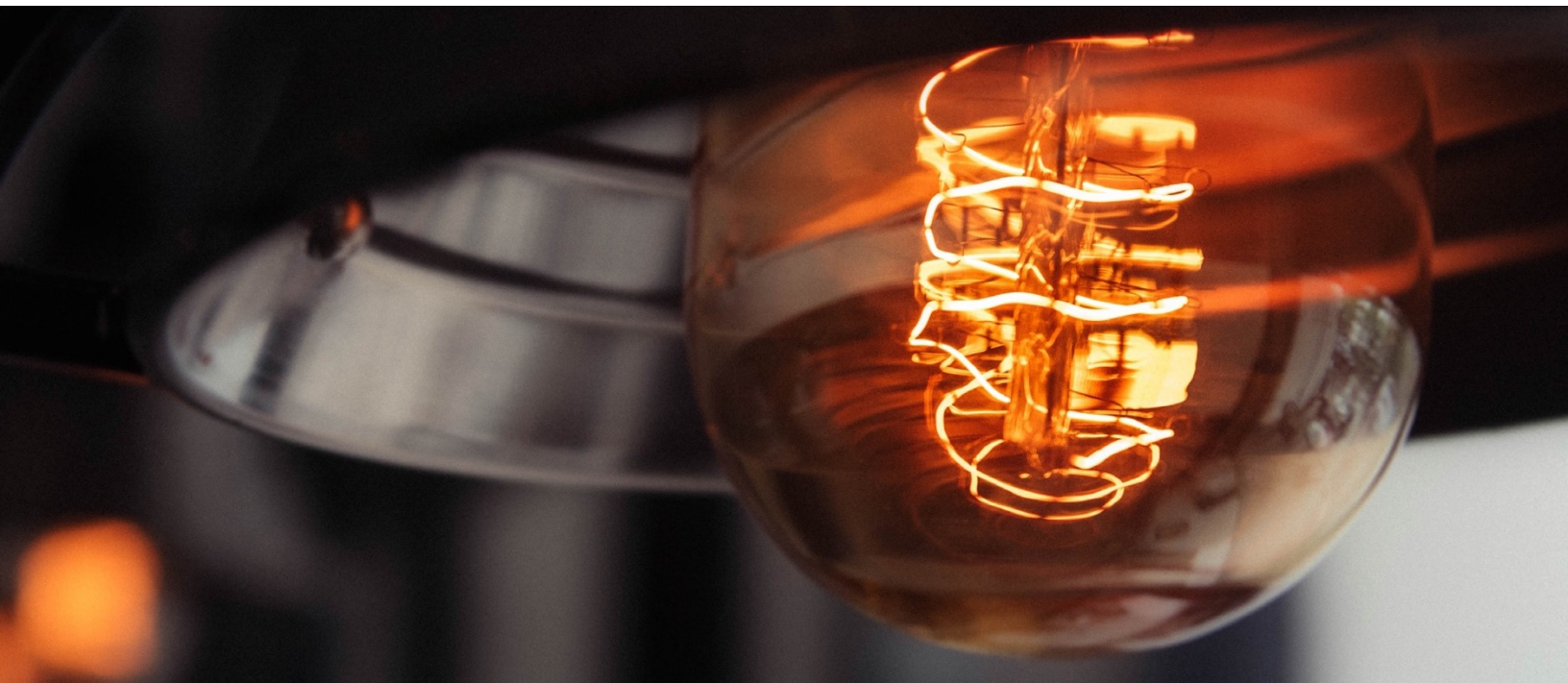
To be a leader in regulatory excellence, demonstrating our commitment to the public, to the companies we regulate, and our colleagues by building an environment of mutual respect, professionalism, and diversity, while promoting competition and innovation.

Mission

To ensure safe, reliable, economic public utilities to businesses and the people of the Cayman Islands.

To achieve this the Office will:

- Ensure that service providers operate in an environment that is fair and provides an opportunity to realise reasonable return on investment;
- Advocate on behalf of consumers;
- Adopt and enforce regulations that are in the public interest and ensure that service providers comply with established regulations;
- Create standards and policies that protect the safety of the public;
- Explore innovation that will encourage the efficient and cost-effective delivery of utility services;
- Consider the economic and environmental impacts of all matters before the Office;
- Encourage the conservation of natural resources and environmental protection;
- Ensure effective methods of communicating the Office's areas of regulation, decisions and their impacts on the public;
- Develop and promote activities that encourage stakeholder trust and confidence;
- Serve the public interest through a commitment to professionalism, diversity, mutual respect and ethical conduct.



Summary of Achievements

Despite the challenges and potential risks inherent in legacy systems and methods of executing work, the Office successfully progressed and completed several major projects embarked upon by the sectoral teams during 2019.

Consumer Protection Regulations

In early 2017, the Office considered that in the interest of protecting the ICT consumer, it was necessary to establish a regulation to outline the protocols and rules that service providers should adhere to when interacting with and serving consumers in the Cayman Islands, in relation to their ICT services and to enable the Office to better regulate the terms and conditions under which ICT services are provided. These regulations were envisioned to detail standards reasonably expected of a fair ICT service provider. Consequently, the Office produced and consulted on draft Consumer Protection Regulations in 2017. In consideration of responses received, the Office conducted another round of consultation at the end of 2019, with a draft determination published on 5 December 2019. The Office intends to issue a final determination on the Regulations in 2020.

In the interest of the public to regulate the terms and conditions under which services and products in the fuels sector are provided, the Office completed and consulted on Consumer Protection Regulations. The proposed regulations prescribe quality standards to ensure services and products are provided in accordance with the standards reasonably expected of competent licensees and permit holders operating in the fuels sector.

Subsea Fibre Cable Initiative

In 2017, the Office began initiatives towards facilitating subsea cable connectivity by meeting with local and international investors and a number of international entities who are in the process of deploying capacity in the Caribbean region. A key takeaway from the discussions was the need for a streamlined “one-stop-shop” application process that also meets the needs and/or vetting requirements of other interested regulatory entities. As a result, the Office designed a streamlined application process with relevant forms to ultimately spur interest and attract investment in the area/sector. In 2019, the Office continued facilitation of subsea cable connectivity through agreements with the Department of Environment on preferred cable landing sites and the Department of Planning regarding issuance of permits.

Truth in Advertising Rules

In late 2016, having considered a dispute between two telecommunications providers, the ICT Authority (now Office) devised a set of guidelines in an effort to guide licensees with their marketing activities to ensure that consumers were not misled by adverts and to help consumers better understand what they should expect and accept as truth in the messages they read, see and hear from their ICT providers.

In 2019 the Office considered that the guidelines could be amended and made applicable to all sectors regulated by the Office. The guidelines were revised and made into rules, which were consulted on and subsequently finalised before sending to Cabinet for approval.

Regulatory Accounting Rules & Renewable Energy Auction Scheme

The Office issued Consultation Papers on Regulatory Accounting Rules (‘RARs’) and a Renewable Energy Auction Scheme (‘REAS’). The RARs propose a requirement for electricity licensees to produce and submit separate accounts for each of their generation, transmission and distribution and supply activities. These accounts are to be independently verified to ensure that the obligations to avoid discrimination, cross-subsidisation and distortion of competition are met. The Office is consulting on the competitive bidding rules for the provision of renewable sources of energy to the grid. The adoption of the REAS is intended to ensure the best price per kilowatt hour (‘kWh’) is paid for electricity generated from renewables and sold to CUC. Successful implementation of the REAS will translate into lower electricity costs for consumers and will assist with meeting the Government’s NEP goals of having 70% of energy generated from renewables by 2037.

The Office continues to review and revise legislation and regulations to address legal issues and minimise risks and conflicts.

About Us

Nature and Scope of Activities

The Office was established pursuant to section 4(1) of the URC Act and is the independent regulator for the energy, ICT, water and fuel sectors in the Cayman Islands. The Office also regulates the use of electromagnetic spectrum and manages the .ky internet domain.

The Office is also guided by the importance of balancing the needs of investors and the sectoral utilities, not only in terms of recognising the importance of a fair return to investors but also ensuring that the operating environment is fair for all sectoral providers, while at the same time protecting the interests of consumers.

Governance

The URC Act defines the responsibilities of the Office and all stakeholders and governs regulation for the energy, ICT, water and fuel sectors in the Cayman Islands.

Board of Directors

In 2019, pursuant to the PAA, the number of Non-Executive Board members was increased by one to six, including the Chairman.

The Board of Directors are responsible for the governance and general administration of the affairs and business of the Office as well as carrying out regulatory powers and functions. The number of Executive Directors on the Board is four, which includes the Chief Executive Officer, Executive Director of ICT, Executive Director of Energy and Utilities and the Chief Petroleum Inspector / Executive Director of the Fuel Markets.

In 2019, the Board of Directors met 12 times during the year. The Board considered and took decisions on a wide range of issues relating to the sectors under its remit, and on organisational policy and governance matters.

Committees

Pursuant to section 26 of the URC Act, the Office has the power to appoint a Risk and Audit Subcommittee to liaise with external auditors in the preparation of its audited statements. The subcommittee reports to the Board of Directors within four months of the publication of the fiscal year's annual report and publishes its report at the Office's website within two months following Board review. The Risk and Audit Subcommittee was commissioned in September 2019 following the appointment of the Chairman by the Office.

Codes of Conduct and Internal Policies

In 2019, the Board approved a board and management communications framework; an official travel policy; a mobile device policy; a recruitment and selection policy; as well as a training and development policy. The Office continues to develop and put in place robust mechanisms to improve governance and systems of control.

Duty to Consult

Affirming that consulting stakeholders is an essential aspect of regulatory accountability and transparency, and pursuant to section 7 of the URC Act, the Office sought stakeholder input prior to finalising administrative determinations for the following matters in 2019:

- ⬡ The Proposed Truth in Advertising Rules (OF 2019 - 1 – Consultation)
- ⬡ The Proposed Anti-Competitive Practices Penalties Rules (OF 2019 - 2 – Consultation)
- ⬡ The Proposed Customer Complaints Appeals Procedure Guidelines (OF 2019 - 1 – Determination)
- ⬡ The Proposed Renewable Energy Auction Scheme (E&U 2019 - 2 – Consultation)
- ⬡ The Proposed Regulatory Accounts Rules (E&U 2019 - 3 – Consultation)
- ⬡ The Proposed Consumers Protection Regulations (Fuels Sector) (FS 2019 - 1 - Consultation)
- ⬡ The Proposed ICT Licensing Framework (ICT 2019 - 1 – Consultation)
- ⬡ The Final Draft Administrative Determination on Pole Attachment Reservation Fees (ICT 2019 - 2 - Consultation on Pole Reservation Fees)
- ⬡ The Proposed Consumer Protection Regulations (ICT 2019 - 3 – Consultation)

Duty to Publish

Pursuant to section 8 of the URC Act, the Office maintains a website as a primary source for sectoral news and information and current regulatory documents, including administrative decisions.

Performance and Financial Audits

To promote transparency and accountability, Part 6 of the URC Act sets out the Office's statutory obligations for reporting performance.

Pursuant to sections 41(1)(b) and 41(3) of the URC Act, the Office shall publish an annual report (containing the audited financial statements for the financial year) and a five-year strategic plan, respectively.

In accordance with Part 6 of the URC Act, all financial statements contained in this report have been prepared to International Public Sector Accounting Standards, audited by the Auditor General of the Cayman Islands ('Auditor General') and will be submitted to Cabinet for review by 30 April 2020.

Section 42 of the URC Act requires the Auditor General to report to the Board of Directors, every three years, on the Office's performance against its annual plan. The Auditor General's Office commenced the three-year review of the Office's performance in October 2019.



Our People

The Office is comprised of a Board of Directors and staff of 25.

Executive Directors are senior managers who are responsible for directing the activities of their respective sector; they are also the principal advisors to the Board.

The Non-Executive Directors are appointed by a Nominating Committee that is chaired by the Cabinet Secretary, and nominations are made to the Cabinet for approval.

Staff

Two new staff members joined the Office in 2019: Malike Cummings, Chief Executive Officer and Daniel Lee, Manager of Consumer Affairs & Public Education.

One staff member, Keith Dixon, was appointed to act in the role of Spectrum Manager, tasked with the responsibility to develop a spectrum management strategy and plan to support the Office in satisfying its statutory obligations.

Turnover

One employee from the fuels team left the Office in 2019.

Professional Development

The Office is committed to the professional development of its staff by providing targeted training and development opportunities for up-skilling and overall employee development.

The Office recognises the benefit of employee development and training and considers on a case by case basis requests for support in the following areas: time off for training and/ or study; time in the office environment to undertake a course or complete projects that support an employee's development needs; and tuition/course fees and expenses.

Internships

Offering local interns an opportunity to work alongside staff on administrative and regulatory matters of the day aligns with the Office's objectives for recruiting talent and professional development.

Scholarships

Aligning with its five-year strategic plan for recruiting and developing staff, the Office offers financial assistance to local students furthering their education. Juwan McLean is presently on an OfReg scholarship at the University College of the Cayman Islands, where he is completing a Bachelor of Science degree in Computer Science.

Please visit www.ofreg.ky for detailed information on new scholarships.



The Board

As of 31 December 2019



Dr. Hon. Linford A. Pierson, OBE, JP, PhD, FCCA

Chair

Appointed January 2017 through May 2021



Malike Cummings

Chief Executive Officer & Executive Director

Appointed September 2019 through September 2022



Ronnie Dunn

Deputy Chair & Non-Executive Director

Appointed May 2017 through May 2021



Gregg Anderson

Executive Director of Energy & Utilities

Appointed September 2017 through September 2020



Gene Banks

Non-Executive Director

Appointed May 2019 through May 2021



Alea Fa'amoe

Executive Director of Information & Communication Technologies

Appointed January 2017 through May 2020



Paul Byles

Non-Executive Director

Appointed May 2019 through May 2021



Duke Munroe

Chief Fuels Inspector & Director, Fuels Markets

Appointed January 2017 through December 2020



Phillip Ebanks

Non-Executive Director

Appointed May 2019 through May 2021



Rudy Ebanks

Non-Executive Director

Appointed October 2017 through May 2021

Executive Members

Non-Executive Members

Staff

As of 31 December 2019



Administration

Echard McLaughlin (Manager, Administration)
Joanne Conolly (Executive Assistant)
Daniel Lee (Manager, Consumer Affairs & Public Education)
JoAnna Bodden (Administrative Officer)
Christen Suckoo (Chief Operating Officer)
Tiffany Duarte (Administrative Officer)



Legal

John Epp (General Counsel) *Not pictured
Alison Maxwell (Assistant General Counsel)



Energy & Utilities

Dericka Ebanks (Regulatory Analyst)
Derrick Westerborg (Regulatory Analyst)
Louis Boucher (Deputy Executive Director)



Fuels

Robert Tatum (Fuels Inspector)
Dwayne Tucker (Fuels Analyst)
Dwayne Ebanks (Fuels Inspector)



ICT

Jose Hernandez (Manager, Internet Protocol & TV)
Keith Dixon (Project Manager & Acting Spectrum Manager)
Sonji Myles (Deputy Executive Director)
Tessa Ryan (Manager, Economics)
Alee Fa'amoe (Executive Director)
Ian Callow (Manager, Fixed & Wireless Services)
Daniel Ebanks (Manager, Infrastructure)

Management's Discussion and Analysis

The Sectors

The Office is responsible for regulating licensees in the energy, ICT, water and fuel sectors in the Cayman Islands. This section gives an update from each of the sectors during 2019.

Energy

The Office continued monitoring and oversight of the monopoly electricity provider in the Grand Cayman service territory, Caribbean Utilities Company, Ltd. ('CUC'); the monopoly electricity provider in Cayman Brac and Little Cayman, Cayman Brac Power & Light Company Ltd. ('CBP&L'); Bodden Town Solar I Limited ('BTSIL') (formerly Entropy Cayman Solar Limited); and the facilitation of initiatives to meet the Cayman Islands Government National Energy Policy ('NEP') for the Cayman Islands.

A sector priority is on diversifying the energy portfolio with renewable energy and accelerating infusion onto the grid. In addition to continuing its regulatory oversight of CUC, CBP&L, BTSIL and other future licensees, the Office plans to focus more on strategic issues in the sector such as protecting CNI and fostering innovative technologies, processes and systems that will enable customers to benefit from improvements in services and costs.

Fuel

The performance of the fuel sector from a safety and compliance standpoint continued to be in equilibrium in 2019, and the operation of the fuel market was considered relatively stable and reliable during 2019.

Monitoring and posting of fuel prices throughout the Cayman Islands are being done on a consistent basis and posted weekly to www.ofreg.ky for the benefit of the public. Analyses of local price trends are also available for public access at the Office's website. The Office's fuel sector team continues to benefit from an excellent interdepartmental collaboration with a number of agencies across Government in 2019.

ICT

In 2019, the ICT sector made significant advancements towards promoting innovation and protecting CNI throughout the Cayman Islands.

The Office also continued to work with the Royal Cayman Islands Police Service and local internet providers to fight cyberattacks, and has multiple other projects ongoing with the Department of Planning, the National Roads Authority, the Department of Environment, Hazard Management Cayman Islands ('HMCI'), 911, the Maritime Authority of the Cayman Islands, the Civil Aviation Authority, the Cayman Islands Monetary Authority and others.

Water

During 2019, substantial progress was achieved on the licence negotiations with Cayman Water Company Ltd ('CWC'), and discussions continue to progress with the Water Authority of the Cayman Islands. Water sector fees and penalty regulations were drafted to complete and strengthen the regulatory framework for this sector.

Key Milestones in 2019

A major milestone for the Office during 2019 was the recruitment and onboarding of the new CEO, Malike Cummings, in September 2019.

The following key milestones were achieved by the sectoral teams during the Office's 2019 financial year:



Energy

- a. The Office issued Consultation Papers on Regulatory Accounting Rules and a Renewable Energy Auction Scheme.
- b. During 2019 the Office awarded new Generation and Transmission & Distribution licences to CBP&L, the sole producer of electricity in Cayman Brac and Little Cayman. CBP&L's previous licence expired on 31 December 2018. The Generation licence is non-exclusive and therefore allows competition in this space. CBP&L can also now obtain and/or produce electricity from other sources besides fossil fuel, which it was restricted from doing so under its old licence.
- c. The Office approved the CUC 20MW Battery Energy Storage Project, which will lower the cost of electricity to consumers and also increase the amount of intermittent renewable energy capacity by 12MW.
- d. During 2019, the Office requested CUC institute a real-time outage reporting system that alerts OfReg to both planned and unplanned outages. This system enables OfReg to view the status of CUC's operations and to monitor its compliance with its agreed performance standards.
- e. Various meetings were held with CUC throughout the year in keeping with OfReg's mandate to identify and protect CNI. It is envisioned that further meetings will be held in 2020 to finalise and develop the framework for CNI security.

Fuel

- a. During 2019, the Office initiated drafting of a fuel licensing framework and secured sustainable funding for the fuel sector.
- b. Following a rigorous procurement process, the Office commenced a Market Definition and Assessment exercise to enable the framework for robust and effective regulation of the fuel sector. The Office also completed and consulted on the draft Consumer Protection Regulations for the fuel sector.
- c. The Office progressed several investigations during 2019, including substantial completion of the Liquefied Petroleum Gas Anticompetitive Investigation that is pending enforcement and implementation of interim market rules, as necessary. The Office also successfully investigated an LPG tank incident and commenced enforcement action against the operator and initiated a Fuel Release Investigation at the Rubis Jackson Point Terminal.

- d. The Office continues to progress the implementation of National Fuel Quality Standards, and during 2019 progressed work in the areas of establishing the technical subcommittee and appointing membership. The Office also executed random fuel quality testing at seven sites across all three Islands.
- e. In the area of renewable fuels, the Office approved the importation of biodiesel for continual expansion of the fuel mix. It also coordinated the first LPG Forum aimed at collaborating and addressing LPG as a continuing fuel in the fuel mix, along with other operational and safety concerns around its use and installation.
- f. The Office supported the accomplishment of a successful mock audit as part of the Cayman Islands' compliance with Interagency Maritime Organization III Code requirements. The team made significant contributions and provided requisite support in preparation for a full audit in 2020.
- g. The Office also oversaw the upgrade and completion of five key fuel facilities for safety and code compliance, including the recommissioning of SOL's #8 Tank and CUC's #5 Tank.
- h. Meter calibration at bulk terminals, retail facilities and other fuel dispensing sites was conducted by the Office throughout 2019.
- i. In 2019, a total of 45 oil and fuel related spills were attended to by the Office and all were adequately managed to minimise their impact on the environment. With the exception of the major oil spill at Rubis Terminal which remained under investigation at the close of 2019, all other spill investigations were concluded and reports have been prepared, including remedial action to be taken and measures to be put in place to prevent recurrence.
- j. Finally, the Office initiated a collaborative forum with the Cayman Islands Fire Service on mutual areas of interest, including inspections, cross training of team members and enhancing compliance at dangerous substances sites.

ICT

- a. During 2019, the Office finalised the proposed Consumer Protection Regulations (ICT Sector). It is intended that the Regulations will be brought into force in 2020.
- b. The Office issued a sector-wide consultation on a proposed new licensing framework. A new framework is necessary to bring the regulatory framework up to date with the advancements in technology and expectations of consumers. Responses to the consultation were received at the end of 2019. The Office is using the input received to finalise its approach to update the framework in 2020.
- c. In the area of cybersecurity, the Office: advised core Government on cybersecurity matters; represented Cayman at a Council of Europe Caribbean outreach meeting;² provided the National Security Council with a recommended course of action to combat cyber-crime; and established a Cyber Crime Working Group to study the various laws in Cayman to combat cybercrime.
- d. The Office commenced a number of initiatives during 2019 in relation to the ICT CNI Strategy, including: creating a map of all ICT infrastructure; the issuance of a Request for Information to relevant licensees in relation to all ICT ducts; a directive from the Office to all telecommunications licensees regarding communication with the Office in relation to infrastructure sharing requests; and preparation of a Memorandum of Understanding with the Department of Planning regarding the facilitation of monitoring excavation requests.
- e. The Office finalised the first phase of implementation of an Emergency Notification System³ covering physical and logical security, rollout, local operator resiliency and capacity and control. This stage included the soft launch of the FM Radio Emergency Interrupt System using Emergency Alert System Standards in conjunction with HMCI.
- f. The Office also updated the ICT Outage Reporting Rules requiring service providers to advise the Office of all major outages, and to provide actions they will take to avoid similar outages in the future.⁴
- g. As part of the Office's public outreach development initiatives, informational marketing campaigns ("Cayman Connected"⁵ and Cayman Protected"⁶) were launched via social media in order to educate consumers on ICT related issues.
- h. During 2019, the Office published consultations on Pole Attachment Reservation Fees,⁷ final Consumer Protection Regulations⁸ and new ICT licensing framework.⁹
- i. During 2019 the Office ramped up compliance and enforcement activities across the sector, focusing on licence fee payment and quarterly reporting obligations. The Office will continue to ramp up compliance and enforcement in all areas.
- j. The Office commenced facilitation of subsea cable connectivity through agreements with the Department of Environment on preferred cable landing sites and the Department of Planning regarding issuance of permits.

Water

- a. During 2019 advancements were made in progressing negotiations with CWC for the grant of a new Water Producers and Supply Licence. The licence extension expired on 31 January 2018, and negotiations are ongoing.
- b. The Office also issued the Water Sector (Licence, Fee, and Penalty) Regulations to Cabinet for its approval. These Regulations, when enacted, will complete the regulatory framework and establish the funding mechanism for the water sector, thus enabling OfReg to effectively execute its regulatory activities for water service providers and water operators.



Statutory Obligations

The Utility Regulation and Competition Office is a statutory authority as defined by section 2 of the PAA and is therefore a public authority. Consequently, its structure and governance must comply fully with this Act, established to govern the statutory authorities and government companies in the Cayman Islands.

The URC Act sets out the principal statutory functions of the Office, as set out in section 6(1) of the Act:

6. (1) The principal functions of the Office, in the markets and sectors for which it has responsibility, are –
 - a. to promote objectives set out in any Policy;
 - b. to promote appropriate effective and fair competition;
 - c. to protect the short- and long-term interests of consumers in relation to utility services and in doing so—
 - i. supervise, monitor, and regulate any sectoral provider, in accordance with this Act, the regulations and sectoral legislation and any general policies made by Cabinet in writing;
 - ii. ensure that utility services are satisfactory and efficient and that charges imposed in respect of utility services are reasonable and reflect efficient costs of providing the services; and
 - iii. publish information, reports and other documents relating to utility services; and
 - d. to promote innovation and facilitate economic and national development.

Section 43 of the URC Act requires the Office to publish its annual report as prescribed below:

1. The Office shall submit annually to the Cabinet, not later than four months following the end of the financial year, a report on its activities, performance and transactions during the previous financial year, together with audited accounts including a balance sheet and income and expenditure accounts as at the close of the previous financial year.
2. The annual report shall —
 - a. outline the Office's financial performance against its budget;

- b. include a detailed report of the Office's performance against the key performance indicators published in the previous year's annual plan;
 - c. include a detailed report of the performance of the sectoral utilities; and
 - d. set out the key activities carried out during the previous financial year, whether or not envisaged in the previous year's annual plan.
3. The report and accounts under subsection (1) shall be laid on the table of the Legislative Assembly by the Minister not later than six months following the end of the financial year.

As a Government Policy, the Office is statutorily obligated to promote and be guided by the NEP.

During 2019, the Office completed the following statutory objectives:

- Pursuant to Part 3 of the URC Act, the Office first formed a nine-member Board of Directors.
- Pursuant to section 38(1) of the URC Act, the Office planned for a reserve fund, and a policy was drafted to provide for the effective management of the fund.
- In April 2019, pursuant to section 41(1) of the URC Act, the Office published its 2019 Annual Plan which outlines key performance indicators to measure: performance; 2018- 2020 sectoral objectives, including strategies to meet those objectives; and an approved budget for 2019.

Pursuant to the PMFA, the following ownership targets for the Office were agreed between Cabinet and the Board for the 2019 financial year:

Sector Outputs



Energy and Utilities Sector Outputs for Fiscal Year January-December 2019

Outputs	Objectives	Status
URC 1 - Drafting Instructions for the Development of Legislation		
Maintain and enhance a regulatory environment that is fair, equitable and transparent.	Undertaking public consultation on relevant regulatory issues on a timely basis.	Issued the Water Sector (Licence, Fee and Penalty) Regulations Consultation Paper.
	Continuing the process of updating and validating the licensing information taken over by the Utility Regulation and Competition Office.	Approved the transfer of share of Entropy Cayman Solar Limited to BMR Energy Ltd.
The expansion of electrical energy generated from renewable resources within the Cayman Islands.	Undertaking activities to meet the National Energy Policy Goals.	Approved new rates for the last 1MW tranche of the CORE programme to take effect from February 2020.
Negotiate a new licence with Cayman Brac Power & Light Co. Ltd. to replace the existing licence which expired on 16 December 2018.	Issue new Generation, Transmission and Distribution licences to Cayman Brac Power & Light Co. Ltd.	New licences awarded in May 2019.
Implement, monitor and enforce performance standards on licensees in each of the Islands. Continue to ensure that performance standards are designed to incentivise improved operating efficiency by licensees and that such standards are at a minimum, generally met in order to ensure that consumers receive dependable power at the most reasonable cost.	Ensure performance standards are complied with and that consumers pay the most reasonable cost for electricity.	Continued monitoring of CUC's performance against agreed standards and took appropriate action if/when required.
Agree with licensees on any relevant modifications to licences/the regulatory framework as appropriate, to better protect the interests of electricity consumers of the Cayman Islands and ensure the continued economic sustainability of the licensees.	Implement update(s) to licences/regulatory framework to meet the evolving marketplace.	Electricity Sector Regulation Act (2018 Revision) enacted.
Continue to offer strategic advice to the Government on the continued development of a National Energy Policy.	Promoting activities to meet the National Energy Policy goals.	Attended meetings of the Energy Policy Committee.
Complete the negotiations and issue a new licence to Cayman Water Company Ltd.	Licence Cayman Water Company Ltd as a service provider of potable water for the Seven Mile Beach and West Bay areas.	Negotiations are continuing.
Issue the Administrative Determination, as required by the WSR Act, setting out the regulatory framework for the Water Authority.	Licence Water Authority Cayman as a service provider of potable water for the remaining areas of Grand Cayman, plus Cayman Brac and Little Cayman.	Issued the Water Sector (Licence, Fee and Penalty) Regulations Consultation Paper in order to complete the regulatory framework for the water sector.

Fuel Sector Outputs for Fiscal Year January-December 2019

URC 8 - Monitoring and Controlling of Petroleum Products, Storage and Handling

Objectives		Annual Objectives	Actual
Quality	General Inspection (all permitted premises and vehicle)	270-300	180
	Statutory Consultation (Planning and Permitting)	45-55	442
	Economic Monitoring and Data Analysis of Fuel Sector	52-60	84
	Fuel and Energy-related Initiatives Engagement	3-4	45
	FOI, Media and Complaints Handled/Addressed	40-60	17
	Quality Control & Fuel Testing	12-15	7
	Issuance of Operating and Import Permits, and Calibration Certs	160-195	281
	Pump Calibrations Witnessed/Supervised (Sites)	20-30	20
	General Policy Advice and Consultation	35-50	8
	Emergency and Spill Response Management	8-10	45
Quality	Comply with the Dangerous Substances Handling and Storage Act, 2017, its Regulations and relevant industry codes and standards determined by CPI in consultation with relevant stakeholder	100%	
	Inspections to be carried out by qualified, competent and experienced inspectors	75%	
	Activities to be carried out to the highest ethical and professional standards using relevant and up-to-date industry information and practice, and engaging certified organisations where necessary	90%	
Timelines	Inspections (Cycle) to be completed within five (5) working days	95%	
	Turnaround time of three (3) days to action and respond to applicant on Planning and Permitting applications	95%	
	All other tasks to be completed within set/established timeline including and not limited to Operating Permit Issuance, Remedial Notices, Appeals, Reports, etc.	100%	
Location	Cayman Islands	0%	

ICT Sector Outputs for Fiscal Year January-December 2019

Subject	Objectives	Status
URC 1 - Drafting Instructions for the Development of Legislation		
Consumer Protection Regulations	Establish a set of ICT consumer protection regulations for licensees	Determination and Final Regulations completed. For Cabinet approval
Electromagnetic Spectrum Management	Monitor and align the Office with ICT international obligations under the International Telecommunications Union. Onboard approaches to industry and region allocations to the extent appropriate. Restrict assignment of frequencies for preservation for use for 5G service.	Ongoing
Electronics Transactions Act	Review and address a number of issues and produce draft ETL with necessary changes. Liaise with CIG, E-GOV and CIMA towards finalising new legislation.	Ongoing
URC 2 - Management of KY Internet Domain		
Registrar Process and Access to Restricted Names	Policy development for issuance of two and three letter names (e.g. "cat.ky" would now be allowed) as well as onboarding of additional registrars, etc.	In progress
Monitor Registrations	Conduct periodic review of registrations and maintain register.	Ongoing
Resolve Disputes or Queries	Respond to queries or disputes regarding domain registrations.	Ongoing
URC 3 - Collection and Verification of Licence Fees		
Broadcasting Licensee Compliance	Exercise compliance and enforcement activity to collect outstanding licence fees and reports	Ongoing
Annual Spectrum Fees	Collect annual fees. Conduct audit of submissions against assignments.	Complete
Routine Compliance	Office routinely conducts compliance activity to ensure licensees meet their financial obligations.	Ongoing
TV Broadcast	Demand Letter issued to delinquent operator for failure to pay fees.	In progress
.ky Domain	Audit registration fee collection process to ensure fees are collected appropriately.	Ongoing

URC 4 - Policy Advice		
Cybersecurity Policy	Work with National Security Council and RCIPS to identify policy advancement opportunity in the interest of cybersecurity. Review relevant laws and identify areas in need of legislation.	In progress
HMCI Liaison	Working with Hazard Management CI on Emergency Notification Systems applicable to ICT licensees and disaster response procedures and plans.	In progress
URC 5 - Education of Local Businesses and General Public on ICT Issues		
Click Before You Dig	Initiated project to protect buried critical infrastructure by providing a public facing portal to inform the public of risk of digging and to establish digging permission portal to reduce risk of damage to infrastructure.	Ongoing
New Licensing Framework	Published consultation on proposed new ICT framework highlighting benefit and need for update and inviting industry and the public to comment.	Consultation complete. Framework to be finalised and implemented 2020/21.
Pole Attachment Reservation Fees	Published second consultation on pole attachment reservation fees to seek input on developing relevant policy/approach on reservation fees.	In progress
Outage Reporting Rules (ORR)	Office published updated ORR to detail reporting obligations imposed on licensees when experiencing an outage that impacts consumers.	Complete
Continue Public Outreach Development	Use of multiple communications channels and developed animated characters for sharing of public information and outreach.	Ongoing
General Information Sharing	Readily respond to queries from the public seeking clarity or insight into ICT matters.	Ongoing

URC 6 - Regional and International Representation		
Regional Regulator Relationships	Several conference calls with GRA (Gibraltar) regarding multiple issues. OUR (Jamaica) requested information on regulatory roles at OfReg - information provided. Work to proactively build relationships with ICT regulators in the region and in more advanced jurisdictions. In contact with regulators in Trinidad, St. Lucia, Bahamas, Bermuda, Barbados, Suriname on a wide range of issues.	Ongoing
Overseas Representation	Attended International Institute of Communications meeting in Miami, Florida. Held discussions with regional regulators and ICT special interest groups.	Complete
Regional Regulator Relationships	Met with regulators and Government representatives from 28 countries on Cyber Law issues in the Dominican Republic.	Complete
URC 7 - National Cyber Security Initiatives		
National Cybersecurity Strategic Plan	Guidance/Drafting National Cybersecurity Strategic Plan	Ongoing
Cyber Act	Established Cyber Crime Working Group with the National Security Council to evaluate existing laws and propose new Cyber Act. OfReg assisting RCIPS and the Attorney General's Chambers with strategy and policy considerations for cybersecurity.	Complete

Financial Performance and Analysis



Summary of PMFA Ownership Targets

Financial Targets

Pursuant to subsection 52(2)(c) in the PMFA, the tables below show the execution against agreed financial targets for the 2019 financial year.

Operating Statement	2019 Budget 12 Months \$ 000's	2019 Actual 12 Months \$ 000's
Revenue	6,065,850	4,733,525
Operating Expenses	5,515,850	4,403,564
Net Surplus/ (Deficit)	550,000	329,961

Balance Sheet	2019 Budget 12 Months \$ 000's	2019 Actual 12 Months \$ 000's
Assets	4,965,264	5,858,152
Liabilities	252,577	3,511,164
Net Worth	4,712,687	2,346,988

Statement of Cash Flows	2019 Budget 12 Months \$ 000's	2019 Budget 12 Months \$ 000's
Net cash flows from operating activities	689,275	469,555
Net cash flows from investing activities	(110,000)	(57,840)
Net cash flows from financing activities	-	(400,000)

Ownership Performance Targets

Pursuant to subsection 52(2)(c) in the PMFA, the tables below show the Office's execution against its agreed performance targets for the 2019 financial year.

Financial Performance Measure	2019 Budget 12 Months \$	2019 Actual 12 Months \$
Revenue from Cabinet	475,309	1,238,476
Revenue from ministries, portfolios, statutory authorities and government companies	Nil	Nil
Revenue from other persons or organizations	5,590,541	3,495,049
Other expenses	5,515,850	4,403,564
Net Surplus/Deficit	550,000	329,961
Total Assets	4,965,264	5,858,152
Total Liabilities	252,577	3,511,164
Net Worth	4,712,687	2,346,988
Cash flows from operating activities	689,275	469,555
Cash flows from investing activities	(110,000)	(57,840)
Cash flows from financing activities	-	(400,000)
Change in cash balances	579,275	11,715

Financial Performance Measure	2019 Budget 12 Months \$	2019 Actual 12 Months \$
Current Assets: Current Liabilities	14.66:1	2.14:1
Total Assets: Total Liabilities	19.66:1	1.67:1

Human Capital Maintenance	2019 Budget 12 Months	2019 Actual 12 Months
Total full time equivalent	29	24
Staff turnover (%)	Nil	4.35
Average length of service (Number)		
Senior management	7	5
Professional staff	16	5
Administrative Staff	6	11
Significant changes to personnel management	None	None

Physical Capital Measures	2019 Budget 12 Months \$	2019 Actual 12 Months \$
Value of total assets	4,965,264	5,858,152
Asset replacements: total assets	N/A	N/A
Book value of depreciated assets: initial cost of those assets	0.48:1	0.33:1
Depreciation: Cash flow on asset purchases	2.49:1	1.25:1
Changes to asset management policies	None	None

Major Capital Expenditure Projects	2019 Target \$	2019 Actual \$
Leasehold Fit-Out (New Premises)	110,000	-

Detailed below is information regarding specific financial transactions:

Transaction	Amount for 2019 Target \$	Amount for 2019 Actual \$
Equity Investments into OfReg	Nil	Nil
Capital Withdrawals from OfReg	Nil	Nil
Dividend Distributions to be made by OfReg	Nil	Nil
Government Loans to be made to OfReg	Nil	Nil
Government Guarantees to be issued in relation to OfReg	Nil	Nil
Related Party Payments (Non-Remuneration) made to Key Management Personnel	Nil	Nil
Remuneration Payments made to Key Management Personnel	1,487,801	1,595,685
Remuneration Payments made to Senior Management	1,331,801	1,429,795

Transaction	Number for 2019 Target	Number for 2019 Actual*
No. of Key Management Personnel	14	16
No. of Senior Management	N/A	N/A

*One staff member has been seconded from the Cabinet Office

End Notes

¹ See The Public Authorities Act, 2017 (Commencement) Order, 2017.

² See <https://www.coe.int/en/web/cybercrime/glacyplus>

³ See OfReg Discussion Paper 2018-001 ICT “Proposed Emergency Notification System (ENS)”:
<https://www.ofreg.ky/upimages/commonfiles/152035984620180223ENSDiscussionPaperVer0-2.pdf>

⁴ See ICT 2019 - 1 - Rule “ICT Outage Reporting Rules”:
<https://www.ofreg.ky/ict/upimages/commonfiles/1568705149ICT2019-1-RuleOfRegOutageReportingRules.pdf>

⁵ See <https://caymanconnected.ky>

⁶ See <https://caymanprotected.ky>

⁷ See <https://www.ofreg.ky/ict-2019-2-consultation-pole-attachment-reservation-fees>

⁸ See <https://www.ofreg.ky/ict-2019-3-consultation-on-proposed-consumer-protection-regulations>

⁹ See <https://www.ofreg.ky/ict-2019-1-consultation>

Utility Regulation and Competition Office

Financial Statements

31 December 2019

Utility Regulation and Competition Office

**FINANCIAL STATEMENTS
31 December 2019**

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Utility Regulation and Competition Office
Statement of Responsibility for the Financial Statements
31 December 2019

These financial statements have been prepared by the Utility Regulation and Competition Office in accordance with the provisions of the *Public Management and Finance Act (2018 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Act (2018 Revision)*.

As Chief Executive Officer and Financial Controller, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Utility Regulation and Competition Office.

As Chief Executive Officer and Financial Controller, we are responsible for the preparation of the Utility Regulation and Competition Office's financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, financial performance and cash flows for the financial year ended 31 December 2019.

To the best of our knowledge we represent that these financial statements:

- (a) completely and reliably reflect the financial transactions of the Utility Regulation and Competition Office for the year ended 31 December 2019;
- (b) fairly reflect the financial position as at 31 December 2019 and financial performance for the period ended 31 December 2019; and
- (c) comply with International Public Sector Accounting Standards under the responsibility of International Public Sector Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.


Malike Cummings
Chief Executive Officer

CEO(ag) P.P.


Melissa Powery
Financial Controller



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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Utility Regulation and Competition Office

Opinion

I have audited the financial statements of the Utility Regulation and Competition Office (the "Office") which comprise the statement of financial position as at December 31, 2019 and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year ended 31 December 2019, and notes to the financial statements, including a summary of accounting policies as set out on pages 8 to 37.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Office as at 31 December 2019 and its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Public Sector Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Board in accordance with the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Office'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 management either intends to liquidate the Office or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Office's financial reporting process.

AUDITOR GENERAL'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 the Office's 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 the Office's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Office to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60 (1) (a) of the *Public Management and Finance Act (2018 Revision)*. I 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 I identify during my audit.



Sue Winspear, CPFA
Auditor General

July 21st, 2021
Cayman Islands

Utility Regulation and Competition Office
Statement of Financial Position
As at 31 December 2019
(stated in Cayman Islands dollars)

	Note	31 Dec 2019	31 Dec 2018 (Restated)	1 Jan 2018 (Restated)
CURRENT ASSETS				
Cash and cash equivalents	3(a), 20	3,221,127	3,209,412	1,971,990
Short-term investment	3(b), 20	1,027,027	1,008,194	1,008,194
Accounts receivable	4, 20	1,378,416	996,847	1,208,700
Prepaid expenses		99,312	111,346	69,743
		<u>5,725,882</u>	<u>5,325,799</u>	<u>4,258,627</u>
NON-CURRENT ASSETS				
Property, plant and equipment	5	132,154	144,755	251,483
Intangible assets	6	116	1,983	3,005
TOTAL ASSETS		<u>5,858,152</u>	<u>5,472,537</u>	<u>4,513,115</u>
LIABILITIES				
CURRENT LIABILITIES				
Collections payable to Government	8	2,019,493	2,034,160	1,966,721
Accounts payable and accrued liabilities	7	659,671	376,350	640,026
LONG-TERM LIABILITIES				
Defined benefit healthcare liability	10	688,000	384,000	300,000
Defined benefit pension liability	10	144,000	60,000	49,000
TOTAL LIABILITIES		<u>3,511,164</u>	<u>2,854,510</u>	<u>2,955,747</u>
NET ASSETS		<u>2,346,988</u>	<u>2,618,027</u>	<u>1,557,368</u>
TOTAL LIABILITIES AND NET ASSETS		<u>5,858,152</u>	<u>5,472,537</u>	<u>4,513,115</u>

Approved on behalf of the Board of Directors on the 21 of July 2021



Malike Cummings
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Financial Performance
For the Year Ended 31 December 2019
(stated in Cayman Islands dollars)

INCOME	Note	31 Dec 2019	31 Dec 2018 (Restated)
Regulatory fees	12	2,845,914	2,415,622
Services provided to Government	8, 11	1,238,476	1,625,309
Licensing fees	14	356,766	368,934
.ky domain fees		162,293	152,521
Permit fees		76,329	70,726
		<u>4,679,778</u>	<u>4,633,112</u>
 EXPENSES			
Personnel costs	8, 10, 16	3,109,750	3,044,846
Professional and consultancy fees	17	217,367	548,523
General and administration costs	18	355,604	409,642
Lease of office space	15	210,172	274,856
Litigation costs	19, 22	175,806	183,891
Directors' expenses	8	175,176	154,000
Depreciation and amortisation	5, 6	72,309	135,608
Training		47,658	93,645
Official travel and conferences		39,722	140,439
		<u>4,403,564</u>	<u>4,985,450</u>
Other income	13	<u>53,747</u>	<u>303,997</u>
Net surplus/(deficit) for the year		<u>329,961</u>	<u>(48,341)</u>

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Changes in Net Assets
For the Year Ended 31 December 2019
(stated in Cayman Islands dollars)

	Note	Contributed Capital	General Reserve	Accumulated (deficit)/surplus	Other Comprehensive Income	Total Net Assets
Balance at 1 January 2018 (Restated)		1,393,678	1,924,000	(1,753,310)	(7,000)	1,557,368
Equity Injection		1,000,000				1,000,000
Net deficit for the period				(48,341)		(48,341)
Remeasurement of defined benefit plan	10				109,000	109,000
Balance at 31 December 2018 (Restated)		2,393,678	1,924,000	(1,801,651)	102,000	2,618,027
Balance at 1 January 2019		2,393,678	1,924,000	(1,801,651)	102,000	2,618,027
Contribution from general reserve	8		(400,000)			(400,000)
Net surplus for the year				329,961		329,961
Remeasurement of defined benefit plan	10				(201,000)	(201,000)
Balance at 31 December 2019		2,393,678	1,524,000	(1,471,690)	(99,000)	2,346,988

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Statement of Cash Flows
For the Year Ended 31 December 2019
(stated in Cayman Islands dollars)

		31 Dec 2019	31 Dec 2018 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES	Note		
Net surplus for year		329,961	(48,341)
Adjustment for non-cash transactions:			
Non-cash Defined Benefit cost	10	187,000	204,000
Interest on Short-term investment	3(b)	(18,833)	-
Depreciation and amortisation		72,309	135,608
		<u>570,437</u>	<u>291,267</u>
Net changes in non-cash operating balances:			
Accounts receivable	4	(381,569)	211,853
Prepaid expenses		12,034	(41,603)
Collections payable to Government	8	(14,667)	67,439
Accounts payable and accrued expenses	7	283,320	(263,675)
Net cash provided by operating activities		<u>469,555</u>	<u>265,281</u>
 CASH FLOW USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(57,840)	(27,859)
Net cash used in investing activities		<u>(57,840)</u>	<u>(27,859)</u>
 CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
Contribution to Department of Public Safety Communications	8	(400,000)	-
Equity Injection from Cabinet		-	1,000,000
Net cash (used in)/provided by financing activities		<u>(400,000)</u>	<u>1,000,000</u>
 Net increase in cash and cash equivalents during the period		11,715	1,237,422
Cash and cash equivalents at beginning of the period		<u>3,209,412</u>	<u>1,971,990</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>3,221,127</u>	<u>3,209,412</u>

The accompanying notes form an integral part of these financial statements.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2019
(stated in Cayman Islands dollars)

1. Establishment and principal activities

The Utility Regulation and Competition Office (*"the Office"*) is the independent multisector authority established by the enactment of the Utility Regulation and Competition Act, 2016 (*"the URC Act"*) and commenced operations on **16 January 2017**. The Office was established pursuant to section 4(1) of the URC Act.

The Office is an amalgamation of the Information and Communications Technology Authority (*"ICTA"*), the Electricity Regulatory Authority (*"ERA"*) and the Petroleum Inspectorate, which hitherto had been a Department of the Government of the Cayman Islands.

On 16 January 2017, ICTA and ERA were amalgamated to start the Office and in March 2017 in accordance with section 100A (1) of the Information and Communications Act, 2017 (*"ICTA Act"*) and section 92A of the Electricity Regulatory Authority Act, 2016 respectively. In February 2017, the Petroleum Inspectorate, was effectively transferred to the Office and in May 2017 the regulatory functions for the Water Sector were transferred to the Office in May 2017, with the passing of the Water Sector Regulatory Act, 2017 (*"WSR Act"*).

In each of these sectors for which it has responsibility, the Office derives its authority and functions through a variety of Sectoral Acts, the principal ones being the Electricity Sector Regulation Act, 2019 (*"ESR Act"*), the Information and Communication Technology Act (2019 Revision) (*"ICT Act"*), the Dangerous Substances Act (2017 Revision) (*"DS Act"*), the Fuels Sector Regulation Act, 2017 (*"FSR Act"*) and the WSR Act.

While many of the functions previously carried out by the ICTA and ERA have continued as usual, in addition, the Office is endowed with strengthened competition and consumer protection powers, as well as a duty to promote innovation in the sectors for which it has responsibility.

The Office's financial year end is **31st December** each year. As at 31 December 2019, the Office had 24 employees (December 2018: 23 employees).

The Cayman Islands Government (*"the Government"*) appoints the Chair and Non-Executive Members to the Office's Board of Directors.

The Office is located at 85 North Sound Way, 3rd floor, Alissta Towers, George Town, Grand Cayman. Mailing address is P.O. Box 10189, Grand Cayman KY1-1002, Cayman Islands.

2. Significant accounting policies

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (*"IPSAS"*) issued by the International Federation of Accountants and its International Public Sector Accounting Standards Board (*"IPSASB"*). The Office adopted IPSAS in 2018 pursuant to section 40(1) of the URC Act. There were no material differences to the financial statements upon the adoption of IPSAS. The main differences relate to the presentation of Other Comprehensive Income/(Loss) on the Statement of Changes in Net Assets rather than being presented on the Statement of Financial Performance. In addition, the budget for the Office is presented in note 25 in accordance with IPSAS 24. The significant accounting policies adopted by the Office in these financial statements are as follows:

(a) Basis of preparation

The financial statements of the Office are presented in Cayman Islands dollars and are prepared on the accruals basis under the historical cost convention. The figures presented have been rounded to the nearest dollar.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2019
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2. Significant accounting policies (continued)

(b) Use of estimates

The preparation of financial statements in accordance with IPSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period and in any future periods that are affected by those revisions.

(c) Budget amounts

The original budget amounts for the year ended 31 December 2019 were prepared using the accrual basis of accounting and the accounting policies have been consistently applied with the actual financial statement presentation. The amounts shown in these financial statements were included in the Budget Statement of the Government of the Cayman Islands for the year ended 31 December 2019 which was tabled in the Parliament on 27 November 2017. The budget was revised in 2018 for an increase in appropriations for Output fees to fund the regulatory function of the Office in the Fuels Sector. This increase in appropriation was approved by the Parliament on 22 November 2018.

(d) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the financial statements date. Income and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of financial performance.

(e) Cash and cash equivalents

Cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(f) Short-term investments

Short-term investments represent term deposits with banks or other financial institutions with original maturities of greater than three months but less than twelve months.

(g) Accounts receivable

Accounts receivable are recognised initially at fair value and are subsequently reviewed for impairment. Where there is objective evidence that a debt will not be collectible by the Office according to the agreed terms a provision for bad debt is established. The Office maintains a provision for doubtful accounts that is based on an assessment of account balances that are over 90 days old.

(h) Property, plant and equipment and depreciation amortisation

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation, and any impairment losses.

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2019
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2. Significant accounting policies (continued)

Depreciation is charged to the statement of financial performance on a straight-line basis over the estimated useful lives of the property, plant and equipment.

The estimated useful lives of the property, plant and equipment are as follows:

IT equipment	3 - 5 Years
Computer Software	3 Years
Other Equipment	5 Years
Office equipment and furniture	3 – 5 Years
Motor Vehicles	7 Years

Management reviews the depreciation and amortisation method and useful life annually to ensure that they are consistent with the expected economic benefits from property, plant and equipment. During the year, the Office reviewed and amended the useful life of a portion of the motor vehicles within the fleet. This amendment is considered a change in estimate as per IPSAS 3 and depreciation has been adjusted prospectively. The useful life for all motor vehicles is now 7 years.

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Office recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Office's activities described below.

Regulatory Fees - Regulatory Fees are the main source of revenue for the Office. Regulatory fees are collected from the ICT, Electricity and Water sectors, with revenue recognized from the administration of licensing arrangements with major licensees.

Services provided to the Government – The Office provides services to the Government which are established and defined through a Purchase Agreement. The purchase agreement details the outputs that the Government and the Office has agreed that the Office will deliver and the Cabinet will purchase in a particular fiscal year. Revenue is recognized when the performance obligations agreed in the purchase agreement are performed. Payments will be made on the basis of a quarterly invoice provided to the Government by the Office.

Licensing fees – The Office issues ICT licenses for type approval and radio. A type approval is granted to a product that meets a minimum set of regulatory, technical and safety requirements. The Office is responsible for the licensing and regulation of all radio transmitters including radio licenses for Ships, Aircrafts, Amateur (HAM) and Land Mobile. Fees are levied pursuant to section 30 of the ICTA Act (2019). Revenue is recognized once the license has been issued. The Office also issues ICT licenses for the usage of electromagnetic spectrum in accordance with the section 9 of the ICTA Act (2019 Revision). The Office is responsible for allocating electromagnetic spectrum in the Cayman Islands, determining methods for assigning electromagnetic spectrum and instituting procedures for ensuring compliance by licensees with any obligations regarding the use of the electromagnetic spectrum imposed by the licence. Licensees are required to pay spectrum fees and submit spectrum returns annually. The validity period of the return represents the period that the economic benefits will flow to the Office and revenue is recognized in conformity with the validity period.

Permit Fees – The Office processes applications for operating permits for premises and vehicles used to store or transport dangerous substances, under the Dangerous Substances Handling & Storage Act, 2017. The Office also processes applications for permits in relation to the importation of fuel and compressed gas and revenue is recognized once the permit has been issued.

Utility Regulation and Competition Office
Notes to the Financial Statements
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2. Significant accounting policies (continued)

KY Domain Fees – The Office has been delegated authority from the Government, in accordance with section 9(i) of the ICTA Act (2019) for the management and administration of the .ky internet domain. A domain name registration fee is charged upon initial registration of the domain and also at the time of renewal. Fees are charged to domain owners on an annual basis. Revenue is recognized once a domain name has been granted. The management of the .ky domain is contracted to a third party, who remits payment of the registration fees on a quarterly basis.

All application and licence fees are non-refundable.

(j) Leases

The Office leases certain property, where a significant portion of the risks and rewards of ownership are retained by the lessor. These leases are classified as operating leases. Lease payments are recognised as an expense on the statement of financial performance on a straight-line basis over the lease term.

(k) Financial instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets are comprised of cash and cash equivalents, short-term deposits and receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities are comprised of accounts payables and accrued expenses.

(ii) Recognition

The Office recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statement of financial performance.

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets are recorded at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Derecognition

A financial asset is derecognised when the Office realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expired.

Utility Regulation and Competition Office
Notes to the Financial Statements
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2. Significant accounting policies (continued)

(l) Provisions and contingencies

Provisions are recognised when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognised but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but are disclosed in the financial statements when an inflow of economic benefits is probable.

(m) Employee benefits

Employee entitlements such as annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of financial performance when they are earned by employees. Employee entitlements to be settled within one year following the year end outstanding at that date are reported as current liabilities at the amount expected to be paid.

Retirement benefits are provided to employees through a defined contribution plan, as well as a defined benefit plan (note 10).

Defined Contribution Plan

The Office participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Act. Contributions are charged to expenses as they are incurred based on set contribution rates. The Office makes monthly contributions at a rate of 12%, whereby the employer pays both the employer contribution of 6% and employee contributions of 6%. In addition, the Office is also required to contribute to the Public Service Pension Plan, an extra 0.4% (2018: 0.4%) of each employee's monthly salary. This 0.4% (2018: 0.4%) is a Past Service Liability ("PSL") cost to cover a deficiency in the Fund. During the year, the Public Service Pensions (Contribution Rates) Regulations (2019) were issued, which amended the additional normal cost contribution rate effective 1 January 2017 to 0.4%. The normal cost contribution rate utilized for contributions in the prior year was 1.0%. The expense in the current year reflects a portion of the credit for the difference calculated from 1 January 2017 to 31 December 2018. The remaining credit will be absorbed in the contribution assets' accounts balance used for the 1 January 2020 actuarial valuation, after which the Office will have a zero credit.

The Office also participates in a pension plan administered by Silver Thatch. The contributions made to this plan is for employees who have reached the previous retirement age of 60 prior to the amendment of the National Pensions Act or employees who are over the current retirement age of 65. These employees are unable to contribute to the Public Service Pension Plan. The Office makes monthly contributions at a total rate of 12%, whereby the employer pays both the employer contribution of 6% and employee contribution of 6%. The Office is not required to make any additional contributions for PSL to this fund.

Defined Benefit Plan

The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each financial position date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Office's defined obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Utility Regulation and Competition Office
Notes to the Financial Statements
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2. Significant accounting policies (continued)

Defined Benefit Plan (continued)

The defined benefit asset or liability comprises the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(n) Subsequent Events

Post year-end events that provide additional information about the Office's position at the financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

3.

(a) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	500	500
Fixed deposits	499,146	484,982
Current and savings accounts	2,721,481	2,723,930
Total cash and cash equivalents	3,221,127	3,209,412

(b) Short-term investments

Short-term investments are comprised of term deposits held with the Bank of Butterfield (Cayman) with a maturity date of 365 days. During the year, the Office received interest on short-term investments, which was reinvested with the principal amount upon maturity.

4. Accounts receivable

	31 December 2019	31 December 2018
Accounts receivables - trade	807,350	611,557
Receivable from Government	594,802	406,327
Other receivables	10,692	13,391
Allowance for doubtful accounts	(34,428)	(34,428)
Trade and other receivables (net)	1,378,416	996,847

The total accounts receivable and other receivables below represent the net of receivables and allowance for doubtful accounts. During the period, there were no bad debts written off.

Period Outstanding (Days)	31 December 2019	31 December 2018
0-30	1,103,518	317,968
30-90	261,236	641,450
Over 90	13,662	37,429
Total	1,378,416	996,847

Utility Regulation and Competition Office
Notes to the Financial Statements
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4. Accounts receivable (continued)

The bad debts expense recorded in the statement of financial performance is nil (2018: \$34,428) represents an estimate of the losses expected to be incurred. The amount recorded is based primarily on management's assessment of accounts in the over 90-day category.

5. Property, plant and equipment

31 December 2019					
	Office equipment and furniture	IT equipment	Motor vehicles	Other Equipment	Total
Cost					
Balance at beginning of period	26,722	186,472	173,186	14,085	400,465
Additions	2,630	17,744	34,500	2,966	57,840
Balance at end of period	29,352	204,216	207,686	17,051	458,305
Accumulated depreciation					
Balance at beginning of period	18,889	121,273	110,031	5,517	255,710
Charge for period	6,587	44,854	16,183	2,817	70,441
Balance at end of period	25,476	166,127	126,214	8,334	326,151
Net Book Value At 31 December 2019	\$3,876	\$38,089	\$81,472	\$8,717	\$132,154
31 December 2018					
	Office equipment and furniture	IT equipment	Motor vehicles	Other Equipment	Total
Cost					
Balance at beginning of period	25,447	159,888	173,186	14,085	372,606
Additions	1,275	26,584	-	-	27,859
Balance at end of period	26,722	186,472	173,186	14,085	400,465
Accumulated depreciation					
Balance at beginning of period	9,782	63,316	47,104	2,700	122,902
Charge for period	9,107	57,957	62,927	2,817	132,808
Balance at end of period	18,889	121,273	110,031	5,517	255,710
Net Book Value At 31 December 2018	\$7,833	\$65,199	\$63,155	\$8,568	\$144,755

Utility Regulation and Competition Office
Notes to the Financial Statements
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6. Intangible assets

	31 Dec 2019	31 Dec 2018
Cost		
Balance at beginning of period	7,788	7,788
Additions	-	-
Balance at end of period	7,788	7,788
Accumulated amortisation		
Balance at beginning of period	5,805	3,005
Charge for period	1,867	2,800
Balance at end of period	7,672	5,805
Net Book Value	\$116	\$1,983

7. Accounts payable and accrued liabilities

	31 December 2019	31 December 2018
Accrued Expenses	501,497	218,897
Accounts Payable	75,219	83,348
Other	82,955	74,105
	659,671	376,350

8. Related party balances and transactions

The following balances and transactions occurred during the period between the Office and the Government.

	2019	2018
Payable to Government	2,019,902	2,034,160
Services provided to Government	1,238,476	1,625,309

During the year, the Government engaged the Office to provide, a number of services related to the Office's core responsibilities. The provision of these services (or "Outputs") is formalised in a purchase agreement which includes the collection and verification of royalties paid by Office's Licensees, policy advice on utility regulation matters and drafting instructions for legislation and regulations. Additionally, the Government pays the Office for services such as the management of the .ky domain.

As part of the services provided to the Government, the Office collected, verified and remitted the 6% Royalty Fee from ICT Licensees as follows:

<u>Period</u>	<u>Amount Collected – CI\$</u>
Q1	\$2,049,997
Q2	\$1,902,069
Q3	\$2,425,321
Q4	\$2,019,902
	\$8,397,289

At the end of the year, the amount collected in Q4 remains outstanding as a payable to Government.

Utility Regulation and Competition Office
Notes to the Financial Statements
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8. Related party balances and transactions (continued)

Contribution to Department of Public Safety Communications

During the year, the Office made an equity investment of \$400,000 to fund the upgrade of the national 911 (Public Safety) Communications Equipment under the provisions of the Section 18 of the ICTA Act (2011 Revision) as directed by Cabinet.

Public Service Pension Plan

As detailed in Note 10, the Office on behalf of its eligible employees paid contributions of \$225,838 (2018: \$238,439) to the Public Service Pensions Plan during the period.

Key Employee Benefits

The key employees of the Office includes the four (2018: four) Executive Members of the Board. Salaries and other short-term employee benefits for key management are shown below:

	31 December 2019	31 December 2018
Salaries and employee benefits*	\$647,854	\$703,805

* The former Chief Executive Officer's contract ended in August 2018. This position remained vacant until September 2019. The current Chief Executive Officer's contract commenced in September 2019.

The Government seconded a Chief Operations Officer to be a part of the Office's management team. The employee is paid by the Government and therefore does not impact the payroll cost.

The following fixed stipend for Non-Executive Board Members was approved by Cabinet on 29 December 2016:

Chair	\$4,500 per month
Deputy Chair	\$2,500 per month
Member	\$2,000 per month

During the year, the Office added one additional Non-Executive Board Member and one Risk & Audit Subcommittee chairperson in accordance with Section 26(2) of the URC Act (2019 Revision). Total fees paid to the six Non-Executive Board Members was \$165,890 (2018: 154,000) and is included in Directors' Expenses of \$175,176 on the Statement of Financial Performance for the year ended December 31, 2019.

9. General reserve

The Utility Regulation and Competition Act Section 38 requires the Office to maintain a reserve fund; the management of such fund being at the discretion of the Office. The Act requires the fund to be applied only for the purposes of the Office.

10. Post Retirement Benefits

Contributions to Public Service Pensions Plan

During the current year, the Office recognised pension expenses under salaries and employee benefits of \$260,102 (2018: \$286,837) paid to the Public Service Pensions Fund and the Silver Thatch Pensions Fund.

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan

The Office has three employees (2018: three employees) who are active participants in the Public Service Defined Benefit Plan. During the year, the Office recognised pension expense under salaries and employee benefits of \$24,000 (2018: \$20,000).

Pension contributions for eligible employees of the Office are paid to the Public Service Pensions Fund (the 'Fund'). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Benefit obligations are estimated using the Projected Unit Credit method. Under this method, each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

The Fund has been valued by the Actuary (Mercer) to the Pensions Board. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein. The Office paid both the employee and employer's contributions. The actual amount of pension expense relating to the defined benefits for staff also includes the effect of the changes in the actuarial determined liability.

The amounts recognized in the statement of financial position is as follows:

	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Defined benefit obligation	504	317
Fair value of plan assets	360	257
Funded status	144	60
Net liability	144	60

The change in defined benefit obligation is as follows:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Defined benefit obligation at end of prior year	317	277
Service Cost	37	40
Interest expense	13	10
Cash flows	15	17
Other significant events	-	-
Remeasurements	122	(27)
Effect of changes in foreign exchange rates	-	-
Defined benefit obligation at end of year	504	317

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The change in fair value of plan assets is as follows:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Fair value of plan assets at end of prior year	257	228
Interest Income	11	8
Cash flows – employer and participant contributions	30	39
Other significant events	-	-
Remeasurements	62	(18)
Effect of changes in foreign exchange rates	-	-
Fair value of plan assets at end of year	360	257

The net defined benefit liability (asset) reconciliation:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Net defined benefit liability as of beginning of year	60	49
Defined benefit cost included in P&L	39	42
Total remeasurements included in OCI	60	(9)
Other significant events	-	-
Cash flows	(15)	(22)
Credit to reimbursements	-	-
Effect of changes in foreign exchange rates	-	-
Net defined benefit liability as of end of year	144	60

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The components of defined benefit cost is as follows:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Service Cost	37	40
Net interest cost	-	-
Interest expense on DBO	13	10
Interest (income) on plan assets	(11)	(8)
Total net interest cost	2	2
Remeasurements of Other Long Term Benefits		
Administrative expenses and taxes		
Defined benefit cost included in P&L	39	42
Remeasurements (recognized in other comprehensive income)		
Effect of changes in demographic assumptions	(2)	(3)
Effect of changes in financial assumptions	128	(75)
Effect of experience adjustments	(4)	51
(Return) on plan assets (excluding interest income)	(62)	18
(Return) on reimbursement rights (excluding interest income)		
Changes in asset ceiling/onerous liability (excluding interest income)		
Total remeasurements included in OCI	60	(9)
Total defined benefit cost recognized in P&L and OCI	99	33

The sensitivity analysis on defined benefit obligation is shown below:

	31 Dec 2019	31 Dec 2018
1. Discount rate		
a. Discount rate – 25 basis points	544	341
b. Discount rate + 25 basis points	468	294
2. Inflation rate		
a. Inflation rate – 25 basis points	470	295
b. Inflation rate + 25 basis points	542	340
3. Mortality		
a. Mortality - 10% of current rates	517	323
b. Mortality + 10% of current rates	493	310

Utility Regulation and Competition Office
Notes to the Financial Statements
For the Year Ended 31 December 2019
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The expected cash flow for the following year is as follows:

	Amount (\$000)	Amount (\$000)
Expected employer contributions	15	14

The significant actuarial assumptions are presented below:

	2019	2018
1. Discount rate	3.50%	4.50%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2018
6. Cost Method	Projected Unit Credit	Projected Unit Credit
7. Asset valuation method	Market Value	Market Value

	2019	2018
1. Discount rate	4.55%	3.85%
2. Rate of salary increase	2.50%	2.50%
3. Rate of price inflation	2.00%	2.00%
4. Rate of pension increases	2.00%	2.00%
5. Post-retirement mortality table	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2018	RP-2014 scaled back to 2006 using Scale MP-2014 then generationally projected from 2006 using Scale MP-2016

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

Plan Assets

The Defined Benefit assets as well as Defined Contribution assets of the Plan are held as part of the Fund and managed by the PSPB. The assets of two other pension plans are pooled together to constitute the Fund. The assets are notionally allocated to each of the three participating pension plans through an internal accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income and expenses in proportion to the opening value of assets allocated. Based on the data provided, the gross rate of return earned by the Fund for the period, 1 January 2019 to 31 December 2019 was 26.66% per annum. Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

The valuations are based on the draft financial statements as at 31 December 2019 as well as asset value as at 31 December 2019 provided by PSPB, along with cash flow and other supplemental asset information. The assets are held in trust by CIBC Mellon.

The Fund currently has investment policy with a target asset mix of 80% (2018: 79%) equities and 20% (2018: 21%) bonds. As at 31 December 2019, the Fund was invested as follows:

Plan Assets by Asset Category	2019		2018	
	\$000	Percentage	\$000	Percentage
Global equities securities	680,288	79%	523,688	79%
Debt securities	167,692	20%	134,985	20%
Cash and Receivables	10,444	1%	5,056	1%
Total	858,424	100%	663,729	100%

For the period ended 31 December 2019, the Defined Contribution portion of the Fund totaled to \$392,935,880 (2018: \$361,762,700) as provided by PSPB. The share of the Fund that been notionally allocated to Office with regards to its participation in the Defined Benefit Part of the Plan at 31 December 2019 is \$360,000 (2018: \$257,000).

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Public Service Defined Benefit Plan (continued)

The Actuarial Assumptions

The actuarial assumptions have been approved by the Financial Secretary, the main sponsor of the Plan. The principal financial and demographic assumptions used at 31 December 2019 are shown in the table below. The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the pension expense for the following year.

Measurement Date	2019	2018
Discount rate		
- BOY disclosure and current year expense	4.50% per year	3.80% per year
- EOY disclosure and following year expense	3.50% per year	4.50% per year
Increases in pensionable earnings	2.50% per year	2.50% per year
Rate of Pension Increases	2.00% per year	2.00% per year
Mortality		
- BOY disclosure and current year expense	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2018	RP-2014 scaled back to 2006 using scale MP-2014 then generationally projected using scale MP-2016
- EOY disclosure and following year expense	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2019	RP-2014 scaled back to 2006 using Scale MP-2014, then generationally projected from 2006 using scale MP-2016
Disability	None	None
Turnover Rates	Age related table	Age related table
Retirement	Age 57 and 10 years of service	Age 57 and 10 years of service
	Retiring today (member age 57) 28.66	Retiring today (member age 57) 28.80
Assumed life expectations on retirement	Retiring in 25 years (at age 57): 30.93	Retiring in 25 years (at age 57): 31.08
Liability Cost Method	Projected unit credit method	Projected unit credit method
Asset Value Method	Market Value of Assets	Market Value of Assets
Commutation of pension	All members commute 25% at retirement	All members commute 25% at retirement

Utility Regulation and Competition Office
Notes to the Financial Statements
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10. Post Retirement Benefits (continued)

Turnover Rates at sample ages:

<u>Age</u>	<u>Males</u>	<u>Females</u>
20	7.5%	12.5%
25	5.0%	12.5%
30	3.5%	7.5%
35	2.5%	4.5%
40	1.5%	2.5%
45	0.5%	5.0%
50	0.0%	0.0%

There have been no changes in actuarial assumptions since the prior valuation other than the changes to the principal assumptions shown in the table above.

Defined Benefit Healthcare Costs

The Office recognizes post-retirement healthcare costs for employees who were transferred to the Office from the Cayman Islands' civil service ("the civil service"). The objective is that staff members transferred to the Office will not be disadvantaged after the transfer in terms of employee benefits they enjoyed as employees of the civil service.

The Office has accepted the responsibility to provide the same healthcare benefits enjoyed by former civil servants. The premiums for healthcare coverage would be paid by the Office for all eligible employees, together with their spouses (from the employee's retirement until death) and dependent children (from the employee's retirement until no longer considered a dependent child). To be eligible for coverage, the employee must be transferred from the civil service with a total of 10 consecutive years spent with the civil service and the Office. In addition, the employee must be entitled to a pension under the Public Service Pensions Act (2017 Revision) at the time of retirement from the Office's employment. This post retirement coverage falls within the definition of a defined benefit as defined by IPSAS 25 – Employee Benefits and as such represents a future liability of the Office.

The Office has obtained the services of Mercer Actuaries of Canada to provide an actuarial valuation of the obligation. The details of the valuation method and assumptions used are presented below in accordance with IPSAS 25.

The Office has a present value net defined healthcare benefit obligation of \$688,000 at the year ended 31 December 2019 (2018: \$384,000). Included in Personnel costs on the statement of financial performance is \$163,000 (2018: \$184,000) for the current year's healthcare benefit cost.

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10. Post Retirement Benefits (continued)

The change in defined benefit obligation is as follows:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Defined benefit obligation at end of prior year	384	300
Service Cost	146	173
Interest expense	17	11
Remeasurements		
Effect of changes in demographic assumptions	-	-
Effect of experience adjustments	-	-
Effect of changes in financial assumptions	141	(100)
Defined benefit obligation at end of year	688	384

The components of defined benefit cost is as follows:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Service Cost	146	173
Net interest cost	-	-
Interest expense on DBO	17	11
Defined benefit cost included in P&L	163	184
Remeasurements (recognized in other comprehensive income)		
Effect of changes in demographic assumptions	-	-
Effect of changes in financial assumptions	141	(100)
Total remeasurements included in OCI	141	(100)
Total defined benefit cost recognized in P&L and OCI	304	84

The net defined benefit liability (asset) reconciliation:

	31 Dec 2019	31 Dec 2018
	\$000	\$000
Net defined benefit liability as of beginning of year	384	300
Defined benefit cost included in P&L	163	184
Total remeasurements included in OCI	141	(100)
Other significant events	-	-
Cash flows	-	-
Credit to reimbursements	-	-
Effect of changes in foreign exchange rates	-	-
Net defined benefit liability as of end of year	688	384

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10. Post Retirement Benefits (continued)

The significant actuarial assumptions are presented below:

	2019	2018
Weighted-average assumptions to determine defined benefit obligation		
Effective Discount rate	3.60%	4.55%
Weighted-average assumptions to determine defined benefit cost		
Effective Discount rate	4.55%	3.85%
Effective rate for net interest cost	4.35%	3.65%
Effective discount rate for service cost	4.60%	3.90%
Effective rate for interest on service cost	4.60%	3.85%

The sensitivity analysis on defined benefit obligation is shown below:

	2019	2018
1. Discount rate		
a. Discount rate – 25 basis points	59	32
b. Discount rate + 25 basis points	(54)	(29)
2. Trend rate		
a. Health care cost trend rates – 100 basis points	(187)	(101)
b. Health care cost trend rates + 100 basis points	264	142
3. Mortality		
a. Mortality + 10% of current rates	(24)	(13)

11. Outputs to Cabinet: Revenue

The Office provides services to the Cabinet of the Government under an agreement established in the Annual Plan and Estimates (the “Annual Plan”). The Annual Plan for the year ended 31 December 2019 established legal provisions for the Office to provide a maximum of \$475,309 in services. During fiscal 2018, in accordance with Section 12 of the Public Management and Finance Act (2018 Revision), the Office requested and received an increase in appropriations of \$1.15 million to fund the regulatory function of the Office in the fuel sector this year. Each fiscal year’s Ownership Agreement between the Office and Government sets out the objectives that the Office seeks to achieve.

12. Regulatory fees

The breakdown of regulatory fees is shown in the below table:

Regulatory fees by Sector	31 December 2019	31 December 2018
ICT	1,414,788	1,385,300
Electricity	1,215,575	1,030,322
Water	215,551	-
Total Regulatory fees	2,845,914	2,415,622

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13. Other income

	31 December 2019	31 December 2018
Administrative fines	-	286,700
Interest on fixed deposits	20,987	9,151
Other	32,760	8,146
Total Other income	53,747	303,997

During the year ended 31 December 2018, the Office imposed penalties of \$286,700 on Sol Petroleum in relation to non-compliance and breaches of the Dangerous Substances Act which resulted in the incident at Jackson Point Terminal on 23 July 2017.

14. Licensing fees

The breakdown of licensing fees is shown in the table below:

	31 December 2019	31 December 2018
Ship Radio Licensing	142,004	135,628
Spectrum Allocation Fees	120,286	122,979
Type Approvals	68,869	72,110
Aircraft Radio Licensing	21,261	15,115
Other Radio Licensing	4,346	23,102
Total Licensing fees	356,766	368,934

15. Commitments

Lease Commitments

The Office currently leases the third floor of Alissta Towers under a month to month operating lease. The lease payments are \$6,700 per month.

On 7 May 2019, the Office negotiated an early termination of the lease agreement with TPC Limited for office space at Smith Road Centre. The original agreement was executed on 3 August 2017 for a period of ten years with lease payments of \$17,186 per month. As part of the settlement, the Office was required to make lease payments in accordance with the lease agreement for the period of August 2018 to July 2019 payable in two instalments, with one instalment paid during the current financial year and an amount of \$100,000 due on 31 March 2020. The total expense incurred in relation to this lease agreement (inclusive of settlement costs) since the date of execution of the lease agreement is CI\$354,674.

Contractual Obligations

During 2019, the Office entered into an agreement with Economics Partners Limited (the "Consultant") to provide consultancy services for the fuel sector. The Consultant was selected following an open competitive bid process by the Central Procurement Office to perform the assessment of the fuels market across the Cayman Islands. The assessment is expected to be completed in 2020.

The Office's future payments based on lease commitments and contractual obligations are:

Period	Amount
Less than 1 year	\$254,860
Greater than 1 year but less than 5 years	-
Greater than 5 years	-
Total Future Commitment	\$254,860

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15. Commitments (cont'd)

Liability to the Cayman Islands Government – Dividends

Under Section 39(2) of the Public Authorities Act (2020 Revision), any surplus cash exceeding three months' reserve should be paid to the Cayman Islands Government, unless directed otherwise by Cabinet. On 11 February 2020, Cabinet granted approval to exempt Public Authorities from paying dividends with respect to the financial year ended 31 December 2019.

Under Section 39(3) of the Public Authorities Act (2020 Revision), the Office is required to pay dividends in accordance with the formula established by the Minister of Finance.

Based on the formula, no dividend is due to the Government for the financial year ended 31 December 2019, as the change in cash and cash equivalents less restricted cash is (\$1,074,095).

16. Personnel costs

The breakdown of Personnel Costs is shown in the below table:

	31 December 2019	31 December 2018
Salaries	2,191,605	2,118,714
Health insurance	401,072	353,742
Pension	260,102	275,838
Post retirement benefit costs	187,000	204,000
Work permit fees	52,855	44,800
Other	17,116	47,752
Total Personnel costs	3,109,750	3,044,846

17. Professional and consultancy fees

The breakdown of professional and consultancy fees is shown in the below table:

	31 December 2019	31 December 2018
Consultancy fees	170,594	310,990
Professional fees	6,773	197,533
Audit fees	40,000	40,000
Total Professional and consultancy fees	217,367	548,523

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18. General and administration costs

The breakdown of general and administration costs is shown in the below table:

	31 December 2019	31 December 2018
Utilities	61,784	74,482
IT Services	84,510	79,822
Subscriptions and contributions	63,257	46,997
Office administration expenses	63,249	57,403
Bad debt expense	-	34,428
Bank charges	15,389	17,381
Insurance	32,782	19,557
Other expenses	34,633	79,572
Total General and administrative costs	355,604	409,642

19. Litigation costs

The breakdown of litigation costs is shown in the below table:

	31 December 2019	31 December 2018
Settlement fees	168,000	-
Legal fees	7,806	183,891
Total Litigation costs	175,806	183,891

Settlement fees relate to the final settlement of DataLink Ltd.'s legal costs in relation to the judicial review matter. (See note 22 and note 27 for further information)

20. Financial risk management objectives and policies

The Office's principal financial assets are comprised of cash and cash equivalents and accounts receivables. Financial liabilities are solely accounts payable and other liabilities. The Office's Board of Directors has overall responsibility for the establishment and oversight of its risk management policies which are designed to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are periodically reviewed to reflect changes in market conditions and Office's activities. The most important types of financial risk to which the Office is exposed are:

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Office did not hold any financial instrument that was subject to market risk at 31 December 2019.

b) Credit Risk

Credit risk for the Office is the risk that counterparty will not meet its obligation under a financial instrument, leading to a financial loss. The Office is exposed to credit risk primarily from its receivables from licensees, and from its various deposits in its bank. The Office does not have the flexibility in refusing to transact with a licensee in accordance with the laws.

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20. Financial risk management objectives and policies (continued)

At year-end, the Office evaluates the financial capability of its licensees to determine any issues with collectability that can result in a financial loss. The Office also continues to monitor the financial soundness of its banking institution, and currently believes that there are no issues impacting the bank's ability to repay amounts in accordance with the respective terms of various deposits.

The Office's accounts receivable balance does not have any significant credit risk exposure to any single licensee but is inherently exposed in its entirety to each sector for which it has responsibility for regulating in the Cayman Islands. The Office's licensees include well-established local telecommunication and media, electricity, fuel and water companies and, at 31 December 2019, there have been no material indications of any insolvency in those entities that impacts their ability to pay the Office. On the other hand, the Office's deposits are concentrated in a single accredited banking institution based locally.

The maximum exposure to credit risk at 31 December 2019, is as follows:

	31 December 2019	31 December 2018
Cash and cash equivalents (note 3(a))	3,221,127	3,209,412
Short-term investments	1,027,027	1,008,194
Accounts receivable (note 4)	1,378,416	996,847
	<u>5,626,570</u>	<u>5,214,453</u>

c) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The liquidity risk management process ensures that the Office is able to honour all of its financial commitments when due. The Office manages liquidity risk by ensuring that it has sufficient cash on demand to meet expected operational expenses and servicing of financial obligations. To this end, the Office maintains a reserve, as is required by the Utility Regulation and Competition Act. The size and nature of the reserve are determined by Management. The Office currently maintains a cash reserve equivalent to three months of operating expenses.

d) Interest Rate Risk

The Office is subject to interest rate risk on the cash placed with a local bank which attracts interest. The Office is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand. Interest payments are charged to customers on late payments on accounts receivable.

21. Financial instruments

Fair values. The carrying amount of cash deposits, prepayments, accounts receivable and accounts payables and accrued liabilities approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

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22. Judicial Review

The application to the Grand Court for judicial review between the Office and an ICT Licensee, DataLink Ltd. has been heard by the Court and on 24 July 2019, a final judgement was delivered stating that the Office had failed in its duty to further consult on its draft determination and ordered that the Office properly complete the consultation process. The application concerned a determination made by the Office concerning the level of pole attachment reservation fees levied by the ICT Licensee in the broadband internet provision sector against the named telecommunications providers. The negotiations between the Office and DataLink Ltd. regarding a settlement payment to cover a percentage of DataLink Ltd. legal fees has continued through the end of the year. *(Refer to Subsequent Events – Note 27 for further information)*

23. Contingent Liability

The Office recognizes post-retirement healthcare costs for employees who were transferred to the Office from the civil service. The objective is that staff members transferred to the Office will not be disadvantaged after the transfer in terms of employee benefits they enjoyed as employees of the civil service. (See note 10 for further information).

The Office conducted a review of all employee contracts and determined that there is a possible obligation that may exist for an employee of the Office with regards to the coverage of post-retirement healthcare costs. The review indicated that there is one employee with a contract that may be considered a contingent liability as at 31 December 2019. The Office is assessing the matter as it relates to the employee and is currently of the view, that the present obligation may, but probably will not require an outflow of resources in respect to the conclusion of this assessment, therefore an obligation has not been recorded for this employee in accordance with IPSAS 19.

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24. Segment Reporting

	ICT Sector	Electricity Sector	Fuel Sector	Water Sector	Consolidated
	2019	2019	2019	2019	2019
	\$	\$	\$	\$	\$
Revenue					
Outputs from Cabinet	180,229	32,433	1,019,013	6,801	1,238,476
Revenue from external sources*	1,960,510	1,220,529	97,420	216,590	3,495,049
Total revenue	2,140,739	1,252,962	1,116,433	223,391	4,733,525
Expenses					
Personnel	1,428,267	622,168	804,654	254,661	3,109,750
Supplies and Consumables	603,446	196,203	294,398	33,737	1,127,784
Depreciation and amortisation	33,926	15,353	19,811	3,219	72,309
Other expenses	47,896	17,604	25,116	3,105	93,721
Total expenses	2,113,535	851,328	1,143,979	294,722	4,403,564
Surplus/(deficit) from operating activities	27,204	401,634	(27,546)	(71,331)	329,961
Assets					
Accounts Receivable	329,069	331,778	497,871	219,698	1,378,416
Prepayments	23,805	32,424	15,541	27,542	99,312
Property, Plant and Equipment	39,675	24,176	63,639	4,664	132,154
Intangible Assets	116	-	-	-	116
Total assets (excluding Cash & Cash Equivalents)	392,665	383,378	577,051	251,904	1,609,998
Liabilities					
Current liabilities	2,457,548	76,002	127,712	17,902	2,679,164
Long-Term Liabilities	127,782	-	704,218	-	832,000
Total liabilities	2,585,330	76,002	831,930	17,902	3,511,164

*Inclusive of Other Income of \$53,747

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24. Segment Reporting (continued)

	ICT Sector	Electricity Sector	Fuel Sector	Water Sector	Consolidated
	2018	2018	2018	2018	2018
	\$	\$	\$	\$	\$
Revenue					
Outputs from Cabinet	257,058	27,909	1,331,208	9,134	1,625,309
Revenue from external sources*	1,918,536	1,032,578	359,948	738	3,311,800
Total revenue	2,175,594	1,060,487	1,691,156	9,872	4,937,109
Expenses					
Personnel	1,178,745	699,479	866,417	300,206	3,044,846
Supplies and consumables	956,003	276,060	314,638	80,343	1,627,044
Depreciation and amortisation	56,307	32,428	36,260	10,613	135,608
Other expenses	95,035	31,657	42,045	9,214	177,951
Total expenses	2,286,090	1,039,624	1,259,360	400,376	4,985,450
Surplus/(deficit) from operating activities	(110,496)	20,863	431,796	(390,504)	(48,341)
Assets					
Accounts Receivable	341,677	312,219	331,383	11,568	996,847
Prepaid Expenses	29,271	37,826	40,000	4,249	111,346
Property, plant and equipment	47,732	40,058	51,871	5,094	144,755
Intangible Assets	1,983	-	-	-	1,983
Total assets (excluding Cash and Cash equivalents)	420,663	390,103	423,256	20,911	1,254,931
Liabilities					
Current liabilities	2,256,760	62,891	64,696	26,163	2,410,510
Long Term Liabilities	55,097	-	388,903	-	444,000
Total liabilities	2,311,857	62,891	453,599	26,163	2,854,510

*Inclusive of Other Income of \$303,997

In accordance with Section 40(2) of the Utility Regulation and Competition Act (2018 Revision), the Office's revenue and expenses have been allocated to each of the regulated sectors. In allocating the costs, the Office has used its best endeavours to allocate directly incurred costs to the regulated sector to which they relate. Indirect costs have been allocated utilizing the number of personnel within each sector.

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25. Budget Variances

The amounts shown were included in the Budget Statement of the Government for the year ended 31 December 2019 which was tabled in the Parliament on 27 November 2017. The budget was revised in 2018 for an increase in appropriations for Output fees to fund the regulatory function of the Office in the Fuels Sector. This increase in appropriation was approved by the Parliament on 22 November 2018.

Statement of Financial Position	31 December 2019	31 December 2019	31 December 2019	Note
	Actual	Budget	Variance	
CURRENT ASSETS				
Cash and cash equivalents	3,221,127	2,225,980	995,147	1
Short-term investments	1,027,027	-	1,027,027	2
Accounts receivable	1,378,416	1,417,462	(39,046)	
Prepaid expenses	99,312	61,479	37,833	
	5,725,882	3,704,921	2,020,961	
NON-CURRENT ASSETS				
Property, plant and equipment	132,154	1,260,343	(1,128,189)	3
Intangible assets	116	-	116	
TOTAL ASSETS	5,858,152	4,965,264	892,888	
LIABILITIES AND NET WORTH				
CURRENT LIABILITIES				
Collections payable to Government	2,019,493	-	2,019,493	1
Accounts payable and accrued liabilities	659,671	252,577	407,094	4
LONG TERM LIABILITIES				
Defined benefit healthcare liability	688,000	-	688,000	5
Defined benefit pension liability	144,000	-	144,000	5
TOTAL LIABILITIES	3,511,164	252,577	3,258,587	
NET WORTH	2,346,988	4,712,687	(2,365,699)	6

Note 1 – ICT royalty fees of \$2,019,493 due to Government at year end not included in the budget.

Note 2 – Funds placed on short term fixed deposit not included in the budget.

Note 3 – The budgeted capital expenditure for leasehold improvements for 2017-2019 was \$880,000. As at December 31, 2019, the actual spend for leasehold improvements is nil.

Note 4 – Unbudgeted settlement costs in relation to the judicial review with DataLink Ltd. and Smith Road Plaza have been included in Accounts payable and accrued liabilities.

Note 5 – Unbudgeted defined benefit healthcare and pension costs for eligible employees.

Note 6 – The net assets are lower than budgeted due to the net deficit experienced in 2017 of \$1,467,310 along with an unplanned deficit of \$48,341 for 2018 and a lower net surplus of \$329,961 for 2019.

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25. Budget Variances (continued)

Statement of Financial Performance	31 December 2019	31 December 2019	31 December 2019	Note
	Actual	Budget	Variance	
REVENUE				
Sales of goods and services	4,679,778	6,065,850	(1,386,072)	6
Other revenue	53,747	-	53,747	
TOTAL REVENUE	4,733,525	6,065,850	(1,332,325)	
EXPENSES				
Personnel costs	3,092,634	3,615,359	(522,725)	7
Purchase of services	620,385	1,192,187	(571,802)	8
Lease of property and equipment	210,172	126,912	83,260	9
Litigation costs	168,000	-	168,000	10
Travel and subsistence	39,722	80,000	(40,278)	
Depreciation	72,309	274,095	(201,786)	9
Recruitment and training	64,774	85,000	(20,226)	
Utilities	61,784	50,235	11,549	
General insurance	32,782	21,062	11,720	
Supplies and materials	1,002	21,000	(19,998)	
Interdepartmental expenses	40,000	50,000	(10,000)	
TOTAL EXPENSES	4,403,564	5,515,850	(1,112,286)	
NET SURPLUS	329,961	550,000	(220,039)	

The Net Surplus is unfavourable to budget by 40% due mainly to a shortfall in revenues of \$1,332,325 partially offset by lower expenses of by \$1,112,286 or 20%.

Note 6 – The unfavourable variance of \$1,386,072 is due mainly to the delay in the implementation of the regulatory fee mechanism for the Water Sector.

Note 7 – The favourable variance experienced with personnel costs is due to vacant positions not being filled during the year.

Note 8 – Purchase of services is favourable to budget due to lower Professional and Consultancy fees.

Note 9 – Lease of property and equipment is unfavourable to budget due to the Office incurring costs for two office premises; Alissta Towers and Smith Road Centre, which was unexpected. This is being offset by savings from depreciation due to unspent capital expenditure for leasehold improvements for new office space.

Note 10 – Litigation costs are unfavourable to budget by \$168,000 due mainly to the final settlement costs in relation to the DataLink Ltd. judicial review.

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25. Budget Variances (continued)

Statement of Cash Flows	31 December 2019	31 December 2019	31 December 2019	Note
	Actual	Budget	Variance	
CASH FLOW FROM OPERATING ACTIVITIES				
Net comprehensive surplus/(deficit) for year	329,961	550,000	(220,039)	13
Adjustment for non-cash transactions:				
Interest on Short-term investment	(18,833)	-	(18,833)	
Depreciation and amortisation	72,309	274,095	(201,786)	14
Non-Cash Defined Benefit Costs	187,000	-	187,000	
	570,437	824,095	(253,658)	
Net changes in non-cash operating balances:				
(Increase)/decrease in:				
Accounts receivable	(381,568)	1,660	(383,228)	15
Prepaid expenses	12,034	(6,608)	18,642	
Collections payable to Government	(14,667)	-	(14,667)	
Accounts payable and accrued expenses	283,320	(129,872)	413,192	16
Net cash provided by operating activities	469,555	689,275	(219,720)	
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(57,840)	(110,000)	52,160	17
Net cash used in investing activities	(57,840)	(110,000)	52,160	
CASH FLOWS FROM FINANCING ACTIVITIES				
Equity Investment to Public Safety Communications	(400,000)	-	(400,000)	18
Net cash provided by financing activities	(400,000)	-	(400,000)	
Net increase in cash and cash equivalents during the period	11,715	579,275	(567,560)	
Cash and cash equivalents at beginning of the period	3,209,412	1,646,705	1,562,707	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,221,127	2,225,980	995,147	

Note 13 – The Net Surplus is lower than budgeted due to lower regulatory fees than anticipated, partially offset by lower total expenses.

Note 14 - Depreciation is lower than budgeted due to savings from the unspent capital expenditure for leasehold improvements for new office space.

Note 15 – Lower receivables when compared to the prior year than anticipated in the budget. The budget anticipated that the accounts receivables balance year over year would not experience a significant change, however, actual figures indicate a significant decrease in accounts receivables due mainly to collections of outstanding amounts in the current year.

Note 16 – The current year's actual accounts payable and accrued liabilities balance was higher than originally forecasted.

Note 17 – The budgeted capital expenditure for furniture and fittings was not spent.

Note 18 - The Office contributed \$400,000 to the upgrade of the 911 Communications System.

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26. Restatement of Prior Year Balances

The financial statements for the period ended 31 December 2017 and the year ended 31 December 2018 were restated due to the significance of the adjustments required to recognize the actuarially determined defined benefit liability for the Office's post-retirement health care provided to eligible staff members.

The effects on the Statement of Financial Position are shown below:

Statement of Financial Position (Extract)	31 December 2018	Increase/(Decrease)	31 December 2018 (Restated)
Long Term Liability	60,000	384,000	444,000
Net Assets	3,002,027	(384,000)	2,618,027
Statement of Financial Position (Extract)	31 December 2017	Increase/(Decrease)	31 December 2017 (Restated)
Long Term Liability	49,000	300,000	349,000
Net Assets	1,857,368	(300,000)	1,557,368

The effects on the Statement of Financial Performance are shown below:

Statement of Financial Performance (Extract)	31 December 2018	Increase/(Decrease)	31 December 2018 (Restated)
Personnel Costs	2,860,846	184,000	3,044,846
Statement of Financial Performance (Extract)	31 December 2017	Increase/(Decrease)	31 December 2017 (Restated)
Personnel Costs	2,235,992	286,000	2,521,992

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27. Subsequent Events

DataLink Ltd. Judicial Review

On 19 February 2020, the Office paid \$168,000 as full and final settlement of DataLink Ltd.'s legal costs in relation to the judicial review matter. This amount is recognized under Litigation costs on the statement of financial performance.

Coronavirus Disease 2019 (COVID-19)

On 30 January 2020, the World Health Organization ("WHO") declared a global health emergency in response to COVID-19, which surfaced in China in December 2019 and subsequently spread to various countries. The Cayman Islands Government announced the activation of the National Emergency Operations Centre on 3 March 2020 in response to the threat. On 11 March 2020 WHO declared a global pandemic due to the number of countries and individuals affected by the spread of COVID-19. The global efforts to contain the spread of COVID-19 has caused significant disruptions in the global and local economies, with the length of the disruption being uncertain at this time. The Cayman Islands closed its borders to international travel in March 2020, and the borders remain closed as of the issuance date of this report. This border closure has resulted in significant impacts to the local economy, as the tourism sector has been non-existent since that date. The related implications to the Office's revenues have been immaterial with no increase in credit risk noted as of the issuance date of this report.

Water Sector Revenues

On 18 November 2020, a Memorandum of Understanding ("MOU") was signed between the Office and Water Authority-Cayman ("the entities"). This MOU determines the allocation of the royalty fees paid by the Cayman Water Company ("CWC") between the entities in recognition of the cost incurred for the statutory responsibilities of Water Authority Cayman ("WAC") and the regulatory responsibilities of the Office. Prior to the MOU, WAC recognized the total royalty paid by CWC as revenue. The revenue for the 2019 and 2020 financial years will be allocated between the entities based on the proportionate allocation of costs incurred by the Office for regulating the Water sector and the costs incurred by WAC for its statutory responsibilities for those years. The MOU will be in effect until the Water Sector Regulations and the Water Authority Regulations are implemented. The Water Authority Regulations will introduce a Statutory Fee mechanism and the Water Sector Regulations will introduce a Regulatory Fee mechanism. It is anticipated that these regulations will be implemented in 2021 and will pave the way to allow for the entities to effectively implement a long-term funding arrangement to collect statutory fees for WAC and to collect regulatory fees for the Office. These financial statements include revenue for the 2019 financial year.

Presentation of General Reserve

On 26 February 2021, the Board made a decision in relation to the presentation of the General Reserve within the financial statements. The General Reserve line item within the Net Asset section of the statement of financial position must reflect the actual cash amount earmarked by the Board for General Reserve purposes. The policy which will govern the management of the General Reserve will introduce a minimum cash amount that must be set aside for the Office's General Reserve. The impact to the financial statements is nil.

Changes to the Board of Directors

Effective 30 November 2020, the Deputy Chairman resigned from the Board of Directors. On 18 May 2021 the terms for the remaining four Non-Executive Directors of the Board expired. With effect from 31 May 2021, the Chairman resigned from the Board. The Board of Directors is appointed by the Cabinet of the Government, and the Office is currently awaiting the appointment of new Non-Executive Directors and a Chairman of the Board.



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