

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY DAIRY ACCOUNTS 2018

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the Guernsey Dairy Accounts for the year ending 31 December 2018.

The above Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

States of Guernsey
States' Trading Supervisory Board
Guernsey Dairy

Report and Financial Statements

For the year ended 31 December 2018

States’ Trading Supervisory Board
Guernsey Dairy

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States' Trading Supervisory Board

Guernsey Dairy

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers

States' Trading Supervisory Board Members

Deputy P. Ferbrache, President	appointed 27 June 2018
Deputy J. Kuttelwascher	appointed 25 September 2018
Deputy C. Parkinson, President	resigned 27 June 2018
Deputy J. Smithies	
Mr S. Falla MBE	
Mr J. Hollis	

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and two members who shall be members of the States and two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers to the States' Trading Supervisory Board

Mr S. Elliott, Managing Director, States of Guernsey Trading Assets
Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr S. Gardiner, Finance Business Partner, States of Guernsey Trading Assets
Mr A. Ford, Head of Shareholder Executive, States of Guernsey Trading Assets

Dairy Management Board Members

Mr S. Hogg	resigned as Chairman 31 December 2018
Mr S. Falla MBE	appointed as Chairman 1 January 2019
Deputy J. Smithies	resigned 4th October 2018
Deputy J. Kuttelwascher	appointed 4th October 2018
Mr R. Waters	GFA representative
Mr R. Evans	non-voting STSB representative
Mr R. Nash	non-voting adviser
Mr A. Tabel	non-voting adviser
Mrs C. Edwards	non-voting adviser
Mr S. Langlois	non-voting adviser

The constitution of the Dairy Management Board ("DMB") is laid out in Billet XIII dated 5 April 2007 and amended in Billet XX dated 15 August 2014

Principal Officers to the Dairy Management Board

Mr R. Evans, Deputy Managing Director, States of Guernsey Trading Assets
Mr A. Tabel, General Manager, Guernsey Dairy
Mrs C. Edwards, Senior Finance Manager, Guernsey Dairy
Mr R. Nash, Director of Environment Services

Further information on the role of the DMB is provided in the Corporate Governance section.

In these Financial Statements any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the DMB.

States' Trading Supervisory Board Guernsey Dairy

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers – continued

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report

Overview

2018 was a year of continued improvement for Guernsey Dairy set against a challenging environment. Revenue increased despite declining volumes arising from pricing and evolution of the product mix. The underlying costs of the business have remained relatively constant but certain one off charges have resulted in a worsening in year deficit. Capital investment has continued as the business develops and improves its long term infrastructure plans, in particular with regard to the replacement of ageing equipment. The DMB and the Dairy management team have worked closely with STSB to ensure robust governance and effective management of a very dynamic business.

Business Performance

Supply of milk to the Island's population is the Dairy's primary responsibility and purpose with liquid milk sales accounting for 77.1% of product turnover. Milk volumes in 2018 continued a decline and this appears to be a wider trend related partially to changing consumer preferences. Butter, cheese, cream and ice-cream is produced from the cream left over from the manufacture of milk. Following a product mix review in 2016, use of surplus cream is now primarily utilised for butter rather than cheese production. This continued throughout 2018 and the year saw continued strong growth with a 21% year on year growth in butter revenues.

Milk pricing continues to be affected by the reduction in the Dairy Farm Management Payment, a payment made direct by the Committee *for the* Environment & Infrastructure to farmers. The States of Guernsey approved the reduction of this payment by £200k per annum from £2.085m in 2014 to £1.085m by 2019. Compensation for this had the effect of adding 2.56 pence per litre to the milk price each year.

The Dairy continues to manage its cost base and in 2019 will be carrying out an independent efficiency review to provide assurance that the current pricing model is reasonable and that cost reduction opportunities are identified and realised.

The Dairy continue to work closely with the Guernsey Farmers' Association ("GFA") to maintain and improve efficiency and quality. In 2018 the Farming community was impacted by the summer drought which resulted in higher feed costs. The Dairy, with the agreement of the STSB, agreed to compensate farmers resulting in a one off cost to the Dairy of approximately £156k.

The RSPCA Farm Assurance Scheme will be introduced by the start of 2020 and Guernsey Dairy has elected to adopt the highest standard of farm assurance. This and ongoing work with Agriculture, Countryside and Land Management Services is expected to benefit both the Island's countryside and environment.

A key area of work throughout 2018 has been on the ageing plant and equipment at the Dairy. In order to produce safe, drinkable milk, Guernsey Dairy operates a significant amount of specialised complex plant and equipment. A high proportion of this is ageing and is approaching the end of its life. As a result there has been considerable reactive maintenance throughout 2018 in order to ensure continuity of supply.

A key focus for the coming year will be to determine whether the current site and facilities are fit for purpose for now and into the future. A project team has been established and stakeholder engagement will begin imminently.

In the meantime, a prioritised capital plan is in place to replace essential ageing equipment, which could be used either in the existing Dairy or in a new Dairy facility, to be financed via a combination of cash reserves and long-term borrowing, the latter being a first for the Dairy.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report - continued

Financial Performance

The Dairy made a deficit in 2018 of £486k (2017 deficit £355k).

After adjusting for certain one off charges the Dairy made a deficit of £150k (2017: £128k deficit). This is detailed in the General Manager's Report.

The net cash inflow was £55k: £299k was spent on fixed assets and a £37k interest and investment loss was incurred. Net cash inflows from operating activities was £390k: debtors reduced by £283k and creditors increased by £341k. Cash and cash equivalents at the end of the year were £1.6m (2017: £1.5m).

At the year-end debtors and prepayments were £775k (2017: £1.1m), a decrease of £283k. The Dairy continues to work with its valued customers to ensure good credit management policies are in place.

Tangible fixed assets are £2.2m. The land and original buildings that the Dairy operate from is an asset of the States of Guernsey however it has been agreed that in 2019 this will be transferred to the Dairy's balance sheet at a fair value of £1m.

Reserves have decreased by £486k from £4.7m to £4.2m, because of the deficit in the year.

Our Community

The Dairy is committed to contribute to the Policy & Resource Plan's vision that: "We will be among the happiest and healthiest places in the world, where everyone has equal opportunity to achieve their potential. We will be a safe and inclusive community, which nurtures its unique heritage and environment and is underpinned by a diverse and successful economy."

The Dairy industry provides a sustainable-farmed countryside and thereby protects the environment and biodiversity of the Island, so facilitating a healthy community. Through providing a financially viable Dairy and dairy farming business, the Dairy industry protects and promotes our unique identity and rich heritage, ensuring our island is strong and sustainable.

In 2018 the Dairy continued to sponsor the Guernsey Annual Father's Day Milk Run, a popular community half marathon event run in association with the Guernsey Athletics Club.

The Team

The Dairy has a committed team of production and support staff. This year has been challenging with the production and engineering teams dealing with ageing plant and equipment and, despite this, maintaining continuity in the supply of milk to our customers.

I would like to thank the dedicated staff and employees for all their hard work and commitment throughout the year.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report - continued

The Future

In 2018, with the co-operation and engagement of the GFA and the Committee *for the Environment & Infrastructure*, the Dairy produced and published its five year Business Plan in which the key outcomes and business objectives for the next five years are established.

There is a focus on the Dairy making a sufficient surplus that ensures it is sustainable, whilst balancing this with the need to provide the infrastructure necessary to support the dairy farming business.

The key areas which the STSB has requested the DMB to focus on for the coming year are:

- The Dairy will carry out an independent efficiency review to provide assurance that the current pricing model is reasonable and that cost reduction opportunities are identified and realised.
- The Dairy will determine whether the current site and facilities are fit for purpose for now and into the future.

The Business Plan also identifies the importance of the brand and the desire for strong customer loyalty to the Guernsey Dairy amongst Islanders which will be a focus for the DMB in 2019.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report

The Guernsey Dairy presents its report and the audited financial statements for the year ended 31 December 2018. These are comprised of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 21.

Principal activities

Guernsey Dairy, a business unit of the STSB, operates to:

- Support a viable dairy industry in Guernsey by purchasing all locally produced milk;
- Satisfy the total consumer demand for fresh milk on Guernsey at an acceptable price to the consumer.

'Contributions' to the States of Guernsey

The Dairy did not make any financial contributions to the States of Guernsey in 2018 (2017: nil).

Customers

The Dairy's immediate customers are Trade Account holders who purchase milk and other dairy products from the Dairy and deliver them to shops, the catering food sector or to doorsteps. As a wholesaler, the Dairy does not set the retail price of milk allowing retail outlets to adjust the price to meet market demand.

Financial highlights

	Actual 2018 £'000	Budget 2018 £'000	Actual 2017 £'000
Revenue	8,198	8,341	7,729
(Deficit)/surplus for the financial year	(486)	25	(355)
Capital expenditure	299	750	179
Full time equivalent employees	38	38	37

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

Operational performance

Guernsey Dairy made an overall deficit of £486k in 2018, compared to a budgeted surplus of £25k; £511k below budget. The overall deficit was also a worsening on 2017's deficit position of £355k.

The key reasons for this are:

- A one off payment of c£156k was made to farmers to compensate for the impact of the summer drought;
- There was a timing difference between the price increase to farmers in January, and the increase in Gate price in March costing c£47k;
- Repairs and maintenance costs were £110k higher than budgeted, due to essential reactive maintenance on key Dairy equipment and buildings;
- We incurred a loss of £37k on States of Guernsey investments when in 2017 we benefitted from a return (2017: £78k)
- A review of the Dairy's fixed assets has led to an impairment loss of £70k being recognised in the financial statements.

When the one off costs including farmer compensation, impairment loss and the impact of the delay in increasing the Gate price are excluded from 2018 the deficit for the year was £150k. 2017 also suffered some one-off cost impacts and excluding these, 2017's performance was a deficit of £128k.

The following report highlights the reasons for some of the key variances in the financial statements and provides a summary of the year.

i) Revenue:

Overall revenues were £469k (6.1%) higher than 2017.

Liquid milk revenues were +3.6% ahead of the previous year. The gate price for liquid milk increased by 4.75p (4.8%) in March 2018. Milk sales in litres were down 2.8% against 2017.

Butter continued its strong sales performance with a 20.5% increase in sales revenues. Butter exports were broadly in line with the previous year with a 1% increase in UK and Holland revenues.

Butter prices were benchmarked against other like-for-like products and gate prices were amended during the year to reflect market conditions, demand and availability.

ii) Cost of Sales:

The total cost of raw milk purchases increased by 9.5% in 2018, this includes the one off payment and excluding this raw milk purchases increased by 5.8%.

The price paid to Farmers was increased by 4.066p per litre (7.6%) on 1 February 2018, to compensate farmers for inflationary increases as well as the reduction in the States of Guernsey's Dairy Farm Management Payment Scheme, approved by the States in 2014.

The annual Dairy Farm Management Payment was £2.1m in 2014, when the States approved its reduction by £200k per year over a 5-year period, to £1.1m p.a. by 2019.

Volume of milk intake at the dairy increased by 0.5% (41,448 litres) on the same period in 2017. This is a result of the Dairy and farmers working together to ensure the ideal production of liquid milk for the islands' needs with as little over or under production as possible.

Packaging expenses saw a £89k (15.6%) year on year increase largely due to supplier price increases.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

iii) Administration Expenses:

Total Administration expenses were £35k lower than 2017. The key reasons for this are:

- Repairs and maintenance were £94k lower than the previous year, whilst still higher than budget;
- Professional fees were £123k lower than the previous year; due to a targeted reduction in the Dairy's use of consultants; and
- These decreases were partially offset by other general cost increases.

The Dairy continues its focus on efficiency with set targets in 2019 to build on some of the savings realised in 2018.

iv) Capital Expenditure:

The Dairy's capital expenditure programme continued in 2018, resulting in expenditure of £299k in the year. This included spend on upgrading the Dairy's production system, such as a new butter cream tank, ice cream freezer and ice cream fruit feeder.

In 2017, surveys were commissioned on the Dairy buildings and equipment, and a plan to deal with immediate issues that these surveys highlighted is now being actioned. In tandem with this a project to determine the most appropriate future Dairy site has been started and any spend on capital is made with this in mind.

Statement of responsibilities for the preparation of financial statements

The STSB is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for Guernsey Dairy and of the surplus or deficit of Guernsey Dairy for that period. In preparing those financial statements, the STSB is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so; and
- state whether applicable accounting standards have been followed.

The STSB is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time Guernsey Dairy's financial position. The STSB is also responsible for safeguarding Guernsey Dairy assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of internal financial controls

It is the responsibility of the STSB to identify and install internal controls, including financial controls, which are adequate for its own purposes and to safeguard the assets of the States of Guernsey in its care, and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The STSB is responsible for the economic, efficient and effective operations and management of Guernsey Dairy and has a duty to ensure that they fulfil their obligations.

States' Trading Supervisory Board

Guernsey Dairy

General Manager's Report – continued

Guernsey Dairy's internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and DMB, to ensure that all board members are informed of Guernsey Dairy financial affairs.
- Client invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy.
- The control of materials and stores purchases are managed using Guernsey Dairy's stores database programme with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, which maintains detailed audit trails.
- Staff expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill.
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Group, which is constituted from the principal officers of the Guernsey Dairy.
- Regular review of milk and other product prices.
- Consideration of all audit reports by the STSB.

The STSB strives to ensure that all staff with financial responsibility in Guernsey Dairy have the appropriate integrity, skills and motivation to professionally discharge their duties.

Guernsey Dairy's internal controls and accounting policies have been and are subject to continuous review and improvement. In addition, the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

The financial statements are produced on a going concern basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Dairy has adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements.

Auditors

Grant Thornton Limited have expressed their willingness to continue in office as auditors.

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance

The purpose of the DMB is to support the delivery of the STSB's mandate, ensuring the efficient and effective management, operation and maintenance of the Guernsey Dairy.

The DMB is accountable to the STSB. It operates by challenging established practices and supports the business in establishing clear strategic direction in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey, STSB objectives and other key strategic reviews and organisational drivers.

The DMB will normally focus attention on a relatively small number of critical items, in particular those with potential to have the greatest impact on, and risk to, Guernsey Dairy operations whether financial, regulatory, health and safety, environmental or reputational.

DMB membership is primarily defined in Billet XIII 5th April 2007 and amended in Billet XX 15 August 2014. At its meeting of 4 May 2017, the STSB agreed to establish 'company' Boards for the trading assets including Guernsey Dairy. The DMB has therefore been supplemented with the addition of either a Senior Executive of an Incorporated Company or one or more Senior Officers of the States, the General Manager and the Financial Manager.

All members other than the General Manager and the Financial Manager are appointed by the STSB.

The quorum is the Chairman and the Political Member of STSB.

The Chairman is responsible for:

- The proper observance of the Terms of Reference;
- Overseeing and facilitating the conduct of the DMB meetings;
- Ensuring all DMB members have an opportunity to participate in discussion in an open, respectful and encouraging manner;
- Seeking consensus from the whole DMB for matters that may be referred to the STSB or when acting as a subcommittee; and
- Setting agenda items in conjunction with the General Manager.

The DMB does not hold a fiduciary responsibility.

The DMB will take into account the States' political direction with regard to the operations of Guernsey Dairy, as directed from time to time by the STSB. It must ensure that the Guernsey Dairy operation and operational policies align with the wider strategy and policy framework of the States of Guernsey and/or the STSB. The DMB may generate policy for endorsement by the STSB and onward to the States of Guernsey as required.

The DMB should operate by challenging established practices and assumptions, and creating, developing and critically reviewing long-term business plans and budgets to be set before the STSB for approval.

The STSB specifically confers the following responsibilities and delegated authority to the DMB:

- To approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB;
- To approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB;
- To approve and issue annual reports; and
- To guide and steer the Guernsey Dairy.

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance - continued

In carrying out these responsibilities the DMB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives policies and procedures of the States of Guernsey, such as, but not limited to: finance; procurement; property; human resources; data protection; health and safety management; risk and issue management; managing matters of litigation; and relevant legislation.

The DMB has the authority delegated by the STSB to direct the Guernsey Dairy General Manager in the day-to-day operation of Guernsey Dairy in line with approved budget and business plans. In fulfilling this purpose, the DMB will:

- Receive regular operational, sales/management information and financial reports from the General Manager and, as appropriate, reports from the Guernsey Dairy management team, with a view to directing the Guernsey Dairy as appropriate or recommending a course of action to the STSB;
- Receive and review regular financial performance reports;
- Receive updates on significant projects;
- Prioritise and ensure work streams progress in order to meet objectives and key performance indicators;
- Consider, advise and make recommendations on aspects of Guernsey Dairy operations and provision of service;
- Provide challenge and guidance within the capital investment and capital approvals process and approve capital expenditure within the DMB's delegated authority;
- Submit annual budgets and business plans in line with the States of Guernsey budgeting process to STSB;
- Consider and agree long-term business plans, budgets, forecasts (capital and revenue) prior to submission to the STSB for approval;
- Advise on and agree prices and pricing policy in relation to the services provided by Guernsey Dairy;
- Consider any regulatory authority reports in relation to Guernsey Dairy, including the Health and Safety Executive, review options and take action to ensure compliance;
- Own the Guernsey Dairy risk register and report risks in line with agreed policy; and
- Receive, review and recommend action from other reports as may be requested by the DMB.

A recommendation by the DMB to the STSB to amend the Terms of Reference must be made by majority of all DMB members.

STSB can supplement the Billet defined DMB membership at any time with non-voting advisers.

The DMB will meet on an as and when required basis, and in any event once a quarter. One such meeting shall be the equivalent of an Annual General Meeting, which all members of the STSB, the Managing Director, States of Guernsey Trading Assets and the Finance Business Partner shall attend.

In the event due process has not been followed, the DMB must render itself unable to make a decision until such time process has been followed.

Within five days of the meeting, the relevant Executive Assistant who attended the meeting, will prepare and circulate a confidential copy of the minutes for approval by members. Reports are distributed for consideration by the DMB not less than five days prior to the meeting.

The DMB acts as a political subcommittee of the STSB.

States' Trading Supervisory Board

Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy

Opinion

We have audited the financial statements of the States of Guernsey - States' Trading Supervisory Board - Guernsey Dairy (the "Business Unit") for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements give a true and fair view of the state of the Business Unit's affairs as at 31 December 2018 and of its deficit for the year then ended and are in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Business Unit in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Business Unit's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

States' Trading Supervisory Board

Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy – continued

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the Board for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of the financial statements in the General Manager's report, the Board is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Business Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton Limited

Chartered Accountants
Lefebvre House,
Lefebvre Street,
St Peter Port
Guernsey GY1 3TF

16 May 2019

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Revenue	2 & 4		
Liquid milk		6,305,003	6,088,744
Dairy products		1,876,989	1,620,109
Sundry income		15,902	20,260
		<u>8,197,894</u>	<u>7,729,113</u>
Expenses	2 & 5		
Production costs		6,414,152	5,876,291
Administration expenses		1,919,251	1,954,269
		<u>8,333,403</u>	<u>7,830,560</u>
Operating deficit before depreciation and loss on impairment of fixed assets		(135,509)	(101,447)
Depreciation	9	(242,818)	(242,028)
Loss on impairment of fixed assets		<u>(70,488)</u>	<u>(89,221)</u>
Operating deficit for the year		<u>(448,815)</u>	<u>(432,696)</u>
Investment (loss)/return and net interest receivable	6	<u>(37,055)</u>	<u>78,027</u>
Deficit for the financial year		<u>(485,870)</u>	<u>(354,669)</u>

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £	2017 £
Non-current assets			
Tangible fixed assets	9	2,164,400	2,182,564
Assets under construction	10	16,881	13,395
		2,181,281	2,195,959
Current assets			
Inventories	11	707,073	608,537
Debtors and prepayments	12	775,109	1,058,042
Balances with States Treasury		1,225,874	1,174,572
Cash at bank and in hand		329,419	326,076
		3,037,475	3,167,227
Creditors: amounts falling due within one year	13	(1,013,436)	(671,996)
Net current assets		2,024,039	2,495,231
Total net assets		4,205,320	4,691,190
Reserves	14	4,205,320	4,691,190

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy P. Ferbrache
President

16 May 2019

Signed on behalf of the States of Guernsey Trading Assets

Mr S. Elliott
Managing Director

16 May 2019

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Changes in Equity

for the year ended 31 December 2018

	Notes	2018 £	2017 £
At 1 January		4,691,190	5,045,859
Deficit for the financial year		(485,870)	(354,669)
At 31 December	14	4,205,320	4,691,190

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Net cash flows from operating activities	15	390,328	(199,463)
Cash flows from investing activities			
Purchase of fixed assets	9 & 10	(298,628)	(179,223)
Net cash flows used in investing activities		(298,628)	(179,223)
Cash flows from financing activities			
Investment (loss)/return and interest received	6	(37,055)	78,027
Net cash flows from financing activities		(37,055)	78,027
Net increase/(decrease) in cash and cash equivalents		54,645	(300,659)
Cash and cash equivalents at the beginning of the year		1,500,648	1,801,307
Cash and cash equivalents at the end of the year		1,555,293	1,500,648
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		329,419	326,076
Cash Balances with States Treasury		1,225,874	1,174,572
Cash and cash equivalents		1,555,293	1,500,648

Notes 1 to 21 form part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements

1. General information

The management, operation and maintenance of Guernsey Dairy is the responsibility of the States of Guernsey - STSB. The nature of Guernsey Dairy's operations and principal activities are set out in the General Manager's Report.

Guernsey Dairy's principal place of business is Bailiff's Cross, St Andrews, Guernsey, GY6 8RJ.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of Guernsey Dairy.

Going concern

The financial statements are produced on a going concern basis.

The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next twelve months, prepared by management, and deem that Guernsey Dairy has adequate financial resources to meet its obligations as they fall due. The Board therefore believe that Guernsey Dairy is a going concern for at least twelve months from the approval of the financial statements.

Tangible fixed assets

i) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment are depreciated over their expected useful life.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the beginning of the month of acquisition of an asset or, in the case of constructed assets, the asset being brought into a condition to be used as intended.

	Estimated life in years	Depreciation % per annum
Buildings	10 - 50	2% - 10%
Plant and machinery	5 - 20	5% - 20%
Motor vehicles	5 - 20	5% - 20%
Information technology	3 - 5	20% - 33.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses and are calculated using the FIFO (first-in, first-out) method. Provisions are made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade and other debtors

Invoiced trade and other debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses.

ii) Trade and other creditors

Trade and other creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost.

iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Dairy. Whilst Guernsey Dairy operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as Cash and Cash Equivalents on Guernsey Dairy's Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

iv) De-recognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Dairy transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Dairy, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in a contract is discharged, cancelled or expires.

Revenue and expenses

Revenue and expenses are accounted for on an accruals basis.

Pension costs

Pension costs are treated as described in note 17.

Investment return and interest receivable/payable

Investment return on balances held with the States of Guernsey and interest receivable/payable is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Dairy's accounting policies, which are described in note 2, the Board members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the critical judgement, apart from those involving estimations (which are dealt with separately below), that the STSB have made in the process of applying the Dairy's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Depreciation rates

The Dairy's infrastructure assets have no definite life, so management makes an assumption based on previous experience of the usage of the assets. The rates used for each type of asset that makes up the infrastructure assets have been disclosed in note 2.

4. Revenue

A geographical analysis of the Dairy's Revenue is set out below.

	2018 £	2017 £
Bailiwick of Guernsey	7,787,756	7,321,227
UK	347,058	333,286
The Netherlands	63,080	74,600
	8,197,894	7,729,113

An analysis of the Dairy's revenue by class of business is set out below:

	2018 £	2017 £
Milk	6,287,392	6,073,730
Organic milk	17,611	15,014
Butter	1,286,794	1,067,898
Cheese	99,902	90,078
Cream	314,860	281,100
Ice-cream	175,433	181,033
Carton advertising	-	2,200
Other income	15,902	18,060
	8,197,894	7,729,113

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

5. Expenses

	2018 £	2017 £
Production costs		
Production wages	957,479	923,052
Milk	4,553,061	4,158,193
Milk - working loss	112,472	102,871
Dairy product ingredients	32,672	37,529
Packaging materials	662,576	573,320
Freight	95,892	81,326
	6,414,152	5,876,291
Administration expenses		
Advertising and promotion	38,613	51,500
Cleaning materials	52,143	65,289
Fuel, light, power, water, rates	347,901	281,709
General administration costs	62,290	53,998
Laboratory materials and equipment	97,243	90,454
Motor vehicles	31,340	34,325
Professional fees	342,314	421,914
Bad debts charge adjustment	1	(6,365)
Repairs, maintenance and insurance	274,157	368,436
Salaries	606,263	531,259
Other expenses	66,986	61,750
	1,919,251	1,954,269

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at its meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750,000 in total. £40,000 remains unpaid at 31 December 2018 (2017: £40,000).

6. Investment (loss)/return and net interest receivable

	2018 £	2017 £
Investment (loss)/return	(37,368)	77,987
Interest receivable and similar income	313	40
	(37,055)	78,027

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

7. Surplus/(deficit) for the financial year

Surplus/(deficit) is stated after charging/(crediting):

		2018	2017
		£	£
Auditor's remuneration		10,000	15,000
Depreciation of tangible fixed assets	9	242,818	242,028
Loss on impairment of fixed assets		70,488	89,221
		323,306	346,249

8. Staff numbers & costs

The average monthly number of full time employees (including senior management) was:

	2018	2017
Production staff	31	30
Administration staff	7	7
	38	37

Their aggregate remuneration comprised:

	Note	2018	2017
		£	£
Wages and salaries		1,321,570	1,233,238
Social security costs		87,198	81,412
Pension costs	17	154,971	139,661
		1,563,739	1,454,311

Pension costs include only those items within Production costs and Administration expenses.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2018 £	Additions £	Adjustments/ Disposal £	31 December 2018 £
Cost				
Buildings	1,575,515			1,575,515
Plant & equipment	3,620,524	295,142	(186,388)	3,729,278
Motor vehicles	264,090			264,090
Information technology	39,134		(7,650)	31,484
	<u>5,499,263</u>	<u>295,142</u>	<u>(194,038)</u>	<u>5,600,367</u>
Depreciation				
Buildings	885,060	39,243		924,303
Plant & equipment	2,153,320	197,322	(118,578)	2,232,064
Motor vehicles	248,549	2,902		251,451
Information technology	29,770	3,351	(4,972)	28,149
	<u>3,316,669</u>	<u>242,818</u>	<u>(123,547)</u>	<u>3,435,967</u>
Net Book Value	<u><u>2,182,564</u></u>	<u>52,324</u>	<u>(70,488)</u>	<u><u>2,164,400</u></u>

10. Assets Under Construction

	2018 £	2017 £
As at 1 January	13,395	25,052
Expenditure in the year	298,628	179,223
Transfers to fixed assets	<u>(295,142)</u>	<u>(190,880)</u>
As at 31 December	<u><u>16,881</u></u>	<u><u>13,395</u></u>

11. Inventories

	2018 £	2017 £
Milk and dairy products	234,664	328,541
Packaging materials	366,143	217,510
Other inventories	<u>106,266</u>	<u>62,486</u>
	<u><u>707,073</u></u>	<u><u>608,537</u></u>

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2018 £	2017 £
Trade debtors	609,581	918,231
Accrued income	165,042	139,280
Other debtors and prepayments	486	531
	<u>775,109</u>	<u>1,058,042</u>

13. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	395,630	418,952
Accruals & Deferred Income	617,806	253,044
	<u>1,013,436</u>	<u>671,996</u>

Included as part of Accruals is £40,000 of unpaid Ex-gratia payments (2017: £40,000).

14. Reserves

	2018 £	2017 £
Balance at 1 January	4,691,190	5,045,859
Deficit for financial year	<u>(485,870)</u>	<u>(354,669)</u>
Balance at 31 December	<u>4,205,320</u>	<u>4,691,190</u>

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

15. Reconciliation of operating surplus/(deficit) to net cash flows from operating activities

	2018 £	2017 £
Operating deficit for the year	(448,815)	(432,696)
Depreciation charges and loss on impairment of tangible assets	313,306	331,249
(Increase)/decrease in inventories	(98,536)	26,772
Decrease/(increase) in debtors	282,933	(148,677)
Increase in creditors due within one year	341,440	23,889
Net cash flows from operating activities	390,328	(199,463)

16. Financial commitments

The Guernsey Dairy has no financial commitments as at 31 December 2018 (2017: nil) which are not provided for in the financial statements beyond that disclosed in note 18.

17. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £90,074 (2017: £87,434)) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Dairy's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Dairy are considered to be ultimately employees of the States of Guernsey. Consequently, Guernsey Dairy has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of comprehensive income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £154,971 (2017: £139,661).

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2018.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

18. Subsequent events

In 2018 Guernsey Dairy has agreed a transaction to the value of £1m to bring the value of the land on which the Dairy sits onto its balance sheet at fair value. This transaction is scheduled for completion in 2019.

19. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. One member of the Dairy Management Board is a milk supplier contracted at “arm’s length” on the same terms as other milk suppliers.

Total compensation for key management personnel for the period totalled £263,638 (2017: £250,415). The key management personnel of Guernsey Dairy are the Senior Management Team.

Related party transactions between Guernsey Dairy and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 “Related Party Disclosures”.

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla MBE; as under normal rules, would excuse himself from any Board or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

20. Statement of control

Guernsey Dairy is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Guernsey Dairy has been delegated to the members of the STSB appointed by the States of Guernsey.

21. Off balance-sheet arrangements

There are no commitments or contingent liabilities relating to 2018 which would affect these financial statements (2017: none).