



To: Members of Chief Pleas  
To: The Law Officers of the Crown  
To: Perkins (External Auditors to Chief Pleas) – Guernsey  
Cc: His Excellency the Governor of Guernsey, Lord Ponsonby of Shulbrede, Policy & Res

**RE: COMPULSORY PURCHASE OF SARK ELECTRICITY LIMITED (“SEL”) — MARKET BENCHMARK (£2.4m), CHIEF PLEAS’ STATED £500,000 / £400–£500k ACQUISITION POSITION, AND THE RESULTING ACCOUNTING / AUDIT / HUMAN RIGHTS RISK**

Dear Conseillers

This is a short follow-up to my recent correspondence. It is written OPENLY on the basis that it may be placed before a court. It is copied to Perkins because, in light of the course now being pursued by Chief Pleas, the matters go directly to:

- (i) provisions and contingent liabilities under UK GAAP (FRS 102 Section 21), and
- (ii) audit evidence, litigation/claims completeness and materiality under the International Standards on Auditing.

Prior to the compulsory purchase legislation being commenced, an arms-length cash benchmark of £2.4 million for the undertaking was agreed in context with Island Power. This is not a debating point. It is a contemporaneous market benchmark reached between independent parties, and it is central to any defensible understanding of “value”.

Chief Pleas has stated an acquisition figure of £500,000 (stated) / £400k to £500k range (as briefed) for the Phase 1 acquisition of SEL, and that figure has been advanced in the context of Chief Pleas’ acquisition planning and related facility assumptions.

The practical consequence is unavoidable: the compulsory purchase pathway now being pursued would require the Courts to accept a valuation outcome that enables acquisition at approximately £500,000 notwithstanding the prior arms-length £2.4m benchmark.

SEL’s position has long been consistent: while governments may compulsorily purchase assets in particular circumstances, they cannot lawfully acquire at a substantial discount to a bona-fide arms-length benchmark merely because they do not wish (or cannot afford) to pay market price; that approach is precisely the kind of interference that invites international human-rights scrutiny.

Island Power’s analysis expressly frames the current statutory compensation model as human-rights vulnerable where compensation does not explicitly include market value/going-concern value/goodwill/disturbance, and it sets out quantified risk framing (including probability-weighted exposure around £2.94m and potential maximum exposure around £6m).

**UK GAAP (FRS 102 Section 21) draws a clear line:**

- i. Provisions are recognised when there is a present obligation from a past event, an outflow is probable (more likely than not), and a reliable estimate can be made.
- ii. Otherwise, contingent liabilities include possible obligations confirmed only by uncertain future events not wholly within the entity’s control, or present obligations not recognised because outflow is not probable or cannot be measured reliably.

Trading Location - The Power Station, Harbour Hill, Sark, GY10 1SB  
Registered Office – 1 St Vincent, Route De La Mare De Carteret, Castel, GY5 7XD, Guernsey  
Guernsey Co. Registration No.57127

- iii. Contingent liabilities are disclosed if material unless the possibility of outflow is remote.

Given the scale of the valuation gap (a £2.4m benchmark versus £500,000 (stated) / £400k to £500k range (as briefed)), and the fact that the compulsory purchase pathway has already generated significant live disputes, it is not credible to treat the resulting exposure as “remote”.

*ISA 320 defines material misstatements (including omissions) as those which could reasonably be expected to influence the economic decisions of users of the financial statements.*

*ISA 501 requires auditors to obtain sufficient appropriate audit evidence regarding the completeness of litigation and claims involving the entity.*

Accordingly, any approach that attempts to dismiss the £2.4m benchmark, the £500,000 (stated) / £400k to £500k range (as briefed), and the linked litigation exposure as “ignorable” would place the audit process itself into difficulty.

### **Judicial confirmation of valuation relevance (Marshall KC, 22 December 2025)**

In an OPEN judgment handed down on 22 December 2025, the Lieutenant-Seneschal (HH Hazel Marshall KC) records the compulsory purchase context and the valuation dispute: that SEL had received an offer/valuation at £2.4m, while Chief Pleas has opined SEL is worth about £500,000 and steps were being taken to appoint a valuer for the purposes of compulsory purchase.

The Court expressly observed that “a decision as to the true construction and application of these provisions of the 2016 Law, could be of some importance with regard to the value of SEL”, and further noted that any valuation “would have to take into account” the uncertainty as to the matters in dispute and the prospect that SEL would succeed on those points, which the Court considered “by no means unarguable”.

These are therefore not ‘remote’ considerations: they are judicially-recognised valuation drivers and they directly engage

- (i) UK GAAP (FRS 102 Section 21) provision/contingent-liability discipline,
- (ii) ISA audit requirements on materiality and completeness of litigation/claims evidence (including ISA 320 and ISA 501).

Chief Pleas’ published 2026 budget records total Island expenditure of £2,502,589 and an income budget of £2,533,246 (surplus £30,657).

It also states that it is envisaged the compulsory purchase process and reconnection of the 19 homes will be completed by the end of September 2026.

Separately, the live and pending matters already identified in connection with this pathway include quantified risks totalling at least £4,055,720.17 (excluding damages, interest and costs), with further unquantified claims.

Put simply, if Chief Pleas continues down a pathway that seeks to acquire at circa £500,000 notwithstanding a prior £2.4m benchmark, it is residents who ultimately pay — through public finance, and/or through utility charges and induced legal costs.

Annex A is appended to this OPEN correspondence and sets out, for UK GAAP (FRS 102 Section 21) and ISA audit purposes (including ISA 320 materiality and ISA 501 completeness of litigation and claims), the £2.4m arms-length benchmark and Chief Pleas’ £500,000 (stated) / £400–£500k range (as briefed) acquisition position, and explains why the resulting

valuation gap constitutes a non-remote contingent exposure requiring formal recognition/disclosure analysis.

SEL therefore asks Members to require, before any further step is taken:

**A. A formal “Compulsory Purchase — Provisions & Contingent Liabilities Schedule”**

A short schedule consistent with UK GAAP (FRS 102 Section 21) identifying:

- the £2.4m benchmark and the £500,000 (stated) / £400–£500k range (as briefed);
- the compensation shortfall exposure inherent in that gap;
- the litigation/claims status and cost ranges; and
- management’s conclusion on which items are provisions vs contingent liabilities; and
- why any item is said to be “remote” (if that is asserted).

**B. A written confirmation from Perkins as to how the above schedule is being treated for audit purposes, noting ISA 320 materiality and ISA 501 completeness of litigation and claims evidence requirements.**

**C. An affordability statement against the published 2026 budget baseline**

A transparent statement showing how Chief Pleas would fund the “discount acquisition” risk and the resulting exposure without unacceptable harm to residents, given the published annual expenditure baseline.

SEL remains conciliatory toward residents: Sark needs closure and stability. However, Members must understand that the current course is not a “£500,000 purchase”. It is a compulsory purchase pathway that seeks to achieve an outcome that disregards a pre-commencement arms-length £2.4m benchmark, and which therefore engages significant human-rights and financial exposure.

Members are urged to insist on decision-readiness, proper accounting treatment, and auditor visibility now, rather than learning later — after costs have compounded — that these liabilities were never properly surfaced.

All rights are reserved.

Regards

By Email

Alan Witney-Price  
Managing Director  
Sark Electricity Limited

## ANNEX A

Market Benchmark & “Discount Acquisition” Risk Schedule (Prepared for UK GAAP / ISA decision-readiness and audit evidence purposes)

This Annex is drafted to assist Members of Chief Pleas and Perkins (External Auditors) by setting out:

- (i) the core factual valuation benchmark(s),
- (ii) the stated acquisition figure(s) advanced by Chief Pleas, and
- (iii) the accounting/audit standards that are directly engaged.

### A.1 Key Facts (Benchmark vs Stated Acquisition Figure).

#### 1) Arms-length benchmark (pre-commencement)

- An arms-length cash benchmark of £2,400,000 for the undertaking was agreed in context prior to the compulsory purchase legislation being commenced.
- Island Power’s documentation includes a timeline placing an “*Island Power offers £2.4m*” event prior to commencement by regulation on 26 June 2025.

#### 2) Chief Pleas’ stated acquisition figure (the “*discount acquisition*” position)

- Chief Pleas has stated an acquisition figure of £500,000 (stated) / £400–£500k range (as briefed) in the context of its Phase 1 acquisition planning and related facility assumptions.
- The existence of a regulated asset value / regulatory construct does not eliminate the need to address the discrepancy between the above arms-length benchmark and the stated acquisition figure advanced for acquisition purposes.

#### 3) Practical effect (valuation and legal risk trigger)

- Proceeding on a stated acquisition figure of £500,000 (stated) / £400–£500k range (as briefed) in the face of a prior arms-length £2.4m benchmark creates a material “*discount acquisition*” risk and a foreseeable dispute over compensation and methodology.

### A.2 Accounting Standards Engaged (UK GAAP – FRS 102 Section 21).

#### 4) Provisions – recognition (where criteria met)

- Under UK GAAP (FRS 102 Section 21), a provision is recognised where there is a present obligation from a past event, an outflow is probable (more likely than not), and a reliable estimate can be made.

#### 5) Contingent liabilities – definition and disclosure threshold

- A contingent liability includes:
  - (i) a possible obligation confirmed only by uncertain future events not wholly within the entity’s control, or
  - (ii) a present obligation not recognised because outflow is not probable or cannot be measured reliably.
- Contingent liabilities are disclosed if material unless the possibility of outflow is remote.

### A.3 Audit Standards Engaged (ISA).

#### 6) Materiality (ISA 320)

- ISA 320 provides that misstatements (including omissions) are material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

#### 7) Completeness of litigation and claims (ISA 501)

- ISA 501 requires the auditor to obtain sufficient appropriate audit evidence regarding the completeness of litigation and claims involving the entity.

#### **A.4 Quantified Risk Signposts (Illustrative — not exhaustive).**

8) Exposure framing in Island Power material (for context)

- Island Power’s analysis frames the compulsory purchase pathway as high-risk and potentially expensive, including quantified scenario-weighted exposure and maximum exposure figures (expressed as potentially reaching several million pounds), and identifies human-rights vulnerability where compensation methodology does not explicitly require market value/going concern/goodwill/disturbance.

9) Existing live/pending matter exposure already identified in SEL schedule (context for “*not remote*”)

- Separately, SEL has already identified quantified risks (exclusive of damages/interest/costs) in respect of live/pending matters totalling at least £4,055,720.17, with additional unquantified exposures.

#### **A.5 Minimum Governance Deliverables Requested (Decision-Readiness).**

10) A formal “Provisions & Contingent Liabilities Schedule” addressing:

- the £2.4m arms-length benchmark (pre-commencement);
- the £500,000 (stated) / £400–£500k range (as briefed);
- the valuation/compensation shortfall risk inherent in that discrepancy;
- litigation/claims status and cost ranges; and
- management’s conclusions (provision vs contingent liability) and why any item is asserted to be “remote” (if asserted).

11) Perkins audit visibility and confirmation

- A written confirmation from Perkins setting out how these matters are being treated for audit purposes, expressly considering ISA 320 materiality and ISA 501 completeness of litigation and claims evidence.

## ANNEX B

Extracts from Judgment of HH Hazel Marshall KC, Lieutenant-Seneschal  
(Handed down 22 December 2025) — Valuation relevance, uncertainty, and materiality

This Annex is in relation to the proposed compulsory purchase of Sark Electricity Limited (“SEL”). It reproduces short extracts from the OPEN judgment of the Court of the Seneschal (HH Hazel Marshall KC, Lieutenant-Seneschal) handed down on 22 December 2025, because the Court’s findings and observations bear directly on:

- (i) valuation,
- (ii) the non-remote nature of the dispute/uncertainty, and
- (iii) the need for decision-readiness and audit visibility.

### **B1. Compulsory purchase context and stated valuation positions (£2.4m vs ~£500,000)**

#### **Paragraph 76:**

*“Whilst the complaints made by SEL... cannot now give rise to any change... Mr Witney-Price argues that they are... of great importance... not least because there is at the present a move by Chief Pleas to proceed towards a compulsory purchase of SEL... Mr Witney Price says that he had received an offer for the company of £2.4 million... Chief Pleas has apparently opined that it does not regard SEL as being worth more than about £500,000. I understand that the present position is that there are moves to appoint a valuer of SEL for the purpose of possibly proceeding with a compulsory purchase of it.”*

### **B2. Construction/application of the 2016 Law may be important to value.**

#### Paragraph 77:

*“The point is that a decision as to the true construction and application of these provisions of the 2016 Law, could be of some importance with regard to the value of SEL.”*

### **B3. The Court’s expressed concern: legal-cost recovery issue is “real and serious”.**

#### Paragraph 132:

*“I have to say that I am very disturbed by this matter and the contentions surrounding it. I consider that the questions which it raises as to the proper interpretation of the 2016 Law in this context are real and serious.”*

#### Paragraph 134:

*“An inability to set a company’s legal costs... off against a company’s only income is also highly distorting... At its extreme, the question might become whether the terms of the regulatory restrictions... might cause the collapse of the supplier... Such a situation could well, it seems to me, become so serious as indeed to lead potentially into questions of human rights compliance.”*

### **B4. Valuation must reflect uncertainty; prospects of success “by no means unarguable”**

#### **Paragraph 160:**

*“...I do not see why it should affect the question of valuation to any material extent. The value of the company would have to take into account the fact that there was uncertainty as to the matters under appeal and the prospect, therefore, that SEL would succeed in supporting its points, which, as I have said, I consider to be by no means unarguable.”*