



BILLET D'ÉTAT

WEDNESDAY 25th JANUARY 2012

III
2012

1. The Income Tax (Guernsey) (Approval of Agreements with the Czech Republic and Slovenia) Ordinance, 2012, p. 3
2. The Terrorist Asset-Freezing (Bailiwick of Guernsey) Law, 2011 (Commencement) Ordinance, 2012, p. 3
3. Elizabeth College Board of Directors – New Member, p. 3
4. Policy Council - The Role of the States as Employer, p. 4
5. Policy Council - The Planning Panel – New Professional Members, p. 16
6. Policy Council - Overseas Aid Report, p. 19
7. Policy Council - Election of Chairman and Appointment of Four Ordinary Members of The Guernsey Financial Services Commission, p. 41
8. Policy Council – Review of States Members and Non-States Members Pay, p. 45
9. Policy Council and Commerce and Employment Department - Energy Policy Plan, p. 107
10. Public Services Department – Future Business Environment for Guernsey Water and Guernsey Wastewater, p. 182
11. Treasury and Resources Department - Wide Area Network Solution to Support Data, Telephony and CCTV, p. 252
12. Commerce and Employment Department - Appointment of Employment and Discrimination Tribunal Panel Members March 2012, p. 258
13. Education Department - Guille Allès Library - The Terms of Office of States Members, p. 267
14. Public Services Department – Liquid Waste Strategy, p. 270
15. Health and Social Services Department - Use of Radiology and Pathology Services and Hospital Facilities, p. 308
16. Public Services Department - Guernsey Cruise Industry Growth and the Requirement for Enhanced Port Facilities, p. 315
17. States Assembly and Constitution Committee - Publication of Members' Votes in Elections, p. 378
18. States Assembly and Constitution Committee – Statements, p. 383

Statutory Instrument laid before the States

The Taxation of Real Property (Guernsey And Alderney) (Amendment) Regulations, 2011 p. 387

APPENDIX

1. Policy Council - Guernsey Quarterly Inflation Bulletin dated 30th September 2011, p. 388

B I L L E T D ' É T A T

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY, the 25th JANUARY, 2012**, immediately before the meeting already convened for that day, to consider the items contained in this Billet d'État which has been submitted for debate.

G. R. ROWLAND
Bailiff and Presiding Officer

The Royal Court House
Guernsey
16 December 2011

**THE INCOME TAX (GUERNSEY) (APPROVAL OF AGREEMENTS
WITH THE CZECH REPUBLIC AND SLOVENIA) ORDINANCE, 2012**

The States are asked to decide:-

I.- Whether they are of the opinion to approve the draft Ordinance entitled “The Income Tax (Guernsey) (Approval Of Agreements With The Czech Republic And Slovenia) Ordinance, 2012” and to direct that the same shall have effect as an Ordinance of the States.

**THE TERRORIST ASSET-FREEZING (BAILIWICK OF GUERNSEY)
LAW, 2011 (COMMENCEMENT) ORDINANCE 2012**

The States are asked to decide:-

II.- Whether they are of the opinion to approve the draft Ordinance entitled “The Terrorist Asset-Freezing (Bailiwick Of Guernsey) Law, 2011 (Commencement) Ordinance 2012” and to direct that the same shall have effect as an Ordinance of the States.

ELIZABETH COLLEGE BOARD OF DIRECTORS

NEW MEMBER

The States are asked:-

III.- To elect a member of the Elizabeth College Board of Directors to fill the vacancy which will arise on 6th January, 2012 by reason of the expiration of the term of office of Mr Nicholas Guillemette, who is not eligible for re-election.

[N.B Each year the States elect a Member of the Elizabeth College Board of Directors, who does not need to be a sitting Member of the States, to serve a six year term. The College Statutes include a provision at Statute 13 that any person having served in the office of Director shall not be qualified for re-appointment until after the expiration of twelve months from the time of his going out of office.]

POLICY COUNCIL

THE ROLE OF THE STATES AS EMPLOYER

Executive Summary

1. The States of Guernsey is the legal entity that employs all staff in the public sector and as such it is the largest employer on this Island. The pay bill for its 6000 plus employees is its biggest single cost exceeding £200 million. It follows therefore that the way in which it rewards, manages and motivates its workforce is critical to securing efficiencies, achieving value for money, reducing expenditure and delivering the services the Island needs.
2. In recent years a number of events have prompted external reviews which have concluded that the current arrangements for discharging the role of the States as employer may not be in the best interests of either the Government or its employees.
3. This report explores the recommendation made by the Tribunal of Inquiry into the Airport Firefighters Dispute that responsibility for all employment matters should rest with the Policy Council. The States is recommended to adopt this approach as a consequence of which the mandate of the current Public Sector Remuneration Committee in respect of employees will be transferred to the Policy Council and that Committee will cease to exist at the end of the current States Term.

Background

4. For many years prior to the introduction of the New Machinery of Government in 2004, the role of the States as employer was largely undertaken by the Civil Service Board. The Board's mandate covered all matters relating to employment including recruitment, development, training and all other HR functions and in addition the Board was charged with negotiating conditions of service and pay with the various public sector groups.
5. With the changes in Machinery of Government the Civil Service Board was disbanded and its mandate divided between the Policy Council, which took on the HR and general employer function, and the newly created Public Sector Remuneration Committee which, as its title suggests, concentrated on the issue of pay determination. The consequences of this split have been the subject of various independent reports which have concluded that the States is not well served by this arrangement. However, before considering the focus of those reviews it is worth noting that concerns about the way in which the States approached pay determination had surfaced regularly over the years prior to the changes in the Machinery of Government. Indeed the former Board of Industry commissioned a report into public sector pay determination from the late Professor Jon Clark in 2001.

6. Set out below is a brief review of three reports relevant to this issue ie.
 - i. Mechanisms for Determining Public Sector Pay in Guernsey by Professor Jon Clark (the Clark review). Appended to a report to the States by the Public Sector Remuneration Committee, Article 15 of Billet d'État XVII of 2006.
 - ii. Review of the Role of the States of Guernsey as an Employer by Dr Graham Robinson (The Robinson review), February 2008. Accessible via the States of Guernsey website.
 - iii. Tribunal of Inquiry into the Facts and Circumstances leading up to and surrounding the Industrial Action taken by the Airport Firefighters in May 2009. Appendix III to Billet d'État IX of 28 April 2010.
- (i) "The Clark Review"
 7. The prime focus of the Review undertaken in 2001 by Professor Jon Clark was the impact on the process of pay negotiations and their outcomes of the direct "hands on" involvement of Politicians. His proposed solution was to recommend the creation of an Independent Pay Review Body (IPRB).
 8. Clark envisaged that the IPRB would be at arm's length from the States, would comprise of independent members who were neither politicians nor public servants and who would (in a manner similar to an Employment Tribunal) hear each side's case, presented on the one part by the relevant employees organisation and on the other by whichever States body was charged with such matters (Civil Service Board or latterly PSRC). It would also take into account the economic and budgetary circumstances of the States as presented by the then Advisory and Finance Committee.
 9. While this arrangement would not prevent the two parties from discussing matters of detail, the big pay issues would be settled by this independent Board rather than through traditional face to face negotiation between the parties.
 10. A strong feature of Clark's recommendations was that both parties would have access to the same set of comprehensive and accurate pay data, something that did not exist at the time and a problem that persists today given that pay and benefits data are held in confidence by many employers due to the competitive nature of the employment market.
 11. Clark's report was presented at a time when changes in the Machinery of Government were being planned and in the event the PSRC was created and charged with reviewing the Clark recommendations and reporting to the States on how they believed they should be taken forward.

12. In 2006 the PSRC submitted its report (Billet XVII) and concluded that they did not believe this was a solution for Guernsey and recommended that the States reject the approach for a variety of reasons including:
 - A wish on the part of employee groups to continue with the concept of centralised collective bargaining as the preferred method for determining pay
 - A belief that the historic approach worked well and
 - Scepticism that the labour market data critical to the IPRB could be obtained in practice.
13. The Committee also believed that Guernsey would be challenged to find sufficiently knowledgeable and qualified independent people living on Guernsey in order to populate the IPRB.
14. The States concurred with the Committee and the status quo prevailed.
- (ii) “The Robinson Review”
15. In 2007 the Policy Council commissioned two reports which were compiled simultaneously;
 - A report of a Review of the Role of the States of Guernsey as an Employer and Mechanisms for Determining Public Sector Pay in Guernsey– by Dr Graham Robinson (assisted by former UK Senior Civil Servant Dr Trevor Robinson).
 - A review of employment issues within the Education Department by Dr Trevor Robinson.
16. Dr Graham Robinson’s report was far reaching and addressed the majority of areas that would be considered within the employer remit, however his main focus was on the confusion over accountability for the employer role. He concluded that:
 - there was a need to overcome the disconnection between the Policy Council’s employment-related mandate and that of the PSRC as the negotiator of pay and conditions for employees and
 - this could be addressed by creating some form of “Public Employment Board” (or States Employment Board) that would bring together these two functions in one place.
17. Dr Robinson’s view was that since the demise of the former Civil Service Board the split in responsibility for discharging the HR function, and employer-related issues generally (the Policy Council) and the much more specific, narrower issue

of determining pay and conditions through collective bargaining (PSRC) had proved to be a retrograde step.

18. His view was that the Policy Council had such a wide portfolio that it was not easily able to focus on employment issues generally. In contrast the PSRC of the day tended to take a narrow view about its mandate without paying due regard to the impact of its decisions on the States in general and on operational activities in particular.
19. Following the release of Dr Graham Robinson's Report the Policy Council undertook a consultation exercise with Trade Unions, Staff and States Members. The result of that consultation was overwhelming support for a single political body accountable for oversight of the employer remit including pay determination.
20. Soon after that consultation exercise was completed the Airport Fire Fighters dispute came to a head and the Policy Council decided that further work on this matter should await the findings and recommendations of the Tribunal of Inquiry appointed to review that dispute.

(iii) "The Airport Fire Fighters Tribunal"

21. The circumstances and the consequences of the Airport Fire Fighters' dispute are well known to the Assembly and are not repeated in this report. (See Appendix III to Billet d'État IX of 28 April 2010).
22. The Tribunal upon reporting both agreed with and disagreed with Robinson.
 - It recognised that one of the problems was the existence of conflicting and disconnected roles amongst various interested parties within the States when it came to pay determination matters and resolving industrial disputes.
 - It was critical of the approach taken by the previous PSRC.
 - It focused particularly on the way in which operational units of Departments such as the Airport were detached from the pay determination process with unfortunate consequences.
 - It concluded in section 8.4 of its Report that:
 - " *We do not consider that the creation of a States Employment Board would be beneficial*".
 - " *We consider that responsibility for pay determination should rest with the Policy Council*".
 - " *Operational responsibility for negotiations within the remit should rest exclusively with professional negotiators*".

Proposed Way forward

23. While the Policy Council recognises that, in the main, the arrangements for political accountability for various facets of the employer function have worked reasonably well since the introduction of the Machinery of Government changes, it concurs with the Tribunal's view that they have failed the test when complex employer issues are involved and that there is considerable confusion and unnecessary expense embedded in the current approach.
24. The mandates of the Policy Council, the PSRC and the Departments are testament to this. For instance the Policy Council mandate states that it is responsible for "*corporate human resource policy including terms and conditions of employment, compliance with legislation and good practice*". Whereas the PSRC is responsible for "*collective bargaining on behalf of the States as employer*". This would indicate that terms and conditions policy should be set by the Policy Council and then a separate political body, the PSRC, should execute the negotiations.
25. In practice the PSRC has set the pay policy and then gone on to execute the very operational process of collective bargaining. Matters are further confused by the Policy Council mandate which states that it is responsible for "*fulfilling the States role as employer of established staff*", but nowhere in any mandate is the role of employer for non-established staff mentioned.
26. The Policy Council believes that it is essential that, as an employer, the States have an effective decision-making process. It would be unrealistic and unduly cumbersome if all 47 members of the States had to reach a collective decision in its capacity as employer. Consequently, the obvious conclusion is for the States of Guernsey to delegate their function as employer to a smaller group of people, who will then take decisions on their behalf.
27. Accordingly, the Policy Council, having considered all related reports and the 2009 consultation which followed Dr Robinson's report and having consulted with the PSRC, concurred with the view of the Tribunal that the States would indeed be better served if the mandate of the PSRC were transferred to the Policy Council.
28. The Committee shared this view and was invited by the Policy Council to explore with those Departments who employed the majority of unique staff groups, and the greatest proportion of staff, whether they were of a like mind. These were the Education, Home, Public Services and Health and Social Services Departments.
29. The Policy Council would wish to place on record its gratitude to the PSRC for its constructive and considered views and the departments concerned for making the time available to consider this important matter.

30. **The consultation revealed that there was clear support for the States of Guernsey, as legal employer of all staff, to delegate accountability to, and responsibility for, discharging all aspects of the role of the employer to a single political body and, furthermore, that body should be the Policy Council.**
31. In considering the PSRC's views and the results of the departmental engagement the Policy Council has been mindful that the general direction of Government has been to reduce complexity and provide clear accountability. The Policy Council recognises that its existing mandate covers much of the employer role and with these two considerations in mind believes that the appropriate option is to build on what is already in place rather than develop a new committee altogether. Accordingly, it is proposed that, as recommended by the Tribunal and endorsed by the PSRC and the major employing Departments, the Policy Council should become the single political body that is held to account by the States of Guernsey for discharging the role as employer.

How best to discharge the role of States employer

32. Currently the Policy Council has discharged its existing mandate in relation to employment matters without the need to create any sub group. The majority of employment-related issues under its mandate are operational in nature and undertaken on its behalf by the Human Resources Unit under the leadership of the Head of Human Resources and Organisational Development. Where strategic or policy matters have required a decision these have been addressed by the full Policy Council.
33. It is recognised, however, that the proposed transfer of the mandate of the PSRC in relation to employees to the Policy Council may require a new approach. In this respect it is worth noting that, reflecting on some of the points made in the Clark report, the PSRC has moved away from the historic approach where the whole PSRC or one or more of its Members became directly involved in face to face negotiations. This has now been delegated to the PSRC's professional negotiating staff and as a consequence the workload of the Members of the PSRC has decreased.
34. Notwithstanding that change the Policy Council will need to take on board the PSRC role of setting pay policy and parameters for individual negotiations and approving or disapproving the outcome of detailed negotiations between employee groups and the Policy Council negotiators. This reflects the approach recommended by the Tribunal. However, it is recognised that in order to give life to political separation from face to face negotiation there will need to be engagement with a number of pay groups who are still operating through 1960s style "joint councils" which specifically provide for Politicians to sit around a table in direct negotiation with employee representatives. The intention would be to seek agreement to adopt a more modern approach to this task.

35. Against this background the Policy Council believes that there may well need to be a new Policy Council group formed to deal with a number of matters to be discharged under the proposed combined mandates.
36. The Policy Council has explored with the PSRC a number of possible solutions ranging from a small sub group of three Ministers to a larger group that might include wider membership. Indeed, details of the PSRC's initial views were published in the Policy Council's report on Progress on Fulfilling Recommendations made by the Tribunal (Billet d'État XV of 2011 Article 9) debated in September. However, the Policy Council has concluded that, given potential changes to the membership of the Policy Council following the forthcoming General Election and recognising that the demands on any such sub group are likely to change as attempts are made to move away from the "joint council" approach, it would be inappropriate for the current Policy Council to recommend to the States to set in stone the way in which the new Policy Council should discharge this role.
37. Accordingly, it is proposed that in the remaining months of this States Term options for discharging this role should be developed by the current Policy Council as a legacy for their successors. However, as stated, it would be inappropriate to fetter the new Policy Council because it may be that the make up and experience of Members around the Council table in the future could lead to a solution that is different from that which may appear appropriate today. This flexible approach also provides the opportunity for a future Policy Council to change its approach whatever it may decide in the light of experience and without the delays that will occur having to seek States approval to rescind any mechanism that it might have agreed.

Consequential change

38. The PSRC responsibility of reviewing the remuneration attaching to the posts of Lieutenant Governor, Bailiff, Deputy Bailiff, Law Officers (the Crown appointees) and judiciary and submitting to the Policy Council for sanction any adjustment which, in its opinion, are necessary is different from the way in which the States discharge their functions as employer because none of the individuals concerned are employees of the States of Guernsey. An employee, or an employee group, who is disaffected by the remuneration determined by the States as employer has recourse to a third party under the Industrial Disputes and Conditions of Employment (Guernsey) Law, 1993, which then delivers a legally binding settlement to such a dispute. This option is not open to the Crown appointees. The current division of responsibilities between the mandates of the PSRC and the Policy Council reflects the position formerly applicable to the then Civil Service Board and the Advisory and Finance Committee. In order to preserve the same level of division of responsibilities, it is recommended that the element of the PSRC mandate with respect to the Crown appointees and judiciary be transferred to the Treasury and Resources Department, which currently has responsibility for the provision of resources for the offices of Crown appointees and for the function of the Royal Court.

Good governance

39. The Policy Council has considered the proposals against the six principles of good governance as defined by the UK Independent Commission on Good Governance in Public Service (Billet d'État IV of 2011).

1. Focusing on the organisation's purpose and on outcomes for citizens and users.

The current structure of the multi-faceted employer role creates ambiguity and thus a lack of focus. Making the Policy Council singularly accountable for the employer remit will provide clarity and ensure that employment policies are aligned with the objectives and desired outcomes for stakeholders.

2. Performing effectively in clearly defined functions

The existing functions of the employer are, as has been reported, not as effective as they could be mainly due to the lack of cohesive definition and interrelation of the various facets of the employer role at a political level. By the States delegating the employer remit to the Policy Council this will provide the desired clarity of function and role.

3. Promoting good values for the whole organisation and demonstrating the values of good governance through behaviour

By having a single political body accountable for the employer remit, inconsistent approaches to the way in which employee groups are engaged will be minimised.

4. Taking informed, transparent decisions and managing risk

The current structure can and has led to decisions not being fully informed and therefore risks have not always been fully understood or weighted equally by the various political bodies involved. Making the Policy Council accountable for the employer remit together with the current responsibility for the formulation and implementation of Government policies to meet the objectives of the States, will ensure that employment-related decisions requiring political consideration will be taken within the overarching context of Government policy and strategy.

5. Developing the capacity and capability of the governing body to be effective

Developing the capacity and capability of two governing bodies each with a different perspective but each dealing with the same groups on overlapping issues is always going to be a challenge. By having a single

political body accountable for the employer remit the States will be better able to develop the capabilities required of the role.

6. Engaging stakeholders and making accountability real

Employees deserve absolute clarity as to who is their employer. The current structure makes engagement with employees particularly difficult as it depends on what matter of employment the engagement involves. The Airport Fire Fighters' dispute of 2009 clearly demonstrated that there was a lack of clarity about which political body should be held to account by Government for the employer issues that led to the dispute. There can be no ambiguity for the States if a single political body is responsible politically for the employer remit.

Consultation and related matters

40. Consultation with the PSRC and with the main employing Departments has been undertaken as described in this report and an earlier consultation exercise with employee groups in 2009 concluded that there was widespread support for disbanding the PSRC and concentrating the employer remit in a single political body (although at the time the consultation was based on the concept of a States Employment Board).
41. The Law Officers have also been consulted and advised that Section 9(1) of the Education (Guernsey) Law, 1970 would need amendment as currently the appointment and dismissal of teachers rests directly with the Education Department. The proposals are also Human Rights compliant. As the staff serving the PSRC are already employed by the Policy Council there are no resourcing or funding consequences of this change.

Conclusion

42. Recent history has shown and a series of independent reviews have confirmed that the current arrangements for discharging the Role of the States as Employer split between the Policy Council and the Public Sector Remuneration Committee are neither in the best interests of the States as a whole nor States employees. Furthermore, the current arrangements are not aligned with the six principles of good governance in the public service and accordingly the Policy Council has concluded that the States should be recommended both to adopt the recommendations of the Airport Firefighters Tribunal and focus responsibility for such matters in a single political body ie. the Policy Council. As a consequence the Public Sector Remuneration Committee would cease to exist with effect from 30th April 2012, a proposal the current Public Sector Remuneration Committee supports.

Recommendation

43. The Policy Council recommends the States:

1. To transfer the role and mandate of the Public Sector Remuneration Committee in relation to employees to the Policy Council and in relation to the Crown appointees and judiciary to the Treasury and Resources Department with effect from 1 May 2012.
2. To amend the mandate of the Policy Council by deleting paragraph (viii) and substituting it with:

“Fulfilling the role of the States as employer of staff, including:-

- Developing corporate human resource policy including remuneration, terms and conditions of employment, compliance with legislation and good practice;
- Providing corporate human resource services and advice to Departments and Committees as appropriate;
- Determining the remuneration and conditions of service of all staff employed by the States;

and also to be responsible for:-

- Advising on the remuneration and conditions of service applicable to appointees of the States and employees of non-governmental organisations in which the States have an interest;
 - Sanctioning the recommendations of the Treasury and Resources Department in respect of the salaries affecting the posts of Lieutenant Governor, Bailiff, Deputy Bailiff, Judges of the Royal Court and of the Magistrate’s Court, and Law Officers of the Crown;
 - Determining the remuneration and conditions of service applicable to HM Greffier, HM Sheriff and HM Sergeant after consultation with HM Procureur;
 - Making recommendations to the States concerning the pensions and other benefits to be paid to or in respect of members of the Public Servants’ Pension Scheme and the Teachers’ Superannuation Scheme;”.
3. To amend the mandate of the Treasury and Resources Department by adding an additional paragraph (xv):

“Reviewing the remuneration attaching to the posts of Lieutenant Governor, Bailiff, Deputy Bailiff, Judges of the Royal Court and of the Magistrate’s Court, and Law Officers of the Crown and submitting to the Policy Council for sanction any adjustments which, its its opinion, are necessary.”.

4. To direct the Policy Council to explore with those employee groups which are subject to pay negotiation through “joint councils” the possibility of adopting a more modern approach to pay bargaining.

L.S. Trott
Chief Minister

24th October 2011

B M Flouquet, Deputy Minister

C S McNulty Bauer

G H Mahy

C N K Parkinson

P R Sirett

D B Jones

A H Adam

C A Steere

M H Dorey

M G O’Hara

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

The States are asked to decide:-

IV.- Whether, after consideration of the Report dated 24th October, 2011, of the Policy Council, they are of the opinion:-

1. To transfer the role and mandate of the Public Sector Remuneration Committee in relation to employees to the Policy Council and in relation to the Crown appointees and judiciary to the Treasury and Resources Department with effect from 1 May 2012.
2. To amend the mandate of the Policy Council by deleting paragraph (viii) and substituting it with:

“Fulfilling the role of the States as employer of staff, including:-

- Developing corporate human resource policy including remuneration, terms and conditions of employment, compliance with legislation and good practice;
- Providing corporate human resource services and advice to Departments and Committees as appropriate;
- Determining the remuneration and conditions of service of all staff employed by the States;

and also to be responsible for:-

- Advising on the remuneration and conditions of service applicable to appointees of the States and employees of non-governmental organisations in which the States have an interest;
- Sanctioning the recommendations of the Treasury and Resources Department in respect of the salaries affecting the posts of Lieutenant Governor, Bailiff, Deputy Bailiff, Judges of the Royal Court and of the Magistrate’s Court, and Law Officers of the Crown;
- Determining the remuneration and conditions of service applicable to HM Greffier, HM Sheriff and HM Sergeant after consultation with HM Procureur;
- Making recommendations to the States concerning the pensions and other benefits to be paid to or in respect of members of the Public Servants’ Pension Scheme and the Teachers’ Superannuation Scheme;”.

3. To amend the mandate of the Treasury and Resources Department by adding an additional paragraph (xv):

“Reviewing the remuneration attaching to the posts of Lieutenant Governor, Bailiff, Deputy Bailiff, Judges of the Royal Court and of the Magistrate’s Court, and Law Officers of the Crown and submitting to the Policy Council for sanction any adjustments which, in its opinion, are necessary.”.

4. To direct the Policy Council to explore with those employee groups which are subject to pay negotiation through “joint councils” the possibility of adopting a more modern approach to pay bargaining.

POLICY COUNCIL

THE PLANNING PANEL – NEW PROFESSIONAL MEMBERS

1. Executive Summary

- 1.1 In accordance with the provisions of the Land Planning and Development (Guernsey) Law, 2005, this Report recommends that the States appoint Mrs. Linda Wride and Mr. Jonathan King, as Professional Members of the Planning Panel (“the Panel”).

2. Background

- 2.1 In September 2011, the States noted that the Policy Council was in the process of recruiting two Professional Members. The reasons for this are explained in detail in Billet D’État XV, September 2011.

3. Selection of New Professional Members

- 3.1 The Ministers of the Housing Department and the Education Department represented the Policy Council on the interview panel, together with the Panel’s Chairman, Deputy Chairman and Secretary.
- 3.2 The vacancies were advertised both locally and through the Royal Town Planning Institute. The interview panel received sixty applications, of which approximately half of the applicants had been employed as planning inspectors with either the UK Planning Inspectorate or the Isle of Man Planning Commission or the Irish Planning Inspectorate, the An Bord Pleanála.
- 3.3 Eleven candidates were invited to undertake a written assessment, based on an appeal case the Panel had previously considered. The Panel’s Chairman and Deputy Chairman considered these assessments and recommended that the Panel invite five candidates for interview.
- 3.4 The interview panel was unanimous in its selection of the two candidates in question.

4. New Professional Members

- 4.1 Mrs Wride is an experienced town planner and has been a member of the Royal Town Planning Institute since 1976. She has a Diploma in Town Planning from Oxford Brookes University. In March 2011 she took early retirement from the UK Planning Inspectorate, having worked as a Senior Planning Inspector for 9 years. Prior to joining the Planning Inspectorate, Mrs. Wride was employed by Oxford City Council, including 12 years as Head of Planning Control and Conservation.
- 4.2 During her employment with the UK Planning Inspectorate, Mrs. Wride developed specialisms in design, historic buildings heritage (including Listed Buildings and Conservation Areas), siting of telecommunications masts and transmitters and advertisement control. She was appointed as one of the UK

Planning Inspectorate's "Design Champions". Mrs Wride was also involved in the training of other planning inspectors in her area of specialism.

- 4.3 Mr. King is an experienced town planner and has been a member of the Royal Town Planning Institute since 1980. He gained a degree in geography from Manchester University and a Diploma in Town Planning from the City of Birmingham Polytechnic. He has been employed by the UK Planning Inspectorate since September 1996. He is currently a Principal Planning Inspector. It is his intention to retire in early 2012 after over 15 years with the UK Planning Inspectorate.
- 4.4 In addition to determining a wide range of planning appeal cases, Mr. King has undertaken several planning inquiries into development plans and has acted as a trainer for newly appointed planning staff. His most recent appraisal placed him in the UK Planning Inspectorate's highest performance category.
- 4.5 Prior to joining the UK Planning Inspectorate, Mr. King worked for both the Nottingham and Staffordshire County Councils planning departments and on transfer to the UK Planning Inspectorate was the principal Planning Officer in Development Control at Nottinghamshire County Council. During his career he has developed specialisms in waste management, local and county development plans and enforcement.
- 4.6 The two candidates' knowledge and experience of planning appeals will strengthen the Panel and ensure it continues to play an important role in building confidence in the Island's policies relating to planning and development control.

5. Principles of Good Governance

- 5.1 The Policy Council confirms that the contents of this States Report comply with all the Principles of Good Governance as outlined in Billet d'État IV 2011.

6. Recommendation

- 6.1 In accordance with the provisions of the Land Planning and Development (Guernsey) Law, 2005, the Policy Council recommends that the States appoint:
 - (a) Mrs. Linda Wride to sit as a Professional Member of the Planning Panel until 1 March 2014; and
 - (b) Mr. Jonathan King to sit as a Professional Member of the Planning Panel until 1 March 2014.

L S Trott
Chief Minister
14th November 2011

B M Flouquet, Deputy Minister
C S McNulty Bauer
P R Sirett

G H Mahy
D B Jones
M H Dorey

C N K Parkinson
A H Adam
M G O'Hara
C A Steere

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

The States are asked to decide:-

V.- Whether, after consideration of the Report dated 14th November, 2011, of the Policy Council, they are of the opinion:-

1. To appoint, in accordance with the provisions of the Land Planning and Development (Guernsey) Law, 2005 Mrs. Linda Wride to sit as a Professional Member of the Planning Panel until 1 March 2014.
2. To appoint, in accordance with the provisions of the Land Planning and Development (Guernsey) Law, 2005 Mr. Jonathan King to sit as a Professional Member of the Planning Panel until 1 March 2014.

POLICY COUNCIL

OVERSEAS AID REPORT

1. Executive Summary

- 1.1 On the 27th October 2010, the States of Deliberation directed the Policy Council to produce proposals to set a long-term funding policy for Guernsey's contribution to overseas aid, including the feasibility of meeting the United Nations 0.7% GNI/GNP target.
- 1.2 In order to reach the United Nations 0.7% figure there would have to be a large increase to the current amount of contribution to overseas aid by Guernsey. As shown in Appendix 2 of this report (Guernsey Overseas Aid Commission Annual Report 2010), Guernsey is currently contributing just over £2.5 million per annum which would require an approximate increase of £11.5 million to reach the 0.7% GNI target. Not only is this a substantial figure to maintain in itself, but an increase would also increase the fiscal deficit, which was £37.2 million in 2010. For there to be no detrimental affect on the present fiscal position any increases to overseas aid would have to be funded through an increase in tax revenue or through cutting expenditure elsewhere. To this event, any increment over and above that proposed by this paper (i.e. an inflationary (RPIX) uplift only at this time) would need to follow States procedures for prioritisation of spending, i.e. be submitted through the States Strategic Planning process to ensure that additional expenditure in this area 'competes' with expenditure bids in other policy areas and allows the States the opportunity of a transparent choice over its priorities for public expenditure.
- 1.3 Figure 7.1 of this report shows a phased approach to reaching the United Nations' target. To reach the figure in 5 years (as opposed to a one off increase) would require an approximate increase of £2.55 million each year, whereas to reach the figure in 20 years would require an increase of more than £0.9 million per annum, i.e. an extra £0.9 million in year 1, approximately £1.8m in year 2 etc, from Guernsey's current amount of contribution. It is evident that, in financial terms, Guernsey is far from achieving the United Nations target.
- 1.4 Alongside the fiscal feasibility of reaching the target, public opinion also needs consideration. If Guernsey is to significantly increase its contribution towards Overseas Aid at any stage in the future, public support will be needed. However due to the current lack of exposure through the local media coupled with the need for a "Guernsey Overseas Aid" website, the public are not being made aware of the good work that is currently being done through the Guernsey Overseas Aid Commission.
- 1.5 Instead of pushing towards the 0.7% figure, other methods such as a figure based on a percentage of tax revenue could be adopted instead. This figure would more reflect the size of the tax base of the local economy and provide a good base on which to propose a new long-term funding policy. A phased approach would need to be adopted. However, it would seem irrational to set any long-term funding policies, which would invariably increase the fiscal deficit whilst the States of Guernsey is trying to eliminate it.

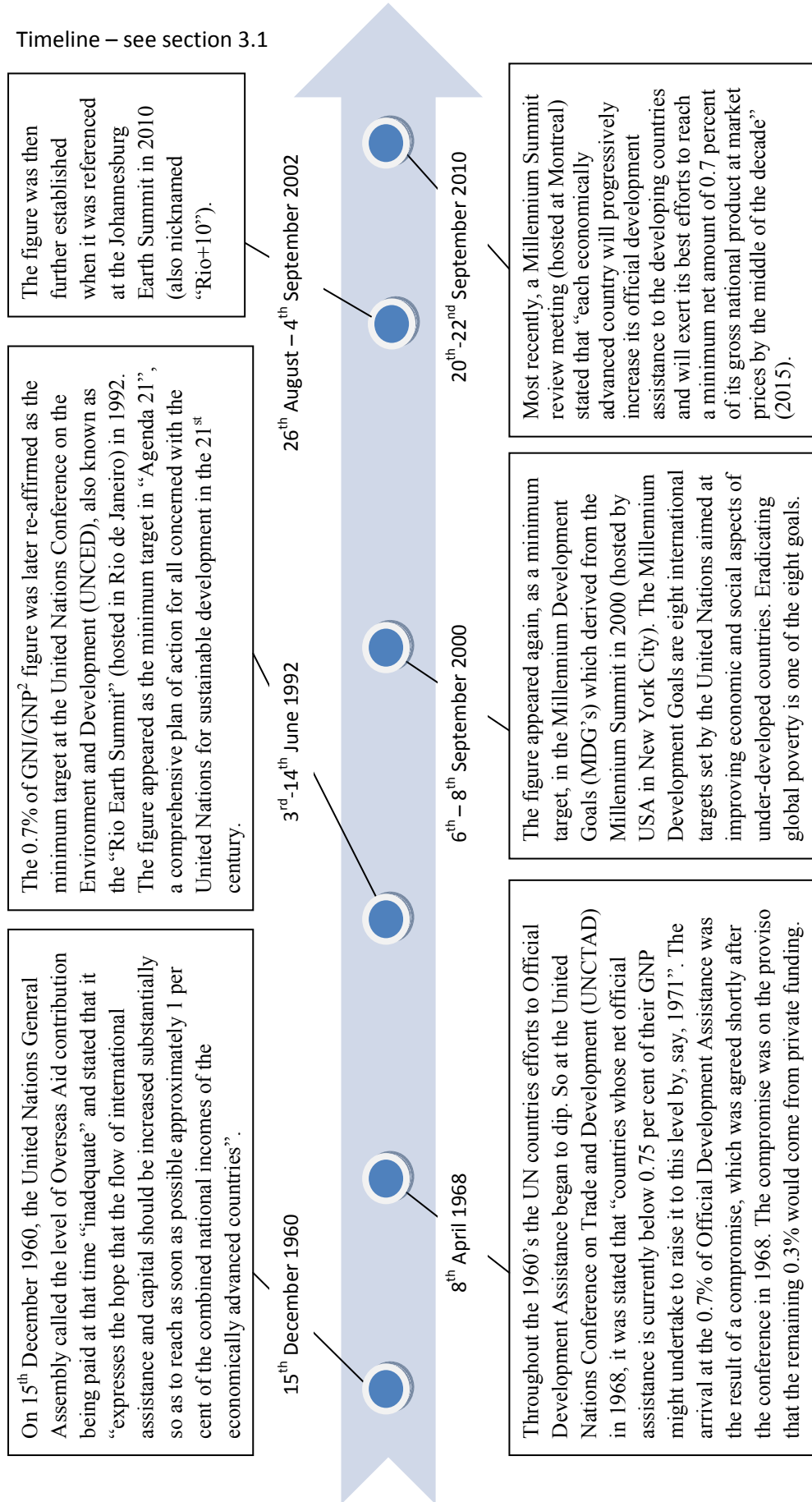
- 1.6 Moreover, any long-term funding policies which are set in fiscally challenging times would require revision as soon as the fiscal balance has been restored. The Policy Council is therefore recommending that the States of Guernsey maintain their current level of contribution (+RPIX) per annum. It is also recommended to monitor the level of Overseas Aid expenditure with a view to reconsidering it once there is a higher degree of certainty over corporate taxation, and when the Island's fiscal position improves.

2. Introduction

- 2.1 At the 2010 States Strategic Plan debate, an amendment was brought forward by Deputy Fallaize regarding Guernsey's current level of contribution towards Overseas Aid. As a result, the Policy Council was directed to report to the States of Deliberation with proposals to set a long-term funding policy to underpin Guernsey's contribution to overseas aid and development. It was decided by the States that the report should take the fiscal and economic forecast into consideration before analysing the feasibility of meeting the United Nations' (UN) target of contributing 0.7% of Gross National Income (GNI) or Gross National Product (GNP) annually. There are however a number of other factors, alongside the economic implications, that will also need consideration.
- 2.2 Firstly, it needs to be established whether Guernsey has the capacity to meet the 0.7% target of Official Development Assistance¹, or indeed if this is an appropriate time to consider this matter given the Island's fiscal balance and due to the uncertainty over future taxation policies. Secondly, the origin of this figure needs to be examined as it is viewed by some as being somewhat of an arbitrary figure. For example in 2005, economists Michael A. Clemens and Todd J. Moss released a report which included extracts from 20th Century United Nations meetings. This report portrayed the origins of the 0.7% GNI target as having little relevance and an arbitrary basis.
- 2.3 Some thought should also be given to whether this figure, based on a percentage of GNI/GNP, would give a fair representation of the public sector wealth of our island and if an alternate method should be used instead. Over the past decade, Guernsey's method to increasing its expenditure towards Overseas Aid has been to give a fixed nominal increase per annum (£100,000/£120,000 +RPI) to the Overseas Aid budget. However, given the current States policy to **restrain** expenditure, it should be considered whether setting long term funding proposals for Overseas Aid is appropriate at the current time.
- 2.4 Some thought should also be given towards public opinion on Overseas Aid Expenditure. Over recent years, the feeling that "charity begins at home" has gained momentum and an argument could arise that any money raised, should be used tackling local issues. Equally it is evident that Guernsey's contribution to Overseas Aid is low in comparison with similar jurisdictions and the UN's 0.7% GNI/GNP target. In the event of a decision that Guernsey's contribution should be increased, reasons for doing so will need to be fully explained. The public will also need to be made fully aware of the scale of global poverty alongside the benefits that moving towards the UN's target will deliver for the recipient countries.

¹ **Official Development Assistance** - Flows of official financing to promote the economic development and welfare of developing countries from donor governmental agencies. Official Development Assistance is a statistic compiled by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD).

Timeline – see section 3.1



²**GNI/GNP** - The Gross National Income comprises the total value of goods and services produced within a country (i.e. its Gross Domestic Product), together with its income received from other countries, minus similar payments made to other countries (indirect business taxes). The Gross National Product is similar to GNI, except that in measuring the Gross National Product you do not deduct the indirect business taxes

3. 0.7% figure timeline

- 3.1 The origin of the national aid goal (0.7% of GNI/GNP) dates as far back as the early 1960's which is shown in the timeline.
- 3.2 It could be viewed that the original 1% figure was never intended to be strictly adhered to by the members of the United Nations. This can be seen when analysing the UN General Assembly's ambiguous terminology used in the various conferences. For example, at the UN conference in 1960 the General Assembly merely expressed "hope"³ that the UN countries would reach the 1% figure without even identifying a target date to do so. Also more recently, despite many of the countries stating (during the millennium review conference in 2010) that they will reach the 0.7% target by 2015, the UN Assembly merely concluded that each economically advanced country should "exert its best efforts"³ to reach the target as opposed to receiving any assurance. Since the introduction of this figure in the early 1960's, it has become widely accepted as the minimum appropriate amount of overseas aid contribution that the economically advanced countries should be donating. However, the 0.7% figure itself does not appear to have been reviewed to reflect the changes in the economic climate since its adoption.

4. Where does Guernsey currently stand?

- 4.1 Guernsey's current method of increasing its Overseas Aid is by donating fixed nominal sums per annum. This is portrayed in Figure 4.1 which shows Guernsey's development in aid contribution since 2002.

Figure 4.1: Overseas Aid budget 2001 – 2010 (an updated extract from 2009 Facts and Figures booklet)

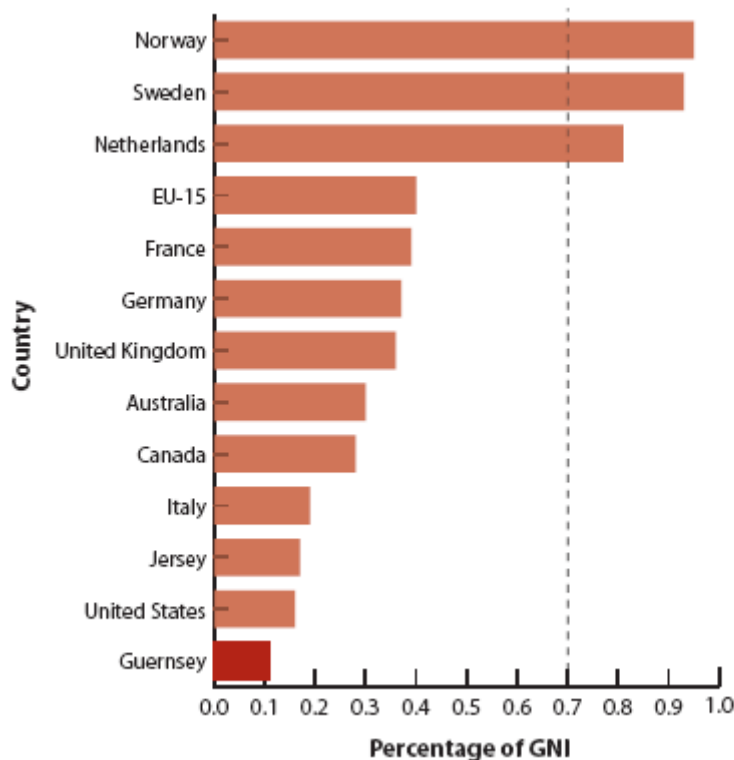
Year	Grants (£)	Emergency Aid (£)	Total (£)	% of GNP
2002	1,050,000	200,000	1,120,000	0.09
2003	1,200,000	200,000	1,400,000	0.10
2004	1,350,000	200,000	1,550,000	0.10
2005	1,500,000	200,000	1,700,000	0.11
2006	1,700,000	200,000	1,900,000	0.11
2007	1,885,000	200,000	2,085,000	0.12*
2008	2,105,000	200,000	2,305,000	0.12*
2009	2,340,000	200,000	2,518,447	0.13
2010	2,340,000	200,000	2,518,447	0.13

*Based on provisional GNP figure

³Ghost of 0.7%: Origins and Relevance of the International Aid Target by Michael A. Clemens and Todd J. Moss.

- 4.2 From the years 2002 to 2005 the States agreed to an annual increase of RPI plus £100,000 in real terms. This method of increase was then extended from 2005 to 2009 with an annual increase of RPI plus £120,000. However, due partly to the downturn over late 2008 to 2009 the States did not approve of a similar increase in 2010. On the 7th September 2009, the Policy Council stated that “*whilst confirming its commitment to seeking long term increases in Overseas Aid funding, in accordance with the States approved objective of progressing towards the target of 0.7% of GNI, the Policy Council, having considered the views of the Treasury and Resources Department and having noted the recent fall in RPI, agreed not to seek an increase in the 2010 Overseas Aid Budget*”. As it was decided to donate fixed nominal increases per annum, Guernsey has fallen behind similar jurisdictions in its attempt to obtain the UN’s 0.7% GNI/GNP target. Figure 4.2 is an extract from the 2009 Facts and Figures booklet which compares different countries percentage of GNI figures.

Figure 4.2



- 4.3 Figure 4.3 (overleaf) portrays Guernsey’s level of contribution (in percentage and real terms) compared to countries of similar tax rates and population. It also shows what increase will be needed to attain the UN’s 0.7% target figure.

Figure 4.3 Overseas Aid Budget and UN requirements (2009 figures)

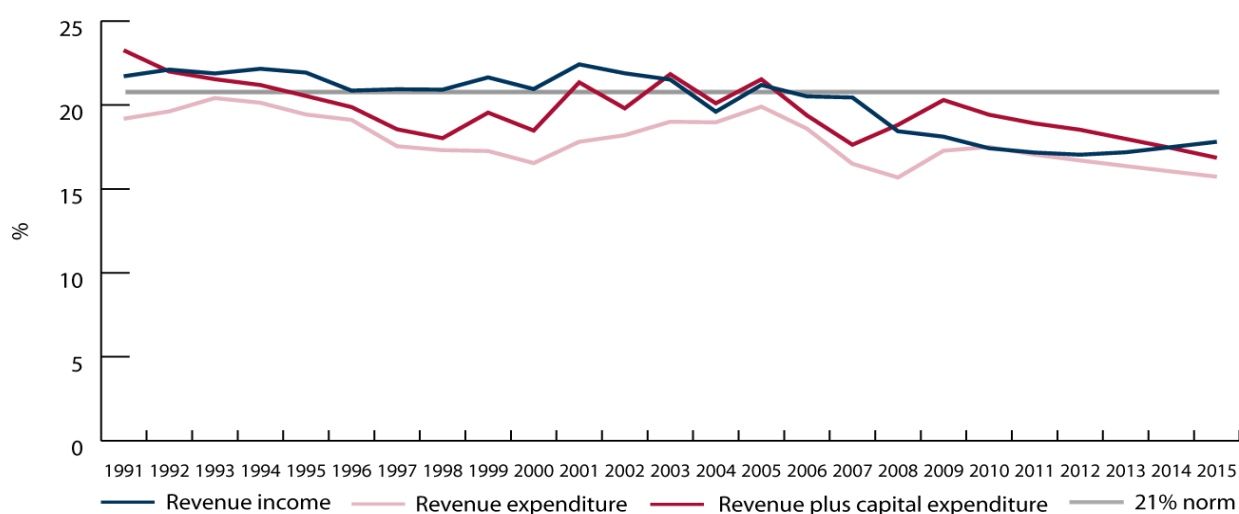
Government	Total Contribution (£ Million)	Total Contribution (% of GNP)	% of UN target
Guernsey	2.51	0.13	18.5%
Jersey	7.73*	0.21*	30%
Isle Of Man	2.20*	0.10*	14%

*Information gathered from government websites ⁴

5. Feasibility of meeting the UN's target

- 5.1 The Policy Council was directed by the States of Deliberation to analyse the feasibility of Guernsey reaching the UN's 0.7% figure. As shown in the previous timeline, the UN General Assembly concluded (in the September 2010 conference) that all UN countries should exert their best efforts to reach the 0.7% GNI/GNP figure by 2015. Although it is unlikely that Guernsey will raise its contribution to match the UN figure by 2015, the economic forecast for the next five years suggests that there may be the opportunity to make some headway in four or five years time, should the States decide that it is appropriate to do so. Figure 5.1 shows the forecast revenue expenditure and revenue income for the next five years:

Figure 5.1 Trend, actual and projected (1991-2015) total income and expenditure (% GDP) – baseline base (source Independent Fiscal Policy Review, 1st December 2010)



⁴ www.jerseyoverseasaid.org.je – Jersey website
www.gov.im – Isle of Man website

- 5.2 Figure 5.1 (taken from the recent 2010 Independent Fiscal Policy Review) shows a projected rise in revenue income in comparison to revenue plus capital expenditure towards 2014/2015. If this comes to fruition then the States could potentially have some additional funding towards 2015. Alternatively Guernsey could consider other alternatives such as fixed nominal increases per annum or a different contributory measure, examples of which are given in the next section of this report.

6. Contributory measure

- 6.1 Alongside the feasibility of meeting the UN's target, it should also be considered whether a figure based on a percentage of GNI/GNP is a suitable representation of Guernsey's public sector wealth or whether a different contributory measure should be used instead.
- 6.2 The UN's target of 0.7% was set by major developed economies with large developed public sectors and the share of total national income accounted for by those countries would have been typically between 40% and 45% of GDP. Whilst wealthy in per capita terms, Guernsey's public sector has historically only accounted for around 21% of GDP.
- 6.3 The UN target relates to public sector 'giving' and so a target of 0.7% of GDP would equate to around 1.5% of tax revenues for those major developed States and, given Guernsey's smaller public sector a similar target, i.e. one set in relation to tax revenues, would better reflect the public sector wealth of the island.
- 6.4 Figure 6.1 shows the required increase in real terms to achieve 1.5% of Tax Revenue.
- 6.5 If it is decided that Guernsey should not pursue the UN's target of 0.7% GNI/GNP, however it is also agreed that the current level of Overseas Aid is too low, then the funding policy of giving annual fixed nominal increases could be replaced with a different methodology which probably more reflects Guernsey's public sector wealth.

Figure 6.1

Contribution Method	Aid (£)	Required Increase (£)
Current (2010)*	2,518,447	-
1.5% Tax Revenue*	5,025,000	2,506,553

*Based on 2011 budget estimation of 2010 revenue income

7. A phased approach and alternative options

- 7.1 If the decision is made for Guernsey to move towards attaining the UN's target in the future, a suitable timescale would need to be considered as it is understandable that Guernsey would not immediately be capable of meeting the UN's 0.7% GNI target, or indeed may only be able to move part of the way towards it. Figure 7.1 below shows both the required percentage and nominal increase to reach the UN's figure in 5, 10, 15 and 20 years time.

Figure 7.1 UN requirements in (x) number of years*

Years	Date	0.7% GNP (£)	Average real percentage growth per annum required (%)	Average real growth per annum required (£)
0	2010	14,000,000	-	-
5	2015	15,250,886	43.4	2,546,481
10	2020	16,838,211	20.9	1,431,973
15	2025	18,590,745	14.3	1,071,484
20	2030	20,525,685	11.1	900,360

*All data is presented in real terms (at 2010 prices) and make no allowance for the effect of inflation

- 7.2 Figure 7.2 shows what it would cost to move towards the same level of % of GNI as Jersey over a 5 year period or a 10 year period.

Figure 7.2 Achieve 0.21% GNP (Jersey) in (x) number of years*

Years	Date	0.21% GNP (£)	Average real percentage growth per annum required (%)	Average real growth per annum required (£)
5	2015	4,575,266	12.7	411,357
10	2020	5,051,463	7.2	253,298

*All data is presented in real terms (at 2010 prices) and make no allowances for the effect of inflation

- 7.3 If a decision is made to increase the Island's level of Overseas Aid, whether by moving towards the United Nations target or by matching Jersey's percentage of GNI contribution, the additional funding can only be raised by either increasing taxation levels or by cutting States' expenditure elsewhere, and any additional expenditure over and above an inflationary uplift would need to follow the States Strategic Planning process for prioritisation of new service bids. In addition consideration would need to be given to the amount of officer time required to administer a larger Overseas Aid budget.
- 7.4 Should the States not favour a substantial increase to its Overseas Aid contribution, then the previously used system of giving fixed nominal increases per annum (on top of RPI) could be another alternative. However, it should be noted that the current States policy is committed to reducing expenditure and it could be argued that any extra revenue, at least in the short term, would be better utilized by reducing the financial deficit.

- 7.5 Given the current uncertainty over the corporate tax position, another option would be for Guernsey's overseas aid policy to be re-considered once there is certainty over corporate taxation and when the fiscal position improves. However, if it is still decided to move towards the UN's figure or to increase its aid significantly beyond the current system, then the need for support from the public and private organisations will also need to be considered.

8. Public and Private Support

- 8.1 Should a decision be made to increase Guernsey's level of contribution (whichever methodology is chosen), the decision will need to be fully explained to the public in order to begin tackling the potential negativity towards Overseas Aid (the potential view that charity starts at home). Therefore public support will be needed before any substantial increases can be made; in order to do this there are a number of issues that will need to be considered: –

- The lack of media exposure on the current Overseas Aid work that is taking place (see Appendix 2 for information from the Guernsey Overseas Aid Commission Annual Report 2010).
- The development of a "Guernsey Overseas Aid" website to inform the public of the facts and figures involved with Overseas Aid worldwide.
- The possibility of linking private philanthropy and local charities to governmental Overseas Aid contribution through funding schemes.

- 8.2 Improving media exposure and the development of a "Guernsey Overseas Aid" website will be important tools in helping the public to be aware of the current scale of global poverty and also the progress that is being made by the United Nations through the Millennium Development Goals. If the public is not well informed on the current poverty levels then Islanders may see the amount of Overseas Aid funding that the States proposes as money that could be used tackling local issues such as Education and Healthcare instead. Table 8.1 shows the current scale of Global Poverty for underdeveloped countries. The information is provided by "UNICEF" which works in conjunction with the United Nations' Millennium Development Goals, which aim to heavily reduce global poverty by the year 2015.

Table 8.1

Global Poverty Facts and Statistics.
Reducing poverty starts with children. Every 3.6 seconds one person dies of starvation. Usually it is a child under the age of 5.
Poverty exacerbates the effects of HIV/AIDS and armed conflict.
Some 300 million children go to bed hungry every day. Of these only eight per cent are victims of famine or other emergency situations. More than 90 per cent are suffering long-term malnourishment and micronutrient deficiency.
Education is perhaps a child's strongest barrier against poverty however, some 13 per cent of children ages 7 to 18 years in developing countries have never attended school.
600 million – live on less than US \$1 a day.

- 8.3 Should the level of Overseas Aid be increased, the public will also need to be made aware of the progress that is being made through the Millennium Development Goals. Table 8.2 are statistics from the 2010 Millennium Development Goals report (compiled by the United Nations) showing the reduced level of global poverty through the MDG regime.

Table 8.2

Millennium Development Goals Achievements
Robust growth in the first half of the decade reduced the number of people in developing regions living on less than £1.25 a day from 1.8 billion in 1990 to 1.4 billion in 2005.
The global poverty rate dropped from 46 per cent in 1990 to 27 per cent in 2005. The overall poverty rate is still expected to fall to 15 per cent by 2015.
The share of undernourished populations decreased from 20 per cent in 1990-92 to 16 per cent in 2005-07

- 8.4 It should also be considered whether public support could be increased if Overseas Aid from private sources and local charities were linked to the Overseas Aid funding from the government; this could be achieved through various funding schemes.
- 8.5 The use of governmental funding schemes is a possible way of promoting Overseas Aid to the public as well as increasing the amount of contribution at the same time. The different systems that could be adopted include:-

ATM Donations

- 8.6 This system would give the public a chance to donate money when withdrawing cash from ATM machines. This scheme was also announced recently by the British Coalition Government. Figure 8.3 shows the details of the scheme.

Figure 8.3: ATM Donations – A Case Study (<http://philanthropy.com>)

U.K. Government Floats ATM Donation Option
January 3, 2011, 11:20 am

The British government is proposing that the country's bank machines be outfitted with an option for customers to make charitable donations when they withdraw money, the Telegraph and the Financial Times report. Francis Maude, minister for the government's Cabinet Office, said the government will seek talks with banks this year about voluntarily adopting the system, which is in use in Colombia and Mexico.

The idea is one of several in a policy paper issued by the Cabinet Office last week on ways the government can promote giving and volunteerism. Mr. Maude said officials will also work with retailers on ways to put in place systems for consumers to donate by rounding up the cost of purchases with debit or credit cards.

“£ for £” scheme

- 8.7 This mechanism would entail the States matching any donation made by private organisations and charities to Overseas Aid. This would give an increased sense of ownership for the public on where the aid budget is spent. An example of this is the “Match Funding Scheme” which was announced by the British Coalition Government on 31st January 2011. Figure 8.4 shows the details of the scheme.

Figure 8.4: Match Funding Scheme – A case study (<http://www.dfid.gov.uk>)

The Coalition Government is creating a mechanism to give the British people a say in how part of the aid budget is spent. The Government is considering fulfilling this commitment by creating a scheme to match fund public donations to development appeals.

By matching pound for pound the money that people give, the Government would support their choice and contribute to poverty reduction in poorer countries. A scheme is being piloted in 2011/12 and should work as set out below.

Value of scheme	£30m in 2011/12.
Eligibility to apply for match funding	Open to any organisation running an appeal in the UK for public donations from the UK public for poverty reduction projects in developing countries. Organisations in receipt of Programme Partnership Arrangements (PPAs) from DFID or other DFID funding would be able to apply. However, in making decisions, DFID would reserve the right to take into account the level of funding already provided by DFID to the applicant.
What can be match funded	Public donations for charitable organisations or for specific projects run by charitable organisations to reduce poverty in developing countries.
Grant size	DFID to provide £1 for every £1 donated by the public up to a maximum of £5m for any single appeal. However, if evidence suggests an appeal would be likely to raise more than £5m, DFID would consider requests for a larger match funding grant.
Application procedure	Applications could be made at any time from March 2011 – March 2012. DFID would review these every quarter and provide a response within six weeks of the review date. When the £30m pot is committed, no further new applications would be accepted.

8.8 Ideas such as those depicted in figure 8.3 and 8.4 could help increase the amount of Guernsey's Overseas Aid. However, the success of the scheme relies on the generosity of the public, and how comfortable they are donating money for off-island causes. Opposition to these schemes could come from:

- The feeling of “charity starts at home”. This feeling has perhaps become more apparent over recent years, and it must be remembered the public may feel aggrieved to see further funding being donated to other countries.

- People already donating to local charities and private organisations that donate to underdeveloped countries⁵.

9. Consultation with the Guernsey Overseas Aid Commission and Treasury and Resources Department and Deputy Fallaize

- 9.1 The Policy Council sought the views of the Guernsey Overseas Aid Commission, the Treasury and Resources Department and Deputy Fallaize, (as the proposer of the successful amendment to the SSP in 2010 which resulted in this report). Letters of comment from the Guernsey Overseas Aid Commission and the Treasury and Resources Department are appended in Appendix 4 of this Report.
- 9.2 The Treasury and Resources Department, by a majority, supports the Policy Council's recommendations.
- 9.3 The Overseas Aid Commission is disappointed by the Council's report, but takes some comfort that the Policy Council recommends the States to maintain the current formula for annual contributions (i.e. +RPIX per annum). It also notes the recommendation to review the level of funding either when the fiscal position improves or within five years, whichever is the sooner.
- 9.4 Deputy Fallaize believes the recommendations to be "deeply unambitious and barely credible". He requested that the Policy Council reconsider the 2nd recommendation: to construct an alternative and slightly more progressive and ambitious long-term policy on long-term funding. He did not however offer any suggestions on what this may be.
- 9.5 The Policy Council wishes to thank the Guernsey Overseas Aid Commission, the Treasury and Resources Department and Deputy Fallaize for all their comments, which have been carefully considered.

10. Principles of Good Governance

- 10.1 The Policy Council confirms that the contents of this States Report comply with all the Principles of Good Governance as outlined in Billet d'État IV 2011.

11. Conclusion

- 11.1 Despite the fact that Guernsey donates a relatively low amount of Overseas Aid in comparison to similar jurisdictions, and although there will be many who will wish to see a significant increase in States expenditure towards Overseas Aid, the current fiscal uncertainties coupled with the States' policy on expenditure cannot be ignored. The

⁵ Footnote: This argument occurred in 2008 when the United States paid 0.19% GNI to Overseas Aid. However private philanthropy within the US added a further 0.26% of GNI. Therefore raising Overseas Aid contribution could be questioned as private funding could seemingly outweigh that of Government funding (especially when pursuing the UN's 0.7% GNI figure). Statistics from <http://www.philanthrocapitalism.net/tag/0-7/>

Policy Council, along with all States Departments and Committees, is currently engaging as high priorities, workstreams that seek to **restrain** States expenditure. It may therefore be impractical to pursue proposals that would significantly enlarge the fiscal deficit, whilst the States is trying to eliminate it. The Policy Council recommends a long-term funding policy that will ensure that the level of Overseas Aid will remain consistent alongside the rate of inflation, but will not commit to additional expenditure at this time.

12. Recommendations

12.1 The Policy Council therefore recommends:

- (a) that the States of Guernsey maintain its current level of contribution (+RPIX) per annum; and
- (b) that the States of Guernsey monitor the level of Overseas Aid expenditure with a view to reconsidering it once there is a higher degree of certainty over corporate taxation and when the fiscal position improves, or within 5 years, whichever is sooner.

L S Trott
Chief Minister

14th November 2011

B M Flouquet, Deputy Minister

C S McNulty Bauer

P R Sirett

C A Steere

G H Mahy

D B Jones

M H Dorey

C N K Parkinson

A H Adam

M G O'Hara

Appendix 1

	Current 2010 GNP	1,973,314,001.16								
	OSA 2010	2,518,477								
Years	To meet requirements by:	GNP (2010 Prices) (assuming 2% real annual growth)	EU requirements for OSA (i.e. 0.7% GNP)	Increase required (2010 Prices) (requirements - OSA 2010)	Total percentage increase required (increase requirement/OSA 2010)	Annual Increase factor (i.e. multiply 2010 OSA by this 5 times to get UN requirements in 2015)	Average percentage growth per annum required (the real terms percentage increase in OSA needed each year to meet requirements by target year %)	Average nominal growth per annum required (the real terms nominal increase in OSA needed each year to meet requirements by target year £)		
5	2015	2,178,698,107.37	15,250,886.75	12,732,409.75	505.56	1.433611319	43.4	2,546,481.95		
10	2020	2,405,458,756.31	16,838,211.29	14,319,734.29	568.59	1.209249166	20.9	1,431,973.43		
15	2025	2,655,820,835.74	18,590,745.85	16,072,268.85	638.17	1.142555368	14.3	1,071,484.59		
20	2030	2,932,240,801.48	20,525,685.61	18,007,208.61	715.00	1.110600806	11.1	900,360.43		

Note: All data is presented in real terms (at 2010 prices) and make no allowance for the effect of inflation

Appendix 2

	Current 2010 GNP	1,973,314,001.16								
	OSA 2010	2,518,477								
Years	To meet requirements by:	GNP (2010 Prices) (assuming 2% real annual growth)	Requirement to meet Jerseys % (i.e. 0.21% GNP)	Increase required (2010 Prices) (requirements - OSA 2010)	Total percentage increase required (increase requirement/OSA 2010)	Annual Increase factor (i.e. multiply 2010 OSA by this 5 times to get 0.21% target in 2015)	Average percentage growth per annum required (the real terms percentage increase in OSA needed each year to meet requirements by target year %)	Average nominal growth per annum required (the real terms nominal increase in OSA needed each year to meet requirements by target year £)		
5	2015	2,178,698,107.37	4,575,266.03	2,056,789.03	81.67	1.126822921	12.7	411,357.81		
10	2020	2,405,458,756.31	5,051,463.39	2,532,986.39	100.58	1.072081797	7.2	253,298.64		
15	2025	2,655,820,835.74	5,577,223.76	3,058,746.76	121.45	1.054432229	5.4	203,916.45		
20	2030	2,932,240,801.48	6,157,705.68	3,639,228.68	144.50	1.045716708	4.6	181,961.43		

Note: All data is presented in real terms (at 2010 prices) and make no allowance for the effect of inflation

Appendix 3 – Excerpt from the “Guernsey Overseas Aid Commission Annual Report 2010”.

<i>Distribution of Funding 2010</i>

Africa

<i>Agriculture/Fisheries</i>	<i>£224,842.00</i>	
<i>Education</i>	<i>£196,095.00</i>	
<i>Health</i>	<i>£713,131.00</i>	
<i>Integrated Development</i>	<i>£492,639.00</i>	
Total Aid Given to Africa		£1,626,707.00

Indian Sub-Continent

<i>Agriculture/Fisheries</i>	<i>£70,933.00</i>	
<i>Education</i>	<i>£18,334.00</i>	
<i>Health</i>	<i>£180,204.00</i>	
<i>Integrated Development</i>	<i>£72,438.00</i>	
<i>Emergency Disaster Relief</i>	<i>£50,000.00</i>	
Total Aid Given to Indian Sub-Continent		£391,909.00

Latin America & Caribbean

<i>Agriculture/Fisheries</i>	<i>£40,000.00</i>	
<i>Health</i>	<i>£75,030.00</i>	
<i>Integrated Development</i>	<i>£44,619.00</i>	
<i>Emergency Disaster Relief</i>	<i>£50,000.00</i>	
Total Aid Given to Latin America & Caribbean		£209,649.00

Other Asia & Pacific

<i>Agriculture/Fisheries</i>	<i>£24,600.00</i>	
------------------------------	-------------------	--

<i>Education</i>	<i>£40,453.00</i>	
<i>Health</i>	<i>£52,300.00</i>	
<i>Integrated Development</i>	<i>£172,859.00</i>	
Total Aid Given to Other Asia & Pacific		£290,212.00
Total Contribution to Aid Overseas		£2,518,477.00

SUMMARY OF GRANTS MADE DURING 2010

During 2010 the Guernsey Overseas Aid Commission disbursed £2,418,477 in Grant Aid and supported a total of 78 projects which, for administrative purposes, can be subdivided into four main categories. The amounts shown have been rounded to the nearest £1,000.

1. AGRICULTURE

£360,000 has been invested in 11 projects, for the direct benefit of more than 108,000 people. The projects provided seeds, irrigation systems and livestock and included, in several cases, appropriate training. In one case Guernsey's support triggered supplementary funding from the EU totalling over £100,000.

2. EDUCATION

£255,000 was invested in nine projects supporting more than 26 schools, directly benefitting over 45,000 pupils. The projects included classroom rehabilitation, the provision of educational materials and books, and the construction of schools' water points (the latter including hygiene training).

3. INTEGRATED DEVELOPMENT

£782,000 was invested in 26 projects for the direct benefit of over 520,000 people. The projects included:

- 13 promoting the establishment of small businesses (including one aimed specifically at helping women), the provision of various types of vocational training, the promotion of eco-friendly sustainable food programmes (including the provision of equipment) and the purchase and supply of organic fertilisers and seeds.
- eight for the protection and support of children, including the construction and equipping of an Orphan Care Centre, the staging of various training workshops, promoting emergency counselling support and working to ensure successful family reunification.
- five diverse projects, included supporting a flood reduction programme, the support of mine clearance teams (including an all-female team), and a contribution towards the cost of acquiring an aircraft to serve small, poor and remote communities living in very isolated areas.

4. HEALTHCARE

As the largest category, this encompasses the remaining 32 projects. For convenience they are subdivided into three main groups:

- Water/Sanitation: £494,000 has been invested in 15 projects to provide water, latrines and associated hygiene training for the direct benefit of over 680,000 people. In two cases Guernsey's support triggered supplementary funding from the EU totalling over £200,000.
- Essential Equipment: 12 projects were supported. These included the purchase of hospital supplies and equipment. The projects supported included several for the provision and distribution of mosquito nets. All the investments – totalling £352,000 - will benefit at least 538,000 people a year, as well as providing much needed assistance to a large number of hard working medical staff.
- Infrastructure: Support of £175,000 was provided to five projects which will benefit at least 49,000 individuals, the bulk of the money funding new hospital facilities.

5. EMERGENCY DISASTER RELIEF

Emergency Disaster Relief amounted to £100,000 and was provided in respect of two disasters, as follows:

- Disasters Emergency Committee - Haiti Earthquake Appeal - £50,000
- Disasters Emergency Committee – Pakistan Floods Appeal - £50,000

The Guernsey Overseas Aid Commissioners are confident that States Members will feel that the money invested by Guernsey has been used appropriately.

Appendix 4: Consultation - Letters of Comment from (a) The Guernsey Overseas Aid Commission and (b) Treasury and Resources Department.

(a) Letter from the Guernsey Overseas Aid Commission

Deputy L S Trott
Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1FH

2 November 2011

Dear Deputy Trott

OVERSEAS AID REPORT

Thank you for your letter dated 3 October 2011 enclosing the draft States report on overseas aid.

The Commission was pleased to note that the Policy Council recognises the valuable work that the Commission undertakes in its efforts to provide help to the world's poorest and most deprived citizens. Even comparatively small sums of money can significantly improve the lives of huge numbers of people, especially when aid is carefully targeted; the Commission has always striven to ensure this happens with all its funding.

The Commission is naturally disappointed to learn that the Policy Council will not be recommending that Guernsey's grant aid budget should be substantially increased. Commissioners remain firmly of the view that there needs to be a long-term funding policy to enable Guernsey's contribution for overseas aid to increase, so that it meets the United Nations' 0.7% GNI/GNP target. As the Policy Council's own report concludes ".....Guernsey donates a relatively low amount of Overseas Aid in comparison to similar jurisdictions...." that amount being well below the UN target.

As you will be aware, the UK's recent Spending Review set out plans to ring fence UK overseas aid spending, the intention being to enshrine ambitious targets into law and to commit to spending of 0.7% of GNI on official development assistance from 2013 onwards. The UK – like Guernsey and many other jurisdictions – is itself facing considerable fiscal uncertainty so it is particularly disappointing that our community (which derives such a large proportion of its income from international financial activity) might fail to provide even a modest "real" increase in overseas aid when others realize the importance of supporting the area.

The Commission nevertheless notes that the Policy Council will be recommending to the States that the current level of contribution to overseas aid (+RPIX per annum) will be maintained for the time being. The Commission also notes your recommendation that the level of overseas aid provided by the States should be monitored with a view to reconsidering the level of grant aid given, either when the fiscal position improves or within five years, whichever is sooner.

The Commission very much hopes that whatever occurs, the level of funding provided by the States to support overseas aid will be significantly increased as soon as possible.

Yours sincerely

Carol Steere, Chairman

(b) Letter from Treasury and Resources Department:

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1FH

20th October 2011

Dear Lyndon,

OVERSEAS AID REPORT

Thank you for your letter dated 3 October 2011 enclosing a draft States Report concerning the States of Guernsey's overseas aid contributions.

My Board, by a majority, supported both the draft recommendations namely:

- That the States of Guernsey maintain its current level of contribution (+RPIX) per annum and;
- That the States of Guernsey monitor the level of Overseas Aid expenditure with a view to reconsidering it once there is a higher degree of certainty over corporate taxation and when the fiscal position improves, or within 5 years, whichever is sooner.

Deputy Shane Langlois was of the view that the States of Guernsey should take steps to progress towards the UN target.

Yours sincerely



C N K Parkinson
Minister

(NB By a majority, the Treasury and Resources Department supports this report.)

The States are asked to decide:-

VI.- Whether, after consideration of the Report dated 14th November, 2011, of the Policy Council, they are of the opinion:-

1. That the States of Guernsey maintain its current level of contribution (+RPIX) per annum.
2. That the States of Guernsey monitor the level of Overseas Aid expenditure with a view to reconsidering it once there is a higher degree of certainty over corporate taxation and when the fiscal position improves, or within 5 years, whichever is sooner.

POLICY COUNCIL

ELECTION OF CHAIRMAN AND APPOINTMENT OF FOUR ORDINARY MEMBERS OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

Executive Summary

This Report proposes: the election of Mr Robert Moore and Mr Paul Meader as ordinary members; the re-election of The Lord Flight and Dr Cees Schrauwens as ordinary members; and the election of Dr Cees Schrauwens as Chairman of the Guernsey Financial Services Commission.

Report

1. The Guernsey Financial Services Commission is currently comprised of the following ordinary members: Advocate Peter Harwood, Ms Susie Farnon, The Lord Flight, Mr Alex Rodger, Dr Cees Schrauwens, and Mr Richard Hobbs. Pursuant to paragraph 1 of Schedule 1 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 the Commission shall consist of a maximum of seven members.
2. Advocate Peter Harwood has tendered his resignation as Chairman of the Guernsey Financial Services Commission as of 31st January 2012. Advocate Harwood was appointed as a Commissioner in 2004 and was appointed Chairman in 2006. Advocate Harwood has provided many years of dedicated service to the Commission. His leadership was instrumental through the financial crisis in 2008 and in the subsequent International Monetary Fund review of Guernsey's regulatory regime in 2010. The Policy Council would like to take this opportunity to thank Advocate Harwood for his dedicated service over the past 8 years. With the retirement of Advocate Harwood there are two vacancies on the Commission.
3. The Policy Council proposes the appointment of Mr Robert Moore as an ordinary member of the Guernsey Financial Services Commission for a three year period to run from 2nd February, 2012 until 1st February, 2015. Mr Moore is a senior finance professional with some thirty three years experience in International Banking and Wealth Management. A summary of Mr Moore's curriculum vitae is annexed to this report.
4. The Policy Council also proposes the appointment of Mr Paul Meader as an ordinary member of the Guernsey Financial Services Commission for a three year period to run from 2nd February, 2012 until 1st February, 2015. Mr Meader has 25 years experience in international finance including 16 years as a Director and 14 years as a CEO of financial services businesses. Mr Meader's experience includes banking, wealth management, and investment services. A summary of Mr Meader's curriculum vitae is attached for reference.
5. The Policy Council is pleased to re-nominate the Lord Flight as an ordinary member of the Commission for a three year period to run from 2nd February,

2012 until 1st February, 2015. Lord Flight has been an ordinary member of the Commission since December 2005.

6. The Policy Council is pleased to re-nominate Dr Schrauwens as an ordinary member of the Commission for a three year period to run from 2nd February, 2012 until 1st February, 2015. Dr Schrauwens has been an ordinary member of the Commission since July 2008.
7. The Chairman of the Commission must be elected annually by the States, from amongst the ordinary members having been nominated by the Policy Council. Dr Cees Schrauwens was appointed as a Commissioner in July 2008. Dr Schrauwens has many years experience in the insurance industry and financial services industry having held senior positions in numerous international financial services businesses. Dr Schrauwens is an experienced non-executive Chairman with international experience whose leadership skills will be invaluable at the Commission in the coming years. The Council is pleased to nominate Dr Cees Schrauwens as Chairman of the Commission for a year from 2nd February, 2012 until 1st February, 2013.

Recommendation

The Policy council recommends the States:

- (a) To elect Mr Robert Moore as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
- (b) To elect Mr Paul Meader as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
- (c) To re-elect Lord Flight as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
- (d) To re-elect Dr Cees Schrauwens as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
- (e) To elect Dr Cees Schrauwens as Chairman of the Guernsey Financial Services Commission for one year with effect from 2nd February, 2012.

L S Trott
Chief Minister

28th November 2011

B M Flouquet, Deputy Minister
C S McNulty Bauer
P R Sirett
C A Steere

G H Mahy
D B Jones
M H Dorey

C N K Parkinson
A H Adam
M G O'Hara

APPENDIX

MR ROBERT MOORE

Date of Birth: 23 June 1955

Education: University of Oxford (1st class honours in modern languages)

Employment

- 1979 – 1997 : Lloyds Banking Group, Vice President and International Manager, New York (1992-1994), Senior Manager, Planning and Development, Private Banking and Financial Services (1992-1994), Senior Manager and Country Head, Luxembourg (1995-1997)
- 1997 – 2011: Bank of Butterfield, Managing Director. Since July 2011, Executive Vice President and Head of Group Trust Operations responsible for Guernsey, Switzerland, Bermuda, Bahamas, and Cayman.

MR PAUL MEADER

Date of Birth: 22 October 1965

Education: Hertford College, Oxford; MA (Hons) Geography
Elizabeth College

Professional Qualifications: Chartered Fellow of the Chartered Institute of Securities and Investments

Employment:

- 1986 – 1991: Midland Montagu London (now HSBC) Bond Trader
- 1992 - 1994: Ulster Bank Dublin, Associate Director
- 1994 – 1996: Matheson Investment Management, Jardine Matheson, London; Director of Fixed Income
- 1996 – 2002: Rothschild Bank Switzerland (C.I.) Limited, Guernsey; Managing Director
- 2002 – 2010: Corazon Capital Group (acquired by Collins Stewart), Guernsey; founder and principal.
- 2010 to date: Collins Stewart Guernsey; Head of Portfolio Management

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

The States are asked to decide:-

VII.- Whether, after consideration of the Report dated 28th November, 2011, of the Policy Council, they are of the opinion:-

1. To elect Mr Robert Moore as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
2. To elect Mr Paul Meader as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
3. To re-elect Lord Flight as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
4. To re-elect Dr Cees Schrauwens as an ordinary member of the Guernsey Financial Services Commission for three years with effect from 2nd February, 2012.
5. To elect Dr Cees Schrauwens as Chairman of the Guernsey Financial Services Commission for one year with effect from 2nd February, 2012.

POLICY COUNCIL

REVIEW OF STATES MEMBERS AND NON-STATES MEMBERS PAY

Executive Summary

1. The findings and recommendations of the Independent Review Board created to examine States Members Pay, are presented to the Policy Council with this Report, which sets out recommendations to enable States Members to vote upon the Board's proposals.

Background

2. On 28 February 2008, the States resolved that the remuneration of States Members and non-States Members of Departments, Committees and Non-Governmental bodies, be again subject to independent review prior to the 2012 General Election.
3. In February 2011 the Policy Council accordingly established an Independent Review Board (IRB) to review the remuneration of States Members and non-States Members and appointed the following members of the Board:

Mr Richard Crowder Chairman
 Mrs Diane Lewis
 Mr Robert Moore

4. The terms of reference of the IRB were as follows:

To examine the existing system of payments to States Members and non-States Members of Departments and Committees and to consult on the existing arrangements in order to:

- (a) *Determine whether or not the main principles under which payments are now made appear to be justified including whether the current system fairly and properly reflects the nature of the roles of all Members and those elected to positions of special responsibility taking into account the self-employed status of States Members for social security purposes;*
- (b) *Determine whether there are any deficiencies and, if so, how these should be addressed,*

and to submit a report to the Policy Council with recommendations on the future arrangements for payments to States Members and non-States Members including how future payments should be determined in the intervening years prior to the next review.

5. The Policy Council asked the IRB to report in time for its Report to be submitted to the States prior to the 2012 General Election.
6. The IRB submitted its Report on 4 November 2011 and it is appended to this States Report.

7. The Policy Council would like to take this opportunity publicly to thank the Chairman and Members of the IRB for their hard work in undertaking this review and for producing an interesting, informative and comprehensive Report.

The Report of the Independent Review Board

8. In response to its mandate, the IRB began by considering the principles which had been cited in the reports of previous Review Boards.
9. The IRB determined that whilst a number of these principles recurred, they had not been definitively established and concluded that the principles it would use to guide its review were:
 - a) Remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender.*
 - b) Remuneration should not lead to participation for financial reasons alone.*
 - c) Remuneration should reflect an element of service to the community.*
 - d) Remuneration should reflect an individual's commitment of time.*
 - e) Remuneration should be transparent.*
 - f) Remuneration should be administratively simple.*
10. After establishing these principles and gathering relevant historical information, the IRB sought to understand the nature of the role of States Members and non-States Members in terms of time commitment and responsibilities through consultation, in order to be able to form a view on relevant and appropriate remuneration.
11. After due consideration of the results of the consultation, the IRB report concludes that:
 - (a) its recommended system of Remuneration of serving States Members and non-States Members would be cost neutral compared to the total costs incurred in 2010 (page 43 of the IRB report);
 - (b) the allowances for States and non-States Members from May 2012 should be adjusted to incorporate an increase of 15% in order that the individual can make their own pension arrangements and for the differentials in time and responsibilities (pages 41 and 43 respectively of the IRB report), as follows:

States Members Remuneration	£32,155
Deputy Minister and Vice-Chairman Remuneration	£34,550
Chairman Remuneration	£37,570
Ministers Remuneration	£44,350
Deputy Chief Minister Remuneration	£46,450
Chief Minister Remuneration	£58,520
Alderney Representative Remuneration	£10,050
Alderney Representative Remuneration with Departmental/Committee seat)	£13,965

* social security uplift to be deducted for those aged 65 and over

- (c) there should be the following tax free allowances for expenses (page 45 of the IRB report):

States Members (other than the Chief Minister)	£2,000
Chief Minister's Expenses Allowance	£3,000
Alderney Representatives Expenses Allowance	£1,000

- (d) the allowance per half-day attendance for Non-States Members should be £ 65 (page 45 of the IRB report);
- (e) the current IT allowance should be discontinued and that standard equipment should be provided by the States of Guernsey to all States Members and to Alderney Representatives (page 45 of the IRB report).
- (f) the States Members' pension scheme should be closed to new entrants and payments, with effect from 30 April 2012 the date of the end of the current States term, with the option of individuals transferring to a private scheme of their choice (page 41 of the IRB report);
- (g) the remuneration of States Members and non-States Members should be subject to annual review and adjustment in accordance with changes in Guernsey median earnings (page 45 of the IRB report);
- (h) in the absence of a clear definition of the various roles and responsibilities of States Members, it cannot apply standard techniques to determine, with complete objectivity, whether the allowance in respect of the responsibilities that are associated with the various roles are relevant and appropriate and therefore only a qualitative judgement is possible (page 41 of the IRB report);

12. The Board may not have been aware that item (e) above was under consideration at the time of the review by the Treasury and Resources Department, who are proposing that a detailed policy is developed specifying the IT equipment and software that should made available to States Members, based upon the principles established by the Independent Panel. Accordingly, the Policy Council has included its own Recommendation in this regard.

13. The IRB also considered that:

- (a) a further fundamental review of remuneration would be required if there were any future significant changes in the structure and organisation of government (page 44 of the IRB report);
- (b) the absence of a clear definition of the various roles and responsibilities of States Members is a deficiency of the current system that should be addressed (page 44 of the IRB report);
- (c) Guernsey had much to gain from clearer definition of the responsibilities of States Members and noted that there would be merit in regular assessments of performance between General Elections. The opportunity for added value

for the community would lie both in more effective development of policy and more effective implementation of policy; and thus better “value for money” from the approximately £1.9 million that the community currently spends on all aspects of Deputies’ remuneration (page 39 of the IRB report);

14. There are a number of other specific points made in the IRB Report which are worthy of noting:
 - (a) *the IRB assesses the general time commitment of elected members with, typically, two department or committee memberships to be part-time; albeit that that commitment might be considered as equivalent to a substantial (very substantial in the case of a Minister), but not full-time, role. The exception being the role of Chief Minister, which the IRB considers to be full-time given the international representation element of that role (page 40 of the IRB report);*
 - (b) *the Board received a few representations that there should be a mechanism to support a States Member who failed to be re-elected on the basis that such a person would effectively be “unemployed” almost overnight (and who would not be able to claim unemployment benefit because of his or her self-employed status. The Board considered, however, that if the electorate had chosen not to re-elect a sitting States Member, it would not expect public funds to be used to remunerate a person who was no longer in public office (page 39 of the IRB report)*

The Policy Council’s consideration of the IRB Report

15. The Policy Council has taken the same position as that established by the Advisory and Finance Committee when it commented on the 2003 independent report on States Members pay that it is neither in a position to, nor would it be appropriate for it to, develop or present alternative proposals. In arriving at this position the Policy Council has been mindful of the fact that individual States Members will have their own views on what they consider to be an appropriate system and level of remuneration. The Policy Council believes that it is for each States Member to vote on the proposals according to his/her conscience.
16. The Policy Council has therefore included in this States Report specific recommendations which will enable the States to vote on all of the IRB proposals. It has also noted the matter set out in Appendix 1 “Issues Outside of Terms of Reference” and believe that these suggestions should be considered by the next Policy Council.

Legislation

17. If States Members approve Recommendations 2 and 4 of this Report, it is understood that new legislation will be required in order to facilitate the amendments to the existing ‘Rules for Payments to States Members’.

Good Governance

18. This States Report complies with all the Core Principles of Good Governance as outlined in Billet d'État IV 2011, with particular reference to the applicability of:
Core Principle 4 *"taking informed, transparent decisions and managing risk"*
and
Core Principle 6 *"engaging stakeholders and making accountability real"*.
19. The Policy Council has based the recommendations contained in this Report on the results of the extensive research and consultation process of the IRB including, *"Questionnaires were sent to States Members and Non-States Members seeking information on the principles, participation, time commitments, elements of the roles, contribution and responsibilities. A similar questionnaire was sent to selected organisations and made available, on-line, for completion by the public."*

Recommendations

20. The States are asked to vote on the following recommendations based on the proposals contained in the Independent Review Board Report into States Members Pay:

- (1) That the basic Remuneration and Expenses allowance paid to States Members and Non-States Members of Departments and Committees with effect from 1 May 2012 shall remain in force until 30 April 2016, subject to annual review and adjustment in accordance with changes in Guernsey median earnings.
- (2) That the Remuneration and Expenses allowance to be paid to States Members and Non-States Members of Departments and Committees with effect from 1 May 2012 shall be as follows:

States Members Remuneration	£32,155
Deputy Minister and Vice-Chairman Remuneration	£34,550
Chairman Remuneration	£37,570
Ministers Remuneration	£44,350
Deputy Chief Minister Remuneration	£46,450
Chief Minister Remuneration	£58,520
Alderney Representative Remuneration	£10,050
Alderney Representative Remuneration with Departmental/Committee seat)	£13,965
* social security uplift to be deducted for those aged 65 and over	

Tax free Expenses allowances:	
States Members Expenses allowance (other than the Chief Minister)	£2,000
Chief Minister's Expenses Allowance	£3,000
Alderney Representatives Expenses Allowance	£1,000

Non-States Members allowance per half-day attendance £ 65

- (3) That the existing States Members' pension scheme be closed for service for current or new States Members with effect from 30 April 2012 and Members and former States Members be provided with the additional option to transfer accrued benefits in respect of all service into alternative pension arrangements, on terms to be advised by the States Actuary.
- (4) To direct the Treasury and Resources Department to develop a detailed policy specifying the IT equipment and software that should made available to States Members including the provision of secure email; such policy to be based upon the principles established by the Independent Panel.
- (5) To direct the Policy Council to set up an independent review of the Remuneration and Expenses allowance to be paid to States Members and Non-States Members of Departments and Committees which shall report in advance of the 2016 General Election.

L S Trott
Chief Minister

28 November 2011

B M Flouquet, Deputy Minister
C S McNulty Bauer
P R Sirett
C A Steere

G H Mahy
D B Jones
M H Dorey

C N K Parkinson
A H Adam
M G O'Hara

Appendix

INDEPENDENT REVIEW BOARD

REMUNERATION OF STATES MEMBERS AND NON-STATES MEMBERS

REPORT TO THE POLICY COUNCIL OCTOBER 2011

CONTENTS

1.	INTRODUCTION AND TERMS OF REFERENCE	4
2.	METHOD	4
3.	HISTORY	6
	1949 to 2007	6
	2007 Report	6
	Current Structure	7
	Cost in 2010	8
	Pension	8
4.	PRINCIPLES	8
	Discussion and Conclusions regarding the Principles	9
	Final Principles	12
5.	INVOLVEMENT	13
	Participation	13
	Time Commitment and Remuneration	14
	Vocational Element and Remuneration	19
6.	ROLES AND RESPONSIBILITIES	20
	States Members	20
	Alderney Representatives	26
	Non-States Members	27
	Membership of Special Committees	28
	Membership of Non-Government Organisations	28
7.	OTHER ISSUES	29
	Benchmarks	29
	Pension	30
	Social Security	32
	Differentials between Departments	33
	Differentials between Committees	35
	Expenses	36
	IT Equipment	37
	Performance	38
	Other Matters	39
8.	SUMMARY AND CONCLUSIONS	40
9.	RECOMMENDATIONS	45
APPENDIX 1	Issues Outside of Terms of Reference	47
APPENDIX 2	History 1949 to 2007	49
APPENDIX 3	Current Allowances	53
APPENDIX 4	Current Pension Scheme	54
APPENDIX 5	Social Security Notes	59
APPENDIX 6	Comparisons of Remuneration	61
1.0	INTRODUCTION AND TERMS OF REFERENCE	

1.1 The Policy Council established the Independent Review Board (“the Board”) in February 2011 to review the remuneration of States Members and Non-States Members.

1.2 The Policy Council appointed the following members of the Board:

Mr Richard Crowder	Chairman
Mrs Diane Lewis	
Mr Robert Moore	

1.3 The terms of reference of the Board were as follows:

To examine the existing system of payments to States Members and non-States Members of Departments and Committees and to consult on the existing arrangements in order to:

- 1 Determine whether or not the main principles under which payments are now made appear to be justified including whether the current system fairly and properly reflects the nature of the roles of all Members and those elected to positions of special responsibility taking into account the self-employed status of States Members for social security purposes;*
- 2. Determine whether there are any deficiencies and, if so, how these should be addressed,*

and to submit a report to the Policy Council with recommendations on the future arrangements for payments to States Members and non-States Members including how future payments should be determined in the intervening years prior to the next review.

1.4 The Board has received valuable assistance from both individuals and organisations and it would like to place on record its thanks to everybody who gave of their time and provided it with information or appeared before it to make oral representations.

2.0 METHOD

2.1 The Board first met in March. It was immediately apparent that the principles under which States Members are currently remunerated had not been definitively established. It was the view of the Board that those principles needed to be clarified and defined before it could address its remit.

2.2 The Board therefore decided, in the first instance, to gather information and seek opinion on the principles and on other matters which it considered relevant to its task. The Board’s approach was to consult as wide a spectrum of the community as possible by means of questionnaires and by inviting personal representations. In addition, the Board commissioned such research as it considered relevant.

2.3 Questionnaires were sent to States Members and Non-States Members seeking information on the principles, participation, time commitments, elements of the roles, contribution and responsibilities. A similar questionnaire was sent to selected organisations and made available, on-line, for completion by the public.

Responses were received from 32 States Members, 15 Non-States Members, 9 organisations and 23 members of the public.

- 2.4 The Board then reviewed the results of the consultation and research in order to: define the principles that it would apply to its task; and identify the key issues that arose from the information which had been gathered. This process involved a considerable body of information and revealed a wide variety of views, all of which were given due consideration by the Board in preparing its report.
- 2.5 The Board also found that other reports were relevant, notably those of the:
- **Harwood Panel** because it provided a detailed examination of many aspects of the machinery of government impacting on Deputies' roles;
 - **2003 Pay Review Board** because its recommendations led to the system of remuneration that was put in place to complement the machinery of government changes; and
 - **2007 Independent Review Board** because its recommendations led to the system of remuneration that is currently in place.
- 2.6 This report records the information which the Board considered relevant to its task and sets out the conclusions which the Board reached.
- 2.7 In addition, the Board received some articulate and well reasoned representations on matters closely related to the remuneration of States Members but which it considered to be outside of its immediate Terms of Reference. The Board felt that it would be useful if the more interesting of these were recorded in order that they might be available for consideration elsewhere at an appropriate time. They are set out in Appendix 1.

3.0 HISTORY

1949 to 2007

- 3.1 Please see Appendix 2.

2007 Report

- 3.2 The brief for the 2007 Review Board was similar to the current brief except that it did not include the following:

“taking into account the self-employed status of States Members for social security purposes.”

It did not include a review of pensions.

- 3.3 The 2007 Review Board emphasised that it was the position or office and the different duties which should be required of a member, which needed to be evaluated, not the person who was temporarily occupying it.

- 3.4 The 2007 Board considered that:

- the Basic Allowance covers more than just constituency work and attending States meetings;
- additional responsibility attracted further Allowances; and
- an Ordinary Member with no further responsibilities did not have a full time occupation and that the only positions which it considered even approached the threshold of a full time occupation were Ministerial.

3.5 The 2007 Board identified two particular deficiencies that it considered should be addressed:

- firstly it felt that the (then) Allowance for Ministers was too low and recommended an increase on the basis of its view that Ministerial responsibilities were considerable and more onerous than any other position in the States, save that of Chief Minister; and
- secondly that combinations of duties below Ministerial level could produce a higher overall payment for a Member than that received by a Minister,

and it believed that financial rewards should and could be more appropriately capped. Presently Ministers are capped at £40,000 per annum and Ordinary Members at £34,000 per annum.

3.6 By way of a reference point, the mean personal income for 2005 was £26,055, 73% of the population had an earned income of less than £30,000 p.a. and a further 12.4% earned £30-£40,000 p.a.

3.7 The 2003 Review Board had recommended an increase in line with the Retail Price Index of inflation, which resulted in three increases totalling just under 11% in the period 2004-2008. This was some 1% below inflation in the second two years as requested by the Policy Council. Having considered the report of the 2007 Board, the States approved the allowances set out in Appendix 3. In making its recommendations, the Board stated that it had taken full account of potential RPI increases from 2007 to 2011 (and it estimated that the annual cost of its proposals would be £1.5 million excluding pension contributions).

3.8 The 2007 Board noted that from 1 January 2008 all Members would be treated as self employed with regard to their States Remuneration, whereas previously those States Members with another source of income had been treated as employed. It considered that the question of whether States Members should be treated as self employed had to be a matter for the Social Security Department.

3.9 The 2007 Board felt that the structure of government was still evolving, but that it was not within its mandate, nor that it had the depth of knowledge to recommend pay structures which might have the effect of seriously impinging on the current structure of government.

3.10 Finally the 2007 Board received representations that States Members should receive the equivalent of redundancy payments if they failed to be re-elected and it considered that such payments would not be appropriate.

Current Structure

3.11 The current structure of the States is as follows:

Policy Council

Departments

Commerce and Employment
Culture and Leisure
Education
Environment
Health and Social Services
Home
Housing
Public Services
Social Security
Treasury and Resources

10 Ministers
10 Deputy Ministers
30 Ordinary Members
Up to 20 Non-States Members

Permanent Committees

Legislation Select
Public Accounts
Public Sector Remuneration
Scrutiny
States Assembly and Constitution

5 Chairmen
5 Vice-Chairmen
19 Ordinary Members
Up to 8 Non-States Members

Cost in 2010

3.12 The allowances paid to States Members in 2010 were as follows:

Basic Allowances	£1,010,000
Department/Committee Membership Allowances	£163,542
Special Responsibility Allowances	£305,350
Expenses Allowance	£92,000
IT Equipment Allowances	£5,800
Alderney States Members Expenses	£12,753
Non-States Members Attendance Allowance	£16,820
Sub total	£1,606,265
Pension Contributions (including past schemes)	£256,735
Maintaining IT equipment	£699
Total Cost of States Members Remuneration	£1,863,699

Pension

3.13

Note

The amount specified for pension contributions includes provision for liabilities arising from past pension schemes. The total potential liabilities for current Members in 2010 was £1,856,000.

the current States Members pension scheme are set out in Appendix 4.

3.14 The cost to the States is £5,500 for each Deputy who elects to join the Scheme. As at 31 December 2010, 36 sitting Deputies were in the Scheme at a total cost of £198,000 and a potential cost of £247,500 for all 45 Deputies.

4.0 PRINCIPLES

- 4.1 The Board began by reviewing the principles cited in the reports of previous Review Boards and determined that whilst a number of these principles recurred, they had not been definitively established.
- 4.2 The Board noted (as had the 2003 Review Board) that changing circumstances meant that different emphasis was placed on these principles at different times and, in addition, that there was a degree of inherent contradiction between some of the principles which had been used as a basis for previous reviews (an observation also made by the 2003 Review Board).
- 4.3 The 2007 Review Board considered that the “*underlying principles under which payments are made continue to be justified*” and they noted that “*simplification had been harder to achieve than we had hoped*”.
- 4.4 From its initial review, the Board took as its starting point the principles which had been cited by previous reports. These were included in the consultation process for consideration and comment:
 - A) Remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender.
 - B) Remuneration should not lead to participation for financial reasons alone.
 - C) Remuneration should reflect an element of service to the community.
 - D) Remuneration should reflect an individual’s commitment of time.
 - E) Remuneration should be transparent.
 - F) Remuneration should be administratively simple.
 - G) Remuneration should be fair.

Discussion and Conclusions regarding the principles

Principle A: Remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender.

- 4.5 The feedback from the consultation process was an almost 100% agreement with this principle. The Board believed that it was reasonable to assume that it represented the majority view within the community.
- 4.6 There were, however a number of representations which suggested that remuneration should be increased in order to encourage, for example, a better “quality” of candidate or candidates with business experience.
- 4.7 In view of the strength of support for the principle by all respondents, which also seemed consistent with Guernsey being a representative democracy, the Board

concluded that the principle could properly be adopted.

Principle B: Remuneration should not lead to participation for financial reasons alone.

- 4.8 Overall, this principle was supported by the majority of respondents to the questionnaires.
- 4.9 Certain respondents expressed with eloquence and some passion the view that the role of Deputy is fundamentally honorary (“it is an honour to serve the community”). Others noted, with equal conviction, that the community would not want unprofessional representatives serving it, especially given the complexity of issues with which today’s Deputies are confronted. These issues are explored further in section 5 below.
- 4.10 Respondents noted the risk that: unless remuneration was nothing more than a token amount, some individuals would stand for election for financial reasons alone; and, if the remuneration was substantial, that risk would be much greater. Further, even if remuneration was set at a level which was intended to enable a successful candidate to have a reasonable standard of living (in order to encourage widespread participation), the opportunity to live at that standard could still lead to some individuals seeking election for that reason alone.
- 4.11 The Board believed that there may always need to be a balance struck between principles A and B, namely that the benefits of widespread participation would have to be weighed against the risk of participation for financial reasons alone.
- 4.12 The electorate will always have a crucial role to play as it has the opportunity to identify individuals who seek election for reasons other than a desire to serve the community and to vote accordingly.
- 4.13 On balance the Board concluded that it was reasonable to adopt the principle.

Principle C: Remuneration should reflect an element of service to the community.

- 4.14 The majority of respondents to the questionnaires believed that Deputies’ remuneration should reflect an element of service to the community.
- 4.15 It is interesting to note that it emerged from the questionnaire which was sent to Deputies that, on average, they viewed their role as 38% vocational and 62% professional. It was evident from the context and from representations made that the sense applied to “vocational” included the notion that some element of a Deputy’s service is contributed on a “pro bono” or “well-below-market value” basis of remuneration. However, a number of respondents who considered that there was a vocational and professional balance within the role also noted that translating that balance into a workable formula for determining remuneration would not be simple.
- 4.16 The Board concluded that it was reasonable to adopt this principle.

Principle D: Remuneration should reflect an individual’s commitment of time.

- 4.17 This principle revealed the greatest difference of opinion among questionnaire respondents. The level of disagreement across the different groups of respondents (States Members, Non-States Members, organizations and members of the public) ranged from 21% up to 38%.
- 4.18 A connected series of issues emerged from the questionnaire responses and research including: whether the role of a Deputy was, or needed to be, a full-time commitment; the extent of the vocational element of the role (principle C: service to the community); and the degree to which a Deputy's role was sufficiently visible and therefore fully understood by the general public. A considerable majority of Deputies expressed the view that current remuneration does not fully reflect the time they commit to their role. These issues are explored in more detail in section 5.
- 4.19 Perhaps the most significant outcome of the consultation on principle D was the contention (advanced by many respondents) that the time spent on the role of Deputy does not automatically equate to effectiveness; although it is the effectiveness and impact of an individual which has the greatest potential to have important consequences for the community. There was also a view, quite widely held, that only the time commitment of a Deputy lent itself to objective measurement, and so time should be an important element of how remuneration was assessed.
- 4.20 The Board spent some while deliberating this principle and concluded that a return to a system of remuneration based on the monitoring of attendance at meetings, etc would be a retrograde step as it would complicate the system (which would be contrary to principle F: Remuneration should be administratively simple), increase the cost of its administration, and, perhaps most importantly, it would over-emphasize the time-spent component of remuneration relative to other elements, such as impact and effectiveness.
- 4.21 As a result of its deliberations, the Board believed this principle should be recast as follows:

Principle D: Remuneration should take into account an individual's commitment of time as an important, but not determinant, factor.

Principle E: **Remuneration should be transparent.**

- 4.22 There was almost 100% agreement with this principle in the questionnaire responses and no indication of any disagreement arose from personal representations.
- 4.23 The Board considered it self-evident that this principle was correct and should be applied to remuneration, subject to the caveat that the current practice (which the Board also considered to be correct) of not publishing the actual remuneration of each individual member should be maintained. The Board decided to adopt the principle.

Principle F: **Remuneration should be administratively simple**

- 4.24 A small number of respondents expressed the view that administrative simplicity should not take precedence over "fairness".

- 4.25 The Board considered that this principle, as stated, was appropriate and should be adopted.

Principle G: Remuneration should be fair.

- 4.26 According to the questionnaire responses, there was very strong support for this principle, however, there was a wide and sometimes conflicting variety of views on how “fair” should relate to remuneration. These included:

- a link to the time commitment of an individual,
- a link to any additional responsibility (the role of Chairmen, Ministers and Chief Minister),
- a comparison with the remuneration in other jurisdictions,
- benchmarking against employment in the public or private sector; and
- a link to the sacrifice of personal time and privacy of a Deputy.

- 4.27 The Board considered that, conceptually, most people would accept that a system of remuneration should be fair (or that it should not be unfair), however, it concluded that without a definition of “fair”, it would be difficult to apply this principle to such a system in a meaningful and consistent manner.

- 4.28 The Board considered that a universally acceptable definition was likely to be elusive and also that the other principles themselves provided a basis for fairness. It decided that this principle would not add anything helpful to an understanding of an appropriate system of remuneration and therefore not to include it.

Final Principles

- 4.29 Having considered all of the above matters, the Board concluded that the principles it would use to guide its review were:

- A) Remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender.
- B) Remuneration should not lead to participation for financial reasons alone.
- C) Remuneration should reflect an element of service to the community.
- D) Remuneration should take into account an individual’s commitment of time as an important, but not determinant factor.
- E) Remuneration should be transparent.

- F) Remuneration should be administratively simple.

5.0 INVOLVEMENT

Participation

- 5.1 As noted above, the information gathered by the Board suggested that there was strong support for the principle that remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender; also for the principle that remuneration should not lead to participation for financial reasons alone.

- 5.2 Analysis of the age and gender of candidates seeking election in 2008 indicated that the majority were over 50 and that only a minority were women. This pattern was reflected in the composition of the States.

- 5.3 The Board received a number of views on the subject of remuneration and participation which fell into two polarised groups, as follows:

remuneration should be reduced:

- in order that people did not stand for the money alone; and
- because the role was primarily vocational; and

remuneration should be increased:

- to encourage a better “quality” or “calibre” of candidate in terms of such characteristics as talent, wisdom, skill set and aptitude,
- to encourage candidates with business and management experience; and
- to prevent the States becoming the exclusive domain of the retired and independently wealthy.

- 5.4 The Board noted that the Harwood Panel had found no evidence to support a view that *“high salaries would be needed in order to attract persons of calibre.”* and that *“Persons of calibre have been willing to serve in the States even at lower levels of salary than presently available.”*

- 5.5 In 2007, the Review Board noted that there appeared to be no greater percentage of younger elected representatives elsewhere than there were in Guernsey.

- 5.6 In addition, a number of representations drew attention to the fact that young people, particularly those with families and mortgages were not attracted to stand for election. However, the Board noted that the fact that there is no guarantee of re-election after 4 years in office might be the primary consideration particularly if a person had to finance a mortgage, rather than the remuneration itself.

- 5.7 Having considered these representations, the Board concluded that any system of remuneration should encourage widespread participation and that the remuneration of senior roles should recognise the need for skills and experience.

Time Commitment and Remuneration

5.8 The Board received a number of representations that at least a proportion of Deputies' work was "unseen" with the consequence that this led to a public perception that the Deputies spent less time undertaking their role than was actually the case.

5.9 The Board also received views that as only the time commitment of a Deputy lent itself to objective measurement, it should be an important element of how remuneration was assessed.

5.10 In this context, the Board noted that the Harwood Panel stated:

"The Panel also heard evidence from those who opposed the present system of payment by attendance allowance. Evidence given to the Panel suggested that this basis of remuneration encouraged unnecessary meetings and the prolonging of meetings."

5.11 Whilst the time spent at official meetings was recorded, the Board felt that it would not be easy to record the time spent on other aspects of the role of a Deputy, such as constituency work, research and preparation for meetings. Such a time recording system would have to rely heavily on the accuracy of an individual's time keeping. Without a mechanism to audit records independently, those individuals would always be exposed to the risk of being criticised for making unverifiable claims. The Board believed that such a system would not be simple to administer, would not be transparent and would be inherently problematic.

5.12 The Board did not believe that there was any merit in returning to a system of remuneration based on a record of time spent and that to do so would be contrary to the principle that time is an important factor in respect of remuneration, but not the determinant factor.

5.13 The Board specifically asked Deputies if they thought that the current remuneration adequately reflected their time commitment. Perhaps unsurprisingly, the answer of the majority was "no". There were a number of reasons stated in support of that view which included:

- dealing with a particular constituency issue could take a lot of time, even though it might affect only an individual or small group;
- the complexity of the work of government was increasing which meant that more time had to be spent on issues and carrying out personal research;
- more time had to be spent on keeping abreast of policy developments which meant attending an increasing number of briefings and presentations; and

- more time had to be spent on Departmental work such as maintaining contact with interested parties, undertaking consultation as well as holding briefings and presentations.
- 5.14 The Board concluded, as did the 2007 Review Board, that if the time commitment required of a States Member did not actually equate to a full-time occupation then an individual should not be rewarded as if it did.
- 5.15 The Board noted the views of the 2003 Review Board that:
- “Remuneration has hitherto been considered largely as compensation for time lost in outside employment. In this respect, any uniform level of pay is inevitably unsatisfactory as it must always under compensate some and overcompensate others, according to their circumstances. Furthermore, the workload of States Members has undoubtedly increased in recent years to the point where, although perhaps only a full time job in a few cases, membership is nevertheless the principal occupation of many. Their pay should therefore rather be seen as an allowance rewarding the contribution and commitment required of them.*
- Remuneration should be firmly linked to the varying levels of such contribution and commitment. As regards a higher workload, those holding seats on Departments or Committees should receive additional pay. As regards responsibility, the more senior positions should warrant further allowances, each reflecting the respective level of responsibility.”*
- 5.16 The Board concurred with the view that there should be a link between time commitment and remuneration. For reference purposes the Board noted that a full-time member of the civil service was normally contracted to work a 36 hour week.
- 5.17 There was no detailed information on the time spent by States Members and Non-States Members in their roles other than the official attendance record and the Board considered that this information only provided a limited perspective on the time spent undertaking those roles. It therefore sought further information on time commitment in the questionnaire which was sent to States Members and Non-States Members.
- 5.18 The Board’s analysis of time commitment was usefully informed by the responses to the questionnaire and by additional information obtained from a range of relevant representations. That information enabled it to gain a general appreciation of the time spent by Elected Members, Chairmen, Minsters and Non-States Members on various aspects of their different roles.
- 5.19 The Board gave some thought to the possibility of establishing a quantitative method of determining States Members’ time commitment using the information available to it. It concluded however, that the sample of data was not adequate for it to derive a formula that it could confidently regard as accurate enough to apply in a general context to the remuneration of States Members for the purposes of its report.
- 5.20 Having reached that conclusion and taking account of its views in paragraph 5.11 on the practicalities of setting up an acceptable time recording system, the Board further concluded that a determination of the time-related element of

remuneration could only be made on a judgemental basis and that was likely to remain the case in the future.

Department and Committee Members

5.21 The 2003 Review Board considered that:

“although membership of the States and its Committees is becoming the main occupation of many, the Board considers that only in the case of certain positions, such as Chief Minister, might the input required of the incumbent preclude outside employment, albeit part time.”

5.22 The 2007 Review Board recorded that:

“nor do we consider that ordinary membership, combined perhaps with membership of one or two Departments or Committees, can properly be assessed as being a full-time occupation, despite the number of sub-Committee meetings which such a person might be required to attend.”

5.23 On the basis of the information available to it, the Board assessed the general time commitment of an ordinary elected member of a Department or Committee, to be part-time to the extent that it might reasonably be assessed as equivalent to a substantial, but not a full-time role. The Board concluded that such a time commitment should be taken into account when calculating remuneration of the members of Departments and Committees.

Ministers

5.24 The 2003 Review Board considered that the more senior positions should warrant further allowances and that additional workload and responsibility should be remunerated by a range of other allowances, including a special responsibility allowance for Ministers and Deputy Ministers.

5.25 The 2007 Review Board considered that the only positions approaching the threshold of full-time were ministerial but that, even in the case of the Departments with the heaviest workloads, it could not conclude that they were, or should be, regarded as full-time.

5.26 On the basis of the information available to it, the Board assessed the general time commitment of a Minister to be part-time to the extent that it might reasonably be assessed as equivalent to a very substantial, but not a full-time role. The Board concluded that such a time commitment should be taken into account when calculating the remuneration of Ministers.

Chairmen

5.27 As was the case with Ministers, the 2003 Review Board recommended a special responsibility allowance for the Chairmen of Committees. However it took the view that:

“with the exception of the Scrutiny Committee, the workload and responsibility associated with Standing Committees will be less than for Departments. It is perceived that Committees will generally not have the same workload as Departments in administering and managing the day to day business of the States, and will accordingly meet less frequently in either Committee or sub-Committee”,

and its recommendations reflected that view.

- 5.28 On the basis of the information available to it, the Board assessed the general time commitment of a Chairman of a Committee, to be part-time to the extent that it might reasonably be assessed as equivalent to a substantial, but not a full-time role. The Board concluded that such a time commitment should be taken into account when calculating the remuneration of Chairmen.

Chief Minister

- 5.29 The Board received a number of representations that the role of Chief Minister required a full-time commitment and no views to the contrary. Whilst the time commitment was, to some extent, determined by how any particular incumbent chose to fulfil the role, the Board considered that changing circumstances had also had an impact and that the role now required a significant commitment of time including representing the government of the Island abroad.
- 5.30 On the basis of the information available to it, the Board assessed the time commitment of the Chief Minister to be full-time and decided that this time commitment should be taken into account when calculating remuneration.

Deputy Ministers and Vice Chairmen

- 5.31 The information provided to the Board did not enable it to identify clearly the workload of a Deputy Minister or Vice-Chairman. It recognised that that workload might vary between Departments or between Committees, but on the basis of such information as it had, the Board assessed the general time commitment of a Deputy Minister or Vice-Chairman to be part-time to the extent that it might reasonably be assessed as equivalent to a substantial, but not a full-time role. The Board concluded that such a time commitment should be taken into account when calculating remuneration of Deputy Ministers and Vice-Chairmen.

Deputy Chief Minister

- 5.32 As the Deputy Chief Minister was also a Minister, the Board assessed the general time commitment of the Deputy Chief Minister to be only slightly greater than that of a Minister and therefore a very substantial, but not full-time role.

Elected Members positions on Departments or Committees

- 5.33 The Board also considered the time commitment of a States Member who did not hold a position on a Department or Committee and on the basis of the

information available to it, assessed that that time commitment would be considerably less than that of an individual who held such a position.

- 5.34 The Board's view was that the current basic allowance was generous. It noted that if that allowance was calculated according to its assessment of the time commitment of a States Member with neither a Departmental nor a Committee position, the outcome would be a substantial reduction in the allowance. It also recognised that such a reduction would be a significant disincentive to seek election and hence would be contrary to the principle that any system of remuneration should encourage widespread participation.
- 5.35 On the basis of the information available to it, the Board noted that, typically, non-Ministerial States Members held a minimum of two positions on a Department or Committee and that, other than in exceptional circumstances, usually for a limited time, that situation would prevail.
- 5.36 The Board concluded that it was reasonable to assume that membership of at least two Departments or Committees represented the normal circumstance of a States Member and, accordingly, that the remuneration of such an individual should be regarded as covering all departmental and committee memberships.

Vocational Element and Remuneration

- 5.37 The Board asked States Members and Non-States Members to express a view on what proportion of their roles they considered to be vocational and what proportion was professional. The results were:

- States Members: 38% vocational and 62% professional
- Non-States Members: 67% vocational and 33% professional.

- 5.38 Both the 2003 and 2007 Review Boards considered the issue as follows:

2003 *"that service to the community remains an inherent aspect of the job, and endorses the view of the Independent Review Panel in 1995 that it is "an essential and valuable contribution to the good government of the Island". The Board has taken this into account in recommending overall levels of remuneration, but has considered it inappropriate to designate any particular element of a States Member's duties as honorary."*

and

2007 *"Politics requires particular abilities, ambitions, or aptitudes, - and we strongly believe that "vocation" is an important attribute."*

- 5.39 One interesting contribution was that the mixture of vocational and professional backgrounds of States Members in the current Assembly was valuable and as such might be considered as an asset. The relationship between vocational and professional was not straightforward, but both elements make a valid contribution to the work of the States.

- 5.40 As the result of the information made available to it, the Board believed that it was generally accepted by both elected States Members and the electorate that a “desire to serve the community” was an inherent requirement of any candidate for election. It therefore considered it reasonable to regard an element of the role of a States Member to be vocational.
- 5.41 The Board spent some time considering whether the vocational element could be defined as a contribution of time. It reviewed a range of references, including the number of hours that a community minded individual might give voluntarily to activities, such as charity work, parochial service or religious involvement. However, in the absence of accurate data on the time which States Members committed to their overall role, it ultimately felt that it would not be reasonable to evaluate the vocational contribution in this way alone.
- 5.42 While it might not be possible to assess accurately the time element of a Deputy’s vocational work, the Board accepted that a Deputy might be giving up a lifestyle which might include a reliable income stream, a pension, regular hours and possible other benefits. It noted that a Deputy was expected to be “on call” at any time to deal with any of a wide-range of constituents’ issues.
- 5.43 The Board concluded that the acceptance of these aspects of a Deputy’s role might reasonably be taken to represent part of the vocational contribution.

6.0 ROLES AND RESPONSIBILITIES

States Members

- 6.1 Before considering the manner in which States Members should be remunerated, the Board felt that it was necessary to understand the nature and extent of the various responsibilities of those Members. Without such an understanding, it would be difficult to determine objectively whether remuneration was appropriate.
- 6.2 With this in mind the Board used its questionnaires to gather some basic information, commissioned research using available sources of relevant information and questioned individuals who appeared before it.
- 6.3 The States Members’ Oath taken before entering office is set out in the Members’ Code of Conduct. It calls on members to perform the duties attaching to membership of the States of Deliberation well and faithfully. The Code indicates that a member’s primary duty is to act in the public interest, whilst also having a special duty to be accessible to the people of the electoral district for which they have been elected and to represent their interests conscientiously.
- 6.4 The 2007 Review Board provided some insight into what the basic responsibilities of a States Member might be and that would involve:
- “.. carrying out the duties of constituency work, legislation and ultimate governmental decision making.”*
- 6.5 The Board found no description of the role or responsibilities of a Deputy.

- 6.6 It was interesting that a number of the representations received by the Board indicated that it was the responsibility of an individual to decide how to carry out the role of a Deputy, once in office. There were also other representations, some quite strongly made, that there should be a formal assessment of the role that would lead to the writing of a Role Description.
- 6.7 A standard Role Description would set out the duties, responsibilities and accountability of a deputy as well as setting out the competencies required for the position. Without such a definition it would be difficult to undertake a quantitative evaluation of the remuneration for the role and ongoing performance assessment.

The Role and Additional Responsibilities of a Member of a Department or Committee

- 6.8 The 2003 Review Board recommended that additional workload and responsibility (arising from Departmental and Committee membership) be remunerated by a membership allowance.
- 6.9 The 2007 Review Board considered that, in practice, the States delegated “government” (in the administrative or executive sense) to Departments and some scrutinising functions to Committees and that it was these two areas of responsibility which attracted further Allowances.
- 6.10 The Board also reviewed the Mandates of Departments and noted that they included statements such as
- *“to advise the States of Deliberation ... ”* (on various matters which are their responsibility),
 - *“to be responsible for ... ”* (various activities),
 - *“to contribute to the achievement of strategic and corporate objectives, both Departmentally and as part of the wider States organisation by:*
 - (i) *developing and implementing policies and legislation, as approved by the States, for the provision of services in accordance with this mandate; and*
 - (ii) *actively supporting and participating in cross-Departmental working as part of the Government Business Plan process and ensuring that public resources are used to best advantage, through co-operative and flexible working practices”,*
 - *“to exercise the powers and duties conferred by extant legislation and States Resolutions”; and*
 - *“to be accountable for the management and safeguarding of public funds and other resources entrusted to the Department or Committee.”*
- 6.11 The Mandates of Committees appeared to be tailored to more specific functions of those bodies.

- 6.12 The Mandates, in general, appeared to express a mixture of functions and responsibilities and, in the latter case, there were some responsibilities that were specific to a particular body and others that were more universal in nature.
- 6.13 The Board felt that it was reasonable to conclude that contributing effectively to the fulfilment of a Mandate was the general responsibility of the Deputy who was a member of the relevant Department or Committee.
- 6.14 The Board considered that the responsibilities of a Member of a Department or Committee were nonetheless not clearly defined and therefore could not be objectively related to the responsibilities of the Deputy Minister and Minister or Vice-Chairman and Chairman, as the case may be, and to remuneration.

The Role and Responsibilities of a Minister

- 6.15 The 2003 Review Board considered that the more senior positions did warrant further allowances, each reflecting the respective level of responsibility and recommended that the Attendance Allowance for all States Members and Presidential Allowances be abolished and that additional workload and responsibility be remunerated by a range of other allowances, including a special responsibility allowance for Ministers (and Deputy Ministers).
- 6.16 The 2003 Review Board clearly considered that the role of Minister justified a Special Responsibility Allowance. The 2007 Review Board concurred with that principle, but felt that:

“the responsibilities of Ministers are considerable, more onerous than any other position in the States, save that of Chief Minister, involving those duties arising from their membership of the Policy Council and the stress which may accompany heading a Department, which in most cases has an extensive mandate and in some a large budget”,

and concluded that the then prevailing Allowance was too low. It increased the Allowance based on a pay ratio between membership and leadership of a Department (or Committee) of one to four, a ratio that it considered to be correct.

- 6.17 The Board considered it self-evident that a Minister took on the same responsibilities as the other members of their Department as well as the responsibility for contributing effectively to the fulfilment of the Mandate of the Policy Council.
- 6.18 It also considered that it was generally accepted that a Minister had responsibilities above and beyond those of an Ordinary Member and that at least some of these would be of a leadership/representational nature. A Minister also had to preside at Departmental meetings and was, a member of the Policy Council.

- 6.19 The Board considered that the responsibilities of a Minister were not sufficiently defined to be objectively related to the responsibilities of the relevant Department, the Deputy Minister, the other members of that Department; the other members of the Policy Council, and so to remuneration.

The Role and Responsibilities of a Deputy Minister

- 6.20 The 2007 Review Panel noted that the pay ratio between the deputy and leader of a Department (or Committee) was (at that time) one to two. Whilst it acknowledged that the amount of work required of a deputy might depend on the Mandate of a Department and on the leader, it considered the (then) current pay ratio was too narrow. It accordingly set the rates for those deputy positions at 37.5% of the Minister's allowance.
- 6.21 The Board considered that most people would accept that the responsibilities of a Deputy Minister fell somewhere between those of an ordinary member and a Minister, however the responsibilities were not clearly defined and therefore could not be objectively related to the responsibilities of the Minister and the other members of that Department and to remuneration.

The Role and Responsibilities of a Chairman

- 6.22 With regard to responsibility, the 2003 Review Board considered:

“that the Scrutiny Committee will and should have a different status compared with other Committees and that its Chairman and members should be on an equal footing with the Departments they are scrutinising.”

- 6.23 As discussed above, the 2007 Review Board did not consider that any equivalence between Committees and Departments was justified (on the basis both of workload and responsibilities) and recommended changes to the special responsibility allowances in respect of Chairmen and Vice-Chairmen.
- 6.24 This established a differential between the Scrutiny Committee and the other Committees which suggested that that Board considered the other Committees, and hence the relevant Chairmen (and Vice-Chairmen), to have lesser responsibilities than a Department (or the Scrutiny Committee).
- 6.25 The 2007 Board introduced a differential between all Committees and Departments and a differential between the Scrutiny Committee, Public Accounts Committee and the Public Sector Remuneration Committee on the one hand and the Legislation Select Committee and (then) House Committee on the other. Again the Board considered that this implied different levels of responsibility for the relevant Chairmen and Vice-Chairmen.
- 6.26 As was the case for Ministers, the Board considered it self-evident that a Chairman took on the same responsibilities as the other members of his or her Committee and that it was generally accepted that a Chairman had responsibilities above and beyond those of an ordinary member. Equally, it was not possible to evaluate objectively the additional responsibilities of a Chairman and to relate those responsibilities to those of the relevant Committee, its other members and to remuneration again due to the lack of a role description.

The Role and Responsibilities of a Vice-Chairman

- 6.27 The Board considered that its deliberations in relation to Deputy Ministers in paragraph 6.20 were relevant to the Vice-Chairmen of Committees.

The Role and Responsibilities of the Chief Minister

- 6.28 The Board noted that in a Report in March 2003 from the Advisory and Finance Committee on The Future Machinery of Government in Guernsey, an outline of the responsibilities of the Chief Minister was stated as follows:

“The Chief Minister would be elected by the States from amongst the States Members. His/Her role would be:

- *to chair the Policy Council;*
- *to be responsible for leading the preparation and presentation of corporate policy matters to the States;*
- *to identify and lead strategic development on policy areas which cut across Departmental mandates, through the creation of sub-groups of the Policy Council;*
- *to oversee and co-ordinate the Policy and Resource Planning process, in consultation with the Policy Council. (All such reports would be endorsed by the Policy Council before being taken to the States by the Chief Minister for approval); and*
- *to negotiate and speak politically for the Island, with the authority of the Policy Council, as mandated by the States.”*

- 6.29 The 2007 Review Board considered that the responsibilities of Ministers were considerable, more onerous than any other position in the States, except that of Chief Minister. It also considered that:

“Whilst the Chief Minister has no Department to run, he should, in addition to providing political leadership and chairing the Policy Council, keep abreast of all that is happening politically and administratively, as well as attending to the ambassadorial and civic demands of the post.”

- 6.30 The Board received a number of representations that the role of Chief Minister required a full-time commitment and no views to the contrary. Whilst the time commitment was, to some extent, determined by the way in which any particular incumbent chose to fulfil the role, the Board considered that changing circumstances had also had an impact. It concluded that the role now required a significant commitment of time in representing the government of the Island abroad.

- 6.31 The Board also received quite a number of representations on the responsibilities of the Chief Minister, which covered a wide range of views such as:

- despite the title, the Chief Minister has less responsibility than some other Ministers,
 - the role of Chief Minister might be regarded as honorary,
 - the “job description” of the Chief Minister should include the function of foreign minister and recognise that the post holder is the figurehead of an organisation that employs a significant number of people and has considerable worth; and
 - the role of Chief Minister has evolved and the post now has an essential international dimension.
- 6.32 Some of the representations made to it indicated that the Chief Minister’s role had evolved and grown in reaction to needs. In particular, the role has been augmented so that it now included more international responsibilities with one consequence being substantial time taken up with travel. The Board noted that a more pro-active approach had been adopted on international representation in recent times.
- 6.33 The Board considered that at least some of the responsibilities of the Chief Minister were not unlike those of a Minister insofar as they related to the Mandate and responsibilities of the Policy Council.
- 6.34 The Board recognised that the role of Chief Minister had evolved such that representing the government of the Island abroad had become an intrinsic and essential element of that role.
- 6.35 The Board felt that the responsibilities of the Chief Minister were not clearly defined and therefore could not be objectively related to remuneration.

The Role and Responsibilities of the Deputy Chief Minister

- 6.36 The 2003 report from the Advisory and Finance Committee also provided an outline of responsibilities of the Deputy Chief Minister, as follows:
- “The Deputy Chief Minister would be elected by the States from amongst the Ministers in the Policy Council and s/he would retain his/her Department responsibilities. The Deputy Chief Minister’s role would be to:*
- *act as Deputy Chief Minister of the Policy Council; and*
 - *deputise in the absence of the Chief Minister.”*
- 6.37 The 2003 Review Board proposed a special responsibility allowance for the Deputy Chief Minister and the 2007 Review Board noted that the post holder already held a ministerial position, by definition. It proposed, in order to provide a fair differential with the Chief Minister’s overall entitlement, to reduce the Deputy Chief Ministerial Allowance to £2,000.

- 6.38 The Board considered that the responsibilities of the role of Deputy Chief Minister were not clear and therefore that they could not be objectively related to remuneration.

Conclusions on Roles and Responsibilities

- 6.39 The Board concluded that, in the absence of a clear definition of the various roles and responsibilities of States Members, it could not apply standard techniques to determine, with complete objectivity, whether the allowances for the responsibilities that went with the various roles were relevant and appropriate and therefore only a qualitative judgement was possible.
- 6.40 The Board considered that the absence of a clear definition of the various roles and responsibilities of States Members was a deficiency of the current system that should be addressed.

Alderney Representatives

- 6.41 The 2003 Review Board believed that there were insufficient grounds to justify discrimination between the Alderney representatives and other Members of the States in respect of pay. However, when the recommendations of that Board were debated by the States, the Alderney Representatives did not wish to be included and instead tabled a successful amendment to preclude them from receiving the Basic Allowance.

- 6.42 The 2007 Review Board view was:

“We note that the role of the Alderney Representatives and therefore their Allowance cannot include the constituency work and the extra involvement expected of Guernsey Deputies. We therefore set their Basic Allowance at £10,000 in place of any entitlement to an Attendance Allowance.”

and

“For similar reasons, we do not consider that Alderney Representatives should receive the same Expense Allowance as Guernsey Deputies, and their travelling and subsistence expenses are paid separately.”

- 6.43 The Board noted that the basic allowance of an Alderney Representative set by the 2007 Review Board was almost half that of a Guernsey States Member.
- 6.44 The Board made a determination of the remuneration of Alderney Representatives based on the information available to it.
- 6.45 The Board also considered, however, that it could not assume that an Alderney Representative would be a member of a Department or Committee. It would therefore need to determine the remuneration of such a Representative who only attended meetings of the States of Deliberation and another to reflect the additional responsibility of an individual who had a place on a Department or Committee.

- 6.46 The Board considers that if an Alderney Representative is unable to attend a meeting in Guernsey and that another person attends in his or her stead, that other person should be remunerated according to the rate for the remuneration of Non-States Members.

Non-States Members

- 6.47 The 2003 Review Board considered that:

“ the current rules for payments to non-States Members are interpreted to the effect that all non-States Members sitting on States Committees or their sub-Committees are eligible to claim an attendance allowance. The Board sees no reason to recommend a reduction in the scope of the arrangements for the pay of non-States Members under the new machinery of government.”

- 6.48 That Board also gave some thought to an annual honorarium, but concluded that it was not appropriate and consequently it recommended that Non-States Members (continue to) be remunerated by means of an attendance allowance.
- 6.49 The 2007 Review Board considered the (then) current basis for remuneration (attendance allowance) to be reasonable.
- 6.50 The representations received by the Board indicated that a significant majority of Non-States Members considered the current allowance to be adequate and a majority considered the role to be vocational.
- 6.51 Whilst the role of Non-States Members could be regarded as primarily vocational, the Board considered that such Members should continue to receive some remuneration in recognition of the time they committed to that role.
- 6.52 Given that there was no impetus to change the current system by which such remuneration was determined, the Board considered that the existing arrangements should remain in place.

Membership of Special Committees

- 6.53 The 2007 Review Board considered that:

“Currently the remuneration for all posts on Special Committees equates with the Legislation Select, House and Public Sector Remuneration Committees (though they could by States Resolution on formation equate with Departments). We do not think either equality is correct (which will require amendment to the Rates for Payments to States Members). If Members are elected by their peers to these positions, it should reflect that they have a knowledge of or interest in, the particular subject matter. Sitting on such Committees should therefore be part of that Member’s overall vocational commitment. Accordingly, we set the rate of remuneration for the Chairman of such Committees at £2,000 per annum and for all other Members (including Vice-Chairmen) at £1,000. Neither figure

corresponds to any Allowance for Departments or Standing (permanent) Committees.”

- 6.54 The Board concurred with the view of the 2007 Review Board that the election of an individual to a Special Committee should take account of the relevance of the knowledge of that individual to the work of such a committee.
- 6.55 It considered, however, that the work undertaken on such Committees should be regarded as no different to work carried out by a member of a Department or a permanent Committee and therefore that it should be considered as part of the overall commitment of any individual to the role of States Member.
- 6.56 It therefore believed that there should be no additional remuneration for work on a Special Committee.

Membership of Non-Government Bodies

- 6.57 In its review of the new system of government in 2006, the Policy Council addressed the question of whether States Members sitting on the Priaulx Library Council, the Board of the Guille-Allés Library, Ladies College Board of Governors, Elizabeth College Board of Directors and Outdoor Assistance Boards, be eligible to receive an attendance allowance.

- 6.58 It concluded that:

“The new pay arrangements recommended by an Independent Panel deliberately moved States Members pay away from the Attendance Allowance. The rules therefore currently preclude States Members on these “Non-Governmental Bodies” from claiming the Attendance Allowance. The current pay arrangements are designed to compensate States Members for all aspects of their work including sitting on “Non-Governmental Bodies” and no change in the rules is required.”

- 6.59 The 2007 Review Board view was:

“we would emphasise our firm view that the Basic Allowance does not entitle Deputies merely to do some constituency work and attend States meetings. More is expected of them, (e.g. sitting on the Priaulx Library Council) even though no particular proportion of the Basic Allowance is attributable to such additional duties or functions.”

- 6.60 The Board concurred with the views of the previous Review Boards and considered that should be no additional remuneration for work on a Non-Government Body.

7.0 OTHER ISSUES

Benchmarks

- 7.1 Taking its own research together with the representations, the Board reviewed various options for benchmarking remuneration, these were as follows.

Other small jurisdictions – the Board considered that any changes in the remuneration in another jurisdiction would be based on circumstances in that jurisdiction and that it would not be appropriate to link Guernsey remuneration to changes that might have no relevance in the local context.

English Councils – at least one of the representations made to the Board was that this would be inappropriate as Councils do not have the fiscal or legislative independence of the States of Guernsey. The Board shared this view.

Civil Service – linked to either a particular grade or to a basket of jobs across some or all of the public pay groups (see comment in paragraph 7.2).

Private sector pay (average or average for a particular sector) – a link, in particular to the business community. Various options were proposed (see comments in paragraph 7.2).

Mean income – there were some concerns that high salaries enjoyed by a small proportion of the community would inflate that average. The Board shared this view.

RPI or RPIX - adjustment to take account of changes since the last review of remuneration to offset non-adjustment in the 2007-2011 period or adjusted each year from this Review forwards. There was some enthusiasm amongst certain respondents for the latter option and an end for such Reviews (see the conclusion in paragraph 7.3).

- 7.2 It terms of role and responsibilities, the Board felt that the role of a States Member did not lend itself to benchmarking against other specific occupational groups.
- 7.3 The Board decided that Guernsey median earnings was the most relevant benchmark. This figure encapsulates the movement of private and public sectors remuneration within the Guernsey economy. It noted that the median earnings in Guernsey was £27,430 in 2010. The Board also noted that the median includes both full-time and part-time remuneration and considered this appropriate given its conclusion that virtually all Deputies roles were less than full-time and also partly reflecting the vocational element of the role (see paragraphs 5.37 to 5.43).

Pension

- 7.4 The 2003 review Board recommended that the Advisory and Finance Committee, with the advice of appropriately qualified consultants, prepare rules for a new States Members' pension scheme for approval by the States and, in preparing the rules for a new scheme, that the Committee take note of the following principles and features:
- The scheme should be a defined benefits scheme rather than a defined contributions scheme.
 - The scheme should not be based on a States Member's final remuneration.

- The normal revaluation factor would be the Guernsey Index of Retail Prices, with an appropriate cap at the higher end and a cap of nil at the lower end.
- The accrual rate for the scheme should be a sixtieth.
- Consideration be given to the inclusion of a death in service benefit.
- Taking pension before reaching the pensionable age should be permitted, subject to appropriate conditions and on a basis involving no extra cost to the scheme.
- The current member's contribution rate of 6% should be retained, as a minimum.
- The ability for Members to opt out of the scheme should be retained.
- In other respects the rules of the new scheme should follow those of the (then) existing scheme as closely as practically possible.

The States approved the current pension scheme in October 2006.

- 7.5 The 2007 Review Board considered that its mandate did not include a review of pensions for Members and former Members.
- 7.6 The Board took the contrary view as it considered that a pension was part of any package of remuneration.
- 7.7 The States Members pension scheme was the subject of a period of publicity in the media while the Board was gathering information and carrying out research for its report. That publicity drew a certain amount of public reaction which was generally against the scheme (at least in its current form).
- 7.8 The Board received a number of representations on this issue that fell broadly into the following groups:
- the current scheme should be retained, but with modifications; and
 - the scheme should be ended (as States Members were self-employed and therefore should make their own pension arrangements and remuneration should be increased to allow them to do so).
- 7.9 The Board concurred with the second view and concluded that:
- the States Members' pension scheme should be closed to new entrants and payments with effect from the date of the end of this States term; but with the option of transferring, if possible, to another, private, scheme; and
 - States Members' remuneration should be adjusted upwards in recognition that they would have to make their own pension arrangements.

- 7.10 The Board considered that the uplift in remuneration should be 15%, subject to a maximum payment of £5,500 per person, on the basis that this percentage could reasonably be regarded as reflecting the commercial reality of what an employer would contribute to a defined contributions scheme.
- 7.11 The Board also considered that the remuneration uplift to allow for private pension arrangements should not be applied to the remuneration of Alderney Representatives and Non-States Members.

Social Security

- 7.12 The 2007 review Board noted that:

“At the time of writing, we note that for the purposes of social security contributions States Members with no other employment are treated as self-employed persons; but as employees if they have another source of employed income. However, we understand that, after 1st January, 2008, all Members will pay contributions on their States remuneration at the self-employed rate, and on other sources of employed income separately.”

- 7.13 As the remit of the Board stated that it had to take into account “*the self-employed status of States Members for social security purposes*”, it sought advice from the Social Security Department on this issue and it understands that:

- the Department has to classify individuals according to three categories;
 - i) employed
 - ii) self-employed; or
 - iii) non-employed.
- an employed person is a person who works under a contract of service and typically works under the control and direction of another person.
- a self-employed person is a person who works but not under a contract of service and is not under the control or direction of another person (factors such as whether there are set hours of work and an hourly rate of pay are considerations when determining the classification of a person as self-employed).
- a non-employed person is a person who is neither employed nor self-employed or is over 65 years of age.
- the SSD Board has determined that States Members are self-employed. Although they are in employment (they receive regular remuneration and a pension), they do not work under a contract of service and they are not under the control or direction of another person.
- any decision regarding the status of an individual rests with the elected members of the SSD. They have discretion to adjust the classification of an individual, but would have to be satisfied that there was good reason to exercise that discretion.

A more detailed summary is set out in Appendix 5.

- 7.14 The Board asked States Members and Non-States Members how they regarded their employment status. In the former case, most considered that they were employed (either by the States of Guernsey or the electorate) and in the latter case almost all felt that they were self-employed. However beyond answering the question on employment status in the questionnaire, the Board received very few representations on this issue
- 7.15 The Board acknowledged the position of the Social Security Department in this matter, however it:
- noted that it had proposed that median earnings should be the benchmark against which to calculate the time element of remuneration and that the calculation of that median would be based on information on employed persons; and
 - considered that the nature of the employment of a States Member was the equivalent of a four-year contract with no guarantee of renewal and therefore that this arrangement could not be regarded as the same as owning one's own business.
- 7.16 The Board noted that States Members were regarded as self-employed by the Social Security Department, but that the Island's median earnings figure was calculated on the basis of employed persons. Accordingly, it decided that the remuneration of States Members and Alderney Representatives, under the age of 65 should be increased by the difference between the contribution rates of employed and self-employed persons, currently 4.5%.

Differentials between Departments

- 7.17 The 2003 Review Board did not attempt to differentiate between the expected workloads and levels of responsibility relating to each Department as there was little information and no experience at that time on which to base such a differentiation. It did not preclude such a possibility once patterns of workload and responsibility had become clear.
- 7.18 The 2007 Review Board addressed this issue as follows:
- “Should we recommend, with regard to the workload of different Departments, anything similar to the former “grading” system (of Committees) prior to 2004, relating to the pay of Ministers, Deputy Ministers and Departmental members? We conclude that it is not within our mandate, nor have we the depth of knowledge, to recommend pay structures which might have the effect of seriously impinging on the current structure of government, whether by design or default. Such basic alterations must be left to others, such as the House Committee and, of course, the States as a whole.”*
- 7.19 The Board sought opinion on whether there were differences in the responsibilities of Departments and, if so whether, remuneration should reflect those differences.

7.20 A significant proportion of respondents felt that there were differences (and a number of specific views were expressed regarding those differences). However opinion on whether or not remuneration should reflect the differences was much more closely divided. The arguments for and against differentiation were broadly as follows:

- for:
- there are different levels of responsibility between Departments
 - the “impact” of Departments is different
 - the workload (and hence demand on time) is different
 - the Mandates of Departments were different
- against:-
- remuneration should reflect the role of States Member, not a member of a Department
 - non-differentiation was the simplest system
 - the governance responsibilities of Departments was equal
 - differentiation might lead to States Members seeking particular offices for financial reasons

7.21 The Board considered that for a system of differentiation to be effective, it would be necessary to objectively “weight” the responsibilities of each Department in order to produce a score that would then form the basis for calculating remuneration. Otherwise differentiation would be based on subjective judgements and be open to criticism and challenge.

7.22 The Board felt that any justification for introducing differentiation between Departments and Committees for the purposes of remuneration would have to be based on objective criteria that identified the “added value” of any particular body.

7.23 It considered that simple criteria such as time spent and size of budget would be unsatisfactory as much time could be taken up by “routine” work and large amounts of budgets could be devoted to the ongoing provision of services.

7.24 The Board concluded that whilst it would probably be accepted that there were differences in the responsibilities of Departments, determining an objective weighting system would be difficult and furthermore, if such a system was implemented:

- there was a risk that there would be competition for places on States bodies that attracted higher remuneration; and
- the administration of payments to States Members would be made more complex.

7.25 The Board therefore decided not to recommend a system of remuneration that included the adjustment of payments to States Members to take account of an assessment of the relative workload and responsibilities of Departments. It also believed that this would allow States Members to pursue places on Departments or Committees on the basis of their individual knowledge, experience or interest without the distraction of remuneration.

Differentials between Committees

- 7.26 The Board noted that as a result of the report of the 2003 Review Board it was established that both the Scrutiny and Public Accounts Committees would be equated to a Department for remuneration purposes and that there would be a differential between those Committees and the Legislation Select Committee, Public Sector Remuneration Committee and the (then) House Committee.
- 7.27 The Board also noted that the 2007 Review Board equated the Public Sector Remuneration Committee with the Scrutiny and Public Accounts Committees (on the basis of workload and responsibilities). However it did not consider the equivalence of those Committees with Departments to be justified as it believed that the Committees did not have the Departmental and Policy Council duties which were required of a Minister. It therefore established a differential between the three Committees and Departments of 80% and perpetuated the differential between those Committees and the Legislation Select Committee and (then) House Committee.
- 7.28 Representations made to the Board suggested that there were differences between the responsibilities of Departments and that these differences should be reflected in remuneration and yet a remuneration system based on a weighting of such responsibilities had not been introduced.
- 7.29 On the other hand, differences in the responsibilities of Committees had been reflected in States Members remuneration.
- 7.30 The Board believed that the current arrangements were inconsistent and the either one approach or the other should be adopted.
- 7.31 Taking account of its views in relation the differences in the responsibilities of Departments (expressed in paragraphs 7.24), the Board considered that those views applied to Committees and therefore that there should be no differential in the remuneration paid to the members of different Committees.

Expenses

- 7.32 The 2003 Review Board recommended an expenses allowance of £2,500 (free of tax) that was intended to cover the normal expenses of membership, including:
- Postage.
 - Telephone.
 - Stationery.
 - Travel within the home Island.
 - Compensation for use of part of the home as an office.
 - A limited amount of secretarial and research assistance.
- 7.33 The 2007 Review Board considered that an Expense Allowance of £2,000 should be paid to compensate for expenses actually and reasonably incurred in order properly to discharge a Deputy's duties. It also recommended that the allowance for Ministers and the Chief Minister should be higher than that of other States Members as they had greater responsibilities. This recommendation was rejected by the States.

- 7.34 In addition that Review Board, noting that the role of Alderney Representatives could not include the constituency work and the extra involvement expected of Guernsey Deputies, did not consider that those Representatives should receive the same Expense Allowance as Guernsey Deputies and therefore recommended a lower allowance and that their travelling and subsistence expenses be paid separately.
- 7.35 The Board received a number of representations that the expense allowance was not enough or that it should be increased to cover such things as office equipment, attending professional events, travel and accommodation expenses and secretarial and research assistance.
- 7.36 One representation suggested that the allowance be integrated into the basic package and leave it to Deputies to make their own arrangements regarding expenses.
- 7.37 The Board concurred with the view of the 2007 Review Board that an expenses allowance should be paid to compensate a States Member for expenses actually and reasonably incurred as the result of the discharge of his or her duties. It was not persuaded that the allowance should be increased to allow for such things as the hiring of assistance or the rental of office space.
- 7.38 It considered whether the expenses of an individual with senior responsibility were greater than those of other States Members.
- 7.39 In the case of the role of a Minister or Chairman, the information available to the Board suggested that individuals in these posts received administrative support from their respective Departments and that that support effectively masked any increase in costs that might be associated with senior posts. The Board considered therefore that Ministers and Chairmen should continue to receive the same expenses allowance as other States Members.
- 7.40 The Board believed, however, that an aspect of the role of Chief Minister made that role uniquely different to those of other States Members. That aspect was the international responsibilities that were now required of the Chief Minister and it considered that those responsibilities incurred additional expenses and therefore that the expenses allowance of the Chief Minister should be increased.
- 7.41 The Board concluded that the expenses allowance of Alderney Representatives should be 50% of the allowance of a Guernsey States Member.
- 7.42 The Board considered that the expenses allowance should continue to be tax free.

IT Equipment

- 7.43 The 2003 Review Board believed that States Members would be able to function more easily and efficiently, particularly as regards communications, if full advantage was taken of modern information technology and that Members should therefore have use of IT equipment of an adequate specification. It recommended that:

- *“the Advisory and Finance Committee should develop and implement a policy intended to ensure that all States Members have the use of IT equipment of an adequate standard”; and*
 - *“that if under such policy, some or all States Members provide and/or operate IT equipment from their own resources for the purposes of States business, those members should receive an additional expense allowance free of tax at a level or levels to be decided by the Advisory and Finance Committee but not exceeding £500 per year.”*
- 7.44 The 2007 Review Board noted that IT Equipment Allowances were available for States Members in the form of a PC or lap top and printer being provided by the States, or alternatively a Member could receive £375 per annum for use of his own equipment (tax free).
- 7.45 The Board noted that information technology was now an accepted and indispensable part of the business environment and felt that that would (or if not, should) also be the case for States Members.
- 7.46 It considered that the existing arrangements would lead to a mixed take-up and the acquisition of a plethora of technologies depending on the preferences and requirements of individuals.
- 7.47 It therefore proposed that the current allowance be discontinued and that standard equipment should be provided by the States of Guernsey to all States Members and to Alderney Representatives in order that:
- every user has the same software package; and
 - corporate security measures can be universally applied, thus facilitating the exchange of information within a secure electronic environment.
- 7.48 The Board considered that the IT provision should be formally reviewed every four years, to take account of the rapid and frequent advances in this field of technology.

Performance

- 7.49 The 2007 Review Board view was:
- “With regard to evaluating levels of commitment, on an individual basis, we consider that, realistically, it is impossible for us to do so - it can only be left, firstly to the States as a whole, and secondly to the electorate.”*
- 7.50 The Board received a number of representations that time committed to the role of States Member did not automatically equate to effectiveness and that there would be merit in a system to assess individual performance. Further, this concept was supported by many of the respondents to the consultation who suggested that this would be desirable although difficult to operate.
- 7.51 Under the Guernsey system candidates are, in effect, self proposed, without either a Role description to refer to or a form of Manifesto that allows the

electorate to compare the candidates. Importantly, there is no party or other system to interview, assess and select candidates or to review sitting members.

- 7.52 The Board also noted that there was some public support for the principle that Deputies should be required to demonstrate that they were performing their roles “well”.
- 7.53 Against this, several respondents stated that each Deputy did the job in his or her own way. Some noted that different Deputies focused on different aspects of the wide range of matters with which a Deputy might concern him or herself; and pay less or even no attention to others. As discussed previously, the argument was that each Deputy defined the role as he or she saw it, executed it in that fashion, and that any assessment of whether or not an individual had performed the role well was carried out by the Electorate every four years.
- 7.54 Given the potential impact of a Deputy’s work on the social and economic fabric of the Island the Board felt that this issue warranted consideration. It noted that evaluation of performance was in common use throughout both the public and private sectors.
- 7.55 For performance to be evaluated objectively, it was necessary to have something against which performance could be judged. In other circumstances an individual has a Role Description against which an appraisal could be carried out that enabled performance to be assessed.
- 7.56 This led the Board back to the issue of what the exact responsibilities of a States Member were and, as set out above, it noted that they had not been clearly defined.
- 7.57 If the parameters of those responsibilities could be described and the key attributes of the role enumerated then, in the first instance, that would facilitate an objective and quantitative assessment of whether or not the various Allowances were relevant and appropriate. Secondly, it raised the possibility of an evaluation for the benefit of the individual concerned.
- 7.58 The Board considered that Guernsey had much to gain from clearer definition of the responsibilities of States Members in general and particularly for those with greater responsibilities. It noted that there would be merit in the regular assessment of performance in between General Elections although it recognised the considerable difficulty of operating assessments. Nonetheless, the opportunity for added value for the community would lie both in more effective development of policy and more effective implementation of policy; and thus better “value for money” from the approximately £1.9 million that the community currently spends on all aspects of Deputies’ remuneration.
- 7.59 The Board considered that a simple assessment, with no link to remuneration, would provide recognition of individual achievement as well as helping to drive “good behaviour” that would represent value-added for the community.
- 7.60 Whilst acknowledging the potential benefits of establishing a system of evaluation of the performance of States Members, the Board considered that

this lay outside of its immediate Terms of Reference and so made its comments in Appendix 1.

Other Matters

- 7.61 There were two other issues that the Board believed merited consideration and comment.
- 7.62 Firstly, the Board received a few representations that there should be a mechanism to support a States Member who failed to be re-elected on the basis that such a person would effectively be “unemployed” almost overnight (and who would not be able to claim unemployment benefit because of his or her self-employed status).
- 7.63 The Board considered, however, that if the electorate had chosen not to re-elect a sitting States Member, it would not expect public funds to be used to remunerate a person who was no longer in public office.
- 7.64 Secondly, the Board received a number of representations that a consequence of public office was that there could be a considerable impact on, and intrusion into, the personal life of a States Member and the lives of other family members and that this should be factored into considerations on remuneration.
- 7.65 The Board believed, however, that any person who was considering standing for election or accepting a position of additional responsibility should reasonably be able to foresee that a public role or a “leadership” role would bring with it public attention and should, therefore, be able to factor that consideration into a final decision on whether or not to stand for election or accept a position of senior public office.

8.0 SUMMARY AND CONCLUSIONS

- 8.1 The Board adopted an iterative approach. It established the principles that would guide its deliberations and gathered relevant historical information. It then sought to understand the nature of the role of States Members and Non-States Members, in terms of time commitment and responsibilities in order to be able to form a view on relevant and appropriate remuneration.
- 8.2 As the result of this process, it gathered a considerable body of information and received a wide variety of individual views on the issue of remuneration.
- 8.3 The Board gave due consideration to all of the information and views available to it and in the course of its deliberations it reviewed and rejected a number of approaches. It sought to apply the Principles set out in section 4 in order to reach the conclusions set out below. It acknowledges that those conclusions cannot conform with the views of everybody who made written or oral representations to it.
- 8.4 The Board recognises that States Members can currently claim all, part or none of the allowances and that this is a personal matter for individuals. It considers that States Members should continue to have the freedom to decide what, if anything, to claim in the future and it believes that its proposals do not remove such freedom.

States Members' Time and Commitment

- 8.5 The Board notes that the normal circumstance of a States Member is to have membership of at least two Departments or Committees.
- 8.6 The Board assesses the general time commitment of elected members with, typically, two department or committee memberships to be part-time; albeit that that commitment might be considered as equivalent to a substantial (very substantial in the case of a Minister), but not full-time, role.
- 8.7 The exception is the role of Chief Minister, which the Board considers to be full-time given the international representation element of that role.
- 8.8 The Board notes that a Deputy might be giving up a lifestyle which might include a reliable income stream, a pension, regular hours and possible other benefits and that the acceptance of those aspects of a Deputy's role might reasonably be taken to represent the vocational contribution of such an individual.

Roles and Responsibilities of States Members

- 8.9 The Board concludes that, in the absence of a clear definition of the various roles and responsibilities of States Members, it cannot apply standard techniques to determine, with complete objectivity, whether the allowances in respect of the responsibilities that are applied to the various roles are relevant and appropriate and therefore only a qualitative judgement is possible.

Alderney Representatives

- 8.10 The Board concludes that the remuneration of an Alderney Representative should be £10,050.

Non-States Members

- 8.11 The Board concludes that the existing arrangements for the remuneration of Non-States Members should continue save that the half-day rate should be £65.

Special Committees and Non-Government Bodies

- 8.12 The Board considers that work on Special Committees and Non-Government Bodies should be regarded as part of the overall commitment of an individual to the role of States Member and there should be no additional remuneration for such work.

Benchmark

- 8.13 The Board considers that Guernsey median earnings should be the benchmark against which the remuneration of States Members should be determined.

States Members' Pension Scheme

- 8.14 The Board concludes that the States Members' pension scheme should be closed to new entrants and payments with effect from the date of the end of this States term with the option of individuals transferring to a private scheme of their choice. It also concludes that States Members' remuneration should be adjusted upwards by 15%, up to a maximum of £5,500 per individual, in recognition that they will have to make their own pension arrangements.

Social Security

- 8.15 The Board considers that although States Members are regarded as self-employed by the Social Security Department, as median earnings is calculated on the basis of employed persons, the remuneration of States Members and Alderney Representatives, should be increased by the difference between the contribution rates of employed and self-employed persons, currently 4.5%, except for individuals aged 65 and over.

Differentials between Departments and between Committees

- 8.16 The Board concludes that there should be no adjustment of remuneration to reflect different responsibilities as between Departments and as between Committees, because:
- there is no objectively agreed basis for weighting the Departments and Committees,
 - there is a risk that there would be competition for places on States bodies that attract higher remuneration; and
 - the administration of payments to States Members would be made more complex.

Remuneration of States Members

- 8.17 As noted in paragraph 5.34, the Board views the current Basic Allowance as generous relative to current Allowances for memberships of Departments and Committees. It therefore believes that the present system does not "properly reflect the nature of the roles of all Members". However the Board is concerned that an appropriate reduction in the existing Basic Allowance might be construed to breach Principle A "remuneration should permit widespread participation by individuals of diverse age and experience, regardless of gender"; even though the Allowances for memberships would benefit from appropriate increases.
- 8.18 As observed in paragraph 8.5, the Board notes that it is normal for States Members to have at least two positions on Departments or Committees. The Board therefore concludes that the assessment of responsibility should assume such memberships and that there should be no further remuneration for any additional memberships. Accordingly it would no longer be necessary to specify any maximum payments, thus "simplifying administration".

- 8.19 Taking account of the above, the total time and responsibility associated with the various roles, a qualitative assessment of the responsibilities of those roles and allowing an uplift of 15% for a private pension and 4.5% (for under 65s only) in respect of social security, the Board concludes that States Members should be paid the following remuneration:

Remuneration	Time and Responsibility £	Pension £	Soc Sec *£	Total £
States Member *	26,750	4,020	1,385	32,155
Deputy Minister's/Vice-Chairman	28,750	4,310	1,490	34,550
Chairman	31,250	4,700	1,620	37,570
Minister	36,950	5,500	1,900	44,350
Deputy Chief Minister	38,950	5,500	2,000	46,450
Chief Minister	50,500	5,500	2,520	58,520
Alderney Representative	9,615		435	10,050
Alderney Representative (Departmental/Committee seat)	13,365		600	13,965
* Members aged 65 and over do not pay full-rate self-employed social security contributions and are not therefore entitled to the 4.5% uplift.				

Expenses and IT Equipment

- 8.20 The Board concludes that there should be the following allowances for expenses:

States Members (other than the Chief Minister)	£2,000
Chief Minister's Expenses Allowance	£3,000
Alderney Representatives Expenses Allowance	£1,000

- 8.21 The Board concludes that the current IT allowance should be discontinued and that standard equipment should be provided by the States of Guernsey to all States Members and to Alderney Representatives.

Overall impact of proposals

- 8.22 The Board considers that the overall cost of its recommended system of Remuneration of serving States Members and Non-States Members will be in the order of £1,800,000 as against a potential cost of £1,856,000 in 2010.

- 8.23 A comparison between the current and recommended systems of remuneration is in Appendix 6.

Future Review of Remuneration

- 8.24 The Board considers that the remuneration of States Members and Non-States Members should be subject to annual review and adjustment in accordance with

changes in median earnings (using the latest earnings calculation at the time of the review).

- 8.25 The Board considers that a further fundamental review of remuneration will be required if there are significant changes in the structure and organisation of government.

Deficiencies

- 8.26 The Terms of Reference of the Board included a requirement to determine whether there were any deficiencies in the system of remuneration and, if so, how those deficiencies should be addressed
- 8.27 As described in paragraph 8.9, the Board concludes that, in the absence of a clear definition of the various roles and responsibilities of States Members, it cannot apply standard techniques to determine, with complete objectivity, whether the allowance in respect of the responsibilities that go with the various roles are relevant and appropriate and therefore only a qualitative judgement is possible.
- 8.28 The Board considers that the absence of a clear definition of the various roles and responsibilities of States Members is a deficiency of the current system that should be addressed.
- 8.29 Whilst the Board would recommend the definition of roles and responsibilities, it considers the detail of this to be outside of its immediate Terms of Reference and so has set out its comments in the accompanying Appendix 1.

The principles

- 8.30 The Board believes that its proposals address the principles set out on paragraph 4.30 in that they:
- will not preclude widespread participation;
 - will not unduly encourage participation for financial reasons alone;
 - take account of an element of service to the community;
 - take account of the time commitment of an individual;
 - are transparent; and
 - will simplify administration.

Matters that fell outside of the Board's Terms of Reference

- 8.31 A number of issues were raised in representations which the Board concluded were outside of its Terms of Reference, but which were worthy of record and comment. These issues are set out in Appendix 1.

9.0 RECOMMENDATIONS

9.1 The Board recommends that with effect from May 2012:

a) the remuneration of States Members * should be:

States Members Remuneration	£32,155
Deputy Minister and Vice-Chairman Remuneration	£34,550
Chairman Remuneration	£37,570
Ministers Remuneration	£44,350
Deputy Chief Minister Remuneration	£46,450
Chief Minister Remuneration	£58,520
Alderney Representative Remuneration	£10,050
Alderney Representative Remuneration with Departmental/Committee seat)	£13,965

* social security uplift to be deducted for those aged 65 and over

b) the remuneration of Non-States Members should be £65 per half day,

c) tax-free expenses allowances should be:

States Members (other than the Chief Minister)	£2,000
Chief Ministers Expenses Allowance	£3,000
Alderney Representatives Expenses Allowance	£1,000,

d) the current IT allowance should be discontinued and that standard equipment should be provided by the States of Guernsey to all States Members and to Alderney Representatives,

e) the States Members' pension scheme should be closed to new entrants and payments with the option if possible of transferring to another, private, scheme; and

f) the remuneration of States Members and Non-States Members should be subject to annual review and adjustment in accordance with changes in Guernsey median earnings.

Mr R.Crowder (Chairman)
31 October 2011

Mrs D.Lewis

Mr R.Moore

APPENDIX 1

ISSUES OUTSIDE OF TERMS OF REFERENCE

Structure and Composition of Government

The Board received a number of representations advocating:

- a reduction in the number of Departments, and/or
- a reduction in the number of States Members.

Whilst the Board could not comment on the merits of these proposals, it observed that, if either or both options were implemented, there might be a case to review the remuneration of States members.

Evening and Weekend Meetings

The Board also received a number of representations that if States Meetings and Departmental and Committee meetings (or at least some of them) were held in the evening or at weekends, it would be easier for States Members to balance States commitments with other commitments. In addition, such a change might be a factor that encouraged wider participation in the elections.

Skills, Responsibilities and Manifestos

The Board received a number of representations that, in general, related to the skills and responsibilities of States Members. One view within the spectrum of those representations was that it might help if manifestos included a statement of the skill sets required by, and responsibilities of a States Member and how a candidate considered that he or she measured up against them.

The Board considered that this would provide a reference point for individuals who were considering standing for election and would allow the electorate to compare candidates against like criteria.

Ongoing Professional Development

The Board received a number of representations that referred to the training and development of States Members, the view being expressed that they should have the opportunity to choose to participate in ongoing professional development throughout their terms of office. Such training could cover basic skills in computer use and other skills such as public speaking and how to carry out effective research.

The Board noted that ongoing training and development to improve the skills, and therefore the effectiveness, of individuals was common practice in both the public and private sectors. The individuals and the organisation would benefit from this.

The Board did not explore the issue of the training of States Members in great detail, but considered that, as a general principle, the benefits of such training would apply to States Members in the same way that they applied in public and private sector organisations.

Mandates, Role Description and Performance

The Board concluded that the various roles and responsibilities of States Members should be clearly defined.

In the absence of such a definition the Board believed that :

- a decision of an individual to stand for election could not be informed by a clear understanding of the role of a States Member; and
- the electorate had no “standard” against which to evaluate the individual merits of each election candidate.

Those difficulties could be addressed by means of a clear description of the role of a States Member. The Board considered that such a description should reflect the fact that a States Member was not only a representative of the electorate and a Member of the States of Deliberation, but might also be a representative of the Policy Council, a Department or a Committee.

In the latter case, the Board felt that the definition of the role of a States Member as the member of a government body would be facilitated if the Mandates of those bodies were formulated in such a way as to facilitate the drafting of such a definition. It believes that there is merit in reviewing Mandates with this mind.

The Board has concluded that in the absence of a clear definition of the various roles and responsibilities of States Members, it is not possible to apply standard techniques to determine, with complete objectivity, whether the allowance in respect of the responsibilities that are applied to the various roles are relevant and appropriate.

The Board identified this as a deficiency, but considered the detailed enumeration of the various roles and responsibilities of States Members to be outside of its immediate Terms of Reference. However a variety of representations received supported a review of this deficiency and in particular

- a) a review of the roles and responsibilities of all States Members and to establish Role Descriptions for the positions of Department Member, Committee Member, Minister, Deputy Minister, Committee Chairman, Vice-Chairman, Chief Minister and Deputy Chief Minister; and
- b) in light of the above, consider whether it was necessary to re-assess the remuneration of States Members, and if so, to recommend that the Policy Council appoint an Independent Review Board carry out such a re- assessment.

In the body of its Report, the Board noted that in the public and private sectors an individual would expect to have the benefit of a Role Description against which an appraisal could be carried out that enabled performance to be assessed. In paragraph 7.58 the Board also noted that there would be merit in the regular assessment of the performance of States Members.

It has recognised that there would be considerable difficulty in operating such assessments and it acknowledges that peer assessment would be particularly

problematic, if not impossible, within the current structure of government. However such assessment could be carried out by an independent professional body, perhaps every four years, at the mid-point of the term of office of States Members, with the outcome being confidential to each person who was assessed.

In paragraph 7.59, the Board has expressed the view that the community would benefit from such assessments, but is also believed that there would be benefits to individual States Members, such as facilitating a measure of achievement and creating linkages with training and ongoing professional development.

APPENDIX 2

HISTORY 1949 – 2007

- 1946 A States Member who lost money (and could demonstrate such loss) by absence from work by attending the States or a meeting of a Committee was entitled to be paid at a rate of 10 shillings per half-day lost.
- 1948 The principle of an entitlement to 10 shillings per half day was modified so that that entitlement applied to a portion of a half day of absence from work by reason of attending a meeting of the States or a Committee.
- 1951 The States agreed that the President of the Board of Administration, in consultation with the President of the States Finance Committee, could award a grant to any Member who applied for such a grant in respect of attendance at a meeting of the States of Deliberation, or a Committee or sub-committee (subject to a maximum of 10 shillings per half day or portion of a half day and/or travelling expenses).
- 1955 The attendance allowance of 10 shillings was increased to 15 shillings.
- 1961 The allowance of 10 shillings was increased to 21 shillings. In addition the President of the Board of Administration, in consultation with the President of the Advisory and Finance Committee, was authorised to award the President or acting President of a Committee (on application) a telephone allowance (such sum as was deemed reasonable).
- 1971 The attendance allowance of 21 shillings was increased to £3.
- 1972 States Members were given the option of either:
 - a) applying for the payment of the £3 attendance allowance; or
 - b) receiving a grant of £1,000 for a calendar year which was repayable by 31 March in the following year to the extent that the claimants total income (excluding the grant) exceeded £500 (£1,500 if the States Member was a married woman living with her husband). In the case of a married man, up to £500 of any income earned by his wife was ignored when calculating his income.

States Members could also apply for reasonable travelling expenses and every Member was automatically entitled to an allowance equivalent to the rental of one exclusive residential telephone. As the 1961 resolution was not rescinded, a President or acting President could also apply for an allowance in respect of the cost of telephone calls.

- 1974 Applications for attendance allowance were to be made for 3 month periods (ending March, June, September and December) and had to be received not later than the last day of the month next following the end of each period. No award would be made for late applications.
- 1975 The annual allowance was increased to £2,000, the maximum income limit was increased to £3,000 and (the alternative of) the half day attendance allowance increased to £4. Both payments would be subject to a means test.

Attendance at a meeting was clarified to mean a meeting of the States of Deliberation, the States of Election, a Committee or a Sub-Committee and attending conferences (or like business) as an appointed representative of a Committee or sub-committee. The alternative of claiming the £3 attendance allowance without a means test was available until 31 March 1976.

Non-States Members could claim the same allowances as States Members, in accordance with the same conditions as for States Members.

- 1978 The annual allowance was increased to £3,500, the maximum income limit was increased to £5,000 and (the alternative of) the half day attendance allowance was increased to £6.

States Members and Non-States Members could claim a half day expense allowance of £3, subject to the provision that the first £400 per annum was not subject to income tax.

The automatic entitlement to an allowance equivalent to the rental of one exclusive residential telephone was maintained.

- 1981 The annual allowance was increased to £5,000, the maximum income limit was increased to £7,000 and (the alternative of) the half day attendance allowance was increased to £8. The half-day expenses allowance was increased to £4 with the first £500 per annum not being subject to income tax.

The President of a Committee (or in his absence, the Vice-President or alternate Committee member) was entitled to claim an expense allowance for attendance at any place in connection with the business of the Committee.

- 1984 The annual allowance of £5,000 and alternative half day attendance allowance of £8 was maintained, but the income limit was changed to £10,000 for married members and £8,000 for other members.

The half-day expenses allowance was increased to £6 with the first £600 per annum not being subject to income tax.

- 1987 The annual allowance was increased to £6,500, the income limits were increased to £12,000 (married members) and £9,500 (other members) and the alternative half day attendance allowance to £10.

Spouse's earned income was disregarded for the purpose of calculating a claimants total income.

The half-day expenses allowance was increased to £8 with the first £700 per annum not being subject to income tax.

- 1988 The States agreed that;

- a) States Members could claim a compensation payment of £5,000 per annum,
- b) States Members could claim an attendance allowance not exceeding £15 per half day or part thereof (subject to a means test),
- c) States Members could claim an expenses allowance of £1,000, per annum,
- d) Presidents could claim a Presidential allowance of:
 - i) £2,500 A+ Committees,
 - ii) £1,500 A Committees,
 - iii) £1,000 B Committees; and
 - iv) £500 C Committees,
 subject to a maximum of £2,500,
- e) Non-States Members could claim an attendance allowance not exceeding £20 per half day; and
- f) the Advisory and Finance Committee should report on a pension allowance.

- 1990 The States approved a States Members Pension Scheme

- 1995 Payments to States Members were increased by 2.75% (which was the average general change of Civil Service senior officer salaries).

- 2001 The States agreed that an Attendance Allowance should be payable to all States Members, regardless of means or marriage from 1st January 2002.

- 2004 A remuneration system based on a basic allowance, expenses allowance with additional responsibility allowances for the membership of Departments and Committees and for Deputy Ministers, Ministers, Chairmen, Vice-Chairmen, the Deputy Chief Minister and Chief Minister was introduced.

Payment for attendance in respect of States Members was ended.

This review of remuneration was initiated by the Machinery of Government changes in the system of government.

The Advisory and Finance Committee (Treasury and Resources Department) was directed to prepare rules for a new States Members pension scheme along the lines of the (then) current scheme, but based on the basic allowance

- 2006 The States approved proposals from the Treasury and Resources Department and Public Sector Remuneration Committee on public sector pension schemes, including proposals for a post-2004 States Members pension scheme (see Appendix 3).
- 2008 The 2004 system with adjustments in Allowances and the differentials between some allowances (establishing the current system) as perpetuated.

APPENDIX 3**CURRENT ALLOWANCES**

In accordance with the States Resolution of 28 February 2008 payments of the various allowances to States Members will be from 1 May 2008 as listed below

ALLOWANCES “BASIC”	£
Basic (Guernsey)	22,000
Basic Alderney Representative	10,000
Expenses (Guernsey)	2,000
Expenses Alderney Representative	1,000
IT Allowance	375
ALLOWANCES “MEMBERSHIP”	
(Ministers, Deputy Ministers, Chairmen and Vice-Chairmen are not entitled to these allowances)	
Department Membership	3,750
Membership – Scrutiny, Public Accounts, Public Sector Remuneration	3,000
Membership – Legislation Select, House (SACC)	1,875
Membership – Special Committee	1,000
SPECIAL RESPONSIBILITY ALLOWANCES	
Chief Minister	23,000
Deputy Chief Minister	2,000
Department Minister	15,000
Deputy Department Minister	5,625
Chairman - Scrutiny, Public Accounts, Public Sector Remuneration	12,000
Vice-Chairman - Scrutiny, Public Accounts, Public Sector Remuneration	4,500
Chairman – Legislation Select, House (SACC)	7,500
Vice-Chairman – Legislation Select, House (SACC)	2,800
Chairman – Special Committees	2,000
Vice-Chairman – Special Committees	1,000
NON-STATES MEMBERS	
Allowances per half day	60

Maximum Allowances	£
Chief Minister	48,000
Deputy Chief Minister	42,000
Ministers and Chairmen - Scrutiny, Public Accounts, Public Sector Remuneration	40,000
Deputy Ministers and Chairmen - Legislation Select, House (SACC)	37,000
All other Members	34,000

APPENDIX 4

CURRENT PENSION SCHEME

RULES FOR PAYMENT OF PENSIONS TO FORMER STATES MEMBERS, THEIR SURVIVING SPOUSES AND DEPENDENT CHILDREN

Definition of Former States Members

1. For the purpose of this Scheme a Former States Member means any Conseiller, any Deputy (excluding representatives of the States of Alderney) and any Douzaine Representative in the States of Deliberation, who:
 - (i) no longer has a seat in the States of Deliberation; and
 - (ii) has in the aggregate held a seat in the States of Deliberation for a period of four years or more; and
 - (iii) (a) has attained the age of 65 years; or
(b) has died before attaining the age of 65 years.

Pension

2. Subject to the conditions set out in rule 5:

(A) Former States Members who ceased to hold office on or before 31st December, 1989 (Non-contributory Scheme)

- (a) Former States Members who ceased to be Members of the States on or before 31st December, 1989, shall be entitled to claim a pension of up to £3.38 per week for each year of service in the States of Deliberation;
- (b) where sub-paragraph 1 (iii) (a) applies, the surviving spouse of a Former States Member shall be entitled to claim a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent re-marriage;
- (c) where sub-paragraph 1 (iii) (b) applies, the surviving spouse of a Former States Member shall be entitled to claim a pension amounting to £1.69 per week for each year of service of the Former States Member, subject to such pension ceasing in the event of a subsequent remarriage;
- (d) where there is no surviving spouse but there is a dependent child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Department may determine on behalf of that dependent child (and, if more than one, in equal shares).

(B) Former States Members who ceased to hold office on or before 30th April, 2004 (1st January 1990 up to and including 30th April 2004 contributory scheme)

- (a) Former States Members who ceased to be Members of the States on or before 30th April, 2004, shall be entitled:
 - (i) in respect of service up to and including 31st December, 1989, to a pension of £3.38 per week for each year of service in the States of Deliberation; and
 - (ii) in respect of service from 1st January, 1990, unless they opt out in accordance with the rules of the Scheme, to a pension of £6.76 per week for each year of service in the States of Deliberation;
- (b) where sub-paragraph 1(iii)(a) applies, the surviving spouse of a Former States Member shall be entitled to a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent re-marriage;
- (c) where sub-paragraph 1 (iii)(b) applies, the surviving spouse of a Former States Member shall be entitled to a pension amounting to £1.69 per week for each year of service of the Former States Member prior to 31st December, 1989, and £3.38 per week for each year of service of the Former States Member after 1st January, 1990, subject to such pension ceasing in the event of a subsequent re-marriage;
- (d) where there is no surviving spouse but there is a dependent child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Department may determine on behalf of that dependent child (and, if more than one, in equal shares).

(C) Other Members (From 1 May 2004 contributory scheme)

- (a) Members of the States who become Former States Members on or after 1st May, 2004, shall be entitled:
 - (i) in respect of service up to and including 31st December, 1989, to a pension of £3.38 per week for each year of service in the States of Deliberation;
 - (ii) in respect of service from 1st January, 1990 up to and including 30th April, 2004, unless they opt out in accordance with the rules of the Scheme, to a pension of £6.76 per week for each year of service in the States of Deliberation; and
 - (iii) in respect of service from 1st May, 2004, unless they opt out in accordance with the rules of the Scheme, to a pension of £9.25 per week for each year of service in the States of Deliberation;
- (b) where sub-paragraph 1(iii)(a) applies, the surviving spouse of a Former States Member shall be entitled to a pension equal to fifty per centum of the sum which would have been payable to the Former States Member, subject to such pension ceasing in the event of a subsequent re-marriage;

- (c) where sub-paragraph 1 (iii)(b) applies, the surviving spouse of a Former States Member shall be entitled to a pension amounting to £1.69 per week for each year of service of the Former States Member prior to 31st December, 1989, £3.38 per week for each year of service of the Former States Member from the 1st January, 1990 up to and including 30th April, 2004 and £4.63 per week for each year of service of the Former States Member after 1st May, 2004 subject to such pension ceasing in the event of a subsequent re-marriage;
- (d) where there is no surviving spouse but there is a dependent child the pension referred to in sub-paragraphs (b) and (c) of this rule shall be payable to such person as the Department may determine on behalf of that dependent child (and, if more than one, in equal shares).

Pension Fund

3. There shall be a fund entitled the "States Members Pension Fund".

- (a) There shall be paid into the Fund:
 - (i) contributions from the States Members;
 - (ii) contributions from the States of Guernsey, of such amounts as the Department may from time to time resolve.
- (b) There shall be paid out of the Fund:
 - (i) pensions in accordance with these Rules;
 - (ii) refunds of contributions in accordance with these Rules;
 - (iii) investment and professional fees and other expenses of investment.
- (c) The Fund shall be invested by the Department in a similar manner to the assets of the fund authorised under the States of Guernsey (Public Servants) (Pensions and other Benefits) Rules, 1972 as amended.
- (d) The Department shall appoint an actuary and arrange for actuarial reviews to be effected from time to time.

Contributions and Repayments

- 4 (a) Any Compensation Payment or Basic Allowance made to a Member of the States on or after 1st January, 1990, shall, unless the Member opts out in accordance with the rules of the Scheme, be subject to a deduction equal to six per centum of the amount claimed which sum shall be paid into the Fund.
- (b) Any Member who has contributed to the Fund but who does not qualify for a pension in accordance with these rules or who opts out in accordance with the rules of the Scheme shall be entitled to repayment of

the aforementioned contributions together with compound interest thereon at the rate of three per centum per annum with yearly rests at the 31 December in each year.

- (c) Any Member whose contributions have been repaid in accordance with paragraph 4(b) above who subsequently qualifies for a pension shall be entitled to rejoin the Scheme upon payment into the Fund of such sum as shall be determined by the Scheme's Actuary to be necessary to make good the contributions previously returned to him.

Conditions

- 5 (a) Pensions to Former States Members who ceased to be Members of the States on or before 31st December, 1989, shall be payable following application in writing to the Minister of the Department and claims will be back-dated only to the first day of the month in which the application is made. No retrospective payments shall otherwise be made.
- (b) Pensions to Members of the States who become Former States Members on or after 1st January, 1990, shall be paid without application.
- (c) The pension specified in paragraph 2 above shall be payable by monthly instalments in arrears.
- (d) Any amount specified in rule 2 may be varied by resolution of the Department in accordance with rule 6.
- (e) A Member of the States may opt out of the 1st January 1990 to 30th April 2004 contributory Scheme by notifying the Department in writing accordingly, and if he does so then:
 - (i) No pension shall be payable under rule 2(B) in respect of his service from 1st January 1990 up to and including 30th April 2004; and
 - (ii) rule 4(a) shall cease to apply in his case; and
 - (iii) he shall be entitled to repayment of his contributions together with compound interest at three per centum per annum with yearly rests at each 31st December; and
 - (iv) it is declared for the avoidance of doubt that he may not thereafter seek to gain entitlement to such a pension by paying contributions.
- (f) A Member of the States may opt out of the post 1st May 2004 contributory Scheme by notifying the Department in writing accordingly, and if he does so then:
 - (i) No pension shall be payable under rule 2(C) in respect of his service from 1st May 2004; and

- (ii) rule 4(a) shall cease to apply in his case; and
- (iii) he shall be entitled to repayment of his contributions together with compound interest at three per centum per annum with yearly rests at each 31st December; and
- (iv) it is declared for the avoidance of doubt that he may not thereafter seek to gain entitlement to such a pension by paying contributions.

General Interpretation

6. In these rules:

- (a) the masculine includes the feminine, the singular includes the plural, and vice-versa;
- (b) a child is "dependent" if :
 - (i) he is under eighteen or is in full time education; and
 - (ii) he was, in the opinion of the Department, wholly or mainly dependent on the Former States Member concerned at the date of the latter's death;
- (c) "the Department" means the "States of Guernsey Treasury and Resources Department";
- (d) "Compensation Payment" means the payment available to States Members prior to 1 May 2004.
- (e) "Basic Allowance" means a payment available to States Members under rule I.2(i) of the rules for payments to States Members;
- (f) "the Fund" means the States Members Pension Fund created pursuant to rule 3 of these rules.

APPENDIX 5

SOCIAL SECURITY NOTES

- A. The SSD has to classify individuals according to three categories;
 - employed
 - self-employed; or
 - non-employed.
- B. An employed person is a person who works under a contract of service and tends to work under the control and direction of another person.
- C. A self-employed person is a person who works but not under a contract of service and is not under the control or direction of another person (he is his own boss). Factors such as whether there are set hours of work and an hourly rate of pay are considerations when determining the classification of a person as self-employed.
- D. A non-employed person is a person who is neither employed nor self-employed or is over 65 years of age.
- E. The SSD Board has determined that States Members are self-employed,. Whilst they are in employment, receive regular remuneration and receive a pension, they do not work under a contract of service and they are not under the control or direction of another person. That decision applies to the current term of the Board and does not bind future Boards.
- F. Any decision regarding the status of an individual rests with the elected members of the SSD. They have discretion to adjust the classification of an individual, but would have to be satisfied that there was good reason to exercise that discretion.
- G. A person aggrieved at their classification can seek adjudication by the SSD Board. There has been one recent approach regarding the self-employed classification of States Members which did not change the views of the current Department.
- H. A self-employed person cannot claim unemployment benefit. If a States Member was classified as employed and did not get re-elected, that person could claim unemployment benefit for up to 30 weeks.
- I. Self-employed contributions are based on earned income, as defined by Income Tax (net income before tax).
- J. Contribution rates are:
 - employed persons (6.5% employer and 6% employee),
 - self employed persons (10.5% of earned income);
 - non-employed persons (9.9% of total income); and
 - over 65s (2.9% of total income less an allowance)

- K. If the status of States Members was changed to “employed” their individual social security contributions would reduce from 10.5% to 6% (although it would not be quite a straightforward as that because of differences in the methods of calculation).
- L. A States Member who also had other employment would pay contributions on both sets of earnings according to the self-employed rate (as a States Member) and the rate relevant to the nature of the other employment.
- M. Members of a partnership tend to be classified as self-employed.
- N. Contributions are subject to a maximum earnings/income ceiling.
- O. A pension is treated as income for a non-employed person.

APPENDIX 6**COMPARISON OF REMUNERATION**

	Panel Recommendation	Current Allowances	Pension	Total
Basic Allowance	£0	£22,000 plus Board /Committee Allowances	£5,500	£27,500
States Member	£32,155	£22,000- £34,000*	£5,500	£27,500- £39,500
Vice-Chairman	£34,550	£26,500- £34,000*	£5,500	£32,000- £39,550
Deputy Minister	£34,550	£27,625- £37,000*	£5,500	£33,125- £42,500
Chairman	£37,570	£34,000- £40,000*	£5,500	£39,550- £45,500
Minister	£44,350	£37,000- £40,000	£5,500	£42,500- £45,500
Deputy Chief Minister	£46,450	£39,000- £42,000 *	£5,500	£44,500- £47,500£
Chief Minister	£58,520	£45,000- £48,000 *	£5,500	£50,500- £53,500
Alderney Representative	£10,050	£10,000		
Alderney Representative (seat on Department	£13,965	£13,750		
Non-States members (half day)	£65	£60		
Expenses Allowance	£2,000	£2,000		
Chief Ministers Expenses Allowance	£3,000	£2,000		
Alderney Representatives Expenses Allowance	£1,000	£1,000		

* Maximum allowance

Note – the example of the Scrutiny Committee is used for the remuneration of committee members and Chairmen.

(NB The Treasury and Resources Department does not wish to comment on the States Report other than to point out that aligning adjustments to States Members and Non-States Members pay to changes in median earnings could result in above-inflation increases.

The States are asked to decide:-

VIII.- Whether, after consideration of the Report dated 28th October, 2011, of the Policy Council, they are of the opinion:-

- (1) That the basic Remuneration and Expenses allowance paid to States Members and Non-States Members of Departments and Committees with effect from 1 May 2012 shall remain in force until 30 April 2016, subject to annual review and adjustment in accordance with changes in Guernsey median earnings.
- (2) That the Remuneration and Expenses allowance to be paid to States Members and Non-States Members of Departments and Committees with effect from 1 May 2012 shall be as follows:

States Members Remuneration	£32,155
Deputy Minister and Vice-Chairman Remuneration	£34,550
Chairman Remuneration	£37,570
Ministers Remuneration	£44,350
Deputy Chief Minister Remuneration	£46,450
Chief Minister Remuneration	£58,520
Alderney Representative Remuneration	£10,050
Alderney Representative Remuneration with Departmental/Committee seat)	£13,965
* social security uplift to be deducted for those aged 65 and over.	

Tax free Expenses allowances:

States Members Expenses allowance (other than the Chief Minister)	£2,000
Chief Minister's Expenses Allowance	£3,000
Alderney Representatives Expenses Allowance	£1,000
Non-States Members allowance per half-day attendance	£ 65

- (3) That the existing States Members' pension scheme be closed for service for current or new States Members with effect from 30 April 2012 and Members and former States Members be provided with the additional option to transfer accrued benefits in respect of all service into alternative pension arrangements, on terms to be advised by the States Actuary.
- (4) To direct the Treasury and Resources Department to develop a detailed policy specifying the IT equipment and software that should made available to States Members including the provision of secure email; such policy to be based upon the principles established by the Independent Panel.
- (5) To direct the Policy Council to set up an independent review of the Remuneration and Expenses allowance to be paid to States Members and Non-States Members of Departments and Committees which shall report in advance of the 2016 General Election.

POLICY COUNCIL / COMMERCE & EMPLOYMENT DEPARTMENT

ENERGY RESOURCE PLAN

1. EXECUTIVE SUMMARY

- 1.1 When the Energy Policy was drafted in 2008 it was acknowledged that rapid global and national changes were taking place in relation to many aspects of energy policy. At that time it was envisaged that the first policy review would be due within a period of three to five years.
- 1.2 Since 2008, a number of factors have led to the evolution of policy. These include; climate change, the future safety and security of supply and availability and price of oil-based products, as well as recent developments in renewable energy technologies and markets.
- 1.3 The Energy Policy Group also noted the requirement for clarity in future energy policy in order to provide guidance in investment decisions. In this respect it is keen to raise the profile of the work of the Group and of its emerging policies.
- 1.4 Recognising its position within the suite of plans forming the States Strategic Plan, the energy plan is now regarded as the Energy Resource Plan. This will also help ensure that the policies of this Plan are taken into account when preparing other Resource Plans and more detailed policy documents of the States.
- 1.5 This Energy Resource Plan has been the subject of consultation with the public and with the Island's energy suppliers and the comments received have helped to shape the Plan.
- 1.6 Urgency is needed if we are to meet our low/zero carbon energy targets and this Energy Resource Plan, together with detailed documents subsequently produced by the States will help prepare us for the challenges that lie ahead.
- 1.7 Set out below is the Energy Policy Group membership during the preparation of the Energy Resource Plan.

Chairman:

- **Deputy C. N. K. Parkinson** (also representing Treasury and Resources Department)

Members:

- **Deputy M. S. Lainé** (representing Commerce and Employment Department)
- **Deputy J. M. Le Sauvage** (representing Environment Department)
- **Deputy G. Guille**
- **Deputy S. J. Ogier**

2. BACKGROUND

2.1 The States Strategic Plan and the Energy Resource Plan

- 2.1.1 The Energy Resource Plan is the corporate energy document for the States of Guernsey.
- 2.1.2 The Energy Resource Plan is one of the four Island Resource Plans that form part of the States Strategic Plan and sets out the long term agenda for energy use in Guernsey. The other Island Resource Plans cover Population Management, Strategic Land Use and Island Infrastructure.
- 2.1.3 Through working within the framework set by the Social, Fiscal & Economic and Environmental Policy Plans, the Energy Resource Plan seeks to ensure that the objectives of the States concerning energy use are able to be met.

2.2 Consistency with States Strategic Plan

- 2.2.1 With a mandate to oversee the development, monitoring and review of the States' Energy Policy and to co-ordinate its implementation as part of the States Strategic Planning process, on preparing a draft Energy Resource Plan the Energy Policy Group must submit the draft Plan to the Policy Council for the consideration of the States.
- 2.2.2 In laying this draft Plan before the States of Deliberation for their consideration, the Policy Council is pleased to be able to confirm that in its opinion the draft Plan is consistent with the States Strategic Plan.

2.3 Reasonable Compliance with the Six Principles of Good Corporate Governance

2.3.1 In accordance with the six established core principles of good governance the Energy Resource Plan:

- Focuses on the States purpose and how energy use should be managed in the current and future interests of citizens and service users
- Explains how the energy strategy will function to support the achievement of States objectives
- Proposes an approach to energy use that is in the public interest and provides a framework for the future provision of guidance on good practice
- Takes informed, transparent decisions about the future use of energy and identifies the need to manage associated risks
- Provides the framework to enable the States of Guernsey to be effective in the strategic management of energy resources
- Demonstrates how a process of consultation with the public and key energy sector stakeholders has influenced the development of policy

2.4 Financial and Legislative Implications

2.4.1 The introduction of targets for energy diversity and decarbonisation will inevitably have economic implications for the Island. This might mean initially paying more for low carbon fuels or having to spend on energy-saving measures. However, through the harnessing of local macro-scale renewable energy it may be possible to produce a financial income for the Island to the overall benefit of the local economy. More detailed guidance, together with more detailed cost implications will in time be issued by the Energy Policy Group and the Commerce and Employment Department, which will clarify any specific financial or legislative implications.

2.5 Previous versions of the Energy Plan

2.5.1 The States debated the Policy council's original Energy Policy Report as a 'Green Paper' at its meeting in December 2007.

2.5.2 In June 2008 the States noted the complete copy of the Energy Policy Group's final Energy Policy Plan. This took into account the latest information available on greenhouse gas emissions and made a number of significant amendments to its original report which were to:

- include an inspirational target of an 80% reduction of carbon dioxide emissions by 2050 (on 1990 levels)

- recognise that to meet targets a three-pronged approach was necessary which involved replacing energy from fossil fuels with low carbon emission electricity, a sustained approach to reducing emissions from road transport and a major emphasis on energy efficiency initiatives for residential and business buildings
- delete the short term target of 5% by 2010 for renewable electricity generation but to retain 20% by 2020
- establish an energy advice centre
- investigate the feasibility and benefits of introducing an electric/fossil fuel hybrid powered or zero/low emission public and States transport fleet
- investigate the benefits of encouraging a move to zero/low carbon emission vehicles within a policy of encouraging an overall reduction in the use of vehicles
- create a Guernsey Renewable Energy Commission to progress the creation of local macro-renewable electricity generation
- investigate the possibility of introducing a local carbon or energy tax
- in the long term make Guernsey a carbon neutral community by using low/zero emission electricity as the basis for the Island's power needs, alongside the introduction of appropriate carbon offsetting schemes for any remnant fossil fuel use

2.5.3 The 2008 plan has now been revised (as explained within this report) and is attached as Appendix 1.

3. REASON FOR THE REVIEW

3.1 When the Energy Policy was drafted in 2008 it was acknowledged that developments were taking place rapidly on a global and national scale in relation to many aspects of energy policy. It was envisaged that the first policy review would be due within a period of three to five years.

3.2 The Policy Council's Energy Policy Group and the Commerce & Employment Department have been reviewing the original policy in the light of these further developments and an improved knowledge of energy policy matters. As a result it has been jointly agreed that the time is right to review the original policy with a view to submitting a new report to the States in 2011.

3.3 Specific developments in the overall energy sector and in the States energy policy that have influenced this review include:

- Increasing concern, not just on climate change, but also the future safety and security of supply as well as the availability and price of oil-based products, and more broadly of fossil fuels, summarised by the issue of ‘Peak Oil’.
- Recent developments in renewable energy technologies and the renewable energy market, including the results of the investigations into and actions taken regarding marine current energy carried out by the Commerce and Employment Department in fulfilment of one of the Resolutions of the 2008 Energy Policy Report.
- The requirement for clarity in future energy policy in order to provide guidance in investment decisions to energy providers as identified by the Regulatory Policy Institute in its Review of Utility Regulation.
- An element of overlap between the roles of the Energy Policy Group and the Environmental Policy Group in terms of climate change policies and their implications for the Island.
- The consequences of the current fiscal and economic policies being followed currently by the States of Guernsey which have evolved since the 2008 Report. There is no new money available and major elements are likely to have to be self-funding.

3.4 Given the parallel developments within the States Strategic Plan (SSP), it has also been necessary to prepare the new policy document as an Island Resource Plan. This will ensure it is consistent with the remaining three Resource Plans of the States Strategic Plan which address Population Management, Strategic Land Planning and Infrastructure.

4. CONSULTATION

4.1 Following the production of the draft energy plan, the Energy Group held a public consultation exercise which closed on 9th September 2011. The draft plan was published together with a set of questions which were produced to assist in structuring responses.

4.2 The purpose of the consultation paper was to obtain the views of interested parties and members of the public on proposals for the revised energy plan.

- 4.3 A total of 25 consultation responses were received and the Energy Group was very impressed with the quality of submission. It would like to place on record its thanks for those businesses and individuals that took the time to comment on the draft plan, which is a better document as a result.
- 4.4 The comments received break down into the two main categories of strategic and operational. Where appropriate, the comments relating to energy strategy have been either taken into account or directly incorporated into the draft energy plan. The remaining comments focus more on specific and operational issues and these will be used to influence the implementation of the Plan and the preparation of specific guidance material.

5. MAIN REVISIONS AT A GLANCE

- 5.1 Since 2008 significant progress has been made investigating most of the work streams identified for further research. In particular, the Commerce & Employment Department has done much to put in place the necessary administrative and legislative procedures and arrangements to facilitate the development of macro-renewable energy in Guernsey at the appropriate time. This can be found in section 7 of the plan, which is now titled the Energy Resource Plan and attached as Appendix 1 of this report.
- 5.2 The Group is aware that there are significant safety and security issues concerning the current arrangements for the discharging and storing hydro carbon-based fuels within the Island and a comprehensive review and assessment is required.
- 5.3 With the restructuring of the energy policy as a Resource Plan, the targets for greenhouse gas reductions and electricity generated from renewable sources have been moved out and will now appear within the Environmental Policy Plan which is the appropriate SSP document for such targets. In this way, the States will still debate and set targets but the Energy Resource Plan will then be amended to deliver the wider strategic policy objectives.
- 5.4 The 2008 Energy Policy was built around three headline policies which were:
1. Reduce overall energy usage and minimise wastage;
 2. Ensure a diverse and robust energy supply, which is sufficient for Guernsey's needs; and

3. Switch progressively to clean renewable energy sources to achieve a long-term reduction of Carbon Dioxide emissions of 80% from 1990 levels by 2050.
- 5.5 Through the production of an energy vision for 2020, on which the Energy Resource Plan is based, the energy plan has evolved. The three headline policies have now been reviewed and amended and the following 4 bullet points have been agreed:
- There will be a gradual decarbonisation of Guernsey's energy generation;
 - There will be a diversification of energy generation between low carbon and renewables;
 - We will continue to provide a sustainable and secure energy supply for Guernsey; and
 - There will be greater transparency in energy decision making to all stakeholders.
- 5.6 This can be found in section 1 of the Energy Resource Plan (see Appendix 1).
- 5.7 The Energy Resource Plan now also includes a new section addressing implementation, as explained below.

6. IMPLEMENTATION, MONITORING AND REVIEW

- 6.1 This Energy Resource Plan sets the high level, strategic agenda for energy use and forms the foundation on which specific policies and programmes can be developed. This will include detailed information concerning energy efficiency and economical use.
- 6.2 Perhaps more significantly, additional clarity will eventually come forward in relation to the development of macro-scale renewable energy production, giving more certainty to potential investors. The Energy Group is aware that the States will need to work closely with the private sector if it is to fully realise the opportunities presented by the potential renewable energy sources found locally.
- 6.3 The Energy Group is acutely aware of the need for urgency in meeting zero/low carbon energy targets. Informed by this strategic-level plan and subsequently produced detailed documents, and if we act quickly, there is the potential to design and prepare appropriate infrastructure and staff skill sets for the challenges that lie ahead. Much of this will have significant lead times and therefore the Energy Group is keen to see the Energy Resource Plan adopted, which will enable energy suppliers to plan with greater certainty.

6.4 **Once adopted, the Energy Resource Plan must integrate with and influence other States policies, such as land use, traffic, etc if the targets within the Plan are to be met.**

6.5 Under the new strategic framework, the Energy Policy Group will provide updates to the Policy Council for inclusion within the annual States Strategic Plan review process and so enable the States as a whole to consider how energy policies are working and whether any revisions are required.

7. RECOMMENDATIONS

7.1 The Policy Council and the Commerce and Employment Department recommend that:

7.1.1 The States approve the revised Energy Resource Plan, attached as Appendix 1 of this report

7.1.2 The Departments of the States of Guernsey are instructed to take into account the objectives of the Energy Resource Plan when preparing new policies.

L S Trott

C S McNulty Bauer

Chief Minister

Minister, Commerce and Employment
Department

14 November 2011

8 November

Policy Council Ministers:

B M Flouquet, Deputy Chief Minister

C S McNulty Bauer

G H Mahy

C N K Parkinson

P R Sirett

D B Jones

A H Adam

C A Steere

M H Dorey

M G O'Hara

Commerce & Employment Department board members present during its consideration of this matter:

M Lainé, Deputy Minister

R Sillars (States Member)

R Matthews (States Member)

M Storey (States Member)

P Mills (Non States Member)

APPENDIX 1



STATES OF GUERNSEY

Guernsey Energy Resource Plan

Date: 14th November 2011

Contents

GUERNSEY ENERGY RESOURCE PLAN

1. Executive Summary
2. The States Strategic Plan & relationship with the Energy Resource Plan
3. Introduction
4. Environmental Issues – Kyoto Protocol and International Developments
Guernsey's current Emissions
5. Demand Side Issues
Total Energy Consumption
Gas Consumption
Oil Demand
Heat and Light Demand
6. Supply Side Issues
Electricity
Gas Supplies
Oil Imports
7. Renewables and Carbon Intensity
8. Environmental Issues
9. Guernsey's Energy Challenge
10. Guernsey's Energy Plan Objectives and Actions
11. Implementation

ANNEX - Useful Relevant Energy-Related Documentation from Other Jurisdictions

APPENDIX 2 – Consultation Responses

Guernsey Energy Resource Plan

1. Executive Summary

1.1. This Energy Resource Plan describes Guernsey's sources and use of energy and sets out key objectives which will affect future energy decisions. This Plan is supported by key principles and strategic actions which are both pragmatic and achievable. This Energy Resource Plan in turn is based on an energy vision for 2020 whereby:

- There will be a gradual decarbonisation of Guernsey's energy generation;
- There will be a diversification of energy generation between low carbon and renewables;
- We will continue to provide a sustainable and secure energy supply for Guernsey; and
- There will be greater transparency in energy decision making to all stakeholders.

1.2. The States recognizes that a clear, stable and sustainable strategy committed to and agreed by all stakeholders is critical if it is to be successful and it will provide certainty for investment for all the Island's energy suppliers.

1.3. This Energy Resource Plan contains a set of high level principles and aims covering all forms of energy use. These principles and aims are believed to be realistic and achievable in current circumstances but adaptable to meet changing circumstances, particularly in global energy markets, and local public attitudes to environmental issues. The Energy Resource Plan will thus provide a framework which is transparent to the community and within which strategic decisions can be made by the States and the energy providers in relation to market structures and investment.

- 1.4. It is inevitable that a long term plan such as this cannot contain all the necessary detail to enable policy aspirations to be delivered. This plan should be seen as an enabling document, with the expectation that a number of detailed pieces of legislation and workstreams which are coherent with this plan will follow when the time is right for each of them. Where appropriate the plan does provide objectives, specific targets and actions on how our energy vision will be realized.

- 1.5. At the core of the Energy Resource Plan is the need to maintain and build on the high quality of life enjoyed by the Island's community. This can be achieved by providing the energy needed to allow economic growth at a financial price that is affordable for all consumers and at an environmental cost that does not compromise the ability of future generations to meet their own needs and preserve the environment for the future.

- 1.6. The Energy Resource Plan recognizes that:
 - Energy has become an essential commodity for the economic and social wellbeing of the Island and we need to ***provide*** affordable security and resilience of our energy supplies.
 - As with any commodity we should ***promote*** the efficient use of energy, thus using it wisely and not wasting it.
 - We should recognise that energy generation and energy use have environmental impacts and we should ***plan*** to adopt carbon reduction measures proportionate to Island circumstances to reduce those impacts locally and as part of our contribution to international initiatives.

- 1.7. Guided by these three fundamental principles of *providing, promoting and*

planning, the Energy Resource Plan sets out three Strategic Objectives and a set of actions and directions to achieve for each:

- **‘Maintaining the safety, security, affordability and sustainability of the Island’s energy supplies’** is designed to ensure that the Island has the safety, security and reliability in energy supplies and associated infrastructure as required to maintain our economy and improve our quality of life whilst ensuring that we respond appropriately to the consequences of the world’s declining supplies of hydrocarbon fuels.
- **‘Using energy wisely, efficiently and not wasting it’** is designed to ensure that we use energy wisely, not only to protect the natural resources but also to reduce the cost to the consumer.
- **‘Reducing environmental impacts locally as part of our contribution to international initiatives as part of the global community’** is designed to ensure that we adopt measures proportionate to our Island’s circumstances so that we can act now to limit environmental impacts and protect our environment for the benefit of future generations.

1.8. Taken as a whole these principles represent a commitment by the States to actively seek to change energy supplies and user behaviours and patterns to achieve secure, safe and affordable supplies and greater efficiency of usage.

1.9. In summary, Guernsey is facing significant choices about how we act today and how we value the future. Energy as a commodity is essential for the well-being of our society and for sustainable economic growth. We have no choice other than to respond to the energy challenge. The issues which need to be addressed are coming from global pressures and energy

markets are going to change in the next 20 to 30 years. Guernsey simply cannot ignore them. We are not alone in facing these challenges, but in many ways, as a small Island jurisdiction, the challenges we face are more daunting than our closest neighbours in Europe. It will require a change in mindset and behaviour across our society and economy if we are to be fully successful in meeting our objectives and providing a sustainable future for our children. However, the energy challenge also brings with it significant opportunities for the Island. With potentially vast quantities of wind, tide and wave derived energy sources off our shores; Guernsey might be able to become self sufficient in power and potentially a provider of electricity beyond the Island.

2. The States Strategic Plan

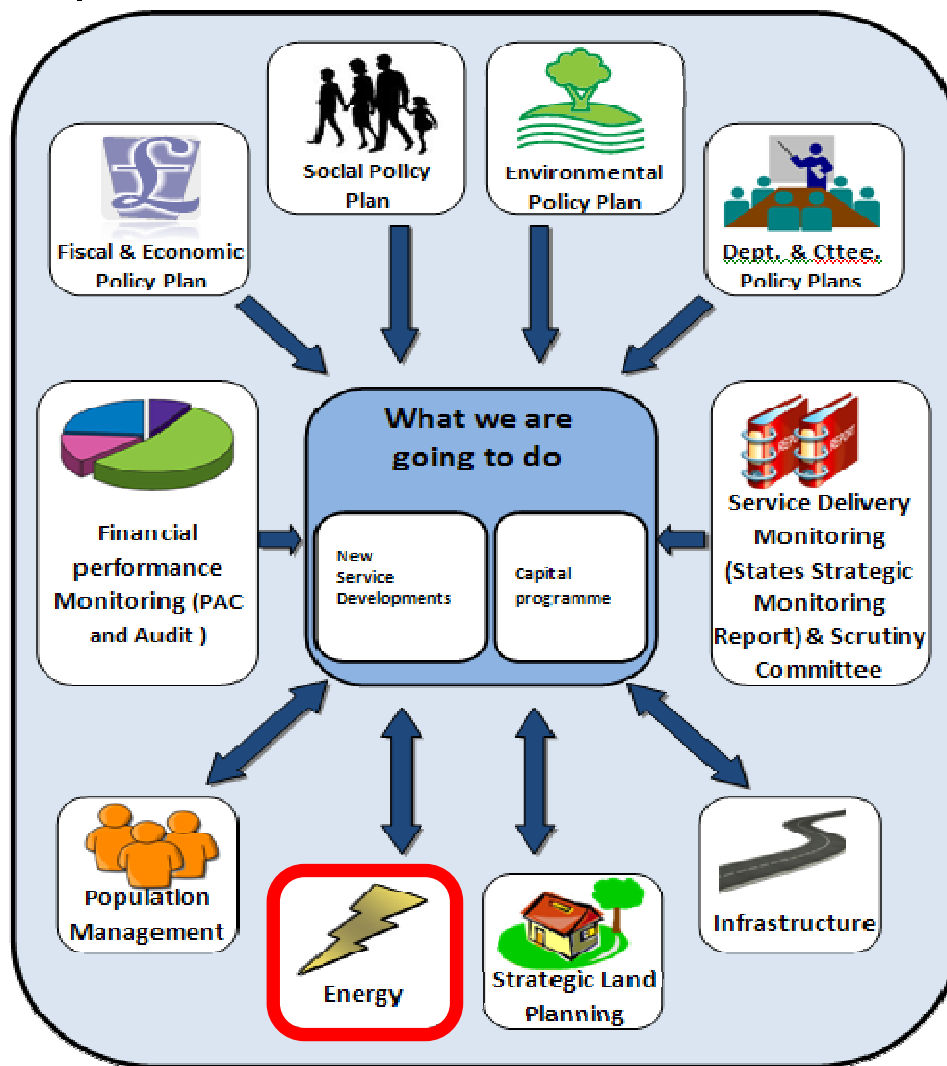
- 2.1 The Energy Resource Plan describes Guernsey's sources and use of energy and sets out key objectives which will affect future energy decisions. Its relationship with the States Strategic Plan is explained below and illustrated by the diagram on page 9.

The Energy Resource Plan's relationship with the States Strategic Plan

- 2.2 The Energy Resource Plan is one of the four Island Resource Plans (see diagram below) that form part of the States Strategic Plan. The other Island Resource Plans cover Population Management, Strategic Land Planning and Island Infrastructure. The Energy Resource Plan provides a high level strategic framework endorsed by the States to guide future decisions involving the use of energy.

The States Strategic Plan

A family of related plans



- 2.3 To support the delivery of policies aimed at achieving the economic, social and environmental objectives contained within the States Strategic Plan, the Energy Resource Plan takes a broad and long term view of energy use. More specific policies and guidance material will be directed by this Plan and published separately following the endorsement of this Plan by the States.

3. Introduction

- 3.1. Energy is vital to a modern economy. Reliable and secure sources of energy are needed to heat and light homes, for transport and for many business activities. Unfortunately, because the use of energy is taken for granted, insufficient thought is given as to where this energy has come from or what the consequences of using it might be. Energy can no longer be thought of in these terms.
- 3.2. For a number of years, the States of Guernsey have had a plan for energy provision. This plan needs to be updated to include environmental and sustainability concerns. The States of Guernsey previously joined the United Kingdom in committing to the principles of the Kyoto Protocol¹. However, the protocol is due to expire in 2012 and a new international framework is yet to be negotiated and ratified. Supplementary to the Kyoto Protocol, the UK has also passed legislation to tackle their carbon emissions. The Climate Change Act became a UK law in November 2008 and it set long term targets to be achieved by 2020 and 2050 respectively. As Guernsey is also committed to reducing its own levels of greenhouse gas emissions, we will look to review the current targets that are included in the 2008 Energy Policy Report and adopt similar targets to those set out in the UK's Climate Change Act. In this way Guernsey will be able to demonstrate that it is playing its part in taking urgent action to tackle

¹ The Kyoto Protocol is a binding agreement to reduce greenhouse gas omissions.

global climate change. The majority of our energy supplies are presently derived from burning finite fossil fuels. Our electricity supplies come from burning fossil fuel on-Island and importing lower carbon sources in Europe.

3.3. Consumers have already seen how energy prices react to world influences, which are beyond our control or our ability to mitigate. Energy prices are forecast to remain high and increase in the long term. This can have a very real and swift effect on our quality of life. By following the policies set out in this plan we can seek not only to improve the sustainability of our energy supplies but also to mitigate the rise in prices which is potentially harmful to our economy.

3.4. The Energy Resource Plan identifies current energy uses and summarises the Island's environmental, supply and demand side issues with respect to energy. The key challenge facing us is how to reconcile the demands of a modern growing economy with concerns for the future of our environment. We are using increasing amounts of energy at a time when energy prices are being driven upwards by the uncertainties of global politics and the realities of a declining energy resource. These issues are discussed in the following sections.

3.5. We will review our progress against the actions on an annual basis and review the Energy Resource Plan objectives every four years (or earlier if external changes affect the underlying assumptions upon which the Energy Resource Plan is premised).

4. Environmental Issues

Kyoto Protocol and International Developments

4.1. The Kyoto Protocol to the United Nations Framework Convention on

Climate Change (UNFCCC) was adopted by the conference in December 1997. Under the terms of the Protocol, developed countries agreed to binding targets with a view to reducing their emissions of six specified greenhouse gases by 5.2% overall from 1990 levels over the period 2008-2012. The Protocol permits countries to undertake their commitments jointly and the Member States of the European Community have agreed to meet the 8% overall reduction target assigned to them by the Protocol. Under the agreement, the 8% reduction target will be shared out between Member States to take account of different circumstances. The UK has agreed a reduction of 12.5%. Guernsey's greenhouse gas emissions are included as part of the overall figures for the UK.

- 4.2. However, the Kyoto Protocol is now coming to a close and as there is no indication of an international framework to supersede it, there is an opportunity for Guernsey to review its current energy targets. The United Kingdom established the Climate Change Act in 2008. This UK based law states its intent to achieve a 34% reduction of carbon emissions by 2020 and an 80% cut by 2050 (both targets are set against the 1990 baseline). Whilst it is not mandatory for Guernsey to conform to the Climate Change Act, similar targets can be used to continue its reduction in carbon emissions.

Guernsey's Current (2009) Emissions

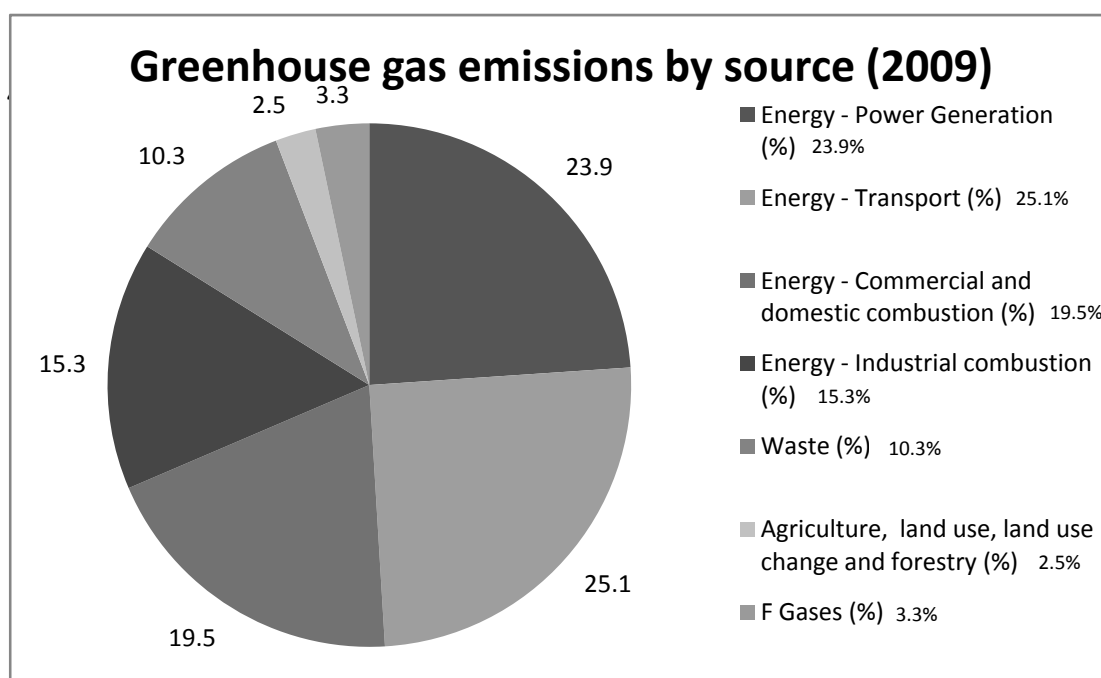
- 4.3. Energy use accounts for 83.8% of Guernsey's emissions by source – with Transport (25.1%) and Power Generation (23.9%) the largest areas. Since 2001 a significant proportion of the Island's electricity has been imported from France via a cable link. As the greenhouse gas inventory is "source based", which means it reflects only the emissions released from Guernsey, this cable link has led to a significant decrease in the amount of

emissions relating to power generation included in the Kyoto inventory.

- 4.4. Guernsey's Greenhouse Gas emissions are monitored in accordance with international standards. This means that emissions are recorded at point of source not point of use. This is relevant in relation to importing electricity from France. In relation to the carbon intensity of various fuels (including that used for generation of imported electricity), Guernsey uses the conventions adopted by the Carbon Trust. A large proportion of electricity imported into Guernsey from France in 2010/11 was from nuclear (i.e. low carbon) generation (64%), with some renewable electricity in the form of hydro-electricity.
- 4.5. There has been an argument that although the electricity imported into Guernsey has a low carbon intensity, drawing this power out of the European Power Grid may result in any gap being made up from carbon intense power generation (e.g. coal). However, even if this was the case in the short term, the whole of the European Power Grid is affected by carbon emission targets and energy policy decisions in every country contributing to the Grid will be influenced by the demands for low carbon power and the legally enforced carbon emission targets of the EU.
- 4.6. In June 2011 Guernsey Electricity and Jersey Electricity announced the signing of a new 10-year supply contract with Électricité de France (EDF) that guarantees Jersey and Guernsey low carbon supplies of electricity to 2023. The agreement is a positive step in further reducing the carbon footprint of the Island and specifies that around 30% of the supply will come from hydro-electric sources and the remaining 70% from nuclear sources.
- 4.7. Emissions from transport formed nearly 30% of energy emissions (and

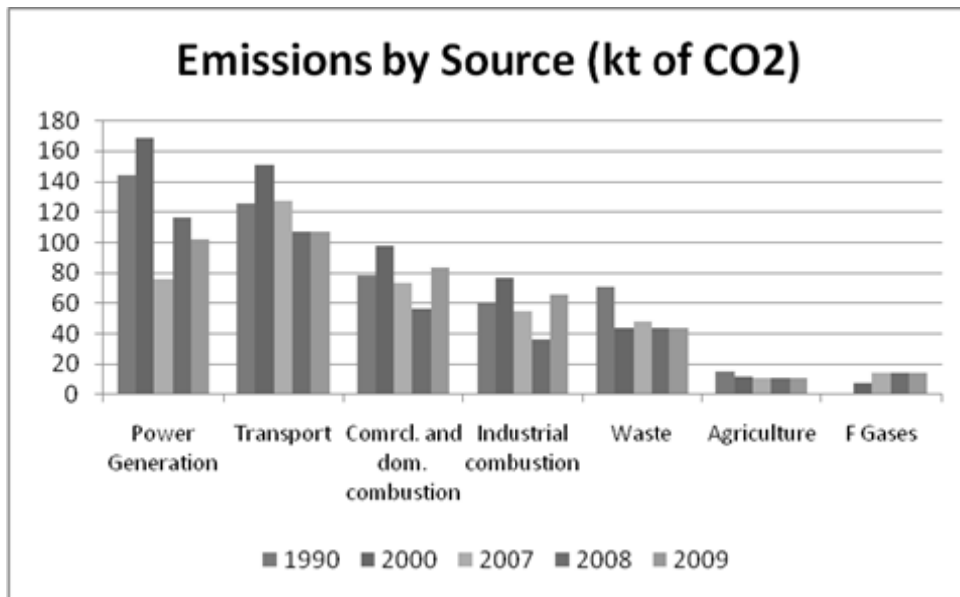
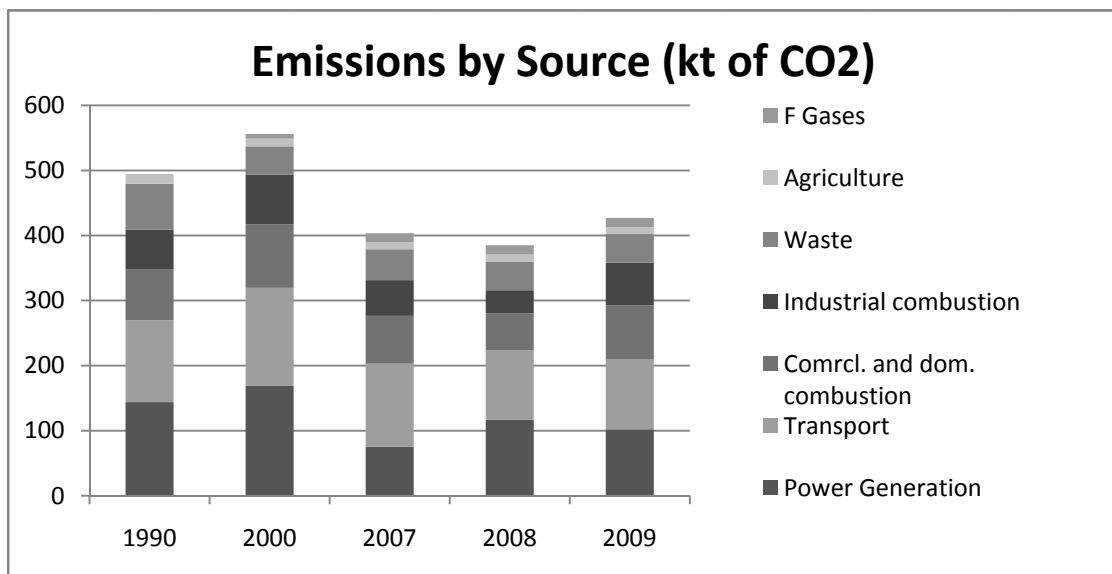
25% of total emissions) in 2009, with 80% of this portion of emissions resulting from on Island road transport. Figure 1 shows the percentage breakdown of 2009 emissions by source.

Figure 1 2009 Emissions by Source²



4.8. Figures 2 and 3 show the detailed breakdown of emissions in selected years since 1990. Under the Kyoto Protocol emissions are only counted at the point of generation not at the point of use. It is clear that the availability and use of electricity from the Channel Island Electricity Grid (CIEG) cable link from 2001 has had a major influence on emission trends. Differentials between the cost of electricity from local generation and that from the cable resulted in significant use of imported electricity in the early years after 2001, but an increased use of local generation in the later years. This has contributed to the recent trend of increasing total emissions.

² Greenhouse Gas Bulletin 2009, www.gov.gg/ghg

Figure 2 Emissions by Source 1990 to 2009³Figure 3 Emissions by Source 1990 to 2009⁴

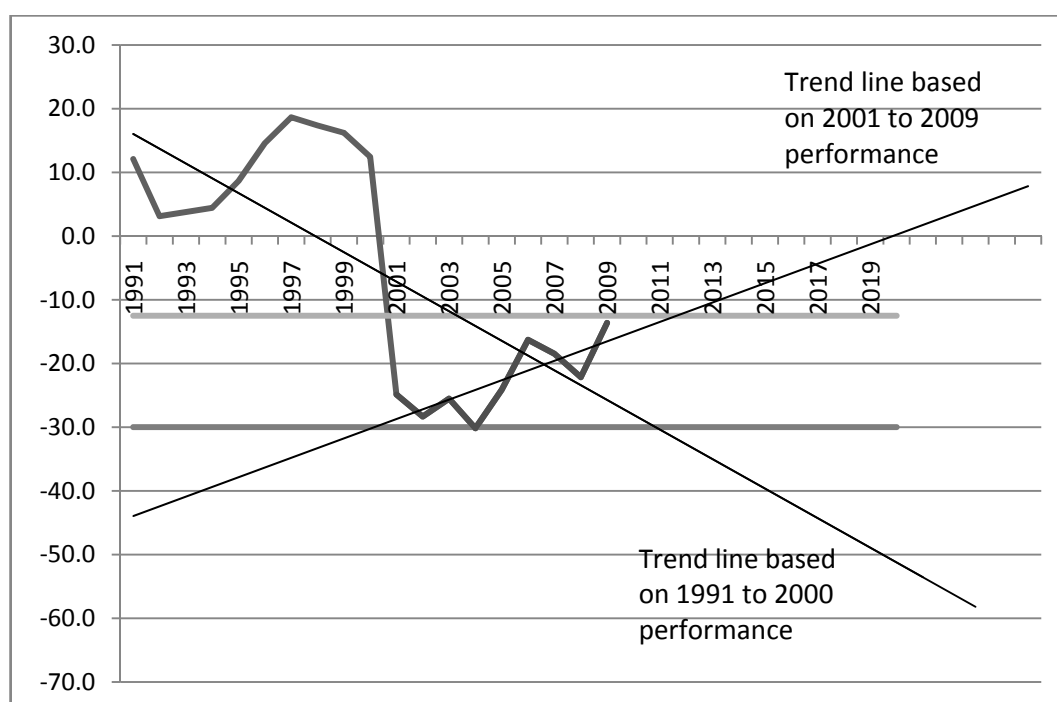
4.9. Guernsey's reduction in carbon emissions since 1990 is represented in Figure 4 and shows Guernsey performance against the 2020 target of 30% reduction from 1990 levels. The graph clearly highlights the impact of the CIEG cable in 2001. The trend line shows an overall reduction in emissions

³ Greenhouse Gas Bulletin 2009, www.gov.gg/ghg

⁴ Greenhouse Gas Bulletin 2009, www.gov.gg/ghg

and a simple trend forecast could suggest that Guernsey is likely to meet the 30% carbon emission reduction by 2020 - such a conclusion however may be misleading. The annual change in the level of carbon emissions appears highly volatile and the overall downward trend has been driven primarily by the 2001 steep change in electricity generation.

Figure 4 Performance against Carbon Emission Reduction Targets⁵



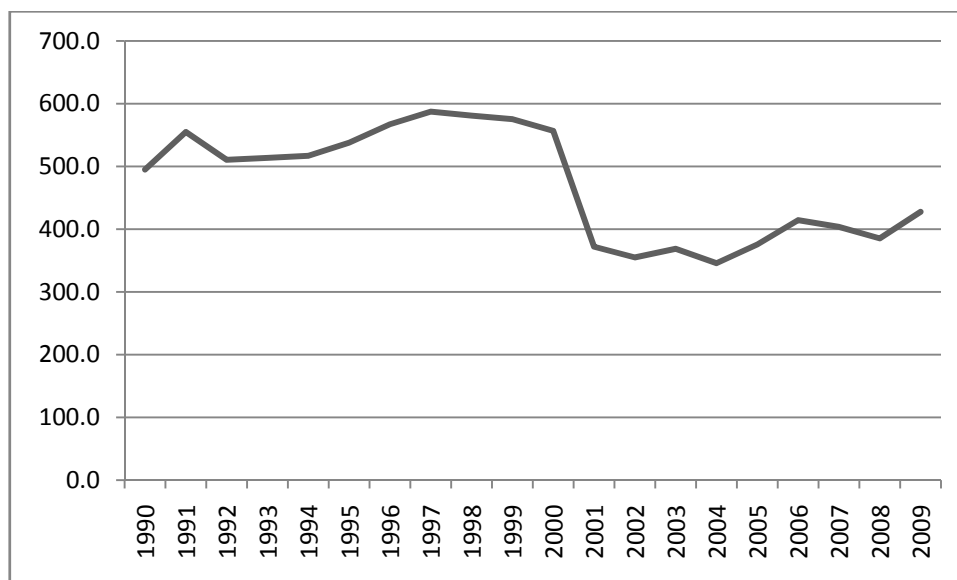
4.10. Unfortunately this change was essentially a “one off” step change and whilst its significance should not be understated, nor should it be allowed to mask the overall rising trend of energy consumption from fossil fuel in other areas of the economy. This is illustrated in Figure 5 which shows Total Green House Gas Emissions from 1990-2009.

4.11. A sounder and more realistic conclusion from the evidence is that, in the absence of further technological changes and direct action by the States,

⁵ Greenhouse Gas Bulletin 2009, www.gov.gg/ghg

Guernsey is unlikely to achieve a 30% reduction in carbon emissions from 1990 levels by 2020.

Figure 5 Total Green House Gas Emissions 1990-2009⁶



5. Demand Side Issues

- 5.1. The demand side of energy consumption requires full analysis and understanding and is increasingly important as the demand and supply of energy will become increasingly intertwined in the future. In the future energy users will demand power in a different way and at different times of the day (e.g. electric cars being charged over night); renewable generation is cyclical and intermittent which produces a specific supply profile which needs to be taken into account in terms of the generation mix; and as energy storage and smart grids develop the demand and supply of energy can be more closely matched. These factors will require

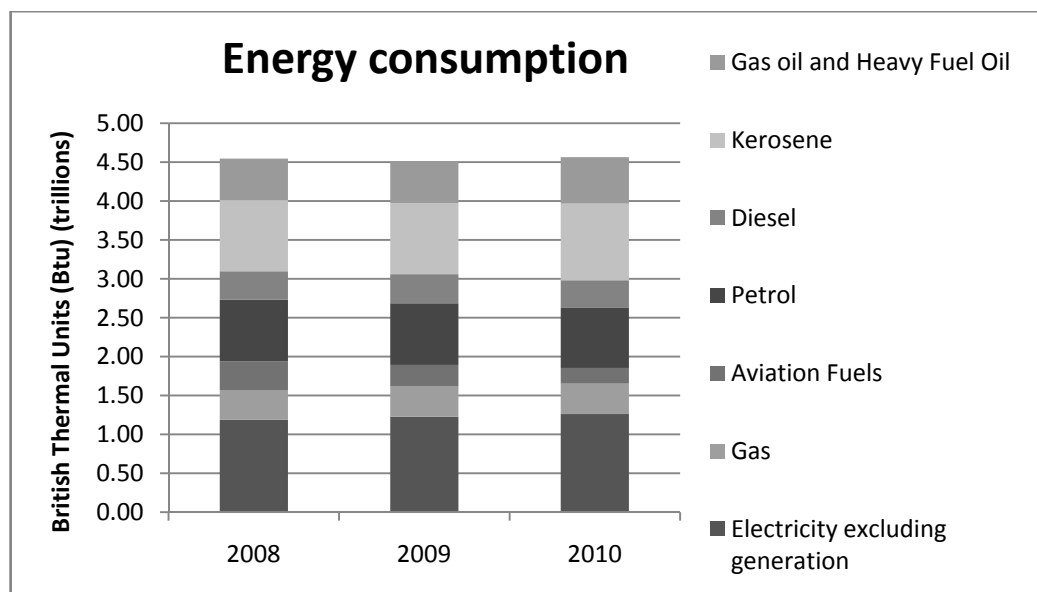
⁶ Greenhouse Gas Bulletin 2009, www.gov.gg/ghg

The Guernsey greenhouse gas emissions inventory is compiled by AEA Technology, the company which calculates emissions for the whole of the UK and British Isles on behalf of the Department of Energy and Climate Change (DECC). The figures published here should not be compared with those previously published.

future energy planning to be much more holistic with potential intervention in the demand side to ensure that it matches increasingly intermittent supply.

Total Energy Consumption

- 5.2. Figure 6 represents the total amount of energy supplied to Guernsey consumers, in the form of electricity, kerosene, gas and fuel oils. The data does not include energy consumed by the burning of other fuels such as wood and coal or home generation of electricity. This form of reporting was introduced in the 2010 Facts and Figures Booklet.
- 5.3. The figure demonstrates the total energy consumption over the three years to be fairly static. However there is considerable volatility over the years between the fuel sources in particular:
- Electricity increased by 6.5%
 - Gas Oil and Heavy Fuel Oils increased by 12.2%
 - Kerosene increased by 7.6%
 - Aviation fuels fell dramatically by 45.3%
- 5.4. It is worth stating that aviation fuel consumption has fallen dramatically not due to increased efficiency, but instead due to increased quantities of aviation fuel provided to consumers from outside the Bailiwick, mainly from the UK mainland. Without this switching of suppliers total energy consumption would have increased.

Figure 6 Guernsey's Energy Consumption (kt CO₂)⁷**Notes:**

Gas oil and Heavy Fuel Oil: Energy in the form of Gas Oil and Heavy Fuel Oil, as consumed by Guernsey Electricity in the generation of electricity on island (i.e. which is not supplied to customers), is not included in this category.

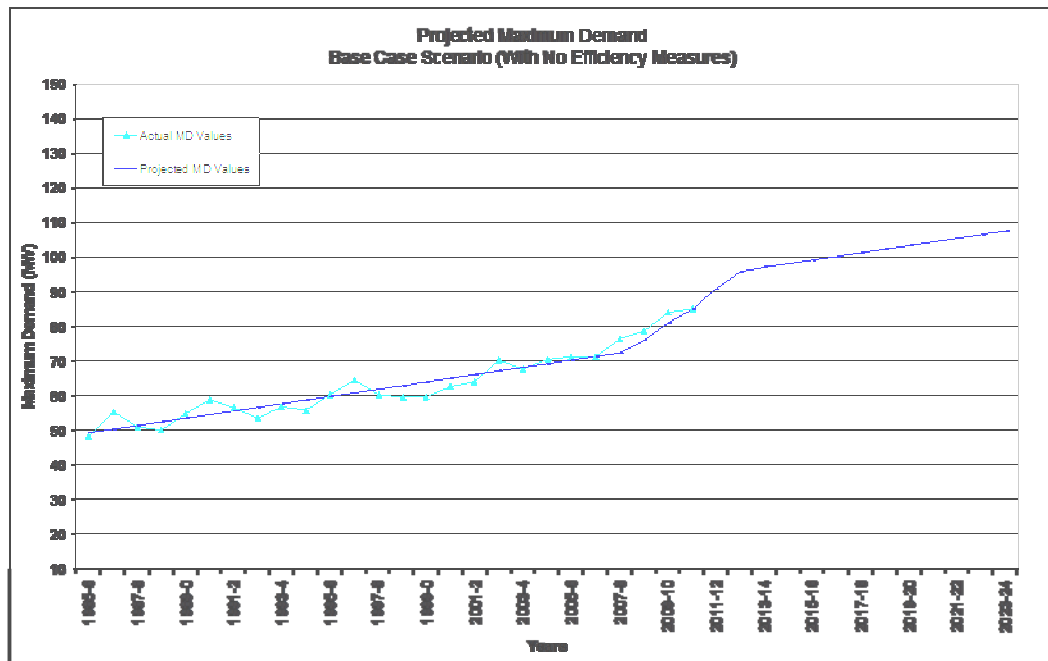
Gas figures presented are calculated from the Guernsey Gas accounts and as such annual figures represent usage between 1st July and 31st June. All other figures are based on calendar year.

Electricity Demand

5.5. The trends in maximum demand have shown general growth over the last twenty years, markedly since 2006. The maximum demand in 2000 was 63MW and in 2010 85MW, an increase of 35%. The upward trend in electricity demand since 1985/86 is shown in Figure 7. The growth for electricity has similarly increased, from 310 GWh to 400 GWh per annum, an increase of 30%, over the last ten years.

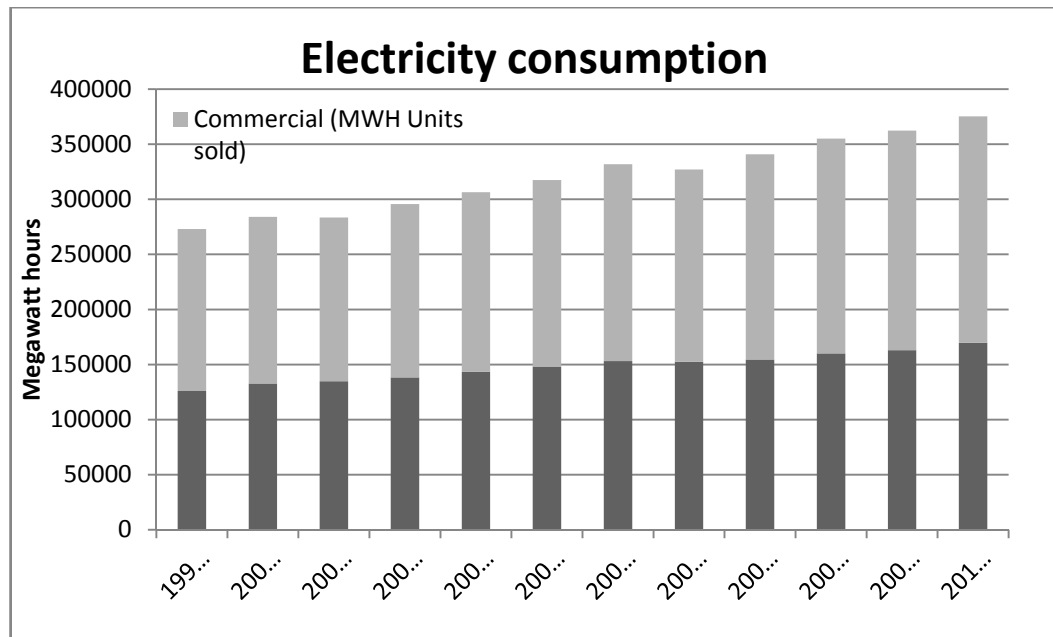
⁷ Source: Policy Council, States of Guernsey

Figure 7 Maximum Demand and Predictions⁸



5.6. Figure 8 disaggregates electricity consumption between domestic and commercial users. Commercial consumption has increased at a slightly higher rate than domestic consumption. The commercial proportion of electricity demand has increased gradually from 54% of the total in 1999/2000 to 55% in 2009/10.

⁸ Source: Guernsey Electricity

Figure 8 Guernsey's Electricity Consumption 1999/2000 to 2009/10⁹

5.7. The total electricity consumption per customer and per capita from 2006/07 through to 2009/10 is shown in Table 1 below. This represents the average amount of electricity consumed each day per capita and shows how per capita consumption has increased year on year since the data has been collected.

Table 1 Daily Electricity Consumption per capita by customer (kWh per day)¹⁰

	Domestic	Commercial	Total
2006/07	6.8	7.8	14.7
2007/08	6.8	8.2	15.1
2008/09	7.1	8.6	15.8
2009/10	7.2	8.8	15.9
2010/11	7.5	9.0	16.5

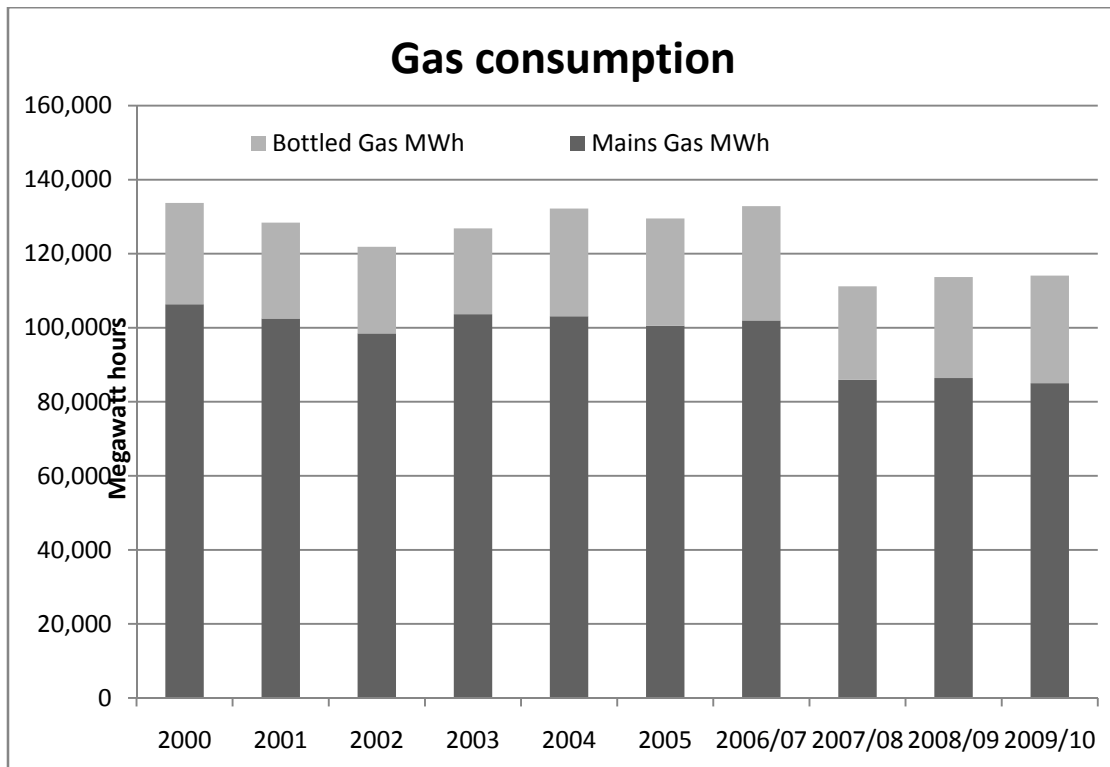
⁹ Source: Guernsey Electricity and Guernsey Population Bulletin

¹⁰ Source: Guernsey Electricity and Guernsey Population Bulletin

- 5.8. The data shows small increases year on year in per capita consumption for both domestic and commercial use. It is important to remember that growth in consumption is not necessarily a “bad” outcome provided that two conditions are met – it represents productive and not inefficient use of electricity and that the electricity used is low carbon where it is replacing higher carbon alternatives. It appears likely, however, that there is scope for both domestic and commercial users to use electricity more efficiently.
- 5.9. The increase in demand for electric heating and the development of data centres are two of the underlying reasons for this additional load. Whilst population has also grown slightly in recent years household consumption has increased on average as electricity becomes a greater part of lifestyle activities.
- 5.10. Over the past few years Guernsey Electricity has introduced smart metering which, whilst not necessarily directly linked to demand, enables greater information to be available, and allows remote interaction with the meter, without needing to read or enter the premises. It additionally removes the need for estimated bills. 95% of all Guernsey Electricity customers currently have a smart meter installed. These meters will allow customers to receive more detailed energy consumption information, and take any actions to change their consumption behaviour, and minimise their costs if they wish to do so.

Gas Consumption

- 5.11. Total gas consumption including bottled gas and mains gas (and mini bulk sales) from 2000 to 2009/10 is shown in Figure 9.

Figure 9 Guernsey's Annual Gas Consumption (MWh pa)¹¹

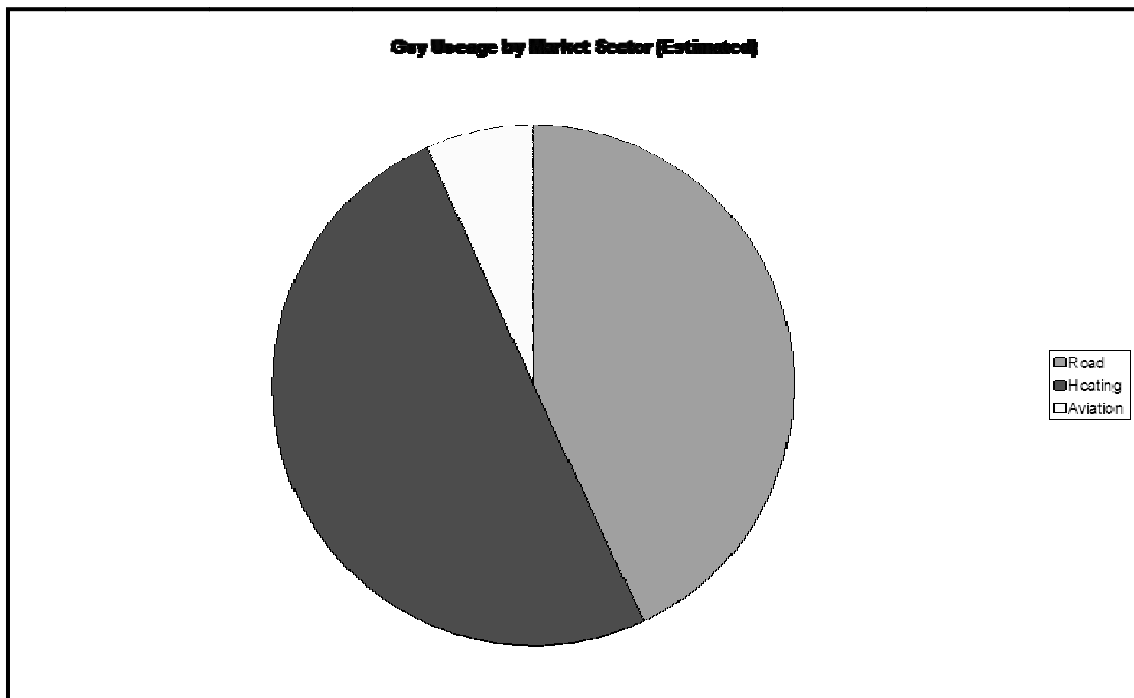
5.12. The figure highlights a downward trend in total gas demand with a 20% reduction in gas demand, but as with previous figures the overall trend masks significant differences within the market. Since 2000 bottled gas demand has increased by 6% whilst mains gas demand has fallen by 20%. These changes have been driven by more efficient appliances plus migration to other forms of energy.

Oil Demand

5.13. The Guernsey oil demand is approximately 100,000 cubic metres per annum, which represents approximately 0.1% of the overall UK consumption. The split into market areas is as shown in Figure 10.

¹¹ Source: Facts and Figures 2010 Policy Council

Figure 10 Guernsey Oil Demand 2010¹²

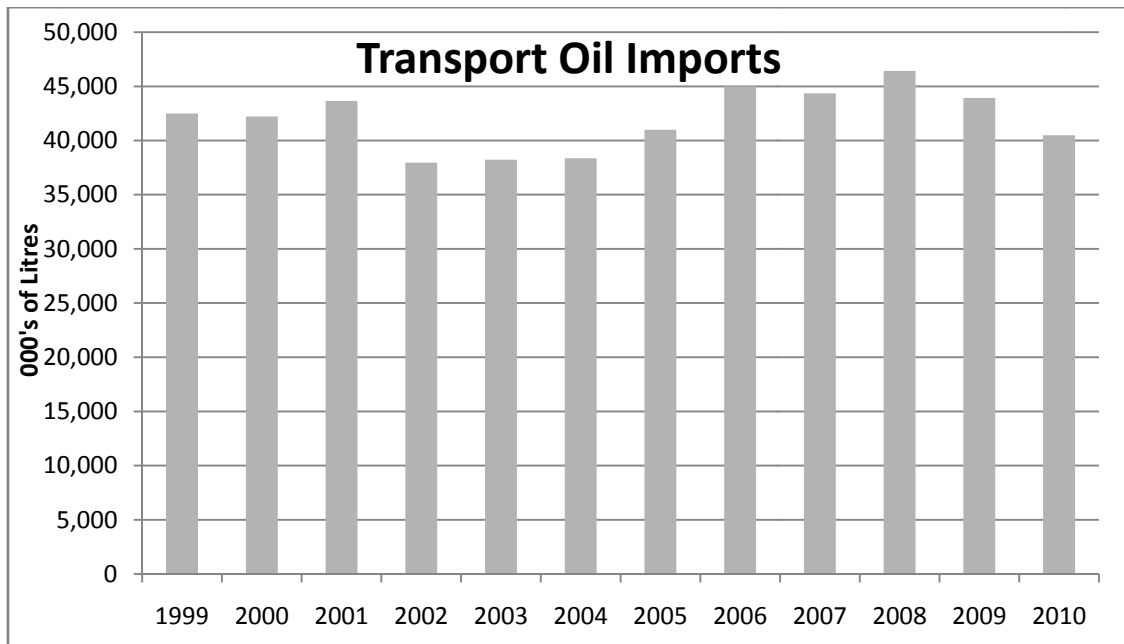


5.14. The UK sales by grade, after allowing for the UK's much larger volumes for aviation, show a similar trend.

5.15. The use of diesel and petrol accounts for around 31% of oil supplied to the Island and fuels for transport contribute up to 25% of our greenhouse gas emissions, the second largest contributor. This makes it an important area for the reduction of our energy consumption. Many Guernsey residents have become heavily dependent on the private car and the flexibility and freedom it provides. The Environment Department is in the process of reviewing the States' Integrated Road Transport Strategy. The aim of that strategy is to provide a sustainable transport system which accords with the economic, social and environmental objectives of the States of Guernsey.

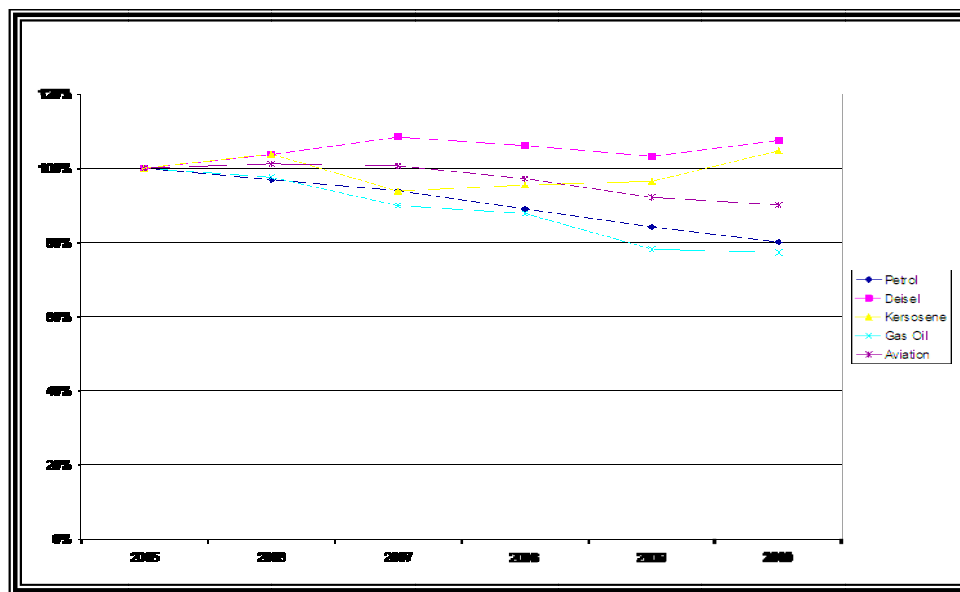
¹² Source: Rubis & Total Estimates. Excludes oil for electricity generation.

Figure 11 Guernsey's Transport Oil Imports 1999 - 2010 (000s litres)¹³



5.16. The consumption in Guernsey is following a similar pattern to the UK (except aviation), whose trends in petroleum products are shown below.

Figure 12 UK Demand for Oil



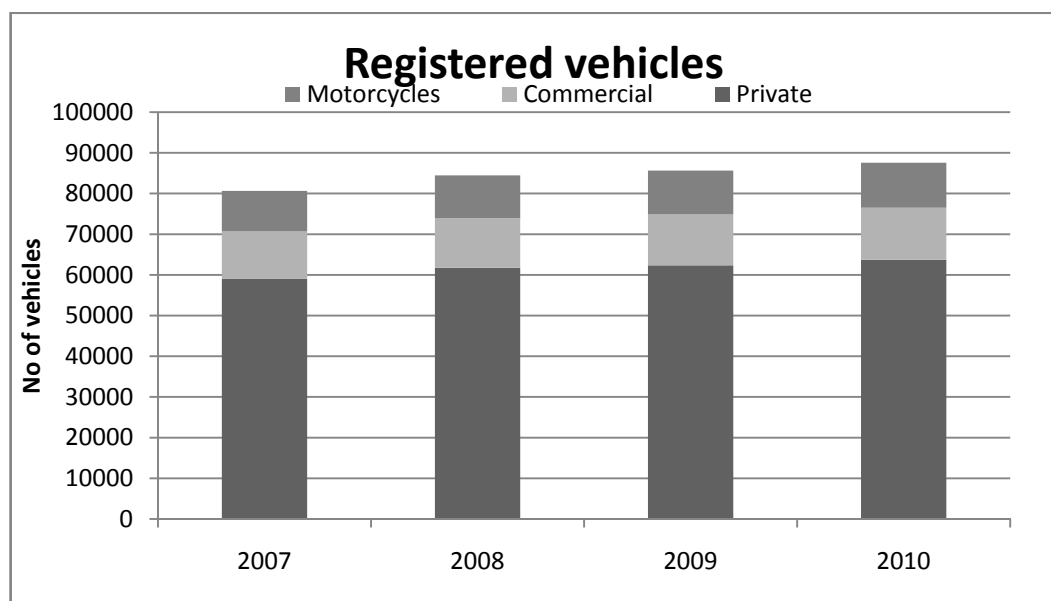
¹³ Source: Facts and Figures 2011 Policy Council

5.17. The changes in consumption are primarily based on more fuel efficient equipment (cars, boilers, insulation, engines etc), as well as a directional change from petrol to diesel for private transportation.

5.18. Transport is also virtually exclusively powered by oil Products

5.19. The Island has high private car ownership levels, and with increased economic success there has been a trend to the purchase of larger vehicles. As at 31 December 2010, Guernsey had 62,349 cars and light vans, 12,796 commercials and 11,047 motorcycles registered. Guernsey has 45,000 active provisional and full driving licences. The annual figures from 2007 to 2010 are shown in Figure 13.

Figure 13 Guernsey's Vehicle Registrations 2000 - 2010¹⁴



5.20. Improvements in vehicle technology and the increasing use of diesel fuel have helped to offset the impact of the increase in registered vehicles on fuel consumption. Fiscal measures are already in place to encourage the

¹⁴ Source: Facts and Figures 2010 Policy Council

driver to adopt a more energy-efficient approach: a significant percentage of the cost of a litre of road fuel is duty. To date policies have been aimed at promoting consideration of the need for each individual journey. However, as many car owners will feel that once a vehicle has been purchased it should be used, a key challenge remains in persuading against vehicle purchase in the first place. We may need to consider fiscal approaches at initial purchase and with on-going running costs, as adopted in some other countries and from whom Guernsey may learn valuable lessons if we are to meet carbon reduction targets.

Heat and Light Demand

- 5.21. Improvements in energy consumption in the domestic and commercial sectors have for some time concentrated on space heating. The desire for better working conditions in offices has created additional cooling demand and further energy consumption. Regulatory approaches have been used across all sectors of the industry to improve thermal efficiency of all new buildings and extensions to existing stock, thereby improving energy efficiency.
- 5.22. Locally the building regulations were last updated in 2006 when the thermal requirements were raised from the UK's 1995 position to the 2002 standards. This was a considerable improvement for the industry to adopt and at that time it was always envisaged that further improvements would be necessary.
- 5.23. The Environment Department has recently begun work on revising the legal framework of the Regulations to enable the Department to accept emerging technologies and to consider alternative approaches to compliance with the functional requirements. With respect to energy efficiency, this will mean that the Department will be able to review the

approaches taken by other jurisdictions and enable it to develop policy tailored for Guernsey. Consideration must be given to the Island's geographical location, its reliance on the importation of building materials balanced with any potential negative effects on the construction industry and its contribution to the economy of the Island.

- 5.24. Setting higher standards for energy efficiency in the design, build and operation of homes will have a number of consequences and need to be fully understood before determining the appropriate policy for Guernsey. This includes accepting that energy-efficient homes may look different to more traditional forms of building, that this may have cost implications and may impact on the rights of the property owner in terms of how buildings are designed and laid out.
- 5.25. Work on the actual revision of the functional requirements and the 'deemed to satisfy' guidance relating to the conservation of fuel and power will commence this year and will require a comprehensive consultation process. However it can be assumed that any ultimate improvement measures proposed will be similar to the recent UK version, focusing on energy conservation and sustainability measures.
- 5.26. It is possible to construct properties with very low heat energy requirements, but the cost of achieving this have to be considered. Looking to the example of other countries, particularly those in Scandinavia, it is clear that this area of work will continue to provide scope for energy savings in the future. Similarly, there are emerging technologies, such as heat pumps and small scale combined heat and power, that will provide energy for the home or business premises which use energy in a very efficient manner. It is clear, however, that the capital cost of such technically advanced systems will act as a constraint upon

their wide scale deployment, and that it may be necessary to provide subsidy in one form or another to push the market. Such subsidies are common in other developed countries.

5.27. The emerging review of the Strategic Land Use Plan (SLUP) for Guernsey will provide the overarching strategic framework for the consequent revision of the Development Plans, currently known as the Urban and Rural Area Plans; these were adopted in 2002 and 2005 respectively. Whilst neither of these plans currently contains policies relating to energy efficiency, there is an expectation that relevant policies will be developed in an Island-wide context rather than focusing on sub-areas. These policies will be guided by the Strategic Land Use Plan and will be based upon the principles of promoting sustainable development, of which energy use forms an integral part. Moreover, the Land Planning and Development (Guernsey) Law, 2005 and the subsequent Land Planning and Development (Environmental Impact Assessment) Ordinance, 2007 have introduced the need for the main significant effects of certain scheduled developments to be assessed; these include inter alia, the need to address any impacts on the use of natural resources, including energy use.

5.28. The conservation of energy by reducing consumption has a major role to play in our attempts to limit the impact on the environment. By reducing our consumption of fossil fuel derived power we are reducing the amount of carbon dioxide released. While this will reduce in any event if we are able to switch to carbon neutral energy supplies, it is clearly better to save energy than to generate it. This approach benefits consumers financially, especially as energy prices continue to soar. It will form an important part of our approach.

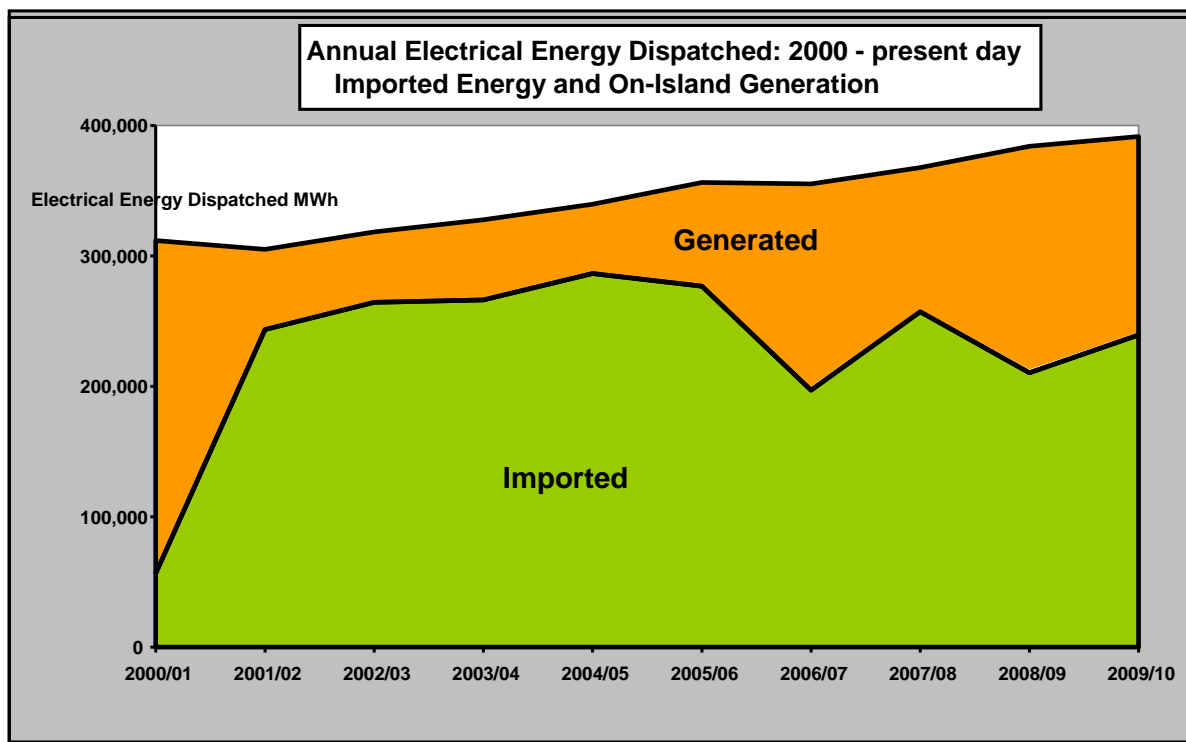
6. Supply Side Issues

6.1. We recognize that it is essential for energy suppliers on the Island, due to the capital intensity of their industries, that the Energy Resource Plan provides clarity and certainty to allow business planning, and so that any private sector investment can be made with reasonable levels of confidence. The intention is that the States, through this Energy Resource Plan sets out a clear vision of Guernsey's future energy markets which will provide the energy suppliers with certainty to assist their future capital investment.

Electricity

6.2. Figure 14 below shows how the demand increases described in Section 4 have been met, using the least cost economic dispatch principle (commonly referred to as the "merit order"), from either generated or imported energy.

Figure 14 Annual Electrical Energy Dispatched 2000/01 to 2009/10¹⁵

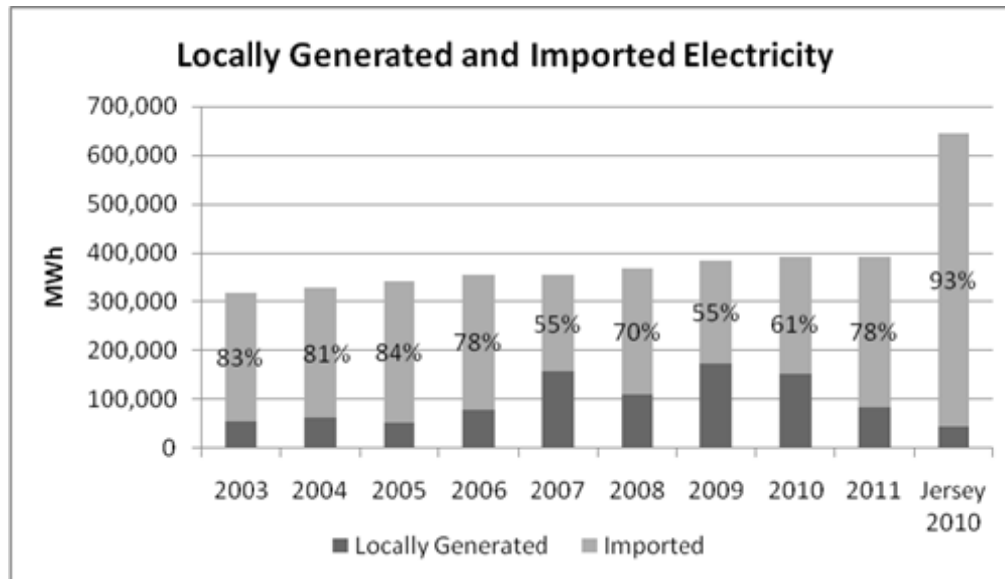


¹⁵ Source: Guernsey Electricity

- 6.3. The Jersey - France electricity links currently have a total capacity of 145MW compared with Jersey's peak demand of 158 MW. Guernsey contributed to the costs of the second Jersey – France cable when it was installed in 2000 and has the right to draw at least 16MW (guaranteed capacity or firm capacity) from France and pass it through Jersey and the 55 MW cable to Guernsey. Additionally Guernsey Electricity can use capacity greater than the 16 MW if Jersey does not need it, which is very often the case.
- 6.4. Discussions are taking place on the possibility of Guernsey joining a Jersey Electricity project to install an additional 100 MW cable Jersey – France. In return it is anticipated that Guernsey would increase its guaranteed capacity over the network by 24 MW making 40 MW in total.
- 6.5. However despite this increase in firm capacity, the single Guernsey – Jersey cable remains a “single point of failure” meaning that there is no alternative route (resilience) for imported electricity, should supply through this link be interrupted. A fault with the submarine cable could take at least six months to rectify.
- 6.6. In 2001 this issue of strategic independence of electricity supplies was raised amid concerns of what would happen if supply through the cable link to France via Jersey was interrupted. The “n-2” principle was adopted, subsequently confirmed in a 2005 report to the States and not changed in the 2008 Energy Policy Report.
- 6.7. The 2005 States resolution was “To confirm their commitment to the existing policy of retaining sufficient sources of electricity to meet requirements, in any circumstances where two such sources (on-Island generators or the Channel Islands Electricity Grid (CIEG) cable link to

France) were unavailable at the same time (the n-2 policy)".

- 6.8. When the n-2 policy was first introduced, Guernsey Electricity Limited) GEL had a particular mix of diesel generators and guaranteed cable capacity to meet predicted demands and gas turbines to cover for unexpected peaks or supply failures. The increase in the guaranteed cable capacity changes that mix, so that more on-Island generation capacity is required as standby generation plant, which in turn imposes additional costs on consumers.
- 6.9. The consequence of the present arrangements and the proposed new Jersey/France cable is that Guernsey may be able to import 95% of its electricity from France, but will still be dependent on the use of local fossil fuelled plant to meet high demands during the winter. The fossil fuelled plant will also be required to provide supply security given the single cable to Jersey and to provide economic generation in the event that prices in Europe rise above local generation prices.
- 6.10. Figure 15 below shows the proportions of locally generated and imported electricity supplied in Guernsey over the last 7 years (to 31st March) and a comparison with Jersey (for 2010).

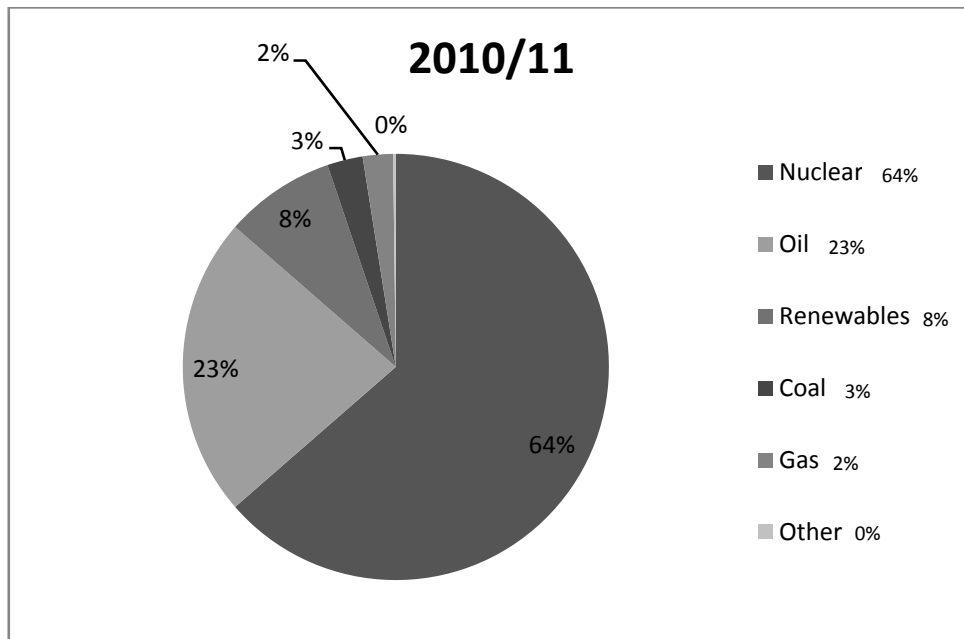
Figure 15 Locally Generated and Imported Electricity

6.11. The November 2010 Office of Utility Regulation's (OUR) Consultation on the Guernsey Electricity Price Control (OUR 10/13) raised issues about the interpretation of the n-2 policy and whether or not the cost of maintaining strategic independence should be borne equally by all customers. With the advent of time and changed circumstance, it is appropriate for us to revisit the 'n-2' policy as part of the implementation of this Energy Resource Plan.

6.12. A disaggregation of electricity sources in 2009/10 is shown in Figure 16. In Guernsey Electricity's 2010/11 accounting year 64% of Guernsey's electricity originated from nuclear power imported by the cable link with France. This represents a significant increase of 14 percentage points from the previous accounting year. Oil generation, which includes electricity generated on-Island, accounted for 23% of the electricity consumed in 2010/11. This represents a continuing downward trend; figures in the two previous years were 46% and 40%. These changes, however, are being driven only by changes in the international prices of oil and electricity since Guernsey Electricity at present is mandated to follow a "least cost"

approach. Since 2008/09 renewables (wind and hydro) as a proportion of electricity generated (i.e. imported over the CIEG cable has increased from 5%, to 6% and 8% in 2010/11.

Figure 16 The Origin of Guernsey's Electricity 2010/11¹⁶



6.13. Purely from the perspective of meeting local electricity demand, a long term strategy on the mix of local generation and supply through a cable network needs to be developed, possibly involving a new direct cable link to France or an additional cable to Jersey.

6.14. The Islands interconnector cable strategy should also take into account the possibility of electricity export to Jersey, France or the UK by “statistical transfer¹⁷” through the CIEG network of any surplus renewable energy generated by Guernsey or Sark. Further cables to the continent, whatever the route, may give rise to opportunities to work collaboratively

¹⁶ Source: Guernsey Facts and Figures 2010, 2011 Policy Council States of Guernsey

¹⁷ Statistical transfer of electricity is where one jurisdiction with excess renewable energy can sell the value of its surplus power to another member state. The power / physical flow of electricity is not actually transferred between jurisdictions, only the renewable value of the electricity is transferred

with other private sector companies, in telecoms for example, to lay dark fibre at the same as the electricity cable and so allow both parties to benefit from economies of scope and reduce the costs compared to investing separately.

- 6.15. At first glance the application of a bias in the merit order for using locally generated or cable electricity has some immediate attraction in reducing local carbon emissions. With guaranteed capacity in the cable increased to 40 MW it is estimated that up to 95% of Guernsey current requirements could be met from imported electricity, but this proportion will reduce as Guernsey and Jersey's consumption increases.
- 6.16. There may however be a perverse energy market consequence in that if any additional costs of such a bias are passed on solely to the electricity customer, as opposed to being spread across the whole energy market or covered by some form of subsidy, this could make other forms of heating based on fossil fuel a more competitive option and therefore lead to increased carbon emissions.
- 6.17. Therefore the introduction of any bias in favour of "more expensive" imported low carbon energy (or indeed renewable energy) should not be considered in isolation, but as part of this comprehensive Energy Resource Plan.
- 6.18. It is likely that electric vehicles will become more prevalent on Guernsey's roads and this will have an impact on the electricity infrastructure around the island. An increase in such vehicles, or similar, should be matched by alternative renewable energy generation to maximize the overall benefit available. Driving electric cars which are basically powered by electricity generated in traditional ways (e.g. through fossil fuels) is missing out on

the overall available benefits. However, driving such vehicles when they are powered by genuine macro renewable electricity should be a very attractive option for jurisdictions such as Guernsey.

6.19. Guernsey Electricity is planning a large capital investment programme in the next five years as part of its asset management replacement programme. The States has traditionally adopted a “Save to Spend” policy with regards to its trading companies i.e. current customers contribute towards the capital investment up front from which customers in the future will benefit. Whilst this may have been appropriate for simple organic growth, such a funding model might not be sustainable when faced with large capital costs and underlying wholesale cost increases (e.g. prices did not have to increase to fund the original CIEG cable investment as they were already artificially high and the cost of sales were not rising to the same extent as now). Relying on the Save to Spend policy is likely to require an unacceptably large increase in electricity prices and the company’s profits in the short term – or if staggered over a longer period may take so long that we will fail to decarbonise our economy and meet our targets. It may be necessary for the States to consider alternative sources of funding for significant, specific, planned Guernsey Electricity’s capital projects (whilst maintaining States ownership of the company). This may include reviewing the appropriate capital structure for the company (i.e. allowing debt finance) and or considering working in partnership with the private sector.

6.20. This commentary on supply side issues has been written during a time of significant changes in the global market for energy. The long term effect of some of the changes listed below is not fully known, however they will affect the availability and price of power (nuclear and other) from Europe to Guernsey.

6.21. The UK government's plans for the greater role of nuclear energy were developed prior to the March 2011 Fukushima nuclear disaster in Japan. This is currently believed to lead to a two year delay into EDF Energy's plans to build Britain's first new reactor by 2018, which may pose significant problems for the UK Government. More than 20 coal, oil and nuclear plants will shut in the next decade and if the new generation of nuclear plants is delayed, then the shortfall in supply will have to be met by gas-fired stations, which will hinder the UK Government's ability to achieve its carbon emission target. The UK has further revisited its targets from renewables with offshore wind generation falling from its original target of 33GW by 2020 to only 12GW.

6.22. The Fukushima nuclear disaster has had far reaching consequences for the energy sector across Europe. For example Germany announced in May 2011 that it intended to cease any supply from nuclear power stations in Germany in the next decade. This will put pressure on other non-nuclear supplies and the overall supply and price of energy within Europe.

6.23. The Middle East has been experiencing political unrest in 2011 and as a region accounts for 21.5% of total world oil production.¹⁸ The world demand and supply for oil is finely balanced and influenced by complex geo-political issues.

6.24. Both the above issues will affect the timing of "Peak Oil", which is the moment when the supply of oil is, for technical reasons, no longer able to keep up with demand. In effect, it has to be accepted that the era of "cheap oil" is over and, increasingly, with output from many of the world's oilfields now depleting, future demand will only be able to be met through

¹⁸ BP Statistical Review of World Energy 2010

bringing new resources into production using increasingly expensive techniques, for example deep-sea drilling, or through converting “unconventional” resources such as Canadian tar sands.

6.25. The exact timing of “Peak Oil” is open to interpretation, as this depends on a number of different factors:

- Future increases in demand which as a result of energy conservation measures and the development of alternative energy sources is likely to be flat in developed countries but to increase sharply in emerging economies.
- Investment by major oil companies in increasing the productivity of current resources and in bringing new resources into production.
- The development and use of alternative fuels such as nuclear, natural gas, and renewables, as well as measures to conserve energy.
- The consequences of external factors, such as the Fukushima incident referred to above, and the “Deepwater Horizon” oil spill in the Gulf of Mexico in 2010 as well as geopolitical events such as political unrest in oil-producing countries.

6.26. Whatever the date, the likely consequences of reaching “Peak Oil” include increasing oil prices, increasing volatility in oil prices and possible disruptions to supply. All these would have potentially very significant consequences for the Island’s economy.

6.27. There are many different projections as to when “Peak Oil” is likely to occur, from the most pessimistic, that it has in fact already occurred, to the most optimistic that, at least in the foreseeable future until about 2035, production can be expected to keep up with demand. In general it is expected that it will occur at some time between now and 2030, with 2020 often mentioned as a likely date. Firm action to conserve energy and

develop alternative energy resources would defer the “Peak Oil” event

Gas Supplies

6.28. As is the situation with the Island’s two oil importers, Guernsey Gas relies on specialists to load, transport and offload Liquid Petroleum Gas (LPG) to the Island. It is believed that there are very few carriers available who can deliver the small volumes of LPG (propane and butane) associated with Guernsey. When this is combined with the requirements and restrictions of St Sampson’s Harbour it can be seen that the availability of suitable vessels is further limited. Security of supply in terms of the supply chain is therefore a risk for all importers of fuel through St Sampson’s Harbour.

6.29. The gas supply infrastructure in Guernsey can be divided into two elements;

- The LPG bulk and cylinder supply operations which rely on distribution via the road transport network and;
- The town’s gas (LPG/Air) supply which is distributed by underground gas mains.

6.30. The LPG bulk and cylinder business mirrors the UK model and effectively allows off grid customers to use gas for heating, hot water and cooking. Also associated with the cylinder business are leisure activities, such as barbeques. LPG is a standard product and the availability of CE marked appliances should continue provided the UK/European LPG market remains.

6.31. The Guernsey Gas underground distribution system consists of cast iron and polyethylene constructed gas mains. As with other utilities that use underground infrastructure, there is a requirement to upgrade and replace these networks over time. Guernsey Gas is likely to have to

continue replacing its aging cast iron infrastructure in the future as part of its Mains Replacement capital expenditure programme.

6.32. Gas appliance manufacturers do not produce standard appliances to operate on Guernsey's LPG / air mains gas. Hence appliances are modified, adjusted and or converted to operate on the Islands LPG / air mixture. Such modifications are allowed in Guernsey due to local legislation. One of the benefits of adopting a standard type of gas (natural gas or neat LPG) is the access to a wider range of appliances without the need to modify or convert them. There are various alternatives available for the Island to migrate to a standard gas type, convert to neat LPG or natural gas via a pipeline, Liquidised Natural Gas or Compressed Natural Gas.

6.33. The introduction of natural gas to the Island via a pipeline has been assessed in the past, not only to supply network customers with a standard gas, but also to be used for the generation of electricity. The commercial viability of these options will need to be reassessed. To take full account of utilising natural gas in the future for power generation, carbon capture would also need to be considered.

6.34. The option for integrated pipelines to the Island should be assessed when considering the offloading infrastructure improvements required at St Sampson's Harbour.

Oil Imports

6.35. Rubis and Total¹⁹, the Island's two oil importers rely on the two, States owned, "Sarnia" tankers, which from a safety perspective may only be able to operate in Guernsey waters for another 10 years due to changes in international standards²⁰. A deep water berth or similar solution might be the long term objective to ensure a selection of vessels, from different operators, are always available to supply into Guernsey. The current situation increases the risk of supply difficulties due to safety related issues. This is not believed to be viable without a suitable deep water berth able to take larger capacity vessels.

6.36. Currently both oil importers rely on one shipping company and there a limited number of vessels capable of discharging in St Sampson's harbour and this latter point exposes Guernsey to a high risk. For example should refineries reject the vessels and/or the operator for any safety related reason, the Island would be left in a critical supply situation almost overnight. This "supply critical" situation has already been experienced in recent years and for prolonged periods of time although these critical situations occurred prior to the States of Guernsey acquiring the Sarnia Cherie and Sarnia Liberty.

6.37. Tidal conditions in St Sampson's Harbour mean that there are significant periods of time, when vessels cannot dock and if a tidal window is missed, due to operational problems and weather conditions, delays, typically over a week in duration, can be all too common. This puts the basic security of supply at risk, and should this ever occur to both oil importers simultaneously, then supplies could be expected to be exhausted relatively quickly. Neither location has sufficient land or cost justification

¹⁹ At the time of writing Total UK (including its CI operations) is subject to Sale and Purchase Agreement with DCC now seeking to acquire the Channel Islands and Isle of Man operations from Rontec.

²⁰ JamesCo's (the owner of the Cherie and Liberty) assume 20 year asset lives for depreciation accounting purposes and believe that any changes in standards would have a long lead in period and that instead of a deep water berth the cheapest solution might be to simply replace the vessels when necessary.

(in the current market) for significant additional storage to reduce this risk.

6.38. There are also risks that are encountered when discharging fuel vessels in a built up environment with no ability to move a vessel somewhere safer due to the Not Always Afloat But Safely Aground (NABSA) nature of the harbour. Land is a finite and extremely valuable resource in an Island such as Guernsey and we need to ensure that we take into account competing demands for this resource so that we maximise the benefit to the island. In addition, the existing fossil fuel storage sites have development exclusion areas known as Development Proximity Zones (DTZs). The removal of the fuel storage and therefore the DTZs could potentially free up existing land for development for other uses.

6.39. Maintaining or improving the security of supply also means regular investments from the energy players. Such investments can only be implemented if a level playing field for all energy suppliers is in place and the overall market place is equitable and balanced. The desire to move to different fuels for vehicles (e.g. compressed gas or hydrogen) would require major investments in the fuel delivery infrastructure. The absence of a natural gas direct supply line aggravates this situation. Other alternative fuels for vehicles (e.g. electric) may have a lesser effect on the delivery infrastructure. The promotion/ distribution of bio-fuels should require less investment if the existing liquid fuel distributors are involved in the supply chain. Production of bio fuels on Island has not been identified as a preferred option, given the absence of suitable quantities of raw materials or land.

6.40. The emerging use of Bio Fuel presents several key issues for Guernsey. Most European refineries are currently phasing out non bio fuel

production (as all of Europe must have bio fuel components added), so sourcing supplies will become increasingly more difficult, and probably attract premium prices from refineries. Any potential introduction of bio fuels would introduce several changes and risks for the oil importers to manage. In the first instance petrol blended with ethanol (the bio component for petrol) cannot be transported by sea. This would result in the import of ethanol into Guernsey, and its associated storage prior to blending on the Island. This external development in the supply chain could potentially require additional pipelines to both terminal locations and additional storage tankage. Secondly the bio component of Diesel (FAME) is suitable for road diesel but can impact heating/ marine applications. Bio fuels have a considerable cost implication to the refinery, and throughout Europe, where the Bio Fuel duty is reduced to ensure the economic viability of bio fuels. This would be required on Guernsey to eliminate the cost differences and significant investment required in both terminals.

Renewables and Carbon Intensity

7.

- 7.1. The two core issues for consideration with respect to energy generation are “carbon intensity” and “renewable sources”. Energy produced from fossil fuels has a high carbon intensity. The current convention is that electricity generated from nuclear energy has a low carbon intensity but is not from a renewable source.
- 7.2. The States are aware of the EU targets on Member States and that for reporting purposes Guernsey’s emissions are grouped with those of the UK. Within the overall EU target of 20% of energy from renewable sources by 2020 each member state has its own target reflecting its specific circumstances (e.g. the UK’s is 15%, Malta’s is 10%). This approach reflects

the differing starting points of the Member States and their differing potentials. Malta, for instance, presently has no renewable energy production and even to achieve 10% will require an extremely aggressive programme of wind energy development, attracting significant costs.

- 7.3. In considering the future role of renewable energy in Guernsey it is essential to recognize that renewable energy generally has higher costs than its fossil fuelled equivalent. Countries across the globe have recognized this by the provision of regimes which, in a variety of ways, subsidise the production of renewables. As an extreme example of such a practice, a number of European countries have adopted arrangements where electricity generated by solar arrays attracts a value of circa 40 pence per kilowatt hour, whereas the commercial market value is more like 6 pence. Guernsey's small market size requires that we proceed carefully since over ambitious renewable targets could result in major additional costs to the Island economy.
- 7.4. This Energy Resource Plan sets out achievable and proportionate measures for Guernsey which are based on the transparent disclosure of the relative costs of energy options. The States recognizes that the public will need to be convinced to accept the additional costs of achieving them.
- 7.5. In addition, if meeting targets is to be achieved through intervention in the commercial competitive market for energy, then care will have to be taken that any distortion of that market does not have perverse consequences, e.g a requirement to import electricity whatever the cost may make electricity less competitive in the domestic heating market and encourage greater use of fossil fuel based energy.
- 7.6. The introduction of the CIEG cable and the commercial energy market have

resulted in the importation of a proportion of low carbon intensity nuclear generated electricity at no additional cost over locally generated electricity which has significantly reduced overall emissions. Further use of the cable may present an opportunity to decrease the Island's carbon emissions still further at low cost, providing a useful breathing space, whilst international developments reduce the costs of deploying local renewable systems.

- 7.7. Since the original Energy Policy noted by the States in June 2008, significant progress has been made by the Commerce & Employment Department, the Shadow Renewable Energy Commission and its successor the Renewable Energy Team with help from a number of States Departments in researching the potential for Guernsey to benefit from the development of local macro renewable power generation. This has included consideration of tidal power opportunities and the potential for onshore and offshore wind generation.
- 7.8. The States have paved the way for the development of such industries through approval of the Renewable Energy (Guernsey) Law 2010, which is currently awaiting Royal Assent. A Regional Environmental Impact Assessment has also been undertaken to identify the areas of the Island's Territorial Waters which have the greatest potential for the generation of macro renewable energy, and to identify areas of existing interests which will need to be taken into account in any licensing regime for the renewable energy industry in Guernsey. This work includes close consultation with the authorities in Sark and Alderney in relation to the opportunities for joint working. Such opportunities also exist in relation to Jersey.
- 7.9. While progress has been made in preparing the way for a macro renewable energy industry to develop in Guernsey, the reality is that there

are widely differing views as to when the commercial development of tidal power will become a reality. Whilst some believe that this may be between five and ten years away there are some signs that this timetable may be accelerated.

7.10. In June 2011, Ministers from the British Isles, Ireland, The Channel Islands and the Isle of Man signed up to a historic deal to cooperate on exploiting the major wind and marine resource in and around the Islands. Members of the British Irish Council agreed to co-operate in the All Islands Approach to energy. The intention is that the All Islands Approach to energy resources across the British Islands and Ireland will encourage and enable developers to exploit commercial opportunities for generation and transmission, facilitate the cost-effective exploitation of the renewable energy resources available, and increase integration of our markets and improves security of supply. The agreement follows recognition that there is potentially a source of clean, green, secure energy that remains untapped in the Irish Sea and onshore in Ireland, as well as around the Channel Islands however to date there has been little incentive to exploit the resource. BIC Members recognise that optimising the natural renewable resource available around the Islands would benefit all parties and that it makes much more sense to develop and share clean, green, secure energy rather than import vast amounts of fossil fuels from far flung parts of the world. In practice, more interconnection between the Islands would mean that on, for instance, a very windy day in mainland Britain, surplus power could be sold to Ireland and mainland Europe, as well as enabling imports of electricity from Ireland and mainland Europe when required.

7.11. Guernsey is not planning to enter this industry at the R&D phase, nor is it planning to be in the vanguard of experimental commercial developments.

It is however preparing all necessary legal, procedural and administrative matters so that it is ready to move as soon as the industry becomes commercially viable. In the meantime further research is being undertaken in regard to the Island's potential for wind farms (onshore or offshore).

7.12. While there are limitations on what may be deliverable in terms of tidal energy (through constraints on existing areas of the sea – for example conservation, fisheries, shipping lanes/routes, cable and pipe routes, areas of scientific interest and aesthetic considerations), current studies have highlighted significant potential for meeting a large part of Guernsey's own electricity demand, with some possibility at times of a surplus for export. Further work will be needed to more accurately define the potential in our waters from the developing renewable technologies.

7.13. However the States believes that if an incentive mechanism, in the form of a feed in tariffs for example, does not exist then it is certain that there will be no development of renewable generation in the Island for local consumption of renewable unless and until the costs of renewables approach those of more conventional systems.

7.14. Guernsey will also need to consider the ultimate destination for any renewable power it generates, to ensure that the renewable power can qualify for any subsidies or incentives which may be available if that power is exported. Although this may not directly assist the consumption of renewable energy on Guernsey it does meet some of the Energy Resource Plan's objectives. In addition, the installation of a second cable link to the Island (referred to in Section 6) could provide the infrastructure needed to export electricity efficiently and as a result contribute positively to the local economy.

7.15. While there is currently some interest in other jurisdictions regarding micro-renewable energy opportunities, Guernsey has questioned the viability of States intervention through direct support for micro-renewables. Micro-renewables may be able to make a small contribution to the objectives in this Energy Resource Plan. In the absence of any incentive or subsidy, micro-generation is unlikely to make a greater contribution.

7.16. Despite rising public expectations marine renewable technologies are not yet commercially proven. We would anticipate that Guernsey should be planning for a substantial development of macro renewable electricity generation in the 2020s, possibly in excess of many tens of MWs of installed capacity by 2025. An alternative may be to establish an objective which is cost related in the following terms “we will establish a target that 10% of Guernsey’s local electricity generation should be derived from renewable resources provided that the cost does not imply an increase of more than 15% of the cost of electricity.”

7.17. However to put forward firm commitments in this regard will require a series of studies to investigate the feasibility and implications of achieving such a target and this is covered in the actions set out in section 9, but we are committed to reviewing this as a matter of urgency.

7.18. Accordingly, we do not intend to set a target for the generation of local renewable energy for the time being. Rather the cost of generating electricity from renewable sources will continue to be monitored closely and a target will be put forward when the cost can be reasonably quantified and is deemed reasonable compared with the then market prices for energy. In the meantime the Commerce and Employment

Department will work closely with Guernsey Electricity and the Office of Utility Regulation to establish whether greater use can be made of the CIEG cable network with a view to further reduce the Island's carbon emissions. The Commerce and Employment Department will report back to the States on this matter when appropriate. The States of Guernsey remains receptive to the development of this important area and will put in place policies that enable it to be developed as and when viable.

8. Environmental Issues

- 8.1. As part of the States Strategic Plan, the States have approved an Environmental Plan which recognises "Managing energy demand and the Island's carbon footprint" and "Climate Change Impacts – in particular coastal defence" as significant challenges to be addressed by the Island. The Plan states that:-

"Consideration of our environment will be core to all policy decisions and actions. Environmental Policy will be equal, not subservient, to economic and social policy. The quality of our environment will be protected and enhanced. The Island will respond in an environmentally sustainable way to local issues and existing and emerging global challenges."

- 8.2. The Plan sets out States priorities for environmental action which include: reducing our carbon footprint and adapting to climate change, conserving energy use and switching to cleaner fuels. Several of the Plan's Outcomes are focused on energy policy issues, including:-

- "There will be enhanced readiness in the Island to respond positively to (climate change) impacts, consequently reducing adverse effects of impacts";
- "The Island's contribution to greenhouse gases will be reduced

through leadership and engaging active community participation”;

- “Guernsey’s use of energy will be more sustainable”; and
- “Guernsey will be more self-sufficient.”

8.3. Guernsey’s Energy Resource Plan has been developed to reflect these desired outcomes on appropriate time scales

8.4. On a small Island, where the majority of the 62,000 population lives at, or only a few metres above sea-level, a major challenge is managing the impact of climate change. Guernsey will feel the effects of climate change in this century. The temperature is likely to rise at a faster rate than at any time in the last 10,000 years. The risks of flooding and droughts are likely to increase, and sea level may rise sufficiently to cause regular flooding to much of the low-lying densely populated parts of the Island. More extreme weather events are predicted and agriculture and fisheries will also be affected, as will the Island’s biodiversity.

8.5. “*Sarnia Storm*,” a recent Strategic Coordinating Group Exercise, identified that a risk currently exists to the supply of electricity in the lower lying areas of the Island as the switching stations are located in areas that might be flooded if the sea defences are topped or breached. We will need to identify control measures to ensure that the supply of electricity is not threatened in such a way.

8.6. Whilst actions in Guernsey will have a negligible impact on global greenhouse gas emissions and climate change, they are part of a wider concerted effort by the international community and Guernsey wishes to play its part in these efforts. In seeking to reduce our dependence on imported fossil fuel energy supplies we will not only be securing progress towards a sustainable future as set out in the Island’s Environmental Plan,

but we will also be making our contribution to global climate change reduction.

- 8.7. The 2009 Guernsey Annual Greenhouse Gas Bulletin published by the Policy Council comments that the cumulative decrease in greenhouse gas emissions since 1990 was 17.9%. It also comments that this exceeds the 2012 target of 12.5%.
- 8.8. Carbon dioxide emissions are of particular concern because they form the vast majority of emissions by volume (83.4% in 2009). The approximate total greenhouse gas emissions on Guernsey in 2009 were 427.4 kilo tonnes (equivalent to 6.9 tonnes per person), compared to 385.3 kt in 2008 – an increase of 10.9%. However, the cumulative percentage change between 1990 and the 2008 to 2009 average was a decrease of 17.9% (or 88.6 kt of CO₂ equivalent). This exceeds the Kyoto Protocol target for the UK (including Guernsey) of a decrease of 12.5%.

9. Guernsey's Energy Challenge

- 9.1. It is abundantly clear that Guernsey faces unprecedented energy challenges over the next decade. There are global political threats, the ever approaching moment of “peak oil”, technological changes and supply chain disruptions. Guernsey has to face these issues at a time when the States finances are under pressure and household disposable income coming under ever increasing pressure limiting the States' ability to increase new taxation.
- 9.2. It is essential therefore for the States to adopt an integrated and coherent Energy Policy which supports the objectives of the States Strategic Plan in a coordinated manner.

- 9.3. The complex supply and demand side issues highlighted earlier combined with the often conflicting objectives will require both strategic management and strong leadership by the States with Directions to Guernsey Electricity and the OUR in particular. It is apparent, as is the case in the UK, that the market alone cannot deliver a sustainable energy infrastructure for the future and the States will have to adopt a more interventionist role than it has in the past.
- 9.4. Many jurisdictions have introduced targets for both carbon emission reductions and the contribution of renewable energy towards total electricity generation. We have seen the danger of setting inappropriate and aspirational targets without providing a road map setting out how these targets will be achieved. From our own perspective Guernsey's original Energy Policy proposed targets were only noted by the States. We have an opportunity in this Energy Resource Plan to learn both from our own experiences and the lessons from the rest of the world.
- 9.5. In June 2008 (Billet VIII) the States considered the Energy Policy Report from the Energy Policy Group submitted by the Policy Council and the States agreed to note the Report which contained the statement that:
- "... in principle, and subject to further investigation, the following targets: to reduce Guernsey's carbon dioxide emissions by 30% on 1990 levels by 2020; and to reduce Guernsey's carbon dioxide emissions by 80% on 1990 levels by 2050; and to generate 20% of electricity from local renewable sources by 2020.*
- 9.6. The Kyoto and States targets on emissions could be met thorough making maximum use of the CIEG cable capacities irrespective of cost. Otherwise, meeting the 30% target for 2020 is going to be challenging. At this stage

due to the state of commercial development it is not clear to what extent local renewable generation will be able to assist in meeting this emission reduction target, but it is now unlikely that a major impact can be achieved by 2020.

- 9.7. There is a risk that if achieving local renewable energy (which is currently more expensive than traditional energy sources) targets distorts the energy market and increases the cost of electricity compared to other sources of energy, it could have the perverse consequence of encouraging the use of fossil based or other high carbon sources. In these circumstances the current renewable and emission targets should specify that emission targets must be met through measures across all uses, not simply electricity measures.
- 9.8. If the States are to intervene in the market to facilitate the achievement of these targets then a form of carbon tax is likely to be necessary. However for the States to achieve its objectives, care will have to be taken to ensure that any distortion of the energy market does not have perverse consequences.
- 9.9. It may be inevitable that the States will have to intervene in the market at some point since the goals of reducing carbon and creating local supplies are essentially long term whilst markets operate in the short term. A carbon tax is not complex in principle since the carbon content of all fuels can be established and the taxation should impact each fuel according to its carbon intensity. It is clear that any such intervention must be carefully judged and for it to be successful would require satisfying two preconditions. Firstly a carbon tax should not simply contribute to general revenue, but may need to be hypothecated to fund other elements of the Energy Resource Plan. It will also be necessary to determine the form of a

carbon tax and whether any categories of users should be exempted. It is recommended that a carbon tax is seriously considered and noted that such an approach seems a very pragmatic and sensible way forward.

9.10. The introduction of achievable and realistic targets is paramount, as is the need to ensure that the direct and immediate additional costs of achieving targets needs to be balanced against the long term and less tangible benefits of achieving more diverse and sustainable sources of energy and reducing our impact on the global environment.

9.11. **However in terms of emission targets the States remain committed to the following targets: to reduce Guernsey's carbon dioxide emissions by 30% on 1990 levels by 2020; and to reduce Guernsey's carbon dioxide emissions by 80% on 1990 levels by 2050.**

9.12. Whilst setting the general direction of travel through to 2050 it would be presumptuous and premature at this moment in time to set out a detailed road map showing how Guernsey will achieve its targets. It would also be contrary to the principles of good corporate governance adopted by the States to set out recommendations not based on evidence and the best available information. As acknowledged by the UK's Committee on Climate Change there are many current uncertainties on the future decarbonisation of economies (e.g. the appropriate mix of low carbon generation technologies for the 2020s and 2030s is unknown, marine technologies are currently expensive with cost reductions not yet realised)²¹. That is why we have set out a list of actions that need to be taken urgently to improve our understanding of the options we face. Working with the private and voluntary sectors to share our resources and knowledge will be essential as we develop recommendations to help us

²¹ The Renewable Energy Review May 2011, Committee on Climate Change

move into the delivery stage and our detailed route map for the future. We envisage that many of the actions will help to inform the implementation of this Energy Resource Plan and will in themselves require States Reports for the States to endorse specific recommendations.

9.13. Turning to renewables, Guernsey's efforts to date have focused on developing the framework for licensing marine renewable technologies, primarily using the natural resources from our tidal flows. However the development of the technology and the costs of producing energy from tidal remain high and it is unlikely that tidal will be commercially viable for at least another five years. There must be recognition that Guernsey's ability to generate local renewable electricity is dependent on the commercial development of the technologies globally. It is therefore unlikely that meeting 20% of our local electricity demand from local renewable sources will be achievable by 2020. As a result we must look at all other renewable options and not simply limit our options to tidal technologies. This will mean ensuring that technologies such as off shore wind and wave power are also added to the potential portfolio of renewable power within Guernsey.

9.14. The States therefore believe that the development of local renewable electricity generation, in whatever form, should be determined by the maturity and cost of available technology, with the full scale exploitation of our local resources delayed until demonstrably viable technology is available at an affordable cost. However the States is committed to 20% of its electricity supplies to be met by renewable sources by 2020.

9.15. It will be essential therefore that the development of new technologies are monitored closely so that appropriate renewable generation targets

are set as quickly as possible, once the market is able to deliver commercial renewable arrays.

10. Guernsey's Energy Resource Plan Objectives and Actions

10.1. We have no choice but to respond to the challenges facing us. We have to follow the principles of sustainable development and respect our Kyoto obligations by including environmental concerns in our approach to energy use, but we cannot ignore the fact that our society has been built on energy consumption and energy consumption will remain a key part of our quality of life for the foreseeable future. These facts are reflected in Guernsey's core energy policy:-

"to maintain and build on the high quality of life enjoyed by the Island's community by providing the energy needed to allow economic growth at a financial price that is affordable for all consumers and at an environmental cost that does not compromise the ability of future generations to meet their own needs."

10.2 This Energy Resource Plan in turn is based on an energy vision for 2020 whereby:

- There will be a gradual decarbonisation of Guernsey's electricity generation;
- There will be a diversification of electricity generation between low carbon and renewables;
- We will continue to provide a sustainable and secure energy supply for Guernsey; and
- There will be greater transparency in energy decision making to all stakeholders.

10.3 Consumer engagement and affordability will be two fundamental

requirements in the successful implementation of the above vision. In addition in order to demonstrate compliance with good corporate governance the availability and provision of good quality data and information to enable evidence based decision making will be a pre-requisite.

10.4 Guernsey's Energy Resource Plan has been prepared to provide a simple and focused management of the transition towards our vision of the Island's energy supplies and usage for the future.

10.5 To achieve this, the States of Guernsey will progress three main objectives:-

- **Energy Resource Plan objective 1: to maintain the safety and security of affordable and sustainable energy supplies**
- **Energy Resource Plan objective 2: to use energy wisely, efficiently and not waste it**
- **Energy Resource Plan objective 3: to reduce environmental impacts of our energy consumption as part of our contribution to international initiatives as part of the global community**

10.6 The States will apply this Energy Resource Plan to all government decisions involving the use of energy ensuring that all future policy and capital development proposals state how they reflect this Energy Resource Plan. We will also review our performance against these aims and actions on an annual basis.

10.7 All actions are subject to funding and being included in the States Strategic Plan.

Energy Resource Plan Objective 1: maintaining the safety and security of affordable and sustainable energy supplies

10.8 This objective is designed to ensure that the Island has the reliable energy supplies that it needs to maintain our economy and improve our quality of life whilst ensuring that we respond to the consequences of the world's declining supplies of hydrocarbon fuels.

Actions:

- i. We will ensure that the Island's Infrastructure Plan and the States Capital Expenditure Programme takes into account the infrastructure requirements from the States of the Island's energy suppliers. Projects such as a deep sea port at St Sampsons and a gas interconnector will need to be investigated.
- ii. We will invest, through Guernsey Electricity, to improve the resilience of our imports of electricity from the Continent by ensuring a second cable of greater capacity than the existing cable from Guernsey to either Jersey or France is completed by the end of the decade.
- iii. We will amend the current States n-2 security of supply policy to enable further infrastructure investment, such as cables from Guernsey, to be made economically.
- iv. We will take appropriate steps to ensure the safety of our energy supplies and the resilience to short term disruptions to our supply chains.
- v. We will actively manage the States ownership of the Sarnia Cherie and Sarnia Liberty to protect the interests of our citizens.
- vi. We will through the States Social Policy and Fiscal & Economic Policies ensure that the cost to the Island of energy security and the volatility in the world wholesale markets, is managed in terms of fuel poverty and

affordability to the Island with an emphasis on fuel reduction and efficiency rather than direct grants.

- vii. We will develop opportunities for the use of low carbon or carbon neutral energy sources and to encourage the diversification of low carbon and renewable energy supplies at the macro level.
- viii. We will support efficient small scale renewable/ low carbon generation schemes.
- ix. We will work collaboratively with our sister Islands in the Channel Islands in developing our natural resource.
- x. We will participate fully in the British Irish Council's All Islands Approach to open up renewables opportunities.
- xi. We will review the strategic stock-holding levels for all fuels on the Island.
- xii. We will review the appropriateness of Guernsey Electricity's capital structure and at the same time welcome and consider innovative funding arrangements with the private sector to share benefits and risks for future interconnectors from the Island.

Energy Resource Plan Objective 2: using energy wisely, efficiently and not wasting it

10.9 We need to use energy wisely, not only to protect the resource but to reduce the cost to the consumer. The benefits of pursuing efficiency policies are immediate and common to whatever other policies may be adopted in the future.

10.10 Using energy wisely has connotations both for the individual and the community. For the individual it may be control of how long for and

when devices are switched on and the temperature settings which could bring immediate benefits or an appreciation of energy market trends which could bring long term benefits. For the community it may be benefitting from shifts in peak usage and a migration to more sustainable sources.

Actions:

- i. We will reduce the unit energy consumption of the Government estate over the next five years and publish our targets and achievements annually to demonstrate our commitment to these aims.
- ii. We will reduce the unit energy consumption and carbon emissions of the public sector housing estate over the next five years and publish our targets and achievements annually to demonstrate our commitment to these aims.
- iii. We will reduce the energy consumption and carbon emissions of the government fleet over the next five years and publish our targets and achievements annually to demonstrate our commitment to these aims.
- iv. We will reduce the energy demand of space heating and cooling in the domestic and commercial sectors by the application of planning policies and revised building regulation controls where this is compatible with other land planning objectives, as set out within the Strategic Land Use Plan.
- v. We will as part of the Island's Integrated Transport Strategy seek to reduce the unit energy consumption of the transportation sector through measures designed to increase transportation efficiency, to reduce vehicle emissions and to promote public transport.
- vi. We will consider mechanisms to alleviate fuel poverty, possibly by providing financial support for energy efficiency measures.

- vii. We will encourage energy conservation and the use of high efficiency and low carbon energy technologies.
- viii. We will consider how Guernsey consumers can have access to an advisory service to promote energy conservation.
- ix. We will encourage the improvement of thermal efficiency in pre-2001 construction private, domestic and commercial properties through education, advice and possibly financial support schemes.
- x. We will ensure transparency of energy prices and the carbon intensity of differing energy sources and communicate the implications of strategic energy decisions to all stakeholders.

Energy Resource Plan Objective 3: reducing the environmental impacts of our energy consumption as part of our contribution to international initiatives as a member of the global community

- 10.11 This aim is designed to ensure that we adopt measures proportionate to our Island's circumstances so that we can act now to limit environmental impacts and protect our environment for the benefit of future generations. Several of the actions relating to Objectives 1 and 2 will also help to deliver this third objective.

Actions:

- i. We will, through appropriate Directions to the OUR, ensure that Guernsey Electricity is able to deviate from the merit order to facilitate the supply of low carbon and renewable energy and to ensure the targets set in this plan are achieved.
- ii. We will monitor the development of renewable technologies so that when they reach acceptable cost levels we can introduce appropriate targets for local renewable electricity generation.

- iii. We will reduce the carbon dioxide emissions of each unit of grid supplied electricity and publish our achievements on annual basis.
- iv. We will work with other jurisdictions where appropriate to assist with the development of Guernsey's renewable energy resources.
- v. We will seek to encourage the decarbonisation of our energy supplies and if necessary put in appropriate policies to ensure this happens.
- vi. We will assess the scope for introducing a carbon tax to prevent market distortions and to incentivise consumption patterns which would align with and assist in providing the appropriate economic environment for local macro renewable generation and our vision of a decarbonised economy.
- vii. We will upskill our construction sector labour force so that we are able to adopt new practices and technologies.

11 Implementation

11.1 In order to move towards our energy vision for 2020 and beyond and to inform the actions for the three energy objectives we will need to progress a number of important initiatives.

11.2 In the first instance of critical importance is the need for a comprehensive review and assessment of the current hydrocarbon import supply chain with a cost benefit analysis to determine the viability of new importation infrastructure. This would comprise a complete energy provider study. The result should indicate whether maintaining current energy diversity is affordable into the future and whether we need to assess these markets and explore alternatives. This should be combined with the concerns about the use of carbon based fuels and will affect all suppliers.

- 11.3 We should assess the current Island electricity interconnection strategy associated with the importation of electricity to develop a proposed approach which will ensure future security of supply and allow the opportunities associated with local renewable energy to be facilitated. This will help to inform the discussion on any future n-2 policy and the risk of having substantial redundant capacity on-Island.
- 11.4 There is an urgency to commence the actions we have identified and the Energy Policy Group has a key role to play not only simply in co-ordinating and monitoring progress but also engaging with all members of society who will be affected by the implementation of the energy strategy. The Energy Policy Group intends to enter a constructive dialogue with consumers more generally and also with those individuals with relevant expertise and knowledge to help realize our objectives.
- 11.5 We will therefore adopt a two pronged strategy to realize this aim.
- 11.6 Firstly the Energy Policy Group intends to actively educate the public and raise awareness of energy efficiency opportunities in partnership with the private sector and voluntary sector organizations through campaigns, seminars, exhibitions and workshops with the public. The response to the consultation on the draft Energy Resource Plan generated a number of ideas and opportunities that can be discussed and implemented and we intend to build on this momentum in the coming months.
- 11.7 Secondly to help progress the actions listed in section 9 of this Plan the Energy Policy Group will work in partnership with the private sector to prioritise these actions and undertake the necessary research and analysis to develop the road map for realizing Guernsey's Energy Vision for 2020 and beyond.

ANNEX

Useful Relevant Energy-Related Documentation from Other Jurisdictions

Global

Shell Global Energy Scenarios to 2050, 2008

http://www.shell.com/home/content/aboutshell/our_strategy/shell_global_scenario/s/shell_energy_scenarios_2050

http://www.shell.com/home/content/aboutshell/our_strategy/shell_global_scenario/s/

Potential for Biomass and Carbon Dioxide Capture and Storage

Ecofys study for the IEA Greenhouse Gas R&D Programme, IEAGHG , 2011/06, July, 2011.

<http://www.ecofys.com/com/news/pressreleases2010/IEAGreenhouseGasRDPprogramme.htm>

Corporate Sustainability: A progress report, KPMG International in cooperation with Economist Intelligence Unit, 2011

<http://www.sustainableguernsey.info/blog/2011/05/corporate-sustainability-strategy-increases-profitability-improves-employee-morale-and-attracts-new-customers-according-to-kpmg-report/>

Europe

Draft EU Energy Efficiency Directive

http://ec.europa.eu/energy/efficiency/eed/eed_en.htm

Island Jurisdictions

Renewable energy sustainability study – impacts and opportunities for the Isle of Man

AEA Technology plc, November 2010. See: Isle of Man Energy Projects

<http://www.gov.im/daff/enviro/energy>

Energy Efficiency Study G06-1643 Rev 1.2 by Kema Limited for States of Jersey, January 2007

<http://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=145>

United Kingdom

Planning our electric future:

a White Paper for secure, a White Paper for secure, affordable and low-carbon electricity

Presented to Parliament by the Secretary of State for Energy and Climate Change by Command of Her Majesty , July 2011 , CM 8099

http://www.decc.gov.uk/en/content/cms/legislation/white_papers/emr_wp_2011/emr_wp_2011.aspx

UK Renewable Energy Roadmap, DECC

Analysis of Renewables Growth to 2020, AEA

http://www.decc.gov.uk/en/content/cms/meeting_energy/renewable_ener/re_roadmap/re_roadmap.aspx

Renewable Energy Action Plan, 2009

http://www.decc.gov.uk/en/content/cms/meeting_energy/renewable_ener/uk_action_plan/uk_action_plan.aspx

Anaerobic Digestion Strategy and Action Plan, DEFRA, June 2011

<http://www.defra.gov.uk/publications/2011/06/14/pb13541-anaerobic-digestion-strategy/>

Climate change policy in the United Kingdom Alex Bowen and James Rydge

Policy paper , August 2011

Centre for Climate Change Economics and Policy

Developing a sustainable framework for UK aviation: Scoping document, March 2011

<http://www.dft.gov.uk/consultations/dft-2011-09>

Government Response to CCC Aviation Report, August 2011

<http://www.theccc.org.uk/news/latest-news/1070-government-response-to-ccc-aviation-report-published-25-august-2011>

CCC Report on International Aviation and Shipping, to be published in March 2012

<http://www.theccc.org.uk/news/latest-news/1070-government-response-to-ccc-aviation-report-published-25-august-2011>

Grantham Research Institute on Climate Change and the Environment

http://www2.lse.ac.uk/GranthamInstitute/Media/Releases/2011/MR180811_climate-change-uk-policy.aspx

Energy Efficiency and Support for Renewables Key to Market Reform, WWF, July 2011

http://www.wwf.org.uk/what_we_do/press_centre/?uNewsID=5086

Renewable Energy Review, Committee on Climate Change, May 2011

<http://www.theccc.org.uk/reports/renewable-energy-review>

Planning our electric future: a White Paper for secure, affordable and low-carbon electricity,

DECC July 2011

http://www.decc.gov.uk/en/content/cms/legislation/white_papers/emr_wp_2011/emr_wp_2011.aspx

Carbon Budget, DECC

http://www.decc.gov.uk/en/content/cms/emissions/carbon_budgets/carbon_budgets.aspx

Climate Change Agreements, DECC

<http://www.decc.gov.uk/en/content/cms/emissions/ccas/ccas.aspx>

CRC Energy Efficiency Scheme, DECC

http://www.decc.gov.uk/en/content/cms/emissions/crc_efficiency/crc_efficiency.aspx

Renewable Energy Review, Committee on Climate Change, May 2011

<http://www.theccc.org.uk/reports/renewable-energy-review>

Carbon Capture and Utilisation in the green economy

<http://www.lowcarbonfutures.org/>

Working Papers, Centre for Climate Change Economics and Policy

<http://www.cccep.ac.uk/Publications/home.aspx>

TEQs (Tradable Energy Quotas): A Policy Framework for Peak Oil and Climate Change,

David Fleming and Shaun Chamberlin, January 2011, for All-Party Parliamentary Group

on Peak Oil, and The Lean Economy Connection.

www.teqs.net/APPGOPO_TEQs.pdf

The Lean Economy: A Vision of Civility for a World in Trouble, David Fleming, 2001

<http://www.feasta.org/documents/review2/fleming.htm>

The United Kingdom Parliamentary Office of Science and Technology

<http://www.parliament.uk/business/publications/research/post/>

Four page POSTnote subject summaries relevant to energy policy (in descending date order)

384 - Biofuels from Algae, July 2011

383 - Carbon Footprint of Electricity Generation, June 2011

- 365 - Electric Vehicles, October 2010
- 358 – Biochar, June 2010
- 354 - Global Carbon Trading, March 2010
- 353 - Renewable Heating, March 2010
- 351 - Lighting Technology, January 2010
- 347 - Climate Change: Engagement and Behaviour, January 2010
- 335 - CO 2 Capture, Transport and Storage, June 2009
- 324 - Marine Renewables, January 2009
- 319 - ICT and Carbon Dioxide Emissions, December 2008
- 318 - The Transition to a Low Carbon Economy, December 2008
- 317 - Future nuclear technologies, November 2008
- 315 - Renewable energy in a changing climate, October 2008
- 306 - Electricity storage, April 2008
- 301 - Smart metering of electricity and gas, February 2008
- 295 - Climate change science, November 2007
- 294 - Public Opinions on Electricity Options, October 2007 Appendix to 294 - Opinion Polls and Studies
- 293-Transport biofuels, August 2007
- 290-Voluntary carbon offsets, July 2007
- 282-Energy and sewage, April 2007
- 280-Electricity in the UK, February 2007
- 272 -Ambient air quality, December 2006
- 268 -Carbon footprint of electricity generation, October 2006
- 267 -Adapting to climate change in the UK, July 2006
- 255 - Low carbon private vehicles, January 2006
- 249 - Household Energy Efficiency, October 2005
- 245-Rapid Climate Change July 2005
- 238- Carbon capture and storage (CCS), March 2005
- 230-The future of UK gas supplies, October 2004
- 213-Climate change and business, January 2004
- 212-Environmental policy and innovation, January 2004
- 207 - The environmental costs of aviation November 2003
- 186 - Prospects for a Hydrogen Economy, October 2002;
- 164 - Renewable Energy, October 2001
- 163 - UK Electricity Networks, October 2001;
- 70 - Transport - Some Issues in Sustainability, November 1995

Appendix 2.

A list of consultation responses (agreed for publication). For access to a full set of consultation responses agreed for publication, please visit www.gov.gg

Commerce & Employment

Environment Department

Home Department

Housing Department

Deputy Tony Spruce

Amalgamated Facilities Management Limited – Chris Leach

Fuel Supplies (C.I) Limited – Rubis Group

Guernsey Electricity

Guernsey Gas

Guernsey's Renewable Energy Team (RET)

Jamesco 750 Limited

Dr Douglas Haughey

Gavin Lanoe

Gavin St.Pier

Mikael Appelqvist

Paul Meader

Steve Morris

(NB The Treasury and Resources Department notes that implementation of the Energy Resource Plan will have significant resource implications. Any proposals for increasing States expenditure must be considered within the existing corporate governance framework either through the mechanism of the States Strategic Plan, for prioritising service developments, or as part of the capital prioritisation process in respect of capital projects.

The Treasury and Resources Department is committed to implementing the recommendations of the Energy Resource Plan when undertaking its role as the shareholder representative, of the States Trading entities.

Against this background, the Treasury and Resources Department supports the Energy Resource Plan.)

The States are asked to decide:-

IX.- Whether, after consideration of the Report dated 14th November, 2011, of the Policy Council and the Commerce and Employment Department, they are of the opinion:-

1. To approve the revised Energy Resource Plan, attached as Appendix 1 of this report.
2. To instruct the Departments of the States of Guernsey to take into account the objectives of the Energy Resource Plan when preparing new policies.

PUBLIC SERVICES DEPARTMENT**FUTURE BUSINESS ENVIRONMENT FOR GUERNSEY WATER AND
GUERNSEY WASTEWATER**

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

9th November 2011

Dear Sir

1. Executive Summary

- 1.1 Government has a key role in ensuring that public services are delivered. However, it has been suggested in the past by the Advisory and Finance Committee, and in the present by the Office of Utility Regulation and the Fundamental Spending Review, that government does not necessarily have to be the provider, and indeed may not be the most capable body to run certain activities.
- 1.2 In January 2011 the States noted the progress being made by the Public Services Department in exploring the options for moving a number of the trading entities under its mandate into a new business environment, and supported further investigation into the best way forward. Since that time, the Department has made good use of the knowledge and expertise that currently resides in both the States and external organisations to ensure that, as far as is possible, there is a clear understanding of the benefits and disbenefits associated with changing business structures.
- 1.3 This report examines the case and recommendations for changing the business environment of Guernsey Water and Guernsey Wastewater. The reasoning for addressing these two businesses together derives from the obvious synergies between them.
- 1.4 With the overarching aim of delivering better value for the community, a number of issues can be identified as driving a need to change the current business environments of Guernsey Water and Guernsey Wastewater.
- 1.5 In May 2010, Guernsey Water and Guernsey Wastewater were co-located, on a trial basis. Under the trial, the administration has functioned well and the two

entities now utilise a shared operational, billing and administrative support network and has become a relatively seamless operation.

- 1.6 Based on its recent experience, the Department is of the clear belief that, going forward, clean and waste water should be managed through a single organisation, and that a full operational and financial merger should take place between the two units.
- 1.7 Beyond the efficiencies that could be secured through a simple merger of the two units, the Department firmly believes that removing the merged entity to an 'arm's-length' position could lead to a more business focused, effective and efficient organisation, with greater freedoms from a commercial perspective than are able to be enjoyed by a States' Business Unit. This change would be anticipated to act to bring about a number of additional benefits that could be realised at various levels, from the States themselves, to the community at large, through to individual customers.
- 1.8 Such a position, where a business is to remain fully owned by the States, but able to operate at arm's-length from it, can be relatively easily achieved by creating a States-owned Trading Company (a limited company with the shares wholly owned by the States of Guernsey).
- 1.9 The Public Services Department proposes that environmental regulation of the States Trading Company be undertaken by the Director of Environmental Health and Pollution Regulation. However, at this time, the Department considers that there would be merit in investigating further the options for both the Shareholder role and economic regulation.
- 1.10 A further development to contemplate is the potential to link with the States-owned electricity utility (Guernsey Electricity Limited). Water, wastewater and electricity are all asset intensive infrastructure services and have essentially the same customer base. Both the Public Services Department and the Board of Guernsey Electricity Limited consider there are evident synergies and that there is potential to both add value and improve efficiency and service. Both Boards recommend further investigation into the advantages, disadvantages and potential to merge the organisations at some future date.
- 1.11 This report sets out in more detail the case for the foregoing views and lists a number of recommendations, the funding for which would be provided by Guernsey Water.

2 Introduction

- 2.1 In Billet I of 2011 the Public Services Department reported that it had, with the assistance of the Office of Utility Regulation (OUR), been reviewing the options for changes to the ownership and corporate oversight of the various businesses currently within its mandate. This review had concluded that benefits could accrue from changes to the businesses.
- 2.2 The States noted the Department's ongoing evaluation of the options for changing the business environments of Guernsey Water, Guernsey Wastewater, Waste Services, Guernsey Harbours and Guernsey Airport and its intention to report to the States of Deliberation with its recommendations in due course.
- 2.3 This report examines the case for changing the business environment of Guernsey Water and Guernsey Wastewater.
- 2.4 Throughout this report, a number of abbreviations are used. Although these are defined in the text at appropriate points, a glossary is also included for ease of reference (Appendix 2).

3 Background

- 3.1 Prior to the Machinery of Government changes in May 2004, the then Advisory and Finance Committee identified a number of States trading entities (including the Water Board) which *"might in future be areas that the States determine should be delivered differently"*.
- 3.2 In 2006, the Wales Audit Office (WAO)¹ concluded that transforming Guernsey Water into a States Trading Company would be unlikely to provide any additional value for money that could not be delivered via improvements to the existing structural and procedural arrangements. However, in the years since, circumstances have changed.
- 3.3 The Fundamental Spending Review, commenced in 2009, identified possible benefits for changing the current structures of Public Services Department Business Units (including Guernsey Water and the wastewater operation) (Summary Opportunity Report PSD_009):

"Benefit

- *Increased efficiency of operations that release funds to deliver greater value or reduce the liability of PSD.*
- *Increased income generating capacity of the activities of the business units."*

¹ Wales Audit Office 'Review of Guernsey Water', November 2006

- 3.4 In advancing examination of the matter, the Board recognised that:
- a) Government needs to ensure that essential services are provided, but not necessarily be the provider;
 - b) Government structures (not just in Guernsey) are usually stable but can be cumbersome. The culture focuses on public accountability where at States, Board and managerial levels business direction can occasionally be influenced by the wish to avoid adverse public opinion or political comment more than focusing on productivity, efficiency and long-term asset planning;
 - c) Government-run businesses can often prove frustrating to commercial trading partners who struggle with the governance constraints placed on managers and political Boards which mean business decisions may not always be made in a timely manner.
- 3.5 To assist in identifying whether doing things differently could offer better value for the community, the Board requested the OUR to undertake an objective review of the Business Units.
- 3.6 The OUR report, which was presented to the States in January 2011 (and is appended to this report as Appendix 3), set out a number of recommendations with which the Board had broadly concurred. The Board recognised, however, that much more work, research and consultation would be required before the Department and the States would be in a position to make fully informed decisions on the best way forward.

4 Why Consider Change At All?

- 4.1 The main driving force for change is **the desire to deliver better value for the community.**
- 4.2 A fundamental aspect linked with this desire is ability to manage the funding of capital projects. For example, rectifying past under-investment in infrastructure, and establishing long-term asset replacement programmes, both of which are costly in the short-term, but secure far greater savings in the long term, are difficult to achieve within the current business setting where there is reliance on States general revenue and capital funding. The Department believes that, as a whole, the current arrangements will serve to restrict the business' ability to achieve the value (that should otherwise be feasible) for the community.
- 4.3 Government has a key role in ensuring that essential public services are delivered. However, as recognised in the past by the Advisory and Finance Committee and in the present by the OUR and the Fundamental Spending Review, government does not necessarily have to be the provider, and indeed may not be the most capable body to run certain activities.
- 4.4 Changes brought about by an alteration in business environment can be felt at a number of levels: business; government; community and by the individual

customer. It must be appreciated, however, that every situation is different and it is rare that ‘one size fits all’.

- 4.5 Guernsey has experience in changing the businesses of the postal, electricity and telecommunications utilities. While there is much that has been learned from those experiences it should not be assumed that future changes have to directly replicate what has gone before.
- 4.6 Having said above that every situation is different, the following could be generally identified as potential benefits, disbenefits and challenges of a States-run business becoming a step removed from government.

4.6.1 **Benefits**

- Separation is achieved between different roles: owner, regulator, operator, allowing clearer and more accountable decision making from all those parties;
- Being a step removed, government can focus on high-level strategic policy for the benefit of the community, setting (and reviewing) the level of service deemed appropriate;
- Removal from political control enables swifter decision making and reaction to changing circumstances;
- Flexibility of staffing (working arrangements, pay and conditions) tailored to suit the unique circumstances of the business, which may be very different to the ‘standard’ working that tends to take place in administrative environments;
- Improved ‘forward planning’ ability (for example, in regard to financial planning and asset replacement management programmes);
- Delivery of services in a more efficient manner;
- Successful and proportional regulation or competition can enhance the value of the service, with the business remaining wholly owned by government;
- Improved contributions to general revenue through payment of tax, dividends and licence fees (enhanced as profitability of the business increases through greater efficiency);
- Staff have a greater stake in delivery of the business services (success may directly affect their pay, conditions and career prospects);
- A more customer-focused culture develops.

4.6.2 **Disbenefits**

- Political and public perception of a reduction in control over vital services;
- Concerns about potential to increase costs and reduce service.

4.6.3 Challenges

- Finding (in a small community) Non-Executive Directors of the right calibre and who possess skills and experience to complement those possessed by the Executive Directors;
- Achieving appropriate regulation.

5 How has the Department Approached the Task?

- 5.1 The OUR report recommended creation of a States-owned Trading Company from a merged business of Guernsey Water and the liquid waste business (now known as Guernsey Wastewater). The Department supported this clear recommendation. It was not considered necessary to engage external expertise to guide the Department through the review process as there is enough experience both within the States and the existing commercialised utilities to understand how the transition could and should work. Further work on this aspect has, therefore, been advanced ‘in-house’. Section 6 contains the resulting report.

6 The Case for Changing the Business Environment of Guernsey Water / Wastewater

Guernsey Water

- 6.1 Guernsey Water (GW) is a self-funding Business Unit of the Public Services Department. It is the Island’s only water company and oversees the collection, treatment and distribution of potable (drinkable) water to over 25,000 domestic and business customers.

Guernsey Wastewater

- 6.2 Guernsey Wastewater (GWW) is a Unit of the Public Services Department which is currently reliant on general revenue funding. The Unit is responsible for the collection and transport of all sewage and surface water (rainfall run-off) in the island, including treatment, where appropriate.

Joint-Working

- 6.3 The OUR report of 2009 concluded that to make Guernsey Water and Guernsey Wastewater into two separate States-owned Trading Companies would not be particularly efficient on the basis of scale issues alone.
- 6.4 Instead, given the obvious synergies, it recommended the formation of a combined States-owned Trading Company. It further stated that the merger between the two units should be completed to yield a quasi-independent

business entity that was commercially stable, with appropriate charging systems and integrated billing systems in place, prior to being formed into a company.

- 6.5 In line with the above, in May 2010, GW and GWW were co-located on a trial basis. Under the trial, the administration has functioned well, with a single Director having responsibility for both separate entities. The separate entities now utilise a shared operational, billing and administrative support network. It has become a relatively seamless operation but is unable as yet to maximise efficiency or to commit to an urgently required asset management investment programme owing to the fact that, in terms of funding, it is still heavily reliant on general revenue in respect of waste water.

Business Planning

- 6.6 The Public Services Department is committed to the idea of business planning and considers it to be the most effective way to run an organisation, particularly one with a large and expensive asset infrastructure and a substantial customer base.
- 6.7 Guernsey Water has operated in line with a Business Plan for some time. Under the joint-working initiative, a Wastewater Business Plan has now also been developed to outline the strategic direction for Wastewater for the period 2012 to 2019, together with the programme of works and resources necessary to ensure satisfactory performance of the wastewater system. The Plan sets out the vision for pursuit, regardless of the business environment involved, and a copy is published as a separate appendix (accompanying this Billet).

What Are the Specific Issues Driving the Need for Guernsey Water and Guernsey Wastewater to Change?

- 6.8 As stated earlier in this report, when contemplating potential for change, the aim is the desire to deliver better value for the community. Individual ‘drivers’ for change can be identified as follows:
- a) The businesses, whilst being run properly, would benefit from greater commercial focus that is more prevalent to modern asset infrastructure-type organisations outside of the States environment.
 - b) These important utility services should be run as a business entity and can struggle to function fully effectively within the constraints of government. This point was made in Commerce & Employment’s States Report ‘Review of Utility Regulation²’, which stated “The introduction of Regulation in Guernsey came about because of concerns that the operation of what were then the States Trading Boards was no longer appropriate and in accordance with accepted best practice elsewhere for the provision of utility services,

² Billet D’Etat XV Vol 1 2011

where a more overtly commercial approach was being implemented based on competition where feasible”. Also, “Utilities remaining in public ownership tend to dull the managerial incentives for improving performance and require a very activist shareholder”.

- c) Even with clearly defined outcomes in the form of a clear strategic plan, it is inevitable that short-term political priorities will be brought to bear when issues are contentious.
- d) The range and complexity of issues faced by these types of organisations is significant and the Department considers that, in a transparent system, future price setting for the businesses should reflect more closely the underlying costs of the service provision.
- e) The wastewater infrastructure has been, and is currently, underinvested and the level of capital investment requires a clear strategic direction in terms of affordability and impact on the island. Having virtually all of its assets underground and out of sight has led to the wastewater business being largely out of mind.
- f) The degree of uncertainty created by current systems for capital investment decisions needs to be resolved such that long term asset infrastructure requirements can be planned to meet the island’s future needs.
- g) The new wastewater charge has brought with it new expectations and these must be addressed, to avoid disillusioned customers.

6.9 The Board considers that there are three options for business environment, namely:

- Maintain the Status quo (no change). This would mean Guernsey Water and Guernsey Wastewater remaining as two separate entities.
- Merge the two entities, but operate as a single self-funding trading body, as part of the Public Services Department.
- Merge the two entities and form a States Trading Company (STC), (i.e. an ‘arm’s-length’ company, all shares of which are retained by the States of Guernsey).

Evaluation of Options

Benefits (and Disbenefits) of Merging Guernsey Water and Guernsey Wastewater

6.10 Table 1, below, summarises the benefits (and disbenefits) of merging the two water businesses from the perspective of different parties:

Table 1: Benefits (and Disbenefits) of Merging Guernsey Water & Guernsey Waste Water

States	Community	Individual Customers
Benefits <ul style="list-style-type: none"> • Clarifies responsibility for the water cycle • Tourism benefit from maintaining (and possibly improving on) the ‘good’ and ‘excellent’³ bathing water quality 	<ul style="list-style-type: none"> • Clarifies responsibility for “water flowing down the road” type issues in a single place • Waste water assets will become properly maintained to recognised international standards • Risk of wastewater incidents reduced by input from experienced management / scientists • Water resources better protected by more effective use of scientific resources • ‘Good’ and ‘excellent’³ bathing water quality will be maintained and may be improved • Sustainability restored to complete infrastructure business • Sewer network extension programme able to progress 	<ul style="list-style-type: none"> • Clarifies responsibility for all ‘water’ business • Cost less than if Guernsey Water and Guernsey Waste water were commercially operated separately • Sewer network extension programme able to progress
States	Community	Individual Customer
Disbenefits <ul style="list-style-type: none"> • Will have to resolve funding issues (GW generates revenue from customers, GWW is heavily reliant on general revenue). 		

Financial Issues

6.11 The evidence from recent CCTV surveys and other associated research indicates that wastewater infrastructure is significantly underinvested. It should be

³ Bathing Water Quality Standards achieved under the Revised Bathing Waters Directive (2006 Revision)

understood that the amount of funding required for wastewater operations will need to increase significantly regardless of whether or not the two water entities merge.

- 6.12 A challenge that remains in regard to a merger is that the two businesses are currently funded in two completely different ways, with GWW being heavily reliant on general revenue funding.
- 6.13 The Department has initiated discussion with the Treasury and Resources Department regarding realistic options for the treatment of the general revenue subsidy that the wastewater function currently receives. These range from a gradual reduction in subsidy; to an almost immediate cessation (if an appropriate amount of infrastructure funding was provided for), to continued funding from general taxation in the form of a States grant.
- 6.14 There is a question of whether, in due course, the funding of the local water business should evolve to become more akin to that employed by water businesses elsewhere – i.e. a user pays basis, which could happen over, for example, the next 1 to 5 years. However, examination is not at a stage to make firm proposals and, should the States agree to the logic of combining the two businesses on a long-term (permanent) basis, the Department would intend to continue to liaise with the Treasury and Resources Department to resolve this outstanding issue and for proposals to feature in future budget proposals.

Benefits (and Disbenefits) of Forming a States Trading Company

- 6.15 In 2006, the Wales Audit Office (WAO)⁴ concluded that transforming Guernsey Water into a States Trading Company would be unlikely to provide any additional value for money that could not be delivered via improvements to the existing structural and procedural arrangements. The WAO observations were reflective of the situation at that time, however, in the years since, the circumstances of both Guernsey Water and Guernsey Wastewater (which, at the time of the WAO report was operated completely separately from Guernsey Water, although potential for joint working was identified in that report) have moved on. Factors including customer expectations for an ever-more responsive and flexible service at a low price and an investment need for wastewater infrastructure are now issues.
- 6.16 Table 2 (following) has been constructed to describe the potential benefits, as identified by an in-house contemporary (2011) review, of forming an STC (compared to the benchmark of maintaining the status quo):

⁴ Wales Audit Office 'Review of Guernsey Water', November 2006

Table 2: Potential Impacts of Forming an STC from the Merged Water Business (compared to the status quo)

States	Community	Individual Customers
Benefits <ul style="list-style-type: none"> • The States is released from managing a complex utility business. • Removes regular wastewater projects from States capital funding. • Potentially removes all water cycle business from States financial support. • 100% share ownership so ultimate control is retained. • If so wished, a financial return could be sought. • Reduces use of general revenue funds, which can be returned to taxpayers through allowances or by expenditure on other key public services, such as health, education etc. 	<ul style="list-style-type: none"> • A clear set of intended ‘outcomes’ on which the business can focus, and adapt a business model to achieve those objectives. • Improved relationship between cost and the price of the services to consumers, with better informed judgement on capital programmes as a result. • A utility business focused Board will be equipped to challenge the business managers in their input and output decisions. • Additional general revenue is available. • Increased efficiency and better service. • A full water utility business run along business lines in a professional way. • More secure long term business/asset management. 	<ul style="list-style-type: none"> • Improved service – more business and customer focused. • Greater efficiency.
Disbenefits <ul style="list-style-type: none"> • Perception of a loss of control • States will need to reassess capital funding 		
Challenges <ul style="list-style-type: none"> • Need to establish appropriate regulation • Locating non-executive directors of the right calibre to complement executive directors. 	<ul style="list-style-type: none"> • Locating non-executive directors of the right calibre to complement executive directors 	

Financial Issues

- 6.17 A combined GW / GWW STC could be expected to realise savings in the following areas:
- a) An enhanced ability to undertake preventative measures in regard to infrastructure degradation, reducing the need to undertake full-scale replacement of apparatus. For example, if undertaken at an appropriate point, a pipeline can be proactively, effectively and simply relined (with minimal disruption) at a small fraction of the cost that would otherwise be incurred at a later date if a full reactive excavation and replacement was necessitated. Systematic preventative work, whilst sensible, still requires an outlay that the States as a whole could understandably struggle to prioritise above other worthy causes, meaning that although the money might be ‘saved’, to be directed elsewhere in the States in one year, the sum required further down the line for want of that initial investment is far higher. An STC, having control of its own resources, rather than being at the mercy of States-wide capital prioritisation procedures, would be in a better position to secure long-term savings from being pro-active, rather than reactive.
 - b) General efficiency savings, brought about by combined operations, common functions (shared staff, combined billing services and postage fees being examples). Some of these savings have begun to emerge under the informal merger, but are anticipated to increase as systems integrate further.

Merged Business Environment: Conclusion

- 6.18 Current States procedures and systems generate difficulties for delivering the services required of a modern utility organisation. As explained earlier in this report, some sensible changes (joint working with GWW, which was identified in the WAO review as having potential to secure improved value for money) have been made operationally, yet more is seen as being both possible and beneficial.
- 6.19 Given the overall aim (the desire to deliver better value for the community) and the drivers detailed earlier in this report, including the need for an ability to better manage the funding of capital projects, the Board considers that maintaining the status quo does not ‘stack up’ as a logical option. The Department is of the firm view that the customer, community and government would be better served in the long-term by moving provision of water services to an arm’s-length position from the States.
- 6.20 **The Department’s conclusion is that a States Trading Company should be formed from the merged water business.**

Shareholder

- 6.21 Under the legislation as it currently stands, the Treasury and Resources Department would be the default Shareholder for any new STC. The Department recognises that the principal role of the Shareholder is to protect the States' investment and does not necessarily need to have an intimate understanding of the operations of the company.
- 6.22 However, the Public Services Department understands from the Law Officers that, given an appropriate, and relatively minor, amendment to the relevant Ordinance, the Shareholder role can be allocated to another Department.
- 6.23 There is clearly a need for an executive shareholder, but the Department believes that, rather than follow the current default position, there is merit in investigating the other options. It appreciates the primary responsibility of the shareholder is to safeguard the investment. It could be, however, that the Public Services Department, with its wider responsibilities for the provision of key Island-wide infrastructure, would be better placed to ensure that a good return is achieved on the States' investment but in a way that fully recognises the relationship with other essential elements of public infrastructure. A range of Shareholder possibilities could be envisaged at this point, ranging from the function being retained by a States Department, to a different body having sole shareholder responsibility, and it is suggested that this is a matter for ongoing consideration.
- 6.24 **The Department's conclusion is that before a decision is taken on the role of Shareholder for the STC, further investigation should be undertaken into the possibilities, with a report to be submitted to the States for consideration at an early opportunity.**

Potential for Further Development: Combined Utility

- 6.25 Beyond the scope of optimising the Guernsey Water and Wastewater organisations through merging and formation of an STC, recent discussions have highlighted that further synergies exist in the Guernsey States-owned utility sector, specifically with Guernsey Electricity Ltd (GEL). This is not a new concept and now is an opportune time to understand and evaluate the value that could be realised for the island by doing things differently. It is considered that there is potential to both add value and improve service.
- 6.26 The concept of joining GW with GEL under a utility 'umbrella' company was raised, and reported on by local media, in 2011. To date, the Department has not received any adverse public comment regarding this possibility.
- 6.27 Guernsey Water, Guernsey Wastewater and Guernsey Electricity are all island based, with essentially the same customer base. They have asset intensive infrastructures that require development of long-term strategic plans and there are obvious synergies in skills, systems and equipment.

- 6.28 The businesses utilise significant amounts of infrastructure whether it be for transporting water, wastewater or electricity. In addition, the businesses have similar supporting operations which deal with planning, billing, customer accounts, emergency services etc. It is evident that synergies exist across most areas of operational activities, but particularly in the supporting operations and there could be significant efficiency savings in the above common areas in the future if the systems and structures are harmonised. It should also be possible to create a combined capital investment programme which could be organised such that the 'lumpiness' of individual business spending programmes could be optimised in terms of financing.
- 6.29 A letter from GEL (attached as Appendix 4), confirms that the GEL Board has considered the synergy efficiencies that could be achieved in respect of the activities of Guernsey Electricity and Guernsey Water. The letter further confirms that the directors of GEL would support further investigations into the corporate structure, systems and other considerations of merging the two organisations as might be necessary to realise these benefits.

Impacts (Combined Utility approach)

- 6.30 Beyond issues already identified above for formation of an STC from the combined water business alone, Table 3 (following) lists additional potential impacts for the Combined Utility approach:

Table 3: Additional Potential Impacts for a Combined Utility approach

States	Community	Individual Customer
Benefits <ul style="list-style-type: none"> • Builds on the existing success of GEL • Can learn from 10+ years in the commercial arena • Potentially quicker and easier to mirror UK legislation for combined utilities than prepare separate legislation for the water business alone. 	<ul style="list-style-type: none"> • Greater efficiency in operations and organisation then if the combined water company went alone • Lowest cost option for the community 	<ul style="list-style-type: none"> • Greater efficiency in operations and organisation then if the combined water company went alone • Lowest cost option for customers • Joint billing, with a single invoice issued for all 3 services
Disbenefits <ul style="list-style-type: none"> • ‘All eggs in one basket’ 		
Challenges <ul style="list-style-type: none"> • Regulation needs to be particularly effective as the ‘power’ of the merged company becomes significant in terms of costs for essential services of water, electricity and sewage • Shareholder needs to ‘stretch’ the STC enough 		

- 6.31 Structurally, it is suggested that there could be a shared management board and key staff. In general, it could be anticipated that reduced costs could be realised in a number of areas, including: billing; network management; asset management; capital funding; general management; HR and shared communications.
- 6.32 It is envisaged that any combined utility would have a common corporate responsibility to maximise the value of its activities to the island and its residents. To assist any combining of these types of organisations the States would need to clearly articulate their long term vision and aspirations for water and electricity in Guernsey to enable the combined utility to develop a coherent business plan and strategies.
- 6.33 **The Department considers that a number of synergies and efficiencies could be anticipated through an amalgamation between the (merged) Guernsey**

Water business and Guernsey Electricity Ltd, and that further investigation into this possibility should take place.

Regulation

- 6.34 Some of the main potential advantages of establishing an STC are improved efficiency of operations and a more customer-focused organisation, with subsequent feed-through into the standard of service provided and charges levied on customers.
- 6.35 However, water, wastewater and electricity all operate as monopolies, with no or very limited, competition and this is unlikely to change. This, therefore, raises the question of how charges to customers and water quality and service standards would be adequately controlled and maintained in the absence of competition.

Environmental & Human Health Standards / Water Quality

- 6.36 In the past, the Department has been responsible, through the States Water Supply (Prevention of Pollution) (Guernsey) Law, 1965 and the Prevention of Pollution (Guernsey) Law, 1989, for regulation of water quality and pollution aspects.
- 6.37 Under the Environmental Pollution (Guernsey) Law, 2004, the Director of Environmental Health and Pollution Regulation (DEHPR) is assuming responsibility for regulating pollution aspects. This independent external regulation would continue under any new business environment.
- 6.38 Currently, although Guernsey Water undertakes stringent monitoring, it does not have an independent regulator in respect of the quality of water supplied to consumers. Later in this report, the state of current legislation governing water services will be described and a recommendation made for establishment of a new modern law to cover all aspects of the water business. As part of this, it would be intended to officially establish the DEHPR as the Regulator for water quality issues.

Economic Regulator (Charges and Quality of Service)

- 6.39 An appropriate regulation mechanism would also need to be established to protect the interests of customers / consumers. Economic regulation of utilities by the OUR is an addition to their status as STCs – not a requirement of that status. Potential options for economic regulation could, therefore, be:
- Through the Office of Utility Regulation (which would require insertion of appropriate provisions into relevant laws); or
 - A binding service level agreement could be monitored by the Shareholder, or perhaps by a different and independent body, and a

business or strategic plan would enable the States to measure compliance with the various service objectives and financial targets.

- 6.40 Regulation is a complex matter and it should be appreciated that what suits the circumstances of one business may not suit another and thus careful examination should be made of any individual case.
- 6.41 If the OUR was to regulate a new utility the States would, in due course, on the recommendation of the Commerce and Employment Department (after consultation with the Director General of the OUR) be asked to make directions under the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, to cover, for example, the scope of any universal service obligation (USO) and the identity of the person to whom the first licence containing a USO is to be awarded etc. The States could also (by Ordinance) give the Director General directions of a strategic or general nature, including directions concerning the priorities to be taken into account by him in the exercise of his functions in respect of a utility service.
- 6.42 The OUR now has 10 years of operational experience under its belt. Whilst regulation may have perhaps been perceived to be heavy-handed in earlier times, methods have evolved and the review in September 2011 introduced the requirement to make further changes in an effort to ensure it is an appropriate and effective form of regulation for Guernsey utilities going forward.
- 6.43 However, at the time of writing this report, the actual impact on regulatory activities by the OUR is yet to be seen and assessed.
- 6.44 The alternative of being monitored / regulated through (for example) a business plan, could potentially lead to continued direct political involvement and a less pronounced degree of separation between roles than might be beneficial, with the knock-on impacts that this could entail for a business.
- 6.45 The Department's initial thought is that economic regulation of the water business should either be through the Office of Utility Regulation or some other independent body, rather than control being maintained in the political arena. However, given the importance of the regulatory mechanism in monopoly environments and the fact that the impact of the changes stemming from the September 2011 debate are yet to realised, the Department considers that it would be inappropriate to make a firm decision at this point.
- 6.46 **The Department considers that the mechanisms for economic regulation of the STC should be considered over the coming months, culminating in a report to the States for consideration.**
- 6.47 Both the Office of Utility Regulation and Director of Environmental Health and Pollution Regulation have been consulted during the Department's investigations.

- 6.48 It should be noted that, should the Department's eventual recommendation propose the OUR for economic regulation, it is not considered that there would be a conflict between the two regulatory bodies. For example, should the Director of Environmental Health and Pollution Regulation decree that a specific action must be taken (for example, to comply with a particular standard), and which would have financial implications for the business, the OUR would accept that requirement and designate it as a parameter in its own deliberations on charges/services etc.

Preparation for Formation of an STC

- 6.49 Given the significant change from Department Business Unit to States Trading Company, it is considered that it would be valuable to start incorporating certain elements at an early date, albeit in an informal manner. Such a phased approach is more likely to prevent (or better manage) issues that might arise, than an 'instantaneous switch-over'.

Shadow Regulation

- 6.50 Regulation is something that States' trading entities are not necessarily accustomed to and requires a level of understanding to be developed on both sides. To facilitate the acquisition of this knowledge it is suggested that, should the States resolve to accept the recommendation to form an STC in January 2012, they further agree that, in the first instance, the DEHPR be invited to become involved at an early opportunity in an 'informal' manner, until the legislation etc is in place to complete the formal transition/regulation process. Such a strategy would provide an extended period of acclimatisation for both sides.
- 6.51 Similarly, when a decision has been taken, a shadow regulation arrangement could potentially also take place in regard to the economic regulation function.
- 6.52 It should be emphasised, however, that the Public Services Department Board would continue to have the full and final say on decisions in this interim period.

Management Board

- 6.53 For a company to realise its full potential and present the greatest possible benefit to the States and the community, it is vital that the management of the company is 'right'. This applies not only to the operational management/ Executive Directors, but also to the Non-Executive Directors that sit on the Board. Between them, these post holders must command a comprehensive breadth of business and technical experience.
- 6.54 It has already been highlighted that finding sufficient people of suitable calibre and holding complementary skills can be a challenge in an island the size of Guernsey. It is suggested that, should the States resolve to create an STC from

the combined water entity, a search to identify appropriate candidates be launched at the earliest suitable opportunity.

- 6.55 In regard to the potential to amalgamate with GEL, that company obviously already has its own Board. However, by adding the water dimension, the nature of the overall business would be significantly changed. Consequently a skills and experience audit would be required to ensure a management board suited to the combined utility.

Costs

- 6.56 The below table summarises costs that could be anticipated at this point.

Table 4: Estimated Costs

	Significant Costs
Merger between Guernsey Water and Guernsey Wastewater	No notable costs.
Formation of a Guernsey Water STC	<ul style="list-style-type: none"> • Establishment of a Board – estimated total of £40,000 per annum for Non-Executive Directors' remuneration. • DEHPR regulation – estimate £25,000 per annum. • <i>[In the event of OUR regulation, annual costs could presently be estimated to be in the region of £200,000.]</i>
Detailed investigation into potential amalgamation with Guernsey Electricity	Estimate £25,000 to £30,000

Savings

- 6.57 The table above indicates that, in the event that a merged water business was formed into an STC, it could be expected that the minimum annual costs relating to that status and regulation would be in the region of £65,000. This could be expected to rise by around £200,000 if regulation through the OUR was involved.
- 6.58 At first glance, additional costs could be expected to result in higher bills for customers. However, two factors need to be considered in this regard.
- 6.59 Even considering the OUR option, if this sum was a purely additional cost, with no balancing savings, £265,000 when split between the approximately 25,000 household and business customers, equates to less than £11.00 per customer per year - or less than 3 pence a day. It could be judged that this was not an unreasonable burden for an individual household or business customer to bear in return for the potential benefits.

6.60 In any event, as outlined in section 6.17 (above), it is anticipated that savings would be realised, and from two distinct sources, to drive down the potential cost to the consumer:

- a) Savings brought about by timely 'preventative' investment in infrastructure remediation opposed to a costly 'reactive' system – as described in Section 6.17 (above).
- b) Although it is difficult to be precise, general efficiency savings, brought about by combined operations (shared staff, combined billing services and postage fees being examples). Although some extent of efficiency savings are already being felt simply through the informal combining of operations, the savings could be anticipated to increase as the revised business structure developed, to an estimated total of £300,000 to £400,000 per annum (approximately 4% of the current overall value of the water business) compared to when the businesses were working individually.

6.61 In summary, therefore, despite additional costs on one side of the equation, the Department believes that there would be savings made on the other side. Savings equivalent to the value of the STC status/regulation costs would mean that customers would not be financially disadvantaged, yet benefits could potentially be realised by them; the community at large and the States. Savings exceeding the additional costs linked to the STC status could tip the balance further towards consumer advantage.

6.62 The above comments relate to operating a combined GW / GWW STC. Any additional potential savings that could be realised by combination with GEL would be identified by the proposed further investigation.

6.63 It should be recognised that to realise the full extent of the savings suggested above for preventative investment in infrastructure, it would require the STC to assume an approach toward capital expenditure that would put it on a more business-like footing. Such an approach would see the business able to raise money for appropriate projects, and then depreciate the value over the life of the asset, ensuring that the customers at the time paid for the benefits they received from the project within the corresponding timeframe. This would, however, need to be guided by any policy directions given by the Shareholder in respect of corporate financing.

Cash Surpluses and Assets Currently Held by Guernsey Water and Financial Return for the States

6.64 At this time, Guernsey Water holds cash reserves to fund its capital programme. The Department believes that, moving forward, Guernsey Water should not pass to STC status holding significant surpluses. Instead, cash over and above that necessary to sustain the combined water business, should be returned to the States. Establishing a company with considerable reserves would potentially

dull the imperative to operate to a strict financial discipline from the outset, and consequently could postpone or reduce the efficiencies that can be driven in to the business.

- 6.65 The Department also considers that, as a commercial utility, a water STC should make an appropriate financial contribution to the States, comparable to that received from other utilities, by way of taxation, dividend or other means.
- 6.66 The Department would intend to liaise with the Treasury and Resources Department in relation to the arrangements in regard to both of the above financial matters and seek to agree appropriate terms at the earliest opportunity.
- 6.67 As part of procedures to establish an STC, it would be necessary to define the assets to be transferred to the company. During this process, any properties/assets associated with the water businesses, but which are considered inappropriate for transfer, may be identified and retained by the States through production of exemption orders, as happened during procedures to establish the electricity, postal and telecoms companies.

Other Resources

- 6.68 Aside from production of appropriate legislation, at this time, it is expected that staff within Guernsey Water, Guernsey Wastewater and the Public Services Department's Central Services Unit will be able to progress the majority of the necessary tasks associated with this project, in consultation with staff from other Departments.
- 6.69 It could, however, be expected that human resources business partner expertise might be required in order to address the issues associated with change management. Initial discussions with the Head of Human Resources and Organisational Development have been held in this regard.

Conclusions

- 6.70 In its examination of the above, the Board of the Public Services Department has concluded as follows:
 - a) There are benefits to be derived from changing the business environment for Guernsey Water/Wastewater, which benefits will be increased in the future as the island faces an ever more challenging economic, fiscal, and political environment.
 - b) In the first instance, the full financial and operational merger between Guernsey Water and Guernsey Wastewater should be pursued.
 - c) Guernsey Water is already close to a position from which an STC could be established.

- d) An STC comprising the merged Guernsey Water and Guernsey Wastewater businesses should be formed.
 - e) Further investigations should be undertaken into the options for the Shareholder role for the water STC and that a report should be submitted to the States for consideration at an early opportunity.
 - f) Economic regulation of the STC (charges and quality of service) should be considered over the coming months, culminating in a report to the States for consideration.
 - g) Human & environmental health / water quality matters should be regulated by the Director of Environmental Health & Pollution Regulation and that informal 'shadow' regulation should take place until legislation etc to complete the formal process has been passed.
 - h) A number of synergies and efficiencies could be anticipated through an amalgamation between the (merged) Guernsey Water business and Guernsey Electricity, and that additional investigation into this possibility should be conducted.
 - i) To realise the full extent of the savings that could be currently anticipated, it would require the STC to assume an approach toward capital expenditure that would put it on a more business-like footing. Such an approach would see the business able to raise money for appropriate projects, and then depreciate the value over the life of the asset, ensuring that the customers at the time paid for the benefits they received from the project, within the corresponding timeframe.
- 6.71 For the avoidance of doubt, the Department it is not recommending that Guernsey Water/Wastewater should be 'privatised'. This is not because the Board is totally opposed to privatisation but rather it is a pragmatic assessment that neither the States of Deliberation nor the wider community would be prepared to agree to the ownership of these critical parts of the Island's infrastructure being transferred to private investors.

7 Compliance with the Principles of Good Governance

- 7.1 From a strategic / government perspective, the creation of a water STC could be considered to comply particularly with the following Principle of Good Governance:

“Focusing on the organisation’s purpose and on outcomes for citizens and service users”

- 7.2 Further, creation of an STC from Guernsey Water/Wastewater could support the following States of Guernsey Objectives:

- Wise long-term management of Island resources
- Co-ordinated and cost-effective delivery of public services

8 Practical Considerations

- 8.1 Currently the States, through the Public Services Department, have ultimate responsibility for the provision of services under the departmental mandate and various pieces of legislation. The property and physical resources required to provide the services (the assets), and any contracts/leases and other debts and obligations etc, are ultimately owned by or are binding on the States. The staff required to provide the services are employed by the States under centrally negotiated terms and conditions.
- 8.2 Any change of business environment from the status quo would inevitably present a range of issues for consideration.
- 8.3 Prior to 2001, STCs were unknown in Guernsey. However, a trail was then established by the postal, electricity and telecommunications utilities. The path and steps along it are now well known and understood.
- 8.4 Moving to a situation where water and wastewater services were to be provided ‘at arm’s-length’ from the States would involve taking a number of steps. Legislation that was developed for the 2001 process for Postal, Electricity and (initially) Telecoms services can be extended for use to other States businesses changing to an STC status. Steps included would be as follows:
- Create a new independent body owned by the States (i.e. a States Trading Company (STC)), with a Memorandum and Articles of Association which,

via an appropriate mechanism⁵, is required to follow the strategic direction of the States and whose activities can be adequately scrutinised;

- Transfer to the new body:
 - Responsibility for provision of services;
 - The employment of staff required for the provision of services, without detriment to their terms and conditions, including pension entitlements⁶;
 - The assets required for the provision of services, which will include contracts with other bodies and other rights, debts and obligations.

Human Resource Issues: Protecting the Interests of Employees and Pension Issues

- 8.5 The rights and entitlements of a States employee include terms and conditions of employment (and the right to negotiate a change to these); annual leave entitlement; the right to be a member of a union; and redundancy provisions.
- 8.6 Where the States Trading Company (Bailiwick of Guernsey) Ordinance, 2001 is utilised to create a new States Trading Company, this transfers to an STC any contracts entered into by, and all other assets and liabilities of, the States undertaking being transferred. Special arrangements, however, are required in respect of contracts of employment. The Transfer of States Undertakings (Protection of Employment) (Guernsey) Law, 2001 (TUPE) enables the States to enact Ordinances to transfer a contract of employment with the States to another entity in a way that preserves the above rights and entitlements except in regard to pensions.
- 8.7 TUPE only applies at the point where the employee moves across to the new employer - it does not apply long-term. TUPE does not give any more protection to an employee than they would enjoy if they had continued to be an employee of the States. The States may itself have sought to renegotiate terms and conditions or to make an employee redundant. TUPE would not prevent the new employer from taking such action but it would ensure that the employee enjoyed the same rights and entitlements as if they were in States employ. After the change in employer, the STC would assume responsibility for fulfilling, and negotiating any changes to, terms and conditions.
- 8.8 In regard to pensions, the transferring business must provide benefits broadly comparable to those enjoyed by the employee under the Public Servants' Pension Scheme (PSPS). Only employees of specified States or quasi States bodies can be members of the PSPS. In 2001 the PSPS rules changed to:

⁵ This could, for example, be set out in the company's Memorandum & Articles of Association; in a contract/Memorandum of Understanding (MOU) between the States and the company; in legislation; or in licence conditions.

⁶ This may require amendment by the States of the 1972 Pension Rules.

- Enable employees of those STCs defined in the Rules (namely GEL and Guernsey Post Limited) to remain in/join the scheme.
 - Allow the States body charged with managing the application of the PSPS rules to individual cases to continue to undertake this role for STC employees.
 - Ensure that STCs were obliged to pay in the level of contributions necessary to fund the entitlements of their employees (the contributions then being ring-fenced).
- 8.9 Prior to the transfer of staff to an STC, a decision would have to be taken (in consultation with the workforce) as to whether there would be a transfer of existing employees to a new and comparable pension scheme, or whether arrangements would be put in place whereby existing and new employees would remain in or join the PSPS (which would require the States to approve an amendment to the PSPS rules).
- 8.10 There are, therefore, mechanisms to ensure that States staff transferring to an STC would not be disadvantaged in terms of their rights and entitlement (and pensions).
- 8.11 Initial discussions have taken place at officer level with senior representatives of the Public Sector Remuneration Committee (PSRC). Staff at Guernsey Water and Guernsey Wastewater are aware of the continued exploration into the potential to change business environment, whilst informal discussions have in the past been held with both the Association of Guernsey Civil Servants (AGCS) and Unite. At this very early stage, until the States had confirmed the direction of their will, taking larger steps in these areas would have been inappropriate.
- 8.12 Initial discussions have also taken place with the Head of Human Resources and Organisational Development over the provision of necessary human resources business partner expertise, which would be required in order to progress further, including a whole range of issues associated with change management.
- 8.13 Should the States resolve to pursue a changed business environment for Guernsey Water/Wastewater, the Department would intend to enter into detailed discussions with the workforce, the Policy Council and relevant employee unions at an early opportunity following such decision. When discussions were either complete, or at least nearly complete, the Department would report back to the States with firm recommendations as to pension provision.

Business Management

- 8.14 As stated earlier in this report, any change to a business environment will require that business to have a robust and appropriate management structure. If this is not in place, the viability of the business will be compromised and, at the least, the full extent of potential benefits will not be realised.

- 8.15 Moving to an ‘arm’s-length’ position would be a significant change from the current business’ status. It is suggested that the responsible STC Board would be in the best position to review the appropriateness of the management/structure and tailor the business as required to ensure it was able to effectively meet its obligations and demands.

Legislative Implications

- 8.16 Appendix 1 is a legislative annexe. St James’ Chambers have been consulted in regard to legislative implications associated with the recommendations presented in this report.
- 8.17 The process to establish STCs in 2001 put in place a framework of legislation that can be utilised now, through Ordinance, to also make Guernsey Water / Wastewater an STC.
- 8.18 As part of the transition to an STC, responsibility for provision of water services etc would need to be transferred to the new commercial entity. The principal laws involved (The States Water Supply (Guernsey) Law, 1927, and the Sewerage (Guernsey) Law, 1974) are outdated and in need of either extensive updating, or replacement. Appropriate legislative provisions would also need to be made in order to provide for the regulation of water quality aspects by the DEHPR and, if it proved appropriate, for OUR regulation.
- 8.19 In 2001, new utility Sector Laws to govern the provision of services (and associated matters, such as recovery of expenditure, technical, safety, environmental and access matters etc) were produced for telecoms, post and electricity services, and came into force at the time that the relevant STCs were established. The Department believes that a comprehensive water utility Sector Law should similarly be drafted here, to replace out-dated legislation relating to potable, waste/surface water, and provide a legislative framework that is appropriate for the provision of water services in the 21st Century. The new Law would repeal the States Water Supply Law of 1927 (the Loi ayant rapport à la fourniture d’eau par les États de cette île aux habitants de la dite île) and the Sewerage (Guernsey) Law, 1974, and other legislation incidental or ancillary to those Laws, although certain provisions of those Laws would need to be retained and re-enacted in modern form. The new Law would also include provision loosely based on the UK Water Industry Act 1991 (subject to appropriate local modifications and adaptations), as well as incorporating appropriate provision to deal with whatever regulatory model is eventually approved by the States.
- 8.20 The dedicated drafting resource required to create a new utility Sector Law (from a good legislative model) is estimated at 4 to 6 weeks. It should be noted that this is solely drafting time and does not include time for review of drafts; consultation; the legislative process involving the Legislative Select Committee; submission to the States; or submission to the Privy Council and Ministry of Justice. The legislative drafting priority granted would also influence when legislation could be prepared.

- 8.21 A number of lesser legislative tasks would also be involved (including ordinances under the STC law and TUPE; modifications to the OUR law (if the eventual conclusion was that the STC should be regulated by the OUR) and, potentially, an amendment to the PSPS Rules etc), but these would be relatively modest compared to a new utility Sector Law. The total actual drafting time for these tasks could be estimated to be in the region of 3 weeks although, similar to the above, this does not take into account time to review drafts etc which could have significant impact on the actual timescale.

9 Future Reports to the States of Guernsey and Timescale

- 9.1 Although the States of Deliberation can provide direction and make initial decisions during this debate, should the Assembly agree to the proposed way forward, there are a number of points that must be brought back for further consideration or approval at a later date.
- 9.2 These matters, and approximate dates at which it could presently be expected that they could be brought back to the States, are shown in the table below. Appendix 5 charts an approximate project timeline. Although several of the reports back to the States are shown as falling at the same time, this should be regarded as indicative only and these subjects may be addressed in the same or different meetings, as proves appropriate.

Table 5: Future Reports to the States

3rd Quarter 2012	End 2012/Early 2013	Later Date
Submission of a report on the potential to create a combined utility (Guernsey Water/Wastewater/Guernsey Electricity)	Submission of a report to make recommendations in regard to the Shareholder role.	Submission of a more precise date for establishment of a Water STC (combined or not with GEL)
Submission of a report to recommend a method for economic regulation of the STC.	Submission of recommendations for candidates for the Management Board.	
	Submission of draft Water Sector legislation for approval and submission to the Privy Council and Ministry of Justice.	
		<i>Continued over page</i>
3rd Quarter 2012	End 2012/Early 2013	Later Date
	Submission of recommendations regarding	

	TUPE and pension scheme changes, as appropriate.	
	Report (possibly as part of the 2013 budget) to examine options for the treatment of the general revenue subsidy, including shift in balance from general revenue to user pays	

- 9.3 Should it transpire that other matters not identified above, but requiring States consideration, are uncovered in the process of moving forward, these would be laid before the States for consideration at appropriate points in the project timeline.

10 Anticipated Date for Establishment of a Water STC

- 10.1 As outlined earlier in this report, the intention is that new water utility Sector legislation will be produced for water activities and it is considered that this should be in place before the STC is established. As demonstrated in Appendix 5, it is the introduction of this legislation that will likely take the longest time and thus will dictate when the trading company is able to be established. There is uncertainty both over the drafting priority that would be granted, and the length of time that would be required to pass through the Privy Council and Ministry of Justice.
- 10.2 At this point, it is being assumed that the water business could move to an arm's-length position from early 2014. As indicated in the table above, a more precise date would be submitted to the States in due course.

11 Human Rights compliance

- 11.1 The Law Officers of the Crown have been consulted and have confirmed that there is no reason from a human rights' point of view why the legislation necessary to give effect to the proposals should not be enacted.

12 Consultation

12.1 Throughout the review period and the preparation of this report, the Department has consulted with the following:

- Chamber of Commerce
- Commerce and Employment Department
- Director of Environmental Health and Pollution Regulation
- Fiscal and Economic Policy Group
- Guernsey Electricity
- Office of Utility Regulation
- Policy Council
- Treasury and Resources Department

13 Recommendations

13.1 The States are recommended:

- 1) To agree to the management of clean water and waste water through a single organisation, namely Guernsey Water, and that the full financial and operational merger between the units should proceed.
- 2) To agree that a States Trading Company should be established from the merged Guernsey Water / Guernsey Wastewater entity, including preparation of the necessary amendments to legislation.
- 3) To agree that the current level of general revenue funding toward waste water continue for 2012 and for the Treasury and Resources Department, in consultation with the Public Services Department, to report in the Budget report in December 2012 on options for treatment of the general revenue subsidy, including changing the balance of funding from general revenue to user pays, for the States to consider.
- 4) To note that the Public Services Department intends to report back to the States (on one or more occasions, as proves practical) regarding a number of issues which are more fully detailed in subsequent recommendations.
- 5) To note that an indicative date for the creation of a water utility States Trading Company could be from around early 2014, but that the Public Services Department will return to the States in due course with a more precise implementation date.
- 6) To agree that further investigation should be conducted into the possibilities for the Shareholder role for the States Trading Company, with a report to be submitted to the States at an early opportunity.

- 7) To agree that the Public Services Department should further consider the matter of economic regulation for the water States Trading Company and report back to the States in 2012.
- 8) To agree to the preparation of a comprehensive water utility Sector Law, as detailed in Section 8.19, to deal with the provision of water supply, wastewater and surface water services and to replace and re-enact the States Water Supply Law of 1927 (the Loi ayant rapport à la fourniture d'eau par les États de cette île aux habitants de la dite île) and the Sewerage (Guernsey) Law, 1974 and other legislation incidental or ancillary to those Laws.
- 9) To agree that the water utility Sector Law described in viii) above shall also provide for regulation by the Director of Environmental Health and Pollution Regulation in regard to water quality issues.
- 10) To agree that, prior to the establishment of the States Trading Company, the Director of Environmental Health and Pollution Regulation be empowered to act as a shadow environmental regulator to enable both Guernsey Water and the Regulator to build up constructive working relationships.
- 11) To agree that the Public Services Department should enter into detailed discussions with the workforce, Policy Council and relevant employee unions before reporting back with firm recommendations in regard to pension provision.
- 12) To agree that the Public Services Department should advance discussions with the Treasury and Resources Department regarding retaining, for the States of Guernsey, cash over and beyond that necessary to sustain the combined water business and assets that may be held by Guernsey Water, at the time of transition to a States Trading Company.
- 13) To agree that the Public Services Department should advance discussions with the Treasury and Resources Department regarding the matter of securing for the States a financial return from a water utility States Trading Company.
- 14) To note the further anticipated synergies and efficiencies predicted to be achievable through potential amalgamation of Guernsey Water and Guernsey Electricity Limited.
- 15) To direct the Public Services Department to liaise with the Board of Directors of Guernsey Electricity Limited to assess in more detail the

advantages and disadvantages of combining the operations and for the Public Services Department to report thereon to the States in 2012.

- 16) To note that the funds required to realise the recommendations set out above will be provided by Guernsey Water

Yours faithfully

B M Flouquet
Minister

Deputy S J Ogier (Deputy Minister)
Deputy T M Le Pelley
Deputy A Spruce
Deputy J Kuttelwascher

Appendix 1 – Legislative Annexe

This Annex sets out information which:

1. Contains information justifying the need for legislation;
2. Confirms how funding will be provided to carry out functions required by the new legislation;
3. Explains the risks and benefits associated with enacting/not enacting the legislation;
4. Provides an estimated drafting time required to draw up the legislation.

1. The need for legislation

The Report proposes that a States Trading Company (STC) be established from a merged Guernsey Water / Guernsey Wastewater entity. A number of legislative tasks are required to establish such a company and to address associated human resources and regulation issues etc.

The Report also recommends that a comprehensive water utility Sector Law be prepared to replace existing out-dated legislation and provide a legislative framework that is appropriate for the provision of water services in the 21st Century.

2. Funding

The STC to be established will be responsible for funding the functions required by the new Sector legislation.

3. Risk and benefits

If the legislation to implement the proposals is not enacted, a States Trading Company (with relevant staff, assets etc) will not be able to be established.

If new Sector legislation is not prepared, water activities will continue to be governed by out-dated Laws.

4. Drafting time

Required drafting time for legislation is estimated to be:

Legislation to establish a States Trading Company, and associated human resources and regulation issues etc – approximately 3 weeks.

New water Sector legislation – approximately 4 to 6 weeks.

Appendix 2 – Glossary

DEHPR	Director of Environmental Health and Pollution Regulation
GEL	Guernsey Electricity Ltd
GW	Guernsey Water
GWW	Guernsey Wastewater
OUR	Office of Utility Regulation
PSPS	Public Servants' Pension Scheme
STC	States Trading Company
TUPE	The Transfer of States Undertakings (Protection of Employment) (Guernsey) Law, 2001
USO	Universal Service Obligation
WAO	Wales Audit Office

Appendix 3



Office of Utility Regulation

Commercialisation Review of Public Service Departments

Report to the Public Services Department

October 2009

Undertaken at the request of the Public Services
Department

Office of Utility Regulation

Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey, GY1 2NH
Tel: (0)1481 711120, Fax: (0)1481 711140, Web: www.regutil.gg

CONTENTS

1. INTRODUCTION.....	
2. CORPORATISATION, COMMERCIALISATION AND PRIVATISATION	
3. PROFILE OF BUSINESS UNITS.....	
GUERNSEY HARBOURS	
GUERNSEY AIRPORT	
GUERNSEY WATER	
STATES WORKS	
WASTE WATER SERVICES.....	
SOLID WASTE	
4. CRITERIA FOR COMMERCIALISATION	
HARD BUDGET CONSTRAINTS	
CLARITY ON OUTCOMES SOUGHT	
EXISTENCE OF MARKET PRICES FOR INPUTS AND OUTPUTS	
FEASIBILITY OF COMPETITIVE RESTRAINTS	
SHAREHOLDER COMMITMENT TO OVERSIGHT	
5. ASSESSMENT OF BUSINESS UNITS.....	
GUERNSEY HARBOURS	
<i>Governance arrangements.....</i>	
<i>Operational autonomy.....</i>	
<i>Revenue and related Capex Uncertainty</i>	
<i>Human Resource Management.....</i>	
GUERNSEY AIRPORT	
GUERNSEY WATER	
<i>Welsh Audit Office Review.....</i>	
<i>Human Resource Management.....</i>	
STATES WORKS	
WASTE WATER SERVICES.....	
SOLID WASTE	
6. COMMERCIALIZATION MODELS.....	
NO CHANGE.....	
<i>States Works</i>	
<i>Solid Waste</i>	
GUERNSEY MODEL OF COMMERCIALISATION.....	
<i>Guernsey Water and Waste Water.....</i>	
<i>Guernsey Harbours</i>	
TRUSTS	
<i>Guernsey Harbours</i>	
COMMERCIALISATION WITH EXPLICIT SUBSIDIES	
<i>Guernsey Airport</i>	
7. REGULATORY ARRANGEMENTS	
8. CONCLUSIONS	

1. INTRODUCTION

The OUR has been asked by the Public Services Department to assess the scope for commercialising certain services currently provided by the Department through a number of discrete organisations. These are:

- Guernsey Airport
- Guernsey Harbours
- Guernsey Water
- States Works
- Waste Water Services
- Solid Waste Division

In undertaking this exercise, the OUR is asked to assess the appropriateness of the Guernsey model of commercialisation for each of these business areas and identify the potential benefits and disbenefits of doing so and whether there are alternative models that may be considered as part of any subsequent review.

In addition the OUR has been asked to comment on the broad outline of the regulatory arrangements that could apply to those business functions, where commercialisation is considered appropriate.

This report sets out the OUR's key conclusions with respect to the six business units and comments briefly on the next steps PSD may wish to consider should it wish to take forward the proposals.

The OUR would like to record its thanks to the staff of the business units for their time and assistance in preparing this report and to PSD for their assistance and input.

2. CORPORATISATION, COMMERCIALISATION AND PRIVATISATION

In this section, a distinction between three concepts of transformation of state-owned enterprises is made. This is intended to illustrate the range of options available and, in particular, where the Guernsey model of commercialisation falls within that spectrum.

‘Corporatisation’ generally refers to a new separate legal entity created by converting a State department into a company all of whose shares are held by the States Treasury. ‘Commercialisation’ involves a further extension of this, where a ‘corporatised’ business is run as a profit-seeking business. ‘Privatisation’, entails divestiture by government, in part or whole, of the shares of a business by one or a combination of various methods. Guernsey has opted to ‘privatise’ the States owned telecoms business. The approach taken for the States owned electricity and postal businesses is in the OUR’s view on balance closest to the ‘corporatisation’ model. References to the ‘Guernsey model of commercialization’ should therefore be understood in this context.

3. PROFILE OF BUSINESS UNITS

The current governance arrangement for these business units is a committee based system, with the existing businesses responsible to the political members of the Public Services Department (PSD). This arrangement seeks to ensure there is political accountability for the policy and service delivery issues associated with these businesses and that they work effectively. The Members of the PSD Board determine how they will account for each area.

GUERNSEY HARBOURS

Guernsey Harbours comprise St Peter Port Harbour and St Sampson's Harbour and complies with the Aviation and Maritime Security Act. It fulfils the dual roles of both a Competent Harbour Authority⁷ and a Local Government Marine Agency. These roles combine what are essentially central government and local government functions in larger jurisdictions. In Guernsey therefore, all maritime functions except Fisheries and Environmental protection are collectively delivered by Guernsey Harbours. Guernsey Harbours' principal business as a Competent Harbour Authority includes that of marina operator, landlord, pilotage, crane hire operator, maintenance and harbour operations. As a Local Government Marine Agency its role covers that of marine advisor to the States, provision of a coastal radio station, search and rescue centre (coastguard)⁸, registrar of ships, receiver of Wrecks, licensing authority, minor surveys authority, provision of local water lights and navigational aids authority.

Guernsey Harbours receive vessels that trade on international routes and therefore are required to operate to standards set by the international maritime community. External audits are carried out in respect of the Port Marine Safety Code and the International Ship and Port Facilities Security Code amongst others. The Search and Rescue standard follows UK training and competence standards, but the working practice and processes are locally appropriate.

In fulfilling these roles, some 77 full-time equivalent staff are employed by the Guernsey Harbours. Public Sector Remuneration Committee sets the pay scales and terms and conditions of staff, while project and capital expenditure approval is required from T&R. Budgets and income are determined annually and approved by PSD Board which sets a target return of 5% on turnover. Crown Officers support this business unit in the provision of legal advice from time to time, while the UK Maritime & Coastguard Agency provide advice in the areas of maritime licensing and survey advice. Recruitment of certain functions may require specialised advice and for this PSD's human resource function will provide support when the need arises.

Guernsey Harbours delivers a mix of commercial services through charges such as the Harbour Dues and Facilities Charges. It also provides what are essentially wider public good services which are invariably non-commercial in nature, including Search and Rescue, provision of lighthouses and other navigational support. The main sources of income include facilities charges (£2.9m), marina and mooring fees (£1.7m), pilotage dues (£0.5m), rents (£0.6m) and shipping dues (£0.9m).

⁷ Competent Harbour Authority, means a Harbour Authority which controls fully its Pilotage, Approaches and Traffic Control.

⁸ This includes operational support to the RNLI

Over the period 1998-2007, Guernsey Harbours earned a surplus of around £19m, and expenditure on its capital assets was a little under £15m. The annual surpluses were earned on an average income of £6.1m per annum (in 2007 £7.1m) and expenditure of £4.2m (in 2007 £4.9m). From these accounts Guernsey Harbours appears in financial terms to be a self-standing business unit. The balance sheet reports fixed assets valued at £127m.

St. Peter Port Harbour, St. Sampson's Harbour and the Airport have operated under the Ports Holding Account since 1962. This provides a central reserve generated by the amalgamation of each port's annual surplus or deficit. The reserve then funds capital projects as and when required by any of the ports.

GUERNSEY AIRPORT⁹

Guernsey Airport functions include provision of terminal facilities, Air Traffic Control, Airport fire service, Meteorological services, Airfield Services, Facilities maintenance as well as Airport administration. As a port, Customs and Police services are provided by those agencies through Home Department to fulfil legislative requirements.

The business is subject to annual external audits by the Civil Aviation Authority in respect of Aerodrome standards, air traffic control and air traffic control engineering, as well as fire service provision.

In providing these services it has 116 FTE employees. Public Sector Remuneration Committee sets the pay scales and terms and conditions of staff, while project and capital expenditure approval is required from T&R. The assets held by the business include the runway aprons, taxiway, cargo sheds, hangar, terminal building, radar navigational aids, vehicles, groundkeeping equipment, air traffic control systems, baggage conveyor belts, rescue equipment and training simulators.

PSD provide senior management support, including finance and HR, with the PSD Board undertaking Board level decision making and oversight. Some architectural and property management support is provided to the Airport by Treasury and Resources as part of its mandate to undertake such matters on behalf of Government Departments.

In terms of income, various income streams are received - the 2009 budget estimates traffic receipts (£6.1m), Advertising revenue (£0.125m), aircraft parking (£0.135m) and car park fees (£1.7m) Guernsey Airport also receives contributions towards the meteorological service provided by the Airport from the Environment Department, and from Alderney Airport to cover the management and airport operational services delivered through Guernsey. A contribution is also received to pay the costs of the tourist information desk staff, which is paid by Commerce and Employment Department. Expenditure by the Airport is around £7.7m per annum, with 74% of that accounted for by staff pay costs.

Budgets and income are determined annually and approved by PSD Board which sets a target return of 5% on turnover for the Airport. All capital expenditure is subject to standard tendering requirements where considered appropriate and must be approved by PSD in the first instance, then confirmed by T&R.

To-date all capital expenditure has been funded by the Ports Holding Account, established from the operating surpluses of the Harbours and the Airport. Over the period 1997-2002, Guernsey Airport generated a surplus of £19.6m, with capital expenditure of £36m.

⁹ Alderney Airport is not included in this review.

GUERNSEY WATER

Guernsey Water manages the delivery of water to premises, while Waste Water Services manages the business of moving used water away from premises, processing and/or disposing of it. The business of capturing water and then utilizing infrastructure consisting of pipes, filtration systems and pumps which deliver the water from source to the taps broadly captures the essential elements of a water business. Guernsey Water is also tasked with catchment protection and aspects of pollution control relevant to the water business. Supporting operations of water testing (water), billing, emergency services etc are of course all also key to the successful functioning of the business.

Whilst not under any legislative control for water quality, the business unit has adopted water quality standards set by the UK as targets.

Guernsey Water's investments were close to £30m over the past 10 years, with income for 2007 of £8.6m and expenditure of £4.0m. Its tangible assets are valued at £33.7m on an historic basis. It has traditionally functioned as a separate unit and while it does utilize private contractors for various work from time to time, it largely relies on a core in-house resource for repair and maintenance functions, as well as emergency support services. Its emergency support services can be categorized as water quality emergencies, and physical repair and maintenance work. Given the high pressure pipes involved in delivering fresh water, the complexity and extent of repair and maintenance work is different to Waste Water Services.

With surpluses generated over the past 10 years of £31m, and annual turnover in the order of £9m (2008). Guernsey Water, in our view, is financially and operationally self-sufficient.

STATES WORKS

States Works operates as a trading organisation which contracts with mainly States clients to deliver a wide range of services. Those services demand the effort of a predominantly manual labour force utilising specialist plant and equipment to maintain the public services of the island. A key rationale for its existence as a State entity is the need for an in-house resource of tangible assets and technical and manual skills that can be rapidly deployed to deal with emergencies.

The existence of such an in-house resource with the necessary equipment to perform this role necessarily implies those resources would otherwise be idle for large periods of time if they were not redeployed elsewhere. The business has therefore developed into one where the people and assets it holds are utilised in a wide range of work. These cover Building work, Highways and Drainage, Fleet maintenance work, Cleansing and Waste Collection, Landfill and Recycling, Sewage collection, Electrical and Maintenance work, Signs and Lines and Grounds Maintenance. While the business unit supports the Waste Water unit by providing a maintenance resource, the only function now carried out by States Works in this area is in clearing pipelines, with pipe repair and maintenance work carried out by the private sector.

This business unit comprises several business units and in operational terms is run as an independent unit. It tends to utilise the assets of other business units for which it provides many of its services and controls staff, operation and fleet under SLAs. For example, it delivers services to the Waste Water business under such an agreement.

States Works employs 228 FTEs. La Hure Mare Depot has facilities for all support staff, with stores used by all business units and various States Departments. It also has workshops for Building Section, Fleet and Garage section, Playing Fields and Electrical

Maintenance. The desalination site at La Hure Mare is currently leased out to Geomarine.

It receives no direct income from General Revenue, but controls staff, operations and fleet under a Service Level Agreement. All charges for its services are made directly through central services (for example refuse tip charges, sewage tanker collection and recycling initiatives). Income earned for 2007 was £9.9m, with expenditure of £9.8m and tangible assets valued at £4.5m. The largest cost category is labour and direct materials (£7.6m), with staff costs in the order of £6.1m. Remaining operational costs are split between transport, plant and buildings and administration.

WASTE WATER SERVICES

The Waste Water business unit follows the quality standard of UK practice, which is achieved by a Service Level Agreement with States Works. The Bathing Water Quality Indicator is set by the Environmental Health Officer, who requires compliance with EC Directives and UK legislation and Guidelines.

Waste Water has invested around £23m over 2002-2009. Given its history as part of Central Services, unlike Guernsey Water, it has relied largely on General Revenue to both fund its operations and for its capex requirements. In these circumstances, certain aspects of its business are not directly comparable. For example, the question as to whether potential surpluses might have been sufficient to fund historic capex is largely academic given its charging system is undeveloped. While the cost of some services are met by its customers through sewerage charges, they are either subsidised or largely met through tax revenues.

In terms of operations, the reverse process to that in water is involved. Waste Water uses infrastructure consisting of pipes, filtration systems and pumps which processes the waste water and ensures its safe disposal when moving waste water away from premises and other points of usage.

The Accounts of the States for 2007 shows the cost of elements of Waste Water Services, including pumping stations (£0.835m), sewage tankers (£1.6m), sewers and outfalls (£1.4m) and surface water outfalls and streams (£0.252m), much of which is contracted out to States Works. Unlike Guernsey Water, Waste Water Services outsources a large number of operational functions. This includes the waste collection service, pumping station and rising main maintenance, sewer network and stream maintenance, highway cleansing and ancillary services and emergency support services.

SOLID WASTE

The objective of this business unit is to safely dispose of all solid waste from Guernsey. The unit is subject to its Waste Management Licence conditions and monitoring frequencies are set by the Waste Disposal Authority. The PSD acts as the Waste Disposal Authority and is responsible for implementing the Waste Disposal Plan and providing various waste services and facilities.

The Solid Waste business unit operates as a separate business entity, its activities include the provision of a putrescible waste landfill site at Mont Cuet, the inert waste site at Longue Hougue, waste segregation and recycling facilities at Fontaine Vinery, provision of recycling facilities across the Island, and monitoring current and closed waste disposal sites. This unit is also closely involved in investigating a permanent waste segregation and recycling site and procuring a long-term waste management solution.

Nine FTEs are directly involved in the operations of this unit, while the linkage with States Works is strong given it runs all the solid waste operations as an in-house contractor. At present no service level agreements exist between the Solid Waste unit and States Works. The Solid Waste business unit functions as any other department within PSD. It relies on the Policy Council HR unit to provide support in certain HR matters and various ad hoc advice. Central Service Finance Team assist with billing, purchasing and other financial matters. Central Services Administrative staff also provide support particularly when major projects arise.

States accounts for 2007 shows the cost centre of 'refuse disposal and land reclamation' incurred around £1m in outgoings. Other cost centres include bulk refuse (£0.346m), paper savers scheme (£0.151m), recycling waste (£0.275m), waste segregation site (£0.386m) and waste strategy (£0.257m). The unit earns some income from refuse disposal and land reclamation (£2.9m), a small sum from recycling of waste, with waste segregation (£0.38m) also providing an income stream.

Table 1. Business Units 2007 Accounts -

States Business Units	Income	Expenditure	Capex	Staff numbers	Surplus
Guernsey Water	£8,628,339	£4,041,666	£3,751,919	75	£4,371,934
States Works	£9,962,389	£9,854,942	£1,207,707	228	£226,836
Guernsey Harbours	£7,141,911	£4,994,228	£1,507,850	77	£1,189,994
Guernsey Airport	£8,919,310	£6,799,000	£657,495	116	£423,083
Solid Waste	£3,299,712	£3,314,509	-	9	(£14,797)
Waste Water	£1,551,683	£3,313,523	£2,925,926	6	£1,761,840

Source: B'illet D'Etat IX 2008 and Public Services Department

4. CRITERIA FOR COMMERCIALISATION

Assessment of academic literature and the OUR's own experience of regulation in Guernsey since 2001, suggests several criteria should be met if any of the six departments are to be recommended as suitable for the Guernsey model of commercialisation. The criteria are:

- Prospects for 'hard budget constraints';
- Whether the outcomes sought can be clearly enunciated;
- Whether market prices exist for inputs and outputs of the business;
- Feasibility of oversight or competitive restraints; and
- Feasibility of adequate oversight by the shareholder.

HARD BUDGET CONSTRAINTS

Leading economists have expressed the view that nationalised industries in the UK were inefficient on a scale that was only fully appreciated after they had been privatised. Strong unions captured the statutory monopoly, investment was misdirected into prestige projects and there was ineffective use of existing assets. Hard budget constraints were absent and there were few political incentives to create or enforce them. Commentators have also noted there was inadequate information, both for industry managers and for government officials, on costs, performance and financial accounting.

As public sector owners, politicians are obliged to act as bankers, and to control the finance available to the supplier. They have to juggle conflicting demands for cash, which means that money will not always be available. They are also inevitably drawn into the application of public sector pay policies. In carrying out these tasks, the scope for ensuring hard budget constraints and for creating the right incentives, without being pulled into micromanagement is diminished. History has shown that the existence of a hard budget constraint is essential to proper delivery and to efficiency of services. Without explicit hard budget constraints, there is always a risk that a publicly owned supplier will engage in behaviour that is not fully cost effective, as was the experience with nationalised industries in the UK.

Incentives to compete and to behave efficiently will be stronger when the owners have their own money on the line. The extent to which any competitive restraint is possible will depend on the existence of a level playing field that implies that firms do not benefit from taxpayer subsidies but face budget constraints as hard as that of private companies.

CLARITY ON OUTCOMES SOUGHT

The term 'Outcomes' refers to the high level objectives delivered to customers, such as safe drinking water, effective removal and disposal of sewage or waste, clean parks, good quality roads etc. 'Outputs', on the other hand, are the means of delivering those outcomes, involving the provision and operation of effective systems of pipes, treatment works, airport and harbour facilities etc. Inputs are the resources, financial and other, that go into the enhancement, maintenance and operation of the systems.

The scope for setting outcomes that are well-specified and can be delivered effectively, which take account of the tensions faced by those businesses in delivering those outcomes is considered an important criteria when assessing whether a department can function as a self-contained business unit.

It is generally acknowledged that where the delivery of market services is concerned, the specification, measurement and monitoring of the outputs that will achieve the desired outcomes for individuals and society are best left to competitive forces, whether actual or artificial. The management of inputs is considered as best left to the suppliers of the service. If they are to be fully effective, they must have incentives to do their job efficiently and economically. Subject of course to appropriate diligence obligations and oversight, they need to be free to assemble the resources that they need to do the job, not to be constrained by restrictions on what they can pay their staff or how much they can borrow for capital investment.

The clarity of these parameters within which government owned enterprises can function contributes to a system where political influence is not exercised in the day to day operations of the business, or in nature of outputs delivered by that business entity. It is instead manifest in clear outcomes which guide the business decisions, where the benefits of the commercialised model are best realised.

EXISTENCE OF MARKET PRICES FOR INPUTS AND OUTPUTS

There are several related elements to this criterion, namely, identifiable inputs and outputs, a means of establishing their market value, and a linkage between price and associated outputs which offers the means to assess whether a price is fair.

In order to function as a self-standing commercial entity, there is a need to have a clearly defined set of inputs with an associated cost, as well as outputs in the form of goods or services, which have a market value. There should be a clear link between input and outputs since without them the benefits from commercialisation are less likely to be realized. One can think of a number of government activities, usually with social, environmental or perhaps educational objectives where the linkage between the standard of inputs and outputs is more difficult to establish. A criterion in identifying candidates for commercialisation should therefore take account of the ability to link input resources at a reliable market price, to a definable output, which also has a reliable market value.

A direct link is also required between the end good or service and the price paid by the consumer. This is an important element in the consumer's ability to choose to consume the good or service. The more indirect the link, the less effective the demand and supply signals will be and the less efficient the consumption choices as a consequence. Estimation of the fair price for the end product is a key aspect of the commercialisation model, both for the business, the end consumer and the regulator. It is this essential feedback which puts pressure on costs and efficient allocation of resources in the economy, where appropriate - which is what commercialisation also seeks to achieve.

If Guernsey consumers are not able to gauge the cost they are incurring for their consumption there appears little to be gained by a move to a commercialization model¹⁰.

¹⁰ *Social support programmes and other welfare schemes designed to protect the more vulnerable members of society excepted.*

FEASIBILITY OF COMPETITIVE RESTRAINTS

Competition in one form or another is considered crucial, particularly where the commercialised business is a monopoly provider. Where feasible, natural monopolies must be disentangled from statutory monopolies and exposed to all potentially competitive areas. Where the option of real competition is available, competent States owned companies should be given the chance to compete on an equal footing with private companies rather than be sheltered from competition.

Where competition is difficult or impossible to achieve, an alternate form of competitive restraint is through regulatory oversight. The extent to which this is needed is proportionate to the risks of inefficiencies. In order to carry out such a function, identification of fair market prices for inputs and outputs for delivery of the goods or services by the business, are a critical fallback in the absence of real competition.

The feasibility of either form of competitive restraint is therefore generally regarded as a key priority with regards to commercialising functions carried out within government.

SHAREHOLDER COMMITMENT TO OVERSIGHT

When a business is government-owned the shareholders are the taxpayers. Taxpayers do not receive dividends and hardly exercise any control over the business. Instead the control is exercised by people in government, who do not have their own money at stake and who often have weak incentives to improve the management of a business.

Added to this is the level of skill needed to understand the business over which oversight is required. The information asymmetries are generally substantial and without the necessary expertise in understanding the business, the ability of States officials to properly supervise the commercialised firm's management is limited.

The oversight roles required are:

- a) the selection of suitably qualified people;
- b) the ability to specify demanding but attainable targets for the management team;
- c) provision of suitable incentives for good performance; and
- d) the ability to penalize and even remove poorly performing managers.

The above are all necessary to ensuring a commercialised entity serves Guernsey consumers and taxpayers well. It is therefore critical that a system is created where the decision makers bear the risk and rewards for their own decisions, that these are not diluted by a system with poorly defined targets and rewards, or a lack of willingness to act when a commercialised business fails to perform to standard.

In the absence of any commitment to a form of commercialisation at this stage, this final criterion is not assessed in this review. A decision to pursue any form of commercialisation is expected to include an assessment of this final criterion but at this stage it appears premature to conduct such an analysis.

5. ASSESSMENT OF BUSINESS UNITS

While the nature and strength of issues raised with the OUR during the course of this review have varied to some extent between the business units, they have in most cases been relevant to each of the areas. For this reason the assessment of the first business unit below, namely Guernsey Harbours, contains a more extensive assessment of the issues which is not repeated for following business units. In cases where the issues have not been found to be relevant to a particular business unit, this is noted within the relevant discussion on that business.

The main features that have been highlighted during the course of this review are:

- a) the range and complexity of issues faced in running the six business units is vast. The ability of any political Board, which has a range of other important responsibilities in its portfolio, to manage these businesses in terms of value added in the decision process at any serious detail is constrained.
- b) the decision making capacity of the PSD Board whether operational, technical or financial has been a major aspect on which the business units have raised concerns given the political board is engaged in many instances with what are essentially diverse business decisions.
- c) a related issue is the limited time the PSD Board (or for that matter any Board) can give to each of these business units, given the range of other matters the Board must deal with and the frequency it meets. This will materially reduce the capacity of the PSD Board to fully consider and debate the issues involved in many decisions relating to the business.
- d) the presentation of business papers to the PSD Board can involve substantive proposals, particularly capital investment programmes, which reflect the engineering, marine and general technical background of senior managers in the business units. In many cases this may not be suitable for PSD Board members and can contribute to an uninformative environment in which it is hard to challenge the content of proposals put to the Board and to reconcile the commercial merit of proposals with the technical/operational merit.
- e) the ability to more fully engage with employees in negotiating terms and conditions is another area where strong views were expressed, in particular, in circumstances where the operations of the business unit don't lend itself to a standard working day, or human resources were employed to respond to unpredictable events.

The above issues would appear to manifest themselves in a variety of ways, with the main areas for each business unit identified in the OUR's review set out below.

GUERNSEY HARBOURS

GOVERNANCE ARRANGEMENTS

The challenges faced by the States and PSD Board with responsibility for the Harbours are likely to grow further in future given the inevitable complexity of meeting the various and growing demands placed on a Harbour Authority such as Guernsey's. The ability to meet these challenges is made more difficult by a political decision making forum for the Harbours without a clear articulation of the outcomes it seeks from this business unit.

The responsibility for prescribing the outcomes sought from a government body such as the Harbour lies appropriately in the hands of the PSD Board which is itself accountable to the States. However, at present there is a lack of certainty as to the outcomes sought from PSD Board, and a desire on the part of Guernsey Harbour for greater autonomy in making business decisions to cope with the various conflicting demands on the business.

As the demands from users become more sophisticated, the trend toward larger boats continues and the demands on harbour resources grows, the need for a defined set of outcomes that inform the business unit's priorities and give certainty to the management decisions around assets and operations, is considered critical.

A clear distinction between the role of the Board in setting strategic direction, and the role of the business unit to deliver, with sufficient autonomy to make the trade-offs in inputs and outputs, is a further key element in ensuring the Harbours can meet the challenges referred to. It seems to the OUR, these roles can complement each other. As noted by a regarded political economist,

"It is essential that the practical supremacy should reside in the representatives of the people [but] there is a radical distinction between controlling the business of government and actually doing it". – John Stuart Mills (1806-1873).

If the business decisions of the Harbours are subject to short-term changes due to a subjective goals that are not clearly set out in advance, the implications of this are likely to hinder rather than help the business unit.

There is a further point, noted by a report to the Jersey States on progress towards the Trust Port, namely that commercial and professional maritime matters must be seen to be administered and decided upon by a Harbours Authority that is free from operational influence.

OPERATIONAL AUTONOMY

The setting of clear outcomes sought is however not a panacea for all the issues raised. The ability of the Harbours to weigh up and proactively address conflicting and increasing demands on its facilities and other resources in a marketplace, and then make decisive decisions in response, can be hampered in circumstances where input and output decisions remain under the control of a political board. The Harbour Authority is of the view that greater control is required over input and output decisions by the people running the business in order to deliver those outcomes. Even with clearly defined outcomes, in the form of a clear strategic plan, it is inevitable that short term political priorities will be brought to bear when issues are contentious. This is particularly so when choices have to be made between the interests of various interest groups.

REVENUE AND RELATED CAPEX UNCERTAINTY

The Harbours Authority takes the view that over the long term the decision making process for price setting, subsequent surpluses generated, and their linkage with capital expenditure requirements creates significant uncertainty in the business decisions and charging principles of the Harbours. This in turn has, in its view, led to under investment in the asset base and a basket of prices not well matched to the demands on the assets of the Harbours.

The degree of uncertainty created by the current system for capital investment decisions is also highlighted as a significant concern by the business unit. As can be seen by the comparison between the surpluses and capital expenditure by the

Harbours, the fees it has received from users have been adequate to meet the commitments to date. However, a report by the Public Accounts Committee into the accounting structure of the Ports Holding Account (PHA) states;

“...the PHA is unlikely to be able to support any substantial capital expenditure in the near future unless the ports can achieve reasonable operating surpluses or loans are raised.”

The OUR understands the depletion in the PHA is why the Harbours is presently effectively in competition with numerous calls on General Revenue funds to sustain its assets. In the 1970s and 1980s, capital expenditure at the Harbours, in respect of the Queen Elizabeth II Marina development and the construction of Roll-on/Roll-off (Ro-Ro) ramps, was funded from General Revenue. To acquire the necessary capital for the jetty and crane work in the order of £10m, in the current capital debate, the Harbours presently competes with calls on funds for projects such as new school builds, T&R IT system investment, emergency service radio systems and Homes for Adults with Learning Disability.

This raises the question as to whether the level and mix of prices has maximised the utility value of the Harbours, and whether it has been able to invest effectively in its asset base. Certainly the view of that business unit is that the current price mix is not optimal and that there has been underinvestment in the Harbours. In part, this is attributed by the Harbours to the PHA, to which the harbour believes it has contributed a large amount of revenue through its surpluses, which have then benefitted capital expenditure in the Airport rather than only the Harbours. The same Public Accounts Committee report gives support to this view, stating that:

“In short, surpluses from St Peter Port Harbour have subsidised the operations and developments at the Airport and St Sampson’s Harbour.”¹¹

A significant challenge of the commercialisation process for utilities in various jurisdictions, including Guernsey, has been the removal of cross subsidies that were well intentioned but not economically driven. Price setting in this context does not tend to reflect the underlying costs of service provision. The implication for investment incentives can be material as services bearing the cost of such cross subsidisation become underutilised given they are subject to market prices not reflecting their fair price. Conversely, those which are subsidised are inevitably over used creating further distortions to the ability of a commercial business to invest appropriately.

An in-depth assessment of price and quality comparisons and user price elasticities has not been conducted, but indications that the current pricing system has had distortionary effects on the demand for berths, for example, is suggested by comparing marina charges across the UK, France and Jersey. Figures 2 and Figure 3 illustrate this comparison.

¹¹ The Public Accounts Committee ‘The Accounting Structure of the Ports Holding Account’ DRAFT 2007

Figure 2

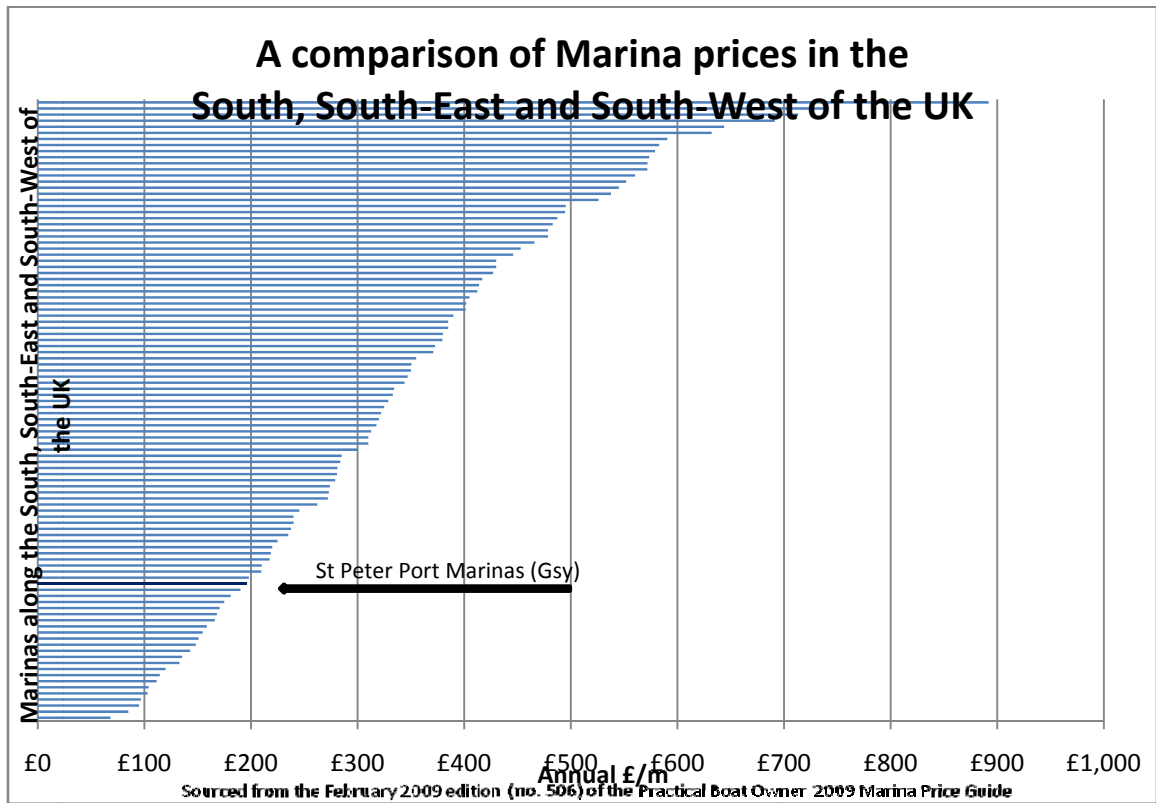
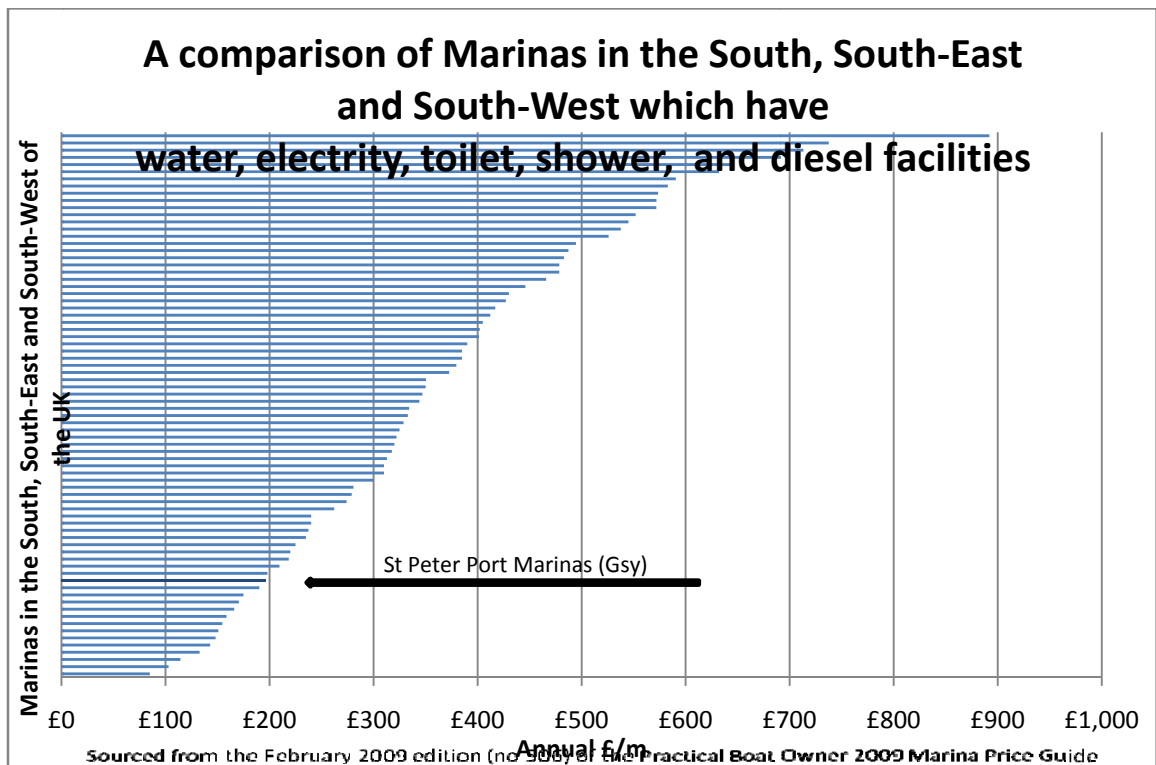


Figure 3



HUMAN RESOURCE MANAGEMENT

A further issue raised by most business units is in the area of human resources. The Harbours facility is to all intents and purposes a 24/7 365 operation. The work patterns of its staff must by definition be flexible for management to efficiently adapt to the activities of such a port, which receives and dispatches overnight ferries and other cargo vessels subject to tidal and weather conditions. Applying the same terms and conditions, including pay arrangements, that apply whether staff are office workers or operations staff at the Harbours, is viewed as taking little or no account of the quite different demands of an operation faced with the demands of a port. This issue is particularly relevant to Guernsey Airport, but also for some staff in each of the other business units.

A one size fits all approach to human resources across these six business units within wider civil service arrangements appears outdated. The inability of management to apply terms and conditions that better suit the demands of the environment a business unit, such as the Harbours, operates in is prone to high cost, staff/management friction and risks to the quality of service provision. The counter issue as to whether the Harbours will be exposed to other problems if it could negotiate within its own business unit context must however also be a consideration. In dealing with the issue at hand by advocating some form of delegation, the OUR is mindful of the risks going the other way. The key argument however is that the Harbours should have a means to reflect the circumstances of its operations and the demands placed on its business. How this is achieved is a matter of implementation and certainly private businesses in general are able to manage their businesses on this basis.

GUERNSEY AIRPORT

In terms of the feasibility of commercialising the Airport, a review of its annual accounts over the last ten years suggests the business as a whole is not self-funding. Guernsey Airport generated a surplus in the order of £19.6m over that period, contrasted with capital expenditure of just over £36m. This amounts to an annual shortfall of £1.6m over the period, without taking account of the current demand of £84.5m for the Airport Pavement project. The business has therefore not earned a sufficient return to replenish and develop its assets but has had to rely on funding from elsewhere. This is a long term situation, as a review of surpluses from 1962 suggests that the airport hasn't been able to generate sufficient surpluses over even longer historic periods.

In order to have matched income and expenditure to generate surpluses to meet its capital expenditure in its current structure since 1997, income at levels 30% higher than actuals would have had to be earned. Alternatively it would have needed to reduce expenditure by 38%. While identifying efficiencies is one of the objectives of commercialising business units, the scale of the expenditure reductions required to bridge this gap at Guernsey Airport appears unrealistic. This is equally true of the increase in fees that would be required.

There is therefore a fundamental element of commercialisation of the Airport in its entirety that is problematic, namely its ability to function as a self-standing business entity.

A consideration of an alternative business model has been considered by the OUR, and a discussion of that option is included in Section 6.

GUERNSEY WATER

Consideration of the commercialisation of Guernsey Water has been carried out previously for the Public Accounts Committee by the Welsh Audit Office (WAO). It published its report in November 2006. This review highlighted several issues which the OUR would concur with given its own discussions with the relevant parties. The WAO's recommendations from that review are reproduced below for convenience:

WELSH AUDIT OFFICE REVIEW

- a) The challenge to GW provided by the PSD Board needs to be strengthened to appropriately reflect the mitigation of the risks identified.*
- b) The States and the PSD Board need to clarify arrangements for the future regulation of GW. If PSD or another body is to undertake this role, it needs to strike an appropriate balance between governance and regulation.*
- c) The performance management of GW by the PSD needs to focus on key issues of strategic importance and value. Jointly developing and agreeing a set of balanced (financial, operational, customer focused and corporate health) indicators alongside a reporting and monitoring framework, will help to focus on key issues.*
- d) The centralisation of GW support services should be supported by clearly communicated business cases which demonstrate the benefits of the proposals.*
- e) The States needs to clearly articulate its long-term aspirations for water in Guernsey to ensure the PSD and GW are able to develop coherent business plans and strategies.*
- f) The financial and organisational arrangements for waste-water activities need to be clearly understood to establish if any additional value for money could be delivered.*

The OUR also notes that the WAO commented that a merger of the GW activities with waste-water activities could bring value for money gains and other benefits to the States. However, it noted that this needs to be carefully reviewed to ensure the financial arrangements (funding/billing/cost recovery) for waste water are clarified, and risks and benefits are fully understood before any potential merger is considered. The WAO further commented that commercialisation of GW (in line with existing Guernsey models) is unlikely to provide any additional value for money that cannot be delivered via improvements to the existing structural and procedural arrangements. Guernsey Water has indicated that, in its view, the issues identified above remain of concern.

HUMAN RESOURCE MANAGEMENT

In addition, an aspect not covered by the WAO review is the area of human resource management. In common with other business units, it has expressed a need for it to have greater control of its own workforce, to allow it to bring about an improved performance ethos and the ability for reward and recognition. This is consistent with the issues raised by other business units with centrally contracted staff agreements.

STATES WORKS

This business unit faces particular difficulty with the timing of budgets which must be set by May for the following year. This is argued to place the business in a commercial strait-jacket in that it must commit to a budget well in advance of time and is therefore vulnerable when outturn varies from these projections. Changes can for example arise

in the nature and volume of work successfully tendered for, income earned and staffing costs.

Centralised wage rate negotiations in particular present risks to its ability to match prices with costs since the unit must commit to prices in submitting for tendered work, of which a significant proportion comprises staff costs given the nature of the work. These prices must therefore be submitted in order to win work without knowing what PSRC's pay award will be. It appears unlikely that PSRC is able to take direct account of the implications for States Works of its wage agreements in terms of their timing and the commercial implications this may have.

The issues around centrally agreed pay and conditions for this business unit is probably most clearly set out by drawing on the role of States Works in bidding for road works contracts in competition with Ronez Guernsey. States Works must bid for these contracts when requests for bids are sent out usually in May of each year, for work in the next year. As with other work areas, a high element of the cost of providing the service is in the cost of people. The OUR understands the central wage negotiations by PSRC only commence in January of the following year. States Works is however required to submit bids before the end of the prior year in a competitive environment in advance of the conclusion of those central negotiations. When it is considered that some 90% of the tenders it submits for the following year require assumptions about labour costs the concerns around timing and cost uncertainty are apparent.

For States Works the issue of governance does not feature in the same way as other business units. States Works does not approach the Board for a budget seeking funds, but rather sets out what work has been received together with the costs and receipts expected from that. In general, the competitive nature of many projects in which States Works is involved suggest oversight by PSD is not as critical as other business units. Also, many of the major capital expenditure items are in any event the accountability of other business units, even though States Works will employ the assets. Oversight of those businesses rather than States Works appears more relevant in the circumstances.

WASTE WATER SERVICES

Waste Water charges do not currently cover operating costs which leaves the business reliant on General Revenue Funding. Because charges have not been set at realistic levels in the past, apparently due to political rather than commercial reasons, these do not reflect the true costs incurred in using these facilities.

In many respects, much of the discussion in the context of Guernsey Harbour around imbalances in pricing and the consequences of such are applicable to Waste Water Services. What people pay for services informs the degree of demand they place on that service and informs how efficiently they utilise such services. To the extent that these prices are subsidised or the relationship between usage and prices is opaque (for example through taxes which everyone bears rather than direct charges), unnecessary usage is likely to take place which then drives up the costs of providing the service, placing greater demands on General Revenue.

The above context is a standard text case for inefficiency, particularly when in Waste Water's case, its ability to challenge the operating costs of its business are limited since many of these are said to be out of its control. However, it is not possible to quantify the extent of these inefficient costs since there are no available means of measuring how individual consumption decisions would have changed if charges had reflected costs.

Several of the areas of concern covered in the discussion of Guernsey Harbours, such as governance, operational autonomy and human resource management, do not explicitly arise in discussions with Waste Water's management as the business unit is at present expressly reliant, even for its operating costs, on General Revenue. In these circumstances Waste Water Services is essentially run as a cost centre rather than a business unit and such issues are less likely to arise in this context as the business unit is not sufficiently developed as a self-standing entity.

SOLID WASTE

In many respects a consideration of current arrangements is dwarfed by the issue of waste disposal technology choice. Whether or not this business unit lends itself to being commercialised will depend on the priorities that inform the choice and scale of the technology. The nature of charges for waste disposal, if any, the allowance of a reasonable return to replenish the assets, and whether or not additional revenue streams from a waste-to-energy plant will be realized, will all have implications for whether this business unit is feasibly a financially self-standing business unit, or instead require ongoing subsidies.

The timing of when this decision is made and the extent to which existing facilities will need to be continued in parallel is also an unknown variable at this stage. It is feasible the existing waste disposal resources in the form of staffing and equipment will remain operational until the technology is established before downscaling the existing waste facilities. The extent of any parallel running in terms of the capacity maintained and resources taken up in providing that, as well as how long that takes, will have a significant bearing on the cost of the future solid waste facility as a whole.

6. COMMERCIALIZATION MODELS

The OUR is asked to assess the appropriateness of the Guernsey model of commercialization for each of these business areas and identify the potential benefits and disbenefits of doing so. This section deals with this aspect of the review.

NO CHANGE

STATES WORKS

In the OUR's view, the logic of a States in-house resource that is multi-skilled with the capacity to provide a rapid deployment resource is convincing. The question as to how those resources, both tangible assets and people, are utilized given the spare capacity that is the nature of such a response operation raises several challenges for the business. Given the staff bill for this unit is in the order of £6m the materiality of this cost element is significant and the issues arising around wage agreements and timing are important issues for the business.

However, commercialisation of States Works justified only by the concerns around the PSRC role and risks it poses to this business' finances would in the OUR's view be a disproportionate response to the problem. A separate review of such centralized arrangements and exploration of the alternatives is likely to be more appropriate than attempting to address a specific issue through commercialisation.

SOLID WASTE

Given the discussion in the previous section, there is little in the way of an established business over the medium term on which the benefits of commercialisation can be meaningfully assessed. The OUR has therefore not investigated further the viability of commercializing the Solid Waste business unit. Should a technology be employed, and the States deem it appropriate for this business unit to be self-funding this would alter the parameters the business unit operates under. When clarity on these key aspects is available, the OUR's recommendation is that consideration of the viability of commercialization is appropriate at that stage.

GUERNSEY MODEL OF COMMERCIALISATION

GUERNSEY WATER AND WASTE WATER

In assessing suitability for commercialization of Guernsey Water and Waste Water Services respectively, the similarities between the businesses suggests a joint analysis is considered appropriate.

Hard Budget constraints

In the case of Guernsey Water there already exists a clear demarcation of the business, including inputs and outputs provided by the business. While not of itself providing a hard budget constraint, this arrangement provides a clear boundary for the operations and financing of the business unit to which such a constraint can be applied.

We note the comments by the Welsh Audit Office that the commercialization of Guernsey Water (in line with existing Guernsey models) is unlikely to provide any additional value for money that cannot be delivered via improvements to the existing structural and procedural arrangements. Until a detailed review of the business is

carried out in a systematic way to provide a third part critique by experts in the area, it is an open question as to whether additional value for money could be delivered by Guernsey Water and therefore whether a more demanding hard budget constraint is realistic. Certainly, in the UK the extent to which utilities could be operated more efficiently was not apparent until after commercialization, and in some cases privatization, took place.

A comparative study by Europe Economics¹² provides a basis on which to assess the potential for efficiencies in sectors such as rail, water, waste water, electricity transmission and distribution, and gas transportation. A number of features of Guernsey Water and Waste Water Services business are similar to those of other infrastructure network businesses that operate in market environments with relatively few or no competing providers. The scope of efficiency savings imposed by UK regulators for these businesses shows a range between 1.5% and 5% in cost reductions. Efficiency savings by privatized network businesses in fact exceeded this, ranging between 3.7% and 9.1% annual real reductions. These insights provides a useful context in terms of regulatory precedent and the actual efficiencies achievable by businesses operating in those industries that in many important respects share common features with both Guernsey Water and Waste Water Services.

The combined efficiency saving achieved by Guernsey utilities since commercialisation in 2001 of the three utilities was assessed in 2007 and the savings to consumers for all three sectors is estimated at over £40m.

It has not been feasible to assess Guernsey Water's efficiency given the scope and scale of this review. However, the OUR notes that the building of business premises at St Andrews reservoir (as opposed to office relocation) was not part of the original 2003-2013 business plan, and is expected to cost in the region of £5m. If funding for this project is not from higher charges but from the surpluses generated by the business (surplus of £35.6m over the period 2003-2007) it is assumed a surplus of only £30.6m to date was in fact needed to fund the original business plan serving the core business.

Obviously enterprise and innovation are positive developments. However, the extent to which water charge increases of 30%+RPI over that period will be drawn upon to fund this development raises the question as to whether the extent of the original increases was justified to fund the original business plan, since these did not include the development of business premises costing £5m. If this project is largely funded from existing water charges, it implies that over the period 2003-2007 annual charges by Guernsey Water could have been on average 14% lower. The question as to whether sufficient scrutiny of the business plan had been applied to ensure it was constrained is therefore an issue based on this initial assessment.

In conclusion, it appears feasible to impose hard budget constraints on Guernsey Water in a commercialised environment, and this is obviously achieved in other jurisdictions. At the present time it is unclear to what extent savings are realizable by the business but history and a preliminary assessment suggest the scope for this exists and is material.

For Waste Water, given it has historically not been self-funded, the question arises as to whether it will continue to place demands on General Revenue or whether it can sustain its own capital expenditure needs. The OUR understands there is no major

¹² *Europe Economics: A report for the Office of the Rail Regulator - 1999*

capital investment programme currently needed to sustain the existing waste water business and there is therefore no major demand on funds required to support the assets of the business to deliver existing services. The relevance of this is that if a commercialization option were pursued the business should be capable of funding itself - assuming appropriate services charges are developed.

The Sewer Network Extension Plan (£20m) and the Belle Greve Wastewater Disposal Facility (£15.5m) are capital programmes under Waste Water's responsibilities. At present funding is sought from General Revenue for these projects. This raises the question as to whether the business can sustain its capital needs, contrary to the view above. This is relevant to the applicability of the commercialisation model to this business, and therefore dealt with here.

The OUR's understanding is that both these projects are proposed on non-commercial grounds, in that they are intended for wider societal benefit rather than initiatives that of themselves will be self-funding. On this basis, General Revenue funding seems entirely appropriate. If, on the other hand, such projects were considered core to the delivery of a waste water service and the PSD Board were to decide that outcomes sought from the business included the goals of these two projects, this is not at odds with commercialisation. However, it does imply that rather than recovering the costs for such investment projects through tax revenue, they should be recoverable from waste water charges under a commercialisation model. The disciplines that go with commercialisation in terms of the oversight and scrutiny from a Board and regulation, would then provide the hard budget constraint required in delivering those outcomes.

A further issue is that given the business has historically not run as a self-contained entity but relied to a large extent on General Revenue, it is unclear whether the business is easily separated from the PSD Department generally, or from the Solid Waste business. This is a practical matter but nevertheless pertinent to hard budget constraint issues since material allocation of personnel can create problems in cost accountability.

Waste Water has however adopted a business model where it contracts out much of its operations. The wastewater collection service, pumping station and rising main maintenance, sewer network and stream maintenance, highway cleansing and ancillary services as well as emergency support are all contracted out through SLAs to States Works. To this extent these operations of the business are clearly distinct, with identifiable budgets allocated to those operations. Staff allocated to the Waste Water unit are also identifiable, although some staff cover both Waste Water and Solid Waste.

In conclusion, the OUR sees no obstacles to hard budget constraints on the waste water business, but a clearer separation of the business and the ability to fully recover costs from users is a prerequisite prior to commercialisation.

Clarity on Outcomes sought

As noted earlier Guernsey Water has adopted water quality standards set by the UK as targets. On this basis, the delivery of safe drinking water to Guernsey certainly lends itself to technical standards on outcomes sought applied to the business unit. This conclusion is equally applicable to the effective removal and disposal of sewerage or waste water.

It is worth highlighting that the OUR understands that in the case of Waste Water there is an absence of an outfall standard at present in Guernsey. The absence of such a

standard is certainly a factor that would need to be addressed should commercialization be considered an option¹³. A commercialisation model would, however, need to go beyond only technical standards and set a specific objective in terms of either a profit objective or some wider set of objectives that capture other interests, but are nevertheless verifiable and unambiguous.

In conclusion, the ability to stipulate clear outcomes sought from either Guernsey Water or Waste Water Services does not appear to present insurmountable difficulties. This is achieved in other jurisdictions, and the OUR has no reason to believe this would be different in Guernsey.

Existence of Market Prices for Inputs and Outputs

The need for market prices for inputs and outputs sought has been discussed to some extent already above. The provision of water as well as waste water services, while an essential service for any society, are essentially distinct products/services, with identifiable market prices for their inputs and through appropriate costing, attribution of the cost of their provision is feasible.

Feasibility of oversight or competitive restraints

Both Guernsey Water and Waste Water Services are monopoly businesses and likely to remain so given an Island the size of Guernsey. In this context, the nature of oversight of a commercialised, or part commercialised, entity is an issue that would need to be considered before a commercialization model is considered appropriate.

The OUR concurs with the Welsh Audit Office view that the existing model of commercialisation presents problems when attempting to apply it to Guernsey Water alone. The same is true of the Waste Water business. A key issue is that the small scale of these businesses is such that the fixed costs of regulation of these separate businesses may impose disproportionate costs. These costs include dealing with efficiency reviews, legal advice, other staff time engaged in regulation.

The cost of developing improved information systems is however more closely associated with the changes needed to move to a regime where cost accounting is more demanding to allow for adequate information to manage the business on a commercial footing. In most respects this is a cost of moving a business to one with better information on how customers are using the services and the cost of servicing those customers. Such costs are needed to run a business more efficiently and effectively. It is therefore arguable that these costs are overheads attributable to more effective and efficient business decision making rather than oversight alone.

The OUR's recommendation therefore is that if commercialisation was considered an appropriate response to the issues identified by this review, separate commercialisation of Guernsey Water and Waste Water is not a feasible route on the basis of scale issues alone. This issue can however be overcome, given the obvious synergies between Water and Waste Water, by a merger between these two business units.

The main advantages from such a merger are expected to be:

¹³ This will almost certainly form part of the Belle Greve investment decision for pumping of sewerage out to sea.

- A clear set of outcomes on which the business can focus and adapt a business model to achieve those objectives
- Improved relationship between cost causality and price of the services, with better informed judgment on capital programmes as a result
- Priorities in terms of systems, pricing, staffing and staff motivation are more likely to identify such waste
- The priorities that tend to inform decisions of State owned businesses are often engineering led, since commercial trade-offs can become less of a priority under political governance arrangements. Under the commercial model these tradeoffs are more likely to be confronted and improved decision making as a result
- A dedicated Board will be better equipped to challenge the business managers in their input and output decisions
- System of remuneration packages better suited to a commercial environment with related improved incentives to eliminate waste
- Terms and conditions that reflect the interests of customers and what they require from the service
- A regulatory oversight that provides expert and independent critique of the business

The disadvantages of commercialising Guernsey Water and Waste Water Services are:

- The business models of in-house v outsourcing between Guernsey Water and Waste Water respectively are clearly different. A choice would almost certainly need to be made between these approaches to running operations and the inherent changes associated with that.
- The separation of staff currently within Waste Water into a distinct commercialized business entity will also present challenges given the change this represents to staff.
- A further challenge will be the development of a clear charging method for waste water services. Given the capital investment in the networks was previously funded from General Revenues, current charging does not reflect the cost of the depreciation of these assets to allow for their replenishment. Development of a pricing regime and billing system are all necessary to allow this business to function as a separate business entity albeit as a merged business¹⁴.

On balance the OUR believes a strong case exists for the merger and subsequent commercialisation of the Water and Waste Water businesses.

GUERNSEY HARBOURS

The option of commercialization of the Harbour is an alternative that may be feasible. The commercialisation of Guernsey Harbours certainly provides a simpler objective for the legal entity in terms of outcomes sought, if it is tasked with achieving a certain profit

¹⁴ *This latter issue is already being addressed to some extent through using Guernsey Water's billing system to manage waste water collection charges.*

target. The OUR has also been in discussions with those involved in a review of the Jersey Harbours in that jurisdiction. The history of that review stretches from 1998 and the preference has been for a Trust or a Commercialised model, with one or the other being the preferred choice at different stages during the course of that review. Our current understanding is that the recommendation will be for a Commercial Model. .

The OUR has reservations about the incorporation model applied to Guernsey Harbours for two main reasons. The first is due to combination of public good services the Harbours Authority must deliver in combination with commercial services. Outcomes that combine such public good priorities with the provision of commercially based services could create sizable tensions in the community with a service such as the harbours. The challenges in balancing the tradeoffs needed may not be best entrusted to a business operating under the incorporation model since the nature of outcomes sought from the business may distort rather than improve its ability to find an appropriate balancing of priorities in this context. Also, as an Island Harbour Authority, the scale of this business appears to the OUR such that the 'Guernsey commercialisation model', which reflects the need for checks and balances to address an incorporated business' monopoly position, probably means the tipping point to move to this model is not met. This is however a matter of judgment not science and we would suggest the option of a commercialization model should not be dismissed entirely but that it should be approached with caution.

Alternative opinions may cite numerous examples of commercialized businesses that provide a mixture of universal service obligations together with commercial services. For reasons stated above this would not be our first recommendation but the OUR acknowledges the argument may be finely balanced and certainly other ports have been able to function effectively under this model. An alternative model is proposed for the Guernsey Harbours below which we believe better meets the specific needs of Guernsey Harbour and of harbour users but given the right circumstances consideration of a commercialized model may be seen as a viable way forward.

TRUSTS

There are over 100 trust ports in the UK, including Dover, Milford Haven, Tyne and the Port of London Authority.

A trust port is an independent statutory body, run by an independent board for the benefit of the stakeholder. Similar to a legal trust, a trust port is owned and managed by one party for the benefit of another. Trust ports do not therefore have shareholders and in the UK each trust port is governed by its own local legislation. The stakeholders are those using the port, employees of the port and individuals and organisations that have an interest in the operation of the port. Serving the objectives of the Trust remains the ultimate responsibility of the board, and future generations remain the ultimate stakeholder.

While trust ports are managed in a commercial way, they may not necessarily be guided by maximising their profit margins, as a private equity port would. In a trust port there may be non-financial objectives that benefit the port long-term, or are beneficial to the stakeholders of the port. Although trust ports may not be profit driven, they need to facilitate investment so they can compete with other ports (therefore they do still need to be profitable).

One of the defining aspects of the trust port is the board. The board may have some government appointees on it, however the port will be financially and strategically independent from political interference. The board plays an important role due to the lack of formal shareholders who would stand to gain from an increase in profit which

provides the motivation to scrutinise the efficiency and the types of investment that the port chooses to make. Instead this is down to the members of the board responding to the stakeholders' interests and demands.

The emphasis on public duties and the commitment to re-investment whilst maintaining a commercial focus is essentially the reason why trust port status is seen as a suitable compromise between commercialisation and a State run enterprise.

GUERNSEY HARBOURS

As noted earlier in this paper, the Harbours provides a combination of what are deemed public good services which are not commercial services nor would they be in any future business model. Search and Rescue services and the facility of a harbour generally to an Island community relying on this vital link to the outside world are not amenable to standard commercial prerogatives. However, the Harbours does have substantial income streams through the provision of various commercial services.

In evaluating the merits of some form of commercialization of the Harbours, an assessment of the criteria discussed in Section 4 is necessary.

Hard Budget constraints

The services and facilities provided by the Harbours are identifiable. There is a question whether the provision of public good services within the operations of the Harbours limits the ability of the business to be subject to hard budget constraints. In the OUR's view, the delivery of Universal Service Obligations, which are effectively services which support societal priorities rather than commercial interests, is common even in fast developing and highly competitive markets such as those seen in telecoms as well as in postal markets. This aspect does not therefore raise material concerns in the context of trust port status.

Clarity on Outcomes sought

In the context of a Trust Port, given there would appear to be several priorities and interest groups whose needs would have to be met in the Guernsey context, this does suggest a degree of imprecision is likely in setting outcomes sought from this business. Certainly reviews of Trust Ports have identified this aspect as a weakness. However, in the OUR's view this places a greater onus on the formulation process and the strength of the Trust's Board to deliver and does not justify a commercial model for Guernsey Harbours.

Existence of Market Prices for Inputs and Outputs

There is a history of drawing on an incorporated model or some other form of commercialization such the trust port concept. Such Ports appear to have functioned well using such a business model and the existence of market prices for inputs and outputs delivered by these Ports is available on a comparator basis. By creating a Trust Port, with very clear responsibilities to the community, a port can be prevented from either falling into decay or profiteering through excessive prices and losing sight of its primary purpose.

Feasibility of oversight or competitive restraints

Some trust ports, such as Lerwick and Stornaway are in effect monopoly ports for their island communities and the need for accountability is strong. The feasibility of oversight and the structure of such oversight is therefore directly related to the outcomes sought from the business unit. Given the fairly unique challenges of meeting the demands of an Island port, there is a case that the concept of stakeholder dividend as applied to a Trust Port is an appropriate approach to setting out the objectives and priorities of such a business, as opposed to a standard commercial business. In order to achieve appropriate oversight in this context, the make-up of its Board would need to reflect this. This appears feasible for Guernsey Harbours and relates to the issue of clarity on outcomes sought.

In conclusion therefore, the OUR's recommendation is that consideration should be given to moving Guernsey Harbours' status to that of a Trust Port. The preferred option is to set up the trust as a '*Revocable Trust*'¹⁵. A Trust with such a status presents the States with greater means to intervene in circumstances where it believes the interests to which the Trust was assigned to serve, are not being met.

Should the OUR's recommendation be seen to have merit, as a prerequisite there is a need for the development of a long term Port Master Plan, with extensive consultation with stakeholders informing that Plan. Once the priorities for a Harbours Trust are clarified, the appointment of Board membership as trustees should reflect the outcomes sought. Under this model there would not be any function envisaged for direct regulation in terms of licensing such a business entity, which would instead come from the Law presented and agreed by the States, with the Harbours functions kept as a single entity. The OUR sees no merit in any break-up of the Harbours functions or any separate licensing regime for the various responsibilities currently entrusted to Guernsey Harbours.

COMMERCIALISATION WITH EXPLICIT SUBSIDIES

GUERNSEY AIRPORT

The discussion in Section 5 concluded that the commercialisation of the Airport in its entirety raised fundamental problems, as historically its surpluses have not met the capital expenditure needs of the business. Going forward, this seems likely to remain the case

An alternative is the separation of the business unit into two component parts, namely commercial and non-commercial units. This approach essentially regards the Airport assets of the runway, pavement and other airside capital assets as non-commercial investments, whose benefits go more widely than the income accruing to the Airport directly but to the wider economy. The strategic nature of the runway and related assets as a lifeline to the outside world for the residents of Guernsey and an essential element in the functioning of its economy are factors that might support the classification of this part of the business as a separate entity requiring different treatment. There is no measure of this benefit available but it is anticipated it would be material.

The separation of this aspect of the current business would effectively involve it receiving explicit subsidies to fund the upkeep of the airside assets, while the remainder of the business would be run on a purely commercial basis. An initial

¹⁵ The OUR has consulted trust experts in this area who have advised its views in this paper.

assessment has been made in separately accounting for such a split between the commercial and non-commercial areas of the Airport. On the basis of the Airport's 2009 budget, that part of the business potentially regarded as commercial is forecast to make a surplus of £1.9m for this year. There is therefore at least on a provisional basis, a suggestion that this model may allow for the commercialisation of Airport operations, but this must be caveated with the need for a more detailed accounting separation exercise and assessment of the practicalities of such an option before definitive views can be formed.

As a reference point, the above model has parallels with the situation in the railway industry in the 1990's, with the separation of the management of railway operation and infrastructure from the provision of railway transport services. Unfortunately this has a troubled history in the context of Network Rail, with the scale of subsidies involved in the network business causing public disquiet, worsened by the perception that the service element was earning profits at the expense of the taxpayer. With two businesses so heavily reliant on one another, with potentially different priorities and operating under different models, the risk associated with such an alternative require examination before pursuing this further and the OUR would recommend such a review as the next step.

If such an option were to be considered, it is suggested that initial discussions with airport operators be held to gain a better understanding of the degree to which more commercially focused operators believe such a proposition is viable.

7. REGULATORY ARRANGEMENTS

The Guernsey model of commercialisation is recommended by the OUR as appropriate for the merged entity of Guernsey Water and Waste Water Services. The recommendation for Guernsey Harbours is for the status to be altered to that of a Revocable Trust.

It is recommended that the regulatory arrangements for the merged water and waste water businesses be similar to the current system for Guernsey Post and Guernsey Electricity. The commercialization model for Guernsey Electricity and Guernsey Post is of a form where ownership of the two businesses remains under State control, with T&R acting as the shareholder on behalf of the States. The Boards of both Guernsey Electricity and Guernsey Post are appointed through a process where Board members are recommended by the Executive of the respective businesses, with the T&R having the right to either accept or reject. An explicit profit objective over the medium term is recommended with remuneration of senior management closely linked to the performance of the business in achieving this level of profit and other regulatory targets.

It is proposed that the business should be allowed to fund itself as any commercial business would rather than adopt the 'Save to Spend' approach to capita expenditure funding currently followed by Guernsey Electricity. Regulation of the merged entity would fall to the OUR, which would licence the business subject to the licence conditions for provision of the respective services. These conditions would essentially encompass price of the services, regulated through price caps, and quality of the services, through a range of performance targets. In addition, obligations by the States would be placed on the business through Directives issued by the States to support priorities in this sector.

The Harbours' status as a Trust Port would entail oversight from the Board of Trustees rather than any independent economic regulatory body such as the OUR. The stipulation of outcomes sought that inform the priorities of the Board are therefore a key element for the PSD Board in setting up such a body to ensure these drive the priorities of the Trust.

8. CONCLUSIONS

In conclusion the OUR recommends:

- The adoption of the Guernsey commercialisation model to a merged business of the existing water and waste businesses;
- Guernsey Harbours' status as a Revocable Trust is pursued further which would include it taking sole responsibility for managing its surpluses;
- States Works remains in its current form;
- A further review of the Solid Waste Business is conducted when further clarity on the approach to waste disposal for the Island is available;
- A detailed accounting and business review of Guernsey Airport is conducted to assess the potential commercialisation of part of that business; and
- That the surpluses generated by the Ports is exclusively designated to meet the capital expenditure needs of that business, since any further agglomeration of surpluses into a general fund is likely to weaken the Harbours' capability as a strategic asset

In the case of Guernsey Water and Waste Water Services, such a merger should be fully completed prior to actual commercialisation as a quasi independent business entity that is commercially stable, with appropriate charging systems in place with integrated billing systems.

In the case of Guernsey Harbours as a prerequisite to moving to a Trust Port status, there is a need for the development of a long term Port Master Plan, with extensive consultation with stakeholders informing that Plan. Once the priorities for a Harbours Trust are clarified, the appointment of Board membership as trustees should reflect the outcomes sought.

Finally, the OUR would once again like to record its appreciation to the business units and PSD for the assistance provided in preparing this report.

Appendix 4



**Guernsey
Electricity**

RECEIVED
26 OCT 2011

Deputy B M Flouquet
Minister
Public Services Department
Sir Charles Frossard House
La Charroterie
St Peter Port
Guernsey
GY1 1FH

Registered Office:

GUERNSEY ELECTRICITY LTD
ELECTRICITY HOUSE
P.O. BOX 4, NORTH SIDE
VALE, GUERNSEY
CHANNEL ISLANDS
GY1 3AD

TELEPHONE: 01481 200700
FACSIMILE: 01481 246942
E-Mail: admin@electricity.gg
Website: www.electricity.gg
Company Registration No. 38692

25 October 2011
IHB.12133/SB

Dear Deputy Flouquet

The Board of Guernsey Electricity has considered the potential synergy efficiencies that could be achieved in respect of the activities of Guernsey Electricity and Guernsey Water through co-operation and the rationalisation of the various organisational and operational processes between the respective businesses. The directors of Guernsey Electricity would support further investigation into the corporate structure, systems and other considerations, such as the desirability or otherwise, of merging these two organisations at some future date, that might be necessary to realise these benefits. In that regard, the Board has already given the executive directors authority to develop the scope of the proposed investigation further.

Yours sincerely

I H BEATTIE
Chairman



International Safety Awards
Awarded 2009

BRITISH SAFETY COUNCIL

Appendix 5

Project Timeline

	2012												2013											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Resolutions																								
GEL option	The States consider the GW/GWW Report																							
	Detailed investigation (Combined Utility)																							
	Drafting Report on Combined Utility																							
	Report to States on Combined Utility																							
Shareholder	Investigation into Shareholder options																							
	Report to States on Shareholder																							
Regulation	Investigation into economic regulation																							
	Report to States on economic regulation																							
	DEHPR informal auditing role																							
	Identification of candidates/negotiations																							
Management Board	Submit proposed Management Board																							
	Operational merger																							
Operational/ Financial merger	Financial (combined finances for 2013)																							
	Budget report (inc subsidy, user pays)																							
HR Issues (Pensions etc)	HR discussions with relevant groups																							
	Report on pension arrangements etc																							
	New sector law																							
Legislation	Submission of draft Sector Law																							
	Approved Sector Law to PC/MoJ*																							
	Drafting 'other' legislative amendments																							
	Submission of 'other' draft amendments																							
	Submit firm date for STC formation																							

The above timeline is estimated and is intended to be used for illustrative purposes only. *Privy Council, Ministry of Justice

(NB The Treasury and Resources Department supports the proposal to merge the operations of Guernsey Water and Waste Water into a single entity but has reservations about the other proposals. In particular, the Department remains to be satisfied that, on the basis of experience to date, and the contents of this Report, there is sufficient evidence to underpin a decision to convert the merged entity into a States Trading Company (STC). Many of the suggested benefits could, in the Department's view, be achieved by fully merging Guernsey Water and Waste Water.

In addition, even assuming that an STC was the right model, it would be preferable to finalise the proposed funding arrangements prior to submitting this Report as those arrangements will determine whether and how the proposed STC can move forward.

With regard to economic regulation, the Public Services Department is right to be cautious about entering into any commitments for how this function could be performed by the Office of Utility Regulation. In the Department's view and experience, the model that has been used to date in relation to Guernsey Electricity and Guernsey Post would be the wrong one and, following the States debate in September 2011, the OUR needs to demonstrate that it has made fundamental changes to its approach to economic regulation before being given any more responsibilities.

Finally, while the Treasury and Resources Department has no objection to the proposal to investigate the advantages and disadvantages of combining the merged 'water operations' with Guernsey Electricity Limited, it remains far from convinced that such a model is either necessary or in the best interests of the community. In particular, it should be possible to identify the synergies which would deliver significant efficiency savings, in particular in the sharing of resources, without resorting to a full merger of the two entities.)

(NB By a majority, the Policy Council supports the proposals.)

The States are asked to decide:-

X.- Whether, after consideration of the Report dated 9th November, 2011, of the Public Services Department, they are of the opinion:-

- 1) To agree to the management of clean water and waste water through a single organisation, namely Guernsey Water, and that the full financial and operational merger between the units should proceed.**

- 2) To agree that a States Trading Company should be established from the merged Guernsey Water / Guernsey Wastewater entity, including preparation of the necessary amendments to legislation.
- 3) To agree that the current level of general revenue funding toward waste water continue for 2012 and for the Treasury and Resources Department, in consultation with the Public Services Department, to report in the Budget report in December 2012 on options for treatment of the general revenue subsidy, including changing the balance of funding from general revenue to user pays, for the States to consider.
- 4) To note that the Public Services Department intends to report back to the States (on one or more occasions, as proves practical) regarding a number of issues which are more fully detailed in subsequent recommendations.
- 5) To note that an indicative date for the creation of a water utility States Trading Company could be from around early 2014, but that the Public Services Department will return to the States in due course with a more precise implementation date.
- 6) To agree that further investigation should be conducted into the possibilities for the Shareholder role for the States Trading Company, with a report to be submitted to the States at an early opportunity.
- 7) To agree that the Public Services Department should further consider the matter of economic regulation for the water States Trading Company and report back to the States in 2012.
- 8) To agree to the preparation of a comprehensive water utility Sector Law, as detailed in Section 8.19, to deal with the provision of water supply, wastewater and surface water services and to replace and re-enact the States Water Supply Law of 1927 (the Loi ayant rapport à la fourniture d'eau par les États de cette île aux habitants de la dite île) and the Sewerage (Guernsey) Law, 1974 and other legislation incidental or ancillary to those Laws.
- 9) To agree that the water utility Sector Law described in viii) above shall also provide for regulation by the Director of Environmental Health and Pollution Regulation in regard to water quality issues.
- 10) To agree that, prior to the establishment of the States Trading Company, the Director of Environmental Health and Pollution Regulation be empowered to act as a shadow environmental regulator to enable both Guernsey Water and the Regulator to build up constructive working relationships.
- 11) To agree that the Public Services Department should enter into detailed discussions with the workforce, Policy Council and relevant employee unions before reporting back with firm recommendations in regard to pension provision.

- 12) To agree that the Public Services Department should advance discussions with the Treasury and Resources Department regarding retaining, for the States of Guernsey, cash over and beyond that necessary to sustain the combined water business and assets that may be held by Guernsey Water, at the time of transition to a States Trading Company.
- 13) To agree that the Public Services Department should advance discussions with the Treasury and Resources Department regarding the matter of securing for the States a financial return from a water utility States Trading Company.
- 14) To note the further anticipated synergies and efficiencies predicted to be achievable through potential amalgamation of Guernsey Water and Guernsey Electricity Limited.
- 15) To direct the Public Services Department to liaise with the Board of Directors of Guernsey Electricity Limited to assess in more detail the advantages and disadvantages of combining the operations and for the Public Services Department to report thereon to the States in 2012.
- 16) To note that the funds required to realise the recommendations set out above will be provided by Guernsey Water.
- 17) To direct the preparation of such legislation as may be necessary to give effect to their above decision.

TREASURY AND RESOURCES DEPARTMENT

WIDE AREA NETWORK SOLUTION TO SUPPORT DATA, TELEPHONY AND CCTV

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

22nd November 2011

Dear Sir

1. Executive Summary

This report arises from the States Financial Transformation Programme and is supported by the Transformation Executive. It proposes the creation of a single Wide Area Network; a project that was prioritised for funding in 2009 as part of the States Capital Programme.

The States Wide Area Network (WAN) is the principal communications infrastructure (telephone and data services) for connecting together all States of Guernsey buildings and services and it has developed over the years in a fragmented fashion. While meeting current business needs, it cannot support the integration of services, is vulnerable to failure and requires considerable management and maintenance. The current revenue cost of the service is £1.4 million per annum. Due to the fragmented historical growth of the network, the historic capital cost cannot be quantified.

This report proposes the creation of a single Wide Area digital network for all States Departments and Schools which will support future business needs, enhances resilience, maintains security and deliver recurring revenue savings. This network will require a capital investment of £1.09 million and in the first five years of this project, the net revenue savings will be £2.6million.

2. Background

On 31st October 2003, the States approved the mandate for the Treasury & Resources Department (Billet XXIV 2003) which included responsibility for the States Wide Area Network (WAN) and expressed as: - *“The development of corporate policies concerning the States use of information and communication technology & the provision, administration & security of the States ICT network.”*

Since that time, the Department's Corporate IT Section has continued to manage and support the States WAN and has also implemented a range of corporate policies and procedures comprising procurement, security and standards within this mandate. A review of the WAN was undertaken as a key priority in 2008 and this resulted in a proposal for the creation of a public service network similar to that deployed in Jersey, the Isle of Man and elsewhere which supports the convergence of services while at the same time facilitating future development. The proposal was supported by the States as part of the 2009 capital prioritisation process, thus forming part of the current capital programme. The delivery of the project was subsequently included as part of the Financial Transformation Programme in October 2009.

A WAN Project Team was established comprising representatives of the major States Departments together with the Corporate IT Section, the Law Officers Chambers, the Department's corporate procurement team and Tribal (later Capita). All States Departments have participated in this project, been kept informed of progress and have committed to the planned service improvements.

All Departments will be required to use the new network service, when it becomes available.

3. Process followed to date

A competitive tender for the provision of a single States Wide Area Network was undertaken and expressions of interest sought both locally and through the Channel Islands' procurement portal which reaches a local and national audience. Companies were selected for a form of competitive dialogue procurement. This is a flexible procedure for use in complex projects where there is a need for the contracting authority to discuss all aspects of the proposed contract with candidates. It reinforces best practice including:

- Undertaking a thorough assessment of the need and objectives of the procurement, ensuring affordability and approvals considerations are addressed at an early stage.
- Ensuring the procurement process is conducted in an efficient and effective manner which minimises costs and maintains competition.
- Ensuring contractual terms and risk allocations are settled during the competitive stage of the procurement process.

A full Invitation to Tender was then issued and following extensive evaluation of the two bids received, including a thorough due diligence process, Wave Telecom was selected as the preferred bidder.

4. Costs and benefits

The project will centralise costs associated with the States WAN and telephony which currently total £1.4 million per annum. The revised annual costs for the new States WAN will be £848,000 and the resulting saving of £552,000 per annum or £2.6 million over 5 years will accrue to the Fundamental Spending Review Fund. The capital cost of

£1.09 million will be recovered in 2 years and 3 months. This is offered as a fixed price contract with the majority of delivery risks residing with the supplier.

The single Wide Area network will enable consolidation of the States technical infrastructure and enable economies of scale to be optimised in future IT provision. This, in turn, will result in direct cost savings on equipment, lower ongoing energy usage and reduced physical accommodation requirements.

The Capital cost of the project will be £1.09 million, largely for the replacement and consolidation of the current telephony systems across States Departments. The initial capital request submitted by the Department and approved in principle by the States as part of the 2009 capital prioritisation process was for £3.55 million. The reduction of £2.46 million in the capital cost proposed in this Report is due to the following factors: -

- a) Changes in the Local Area Network (LAN), i.e. the cost of replacing the cabling network within States buildings, has been removed from the project – it was agreed by the Treasury and Resources Department, on the advice of the Project Team, that it would be more appropriate to address Local Area Network requirements later on. The current variation in quality and design of the States Local Area Networks prevents their incorporation into the managed service contract with Wave Telecom at this time. However, improvement work is ongoing and will be met from the Department's future capital allocations over the next few years.
- b) Less project management time is required to set up the WAN solution than was originally envisaged.
- c) The telephony costs have been reduced with a new design for implementation.
- d) Further analysis of the detailed, firmed up costs, following submission of the bids has enabled further cost reductions to be achieved.

The revenue savings from the project are also currently £350,000 p.a. less than had been identified within Tribal's original Summary Opportunity Report in 2009. The main factor behind this are the changes in the project scope. As stated above, the LAN is not now included in the scope of this project and will be addressed as a separate phase which will, once implemented, increase the overall savings in the current LAN and telephony expenditure across the States.

The estimated revenue expenditure includes an allowance for a project manager to work with Departments in facilitating their transition onto the new Wide Area Network. The costs also include the employment of a telephony and networking specialist to undertake an internal telephony management service who will also be tasked with identifying further opportunities for efficiency savings.

This WAN project will also address a number of key business needs including: -

- Providing a 'fail safe' service where required.
- Ensuring that systems are supported in line with critical business demands. NB Some suppliers have served notice that several of the phone systems in critical service areas such as Police and Fire & Rescue have, or are about to reach the end of their supported life. This poses a significant risk and the WAN project will facilitate

the timely replacement of those redundant systems with an improved, supported infrastructure.

- Enabling resources to be commissioned flexibly as and where required at reduced costs. Infrastructure costs incurred through office moves and reorganisations will be minimised.
- The management of peaks and troughs of demand in individual Departments through consolidating network resources, making best use of spare capacity within the overall network and reducing any redundant provision.
- Enabling the consolidation of services within ICT, e.g. a small number of resilient corporate data centres.
- The creation of a single ICT service desk which will reduce costs and facilitate a common support level commensurate with business needs across the States
- Consistent connection quality and improved fault resolution including reducing the number of parties involved in resolving a fault allowing a more rapid and co-ordinated response through a single help-desk.
- Meeting business priorities by enabling services to be prioritised on a business need basis. This will end the anomaly where peripheral services in one Department may receive better service than core functions in another because of variations in individual Departmental ICT budgets and policies.
- Guaranteed service levels with managed service level agreements and tailored service levels (e.g. 24x7) where the business requirement dictates.
- Flexibility to meet the challenges of a changing organisation and changes in technology.
- Consolidation of contracts and services to manage.
- Management of the corporate infrastructure to allow ICT services to develop strategically.
- Acting as a key enabler for many future projects which will deliver the ongoing strategic aims and ambitions of the States.

4.1 Principles of Good Governance

In preparing this Report, the Department has been mindful of the States Resolution to adopt the six core principles of good governance as defined by the UK Independent Commission on Good Governance in Public Services (Billet d'État IV of 2011). The Department believes that the proposals in this Report comply with those principles.

5. Conclusions

In summary, the implementation of a new, single WAN in partnership with Wave Telecom will take advantage of recent changes in technology, offer improvements in service, resilience and security while at the same time significantly reducing costs. The centralisation of the management of this service will also enable economies of scale to be achieved by centralising processes which are currently distributed across Departments.

In order to maximise efficiencies and ensure a consistent and common approach is taken across the States, the Treasury and Resources Department will be the principal 'owner' of the States WAN which will support data, telephony and CCTV services. The

Department will be responsible for consolidating and transforming the existing WAN with up to date technology. The Department will, on behalf of the States, enter into a contract with Wave Telecom to run and maintain this network on behalf of the States over the next five years.

Finally, the Department has updated the capital prioritisation funding model to include the revised cost and timing for this project which requires funding from the Capital Reserve. As it is anticipated to require less funding from the Capital Reserve and commence slightly later than previously estimated, it can all be funded from the Capital Reserve and the cash flow projections do not anticipate a shortfall. However, it should be borne in mind that a number of the projects included in the capital programme are still at the early planning stage and final vote requests could be significantly different to the amounts previously estimated.

6. Recommendations

The Treasury and Resources Department recommends the States to: -

- i. Agree that the Treasury and Resources Department is, in accordance with its mandate, the principal owner of the States Wide Area Network and that all Departments and committees will be required to use the States Wide Area Network and all associated services.
- ii. Approve a capital vote of £1.09m to fund the States Wide Area Network solution to support data, telephone and CCTV, charged to the Capital Reserve.
- iii. Approve the acceptance of the tender from Wave Telecom, at a sum of £3m to provide the Wide Area Network managed service for the next five years commencing 1st February 2012.
- iv. Direct the Treasury and Resources Department to take account of the annual net revenue savings of £552,000 associated with the States Wide Area Network Solution when recommending to the States Cash Limits for 2013 and subsequent years.

I can confirm that this States Report has been endorsed by the Transformation Executive on November 16th 2011 and was approved by the Treasury and Resources Department at its meeting held on November 22nd 2011.

Yours faithfully

C N K Parkinson
Minister

Deputy J Honeybill (Deputy Minister)
Deputy R Domaille
Deputy A Langlois
Deputy S Langlois

(NB The Policy Council supports the proposals in this Report.)

The States are asked to decide:-

XI.- Whether, after consideration of the Report dated 22nd November, 2011, of the Treasury and Resources Department, they are of the opinion:-

1. To agree that the Treasury and Resources Department is, in accordance with its mandate, the principal owner of the States Wide Area Network and that all Departments and committees will be required to use the States Wide Area Network and all associated services.
2. To approve a capital vote of £1.09m to fund the States Wide Area Network solution to support data, telephone and CCTV, charged to the Capital Reserve.
3. To approve the acceptance of the tender from Wave Telecom, at a sum of £3m to provide the Wide Area Network managed service for the next five years commencing 1st February 2012.
4. To direct the Treasury and Resources Department to take account of the annual net revenue savings of £552,000 associated with the States Wide Area Network Solution when recommending to the States Cash Limits for 2013 and subsequent years.

COMMERCE AND EMPLOYMENT DEPARTMENT

RE-APPOINTMENT OF EMPLOYMENT AND DISCRIMINATION TRIBUNAL PANEL MEMBERS MARCH 2012

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

9 November 2011

Dear Sir

1. Executive Summary

- 1.1 Section 1 of The Employment and Discrimination Tribunal (Guernsey) Ordinance, 2005 requires the States, on the recommendation of the Commerce and Employment Department, to draw up and maintain The Employment and Discrimination Panel. Panel members are appointed for a three year period.
- 1.2 The Ordinance requires that the Panel must consist of such number of persons as in the opinion of the States, is necessary for the purpose of hearing and determining complaints under the provisions of the relevant enactments (covering Unfair Dismissal and Sex Discrimination in employment and Minimum Wage complaints). The Department considers that a Panel of between 15 and 18 is sufficient to administer the Tribunal process.
- 1.3 The existing Panel is, currently, made up of 16 members, the term of office for 13 of those members expires in February 2012; the Department is recommending that those 13 members are re-appointed, including Mr P Woodward as Convenor and Mrs T Le Poidevin as Deputy Convenor.

2. Recommendation

- 2.1 In accordance with the requirements of Section 1 of the Employment and Discrimination Tribunal (Guernsey) Ordinance, 2005, the Department recommends that the States:
 - (a) Re-appoint the existing 13 people, named in Appendix 1 of this report, as members of the Employment and Discrimination Panel, this appointment to take effect from 1 March 2012 for a period of three years

(b) Re-appoint Mr P Woodward as Convenor

(c) Re-appoint Mrs T Le Poidevin as Deputy Convenor

2.2 The Department believes that it has complied fully with the six principles of corporate governance in the preparation of this States Report.

Yours faithfully

C S McNulty Bauer
Minister

M Lainé
Deputy Minister

R Matthews
R Sillars
M Storey
States Members

P Mills
Non States Member

Appendix 1 attached – Employment and Discrimination Tribunal Panel

APPENDIX 1**EMPLOYMENT & DISCRIMINATION TRIBUNAL PANEL**

Candidates proposed for re-appointment

Mr Peter Woodward as Convenor

Mrs Tina Le Poidevin as Deputy Convenor

Mrs Paula Brierley

Mr Roger Brookfield

Ms Alison Girollet

Mr Norson Harris

Mr George Jennings

Mrs Caroline Latham

Ms Helen Martin

Ms Georgette Scott

Ms Kathy Tracey

Mr Andrew Vernon

Ms Katie Vidamour

Summary of the Career History of Candidates Proposed for Re-appointment

Mrs Paula M Brierley

Mrs Brierley is currently Head of Human Resources for Northern Trust (CI), until relatively recently, she was employed, for 16 years, as Head of HR for HSBC Securities Services (Guernsey) Limited (formerly the Bank of Bermuda), where she was responsible for all areas of HR. Her roles have involved supporting the various business lines to ensure fair and effective employee integration and overcoming resistance to change and dealing with acquisition and integrations from the Human Resources perspective. During her career, she has also gained wide experience in dealing with employee relations issues from informal discussions to full formal disciplinary and grievance procedures. Mrs Brierley has an MA in Strategic and HR Management with the University of East London and has the Certificate in Company Direction from the IoD. She has been a member of the Guernsey Employment and Discrimination Panel for the last three years.

Mr Roger J Brookfield

Prior to his retirement, Mr Brookfield was Fire Safety Manager with the Guernsey Fire & Rescue Service. Throughout his 31 year career, Mr Brookfield has had first-hand experience of managing staff and working closely in a team environment. His training and subsequent Fire Service examinations require a good working knowledge of sex and race discrimination and the Fire Service disciplinary regulations. In recent years his experience extended to dealing with routine staffing matters and in the application of Guernsey's Fire Laws. He is an experienced Fire Service Instructor with responsibility for overseeing both practical and theory examinations. He is a graduate of the Institution of Fire Engineers and currently works as a part-time Fire Safety Consultant. He has been a member of the Employment and Discrimination Panel for the last six years.

Ms Alison J T Girollet (formerly Anderson)

For the past 15 years Ms Girollet has been employed by Specsavers Optical Group, (SOG), as a Manager within the Legal Department. She is part of a small team which is responsible for all aspects of employment law covering the Group's interests in the UK, Republic of Ireland and Guernsey. In addition to advising on and formulating policy and procedures, the role also includes advising on Group in-house employment situations and issues, advice and co-ordination of store partner issues (such as investigations, grievances, disciplinary action etc) coordination and guidance of "store" formal board meetings and employment litigation. Prior to working for Specsavers, Ms Girollet served eight years in the Royal Air Force. Tours of duty included Officer Commanding HR, Accounts, Facilities Management and Project Management respectively. She is also an Associate member of the Chartered Institute of Personnel and Development and has been a member of the Employment and Discrimination Panel for the last six years.

Mr Norson B Harris

A Law graduate (LL.B (Hons.)) and Barrister and member of the Honourable Society of Lincoln's Inn. Admitted as a Member of the Society of Trust and Estate Practitioners in 1993 and qualified as an Associate of The Chartered Institute of Bankers in 1996 and in 2005 was admitted as a full Member of the Securities and Investment Institute and elected a Fellow in 2007. He has worked in the local finance industry for over 25 years and has represented both corporate and private clients in complex transactions on an international scale. In 1999, he founded The Kensington Group of Companies and was Managing Director until the companies were sold in 2007. He currently has a number of board appointments. As a knowledgeable company director he has practical and relevant experience in recruitment and training and has been involved in salary negotiations, pay reviews, staff appraisal and disciplinary and grievance procedures. In addition he has held a number of positions on committees including the Guernsey Transport Users Committee and as a Member of the Finance Industry Policy and Advisory Group (FIPAG) he sat as a member of the committee that devised and instigated Guernsey Finance and sat on its original advisory board. A sitting member of the Inheritance Law Review Committee. Formerly a member of the Guernsey Financial Services Commission supported Fiduciary Education Forum and a Member of the Guernsey Committee of the Society of Trust and Estate Practitioners and Chairman of the Education Committee and was awarded in 2011 the President's award for outstanding contribution to the Society. Founder and former Chairman of The Guernsey Heart Beat Appeal, and continues to work for several charitable bodies. He has also been a member of the Guernsey Employment and Discrimination Panel for the last three years.

Mr George C S Jennings

Mr Jennings is Operations Director at Guernsey Post. Prior to this he held the position of Union Secretary of the Communications Union for over 20 years, where he represented over 200 postmen and women and, as a result of both positions, has been involved in a wide range of negotiations and discussions with both management and Union. Mr Jennings was a member of the Employees' Panel set up under the Industrial Disputes and Conditions of Employment (Guernsey) Law, 1993 for two years and in June 2008 sat as a panel member to hear the dispute in respect of The Generation Engineers and the Control Room Operators, (represented by Prospect Union and Unite the Union) v Guernsey Electricity. He gained a BSc (Hons) in Labour Studies in 2006 through Southampton University. He has also been a member of the Guernsey Employment and Discrimination Panel for the last three years.

Mrs Caroline Latham

Mrs Latham is a Chartered Surveyor. Her career within the profession has included advising on human resources, training and education within the real estate and construction industry. As well as practicing as a Chartered Surveyor, she is involved in two main areas of work. Her training consultancy practice provides advice and delivers services to clients in many parts of the world and she is also a Director of a local firm of Chartered Surveyors. Prior to this she was European Director for human resources with Jones Lang Lasalle (formerly Jones Lang Wootton), with responsibility for strategy and implementation of the Human Resource policy for 1500 European staff. The earlier part

of her career was in the Civil Service with her last position being as Principal in the Civil Service Commission, where she was responsible for recruitment and selection of senior staff and sat as Chair on Civil Service Recruitment Boards. Mrs Latham has experience in working with all aspects of employment law ranging from contracts of employment, discipline, redundancy, transfer of undertakings and equal opportunities. Her experience also extends to introducing competency-based assessment for admission to membership of the Royal Institution of Chartered Surveyors and she has been a member of the Employment and Discrimination Panel for the last six years. She is also Vice Chairman of the TRP Appeals Panel.

Mrs Tina J Le Poidevin

Mrs Le Poidevin is currently employed as Head of Human Resources with law firm, Mourant Ozannes. She has an extensive career history spanning over 20 years in personnel, office management and training. Her experience has been gained with law firms, the finance industry and retail. She is a Chartered Fellow of the Chartered Institute of Personnel and Development. As a senior HR practitioner, Mrs Le Poidevin has a wide range of experience in dealing with all aspects of personnel and human resources, including discipline & grievances, recruitment and selection and career development. She has been a member of the Employment and Discrimination Panel for the last six years.

Ms Helen Martin

Ms Martin graduated in 1984 with a Bachelor of Education and initially worked in Oxfordshire as a Teacher before taking up the role of Associate Lecturer in Communication Skills, Health Education and Psychology at the Guernsey College of Further Education. In 1994, Ms Martin moved into the Finance Sector and, since 1996, has worked at Credit Suisse in Guernsey where she is the Senior Country Head of Human Resources, a Director and Member of the Executive Board. For Credit Suisse, she has responsibility for Human Resources in Guernsey and offshore UK in multiple jurisdictions. Ms Martin has studied employment related legislation to a high level, holds a Masters Degree in Professional Studies from Exeter University and is a Chartered Fellow of the Institute of Personnel & Development (FCIPD). She is joint chair of the Credit Suisse Guernsey Diversity and Advisory Council and her current employment requires taking responsibility for the implementation and maintenance of Human Resource standards and control, which involves advising senior management on all aspects of employment law and best practice in employment. She has also been a member of the Employment and Discrimination Panel for the last six years.

Ms Georgette Scott

Ms Scott is a Director of Personnel Appointments and Managing Director of Advantage HR, an HR consultancy and outsourcing company and, an offshore recruitment agency. The business supports small and medium sized organisations with a full range of employment services, including coaching, payroll, outplacement, and start up services. Before setting up her own company in 2009, she was Director of Human Resources, Channel Islands and Isle of Man for the local telecom operator, Cable and Wireless, and, prior to that she worked in senior HR roles for a local law firm, the GFSC and a

major trust company, which was preceded by a 12 year period in senior HR roles in the Public Sector.

A graduate, her early career was retail management and training. She is a member of the Chartered Institute of Personnel and Development and was also an Associate Lecturer at the College of Further Education for the Certificate of Personnel Practice (CPP) for five years. She has been a member of the Employment and Discrimination Panel for the past six years and prior to that was appointed and served as an Adjudicator for five years.

Ms Kathy Tracey

Ms Tracey is a qualified Social Worker; however, since 1999 she has been the Managing Director of The Learning Company, which she established. She has gained an extensive working knowledge of equal opportunities, diversity, staff management, business strategy, marketing and finance, and employment issues through providing training courses for both the public and private sector. As an employer, she has responsibility for recruiting, selecting and employing contract and permanent staff. She is a Chartered Fellow of the CIPD (Chartered Institute of Personnel & Development) and was a member of the Guernsey Ladies Atlantic Rowing Team project. She has been a member of the Employment and Discrimination Panel for the last six years.

Mr Andrew Vernon

Mr Vernon was a bus company executive during a career in public transport of over 30 years. He moved to Guernsey on his early retirement following the sale of his Company. As Commercial Director he was responsible for all aspects of route planning, fares, trade union pay & conditions negotiations, pension schemes and budgeting. He was an Associate of the Institute of Logistics & Transport with a wide range of experience in employment issues, ranging from recruitment of staff to dealing with disciplinary matters from the initial investigations through to the appeals process. He has also represented the employer in Employment Tribunals and in dispute resolution processes, often with ACAS involvement. In addition he negotiated terms and conditions of employment with both local and paid Trade Union Officials. He has also been a member of the Employment and Discrimination Panel for the last six years.

Miss Katie J Vidamour

Miss Vidamour has gained ten years experience in the Human Resources field since leaving the Grammar School in 2001, six of which were spent working for Kleinwort Benson (Guernsey) Services Limited, where she became involved in a wide range of issues from renewing contracts to disciplinary and grievance procedures. In September 2007, she set up Focus HR Solutions Ltd, with a view to providing small businesses with human resources strategies and solutions. Miss Vidamour is a Chartered Member of the Chartered Institute of Personnel and Development and has gained the Certificate in Personnel Practice. She has also studied for a Post Graduate Certificate in Professional Management and a Post Graduate Diploma in Personnel Management through the University of Portsmouth. She has also been a member of the Guernsey Employment and Discrimination Panel for the last three years.

Mr Peter Woodward

Mr Woodward is an independent management consultant, providing training, support, and consultancy, in the fields of management and human resources in Guernsey, Jersey, the Isle of Man and France. His previous employment with Texas Instruments and Intel Corporation provided experience in personnel, training and development and human resources in Europe, Africa, the Middle East and Eire. Mr Woodward has experience in representing his former employers at Employment Tribunals. He is currently a member of the Jersey Employment Tribunal Panel and is a Fellow of the Chartered Institute of Personnel and Development. He has also been a member and Convenor of the Guernsey Employment and Discrimination Panel for the last six years.

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

XII.- Whether, after consideration of the Report dated 9th November, 2011, of the Commerce and Employment Department, they are of the opinion:-

1. To re-appoint, in accordance with the requirements of Section 1 of the Employment and Discrimination Tribunal (Guernsey) Ordinance, 2005, the existing 13 people, named in Appendix 1 of this report, as members of the Employment and Discrimination Panel, this appointment to take effect from 1 March 2012 for a period of three years.
2. To re-appoint, in accordance with the requirements of Section 1 of the Employment and Discrimination Tribunal (Guernsey) Ordinance, 2005, Mr P Woodward as Convenor.
3. To re-appoint, in accordance with the requirements of Section 1 of the Employment and Discrimination Tribunal (Guernsey) Ordinance, 2005, Mrs T Le Poidevin as Deputy Convenor.

EDUCATION DEPARTMENT

GUILLE-ALLÈS LIBRARY-THE TERMS OF OFFICE OF STATES MEMBERS

The Chief Minister
Policy Council
Sir Charles Frossard House
St Peter Port

4th November 2011

Dear Sir

1. Executive Summary

- 1.1 This States Report asks the Assembly to consider amending the length of the terms of office of the two States representatives on the Guille-Allès Library Council. The Report recommends that the terms of office are aligned with the 4-year terms that Members are elected to the States of Deliberation. If the Report is approved, it would lead to the establishment, in future, of 4-year terms running co-terminus with the States. The proposals are supported by the Education Board and the Guille-Allès Council.

2. Background

- 2.1 In January 1978 the States agreed to provide grant aid to the Council of the Guille-Allès Library at a level sufficient for it to provide a free library service for the whole community. It was also agreed that two members of the States should serve as members of the Council.
- 2.2 In July of the same year, the States agreed that the normal term of office for representatives should be for three years and that one States member should also be a member of the Education Council and that that person should also be a member of the Board of Management of the Library, in order to ensure direct communication between the Education Council and the Guille-Allès Council.
- 2.3 After the machinery of government changes, the Education Council member became the Education Board member. The current incumbent's term of office expires May 2012. The term of office of the other States member who sits on the Council expires in May 2013.

- 2.4 Both the Education Board and Guille-Allès Council feel that electing a person for a full States term of 4 years, rather than the current three year term, would be beneficial in terms of continuity. They are supportive of the change, as are the two present incumbents.
- 2.5 The two current Council members are Deputy J M Tasker and Deputy M J Fallaize. Deputy Fallaize is also a member of the Board of Management of the Library.
- 2.6 With Deputy Fallaize's resignation from the Education Board, interim arrangements have been necessary. Deputy Tasker has assumed the Board of Management role which she is happy to continue with until May 2012, when matters may change when a new States is elected. Deputy Fallaize continues his role as a States elected member of the Guille-Allès Council.

3. Recommendation

- 3.1 That:
 - a the States endorses the interim arrangement approved by the Education Board following Deputy Fallaize's resignation from the Education Board
 - b the terms of office of the existing States members sitting on the Guille-Allès Council (one currently expiring in May 2012 and the other in May 2013) are both terminated in May 2012
 - c new elections are held at the first available opportunity of the new States, probably at the meeting to be held on 30th May 2012
 - d the new terms of office are for the duration of the States and in the event of a member only serving part of a term, for whatever reason, any subsequent appointment is made for the unexpired portion of the term only.

Yours faithfully,

Deputy C. A. Steere
Minister

Other members of the Education Board are:

Deputy A. Spruce
Deputy D. de G. De Lisle
Deputy R. W. Sillars
Deputy J. M. Tasker

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

XIII.- Whether, after consideration of the Report dated 4th November, 2011, of the Education Department, they are of the opinion:-

1. That the States endorses the interim arrangement approved by the Education Board following Deputy Fallaize's resignation from the Education Board.
2. That the terms of office of the existing States members sitting on the Guille-Allès Council (one currently expiring in May 2012 and the other in May 2013) are both terminated in May 2012.
3. That new elections are held at the first available opportunity of the new States, probably at the meeting to be held on 30th May 2012.
4. That the new terms of office are for the duration of the States and in the event of a member only serving part of a term, for whatever reason, any subsequent appointment is made for the unexpired portion of the term only.

PUBLIC SERVICES DEPARTMENT
LIQUID WASTE STRATEGY

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

29th November 2011

Dear Sir

1. Executive Summary

- 1.1. There has been a long running debate over the extent and means by which Guernsey's wastewater (a term which includes sewage) should be treated before being discharged to sea.
- 1.2. The concerns have principally related to the adverse impacts of wastewater on the marine environment and the Island's bathing waters.
- 1.3. The Public Services Department has reported on this issue to the States on a number of occasions and most recently in Billet II of 2009 when the States resolved:
- 1.4. *"To reaffirm their Resolution 6 on Article 13 of Billet d'État XI of 1997 - "to agree in principle that the introduction of sewage treatment measures be brought forward for implementation as soon as is practicable"; and to direct the Public Services Department, out of the proceeds of that ring-fenced additional fixed charge, to undertake preliminary investigations into comprehensive, modern sewage treatment, prepare feasibility studies including a full Environmental Impact Assessment, and take all necessary steps to initiate a planning inquiry, and to report back to the States with comprehensive proposals for full sewage treatment, including proposals for its funding, by no later than January 2012."*
- 1.5. This report explains how the Department has been working closely with relevant specialists in seeking to ascertain what level of treatment is required to the Island's wastewater to make sure it does not have an adverse impact on the marine environment into which it flows. This is a first and fundamental stage in the design of any wastewater treatment plant.

- 1.6. The research set out in this report and the appendices has provided valuable evidence of what needs to be done to ensure the appropriate environmental standards within the sea can be maintained. Interestingly, it indicates that the standards are nearly being met at present due to the extensive works carried out over the past decade, and with modifications currently proposed for the Belle Greve Headworks combined with improvements to the long sea outfall, the water quality standards of the discharge will be well within European and International requirements.
- 1.7. In addition, the research has demonstrated that the Belle Greve long sea outfall discharges are not having any adverse impact on the Island's beaches where bathing water quality regularly meets the highest standards. This serves to confirm that the occasional poor bathing water quality in past years has been more attributable to pollution from land-based sources. In 2010 and 2011 there has been a concerted effort to identify and deal with a number of land-based potential sources of pollution and in this respect it is noteworthy that the bathing water quality results for 2011 are very good.
- 1.8. It is nonetheless acknowledged that some may consider it important to have a major wastewater treatment facility even in the absence of an environmental need. This could be due to the perceived concerns of a well-developed community such as Guernsey discharging untreated water in this manner. Work has therefore been carried out to identify what a conventional wastewater treatment plant would cost to build and maintain. The capital cost of such a plant (including replacement parts over its life) would be in the region of £45-£55m plus an operating cost in the region of £2m per annum.
- 1.9. In view of the evidence that such a major investment is not justified from an environmental perspective, no detailed study has been carried out into potential sites. However, information is provided to show the land-take requirements of a typical treatment plant sized for Guernsey.
- 1.10. The report recommends that further work be carried out to design a replacement long sea outfall and that there be reviews of the marine environment in the Little Russel every four years to confirm the ongoing environmental efficacy of the system.

2. Introduction and Overview

- 2.1. The purpose of this report is to report back to the States following the Resolution of January 2009.
- 2.2. The issue of sewage treatment has been discussed in the States Assembly for many years now and there has been a general lack of clarity about what the process of sewage treatment involves. It is a complex issue as the processes deployed accelerate the natural cleansing process called mineralisation, whereby organic material is converted into carbon dioxide and water with the solid fraction being formed into sludge, sometimes called bio-solids. The liquid discharge is returned to the aquatic environment and the solids are disposed of

along with the community's other solid waste. In the UK sludge is often treated to an enhanced standard which allows it to be disposed of to agricultural land. However, in Guernsey, there is insufficient land available to be able to guarantee a reliable agricultural route. If neither of these options is feasible, alternative methods of sludge disposal will be considered, including export. Understanding the environmental capacity of the receiving water is an essential prerequisite in determining any wastewater treatment strategy.

- 2.3. In general terms the larger the area of space (land or water) available to treat the sewage, the lower the energy requirement and intensity of treatment processes. Conversely the smaller the area available, the greater the process intensity and the higher the energy requirement. If the sewage can be treated using a low energy solution then this will minimise the carbon footprint. It is therefore imperative that before proceeding with the building of an extensive, 'energy hungry' wastewater treatment process, that the more environmentally friendly solution be examined in detail. It is for this reason that we engaged two of the UK's leading environmental consultants; MWH and Intertek METOC to advise on the Guernsey sewage issue.
- 2.4. The prime purpose of appropriate sewage treatment is to ensure that our liquid waste can be safely discharged into the environment without causing detrimental harm. It is essential that the environmental limit of the receiving water body is not exceeded. This is the point at which unacceptable or irreversible change is caused by overloading, where the discharge starts to create an imbalance in the environment.
- 2.5. There are no major industrial processes in Guernsey and thus the wastewater in our system is predominantly domestic sewage and rainfall. This renders a less intensive wastewater process more appropriate as there are virtually no heavy metals or other chemicals which would require conventional wastewater treatment plants to remove. Contaminants in the form of pharmaceuticals taken by humans are not removed by any of the technological solutions presently used in the water industry, nor do they easily break down in the natural environment. They are however in minute quantities and with the massive dilution have not been shown to pose any serious risk to the benthos¹ of the aquatic environment in the Little Russel.
- 2.6. In 2009 Dr James Wishart of MWH was appointed as the strategic advisor on wastewater to the Public Services Department. MWH advised as to the methodology and approach to be adopted such that an appropriate solution could be found to treat the Island's wastewater. At the same time as works were undertaken to resolve some of the sea-water infiltration issues, the necessity for a full marine investigation study of the Little Russel became more evident. MWH suggested that such specialist work would be best undertaken by Intertek METOC, one of the UK's leading environmental marine consultants with an industry-wide pedigree (Appendix 1).

¹ the community of organisms which live on, in, or near the [seabed](#)

- 2.7. MWH confirmed that this survey and the subsequent modelling exercises would be necessary to establish the quality parameters needed to define the level of Sewage Treatment required. These would form the essential input (together with the projected flow and quality of sewage) to any sewage treatment plant process design.
- 2.8. The results of the marine investigation undertaken and the computer simulated models of the flows in the Little Russel are published as a separate appendix (accompanying this Billet). The conclusion of the study is that:-

- The initial dilution of the discharge is insufficient to satisfy UK standards;
- The concentration of solids, and ammonia, after initial dilution, fall within UK standards;
- The nitrogen and phosphorus concentrations predicted by the simulation are below the limits which would indicate (or increase the risk of) the potential for eutrophication (e.g. Algal blooms);
- The Benthic assessment has indicated a very small deposition around the outfall and therefore the present discharge has no significant impact on the benthos;
- Shellfish Harvesting Areas are not predicted to be significantly impacted by the Belle Greve outfall;
- Neither the Belle Greve nor Red Lion discharges present a risk of non-compliance with the Revised Bathing Waters Directive at our designated beaches or to Shellfish quality standards.

In order to aid dispersion and achieve satisfactory aesthetic standards at the sea surface in the vicinity of the outfall, the discharge will need to be made through five diffuser ports to be installed near the discharge end of the Phase IV replacement long sea outfall which is due to commence design in 2012.

- 2.9. This conclusion is further evidenced by satisfactorily achieving the water quality standards at designated Bathing Waters (Appendix 2) and Shellfishery sites which perform at a level consistent with the UK. Should other waters in the vicinity of the Belle Greve discharge become 'designated' with defined water quality standards then a further review would need to be undertaken. In summary, this low energy solution provides the best environmental option for dealing with the Island's wastewater at this time and it will not have a detrimental effect upon Bathing Waters or Shellfisheries.

- 2.10. Unless the States chooses to build a more expansive treatment process than is required then the assessment of other sites is unnecessary as all of the treatment can be contained within the confines of the present Belle Greve site.

3. Background

- 3.1. In January 2006, the Public Services and Environment Departments prepared a comprehensive joint report on Sewerage and Wastewater Treatment with the objective of informing and encouraging public debate. The joint report was published in the form of a ‘Green Paper’ [Billet d’Etat I of 2006]. As a consultation document, the Green Paper did not make any substantive recommendations.
- 3.2. In October 2007, the Public Services Department presented a further report [Billet d’Etat XXI] which detailed finance and procurement strategies, standards of treatment required and the selection of an appropriate site. This report recommended that the Department proceed with the preparation of a marine environmental impact assessment at a budget cost of £600,000, to establish:
- the impact of current methods of wastewater disposal on the marine environment;
 - the causes of poor bathing water quality;
 - the potential effect of wastewater treatment on the Island’s carbon footprint.

The States rejected this proposition but accepted that within the limited financial resources available for wastewater services, priority be allocated to those measures necessary to sustain and develop the existing sewerage network, including measures to reduce ingress of saline and surface water.

- 3.3. In January 2009, the States resolved “*to agree in principle that the introduction of sewage treatment measures be brought forward for implementation as soon as is practicable; and to direct the Public Services Department, out of the proceeds of that ring-fenced additional fixed charge, to undertake preliminary investigations into comprehensive, modern sewage treatment, prepare feasibility studies including a full Environmental Impact Assessment, and take all necessary steps to initiate a planning inquiry, and to report back to the States with comprehensive proposals for full sewage treatment, including proposals for its funding, by no later than January 2012.*”
- 3.4. For the reasons outlined above, proper evaluation studies have been necessary to determine precisely the treatment measures required to achieve the desired outcome of improving the Island’s Bathing Waters and other designated Shellfishery sites.

4. Preliminary Treatment

- 4.1. At the present time the Belle Greve pumping station receives virtually all of the Island's foul water flow and after maceration (chopping-up) and removing grit, discharges it to sea through a long sea outfall which terminates in the Little Russel about a mile offshore.
- 4.2. The Belle Greve pumping station and inlet works are 40 years old and a programme of renovation has been in progress since 2007. The grit removal and macerators contained within the plant are constantly breaking down with the result that solids are discharged to sea in recognisable form, which is unacceptable.
- 4.3. The next phase of this work (Phase V), which is due to commence in January 2012 subject to States approval in December 2011, will replace the obsolete equipment with a new preliminary treatment works at a total cost of £11.03million funded from the Capital Reserve. The upgrading work will be completed by May 2013.
- 4.4. The new preliminary treatment facilities will include a new inlet works comprising modern rotating 6 millimetre screens and grit removal equipment housed in a building adjacent to the existing inlet works. This will ensure that instead of simply chopping up the non-biodegradable material, it will be removed altogether and taken to the solid waste tip at Mont Cuét. The new facility will be able to serve any future sewage treatment system which the States may decide to implement in due course.
- 4.5. The Director of Environmental Health and Pollution Regulation (Environmental Regulator) is currently advising on legislation which will set standards of discharge which the treatment facility at Belle Greve will have to meet.
- 4.6. A condition assessment carried out on the existing long sea outfall by Black and Veatch concluded that the pipe is expected to fail within ten years. Replacement of the long sea outfall pipe forms phase IV of the Belle Greve refurbishment works. In May 2009 (Billet IX), as part of the capital prioritisation debate, the States gave Priority 1 status to phase IV of the Belle Greve upgrading works at an indicative cost of £4 million. Construction costs for the replacement of the pipe have been estimated at between £6m and £8m. Design work on the outfall pipework will commence in 2012.

5. Findings from Marine Investigation and Model Studies

- 5.1. Described in Sections 5.2 to 5.6 are the technical tests carried out to measure the impact of a wastewater discharge on the aquatic environment.
- 5.2. The initial dilution of the discharge as the wastewater reaches the surface of the Little Russel is insufficient to satisfy UK standards. This means that at the present time too much wastewater is being discharged into too small a volume of seawater. This can be resolved by installing five diffuser ports near the discharge

end of the new outfall pipe. Doing this will not only improve the aesthetic appearance of the seawater immediately adjacent to the point of discharge but will also significantly aid the natural treatment process.

- 5.3. The concentration of suspended solids, biochemical oxygen demand (BOD), ammonia and chemical oxygen demand (COD) at the outfall discharge all fall within UK standards. These standards are set principally to protect aquatic life in the receiving water.
- 5.4. The nitrogen and phosphorus concentrations predicted by the computer model simulation are below the limits which would promote additional algal bloom growth and therefore is not a problem.
- 5.5. The bacterial modelling predicted that the Belle Greve discharge does not present a risk to compliance with the revised 2006 Bathing Waters Directive or to Shellfish quality standards.
- 5.6. The Benthic assessment has indicated only a very small deposition around the outfall and therefore the present discharge has no significant impact on the benthos. Adding diffusers, as recommended, will further reduce any deposition.
- 5.7. This comprehensive study has established that the receiving waters are classed as a less sensitive area as defined by the Urban Wastewater Treatment Directive (1991). It is, however, recommended within this legislation that this status be reviewed every four years.
- 5.8. Wastewater is discharged into the natural water flow of the Little Russel which churns, aerates and disperses the water around the north of the Island on the tidal flow. A small proportion returns on the ebb tide and is diffused with the rest of the flow and thus the combined action of dispersion and sunlight 'treats' the discharge in much the same way as a land-based wastewater treatment system would.
- 5.9. **In summary, provided that sufficient dispersion of the discharge can be achieved through improvements to the outfall pipe then there is no scientific evidence to support the need for further sewage treatment on the assumption that the primary requirement is to ensure the protection of bathing waters and the shellfisheries.**

6. Options

6.1. Preliminary Treatment and Stormwater Storage

A new inlet works and stormwater storage tank is currently planned under Phase V of the upgrading works at Belle Greve. This will improve the quality of the effluent discharged into the Little Russel by removing material greater than 6mm in diameter and storing 4,000m³ of storm flow which is in excess of the

station capacity. At present, during storms, this unscreened surplus flow is discharged to sea through the Red Lion short sea outfall causing pollution of the foreshore. The new storage tanks will make discharges through the short sea outfall rare in all but the most extreme weather conditions.

6.2. “Full” Sewage Treatment

There has been considerable debate about the term “full” treatment and for the purposes of this study, “full” sewage treatment has been defined as comprising primary settlement, secondary aeration (non-nitrifying), final settlement, tertiary disinfection and sludge thickening and dewatering. It has been previously assumed that sludge treatment would be carried out in the Island’s future solid waste facility; however other disposal routes will have to be considered if this is not feasible. This is typically the type of treatment that one might prescribe for a coastal location in the UK, or where no regard is taken of the cleansing capabilities of the receiving water.

It should be noted that conventional wastewater treatment processes, in non-coastal areas, are not designed to reduce bacteria and there is no bacteriological standard set for such plant.

Primary treatment involves the removal, by means of settlement tanks, of some of the organic sediment as bio-solids (sludge) for further treatment or disposal.

Secondary treatment generally involves biological treatment. Here microscopic bacteria and bugs are fed with the sewage and large volumes of oxygen to complete the mineralisation process before using final settlement to remove the secondary sludge. In the case of Activated Sludge treatment some of the Activated Sludge is returned to the secondary aeration process (Return Activated Sludge – RAS) and some is removed for disposal (Surplus Activated Sludge – SAS). Any biological process would be sensitive to rapid fluctuations in salinity; therefore a programme to prevent sea water entering the sewer network would be a prerequisite.

Tertiary treatment would consist of additional treatment processes including disinfection which usually takes the form of ultraviolet light treatment of the final effluent to eliminate the bacteria in the flow. This man-made solution requires a large amount of energy to power ultraviolet light bulbs to mimic the effects of natural sunlight. This is contrary to the Energy Resource Plan which promotes the efficient use of energy. The advantage of “full” treatment is that the final effluent discharged into the Little Russel would be rendered biologically harmless at the end of the outfall pipe, as compared to outside the zone of natural marine treatment as defined in the Intertek METOC study.

The whole life capital cost of “full” treatment over 50 years is estimated to be between £45m and £55m with additional operating costs which are estimated to be £2m per annum. The construction costs are estimated in Appendix 3 and also

show the cost of periodic replacement of Mechanical and Electrical equipment over a 50 year period.

The operating costs are extrapolated from the operation of a similar process in Jersey that has been operating for several years.

The size of the conventional “full” Sewage Treatment Works would be approximately 200 metres by 200 metres, which equates roughly to six football pitches. The layout is shown in Appendix 4.

6.3. Site Selection

No work has been done to evaluate the merits of alternative sites nor have Environmental Impact Assessments been performed as this would heighten public concern unnecessarily if the States was to accept the scientific evidence put forward in this report. If, however, the States resolves to proceed with “full” sewage treatment, the next step would be to create a shortlist of the most suitable sites and to proceed with Environmental Impact Assessments of each site. Once these are completed, the States would then be asked to decide which site should be allocated for the treatment facility. Optioneering and detailed design can then commence.

7. Principles of Good Governance

- 7.1. The proposals contained within this report are closely aligned with the six principles of good governance as set out by the Public Accounts Committee and adopted by the States in March 2011 as follows:-

Core Principle 1- Good Governance means focusing on the organisation’s purpose and on outcomes for citizens and service users.

This project reviews the need for sewage treatment in order to ensure that the effluent discharged into the Little Russel satisfies the water quality standards, on which the Director of Environmental Health and Pollution Regulation would advise. This project fulfils an element of the Public Service Department’s purpose and the outcome will benefit the citizens.

Core Principle 2 – Good Governance means performing effectively in clearly defined functions and roles.

The project has progressed under the authority of the Chief Officer with the responsibility for achieving a successful outcome delegated to the Director of Water Services. Staff members have a clearly defined role to fulfil.

Core Principle 3 – Good governance means promoting good values for the whole organization and demonstrating the values of good governance through behaviour.

The marine investigation was undertaken under the supervision of Guernsey Wastewater staff and under the supervision of the Director of Water Services. Close contact was maintained with the Director of Environmental Health and Pollution Regulation. In this way expertise from across States Departments is being used to achieve good value for the States as an organisation. The approach taken has promoted good practice through thorough assessment, with recommendations being based on firm evidence.

Core Principle 4 – Good governance means taking informed, transparent decisions and managing risk.

The States of Guernsey has delegated to the Public Services Department the responsibility for the disposal of wastewater in the most cost effective and environmentally acceptable way. By the recommendations made in this report, the need for further sewage treatment is being developed in a transparent way and decisions are informed by scientific study.

Core Principle 5 – Good Governance means developing the capacity and capability of the governing body to be effective.

The opportunity for corporate capacity development was taken by involving engineers from Guernsey Wastewater advised by consultants who are expert in this field. This process required a detailed marine investigation for this project which is new for the Island and has therefore broadened the experience of those involved.

Core Principle 6 – Good Governance means engaging stakeholders and making accountability real.

Stakeholders at this stage included the Director of Environmental Health and Pollution Regulation (Environmental Regulator) who have attended meetings with the contractor and consultant and kept up to date with progress. Accountability has been kept real by the recorded States Resolution of January 2009 making the Public Services Department responsible for the successful delivery of the project.

8. Discussion

- 8.1. The marine survey results have given a scientific basis for the selection of the most appropriate sewage treatment option for Guernsey. The most important considerations are the effects of the effluent on the bathing waters, the shellfish farming industry and the seabed and surrounding environment along the East Coast of the Island. The East Coast bathing beaches are not affected by the present Belle Greve discharge and satisfactory results have been consistently obtained (Appendix 3). Likewise, the shellfish beds located in the Little Russel are also unaffected by the Belle Greve discharge. **The provision of “full” sewage treatment will make no improvement to bathing water quality or change the current shellfish classification.**

- 8.2. Since taking on responsibility for wastewater, Guernsey Water's scientists working in tandem with the wastewater engineers have focussed their attention upon a series of measures targeted at improving the Island's Bathing Waters, and the 2011 Bathing Water season results demonstrate the dramatic improvement that has been achieved. It has been proven that the Bathing Water failures at places like Cobo are not associated with the Belle Greve discharge but rather more localised diffuse and point source land-based pollution. Work has been undertaken to reduce infiltration and leakage from sewer pipes in coastal areas. There is still more work that has to be undertaken and scientists and engineers are still investigating potentially defective and inadequate wastewater systems. At this juncture £873k has been spent or committed.
- 8.3. Although the Island is not bound by European legislation, the Department policy is to follow best UK practice in areas such as health and safety. In the case of effluent discharge, Article 6 of the Urban Wastewater Treatment Directive (1991) requires a minimum of primary treatment for Guernsey's population size, since the marine survey has established that the receiving waters are classed as a less sensitive area. The provision of primary settlement would remove a percentage of suspended solids and BOD but would have no significant impact on bacteria. Primary sludge would also be produced which would then need to be treated and a disposal route found.
- 8.4. Guernsey is unusual in that the offshore currents in the Little Russel are relatively fast flowing and carry a large volume of water enabling the effective natural treatment of the discharge.
- 8.5. The upgrading of the Belle Greve preliminary treatment facilities will improve the nature of the effluent by the removal of litter and recognisable debris. This new facility will be completed by May 2013 subject to States approval. The work to improve the long sea outfall and install additional diffusers already scheduled as Belle Greve Outfall Phase IV will address the shortfalls of the present arrangement.
- 8.6. If "full" sewage treatment was installed, sludge disposal will be a critical issue which must be resolved in the event of any of the treatment options being selected. This requires a solid waste solution to be available to process approximately 5.8 Tonnes Dry Solids (TDS) or 23m³ of thickened and dewatered sludge that would be produced each day. This sludge would have a Dry Solids content of approximately 25%, so an overall weight of 23 tonnes would be anticipated. A sustainable disposal route would be required to provide a guaranteed continuous facility as there is little scope for sludge storage on the Island. In particular, undigested sludge is highly malodorous and would cause a great degree of nuisance if stockpiled.

Depending on the treatment provided by the Solid Waste facility, anaerobic digestion or enhanced digestion (such as thermal hydrolysis) could be provided

at the Sewage Treatment Works. This would have the additional benefit of reducing the solids content of the sludge by up to 40% to 50% and some energy recovery would be achieved. In the event that the solid waste strategy is based on off-island treatment of residual solid waste, then alternative methods for dealing with the sludge would have to be considered, including export to a treatment facility. The costs of such additional treatment and disposal have not been included within the cost estimates provided at this stage.

- 8.7. Prior to the installation of “full” sewage treatment, the problem of the variable salinity of the inflow waters would have to be resolved before any further sewage treatment plant was installed as the biological processes cannot cope with hugely fluctuating chloride levels.

9. Wastewater Charge Surcharge

- 9.1. In 2009, the States agreed to the introduction of the Wastewater charge ‘surcharge’ of £50 per chargeable property and business unit for three years “*to enable the Department to present to the States within three years firm proposals for the provision of a sewage treatment plant.*” This surcharge was also earmarked to fund the investigation and rehabilitation of coastal sewers in order to manage seawater ingress and reduce flows in the sewerage system. There was also provision made for legal and financial advice if private sector investment was required for a sewage treatment plant. The surcharge was implemented from 1 April 2011.
- 9.2. It was anticipated that the surcharge would raise approximately £3.6million of which £1.2million would be used to fund further works associated with infiltration of the sewerage system as reductions in the volumes of wastewater conveyed and treated will still be required, £0.45million has already been expended on this work and a further £0.45million on the sewage treatment investigations. Therefore, should the Assembly decide not to proceed with further sewage treatment plant investigations then it is anticipated that the additional surcharge could cease in the latter part of 2012.

10. Conclusions

- 10.1. The Department has carefully examined the options for wastewater treatment. It has had full regard to previous States debates on the matter and to the scientific data.
- 10.2. In determining the correct approach it engaged technical specialists and carried out extensive scientific modelling of the local marine environment.
- 10.3. The evidence is that the current discharges are having a minimal impact on the environment but improvements are required.
- 10.4. The Phase V upgrading of the inlet works at Belle Greve and the provision of stormwater storage together with the dispersion improvements of the outfall pipe

will significantly improve the nature of the discharge into the Little Russel, by removing sanitary debris from the flow. Based on scientific study, the Belle Greve discharge does not present a risk to compliance with the revised 2006 Bathing Waters Directive or to Shellfish quality standards. The installation of the preliminary treatment works will be completed by May 2013 subject to States approval.

- 10.5. Installation of “full” sewage treatment would improve the effluent quality and remove the bacterial content of the final effluent at the point of discharge. However the whole life capital cost of this would be between £45m-£55m, for no discernable environmental benefit. In addition, operating costs for the “full” treatment option would be about £2m per year. A continuous solid waste disposal route for the sludge would also be essential.
- 10.6. A “full” sewage treatment works would significantly increase the carbon footprint due principally to the energy requirements during both construction and normal operation throughout the life of the plant.
- 10.7. Although the main benefits of proceeding with “full” sewage treatment are compliance with European legislation and improved public perception of wastewater disposal, scientific evidence shows that the quality of the receiving waters is not adversely affected by the current arrangement.
- 10.8. In view of the high costs in a time of financial restraint and the intangible benefits of proceeding with further sewage treatment, this course of action is not considered justifiable or appropriate in the present circumstances.
- 10.9. Nonetheless, it is considered important to proceed with the replacement of the long sea outfall, as well as establishing an ongoing environmental monitoring regime.

11. Recommendations

The Public Services Department therefore recommends that the States give its approval:-

1. To proceed with the design of a replacement long sea outfall using the Intertek METOC model to incorporate:
 - i) The optimum length and location of pipe to achieve the greatest environmental benefit;
 - ii) The installation of five diffusers in order to achieve dilution standards at the sea surface around the point of final effluent discharge.
2. To review the “less sensitive area” status of the Little Russel every four years.

3. To direct the Public Services Department to make such reductions in the rate of Charge B as necessary to ensure the funds collected are sufficient only to cover the activities related to investigation of treatment options as set out in the Wastewater Charges (Guernsey) Law, 2009.

Yours faithfully

B M Flouquet
Minister
S Ogier
Dep. Minister

S Ogier
Dep. Minister

T Le Pelley

A Spruce

J Kuttelwascher

APPENDIX 1

GUERNSEY WATER

GUERNSEY WATER - BELLE GREVE OUTFALL

MWH COVERING REPORT TO INTERTEK- METOC REPORT

**DISCHARGE OF PRELIMINARY TREATED WASTEWATER TO THE
LITTLE RUSSEL**

07 NOVEMBER 2011



Client: Guernsey Water

Project: Impact of discharge of Preliminary Treated Sewage into the Little Russel

Document Title: Guernsey Water - Belle Greve

MWH Project Code: x			Document No: X 1		
Version	Date	Description/Amendment	Prepared by (Author)	Checked by	Reviewed by
1.0	7/11/11	First Issue	Ian Cranshaw	ABM	Richard Dannatt

PLEASE DESTROY ALL SUPERSEDED COPIES OR
CLEARLY MARK THEM AS “SUPERSEDED”
UNCONTROLLED WHEN PRINTED

File Location	Date	Admin Check by
S:\Watson		

OPTIONAL EXTRA IF REQUIRED BY PROJECT MANAGER:

Distribution:				
Name				
Copy No.				

Contents

1	Introduction	2
2	Examples of application include (with clients):	3
3	Frameworks and Clients for water quality modelling have included:	3
4	Background to the Metoc Report	3
5	The Survey	4
6	Results and Conclusions	5
7	Recommendations	5

INTRODUCTION

An early conclusion from MWH on appointment was that a quantitative in-situ survey of impact from both the Red Lion Short Sea Outfall and the Belle Greve submerged outfall was required. The outputs of such a survey and subsequent modelling assessment would quantitatively identify any significant impacts in terms of;

- *Risks to Human Health*
- *Shellfish Quality*
- *Bathing Water Quality*
- *Impacts on Marine Fauna and Flora*

Additionally the survey and subsequent dispersion modelling exercises would identify, if required, quality parameters needed to define the level of Sewage Treatment required. These would form the essential input, (together with the projected flow and quality of sewage), to any sewage treatment plant design process.

MWH chose to employ the services of Intertek METOC Ltd to both define and manage the survey process, and additionally in the modelling and interpretation of the results. MWH made that choice, with the agreement of Guernsey Water, because Intertek METOC were identified to be the leading UK exponents in terms of interpretation of relevant UK and European legislation as well as the leading practitioner for the surveying and modelling of treated and untreated sewage discharges to the marine environment.

MWH have worked closely with Intertek METOC on previous successful projects for clients in Europe which include;

- Scottish Water Bathing Waters and Clyde Strategic Drainage
- UK National Policy Statement, new nuclear power stations
- Northumbrian Bathing Waters studies
- Northumbrian Water Sunderland Bathing Waters Public Inquiry
- Southern Water water quality modelling
- Bridlington and Scarborough Bathing Waters modelling

An enquiry to Intertek METOC helped to establish their relevant credentials in the field of Marine Impact Assessment. An extract of their response is shown below;

Intertek METOC has been delivering coastal water quality modelling studies since 1992. Intertek METOC's experience of water quality issues, particularly with regard to bathing waters, shellfish waters and studies under the Urban Waste Water Treatment Directive, means we have the best available experience in the UK. Our key achievements include:

- Delivering coastal modelling assessments since 1992
- Undertaking the majority of Comprehensive Studies for the UWWTD in the UK
- Developing the leading bathing and shellfish water compliance approaches used in the UK
- Delivering the majority of Bathing Waters and Shellfish Waters water quality modelling assessments in the UK

We believe we have the best qualified and most experienced coastal water quality modelling team in the UK. Our team consists of experienced water quality specialists, mathematical modelers and oceanographers. We have an excellent understanding of current modelling software, and assist clients in the selection of the most appropriate approach for their needs, as well as delivering model builds, model specifications and associated data collection programmers.

We develop our own compliance and impact assessment tools, which in many cases have become the default approach for water quality assessment studies.

Examples of application include (with clients):

- Comprehensive Studies under the Urban Waste Water Treatment Directive (Anglian Water, North West water, Northumbrian Water, Southern Water, North of Scotland Water) – nutrient modelling, benthic impact modelling, field data collection, reference and maintenance monitoring programmers
- Bathing Waters Studies and Programmes (Anglian, Yorkshire, Northumbrian, Scottish, United Utilities, Welsh, South West, Southern) – model builds, water quality modelling, expert witness services, field data collection
- Shellfish Water Studies and Programmes (Anglian, Scottish, United Utilities, Welsh, Southern) – model builds, water quality modelling, field data collection
- Outfall location and impact studies (Northumbrian, Scottish, United Utilities) – model builds, model assessments and associated field data collection

Frameworks and Clients for water quality modelling have included:

- Yorkshire Water Framework Partner: water quality modelling
- Anglian Water Framework Partner: river and coastal modelling
- Scottish Water Framework Partner: water quality modelling
- Northumbrian Water
- United Utilities
- South West Water
- Southern Water
- Dwr Cymru Welsh Water
- Environment Agency

Background to the Intertek Metoc Report

Since 1976 the European Union has been issuing directives relating to the quality of marine waters, commencing with the Bathing Water Directive. The objective of the directives has been to secure bathing water quality that is not prejudicial to health and to protect flora and fauna from unacceptable impact from sewage or storm sewage due to toxicity or Eutrophication.

This European legislation is then enacted within the legal framework of the member states. Since 1976 the following directives have been issued and translated to legislation, for example by the Environment Agency (EA) in England and Wales;

- Urban Waste Water Treatment Directive (UWWTD)
- 2006 Bathing Water Directive (Revised Bathing Water Directive, Rbwd)
- Shellfish Waters Directive
- Shellfish Hygiene Directive (now encompassed by the Food Hygiene Directive)

It is important to recognize that neither the European Directives nor the subsequent UK legislation apply in Guernsey. However, the brief from Guernsey Water for MWH and subsequently Intertek METOC was to carry out the survey and subsequent assessment in full accord with the most relevant European legislation.

In this case Intertek METOC have identified the approach taken by the European Union, the Environment Agency for England and Wales and the UK Department of the Environment as the most relevant to the case for Guernsey.

Collectively the European Directives and subsequent member states impose standards on water undertakers to control discharges to the aquatic environment across a number of measurable parameters namely;

- Initial Dilution of the discharge in the context of offensive aesthetic impacts such as floating oil and grease from the outfall arrangement
- Nutrient contribution in terms of potential for Eutrophication
- Dissolved oxygen deficit (Due to Biochemical Oxygen Demand of the effluvia)
- Solids load in relation to potential for smothering benthic organisms
- Toxicity to aquatic organisms, for example from Ammonia in sewage
- Risk to human health, applying standards with regard to the faecal indicator organisms (*Escherichia coli* and intestinal enterococci) once dispersed from the point of discharge.

All of these parameters are examined quantitatively in the Appended report.

The Survey

The survey consisted of a number of concurrent study activities that collectively provide the necessary input data required to carry out an impact assessment by modelling and other prescribed techniques.

General technical specifications for the survey technique and analyses are compliant with the Scottish Environment Protection Agency (SEPA) requirements for Hydrographic Survey (Referred to as SEPA Guidelines)

The survey comprised of a number of components;

- Current and level monitoring at three locations
- Depth profiling
- Dye tracing
- Water quality sampling
- Bathymetric survey

The survey took place in August 2011 and is comprehensively described in the Metoc report in terms of methodology and results. The survey and modelling exercise included the discharge and potential impact zones from both the main Belle Greve outfall and the intermittent discharges from the Red Lion Short Sea Outfall.

Results and Conclusions

The study has demonstrated:

- The initial dilution of the discharge is insufficient to satisfy UK standards
- The concentration of solids, and ammonia, after initial dilution, fall within UK standards
- The nitrogen and phosphorus concentrations predicted by the simulation are below the limits which would indicate (or increase the risk of) the potential for eutrophication (e.g. Algal blooms)
- The Benthic assessment has indicated a very small deposition around the outfall and therefore the present discharge has no significant impact on the benthos.
- Shellfish Harvesting Areas are not predicted to be significantly impacted by the Belle Greve outfall – i.e. compliance is maintained
- Neither the Belle Greve or Red Lion discharges present a risk to non-compliance with the rBWD or to Shellfish Water quality standards

Recommendations

Whereas the UWWTD suggests a minimum of primary treatment for wastewater discharges for a population the size of Guernsey, all of the studies conducted would suggest that there is no adverse affect from the Belle Greve discharge.

The results of the study would therefore suggest that the current level of treatment, whilst not strictly conforming to the UWWTD:

- Protects the surrounding waters from the risks of eutrophication
- Protects the surrounding waters from deleterious local impacts of waste water discharges
- Protects Bathing and Shellfish Waters
- Does not pose a risk to the local benthic community due to deposition of suspended solids

However the study concludes that there is a finite and significant deviation from the UK standards in terms of Initial Dilution and BOD concentration in the initial dispersion Zone A.

This can be rectified by provision of a diffuser assembly to the existing outfall structure

It is recommended that a diffuser section be added to the Belle Greve outfall, in order to ensure that the initial dilution criteria are achieved and to secure compliance with Zone A BOD standards.

Appendix 2

Environment Department Press Release – October 2011

Guernsey's bathing water quality improved in 2011 with all beaches tested complying with the EU Bathing Water Directive mandatory level.

Eleven beaches achieved the highest water quality standards under the EU Bathing Water recording Excellent results for the season with 90% or above compliance with the European Guideline Standard. These were Bordeaux, Fermain, Grandes Rocques, Havelet, Ladies Bay, L'Eree, Portelet, Port Soif, Saints Bay and Vazon. Pembroke and Petit Bot had 85% compliance and achieved Mandatory passes.

Cobo had a significantly better record this year, achieving Guideline standard with 95% compliance following its failure to comply with the directive in 2010. This is the first time Cobo has achieved the Guideline standard since 1998. This improvement followed a close investigation by Guernsey Water into localised pollution from leaking cesspits in the area.

BEACH	Overall Result for 2011	No. of 'Excellent' samples	No. of 'Good' samples	No. of 'Poor' samples
Bordeaux	EXCELLENT	18	2	0
Cobo	EXCELLENT	19	1	0
Fermain	EXCELLENT	20	0	0
Grandes Rocques	EXCELLENT	19	1	0
Havelet	EXCELLENT	20	0	0
Ladies Bay	EXCELLENT	19	1	0
L'Eree	EXCELLENT	19	1	0
Pembroke	GOOD	17	3	0
Petit Bot	GOOD	17	3	0
Port Soif	EXCELLENT	19	1	0
Portelet	EXCELLENT	18	2	0
Saints Bay	EXCELLENT	19	1	0
Vazon	EXCELLENT	19	1	0

Bathing water quality was monitored weekly at thirteen beaches between 3rd May and 21st September 2011. There were twenty bacteriological tests taken on behalf of the Environment Department and analysed at the States Laboratory. Bathing water is tested in line with the requirements of 'Directive 76/170/EEC: Concerning the quality of bathing waters'.

Appendix 3

Item	Construction Cost (£)	WLC £ (CAPEX)
Primary Treatment		
Primary Settlement Tanks	2,829,125	4,243,688
Inlet Pipework	115,000	115,000
Pipework	680,000	680,000
Interstage PS	90,637	120,849
Odour control	1,220,102	1,342,112
Ancilliary equipment	1,182,472	1,654,913
<i>Total Primary Treatment</i>	6,117,336	8,156,563
Secondary Treatment		
Final Settlement Tanks	2,754,114	4,131,171
Tanks & Blowers	2,333,077	3,888,462
Pipework	860,000	860,000
Interstage PS	90,637	120,849
Odour (ASP)	618,124	679,937
Odour -(tanks)	1,220,102	1,342,112
Control & Monitoring (ASP)	246,528	493,056
Control & Monitoring (Tanks)	461,943	923,886
Ancilliary equipment	2,325,791	2,325,791
<i>Total Secondary Treatment</i>	10,910,316	14,765,264
Tertiary Treatment		
UV Filter	728,543	2,185,628
Pipework	500,000	500,000
Interstage PS	90,637	120,849
Odour	256,641	282,305
Control & Monitoring	194,334	388,668
Ancilliary equipment	179,366	179,366
<i>Total Tertiary Treatment</i>	1,949,520	3,656,816
Sludge Treatment		
Picket Fence Thickener for Primary Sludge	130,232	390,695
SAS Tanks	950,141	950,141
Sludge Blending Tank	340,813	511,220
SAS Thickener (Belt or Drum Thickener)	296,500	889,500
SAS Building	100,000	100,000
Dewatering - Centrifuge	584,378	2,337,512
Centrifuge building	200,000	200,000
Cake Storage (Covered Hard Standing)	25,000	25,000
Return Works PS	232,112	309,482
RAS (Pumping station)	464,223	618,964
SAS (Pumping station)	42,000	56,000

Thickened Primary Sludge Transfer Pumps	25,000	50,000
PST De-Sludge Pumps	70,000	140,000
<i>Total Sludge Handling</i>	3,460,398	6,578,513
External Works		
Short Sea Outfall	2,200,000	2,200,000
Transfer Pipeline	2,500,000	2,500,000
<i>Total External Works</i>	4,700,000	4,700,000
Supply & Construct	27,137,571	37,857,156
Site set-up (10%)	2,713,757	2,713,757
Risk (10%)	2,985,133	2,985,133
Project Administration	1,700,000	1,700,000
Total Cost	34,536,461	45,256,046

Note: Costs are based on UK prices, no uplift has been applied for Guernsey. Costs for land purchase and EIA/Public enquiry are not included

Appendix 4



Doc Reference : 5101156/66/DG/035

Title : Treatment Plant Process Size Estimation

Project Title: Guernsey Proposed WwTW

Project Number : 5101156

Rev	Date	Revision Description	Pages	Originator	Checked	Review	Authorise
0	04/01/2011	First Issue		CR			
1	01/11/2011	Issue for Revised Costing	11	TS	GPR	DP	DP

Reason for Issue



For Enquiry



For Review



For Information



For Authorisation



For Construction

Notes

Preliminary proces sizing calculation to enable costing of a wastewater treatment plant for Guernsey wastewater.

Flows and treatment methodology agreed with John Holt, Guernsey Wastewater 13/10/11

Guernsey WWTP - Preliminary Process Unit Sizings

	Number	Diameter (m)	Length (m)	Width (m)	Depth (m)	Working Volume (m ³)	Sidewall Depth (m)	Flowrate (m ³ /hr)	Head (m)	Dry Solids Target (%)	Area (m ²)	Power (kW)
PST	4	19.1				2880	2.5					
Aeration Lanes	4		33.7	7.5	5.5	5049						
FST	4	20.3				3225	2.5					
UV	1							1440				
Pickel Fence Thickener for Primary Sludge	1	5.5			4	82						
SAS Tanks	3	12.2			6	1915						
Sludge Blending Tank	1	11.2			6	538						
SAS Thickener (Belt or Drum Thickener)	2							84		5		
Dewatering - Centrifuge	2							24		25		
Cake Storage (Covered Hard Standing)	1					70					70	
Return Works PS	1	3.6			3.5							
Return Works Pumps	2							95	20			
Odour Control	1											
PST De-Sludge Pumps	4							33	20			
Blowers	3							2788				54
RAS Pumps	2							815	20			
SAS Pumps	2							20	20			
Thickened Primary Sludge Transfer Pumps	2							2.6	20			

Notes:

Process Train agreed with John Holt by telephone 13/10/11

DWF = 141 l/s

Average = 176 l/s

FFT = 400 l/s

No allowance has been made for flows from the return sludge liquors. This should be included if design is to be advanced.

Sludge processing has been reduced to thickening and dewatering only as per request by Jon Holt.

SAS and Blending Tanks require mixing, not detailed

Main control room required which may house the blowers and odour control equipment.

All pumping heads assumed at 20m for preliminary design

SAS Thickening and Dewatering will require feed and discharge pumping stages not detailed here

Odour control required for all sludge processes and tanks

INFLUENT CONDITIONS							
Flow							
Average flow	15234.375	m3/d					
Maximum Flow	34560	m3/d					
Concentration				Load			
Ave BOD conc	358 mg BOD/l		Ave BOD Load	5460	kg BOD/d		
Ave NH4 Conc	34 mg NH ₄ /l		Ave NH ₄ Load	520	kg NH ₄ /d		
Ave COD conc	1075 mg COD/l		Ave COD load	16380	kg COD/d		
Ave SS conc	341 mg dry SS/l		Ave SS Load	5200	kg dry SS/d		
PRIMARY TREATMENT							
Primary Clarifiers							
Max up flow, Vup	1.25	m/h	Assumed	BOD reduction	25	%	Assumed
Max flow	34560	m3/d		BOD load forward	4095	kg BOD/d	
Min retention, t	2	h		BOD Conc'n	270	mg/l	
Total Area	1152	m2		NH ₄ reduction	0	%	
Number of tanks	4		Assumed	NH ₄ load forward	520	kg COD/d	
Area per tank	288	m2		NH ₄ Conc'n	34	mg/l	
Total volume	2880	m3		COD reduction	25	%	
				COD load forward	12285	kg COD/d	
Side wall height	2.5	m	Assumed	COD Conc'n	811	mg/l	
				SS reduction	50	%	Assumed
				SS removed	2600	kg SS/d	
				Eff SS Conc'n	172	mg/l	
Upflow with 1 tank out of service 1.7 m/h							
Circular Tank							
Diameter	19.15	m	Conservative vol estimate to accommodate sludge accumulation				
weir velocity	23.94	m2/h					
Rectangular Tank 3 :1 aspect ratio							
Length	29.39	m					
Width	9.80	m					
Wier velocity	146.97	m3/h	Based on single end weir				
Solids							
Sludge Concentration	3	%	Assumed				
Sludge Volume	87	m3/day					
Sludge Solids	2600	kg SS/d					
Primary DeSludge Pumps							
Assumed Sludge Pumping at 5 mins every hr							
Number of Pumps	4	One per tank commoned to provide standby capability					
Lowest Solids Concentratio	1.0 %	- chosen to calculate maximum pumping volume					
Highest Solids Concentratio	5.0 %						
Total Flowrate Required	260	m3/hr					
Flowrate per pump	33	m3/hr					
Assumed Head Loss	20	m					
Input data to carry out non process related calculations							
Input data that will alter the results from the spreadsheet							
PRIMARY EFFLUENT CONDITIONS							
Flow							
Average flow	15147.71	m3/d					
Maximum Flow	34473.33	m3/d					
Concentration				Load			
Ave BOD conc	270 mg BOD/l		Ave BOD Load	4095	kg BOD/d		
Ave NH4 Conc	34 mg NH ₄ /l		Ave NH ₄ Load	520	kg NH ₄ /d		
Ave COD conc	811 mg COD/l		Ave COD load	12285	kg COD/d		
Ave SS conc	172 mg dry SS/l		Ave SS Load	2600	kg dry SS/d		
SCREENINGS & GRIT PRODUCTION							
Screenings quantity (6 mm screen)							
Typical Volume	0.080	1000m3/day	Ref.11 gives average 11 ft3/Mgal for 1/4" openings between bars				
Volume at max flow	3	m3/d					
Grit quantity							
Typical Volume	0.015	/1000 m3	Ref.12 gives typical 2 ft3/Mgal				
Volume at max flow	0.5	m3/d					

References

- 11 Metcalf and Eddy, Wastewater Engineering 3rd Edition, Figure 9-4
 12 Metcalf and Eddy, Wastewater Engineering 3rd Edition, Table 9-4

Infiltration, flow and PE calculations

Summary

	Units		Comments
DWF (P(G+Gc)+(PtGt+PdGd)+I+E)	m ³ /d	12188	
3DWF (3PG+I+3E)	m ³ /d	34560	
NH ₃ DWF concentration	mg/l	43	
Total NH ₃ Load	kg NH ₃ /d	520	
BOD DWF concentration	mg/l	448	
Total BOD Load	kg BOD/d	5460	
SS DWF concentration	mg/l	427	
Total SS Load	kg SS/d	5200	

WORKING CALCULATION

		Current	Comment
Resident Population, P	hd	65000	Ref.10 - includes allowance for visitors, migrant workers and trade effluent flow
Resident Consumption, G	l/hd/d	150	Confirmed by Jon Holt Telephone Call 13/10/11
Commercial Allowance, Gc	l/hd/d	0	
Tourists	hd	0	
Tourist consumption	l/hd/d	75	assumes 0.5x residents
Day visitors	hd	0	
DV consumption	l/hd/d	37.5	assumes 0.25 x residents
Population flow	m ³ /d	9750	Residents
Industrial flows, E	m ³ /d	0	measured
Infiltration, I = PGi	m ³ /d	2438	Confirmed as 25%PG by Jon Holt Telephone Call 13/10/11
Population BOD	g/hd/d	80	Ref.2
Total Population Load	kg BOD /d	5200	All residents and Tourists/day visitors
Industrial load	kg BOD /d	0	
Crude BOD load	kg BOD /d	5200	
sludge liquors	%	5	Assumed
PLANT LOAD	kg BOD /d	5460	
Population SS	g/hd/d	80	typical range 60-80
Total Population Load	kg SS /d	5200	All residents and Tourists/day visitors
Industrial load	kg SS /d	0	
Crude SS load	kg SS /d	5200	
sludge liquors	%	0	Assumed
PLANT LOAD	kg SS /d	5200	
Population NH ₃	g/hd/d	8	Ref.2
Population NH ₃ load	kg NH ₃ /d	520.0	All residents and Tourists/day visitors
Industrial NH ₃ load	kg NH ₃ /d	0.0	
Crude SS load	kg NH ₃ /d	520.0	
sludge liquors	%		Assumed
PLANT LOAD	kg NH ₃ /d	520.0	

Summary of Influent Loads and Quality

Flow

Average flow	15234	m ³ /d	176	l/s	Confirmed as 1.25*DWF by Jon Holt Telephone Call 13/10/11
Maximum Flow	34560	m ³ /d	400	l/s	Confirmed by Jon Holt Telephone Call 13/10/11

Concentration

Ave BOD conc	358 mg BOD/l	Ave BOD Load	5460 kg BOD/d
Ave NH ₄ Conc	34 mg NH ₄ /l	Ave NH ₄ Load	520 kg NH ₄ /d
Ave COD conc	1075 mg COD/l	Ave COD load	16380 kg COD/d
Ave SS conc	341 mg dry SS/l	Ave SS Load	5200 kg dry SS/d

References

- 1 Appendix B of B&V Feasibility/Preliminary Scope - August 2010
- 2 British Water Code of Practice Flows and Loads -3
- 10 e-mail M.Meadows 24/12/2010 - "Guernsey client meeting update 20 Dec 2010"

INFLUENT CONDITIONS

Flow

Average **15234** m³/d
 Maximum **34560** m³/d

Concentration

Ave BOD conc	358 mg BOD/l	358 mg BOD/l
Ave NH ₄ Conc	34 mg NH ₄ /l	34 mg NH ₄ /l
Ave COD conc	1075 mg COD/l	1075 mg COD/l
Ave SS conc	341 mg dry SS/l	341 mg dry SS/l

Load

Ave BOD Load	5460 kg BOD/d	5460 kg BOD/d
Ave NH ₄ Load	520 kg NH ₄ /d	520 kg NH ₄ /d
Ave COD load	16380 kg COD/d	16380 kg COD/d
Ave SS Load	5200 kg dry SS/d	5200 kg dry SS/d

Input data to carry out non process related calculations

Input data that will alter the results from the spreadsheet

PRIMARY EFFLUENT					
Flow					
Average flow	15148	m3/d			
Maximum Flow	34473	m3/d			
Concentration			Load		
Ave BOD conc	270 mg BOD/l		Ave BOD Load	4095	kg BOD/d
Ave NH4 Conc	34 mg NH ₄ /l		Ave NH ₄ Load	520	kg NH ₄ /d
Ave COD conc	811 mg COD/l		Ave COD load	12285	kg COD/d
Ave SS conc	172 mg dry SS/l		Ave SS Load	2600	kg dry SS/d

ACTIVATED SLUDGE SECONDARY TREATMENT

Activated Sludge plant design

Proportion of flow to be treated by AS plant

100%

Percentile compliance required

95%

50, 95 or 100

F:M Ratio	0.28	Selected to give MLSS<3,000mg/l and sludge age >5 d within limits of Ref.5 for Conventional Activated Sludge			
AT Retention time	8 Hrs	Assumed	BOD	25 mg/l	12.5 mg/l Ref.4
			NH ₄	2 mg/l	1 mg/l
Flow to Treatment	15148	m3/d	COD	125 mg/l	62.5 mg/l Ref.4
			SS	35 mg/l	17.5 mg/l Ref.4
BOD Load to Treatment	4095	kg BOD/d			
NH4 load to treatment	520	kg NH ₄ /d			
Ave BOD in	270	mg/l	Combined effluent (treated + untreated)		
Ave NH4 in	34	mg/l	BOD	13 mg/l	
			NH ₄	1 mg/l	
Total Volume	5049	m3	COD	63 mg/l	
Number of tanks	4	Ref.6	SS	18 mg/l	
Volume per tank	1262	m3			
Depth of tank (excl freeboard)	5	m	Range 4.57 to 7.62, Ref.6		
Depth Including Freeboard	5.5				
Width:depth ratio	1.5:1		Ref.6		
Tank width	7.5	m			
Tank length	33.7	m			
MLSS	2896	mg/l			
BOD loading	0.81	kg/m3.d	Effluent Load		
Sludge yield	0.70	kg/kg BOD	BOD	0.19 Tonnes / Day	
Sludge age	5.14	days	NH ₄	0.03 Tonnes / Day	
			COD	0.95 Tonnes / Day	
			SS	0.27 Tonnes / Day	

The calculated sludge yield is considered low for design so a more conservative figure of 1.0 kg/kgBOD applied will be used.

Sludge Yield	1.0	kg/kg BOD
SAS Produced	4095	kg DS/d
Surplus Activated Sludge	3829.9	kg DS/d
SAS Concentration	0.8	%
SAS Flow	478.7	m3/day
Assumed Continuous SAS Flow		

Options covered in spreadsheet calculations	
Input data to carry out non process related calculations	
Input data that will alter the results from the spreadsheet	

SECONDARY EFFLUENT CONDITIONS					
Flow					
Average flow	15148	m3/d			
Maximum Flow	34473	m3/d			
Concentration			Load		
Ave BOD conc	13 mg BOD/l		Ave BOD Load	189	kg BOD/d
Ave NH4 Conc	1 mg NH ₄ /l		Ave NH ₄ Load	15	kg NH ₄ /d
Ave COD conc	63 mg COD/l		Ave COD load	947	kg COD/d
Ave SS conc	18 mg dry SS/l		Ave SS Load	265	kg dry SS/d

References

4

Urban Waste Water Directive Annex II, Table 1 & assume marine water body identified as "less sensitive area" as per Annex II (i.e. No N or P removal requirements)

5 Metcalf and Eddy, Wastewater Engineering 3rd Edition, Table 10-5

6 Metcalf and Eddy, Wastewater Engineering 3rd Edition, pp579

CLARIFIERS			
		Mass flux per tank	
Max up flow, Vup	1.25	m/h	Ref.3 all tanks in service
Max flow	34473	m3/d	Applied Flux
	1436	m3/h	$F_a = \left(\frac{Q + Q_a}{A} \right) \times MLSS_i$
Min retention, t	2	h	Ref.3
			= 4.2 kg/m2.h
Max SSVI	120	ml/g	Ref.3
Max RAS: ave flow	0.75		Ref.5
			1.2 x Fa = 5.1 kg/m2.h
Total area	1149	m2	Maximum flux
Number of tanks	4		$F_b = 3.10 \times (22 \Delta t)_{ss} \times \left(\frac{V}{\sigma_{ss}} \right)_{ss}$
Area per tank	287	m2	
			= 2.9 kg/m2.h
Volume required	5027.4	m3	
SELECT MLSS	2896 mg/l		From Activated Sludge Sheet
SSVI	120		Assumed
max flow	1436.4 m3/h		Max. Flow to Full Treatment
Velocity of sludge in water	4.64 m/h		
Constant K	0.4154		
Max Upflow Velocity Umax	1.11 m/h		includes safety factor 1.25
Area of Clarifiers Required	1289.84 m2		
Upflow Rate at Peak Flow	1.11 m/hr		
Weir Load at Peak Flow	5.64 m3/m/hr		Recommendation = 10
Assumed RAS concentration	8000 mg/l		
Required Recycle ratio R	0.57		
Max size of RAS pumps	226.45 l/s		
Downward loading on Clarifier	0.63 m/h		Note: increasing RAS above
Critical downward loading	0.60 m/h		critical RAS pump rate will
Critical RAS pump flowrate	216.12 l/s		not assist settlement

PROPOSED CLARIFIERS			
Number of Tanks	4		
Dia. of 1 Tank if Circular	20.3 m		
Area of 1 Tank	322.5 m2		
Sidewall Depth	2.5 m		Assumed
Volume of all tanks	3224.6		
Floor Slope	7.5 °		Assumed
Weir Load	5.6 m3/m/hr		Recommendation = 10
Upflow with 1 tank OOS	1.5 m/h		Considered Acceptable

AOR			
BOD Consent	25 mg/l		
At Average Flow this is how much BOD	381 kg/day		
Target Remaining BOD	190 kg/day		50% of Consent Limit
BOD Removal Efficiency 100% = 1	1		Design Worst Case, Most Conservative
BOD Remaining	0 kg/day		
BOD to be Removed	4095 kg/day		Calculates from efficiency
NH3 to be Removed	0 kg/day		
Recycle ratio if anoxic zone	0.5		
F:M	0.28 /day		
AOR average	4797.0 kg/day		
Peak Factor	1.25		
Peak AOR	5996 kg/day		
Peak AOR hourly rate	250 kg/hr		

SOTR		
AOR kg O ₂ / hour...peak value	250 kg/hr	
Operating temp	15 °C	
Tank depth h	5 m	Usual Range 4.5 m - 8 m
alpha at 20 C	0.7	if diffuser eff. known depth = eff./0.055
beta at 20 C	0.95	
D.O. residual C _x	1 mg/l	
Aerator transfer efficiency E fraction	0.28	Calculated according to depth
saturation value C _s	10.04 mg/l	
C _{si} corrected for depth	12.55 mg/l	
Theta temp correction	0.89	
alpha at operating temp t	0.62	
AOR/SOTR factor N	0.60	
Factor 1/N as multiplier	1.67	
SOTR	417 kg O ₂ /hour	
Air Flow Q	5576 m ³ /hour	
Pressure fraction P	1.49	
Peak power at Blower	108.2 kW	
Oxygen transfer eff test SOTE	3.9 kg O ₂ /kwh	

Blower Arrangement	D/A/S	
Number of Blowers	3	
Size of Blower	54.0813 kW	Assumed 50% Load per Blower

References

7 Metcalf and Eddy, Wastewater Engineering 3rd Edition, pp589

SLUDGE PROCESSING					
Primary sludge			Surplus Activated Sludge		
Sludge Concentration	3	%	Sludge Concentration	0.8	%
Sludge Volume	87	m ³ /day	Sludge Volume	479	m ³ /day
Sludge Solids	2600	kg SS/d	Sludge Solids	3830	kg SS/day
Picket fence thickener design					

General Criteria for sizing continuous consolidation tanks (WRc paper - J.IWEM 1998, 3, Oct pp 505-516)

Sludge Type	Specific plan area m ² .day/tonneSS	Solids concentration of consolidated sludge KgSS/m ³
Primary	9	60-90
Primary + humus	13	50-80
Primary + activated	20	45-70
Humus	60	30-45
Activated/Oxid ditch	60	25-35
Digested	>200	40-60

Picket Fence Thickener for Primary Sludge

Number	1		
Surface area	23.4	m ²	
diameter	5.5	m	
Height (Working)	3.5	m	Assumed
Height (Total)	4	m	
Volume	82	m ³	
Capture Rate	95	%	
Dry Solids of Thickened Sludge	4	%	
Thickened Sludge Mass	2470	kg/day	
Thickened Sludge Volume	62	m ³ /day	
Gravity Flow Supernatant	25	m ³ /day	

Thickened Sludge Pumps

Number	2	Duty/Standby
Flowrate	62	m ³ /day
Head	20	m

SAS Storage Tank

Sludge storage capacity	4	day
Volume	1915	m ³
Number of Tanks	3	
Height (Working)	5.5	m
Height (Total)	6	m
Diameter	12.2	m

Mechanical Thickening of SAS

Days per Week	5	days	Assumed
Hrs per Day	8	hrs	Assumed
Feed Flowrate	84	m ³ /hr	
Number of Units	2	Duty/Standby	
Feed Flowrate per Unit	84	m ³ /hr	
Thickened SAS Dry Solids	5	%	
Capture Rate	95	%	
Thickened SAS Solids	3638	kg/day	
Thickened SAS Flowrate	72.8	m ³ /day	
Supernatant Flowrate	597.5	m ³ /day	To Works Return PS

Blending Tank Sludge Storage Tank Volume

Flowrate SAS	72.8	m ³ /day	
Flowrate Primary	62	m ³ /day	
Sludge storage capacity	4	day	Assumed
Volume	538	m ³	
Number of Tanks	1		

Height (Working)	5.5	m	Assumed
Height (Total)	6	m	
Diameter	11.2	m	

Dewatering of Blended Sludge

Days per Week	5	day/week	Assumed
Hrs per Day	8	hr/day	Assumed
Total Sludge Mass (Thickened SAS + Primary)	6108	kg/day	
Feed Flowrate	24	m ³ /hr	
Feed Mass	1069	kg/hr	
Number of Units	2	Duty/Standby	
Feed Flowrate per Unit	24	m ³ /hr	
Dewatered Dry Solids	25	%	Assumed
Capture Rate	95	%	Assumed
Dewatered Solids Quantity	5803	kg/day	
Dewatered Sludge Flowrate	23.2	m ³ /day	
Supernatant Flowrate	165.1	m ³ /day	To Works Return PS

Cake Storage

Skips and covered hard standing to be provided			
Storage Requirement	3	days	Assumed
Volume to Store	69.6	m ³	
Cake Storage Depth	1.0	m	
Hard Standing Area	69.6	m ²	

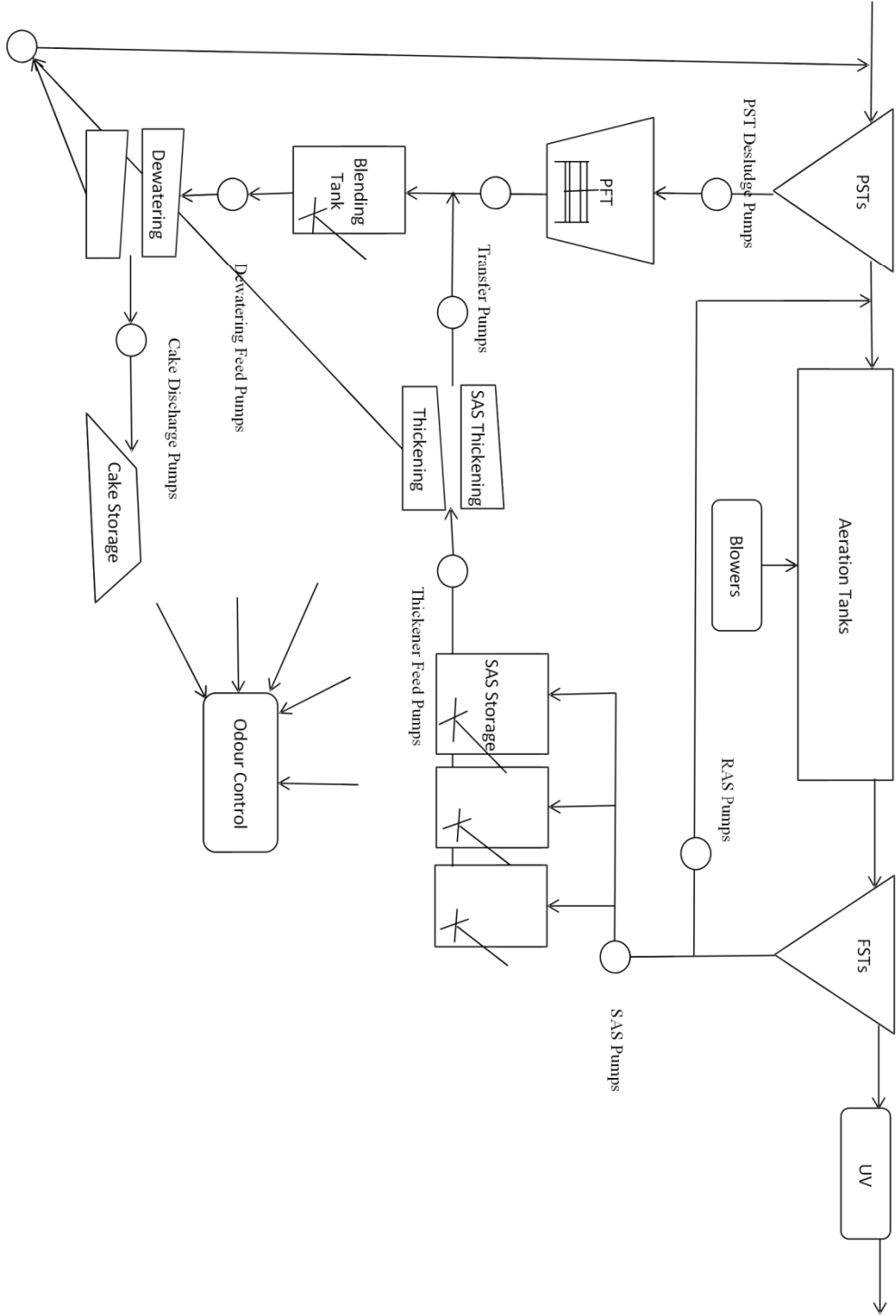
Works Return PS

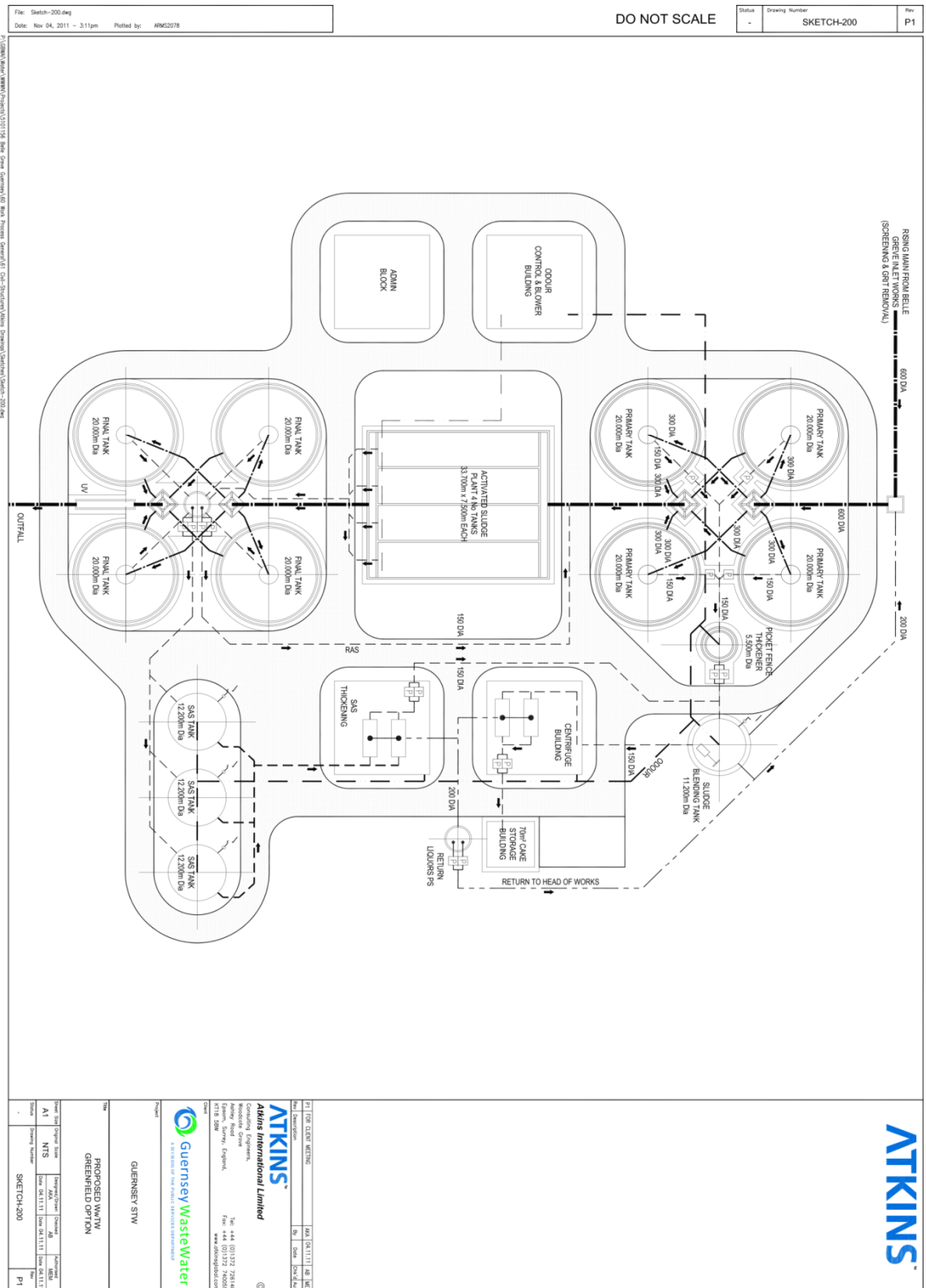
Feed Flow	762.6	m ³ /day	
This Occurs During 8 hrs so flow per hr	95.3	m ³ /hr	
Pump Station Retention	0.1	hrs	Assumed
Volume Required	9.5	m ³	
Depth (Working)	3.0	m	Assumed
Depth (Total)	3.5	m	
Diameter	3.6	m	
Number of Pumps	2.0	D/S	
Pump Size	95	m ³ /hr	
Pump Head	20.0	m	

References

8 Metcalf and Eddy, Wastewater Engineering 3rd Edition, Table 12-8

Preliminary Process Flow Diagram





(NB The Treasury and Resources Department Board, by a majority, supports the States Report.)

(NB The Policy Council unanimously supports the proposals.)

The States are asked to decide:-

XIV.- Whether, after consideration of the Report dated 29th November, 2011, of the Public Services Department, they are of the opinion:-

1. To proceed with the design of a replacement long sea outfall using the Intertek METOC model to incorporate:
 - i) the optimum length and location of pipe to achieve the greatest environmental benefit;
 - ii) the installation of five diffusers in order to achieve dilution standards at the sea surface around the point of final effluent discharge.
2. To review the “less sensitive area” status of the Little Russel every four years.
3. To direct the Public Services Department to make such reductions in the rate of Charge B as necessary to ensure the funds collected are sufficient only to cover the activities related to investigation of treatment options as set out in the Wastewater Charges (Guernsey) Law, 2009.

HEALTH AND SOCIAL SERVICES DEPARTMENT

USE OF RADIOLOGY AND PATHOLOGY SERVICES AND HOSPITAL FACILITIES

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

24 October, 2011

Dear Sir

EXECUTIVE SUMMARY

1. The framework for determining access to radiology and pathology services and hospital facilities has been the subject of numerous past States Resolutions¹, the most important of these, which establishes the details of the existing arrangements, dating back to 1990². The 1990 Resolutions were seemingly intended to give the then Board of Health significant flexibility in administering the system.
2. However the 1990 Resolutions, which are currently still in force, are arguably insufficient in their flexibility to allow the Health and Social Services Department to make any changes in the areas mentioned in this report. The 1990 Resolutions, for example, only allow doctors and dentists to refer and admit, and make no provision for rescinding grandfathering rights for retired doctors (or indeed rescinding rights of doctors in any circumstances).
3. The Department is therefore seeking full delegation of authority to be able to control and change, in the future, arrangements in relation to control of use of facilities operated by the Department. One change it wishes to introduce with immediate effect is the addition of appropriately qualified midwives to the list of those people and professions authorised to access these facilities.

INTRODUCTION

4. The Health and Social Services and Social Security Departments work together with the local medical community to ensure, inter alia, that the following healthcare services are available to the local public:

¹ Billets D'Etat IX of 1959, XVII of 1968, XI of 1986, II of 1990 and III of 2002.

² Billet D'Etat II of 1990.

- The provision of hospital facilities.
 - The provision of radiology and pathology services.
 - The prescribing of drugs, and the provision of financial assistance with the cost of such drugs.
 - The provision of grants towards the cost of a consultation with a General Practitioner or Practice Nurse.
 - The provision of specialist medical services.
5. There has been a longstanding principle (enshrined in the above States Resolutions) that the provision of hospital facilities, including radiology and pathology services, should generally be available free of charge (or, in the case of prescriptions, with a reasonable co-payment) to those who need them.
 6. Accordingly, the system currently in operation was set up in 1990, when the States resolved that local doctors, and in some circumstances dentists, would be entrusted to make clinical decisions about service access.
 7. In the case of doctors, it was perceived as necessary that there should be some mechanism for control of the potential impact of primary care referral activities on the public purse. Accordingly a local maximum number was placed on the number allowed to refer for such investigations, based on the view expressed in the Board of Health's policy letter, published in January 1990, that *"it is now inappropriate for every doctor authorised to practise in Guernsey to have automatic right to utilise States-provided facilities and to provide services whose costs will be met through funds administered by the Insurance Authority"*.
 8. As a result of a review of the existing arrangements the Department has identified one immediate change which it wishes to proceed as soon as possible, relating to midwives. It has also identified some other future possible areas for change. These are detailed below.

MIDWIVES

9. Since 1990, clinical practice has changed significantly, and continues to do so, and access arrangements (to facilities) need to keep up with the changes. A major illustration of this fact relates to how the way midwifery services are provided has changed over the years. It is now reasonably common for expectant mothers to be under the care of a midwife only, with no input from a consultant obstetrician unless there are problems. Midwives now undertake approximately 70% of all births in the Princess Elizabeth Hospital without the intervention of an obstetrician. Accordingly, the Department wish midwives, as soon as possible, to be added to the list of health professionals recognised to admit and refer patients in their own right for certain investigations.

OTHER FUTURE POSSIBLE AREAS FOR CHANGES TO EXISTING ARRANGEMENTS

10. While the HSSD is not proposing any other imminent changes, however, other possible professions which may need to be added in the future include specialist nurses and health and social care professionals (for example those involved in the work of the Needs Assessment Panel for the Long Term Care Insurance Scheme).
11. Secondly, it would also be beneficial for the HSSD to have delegated authority to review, from time to time, the mechanism for limiting doctor numbers described in paragraph 7 above.
12. Although the 1990 Resolutions were seemingly intended to leave the then Board of Health with delegated authority to design the details of the rules to be operated, in fact, they have proved restrictive, and the Department does not feel at present that it has due authority to make any of the above changes. Two examples of this are as follows.
 1. Firstly, the 1990 Resolutions simply require that the Board of Health shall “maintain lists of **doctors and dentists**” (emphasis provided) who may refer for investigations (or treat, or admit to hospital). No mention is made of the possibility of other health professionals being listed for such privileges.
 2. Secondly, although the 1990 Resolutions gave the Department authority to introduce a system of limitation of doctors, they did not give the Department any authority whatsoever to rescind “grandfather rights” of doctors such as retired doctors at any time in the future. They merely confined the Board of Health and its successors, effectively, to abide by what was extant at that time. Nor did the resolution allow the Board of Health to vary the number either up or down as health evolves to meet up to date clinical service requirements.
13. The Department therefore feels that at present it would be acting beyond its authority to allow professions other than doctors and dentists to refer or admit, or to carry out any review of the mechanism mentioned in paragraph 11.
14. The Department therefore proposes that the rules to be operated governing such matters should be regarded as matters of detailed health and social care policy, and that any future changes to the arrangements – obviously, unless they are politically controversial or so fundamental that they significantly affect the public - should not have to be referred to the States but should be dealt with at Departmental level. Accordingly the Department is therefore seeking full delegated authority to change the rules by decision of the Board of the HSSD.

CONSULTATION WITH SOCIAL SECURITY DEPARTMENT

15. Social Security Department legislation has, since 1990, used the lists maintained

by the HSSD for determining which doctors and Practice nurses may provide medical consultations eligible for the subsidy of the £12 or £6 consultation grants. Likewise, the legislation uses the same lists for determining which doctors may issue prescriptions paid for from the Guernsey Health Service Fund. There is no reason why (in the event of any changes to the system) this arrangement should not simply continue, and the Department trusts that this report should not really make any difference to the Social Security Department, other than that the ways in which names reach the lists may well change slightly in future years.

16. If the Department was ever minded, in the future, to modify the aspect of the current system described in paragraph 12(b) above, then the Health Service (Benefit) (Guernsey) Law, 1990 (which was drafted having regard to those 1990 Resolutions) might need future modification, of a relatively minor, consequential nature, and, accordingly, the opportunity is being taken within this report (see 18 (iii) below) to seek States approval for any such future legislation to be drafted. It should be noted however that the Department has no immediate plans to implement such changes, all of which would be subject to the States approval being requested within this report of delegated authority anyway.
17. The Social Security Department supports the proposals contained in this report and considers it entirely appropriate that the HSSD should have full responsibility for controlling access by healthcare professionals to the facilities under its management.

CONSULTATION WITH OTHERS

18. The Department has also consulted with representatives of the private medical profession, including general practitioners, the Medical Specialist Group and the Guernsey Dental Association although no objections have been raised, feedback has been expressed that this may lead to increased requesting and possibly increased costs. The HSSD is content that sufficient policies and processes will be established to mitigate this impact.

RECOMMENDATIONS

19. The Health and Social Services Department recommends the States:
 - i) To approve the proposal that midwives, and such other health and social professionals as the Department considers appropriate, should now be permitted to admit patients to hospital and refer patients for investigations, and that the Department implements the proposal on such detailed basis (including setting conditions as to qualifications for eligibility) as it sees fit;
 - ii) To delegate authority to the Health and Social Services Department to design the rules for determining who may admit or refer to the hospitals and diagnostic facilities operated by the Department, and to change the rules from time to time, as it sees fit, in the future; and

- iii) To authorise the drafting of any future legislation necessary to amend the Health Service (Benefit) (Guernsey) Law, 1990 to ensure its consistency with any changes made by the Health and Social Services Department to the rules for rights of admission and referral to hospitals and diagnostic facilities.

Yours faithfully

A H Adam
Minister

P L Gillson
Deputy Minister

M M Lowe
Member

M P J Hadley
Member

S L Langlois
Member

ANNEX

Compliance with the Principles of Good Governance

In accordance with Resolution VI of 2011 (Billet d'État IV, 2011 refers) this annex sets out the degree to which the HSSD considers that the Report complies with the six principles of good governance as detailed in the aforementioned Billet d'État.

Core Principle 1 – Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.

This will enable the HSSD to manage its services in a more cost effective way by developing the service to meet its core functions and responsibilities.

Core Principle 2 – Good governance means performing effectively in clearly defined functions and roles.

This report enables HSSD to meet its obligations under this more effectively.

Core Principle 3 – Good governance means promoting good values for the whole organisation and demonstrating the values of good governance through behaviour.

This Principle does not seem strictly relevant to this Report. Consequently the Department has no comment in this respect.

Core Principle 4 – Good governance means taking informed, transparent decisions and managing risk.

This report enables HSSD to make the necessary decisions on service delivery and organisation, and be accountable for them.

Core Principle 5 – Good governance means developing the capacity and capability of the governing body to be effective.

This Principle does not seem strictly relevant to this Report. Consequently the Department has no comment in this respect.

Core Principle 6 – Good governance means engaging stakeholders and making accountability real.

Consultation with a number of health professions and organisations has been undertaken as set out in the report. SSD a key States partner has also been consulted as set out in the report.

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

XV.- Whether, after consideration of the Report dated 24th October, 2011, of the Health and Social Services Department , they are of the opinion:-

1. To approve the proposal that midwives, and such other health and social professionals as the Department considers appropriate, should now be permitted to admit patients to hospital and refer patients for investigations, and that the Department implements the proposal on such detailed basis (including setting conditions as to qualifications for eligibility) as it sees fit.
2. To delegate authority to the Health and Social Services Department to design the rules for determining who may admit or refer to the hospitals and diagnostic facilities operated by the Department, and to change the rules from time to time, as it sees fit, in the future.
3. To authorise the drafting of any future legislation necessary to amend the Health Service (Benefit) (Guernsey) Law, 1990 to ensure its consistency with any changes made by the Health and Social Services Department to the rules for rights of admission and referral to hospitals and diagnostic facilities.
4. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

PUBLIC SERVICES DEPARTMENT

**GUERNSEY CRUISE INDUSTRY GROWTH AND THE REQUIREMENT FOR
ENHANCED PORT FACILITIES**

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

9th November 2011

Dear Sir

1 Executive Summary

- 1.1 Guernsey is one of the key ports of call for European cruise liners. The cruise industry has shown steady growth over the past 10 years and is expected to continue to do so with one of the main focal points for business development being the European market.
- 1.2 The Commerce and Employment and Public Services Departments have been working closely to assess the options for increasing the benefit Guernsey derives from the cruise sector. Discussions with cruise industry representatives have revealed that the quantity of cruise ship visits and numbers of passengers coming ashore and the amount of money spent in the Island by these passengers, could be increased significantly if Guernsey had improved facilities, particularly for alongside berthing.
- 1.3 An economic impact study has been produced by the Economic Development Unit of the Commerce and Employment Department which indicates the economic contribution from visiting cruise ships could rise from the current level of £1.3 million to up to £6 million per annum. However, to achieve this would require a significant capital investment in the form of a berth/jetty, the cost of which has been estimated in the range of £25-£80 million.
- 1.4 This report highlights the opportunity and at the same time recognises the scale of investment required to deliver it. The Department believes that the concept merits further serious exploration but considers it important to gauge the views of States members in the first instance.
- 1.5 For the concept to be viable it will almost certainly require significant private sector involvement. For example the cruise berth could be partly owned or funded by a third party in exchange for some exclusive berthing rights.

- 1.6 The reasons for presenting the matter to the States at this stage are twofold. First, the Public Services Department is preparing a Ports Master Plan which will set out the medium to long-term requirements for port facilities. If the considered opinion of States Members is that a cruise liner berth could be good for Guernsey, then the Ports Master Plan can ensure its potential future development is not precluded by anything else that might be planned at the harbours.
- 1.7 Second, the cruise industry has made representations to both the Commerce and Employment Department and the Public Services Department regarding future development opportunities. The industry is developing its own long-term plans to increase visits to short-haul destinations in order to keep costs down as fuel prices rise and more stringent emissions regulations are introduced.
- 1.8 The Departments have worked together in progressing the investigations into this economic opportunity. In view of the ongoing work to develop the Master Plan the Public Services Department is presenting this document as a 'Green paper' under Rule 12 (4) with the aim of stimulating debate and hearing views of States Members.
- 1.9 It is very much a case of 'testing the water'. If it becomes apparent that States Members consider this to be a 'non-starter', the Ports Master Plan will not have to take into account any potential future berth, and the cruise industry will know that ships will have to continue to rely on fair weather mooring in the Little Russel. On the other hand if it is recognised as a potential economic and business opportunity worthy of further exploration, this will helpfully inform the Ports Master Plan and give a positive signal to the cruise industry.

2 Overview

- 2.1 The Public Services and Commerce and Employment Departments have noted the impact of the cruise industry on the Islands economy. An 'Economic Impact Study' has been written outlining the possibility of maximising the potential of the cruise industry with infrastructure investments and this is appended.
- 2.2 The cruise industry has shown growth over the past ten years and is expected to continue to do so. However, in Guernsey this growth may be limited without further investment in cruise liner facilities, and in particular, investment in an alongside berth for cruise liners.
- 2.3 Guernsey is one of the key ports of calls for European cruise liners. However, due to basic facilities and infrastructure the full potential of this market position has not yet been realised.

- 2.4 It is recognised that a purpose built alongside berth for cruise liners would increase the number of cruise passengers coming ashore and would make Guernsey an even more popular destination for cruise operators. This is a view that is firmly held by senior cruise industry representatives.
- 2.5 It is also noted the current expenditure of foot passengers coming ashore is far below the European average. It is suggested that by improving facilities these Guernsey figures would be raised closer to European average and consequently generate more income for the economy. Removing the unpredictability from the Guernsey cruise liner season combined with achieving an increase in the number of calls and numbers of passengers disembarking could potentially be the catalyst to encourage investment in further cruise liner support services.

3 Background

- 3.1 In 2010, the European Cruise Council estimated the total economic impact of cruise tourism was €14 billion. The cruise market has seen consistent growth over the past ten years in the UK and this is set to continue. Between 2001 and 2010 the cruise market has grown by 155% in the UK.
- 3.2 Guernsey is the leading UK port in the European cruise market and in 2011 saw 69 visits to our waters and over 62,000 passengers landing in Guernsey. This puts the Island in a very strong market position.
- 3.3 In light of this positive position and following specific expressions of interest from the cruise industry, an economic impact study was carried out to explore the value and economic benefits of the Guernsey cruise industry. This study was conducted by the Economic Development Unit of the Commerce and Employment Department with assistance and technical input from the Public Services Department. The study (see Appendix) explores the strengths, weaknesses, opportunities and threats facing the cruise tourism market in Guernsey. It details scope for further development of the cruise market including:
 - Feasibility of providing an alongside berth for cruise liners; and
 - Possible methods of increasing expenditure of passengers visiting Guernsey.

4 Current cruise market

- 4.1 Whilst there has been an increase in the growth of the Global cruise market, it is the European market which has shown the most growth. For this reason, cruise tourism is a fast growing part of the tourism industry.
- 4.2 The number of passenger calls to Guernsey grew by over 100% from 29,000 in 2001 to just over 62,000 in 2011. The number of passenger calls to Guernsey reached an all time high in 2006 at 73,300 but calls do fluctuate year to year

based on the freshening of itineraries and deployment of liners. However, the Guernsey cruise liner season has continued to deliver a strong and consistent performance over a 10 year period despite the economically challenging climate of recent years. The forecast increase in the cost of fuel is influencing decisions in the cruise market with more ships looking to visit 'stopover' ports and to reduce journey lengths. As Guernsey is geographically well positioned between a large number of ports, including close proximity to Southampton, Dover and Harwich turnarounds, it is an ideal candidate for cruise liners wishing to reduce journey lengths.

- 4.3 In recent years the number of ships calling year on year to Guernsey has fallen. This has been due almost entirely to bad weather. The consequence of this is that the number of cruise liner visitors has been difficult to predict year on year, thus making investment in the industry unattractive. In 2011, out of the 82 cruise ships due to arrive, 69 calls were achieved with the majority of cancellations due to bad weather.
- 4.4 Cruise passengers are currently ferried across to the Island from the ship in small boats, referred to as tenders. However, due to a combination of health and safety considerations and passenger comfort, tender operations cannot take place above particular wind strengths or wave heights.
- 4.5 Cruise liner passengers disembark and embark at the Inter-Island Quay in St Peter Port harbour. The Inter-Island Quay is a multi-purpose facility and is not ideal for cruise passengers. The Quay offers only basic facilities and is not ideally situated for further enhancements or development. There is a strong view that Guernsey will need to be proactive in providing appropriate facilities if it is to maintain and potentially grow its position as a key port of call for cruise liners.
- 4.6 It is notable that cruise liners have many passengers who are paying significant amounts of money for good service and who require relatively stable and level landing platforms. As such the choice of ports visited can be influenced by the landing experience.

5 Alongside berth for cruise ships

- 5.1 In a survey carried out for the Marketing and Tourism section of the Commerce and Employment Department by GP Wild International Consultants in 2010, concerns were raised in regard to the lack of an alongside berth for cruise ships. In this survey one major cruise ship operator was quoted saying:

5.1.1 *“As long as the sea conditions do not affect the tender operation, we always receive extremely favourable passenger satisfaction comments. A dedicated cruise ship berth would greatly enhance the attractiveness of St Peter Port as a port of call as currently there is always some uncertainty right up to the day of arrival as to whether we can complete the call.”*

5.2 Numbers of larger cruise ships have grown significantly over the last few years. The issue facing Guernsey is whether it concentrates on the smaller cruise ships market and therefore curbs potential economic development within this sector, or whether it is to provide facilities, by consideration of an alongside berth, for the larger ships. There are logistical and timing limitations for some of the larger ships to run tender operations.

5.3 Initial financial modelling has been carried out taking into account a range of scenarios as the cost for an alongside berth is not presently known. These scenarios have been based on capital expenditure costs of £25million, £40million and £80million. The cost will clearly depend on the location, size and type of construction required. At this stage the figures are purely indicative as there has been no engineering or design work carried out.

5.4 The potential benefits of an alongside berth are:

- Increased passenger numbers as a result of the increase in size and frequency of vessels visiting Guernsey.
- Increased passenger numbers as a result of extending the season for cruise ships into the shoulder months and possibly year round.
- More predictability on the numbers of cruise visitors due to fewer cancellations owing to bad weather.
- More predictable passenger numbers for the industry, providing a sounder base for further investment by local companies – for instance developing on-island tours.
- An overall rise in the amount that each cruise tourist spends on their visit along with increased number of cruise crew coming ashore.
- Income generated through charging higher harbour dues and to use the berth for other uses such as Super Yachts when not being occupied by a cruise ship.

6 Increasing expenditure of cruise passengers

6.1 In a report by the European Cruise Council¹, it was estimated that the average expenditure by each cruise passenger was £53 at every port of visit. As part of a

¹ The Cruise Industry: A €34 Billion Partner in Europe's Economic Growth – Contribution of Cruise Tourism to the Economies of Europe 2010 edition. European Cruise Council

local survey it was found that the average expenditure of passengers setting foot in Guernsey was only £23.

- 6.2 In the same report the European Cruise Council estimated that 40% of cruise crew visited ports during cruise calls spending an average of £14. However, because cruise ships need to stay at anchorage when visiting Guernsey it is estimated that only 10% of crew come ashore. Should an alongside berth be established then these figures would be expected to rise.
- 6.3 Comments have been made by cruise ship operators that Guernsey has the economic potential to earn more from shore side activity, if the Island's ground handling operation was more extensive. This would enable a greater number of passengers to tour and enjoy bespoke ground programme opportunities at any one given time giving both the Island and the cruise liner economies of scale.
- 6.4 It was calculated that 19% of visitors used organised bus or coach tours whereas 76% walked. It is explained in the economic impact study that the tour coaches are not currently able to deal with the quantity of cruise passengers. In practice however this something of a 'chicken and egg' situation as until there is any certainty of increases in passenger numbers, tour operators and related service providers are unlikely to make significant investments in additional equipment, facilities and development of bespoke tour packages.

7 Capital works and Funding

- 7.1 The initial Economic Impact Survey has concluded there is the potential for the cruise liner industry to provide a valuable additional contribution to the Island's economy which could be up to £6 million per annum.
- 7.2 However to achieve this would require a significant investment in the provision of fixed berth, probably to the east of the current harbour wall of berths 4, 5 and 6 (the main freight handling area). Although this has been identified as a potential location, no engineering assessment into the construction costs has been carried out. Initial discussions suggest it could be somewhere in the region of £25 to £80 million.

- 7.3 It will therefore be seen that although the economic benefit appears attractive the costs of construction would be significant.
- 7.4 It is already known that private sector parties involved in the cruise industry and infrastructure developments, would be interested in partnering with the States to make this happen.
- 7.5 Again no details have been discussed about how such a partnership might work. It might for example include joint ownership of the new berth/jetty. In such a case the States could meet part of the development costs and recoup the investment through the economic contribution from increased cruise liner visitors. The private partner would charge out the berthing slots.
- 7.6 An alternative would be for the States to fund most of the works but recoup a sizeable financial contribution from one or more cruise operators by forward-selling berthing slots potentially several years ahead.
- 7.7 At this conceptual stage there are a number of permutations but it is an area where private sector funds could be accessed to aid the Island in taking advantage of a developing economic opportunity.
- 7.8 Both Departments recognise that to progress matters further will require a significant investment and as such would need to be subject to an appropriate financial bid to be laid before the States. To reach the stage of presenting the States with a formal request for funds it is estimated the Public Services Department may need to expend up to a total of £50,000 to conduct the necessary research and investigations.

8 Consultation

- 8.1 In preparing this report there has been considerable discussion with the Commerce and Employment Department. This has principally been through the forum of the External Transport Group, which has also met with senior officials within the cruise industry and held broad discussions on the climate of the industry and Guernsey's positioning.
- 8.2 It is important to note, however, that no plan or development scenario has been discussed at this time. It is recognised that if the concept is to be progressed, consultation will need to take place with all interested stakeholders and the community in general. This will take two forms. Firstly, it will be in relation to the Ports Master Plan and secondly, in respect of the specific proposal to develop economic opportunity offered by cruise ships. This States Report in itself constitutes further consultation with Stakeholders and interested parties and the Commerce and Employment Department has indicated its intention to consult more widely on the economic benefits as the concept is progressed.

9 Alignment of project objectives with Good Governance principles

9.1 The activities contained in this report are closely aligned with a number of the Good Governance principles presented by Public Accounts Committee (PAC), and adopted by the States, in March 2011: -

9.2 Core Principle 1 - *Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users*

9.2.1 This report recognises the role of Government is to facilitate and encourage economic development to the benefit of the community and to meet the needs of customers which in this case can be considered as the service users being cruise passengers and the cruise ship operators.

9.3 Core Principle 2 – *Good governance means performing effectively in clearly defined functions and roles*

9.3.1 The Public Services Department is responsible for Port and Maritime matters and therefore deals with the port facilities required by ships and their passengers.

9.3.2 The Commerce and Employment Department has responsibilities for economic development as well as encouraging and overseeing the tourism sector.

9.3.3 The States of Guernsey has an overarching function and role in guiding and giving direction to Departments on major issues and developments such as proposed in this report.

9.4 Core Principle 4 – *Good governance means taking informed, transparent decisions and managing risk*

9.4.1 This report is about early engagement with the States such that if the concept is progressed it does so in an open and transparent manner.

10 Conclusions

10.1 The cruise industry has shown steady growth over the last decade. Guernsey is in an excellent position to gain much more from the cruise market, but to do so will need to provide additional facilities to allow ships to berth alongside.

10.2 The potential economic benefits need to be weighed carefully against the investment costs required and the associated risks.

10.3 The Public Services Department (Guernsey Harbours) is in the process of preparing a Ports Master Plan. This will provide a long term plan and strategy for the Ports, seeking to maximise the efficient use of the limited land available. It will also ensure any future Port development happens in a co-ordinated

manner. If a future cruise liner berth is seen a realistic possibility, this will be factored into the Master Plan. It does not guarantee it will be built but it will seek to ensure that nothing else is constructed that would otherwise sterilise an area that might be required for cruise liners.

- 10.4 By working in conjunction with the Commerce and Employment Department it is clear that this is not solely a maritime matter but is also a valuable opportunity to develop the economy and create employment. In light of approaches and enquiries the Commerce and Employment Department has received from the cruise industry it would wish to provide some indication of whether improved berthing facilities in Guernsey is a possibility.
- 10.5 It is considered the concept merits further investigation, with a view to presenting the States with a formal financial bid for the more detailed research and planning in due course. The Public Services Department therefore requests that its recommendation be considered by the States without amendment, in accordance with Rule 12 (4) of the Rules of Procedure.
- 10.6 It is hoped the debate engendered by this report will provide a useful indication of States Members views and those of the public, which will provide useful guidance on how to proceed with plans for improved cruise ship facilities.

11 Recommendations

- 11.1 As described in Section 10.5 of this report, the Public Services Department requests that this matter be debated in accordance with Rule 12(4) of the Rules of Procedure of the States of Deliberation.
- 11.2 The Public Services Department recommends the States:
- (i) To agree that the potential economic and business opportunities offered through the development and construction of a cruise liner berth merit further exploration.

Yours faithfully

B M Flouquet
Minister
Public Services Department

Other Members of the Department are:

S J Ogier, Deputy Minister
A Spruce

T M Le Pelley
J Kuttelwascher

GUERNSEY CRUISE INDUSTRY ECONOMIC IMPACT STUDY

A study of the economic impacts of the
Cruise industry on the Guernsey Economy

Contents

1	Introduction	5
1.1	Introduction.....	5
1.2	Purpose of this study.....	5
2	Executive Summary	7
2.1.2	Overview of the cruise market and how Guernsey fits in (Section 3)	7
2.1.6	Strengths weaknesses, opportunities and threats (Section 4).....	7
2.1.9	The current economic impact of the Cruise Tourism Industry in Guernsey (Section 5) .	7
2.1.12	Modelling the possible impacts of providing an alongside berth (Section 6)	8
2.1.19	Speculative financial modelling of an alongside berth facility (Section 7).....	9
2.1.21	Conclusions and recommendations (Section 8)	9
3	Introduction to cruise tourism	11
3.1	Overview	11
3.2	The Global Cruise Market	11
3.3	The European Cruise Market.....	11
3.4	Guernsey as a “Transit Port”	12
3.5	Sectors of the European Cruise Market.....	12
3.6	Cruise Destinations – Cruise Britain	13
3.7	Cruise Tourism in Guernsey	15
3.8	Growth in number of passenger visits.....	16
3.9	Type of itineraries being followed by cruise ships.....	17
4	Strength, Weaknesses, Opportunities, Threats.....	18
4.1	Overview	18
4.2	Strengths.....	19
4.3	Weaknesses.....	19
4.3.3	No alongside berth for visiting cruise ships.....	20
4.3.13	Variable Growth.....	22
4.3.16	On shore Excursion facilities.....	23
4.4	Opportunities	23
4.4.2	Growth of the North European cruise market	23

4.4.5	Impact of fuel prices and environmental regulations.....	24
4.5	Threats	25
4.5.2	The impact of large cruise ships on Northern European deployment.....	25
4.6	Synthesis.....	25
4.6.2	Strengths needed to exploit opportunities.....	26
4.6.6	Strength needed to overcome threats.....	27
4.6.8	Weaknesses and the extent to which Guernsey can influence them	27
4.7	Conclusions.....	28
5	The Economic Impact of Cruise Tourism on the Guernsey economy	30
5.1	Overview	30
5.2	Types of economic Analysis.....	30
5.3	What is 'economic impact Analysis'?	32
5.4	Areas of direct expenditure and “Value Added”	33
5.5	Measuring Direct economic impact and “Value Added”	35
5.5.3	The Number of Cruise Ship Visitors.....	35
5.5.8	Direct economic impacts through spending of visiting cruise passengers.....	36
5.5.18	Economic impacts through spending of visiting cruise ship crew	38
5.5.22	Economic impacts through spending by cruise lines on local goods and services	39
5.5.24	Income from Harbour dues	39
5.5.27	Income from ships' handling agents.....	39
5.5.30	Summary of direct economic impacts and “Value Added”	39
5.6	Using Indirect and induced economic impacts to calculate Total Economic Impacts.....	41
6	Modelling the possible impacts of providing an alongside berthing facility.....	42
6.1	Overview	42
6.2	Scenarios examined.....	42
6.2.2	Increasing passenger numbers.....	42
6.2.9	Increasing the average expenditure of visiting cruise passengers	44
6.2.13	Combined effect of increasing passenger numbers and the average expenditure of visiting cruise passengers.....	45
6.3	Conclusions of the modelling exercise.....	45
6.4	Other potential uses and income from an alongside berth	46

6.4.2	Harbour dues.....	46
6.4.5	Super Yachts.....	46
7	Speculative financial modelling of a possible alongside berth development.....	47
7.1	Overview	47
7.2	Cautions	47
7.3	Analysis.....	47
7.4	Conclusions.....	50
8	Conclusions and Recommendations	51
8.1.1	Cruise tourism at a crossroads	51
8.1.5	The need for accurate data	51
8.1.7	Speculative financial modelling	51
8.1.10	Recommendations	52
9	Bibliography	53

1 INTRODUCTION

1.1 INTRODUCTION

1.1.1 Guernsey is fortunate to have a prominent place within the British and North Western European cruise markets. In 2010, Guernsey was the UK's highest ranking transit port of call, with 56,563 scheduled cruise tourists, of which 44,382 came ashore.

1.1.2 This is a strong position for the Island to be in, given that the cruise tourism market in the UK has seen significant growth over the last decade. In 2010:

- UK cruise passenger numbers increased by 6%;
- One in every nine package holidays was a cruise;
- Cruises from British Ports increased by 10%;
- UK ports attracted 3% more embarking passengers from overseas, and experienced a 21% growth in visiting passengers;
- The UK economy benefited to the tune of €2.4bn in terms of expenditure, with 56,000 jobs provided through the cruise industry; and
- The UK cruise market was predicted to grow by a further 5% in 2011.

1.2 PURPOSE OF THIS STUDY

1.2.1 The Economic Development Unit (EDU) has been asked by the Marketing and Tourism Section (M&T) to carry out an economic impact study of cruise tourism on the Guernsey economy, and in particular to measure the likely economic impacts of providing an alongside berth at St Peter Port Harbour.

1.2.2 The terms of reference for this study are to examine:

- The current state of the cruise tourism market in Guernsey and its current impacts on the economy;
- The strengths, weaknesses, opportunities and threats facing the cruise tourism market in Guernsey; and

- Likely impacts on the cruise tourism market in Guernsey of providing an alongside berthing facility. These are modelled through a range of economic impact scenarios in order to provide detail and evidence (an evidence based business case) that will enable recommendations to be made by C&E and the Public Services Department on the way forward.

Commerce and Employment Department
Economic Development Unit

November, 2011



2 EXECUTIVE SUMMARY

2.1.1 The following section outlines the key findings of the study.

2.1.2 OVERVIEW OF THE CRUISE MARKET AND HOW GUERNSEY FITS IN (SECTION 3)

2.1.3 Cruise tourism has become an increasingly popular segment of the tourism market. In 2010, 17.1 million passengers worldwide embarked on cruises, with just over 1 million passengers taking part in cruises in northern Europe. The European Cruise Council estimates that the total economic impact of cruise tourism in Europe amounted to €14 billion in 2010.

2.1.4 The cruise market has seen consistent growth. Between 2001 and 2010, the UK cruise market grew by 155%. Predications are for this growth to continue.

2.1.5 Guernsey has a prominent place in the cruise markets of Northern Europe, and particularly the British Isles. In 2010 Guernsey was the most visited transit port in the British Isles, with a throughput of 56,563 scheduled passengers, of which 44,382 came ashore.

2.1.6 STRENGTHS WEAKNESSES, OPPORTUNITIES AND THREATS (SECTION 4)

2.1.7 Guernsey as a cruise destination is placed in high regard by cruise ship operators. The Island is in a strong position as a current market leader of UK transit ports, has a good geographical location, and is in easy reach of other ports.

2.1.8 However, in order to take advantage of further opportunities and in order to counter threats that exist to the future prosperity of the industry, investment in both port facilities (including the consideration and feasibility of providing an alongside berth), and the enhancement of on-shore tourism facilities – such as the provision of quality excursions for visiting passengers need to be given due consideration.

2.1.9 THE CURRENT ECONOMIC IMPACT OF THE CRUISE TOURISM INDUSTRY IN GUERNSEY (SECTION 5)

2.1.10 Cruise tourism creates an economic impact because visiting passengers, crew and cruise ship companies all spend money when they visit Guernsey. The greatest economic impact comes from the expenditure of cruise ship passengers. The economic impact is

calculated by multiplying the number of visitors by the average spending of each visitor, and then applying a calculation for the “value added” of this expenditure on the Island economy. To this is added expenditure by cruise ships (e.g. on harbour dues and handling fees), as well as crew spending.

2.1.11 In 2010, the “value added” of direct expenditure by cruise passengers on the Island is estimated at £708,958. As a result of this money being re-circulated in the economy (through indirect and induced effects), the value added is multiplied in successive spending rounds to give an estimated total economic impact of £1,328,763 in 2010. Taking in to account crew spending, income paid to handling agents, and payment of harbour dues increases the total economic impact to £1.5m.

2.1.12 MODELLING THE POSSIBLE IMPACTS OF PROVIDING AN ALONGSIDE BERTH (SECTION 6)

2.1.13 Economic impact can be increased in two ways – one is through attracting more passengers to the Island and the other is by increasing the average expenditure of those passengers.

2.1.14 By providing an alongside berth, the loss of passengers due to cancellations because of bad weather would be minimised, and the logistical operation of transferring passengers from ship to shore would be improved. This would make Guernsey a more attractive destination for Cruise Ship companies, and would also be able to capitalise on the trend towards large ship sizes.

2.1.15 Increasing passenger numbers by 25%, 50% and 100% would generate economic impact of £1.6m, £2.0m and £2.6m respectively.

2.1.16 There is evidence to suggest that the average expenditure of cruise ship passengers in Guernsey is less than half the European average. If, investment in an alongside berth resulted in less variable growth and sustained growth of the sector, there would be opportunity to invest in the Island tourist infrastructure for visiting cruise tourists, particularly through the provision of more quality on-shore excursion (tours) opportunities.

2.1.17 If the average spending of cruise ship passengers during their call at Guernsey increased to the European average, this would generate an economic impact of £3m. Combined

with increases in the number of passengers, the total economic impact which could result from both an increase in passenger numbers and in average expenditure of those passengers could generate an economic impact of £6m a year. This represents an increase of £4.7m over the current economic impact of the cruise tourism market.

- 2.1.18 In addition to the economic impact generated through cruise tourism, the provision of an alongside berth could be expected to reap dividends in other areas. These include being able to raise charges for the use of the alongside berth (by a factor of 20x on the current charges), and allowing the berth to be used for other uses, such as super yachts. These have the benefit of ensuring the berth is used throughout the year, and could raise further revenue in the region of £1m per year.

2.1.19 SPECULATIVE FINANCIAL MODELLING OF AN ALONGSIDE BERTH FACILITY (SECTION 7)

- 2.1.20 Although the cost of an alongside berth for cruise ships is not known, using possible investment costs of £25m, £40m and £80m coupled with the likely economic impacts that might be generated, it has been possible to estimate the viability of proceeding with this type of investment. Although conducted at a basic level, the analysis has shown that there is potential for a project to be viable with an investment of between £25m and £40m depending on the level of investment that may be forthcoming from the private sector. The project would also become much more viable if it were to be part of a scheme for the commercial redevelopment of St Peter Port harbour as a whole, which would need to include a revision of the fees currently charged to cruise ships that arrive in Guernsey.

2.1.21 CONCLUSIONS AND RECOMMENDATIONS (SECTION 8)

- 2.1.22 It is clear that Guernsey's cruise tourism industry has reached an important crossroads, where a decision needs to be made whether it is desirable to further invest in the future of the industry at this time, or plan for the future investment. Potential for public/private partnership has recently been brought to the fore, and so it would therefore be prudent for Guernsey to establish a clear position to advise all interested parties.
- 2.1.23 The current economic impact of the cruise tourism industry in Guernsey is in the region of £1.3m a year. However, there is evidence to suggest that because of limitations of

port capacity and facilities, the industry is under-developed and there are considerable opportunities for future growth. At the same time, there are threats to the local industry that could prevent further growth unless investment is made.

2.1.24 The strategic direction and form of this investment will need to be informed through up to date figures and reliable information. This study has shown that sources of data on both the average expenditure of cruise tourists and the flows of expenditure within the industry need to be updated in order to give a reliable estimate of the impact of cruise tourism.

2.1.25 With appropriate investment and strategies in place, the cruise tourism market could be worth up to £6m a year to the Guernsey economy, with further benefits coming from increased harbour charges and the ability for the berth to be put to other uses such as a facility for visiting super yachts.

2.1.26 In light of the information presented by the study, the following recommendations are made:

- That the contribution made by cruise tourism towards the Guernsey economy should be acknowledged.
- That further investigations should be made into the cost and feasibility of building an alongside berthing facility. This will include identifying likely requirements in terms of budget and a realistic scenario of what would be needed in terms of investment from the States of Guernsey and from a private investor.
- As part of these investigations, consideration should be given to conducting an up to date survey of cruise passengers to ascertain their expenditure whilst on the Island. This will enable figures presented in this report to be validated and updated. Consideration should also be given to conducting a study to ascertain up to date figures on the flows of income that occur within the tourism industry in Guernsey.

3 INTRODUCTION TO CRUISE TOURISM

3.1 OVERVIEW

3.1.1 This section of the report provides an overview of the global cruise market, and places Guernsey into context within the overall market, particularly examining Guernsey's place within the important Northern European market.

3.2 THE GLOBAL CRUISE MARKET

3.2.1 Cruise tourism has become an increasingly popular segment of the tourism market.

3.2.2 In 2009, 17.5 million passengers embarked on a cruise (**See Table 1**). The majority of these cruises took place in the North American market (dominated by the Caribbean), but with the European market taking an increasing share of the total. Whilst the Global cruise market has seen consistent year on year growth, growth in the European Market has exceeded that of North America. However, it is still only half the size of the North American Market.

TABLE 1: GLOBAL SOURCE MARKETS FOR OCEAN CRUISING 2005 - 2009

Passengers (Millions)	2005	2006	2007	2008	2009
North America	9.96	10.38	10.45	10.29	10.40
Europe	3.16	3.46	4.08	4.50	5.00
Rest of the World	1.21	1.29	1.37	1.45	2.10
Total	14.33	15.13	15.90	16.24	17.50
Year-on-year increase	9.7%	5.6%	5.1%	2.1%	7.9%

Source: European Cruise Council, Cruise Lines International Association and International Cruise Council Australia

3.3 THE EUROPEAN CRUISE MARKET

3.3.1 Cruise tourism is a dynamic and fast growing part of the European tourism market. In 2009:

- Nearly 5 million passengers embarked on their cruises from a European port;
- €2.9 billion was spent by passengers and crew at ports visited by cruise ships;
- Passenger visits to European destinations grew by 9.4% over 2008 figures.

- There were 45 cruise lines domiciled in Europe, operating 124 cruise ships with a capacity of around 127,000 berths. A further 64 vessels with a berth capacity of 76,600 were deployed in Europe by non-European cruise lines.

3.3.2 As a result, the European cruise market has significant economic impacts throughout Europe, estimated by the European Cruise Council to be in the region of €14 billion (approx £12.2 billion) in 2010.

3.4 GUERNSEY AS A “TRANSIT PORT”

3.4.1 Passengers on a cruise typically travel to a cruise hub, or **turnaround port**, from where the Cruise departs and/or arrives. The Cruise ship then follows a pre-set itinerary, calling at a number of destinations – known as **transit ports**. Guernsey is one such transit port. Each transit port is typically visited for no more than 12 hours by each visiting cruise ship.

3.4.2 There is an important difference to note between turnaround and transit ports, in that the throughput of passengers in turnaround ports tends to be considerably higher than transit ports. In addition passengers typically stay for longer at turnaround ports as they wait to join their cruise. The nature of turnaround ports means that they require the appropriate infrastructure to be in place – that is berthing facilities, hotels and well developed transport links.

3.5 SECTORS OF THE EUROPEAN CRUISE MARKET

3.5.1 Guernsey is in an excellent geographical location to take advantage of the key North European cruise market. **Table 2** indicates that in 2010 the North European market accounted for 6.3% of global cruise capacity, with a potential throughput of 1.08 million passengers.

3.5.2 In terms of the number of passenger nights sold, Northern Europe’s share of the total was 9.7% of global capacity. This is because, on average, cruises in the region tend to be of longer duration (i.e. greater than 7 days).

TABLE 2: GLOBAL CRUISE PASSENGER CAPACITY, 2010

Passengers (Millions)	Estimated no of passengers (millions)	% of total
Caribbean	7.37	43.1
Mediterranean & Black Sea	3.47	20.3
North Europe	1.08	6.3
Alaska	0.81	4.7
Mexico	0.78	4.6
South America & Antarctic	0.74	4.3
Asia/Far East	0.66	3.9
Bermuda and East Coast USA	0.55	3.2
Atlantic Islands	0.43	2.5
Pacific	0.39	2.3
Indian Ocean	0.33	1.9
Hawaii	0.19	1.1
Trans canal	0.16	0.9
Round the World	0.10	0.6
Other/rest of World	0.04	0.2
TOTAL	17.10	100.0

Source: GP Wild (International) Limited

3.5.3 The European Cruise market is split into a number of distinct sectors, with most activity taking place in the Mediterranean. However, there are also significant markets in North West Europe and around the British Isles. In addition traffic is generated as ships relocate at the end of each season to different cruise areas. There is also a growing trend towards offering smaller scale “taster” cruises lasting no more than 2 or 3 days.

3.5.4 The most significant market for Guernsey is the British Isles market, followed by North West Europe.

3.6 CRUISE DESTINATIONS – CRUISE BRITAIN

3.6.1 The UK cruise market has performed particularly well in recent years. According to figures from the Passenger Shipping Association, one in every 22 holidays taken overseas by UK residents is now a cruise compared with one in 50 in 2001. 1.7 million UK passengers embarked on cruises in 2009.

3.6.2 **Figure 1** shows that there are nearly 40 ports around Britain which are regularly visited by Cruise Ships. A number of these are turnaround ports – notably Southampton and Dover, with the rest featuring as ports of call, or transit ports on a cruise ship’s journey.

3.6.3 The map also shows that there are relatively few ports around Britain that have sufficient capacity to accommodate large cruise ships. These are ports shown in red in **Figure 1**, which have a berthing capacity in excess of 250 metres. The largest modern cruise ships are in the region of 300m in size.

3.6.4 The map also shows Guernsey’s close proximity to UK turnaround ports (Southampton and Dover), and other cruise destinations around south west Britain.

**FIGURE 1:
CRUISE BRITAIN PORTS**



Source: Cruise Britain

3.7 CRUISE TOURISM IN GUERNSEY

3.7.1 Guernsey is currently a popular destination for cruise visitors and as a consequence enjoys a prominent place within the market.

3.7.2 Figures available for 2009 show that Guernsey ranked sixth overall among British cruise ports (**see Table 3**). This is an impressive performance given the fact that if those ports regarded as turnaround ports (i.e. where a cruise starts and/or finishes) are discounted, Guernsey ranked third.

TABLE 3:
LEADING CRUISE PORTS IN GREAT BRITAIN: 2000 TO 2009: PASSENGER NUMBERS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Southampton	332,000	354,000	386,000	469,500	548,000	701,000	737,728	798,463	971,258	1,050,000
Dover	143,019	160,663	134,127	162,000	178,817	159,253	215,624	164,723	273,817	259,222
Harwich	27,500	36,000	78,600	95,400	92,000	88,260	106,700	108,745	133,660	135,000
Forth Ports								33,438	53,000	57,738
Invergordon	10,235	13,964	12,889	13,495	23,240	26,980	41,810	36,247	48,098	48,788
Guernsey	20,641	28,977	19,200	45,000	62,673	65,565	73,304	28,752	59,100*	58,615*
Clyde				25,041	23,740	39,481	32,910	24,403	30,776	41,129
Newcastle					8,813	21,369	32,910	28,958	43,093	35,838
Liverpool	1,630	1,200	300	5,600	11,800	10,747	3,072	20,790	40,971	30,111
Kirkwall	14,832	15,970	16,687	21,162	22,916	30,708	20,297	29,180	29,199	26,028
Lerwick	11,301	12,729	10,864	16,008	20,752	17,532	25,966	18,462	17,148	24,146
Tilbury	2,031	3,391	5,434	11,104	13,921	10,615	13,390	17,852	13,546	23,049
Falmouth	3,687	9,720	22,067	35,390	24,764	29,199	48,614	24,609	20,007	21,215
London	6,108	8,400	12,108	11,142	9,788	8,647	6,169	7,564	6,128	11,659

Source: GP Wild (International) Ltd : *An examination of the Position of the Guernsey Cruise Market*. *Data supplied by Guernsey Harbour Office

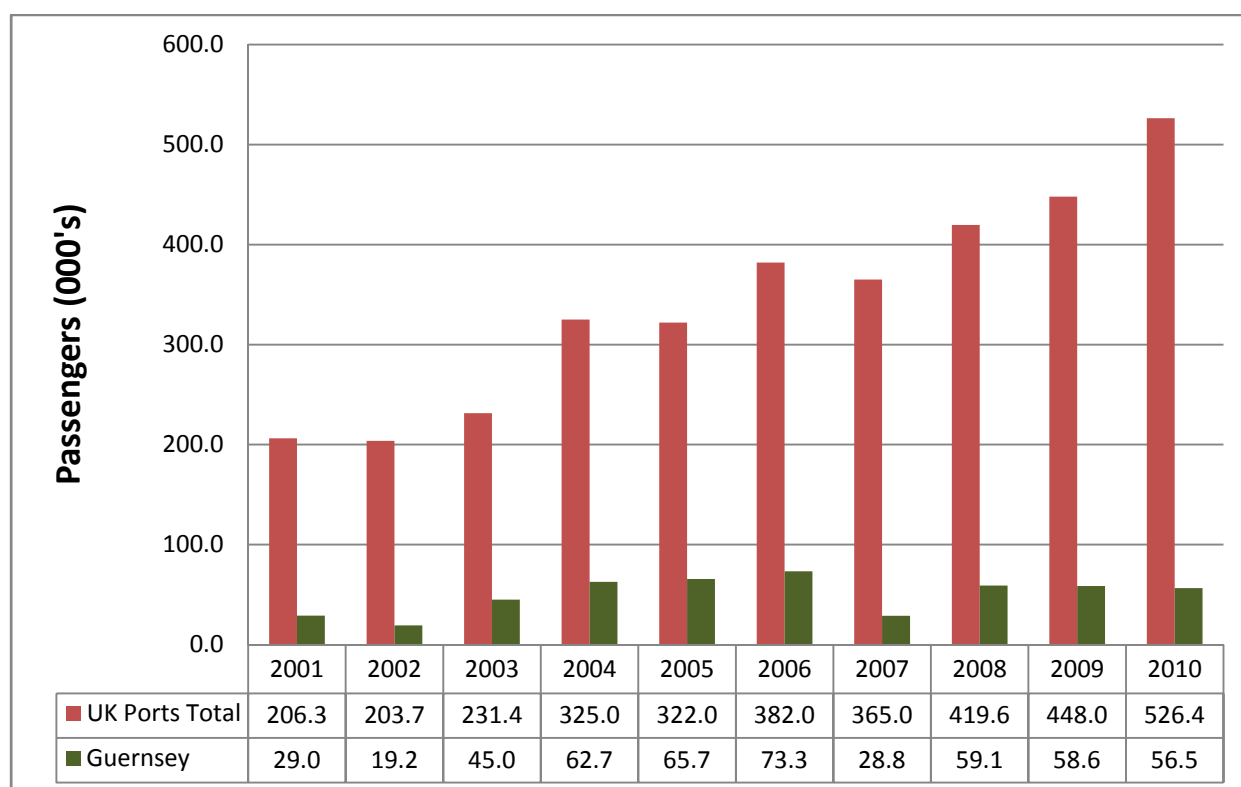
3.8 GROWTH IN NUMBER OF PASSENGER VISITS

3.8.1 **Figure 2** shows the growth in passenger numbers to UK ports as recorded by Cruise Britain. It shows that between 2001 and 2010, the UK market grew from 206,000 passenger calls in 2001 to 526,000 passenger calls in 2010, an increase of 155%.

3.8.2 In comparison, the number of passenger calls to Guernsey grew by 95% from 29,000 in 2001 to 56,563 in 2010. Of interest is the fact that the passenger visit numbers appear to have peaked in 2006 at 73,300 – and fell back in subsequent years before recovering somewhat in 2010.

3.8.3 These dips may be attributable to a number of reasons, but the most likely of these is due to cancellations and changes to itineraries made as a consequence of bad weather.

FIGURE 2: PASSENGER VISITS TO GUERNSEY IN COMPARISON TO THE UK AS A WHOLE: 2001 TO 2010

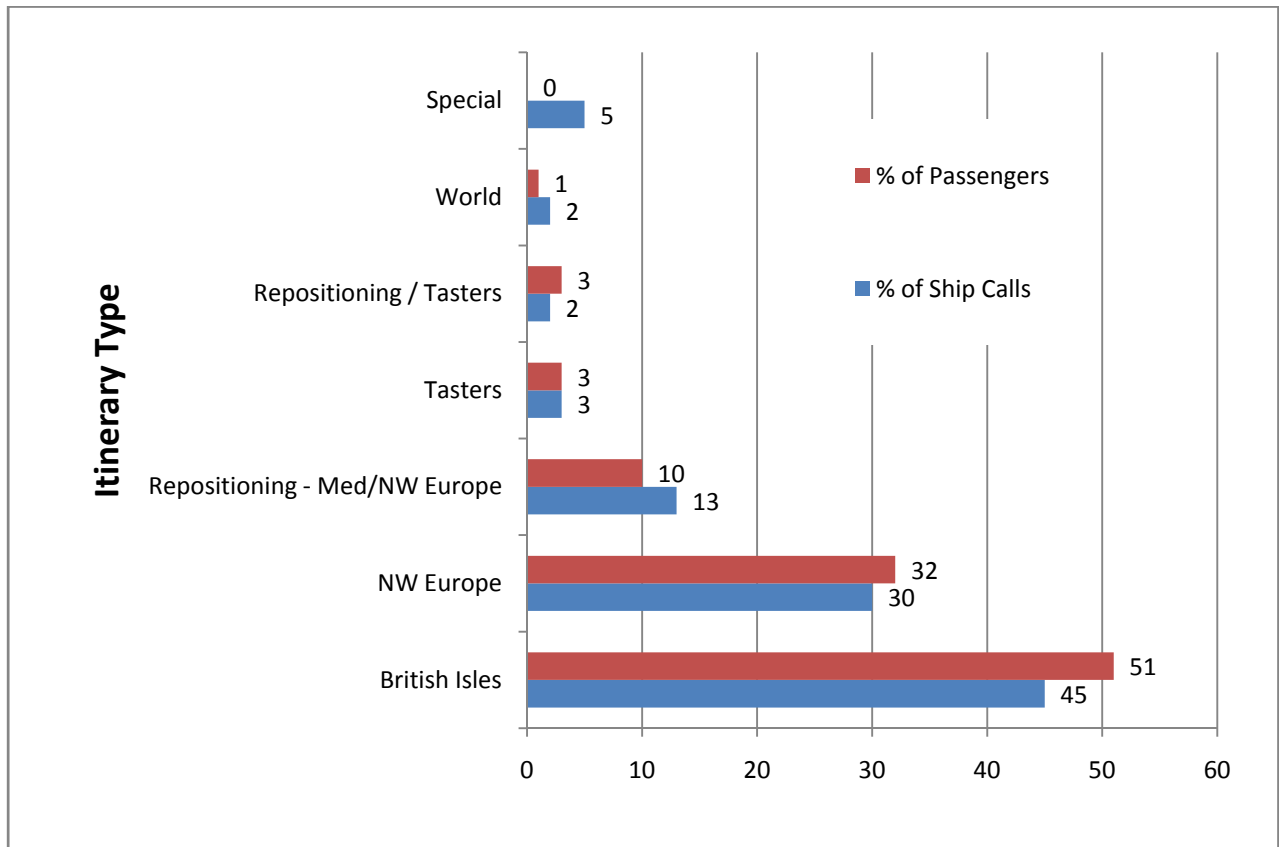


Source: GP Wild, 2008 onwards Guernsey Harbour Office

3.9 TYPE OF ITINERARIES BEING FOLLOWED BY CRUISE SHIPS

3.9.1 Looking at the type of itineraries being followed by Cruise ships visiting Guernsey, the majority of ships are on an itinerary concentrating on cruises in the British Isles (45% of ship calls and 51% of passenger visits) – see **Figure 3** below.

FIGURE 3: ITINERARY TYPE – BY % OF SHIP CALLS AND % OF NUMBER OF PASSENGERS



Source: GP Wild

4 STRENGTH, WEAKNESSES, OPPORTUNITIES, THREATS

4.1 OVERVIEW

4.1.1 This section of the report examines some of the issues facing the cruise tourism market in Guernsey. An examination is made of:

- The **strengths** of the sector – what makes Guernsey good?
- **Weaknesses** of the sector – what makes Guernsey bad?
- **Opportunities** – are there aspects of the cruise market that Guernsey should/could benefit from?
- **Threats** – are there factors that Guernsey needs to consider which may threaten the future of the industry?

4.1.2 Consultants GP Wild International was commissioned by the Marketing and Tourism section of the Commerce and Employment Department to produce an examination of the position of Guernsey in the Cruise Market. This internal document, published in 2010, contains a useful summary of the strengths, weaknesses, opportunities and threats facing the sector.

4.1.3 **Table 4** provides a summary of this SWOT analysis.

TABLE 4: SWOT ANALYSIS OF THE CRUISE TOURISM SECTOR

Strengths	Weaknesses
<ul style="list-style-type: none"> • Market leader of UK transit ports • Strong growth overall • In mainstream cruise market • Attracts cruise tourists primarily from large UK and Anglo-phone sectors • Popular destination with cruise tourists • Excellent strategic position • Offers duty-free opportunities • Good facilities overall • Convenient distance from other ports 	<ul style="list-style-type: none"> • Variable growth • Does not attract large numbers of cruise tourists outside the Anglo-phone market • Lack of suitable types of coaches for cruise tourism • Not enough coaches for larger cruise ships • Inefficient arrangements for the increased number of tenders from large cruise ships • No alongside berth for large cruise ships • Anchorage is weather dependent

Opportunities	Threats
<ul style="list-style-type: none"> • Emissions regulations • Continued growth of the North European cruise market • Grow non-Anglo-phone cruise tourism • Development of new itinerary patterns in Northern Europe and along the European Atlantic coast • Continued high fuel prices leading to the need to cruise lines more shorter fuel efficient itineraries 	<ul style="list-style-type: none"> • Increasing size of cruise ships • Slower growth in the United States and to a lesser extent in the UK • Sharp and sustained rise in bunker prices • Unreasonable regulations • Adverse major world event similar to 9/11 • Health scares

Source: An examination of the position of the Guernsey Cruise Market; GP Wild (International) Ltd, August 2010

4.2 STRENGTHS

4.2.1 **Section 3** of this report has already shown that Guernsey has a prominent position within the network of UK and north European transit ports. When this is coupled with the fact that Guernsey is a popular destination amongst cruise tourists, is in an excellent geographical location, and is able to take advantage of the UK / English speaking markets, then there is much that is good and positive about Guernsey as a cruise destination.

4.2.2 In the report produced by GP Wild, a questionnaire was sent to cruise lines operating in Northern Europe to illicit their perceptions of Guernsey as a cruise destination.

4.2.3 The rating of Guernsey as a cruise destination was generally high, however a number of important points were raised by most operators and these are examined in more detail in the next section.

4.3 WEAKNESSES

4.3.1 Turning to aspects that are less good about the Guernsey offering, a number of issues become apparent.

- 4.3.2 Whilst most cruise operators rate Guernsey highly as a cruise destination, there were concerns about several issues. These relate to the lack of a suitable berth for cruise ships and the generally poor provision of on shore excursion facilities.

4.3.3 NO ALONGSIDE BERTH FOR VISITING CRUISE SHIPS

- 4.3.4 The following quotes from the survey conducted by GP Wild give a flavour of the concerns being raised in regard to the lack of an alongside berth for cruise ships:

“It very often happens to skip the call and replace it with another destination due to a very exposed staying at anchorage. 2 out of 3 times we have to cancel the call”

“A call at anchorage means taking a risk of maybe cancelling the call as bad weather conditions might make a tendering operation impossible. This is the reason for not calling more frequently”

“As long as the sea conditions do not affect the tender operation, we always receive extremely favourable passenger satisfaction comments. A dedicated cruise ship berth would greatly enhance the attractiveness of St Peter Port as a port of call, as currently there is always some uncertainty right up to the day of arrival as to whether we can complete the call”

- 4.3.5 To try and verify the extent of the issue of cancellations and what affect this has on passenger numbers, the statistics on cruise ship arrivals kept by the Guernsey Harbour Office were examined for each of the years 2008, 2009, 2010.

- 4.3.6 The data shows that there is a significant difference between the number of cruise ships that are scheduled to visit the Island in any one year, and the number of visits that actually take place.

- 4.3.7 Whilst scheduled visits of cruise ships are occasionally cancelled through a last minute change of itinerary, most cancellations occur because of bad weather, preventing the safe transfer of passengers from the Cruise ship to St Peter Port harbour.

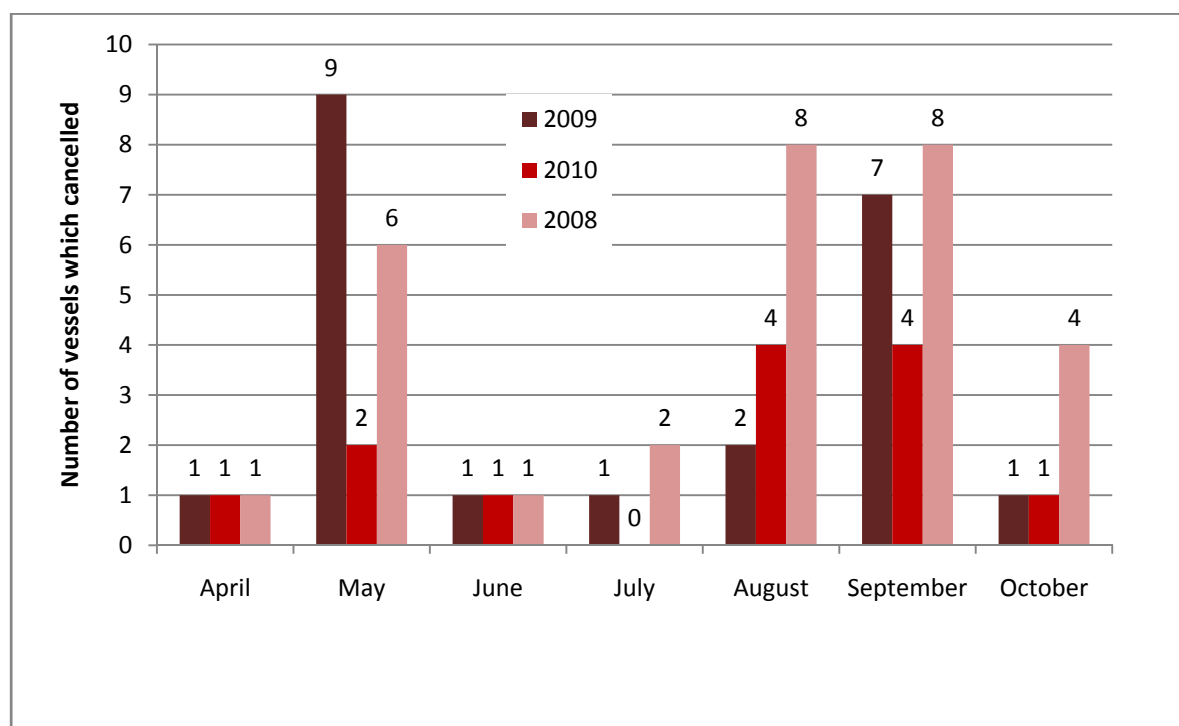
- 4.3.8 This occurs because cruise ships are required to anchor in the harbour roadstead, with passengers being ferried to St Peter Port via small boat, or tender. Usually these are

provided by the cruise ship itself, or through an arrangement with local ferry companies (e.g. Trident Travel).

4.3.9 This transfer of passengers from anchorage to St Peter Port Harbour only works well in relatively calm conditions. Indeed, health and safety considerations mean that tender operations will not be carried out above particular wind strengths.

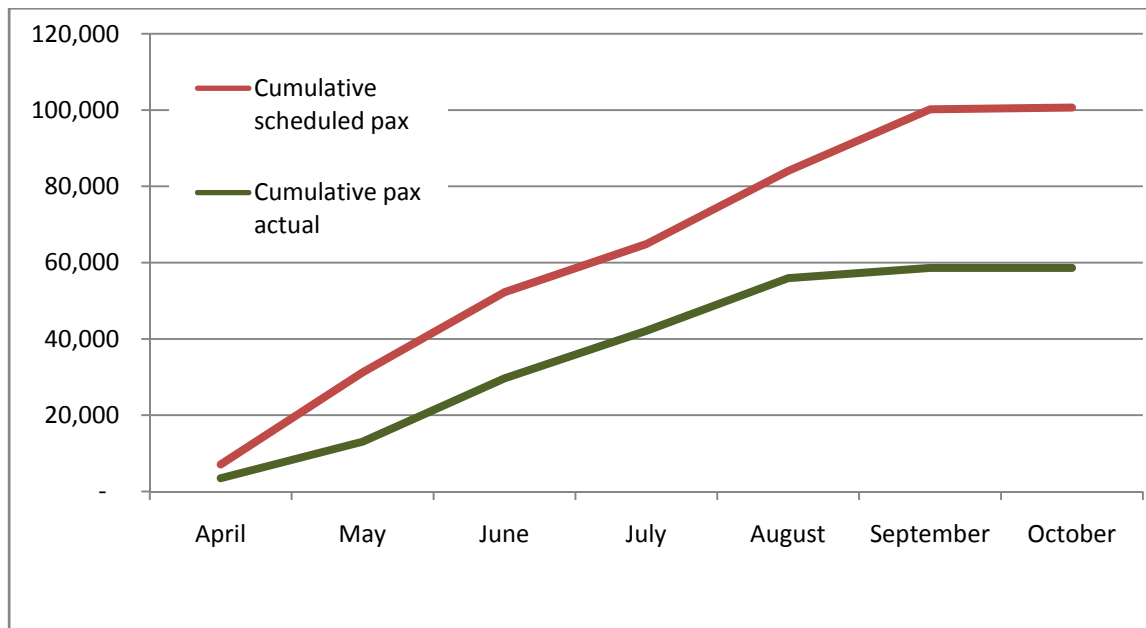
4.3.10 **Figure 4** shows the number of cancellations throughout the years of 2008, 2009 and 2010. Whilst there were relatively few cancellations in June and July, there were considerably more in May, August and September. 2008 also had more cancellations than the other two years.

FIGURE 4: VESSELS CANCELLED



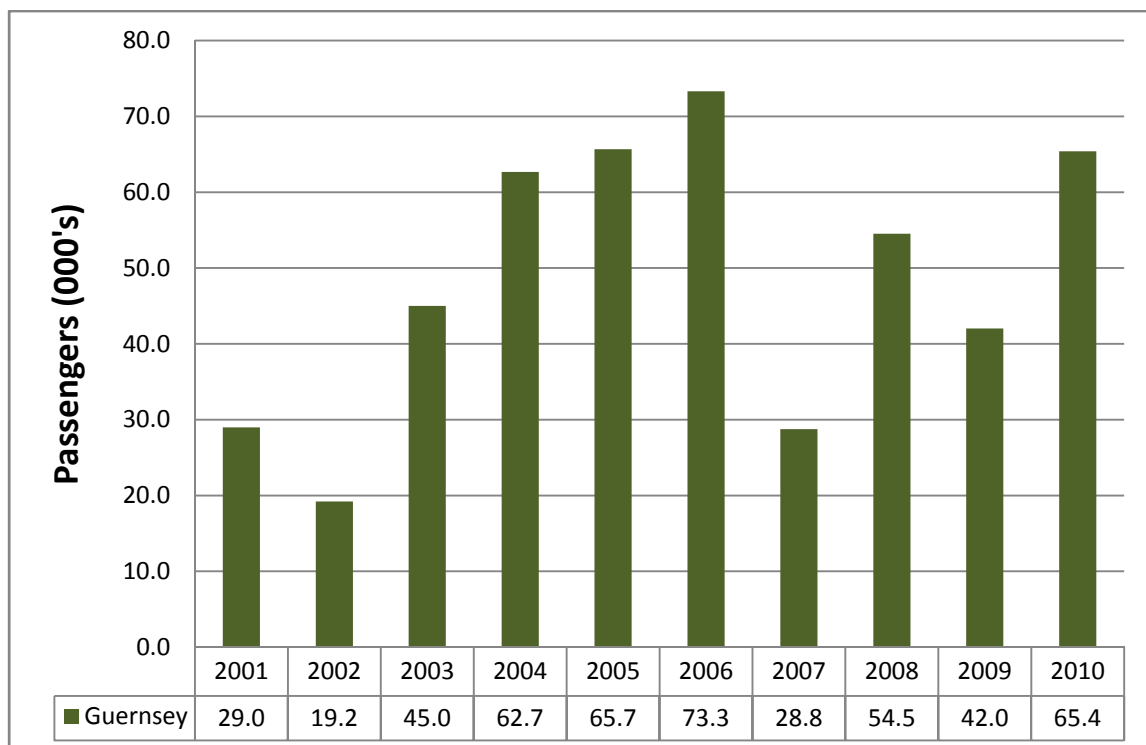
4.3.11 Cancellation of cruise ship visits also has an effect on passenger numbers. An analysis of the figures for 2009 was carried out by way of example – see **Figure 5**.

4.3.12 Whilst the scheduled number of passenger visits was estimated to reach 100,000 by the end of the season in October, the actual number of passengers who were scheduled to arrive was much lower and under 60,000 (**Figure 5**). Of these 60,000, 42,000 came ashore (**Figure 6**).

FIGURE 5: SCHEDULED PASSENGER VISITS COMPARED TO ACTUAL ARRIVALS – 2009

4.3.13 VARIABLE GROWTH

4.3.14 Growth in the number of cruise tourists visiting Guernsey has been variable (**Figure 6**). Whilst passenger numbers grew steadily from 2001 to 2006, growth since then has been variable.

FIGURE 6: VARIABLE GROWTH IN CRUISE PASSENGERS VISITING GUERNSEY

- 4.3.15 The reasons for this may be complex; that is they are likely to be a combination of factors. However, the cancellation of cruise ship visits to the Island due to bad weather is likely to play a significant part. The affect may be especially pronounced when bad weather coincides with the scheduled visit of a particularly large cruise liner. This happened several time in 2008 and 2009. There were fewer cancellations overall in 2010 due to better weather in this year.

4.3.16 ON SHORE EXCURSION FACILITIES

- 4.3.17 Another factor which may be behind the variable growth observed is the fact that the present facilities on the Island for cruise ship passengers do not exploit the full potential of the market.

- 4.3.18 This is borne out by the comments received from cruise operators concerning on shore excursion facilities. The following comments were made:

“Participation in excursions is very low, therefore liner’s revenues are low”

“Guernsey is very famous amongst German passengers: Unfortunately the available shore excursion infrastructure is not sufficient for handling big cruise ships like “Mein Schiff”. The tour options and variety were very good, but unfortunately to low capacities. Only a very few buses available and these are in very bad condition.”

4.4 OPPORTUNITIES

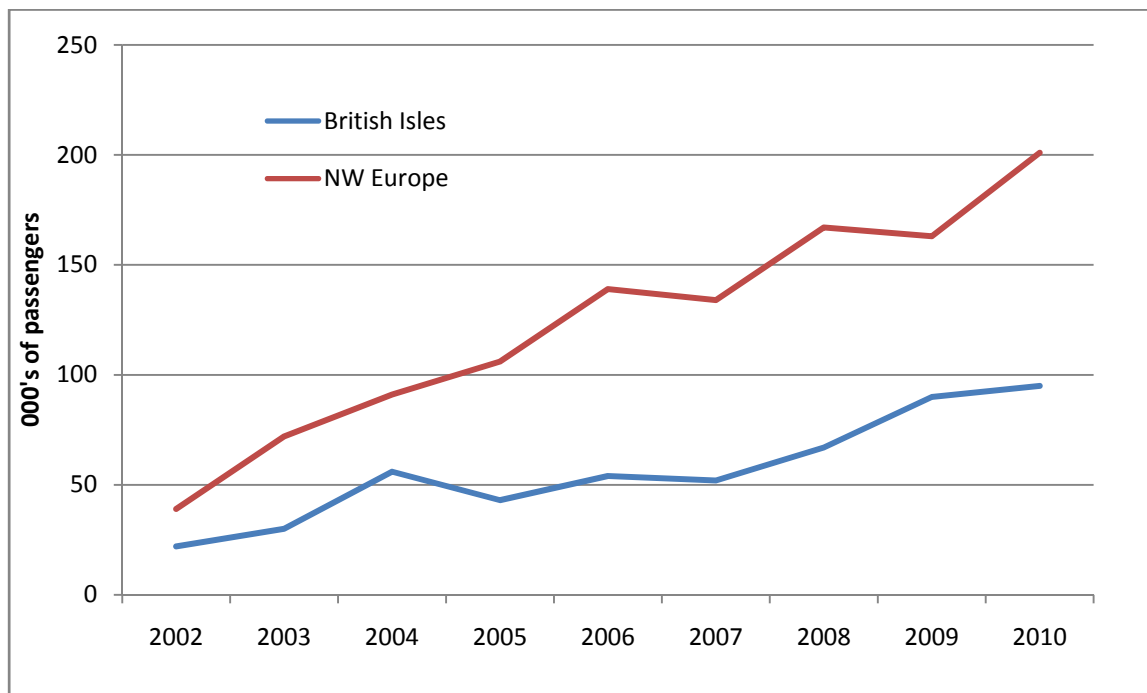
- 4.4.1 A number of opportunities support the potential for future growth of the cruise tourism market in Guernsey.

4.4.2 GROWTH OF THE NORTH EUROPEAN CRUISE MARKET

- 4.4.3 Since 2002, the cruise market in north Europe as a whole has increased by 286%. Markets of more relevance to Guernsey, namely the British Isles and North West Europe have increased by 332% and 415% respectively (see **Figure 7**). At the same time the Guernsey market has expanded by 125% (see **Figure 6**), so there is further potential for the Guernsey cruise market to grow.

- 4.4.4 This growth continues to be driven by the desire of cruise lines to develop new and innovative cruise itineraries, particularly in Northern Europe and along the Atlantic coast, and from the general growth in the popularity of cruising.

FIGURE 7: DEVELOPMENT OF BRITISH ISLES AND NORTH WEST EUROPEAN CRUISING MARKETS, 2002 TO 2010



4.4.5 IMPACT OF FUEL PRICES AND ENVIRONMENTAL REGULATIONS

- 4.4.6 Given the on-going rise in fuel prices, operators of cruise ships are increasingly looking at ways of planning their itineraries in such a way as to keep fuel consumption to a minimum. This will involve selecting an adequate number and sufficient variety of attractive ports within a close range of turnaround ports. Guernsey's close location to key turnaround ports (e.g. Southampton and Dover), as well as other cruise port destinations, puts the Island in a very good position in this regard.
- 4.4.7 Tied to the cost of fuel is also an increasing requirement for cruise ship operators to meet more stringent emission targets as part of tougher environmental regulations. Once again, Guernsey may be able to take advantage of its location in order to become a preferred destination when cruise lines are considering putting together more "compact" itineraries.

- 4.4.8 A further factor is that Cruise lines are increasingly offering voyages of shorter duration – both as “tasters” of the cruise experience, and as a way of providing more cost effective operations. Again, Guernsey is well placed to take advantage of this trend.

4.5 THREATS

- 4.5.1 Although Guernsey is in a strong position in the current cruise tourism market, there are a number of factors which may limit the long-term growth of the industry in Guernsey.

4.5.2 THE IMPACT OF LARGE CRUISE SHIPS ON NORTHERN EUROPEAN DEPLOYMENT

- 4.5.3 The current trend amongst cruise ship operators is to move towards large cruise ships. Numbers of very large cruise ships of the “Panamax” and “Post Panamax” class have grown considerably over the last few years. The latter has grown by 150% over the last five years, from 10,358 berths to 26,295 berths. The average number of berths for vessels in the Northern European region is now 1,054 berths compared to 831 in 2006.

- 4.5.4 This therefore poses a certain threat to ports such as Guernsey, where ships have to anchor and transfer passengers ashore by way of tender. With large ships carrying in the region of 3,000 passengers, the tendering operation becomes less feasible and the handling problems can be seen to increase.

- 4.5.5 The choice facing Guernsey is to either concentrate on smaller “niche” market cruise ships and operators, which would mean that it would not be possible to take advantage of the continued growth in the North European cruise market, or to provide improved berthing facilities for cruise ships, including the consideration of providing an alongside berth.

4.6 SYNTHESIS

- 4.6.1 Having identified the strengths, weaknesses, opportunities and threats facing the Guernsey cruise tourism market, this next section attempts to synthesise these factors by:

- *Matching opportunities with strengths:* what opportunities can be exploited with the strengths that Guernsey already possesses.

- *Matching strengths with threats:* identifying the strengths Guernsey has which will allow it to overcome threats.
- *Identifying and prioritising weaknesses that need to be remedied:* which weaknesses pose the greatest threat, or prevent Guernsey taking advantage of opportunities – and which should be prioritised?

4.6.2 STRENGTHS NEEDED TO EXPLOIT OPPORTUNITIES

4.6.3 **Table 5** sets out the strengths needed to exploit opportunities available to the Guernsey cruise tourism market

TABLE 5: STRENGTHS NEEDED FOR THE EXPLOITATION OF OPPORTUNITIES

Opportunities	Strengths needed to exploit opportunities
<ul style="list-style-type: none"> • Emissions regulations 	<ul style="list-style-type: none"> • Sufficient port capacity to be able to accommodate larger cruise vessels which have a lower emission impact per passenger
<ul style="list-style-type: none"> • Continued growth of the North European cruise market 	<ul style="list-style-type: none"> • Sufficient port capacity and facilities to accommodate growth in number of ships and passengers • Sufficient tourism friendliness (e.g. better shore excursion facilities) in order to attract new business
<ul style="list-style-type: none"> • Grow non-Anglo-phone cruise tourism 	<ul style="list-style-type: none"> • Development of sufficient and quality tour guides • Sufficient tourism friendliness (e.g. better shore excursion facilities) in order to attract new business
<ul style="list-style-type: none"> • Development of new itinerary patterns in Northern Europe and along the European Atlantic coast 	<ul style="list-style-type: none"> • Sufficient tourism friendliness (e.g. better shore excursion facilities) in order to attract new business • Sufficient port capacity and facilities to accommodate growth in number of ships and passengers • Sufficient port facilities to allow extended season visits when the weather may be less favourable
<ul style="list-style-type: none"> • Continued high fuel prices leading to the need to cruise lines to introduce more shorter fuel efficient itineraries 	<ul style="list-style-type: none"> • Sufficient port capacity and facilities to accommodate growth in number of ships and passengers • Sufficient port facilities to allow extended season visits when the weather may be less favourable

4.6.4 **Table 5** shows that the critical strength needed to exploit the available opportunities is the availability of sufficient port facilities. In order to take advantage of an extended season, larger cruise ships and to minimise weather cancellations, the most appropriate facility would be an alongside berth.

4.6.5 Also of note is the need to develop onshore facilities and the overall tourism friendliness of Guernsey for Cruise Visitors – for instance by improving on shore excursion opportunities.

4.6.6 STRENGTH NEEDED TO OVERCOME THREATS

4.6.7 In **Table 6**, the identified threats are matched with the strengths needed to overcome these threats. It shows that the two main strengths required to overcome these threats are the development of sufficient port capacity and ensuring that Guernsey remains “tourism friendly” by having sufficient port facilities and a government willing to invest in capital projects to support the industry.

TABLE 6: STRENGTHS NEEDED TO OVERCOME THREATS

Threats	Strengths needed to overcome threats
<ul style="list-style-type: none"> Increasing size of cruise ships and sustained rise in bunker prices 	<ul style="list-style-type: none"> Sufficient port capacity to be able to accommodate larger cruise vessels
<ul style="list-style-type: none"> Sharp Slower growth in the United States and to a lesser extent in the UK 	<ul style="list-style-type: none"> Sufficient tourism friendliness (e.g. better on shore excursion facilities, good port facilities) in order to attract new business over rival jurisdictions
<ul style="list-style-type: none"> Unreasonable regulations 	<ul style="list-style-type: none"> Willingness and ability of Government to help smooth regulatory requirements through “light touch” regulation. Sufficient capital from Government to assist in meeting regulatory requirements
<ul style="list-style-type: none"> Adverse major world event similar to 9/11 	<ul style="list-style-type: none"> Sufficient capital from Government to invest in regulatory requirements relating to security requirements
<ul style="list-style-type: none"> Health scares 	<ul style="list-style-type: none"> Sufficient tourism friendliness and the ability to treat visiting cruise passengers when required

4.6.8 WEAKNESSES AND THE EXTENT TO WHICH GUERNSEY CAN INFLUENCE THEM

4.6.9 **Table 7** examines the extent to which the weaknesses facing Guernsey’s cruise tourism industry can be overcome. Two themes emerge: The need to provide alongside berthing and the need to invest in improved facilities for on shore excursions (coach tours).

TABLE 7: WEAKNESS AND HOW THEY MAY BE OVERCOME

Weaknesses	How these may be influenced
<ul style="list-style-type: none"> Variable growth 	<ul style="list-style-type: none"> Minimise cancellations through improvement to port facilities – e.g. the provision of an alongside berthing facility
<ul style="list-style-type: none"> Does not attract large numbers of cruise tourists outside the Anglo-phone market 	<ul style="list-style-type: none"> Develop tourism friendliness aspects Invest in developing on shore excursions for non English speaking market
<ul style="list-style-type: none"> Lack of suitable types of coaches for cruise tourism 	<ul style="list-style-type: none"> Invest in cruise tourism on shore excursion market – elimination of variable growth would make investment more attractive
<ul style="list-style-type: none"> Not enough coaches for larger cruise ships 	<ul style="list-style-type: none"> Invest in cruise tourism tour market – elimination of variable growth would make investment more attractive
<ul style="list-style-type: none"> Inefficient arrangements for the increased number of tenders from large cruise ships 	<ul style="list-style-type: none"> Provide alongside berthing Improve facilities at St Peter Port Harbour Local ferry companies could help improve tender operation
<ul style="list-style-type: none"> No alongside berth for large cruise ships 	<ul style="list-style-type: none"> Provide alongside berthing
<ul style="list-style-type: none"> Anchorage is weather dependent 	<ul style="list-style-type: none"> Provide alongside berthing

4.7 CONCLUSIONS

4.7.1 This section has shown that there are considerable strengths to the Guernsey cruise tourism market, but that in order to maximise the opportunities for growth of the industry, and to overcome some of the weaknesses and threats that the industry faces, in the short to medium term, the need to invest in the future of the industry will be an important factor in its future success.

4.7.2 The evidence of the SWOT analysis suggests that there are two areas of investment that would ensure the long term future of the industry. These are the provision of an alongside berth and the investment in improving the on shore tour facilities offered in Guernsey.

- 4.7.3 The investment required for the provision of alongside berthing facilities, would be likely to be considerable, and would need to be made in consideration of the economic value that the cruise industry brings to the Island. Section 5 of this study examines the impact of the cruise industry on the economy of the Island, and models a number of scenarios which might occur should an alongside berthing facility be provided.

5 THE ECONOMIC IMPACT OF CRUISE TOURISM ON THE GUERNSEY ECONOMY

5.1 OVERVIEW

5.1.1 This section measures the impact which the Cruise tourism industry has on the economy of Guernsey. This is done through an economic analysis technique known as “Economic Impact Analysis”. Cruise tourism creates an economic impact because tourists, crew and cruise ship companies spend money when they visit Guernsey. This expenditure has both a direct and an indirect impact on the economy, and these effects are measured through Economic Impact Analysis.

5.2 TYPES OF ECONOMIC ANALYSIS

5.2.1 A range of economic analyses may be used to support policy decisions. However, the scope and terms of this study (see paragraph 1.2.2) limit the analysis to one of conducting an economic impact analysis on the cruise tourism sector.

5.2.2 For the benefit of the reader, and for the sake of completeness, it is worth considering briefly other types of economic analysis. These are shown in **Table 8** below. They are mentioned because they could form the basis of subsequent investigations into the viability of providing an alongside berthing facility in Guernsey (see section 8 Conclusions and Recommendations).

5.2.3 Economic Impact Analysis answers the questions “What is the contribution of a certain economic activity to the economy of the Island”. An economic impact analysis typically covers the flows of spending. In the case of an impact analysis studying tourism activity, these studies typically examine visitor numbers and the amount that these visitors spent on their visit, in order to determine the impact on the economy.

5.2.4 It is the results of this economic impact study which will indicate if the cruise industry has sufficiently significant impacts on the economy (given certain scenarios) to justify further exploration of the feasibility, desirability and potential of providing an alongside berth.

TABLE 8: TYPES OF ECONOMIC ANALYSIS COVERED IN THIS STUDY

Analysis Type	Questions answered	Analysis covered in this study?
Economic Impact Analysis	What is the contribution of cruise tourism activity to the economy, and how will this change if an alongside berthing facility is provided?	✓ Yes
Fiscal Impact Analysis	Will government revenues from tourism activity from taxes, direct fees, and other sources cover the added costs of infrastructure and government services?	✗ No
Financial Analysis	Can we make a profit from this activity?	✗ No
Demand Analysis	How will the number or types of tourists be affected due to changes in prices, promotion, competition, quality, and quantity of facilities?	✓ Yes
Benefit-Cost Analysis	Which alternative policy will generate the highest net benefit to society over time?	✗ No
Feasibility Study	Can/should this project be undertaken?	✗ No
Environmental Impact assessment	What are the impacts of an action on the surrounding environment?	✗ No

5.2.5 As this study focuses primarily on economic impacts, an appraisal of the issues of feasibility, cost benefit, or the impact on the environment have not been conducted in this study.

5.3 WHAT IS 'ECONOMIC IMPACT ANALYSIS'?

5.3.1 Economic Impact Analysis examines the effect of an economic activity, policy, programme, project activity or event on the economy of a given area. Economic impact is usually measured in terms of:

- Business outputs (or sales volumes)
- Value added through profits and wages
- Number of jobs

5.3.2 Using this analysis technique enables a comparison to be made between the current economic impacts of the cruise sector on the Island and a range of future scenarios, including the possible effects of improving cruise liner facilities in the Island – such as the provision of alongside berthing.

5.3.3 Economic impact is a measure of the spending and employment effects of a specific economic activity – in this case cruise tourism.

5.3.4 The total economic impact is the **sum of** direct, indirect, and induced economic impacts resulting from cruise ships visiting the Island.

- The **direct** impact can be attributed to purchases of on-island goods and services made by both the cruise lines themselves, and passengers and crew who disembark from the ship and come ashore.
- **Indirect** impacts are felt in the goods and service industries that supply the industries that receive expenditures by cruise ship visitors.
- **Induced** impacts are generated from the spending by people employed indirectly or directly by those businesses conducting business with cruise visitors.

5.3.5 These three areas of economic impact are examined in more detail in the following paragraphs.

5.4 AREAS OF DIRECT EXPENDITURE AND “VALUE ADDED”

- 5.4.1 The direct expenditures of passengers, crew and cruise ship companies visiting the Island end up in several industries within Guernsey – such as hostelry, retail and transport services. Each of these industries needs to purchase goods and or services from their suppliers before a good or service can be delivered or provided.
- 5.4.2 A good example of this is a retail outlet. Typically, the shop will have bought its goods from a wholesaler, so that the amount spent by a cruise passenger on an item purchased from that shop does not reflect the amount of direct economic impact, because a significant proportion of these sales will flow indirectly to the shop’s suppliers. Many of these suppliers exist off the Island, so this amount is in effect “lost” to the economy.
- 5.4.3 A distinction has therefore to be made between direct expenditures and the value added. It is not the amount sold by the shop, but the “value added” that is generated by the shop that should be considered a direct economic impact. Value added is calculated by taking the sales of the shop and subtracting the costs of the purchase of stock from its suppliers. The sum of the components of wages and salaries, depreciation and general profit is taken as the value added generated.
- 5.4.4 In summary, direct economic impacts are the direct effects of expenditure by particularly activity on the economy. In terms of the Cruise Industry as a whole, a number of direct economic impacts occur in a range of areas. These are shown in **Table 9** below, with those that are of relevance to the Guernsey economy highlighted in Green.

TABLE 9: DIRECT ECONOMIC IMPACTS AND WHICH PERTAIN TO GUERNSEY

Area	Description	European Economic Impact	% of impact	Areas of impact in Guernsey
Ship Building / maintenance	The construction of new cruise ships. Refurbishment and maintenance of existing cruise ships	€4.6 billion	33%	None
Spending on goods and services by cruise lines	Spending by cruise lines on goods and services in support of their cruise operations, including: Food and beverages Travel agents' commissions, handling agents Financial and business services – e.g. insurance, advertising, engineering, port fees	€5.4billion	38%	Port agent handling fees. Harbour dues and pilotage fees. Limited supplies of produce to cruise ships.
Cruise passenger and crew spending	Passenger spending includes spending on shore excursions, pre and post cruise holiday stays, air travel and other merchandise at ports of embarkation and ports of call. Average spending per passenger: Embarkation ports: €70 Ports of call: €60 Crew spending is typically on retail goods and food and beverages at ports of call	€2.9billion	21%	Spending by cruise ship visitors and crew on: Retail; Food and beverages; Transport and tours.
Salaries and wages of cruise ship employers	Cruise line employed nearly 4,500 Europeans in their headquarters or administration offices Cruise lines employed a further 46,500 European nationals as officers and ratings on cruise ships	€1.2 billion	8%	None
	TOTAL	€14.1 billion		

5.4.5 Economic impacts of the cruise tourism industry in Guernsey therefore occur in two distinct areas:

- The amount spent by visiting cruise ship passengers and crew; and
- Goods and services purchased by the cruise lines.

By far the largest economic impact arises from the first bullet point and this will be the major source of direct economic impact on the Island.

5.5 MEASURING DIRECT ECONOMIC IMPACT AND “VALUE ADDED”

5.5.1 So how is direct economic impact, “value added”, measured? We can measure this by using the following formula:

Direct Economic Impact of Cruise Tourism = Number of cruise visitors X Average Spending of cruise visitors + amount spent on local goods and service by cruise lines

5.5.2 The above formula suggests that there are three distinct sets of information required in measuring economic direct economic impact. These are:

- the number of cruise ship visitors;
- the average spending of a typical cruise ship visitor; and
- the amount spent by cruise lines on local goods and services.

5.5.3 THE NUMBER OF CRUISE SHIP VISITORS

5.5.4 Data on the number of cruise ship visitors who come to the Island are available from a variety of sources, but the best source are those on scheduled arrivals of cruise ships, which are maintained by the Guernsey Harbour Office.

5.5.5 There is an important caveat to mention when considering published figures on cruise ship visitor numbers. Almost all published sources calculate the number of potential visitors, by recording the maximum passenger capacity of each ship that is due to call. Thus if a ship has a capacity of 1,500 passengers, this is the number that is used. It may be (indeed it will be extremely likely) that when the cruise ship arrives in Guernsey waters, the actual number of passengers on the vessel is less than the vessel’s actual capacity.

5.5.6 Unfortunately, no official records are kept of the actual number of cruise ship passengers who set foot on Guernsey. However, a detailed examination was made of the data supplied by the Guernsey Harbour Office, in order to estimate the actual numbers of passengers coming ashore. The study showed that on average, 75% of a cruise ship’s stated capacity come ashore in Guernsey.

5.5.7 **Table 10** shows the number of scheduled cruise ship visitors who were expected to call at Guernsey for each of the years from 2000 to 2010. A further column in the table displays the number of assumed passengers that came ashore (calculated as 75% of the total). From 2008 more accurate figures have been available from the Harbour Office, including more accurate data on those coming ashore.

TABLE 10: NUMBER OF PASSENGERS EXPECTED ON SCHEDULED PASSENGER CALLS AND THE ASSUMED NUMBER THAT CAME ASHORE IN GUERNSEY – 2000 TO 2010

	Scheduled passenger arrivals	Assumed number of passengers that came ashore (75% of scheduled arrivals)
2000	20,641	15,481
2001	28,977	21,733
2002	19,200	14,400
2003	45,000	33,750
2004	62,673	47,005
2005	65,565	49,174
2006	73,304	54,978
2007	28,752	21,564
2008*	59,100	44,325
2009*	58,615	42,021
2010*	56,563	44,382

**2008 onwards: data supplied by the Harbour Office*

5.5.8 **DIRECT ECONOMIC IMPACTS THROUGH SPENDING OF VISITING CRUISE PASSENGERS**

5.5.9 A publication by the European Cruise Council (The Contribution of Cruise Tourism to the Economies of Europe, 2010 edition), estimates that average spending by each cruise passenger was €60 at every port of visit. At current exchange rates (June 2011), this equates to approximately £53 per passenger.

5.5.10 How does this average expenditure of £53 per passenger compare to average expenditure of visiting cruise passengers in Guernsey?

- 5.5.11 In 2005, a survey was carried out of cruise visitors to Guernsey by TNS Research. The survey objective was to provide an assessment of the profile and value of visits made by cruise passengers to Guernsey. A total of 368 face-to-face interviews were carried out with visiting cruise ship passengers.
- 5.5.12 Detailed questions on expenditure were asked as part of the survey, and the results are reproduced in the table below (**Table 11**). It shows an average expenditure of £19.38 per passenger visit. As these figures were recorded in 2005, they have been increased by the change in the retail prices index (using the RPIX measure) between 2005 (the date of the survey) and March 2010. The inflated figures are presented alongside the 2005 figures in **Table 11** below.

TABLE 11: EXPENDITURE OF VISITING CRUISE SHIP PASSENGERS – 2005 AND 2010

Expenditure category	Average spending per person	
	<i>As recorded in 2005 TNS survey</i>	<i>Inflated to 2010 values</i>
Eating out	£2.23	£2.63
Shopping	£12.92	£15.21
Entertainment	£0.25	£0.29
Organised tours	£1.43	£1.68
Transport within Guernsey (buses/taxis)	£0.37	£0.44
Other expenditure (not defined)	£2.18	£2.57
Total spend per person per visit	£19.38	£22.82

Source: Survey of Cruise Visitors to Guernsey, 2005: TNS Travel and Tourism

- 5.5.13 The figures in **Table 11** show that even allowing for inflation, the average expenditure of cruise passengers in Guernsey is less than half that of the European average of £53. There may be a number of explanations for this disparity. Of note is the very low expenditure on organised tours/on shore excursions (an average of £1.68 per visiting passenger at 2010 prices).
- 5.5.14 As noted in the SWOT analysis in section 4 of this study, it has been observed that a number of cruise lines have commented on the need to further develop the tour

facilities in the Island. It may be that very few passengers are partaking in organised tours, compared to the European average.

5.5.15 This is borne out by further information in the TNS survey of cruise passengers, which shows that only 19% of visitors used an organised bus or coach tour, compared to 76% who walked. The close proximity of St Peter Port and easy access from the harbour may also be a factor.

5.5.16 There may also be an argument that given the fact that average spending in European ports is around £53 per passenger visit, that the figures for Guernsey obtained from the TNS Survey are an underestimate. Without a further survey, it is impossible to verify this. It is likely that the true figure lies between the two.

5.5.17 However, in the absence of further evidence, for the purposes of this study, economic impact is calculated based on the figures obtained from the TNS Survey.

5.5.18 ECONOMIC IMPACTS THROUGH SPENDING OF VISITING CRUISE SHIP CREW

5.5.19 The European Cruise Council (The Contribution of Cruise Tourism to the Economies of Europe, 2010 edition), estimate that on average, 40% of cruise ship crew visited ports during cruise calls and spent on average €16 (£14) each at each visit.

5.5.20 Whilst passenger to crew ratios varies across the industry, depending on the type of ship and itinerary offered, a good average to use would be in the region of 1 crew member to every three passengers. With 56,563 scheduled passengers in 2010, this gives a potential crew throughput of around 21,800. If the European average of 40% of cruise ship crew visiting each port was applied, this gives a potential number of cruise ship crew visitors as 8,720.

5.5.21 However, because cruise ships need to stay at anchorage when visiting Guernsey, it is likely that the numbers of crew coming ashore are actually very small. Estimating the number at (perhaps optimistically) somewhere around 10%, would give the number of crew visits at 2,180. Given an average expenditure of £14 each, would generate an economic impact of £30,520. Therefore the current direct economic impact of cruise ship crew coming ashore in Guernsey is relatively small in comparison to the impact generated by cruise ship passenger visitors.

5.5.22 ECONOMIC IMPACTS THROUGH SPENDING BY CRUISE LINES ON LOCAL GOODS AND SERVICES

5.5.23 The main area of expenditure by cruise lines is mainly on the harbour dues and pilotage charges incurred by cruise ships at anchorage off the harbour.

5.5.24 INCOME FROM HARBOUR DUES

5.5.25 Charges are applied in two areas:

- A charge for cruise ships entering the Harbour or roadstead; and
- A charge for pilotage of a vessel for the purpose of entering or leaving or making use of the ports of St Peter Port or St Sampson, or the roadstead .

5.5.26 These charges raise an average of £40,000 to £50,000 a year. Because charges are based on the gross tonnage of a vessel, the trend towards larger vessels has resulted in an increased level of receipts in recent years.

5.5.27 INCOME FROM SHIPS' HANDLING AGENTS

5.5.28 The final area of direct expenditure relates to the fees paid by cruise ships companies to handling agents, and income earned from services and supplies made to visiting cruise ships.

5.5.29 In 2010, a total of 46 cruise ships visited Guernsey. It is estimated that income from handling charges and servicing the cruise ships with supplies equates to approximately £1,000 per visiting ship. This represents an estimated direct expenditure of £46,000 in 2010.

5.5.30 SUMMARY OF DIRECT ECONOMIC IMPACTS AND "VALUE ADDED"

5.5.31 The "value added" calculation is made by using figures recorded by an economic impact study of the tourism sector conducted by Deloitte and Touche in 1995, which estimated that 70% of direct expenditures in the tourism sector resulted in added value to the economy. Although considerably out of date, this is the only study of the tourism sector in Guernsey which has been carried out. The resultant figures should therefore be treated with a degree of caution. However, it is unlikely that the intrinsic nature of the

tourism industry has changed that much since the time of the Deloitte and Touche study, and more importantly the results from the survey accord with more recent studies of other jurisdictions.

5.5.32 Adding together the expenditure of visiting cruise passengers and the amount paid by cruise lines for harbour dues and to handling agents, the total direct spending on the Island by crew ship passengers, crew and cruise ship companies is estimated at just over £1.1m in 2010 – see **Table 12**. The “Value Added” – **or the amount that sticks to the Guernsey economy** is estimated to be £812,522.

TABLE 12: TOTAL DIRECT SPENDING AND THE “VALUE ADDED” OF THE CRUISE INDUSTRY - 2010

Cruise Ship Visitors coming ashore in 2010 = 44,382 (estimated)			
Expenditure category	Average spending per person <i>Based on TNS Survey</i>	Estimated Direct Spending	Value Added to the Guernsey Economy
Eating out	£2.63	£116,725	81,707
Shopping	£15.21	£675,050	472,535
Entertainment	£0.29	£12,871	9,010
Organised tours	£1.68	£74,562	52,193
Transport within Guernsey (buses/taxis)	£0.44	£19,528	13,670
Other expenditure (not defined)	£2.57	£114,062	79,843
Total expenditure by cruise passengers	£22.82	£1,012,717	£708,958
Total expenditure by cruise ship crew members		£30,520	£21,364
Income from Harbour dues		£50,000	£50,000
Income paid to handling agents		£46,000	£32,200
Total Direct Economic Impacts		£1,139,237	£812,522

5.6 USING INDIRECT AND INDUCED ECONOMIC IMPACTS TO CALCULATE TOTAL ECONOMIC IMPACTS

5.6.1 Whilst direct spending by cruise passenger tourists in the Island has an immediate effect on the local economy, there are further indirect and induced economic impacts that occur which have the effect of multiplying the impact of the value added:

- **Indirect** impacts are felt in the goods and service industries that supply the industries that receive expenditures by cruise ship visitors. In the example of a shop, the shop purchases goods and services from its suppliers, this results in a further economic impact – but this time indirectly.
- **Induced** impacts are generated from the spending by people employed indirectly or directly by those businesses conducting business with cruise visitors.

5.6.2 Estimating the indirect and induced economic impacts requires a detailed study of the economic contribution of the sector. There are no up to date studies available on the impact of the tourism sector, and so in order to calculate these figures, the information gathered by Deloitte and Touche in their 1995 study of the tourism sector is used. See paragraph 5.5.31 for comments on the use of these figures.

The total economic impact of the cruise tourism industry on the Guernsey economy is shown in **Table 13**. When the value added, indirect and induced economic impacts for the year 2010 are added together, a total economic impact of £1,548,938 is achieved.

TABLE 13: TOTAL ECONOMIC IMPACT OF CRUISE TOURISM IN GUERNSEY - 2010

Cruise Ship Visitors coming ashore in 2010 = 44,382 (estimated)				
	Value Added to the Guernsey Economy	Indirect Impacts	Induced economic impacts	Total Economic Impact
Total expenditure by cruise passengers	£783,513	£414,032	£205,774	£1,328,763
Total expenditure by cruise ship crew members	£21,364	£12,477	£6,238	£40, 079
Income from Harbour dues	£50,000	£29,200	£14,600	£93,800
Income paid to handling agents	£46,000	£26,864	£13,432	£86,296
Total Economic Impacts	£900,877	£526,113	£261,682	£1,548,938

6 MODELLING THE POSSIBLE IMPACTS OF PROVIDING AN ALONGSIDE BERTHING FACILITY

6.1 OVERVIEW

6.1.1 This section examines the changes in the economic impact of the cruise tourism industry that would arise from the provision of an alongside berthing facility for cruise ships visiting Guernsey.

6.2 SCENARIOS EXAMINED

6.2.1 In order to assess the possible economic impacts of the provision of an alongside berth, a number of scenarios are examined. There are three main benefits of providing an alongside berth. These are:

- an increase in passenger numbers that will occur from an increase in the number of vessels visiting Guernsey and the size of the vessels that visit;
- an overall rise in the amount that each cruise tourist spends on their visit to Guernsey; and
- income generated through the ability to charge higher harbor dues and to use the berth for other purposes (e.g. visiting “Super” Yachts).

6.2.2 INCREASING PASSENGER NUMBERS

6.2.3 An alongside berth of sufficient size (300m plus) for large vessels would enable considerably more passengers to disembark in Guernsey, given that the current need to remain at anchorage effectively limits the number of passengers that can come ashore because of the logistics tendering operations (see Section 4).

6.2.4 The alongside berth, if suitably configured would also enable vessels to call, even during inclement weather, which would otherwise have necessitated the cancellation of the visit. It would also be possible to extend the cruise ship season in to the shoulder months.

6.2.5 In order to gauge the economic impact of increasing passenger numbers, three scenarios are modelled, based on pessimistic, neutral and optimistic outcomes (**Table**

14). It is assumed that average spending by passengers remains the same (note: the effects of increased spending are covered in section 6.2.7).

TABLE 14: RANGE OF ECONOMIC IMPACTS THAT WOULD OCCUR IF PASSENGER NUMBERS INCREASED

		Pessimistic	Neutral	Optimistic
	<i>Baseline (2010)</i>	baseline +25%	baseline +50%	baseline +100%
Visits	44,382	55,478	66,573	88,764
Value Added	£708,958	£886,198	£1,063,437	£1,417,916
Indirect and induced economic impacts	£619,805	£770,991	£925,190	£1,233,587
Estimated Economic Impact	£1,328,763	£1,657,189	£1,988,627	£2,651,503
Increase in Economic Impact		+£328,426	+£659,864	+£1,322,740

6.2.6 **Table 14** shows that a 25% in passenger would generate an additional £328,426 in total economic impact. In contrast a doubling of passenger numbers would increase the total economic impact to £2.6m – an increase of £1.3m.

6.2.7 It would **not** be unrealistic to assume that an increase in passenger numbers of between 50% and 100% would be achievable. Analysis of cancellations due to weather showed that a potential loss of 40,000 passengers occurred in 2009 (see Figure 5 on page 21). An alongside berth would also increase the number of passengers coming ashore from the current estimate of 75% of ship capacity. The ability to dock larger vessels would also considerably increase passenger numbers.

6.2.8 However, increasing passenger numbers is just one side of the equation – the other being the average expenditure of those passengers when in Guernsey. This is covered in the following section.

6.2.9 INCREASING THE AVERAGE EXPENDITURE OF VISITING CRUISE PASSENGERS

- 6.2.10 As explored in section 5.5.8 and in the paragraphs that follow, the average expenditure of cruise passengers visiting Guernsey appears to be very low compared to the European average. The average expenditure is estimated at £22.82 for 2010 (using updated figures from a survey conducted in 2005 by TNS Travel and Tourism), compared to a European average of £53 (£60).
- 6.2.11 If policies were introduced to grow the cruise tourism market in Guernsey, which may include the provision of an alongside berth, there is potential to increase the average expenditure of cruise passengers. A main area of improvement as noted in the SWOT analysis in section 4, would be the development and enhancement of on shore excursions (organised tours) for visiting cruise ship passengers. This is an area of high expenditure for cruise tourists and could help to considerably boost average expenditure figures.
- 6.2.12 As with the analysis of increasing passenger numbers, three possible scenarios are modelled - based on pessimistic, neutral and optimistic outcomes – see **Table 15**. It shows that simply increasing average passenger spending to the average European levels of expenditure would increase the economic impact by £1.7m.

TABLE 15: RANGE OF ECONOMIC IMPACTS THAT WOULD OCCUR IF AVERAGE PASSENGER EXPENDITURE INCREASED

	<i>Baseline (2010)</i>	Pessimistic baseline +30%	Neutral baseline +60%	Optimistic baseline +130% (N.B .This is the European average)
Average expenditure	£22.82	£26.23	£36.51	£52.49
Value Added	£708,958	£814,774	£1,134,333	£1,630,604
Indirect and induced economic impacts	£619,805	£708,853	£986,870	£1,418,625
Estimated Economic Impact	£1,328,763	£1,523,627	£2,121,203	£3,049,229
Increase in Economic Impact		+£194,864	+£792,440	+£1,720,466

6.2.13 COMBINED EFFECT OF INCREASING PASSENGER NUMBERS AND THE AVERAGE EXPENDITURE OF VISITING CRUISE PASSENGERS

The combined effect of increasing passenger numbers and their average expenditure would generate between £1.9m (pessimistic case) and £6.0m (optimistic case) in economic impact, compared to the current economic impact of £1.3m (see **Table 16**). The optimistic case shows an increase in economic impact of £4.7m

TABLE 16: COMBINED EFFECT OF RANGE OF ECONOMIC IMPACTS THAT WOULD OCCUR IF PASSENGER NUMBERS AND THE AVERAGE PASSENGER EXPENDITURE INCREASED

		Pessimistic	Neutral	Optimistic
	<i>Baseline (2010)</i>			
Average expenditure	£22.82	£26.23	£36.51	£52.49
Number of visits	44,382	55,478	66,573	88,764
Value Added	£708,958	£1,018,467	£1,701,499	£3,261,207
Indirect and induced economic impacts	£619,805	£886,066	£1,480,305	£2,837,250
Estimated Total Economic Impact	£1,328,763	£1,904,533	£3,181,804	£6,098,457
Increase in Economic Impact		+£575,770	+£1,853,041	+£4,769,694

6.3 CONCLUSIONS OF THE MODELLING EXERCISE

6.3.1 The analysis carried out in this section of the study has shown that the economic impact of providing an alongside berthing facility in Guernsey could generate over £6m per annum in economic impact, £4.7m more than the current situation. A range of scenarios have been presented to convey the range of possible economic impacts. It is clear that a modest rise in either passenger numbers or more especially, average passenger expenditure would have a potentially large economic impact.

6.4 OTHER POTENTIAL USES AND INCOME FROM AN ALONGSIDE BERTH

6.4.1 There would also be further scope for increasing the economic impact gained from the use of an alongside berth in Guernsey. These fall in to two areas:

- Increased harbor charges for use of the berth
- Use of the berth for other uses – e.g. Super Yachts

6.4.2 HARBOUR DUES

6.4.3 There will be considerable potential for revising the harbour dues fee schedule which could raise additional income. A full analysis of what charges could be raised is outside the scope of this study, however, a study conducted by Fisher Associates which reviewed the use of Guernsey harbours indicated that “a cruise ship making an alongside call would expect to pay up to twenty times more port costs than they presently pay at anchorage”.

6.4.4 On this basis, the current income from harbour dues from Cruise Ships would increase from £50,000 per annum to £1m.

6.4.5 SUPER YACHTS

6.4.6 Another potential income stream could arise from the servicing of Super Yachts. There is currently considerable demand for calls at St Peter Port Harbour from Super Yachts wishing to re-provision (both in terms of fuel and supplies). It is estimated that were sufficient berths available, then it might not be unreasonable to assume over 100 visits a year. This would generate extra revenue for use of the berth, especially useful when it was not being used by cruise ships, as well as generating income for local suppliers of fuel and provisions. The potential income from this source would be worthy of further investigation.

7 SPECULATIVE FINANCIAL MODELLING OF A POSSIBLE ALONGSIDE BERTH DEVELOPMENT

7.1 OVERVIEW

- 7.1.1 Section 6 of this study has shown that investment in an alongside berthing facility could have the effect of increasing the economic impact of the cruise tourism industry from £1.3m (as at present) to as much as £6.0m. The following analysis presents some scenarios which look at whether the extra economic impact generated would justify investment in an alongside berth.

7.2 CAUTIONS

- 7.2.1 It must be noted that the following analysis is speculative and at a simplistic level. At this stage there are several unknowns, such as the possible cost of an alongside berth and the potential investment that may come from the private sector. The following figures must therefore be treated as extremely high level and indicative only of possible outcome. **Other costs such as maintenance and upkeep have not been considered as part of the analysis that follows.**

7.3 ANALYSIS

- 7.3.1 For the purpose of this analysis, a range of scenarios are covered which reflect a range of capital costs for the development of an alongside berth. These have been pitched at £25m, £40m and £80m (the cost of an alongside berth is not known at present) to cover a range of possible cost scenarios.
- 7.3.2 The analysis in **Table 18** shows that on the assumption that the alongside berth would achieve the “best case” economic impact of £6.0m, an assumed tax take of 10% from this economic impact would be in the region of £600,000 per annum.
- 7.3.3 There are also other income streams that could/should contribute to the income stream to offset the capital cost. At present, income paid in harbour dues for visiting cruise ships averages approximately £1,000 a vessel, and generates approximately £40,000 to £50,000 a year (based on an average of 40 to 50 vessels a year). A study would need to be made of other cruise ports to ascertain how much could be charged, but it must be assumed that if vessels were now using an alongside berth, this would justify charging

considerably more than the current arrangements and there would therefore be the possibility that this income would help to offset capital costs. Indications are that this income could be up to 20 times that of the current income, and this could be further boosted by the ability to service Super Yachts, which could also take advantage of the alongside berth. Income from cruise ships is currently £50,000 per annum; multiplying this by a factor of 20 gives an income of £1m.

7.3.4 If the notional income from tax take is combined with the additional income from charging for the use of the alongside berth, a theoretical payback period of 23 years for an investment of £25m, could be achieved - see **Table 18** below. However, an investment of £40m would achieve a payback in 60 years. This calculation assumes a discount rate on the assumed income of 3.5%. Discounting is an accounting technique used to compare costs and benefits that occur in different time periods.

TABLE 18: ESTIMATED PAYBACK PERIODS FOR A RANGE OF INVESTMENT COST OPTIONS: SCENARIO A: STATES OF GUERNSEY FUNDS THE WHOLE COST

Capital Cost	£25,000,000	£40,000,000	£80,000,000
Economic Impact	£6,098,457	£6,098,457	£6,098,457
Estimated tax take (10% of econ impact)	£609,846	£609,846	£609,846
Extra income from alongside berth	£1,000,000	£1,000,000	£1,000,000
Total assumed Income	£1,609,846	£1,609,846	£1,609,846
Discount rate	3.50%	3.50%	3.50%
Years to breakeven	23	60	over 60

7.3.5 The payback periods for the States shown in Scenario A (**Table 18** above), could be reduced if private investment is thrown in to the mix. **Table 19** shows the results of a scenario where the costs of the project are shared on the basis of 75% States, 25% Private investment (Scenario B). Income from the new berth has been reduced accordingly, to take into account the private sector investor's share of the income – in this case assumed to be 25% of the harbour charges.

TABLE 19: ESTIMATED PAYBACK PERIODS FOR A RANGE OF INVESTMENT COST OPTIONS: SCENARIO B: STATES OF GUERNSEY FUNDS 75% OF COST, PRIVATE SECTOR INVESTMENT OF 25% OF CAPITAL COST

Capital Cost	£18,750,000	£30,000,000	£60,000,000
Economic Impact	£6,098,457	£6,098,457	£6,098,457
Estimated tax take (10%)	£609,846	£609,846	£609,846
Extra income from alongside berth	£750,000	£750,000	£750,000
Total assumed Income	£1,359,846	£1,359,846	£1,359,846
Discount rate	3.50%	3.50%	3.50%
Years to breakeven	20	43	over 60

7.3.6 If the alongside berth was to be funded on the basis of a 50:50 partnership, then the payback period of a £40m investment would be reduced below 30 years – see **Table 20**.

TABLE 20: ESTIMATED PAYBACK PERIODS FOR A RANGE OF INVESTMENT COST OPTIONS: SCENARIO C: STATES OF GUERNSEY FUNDS 50% OF COST, PRIVATE SECTOR INVESTMENT OF 50% OF CAPITAL COST

Capital Cost	£12,500,000	£20,000,000	£40,000,000
Economic Impact	£6,098,457	£6,098,457	£6,098,457
Estimated tax take (10%)	£609,846	£609,846	£609,846
Extra income from alongside berth	£500,000	£500,000	£500,000
Total assumed Income	£1,109,846	£1,109,846	£1,109,846
Discount rate	3.50%	3.50%	3.50%
Years to breakeven	15	29	over 60

7.4 CONCLUSIONS

- 7.4.1 Even allowing for the simplistic nature of the foregoing analysis, the conclusion can be reached that given the potential economic impact that could be generated from the provision of an alongside berth, the notional income generated by way of tax take from this economic impact, and the income from increased harbour dues would be sufficient to make the investment in an alongside berth viable if the capital cost of the project were to be somewhere between £25m and £40m. However, a further detailed study of the financial viability would need to be conducted before a firm investment decision was made.
- 7.4.2 The investment would become even more attractive should the development of an alongside berth for cruise ships become part of an overall scheme to redevelop commercial aspects of St Peter Port Harbour, since economies of scale could be achieved when working towards both objectives.

8 CONCLUSIONS AND RECOMMENDATIONS

8.1.1 CRUISE TOURISM AT A CROSSROADS

8.1.2 There are considerable strengths to Guernsey's offering as a cruise tourism destination. The industry is a growing and important aspect of the tourism market as a whole, and contributed an estimated £1.3m in economic impact to the Island in 2010.

8.1.3 However, it is clear that Guernsey's cruise tourism industry has reached an important crossroads, where a decision needs to be made whether it is prudent and desirable to invest in the future of the industry. There is evidence to suggest that because of limitations of port capacity and facilities, the industry is under-developed and there are considerable opportunities for future growth. At the same time, there are threats to the local industry that could prevent further growth unless further investment is made.

8.1.4 The strategic direction and form of this investment will need to be informed through up to date figures and reliable information. This study is the first step in this process, and has shown that there is considerable potential for growth of the industry which will need to be subject to further study and review. This study have shown that with appropriate investment and strategies in place, the Cruise Tourism market could be worth up to £6m a year to the Guernsey economy.

8.1.5 THE NEED FOR ACCURATE DATA

8.1.6 In order to estimate the economic impact of the cruise tourism industry on the Guernsey economy, it has been necessary to use data from a number of studies that are a number of years out of date. The obvious concern is that this may mean that data does not reflect the current position.

If it is decided to take this project forward, sources of data on both the average expenditure of cruise tourists and the flows of expenditure within the industry will need to be updated in order to give a reliable estimate of the impact of cruise tourism.

8.1.7 SPECULATIVE FINANCIAL MODELLING

8.1.8 Although the cost of an alongside berth for cruise ships is not known, using possible investment costs of £25m, £40m and £80m coupled with the likely economic impacts

that might be generated, it has been possible to estimate the viability of proceeding with this type of investment. Although conducted at a basic level, the analysis has shown that there is potential for a project to be viable with an investment of between £25m and £40m depending on the level of investment that may be forthcoming from the private sector. The project would also become much more viable if it were to be part of a scheme for the commercial redevelopment of St Peter Port harbour as a whole.

- 8.1.9 There would also be benefit in reviewing the fees currently charged to cruise liners to ascertain that Guernsey is charging appropriate market rates compared to other ports, as these could form an important revenue stream to offset investment costs.

8.1.10 RECOMMENDATIONS

- 8.1.11 The following recommendations are made in order to make a decision as to whether to take this project forward:

- That the contribution made by cruise tourism towards the Guernsey economy should be acknowledged.
- That further investigations should be made into the cost and feasibility of building an alongside berthing facility. This will include identifying likely requirements in terms of budget and a realistic scenario of what would be needed in terms of investment from the States of Guernsey and from a private investor.
- As part of these investigations, consideration should be given to conducting an up to date survey of cruise passengers to ascertain their expenditure whilst on the Island. This will enable figures presented in this report to be validated and updated. Consideration should also be given to conducting a study to ascertain up to date figures on the flows of income that occur within the tourism industry in Guernsey.

9 BIBLIOGRAPHY

- The Cruise Industry: A €34 Billion Partner in Europe's Economic Growth – Contribution of Cruise Tourism to the Economies of Europe 2010 edition. European Cruise Council.
- The Cruise Review: Passenger Shipping Association, May 2011.
- European Cruise Council: 2010/2011 Report.
- Survey of Cruise Visitors to Guernsey, TNS Travel and Tourism, November 2005.
- An Examination of the position of Guernsey in the Cruise Market, GP Wild, 2010.
- Tourist facilities in ports- the Economic Factor, August 2009. The Policy Research Corporation, commissioned by the European Commission, Directorate-General for Maritime Affairs and Fisheries.
- Economic Impact of Tourism – Daniel J Stynes, University of Michigan.
- Guernsey Advisory and Finance Committee – 2001 Economic and Statistic Review
- Policy Council: 2010 Facts and Figures booklet.

(NB The Treasury and Resources Department recognises that there may be potential merit in this proposal and supports further, more detailed investigations being undertaken although it should be emphasised that this does not represent and form ‘pre-prioritisation’ of this project. Harbour projects currently compete alongside other capital projects within the Capital Prioritisation process. The Department would wish to be very closely involved in any further investigations to ensure, in particular, that any funding models which are developed are both sustainable and financially beneficial to the States. In this respect it would appear that, at the higher end of the anticipated range of costs, the value of the resulting economic benefits would diminish, in comparison, to the extent that they would probably be incapable of underpinning the justification for the costs and any private investment would be unlikely.)

(NB The Policy Council supports this proposal.)

The States are asked to decide:-

XVI.- Whether, after consideration of the Report dated 9th November, 2011, of the Public Services Department, they are of the opinion:-

1. To agree that the potential economic and business opportunities offered through the development and construction of a cruise liner berth merit further exploration.

(NB The Public Services Department has requested that this matter be debated in accordance with Rule 12(4) of the Rules of Procedure of the States of Deliberation which provides:

“Where a Department or Committee originating a matter for debate before the States is of the opinion that the proposals it is submitting to the States are ones of general policy, and where it is desirable that the general principles of that policy should be considered, the Department or Committee may request that its propositions be considered by the States without amendment, on the understanding that if the propositions are accepted, the Department or Committee would return with detailed proposals which could be accepted or rejected, together with any amendments.....”)

STATES ASSEMBLY AND CONSTITUTION COMMITTEE

PUBLICATION OF MEMBERS' VOTES IN ELECTIONS

The Presiding Officer
The States of Guernsey
Royal Court House
St. Peter Port

14th November 2011

Dear Sir

EXECUTIVE SUMMARY

This report proposes that the Rules of Procedure of the States of Deliberation be amended to the extent that in elections for the offices of Chief Minister, Deputy Chief Minister, Minister and Chairman (alternatively for the office of Chief Minister only) the Greffier shall publish a list detailing the vote cast by each Member of the States.

REPORT

1. Until the coming into force of the Loi relative au Scrutin Secret of 1899 no elections in Guernsey were held by secret ballot. In the case of the election of Jurats of the Royal Court and Her Majesty's Sheriff elections were conducted by means of an *appel nominal* whilst the elections of Constables, Douzeniers and other parochial officials were held either *vive voix* or by a show of hands. The 1899 Law made the secret ballot compulsory for elections of Jurats, the Sheriff and the then newly-created office of Deputy of the States, and optional for all the parochial elections. That position remains unchanged to this day.
2. Insofar as the selection of presidents and members of States Committees is concerned, it appears that for some time after 1899 elections were either by *appel nominal* or *vive voix*. Certainly by 1953, when a major consolidation and reform of the Rules of Procedure took place, elections for such offices were held by secret ballot.
3. Rule 20 (2) (a) of the Rules of Procedure provides that in any election by the States, where the number of candidates exceeds the number of vacancies, voting shall be carried out by secret ballot.

4. The offices which are subject to that provision are Chief Minister, Deputy Chief Minister, Ministers, Chairmen and members of Departments, Committees and some Non-Governmental Bodies.
5. Notwithstanding the conclusions reached later in this report, the Committee wishes to state its absolute and firm commitment to the preservation of the secret ballot in the election of People's Deputies. There can be no doubt that the secrecy of the ballot box is inviolable in that context.
6. However, the Committee believes that elections conducted within the States of Deliberation should be conducted in a manner which is both transparent and accountable. All recorded votes, other than those relating to elections, are held by *appel nominal* and are thus subject to public scrutiny. Indeed motions of no confidence and propositions to accept the resignation of a Member are also held by *appel nominal*. The Committee holds that the way in which States Members select the holders of key positions in the States, i.e. Chief Minister, Deputy Chief Minister, Minister and Chairman should be open and subject to the same public scrutiny as is the case when the proposition is to remove a Member from office. The importance of these elections cannot be under-estimated: they are the first key process undertaken by the newly-elected States.
7. In favour of the status quo it might be argued that a secret election ensures that Members are able to vote for the best candidate without fear or favour and that in a consensus system of government open elections may engender disharmony. The Committee, however, does not subscribe to that argument. It firmly believes that the paramount criterion has to be openness and transparency. This principle applies both in the relationship between States Members and the public and between Deputies themselves.
8. That being so, consideration has been given to how a transparent election can be achieved. Whilst the Committee was advised that no practical difficulty was envisaged with regard to each Member naming his preferred candidate aloud, it was concerned that such a process would be un-parliamentary and could result in Members who voted towards the end of the *appel nominal* being influenced, or perceived to be influenced, by Members who had already voted.
9. The Committee has therefore concluded that voting should continue to be by secret ballot as at present. However, Members would be issued with a ballot slip pre-printed with their names. Each vote would then be counted, as at present by one of Her Majesty's Deputy Greffiers, and the result of the ballot announced to the States by the Presiding Officer. H. M. Greffier would then publish on the States website and on a notice board in the Grand Hall of the Royal Court a list showing each individual Member's vote. To achieve this,

a minor amendment to Rule 20 (2) (a) will be required, as set out in paragraph 16.

10. The election of ordinary members of Departments and Committees is not included in the proposed system. There would be some logistical issues in so doing but the primary reason is that it is in the election of the key offices that transparency is particularly required.
11. The system proposed is broadly similar to that recently introduced in the States Assembly in Jersey in relation to the election of the Chief Minister. Whilst the Committee firmly believes that the proposed change should apply to all the key offices, it acknowledges that some Members may be of the opinion that the proposed change should only apply to the office of Chief Minister. It is for that reason that the recommendation in paragraph 16 (which will be reflected in the propositions) has been drafted to enable Members to apply the proposed scheme to the office of Chief Minister only.

PRINCIPLES OF GOOD GOVERNANCE

12. The Committee is of the view that good governance demands that the internal election process should be robust, well-informed and transparent and that the proposal contained in this report will further that objective.

CONSULTATION / RESOURCES / NEED FOR LEGISLATION

13. The Deputy Presiding Officer and H. M. Greffier have been consulted pursuant to Rule 14 (6) of the Rules relating to the Constitution and Operation of States Departments and Committees. The Law Officers have not identified any reason in law why the proposal set out in this Report cannot be implemented.
14. The approval of the recommendation would have no implications for the manpower resources of the States nor does it require any legislation.

STATEMENT OF DISSENT

15. Deputy T. M. Le Pelley opposes the proposal contained in this Report and favours maintaining the present system. He may, therefore, speak and vote against these proposals in the States of Deliberation.

RECOMMENDATION

16. The States Assembly and Constitution Committee recommends the States to agree that the Rules of Procedure of the States of Deliberation be amended with immediate effect as follows:

1. in Rule 20 (2) (a), before the semi-colon, add the words:

“, save that in elections for the offices of Chief Minister, Deputy Chief Minister, Minister and Chairman the Greffier shall publish as soon as possible thereafter a list detailing the vote cast by each Member of the States”;

2. in Rule 20 (2) (a), before the semi-colon, add the words:

“, save that in elections for the office of Chief Minister the Greffier shall publish as soon as possible thereafter a list detailing the vote cast by each Member of the States”.

N.B. recommendation 2 will fall if recommendation 1 is carried.

Yours faithfully,

I. F. RIHOY

Chairman
States Assembly and Constitution Committee

Members of the Committee are

Deputy I. F. Rihoy (Chairman)
Deputy M. M. Lowe (Vice-Chairman)
Deputy T. M. Le Pelley
Deputy S. L. Langlois
Deputy M. J. Fallaize

The States are asked to decide:-

XVII.- Whether, after consideration of the Report dated 14th November, 2011, of the, States Assembly And Constitution Committee, they are of the opinion:-

1. That Rule 20 (2) (a) of the Rules of Procedure of the States of Deliberation shall be amended with immediate effect as follows:

before the semi-colon, add the words:

“, save that in elections for the offices of Chief Minister, Deputy Chief Minister, Minister and Chairman the Greffier shall publish as soon as possible thereafter a list detailing the vote cast by each Member of the States”.

2. That Rule 20 (2) (a) of the Rules of Procedure of the States of Deliberation shall be amended with immediate effect as follows:

before the semi-colon, add the words:

“, save that in elections for the office of Chief Minister the Greffier shall publish as soon as possible thereafter a list detailing the vote cast by each Member of the States”.

(NB Proposition 2 will fall if Proposition 1 is carried.)

STATES ASSEMBLY AND CONSTITUTION COMMITTEE

STATEMENTS

The Presiding Officer
The States of Guernsey
Royal Court House
St. Peter Port

14th November 2011

Dear Sir

EXECUTIVE SUMMARY

This report proposes that Rule 8 of the Rules of Procedure of the States of Deliberation be amended to the extent that all statements (other than those which relate to a matter of a personal nature) shall be followed by a period not exceeding 15 minutes for questions to be asked within the context of the statement made.

REPORT

1. Rule 8 of the Rules of Procedure is in the following terms:
“Any Member who has obtained permission from the Presiding Officer to make a statement on any matter which, in the opinion of the Presiding Officer, should be made, may make that statement
(i) at the time prescribed in Rule 9, or
(ii) at such other time as the Presiding Officer may direct.”.
2. There is no provision in the Rules for questioning the person making the statement immediately after the statement has been made. The Rule also makes no distinction between a statement relating to the business of a States Department or Committee and a personal statement made by an individual Member of the States.
3. The States Assembly and Constitution Committee is of the view that statements relating to States business should be open to challenge and scrutiny and that this can be achieved by allowing a period of questions immediately following the making of a Statement. It considers, however, that personal statements should not be subject to questioning.
4. In the House of Commons there is no specific Standing Order which either allows or prohibits questions after a statement. However, *Erskine May*¹, in

¹ Erskine May: Parliamentary Practice, 22nd edition, pp. 307 and 313

the context of Ministerial Statements, states: “*As no question is before the House, debate on such statements is irregular, but questions arising from the statement are normally raised and replies given by the Minister. It is not the normal practice for questions on more than one statement to be taken at the same time.*”. With regard to Personal Statements, *Erskine May* goes on to state: “*Because the practice of the House is not to permit such statements to be subject to intervention or debate, the precise contents of the proposed statement are submitted in advance to the Speaker to ensure that they are appropriate.*”.

5. With regard to the States Assembly in Jersey, the Standing Orders distinguish between “Personal Statements” and “Statements on matters of Official Responsibility”. Leave must be sought to make a personal statement. With regard to other statements, if notice is given leave is not required. Questions cannot be put following the making of a personal statement but, in respect of statements on matters of official responsibility, a period of 10 minutes is allowed for questions to be placed regarding the contents of the statement made.
6. The provision is similar in the Isle of Man regarding personal statements. With regard to other statements, there is no time limit prescribed in respect of the period for questions which may be asked following the making of the statement.
7. The Committee concurs with the practice in the three aforementioned parliaments that Members should not be permitted to ask questions following a personal statement. With regard to other statements relating to States business, it is of the opinion that questions should be permitted but that the period for such questions be limited to 15 minutes for each statement. When a supplementary question is being answered pursuant to Rule 5 (4), the Member answering may decline to do so if he considers any answer given might be inaccurate or misleading. This proviso should also apply in the case of questions asked following a statement. To achieve this, an amendment to Rule 8 will be required, as set out in paragraph 11.

PRINCIPLES OF GOOD GOVERNANCE

8. The Committee is of the view that good governance demands that any matter debated or reported upon in the States of Deliberation should be open to challenge and scrutiny, and that the proposals contained in this report will further that objective.

CONSULTATION / RESOURCES / NEED FOR LEGISLATION

9. The Deputy Presiding Officer and H. M. Greffier have been consulted pursuant to Rule 14(6) of the Rules relating to the Constitution and Operation of States Departments and Committees. The Law Officers have

not identified any reason in law why the proposal set out in this Report cannot be implemented.

10. The approval of the recommendation would have no implications for the manpower resources of the States nor does it require any legislation.

RECOMMENDATION

11. The States Assembly and Constitution Committee recommends the States to agree that the Rules of Procedure of the States of Deliberation be amended with immediate effect as follows:

delete Rule 8, and substitute therefor:

- “8. (a) Any Member who has obtained permission from the Presiding Officer to make a statement on a matter of a personal nature which, in the opinion of the Presiding Officer, should be made, may make that statement
- (i) at the time prescribed in Rule 9, or
 - (ii) at such other time as the Presiding Officer may direct.
- (b) Any Member who has obtained permission from the Presiding Officer to make a statement on behalf of a Department or Committee or otherwise relating to States business which, in the opinion of the Presiding Officer, should be made, may make that statement
- (i) at the time prescribed in Rule 9, or
 - (ii) at such other time as the Presiding Officer may direct.
- After the Member has made the statement, the Presiding Officer shall allow a period not exceeding 15 minutes for questions to be asked within the context of the statement provided that the Member to whom questions are addressed may decline to answer a question if, in his opinion, any answer given by him might be inaccurate or misleading.”.

Yours faithfully,

I. F. RIHOY

Chairman

States Assembly and Constitution Committee

Members of the Committee are

Deputy I. F. Rihoy (Chairman)
 Deputy M. M. Lowe (Vice-Chairman)
 Deputy T. M. Le Pelley
 Deputy S. L. Langlois
 Deputy M. J. Fallaize

The States are asked to decide:-

XVIII.- Whether, after consideration of the Report dated 14th November, 2011, of the States Assembly And Constitution Committee, they are of the opinion:-

1. That the Rules of Procedure of the States of Deliberation shall be amended with immediate effect as follows:

delete Rule 8, and substitute therefor:

- “8. (a) Any Member who has obtained permission from the Presiding Officer to make a statement on a matter of a personal nature which, in the opinion of the Presiding Officer, should be made, may make that statement
- (i) at the time prescribed in Rule 9, or
 - (ii) at such other time as the Presiding Officer may direct.

- (b) Any Member who has obtained permission from the Presiding Officer to make a statement on behalf of a Department or Committee or otherwise relating to States business which, in the opinion of the Presiding Officer, should be made, may make that statement

- (i) at the time prescribed in Rule 9, or
- (ii) at such other time as the Presiding Officer may direct.

After the Member has made the statement, the Presiding Officer shall allow a period not exceeding 15 minutes for questions to be asked within the context of the statement provided that the Member to whom questions are addressed may decline to answer a question if, in his opinion, any answer given by him might be inaccurate or misleading.”.

STATUTORY INSTRUMENT LAID BEFORE THE STATES

**THE TAXATION OF REAL PROPERTY (GUERNSEY AND ALDERNEY)
(AMENDMENT) REGULATIONS, 2011**

In pursuance of section 49 (4) of the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007, the Taxation of Real Property (Guernsey and Alderney) (Amendment) Regulations, made by the Treasury and Resources Department on 8th November 2011, are laid before the States.

EXPLANATORY NOTE

These Regulations amend the Taxation of Real Property (Guernsey and Alderney) Ordinance, 2007, by amending for the purposes of clarification the definitions in section 54(1) the definition of “**owner**”, in paragraph 1 of Part III of Schedule 1, amending the definitions of “approved development site”, “domestic”, “flat”, “outbuildings”, “social housing”, tourist property”, “warehousing”, “whole unit” and by inserting definitions for “development building”, non-domestic”, non-owner occupied”, “owner-occupied” and “swimming pool”. These Regulations come into force on 1st January 2012.

Guernsey Quarterly Inflation Bulletin

30th September 2011 - Issue date 21st October 2011



POLICY COUNCIL
THE STATES OF GUERNSEY

1.1 Introduction

The Guernsey RPIX and RPI are measures of inflation used in Guernsey. They measure the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. The indices are published quarterly by the States of Guernsey Policy and Research Unit. The calculation of the RPIX and RPI are based on the price change of items within a 'shopping basket'. Whilst some prices rise over time, others will fall or fluctuate and the indices represent the average change in these prices. More detailed information on the calculation of these indices can be found at the end of this handout.

1.2 Headlines

- Guernsey's annual inflation as measured by RPIX ('core' inflation excluding mortgage interest payments) was 3.0% in the year ending September 2011, compared to 2.6% in the year ending June 2011 and 2.3% in the year ending September 2010.
- In the UK and Jersey the equivalent RPIX figures for the year ending September 2011 were 5.7% and 5.5% respectively (see [Figure 1.2.1](#)).
- Twelve of the fourteen RPIX groups increased in the year ending September 2011.
- The housing group made the largest upward contribution to the annual change in RPIX in September 2011, contributing 0.7 percentage points. The motoring and fuel, light and power groups each contributed 0.6 percentage points to the annual change.
- The 'all items' RPI inflation rate was 3.5% in the year ending September 2011, compared to 3.0% in the year ending June 2011 and 1.6% in the year ending September 2010.

Figure 1.2.1: Annual percentage change in RPIX

