

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES TRADING SUPERVISORY BOARD

THE FUTURE GUERNSEY DAIRY PROJECT

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled 'The Future Guernsey Dairy Project' of the States' Trading Supervisory Board, they are of the opinion: -

1. To reaffirm the States' policy on the dairy industry as set out in the resolutions of the 25th September, 2014 on Article IX of Billet d'État No. XX of 2014, to maintain a States owned Dairy and to confirm that the States remains of the opinion that the unique Guernsey breed of cow must be preserved and protected and that the local dairy farming industry is inextricably linked to sustaining Guernsey's rural environment and agricultural economy.
2. To agree that the Future Guernsey Dairy Project is formally included within the capital portfolio (2017 – 2021), to be funded from the Capital Reserve.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4 (1) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES TRADING SUPERVISORY BOARD

FUTURE GUERNSEY DAIRY PROJECT

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

2nd March 2020

Dear Sir

1 Executive Summary

- 1.1 The States owned Guernsey Dairy is a well-known and respected Guernsey brand¹ and provides islanders with year-round supplies of fresh liquid milk and other dairy produce, supplied by Guernsey dairy farmers from the iconic Guernsey Cattle Breed. The current Guernsey Dairy building and facilities were initially completed in 1951 and were last subject to a major rebuild and refurbishment 30 years ago, in 1989. Much of the building fabric and equipment is now reaching the end of its operational life and the ongoing challenges involved in maintaining this ageing infrastructure present a number of significant risks to continuity of supply of fresh milk and other dairy products.
- 1.2 In 2014, the States endorsed a policy framework for the future dairy industry, following an in-depth review (see Billet XX, 2014)². That included an undertaking to conduct a further review of the States' Guernsey Dairy. This was with a view to its modernisation to ensure that it could continue to support the wider dairy farming industry delivering the environmental, social and cultural benefits in the long term in an effective and efficient manner.
- 1.3 This Policy Letter sets out the investment proposal for the future of the Guernsey Dairy, following approval of an initial stage business case, the Strategic Outline Case (SOC) by the States' Trading Supervisory Board. The SOC and this Policy Letter set out how the investment proposal will facilitate the Guernsey Dairy to continue to operate in the future as a fit for purpose, ongoing concern which complies with applicable legislation and standards whilst also improving operational efficiency and reducing revenue costs.

¹ Island Global Research, IGR Reputation Index Guernsey Report, November 2019

² A Review and Policy Letter: "A Review of the Dairy Industry"; Article IX of Billet d'État XX, Volume 1, September 2014

- 1.4 The urgency of this investment proposal has become increasingly evident, following recent building condition surveys conducted by Property Services and Technical expert reports on the condition of the specialist equipment and associated services. Work ought to be progressed without delay on either a major refurbishment of the existing facility or a purpose built new Dairy. The Guernsey Dairy cannot continue in the medium to long-term as a sustainable or viable concern without investment.
- 1.5 This Policy Letter sets out recommendations for:-
- (a) Affirming the States' policy on the dairy industry, to maintain a States owned Dairy within the wider context of the protection of the Guernsey Cattle breed and sustaining Guernsey's rural environment and agricultural economy.
 - (b) Agreeing that the Future Guernsey Dairy Project is formally included within the current capital portfolio (2017 -2021) to be funded from the States Capital Reserve.
- 1.6 Should the States agree to the Future Guernsey Dairy Project being formally included within the current capital portfolio (2017 – 2021) to be funded from the States Capital Reserve then this will:
- (c) Enable work to progress on the 'preferred way forward' as set out in paragraphs 10.1 to 10.5 of the policy letter for a Future Guernsey Dairy from a Short List of possible options, as set out in section 9 of the policy letter.
 - (d) Mean that the Policy & Resources Committee has authority to approve funding from the Capital Reserve to support the development of the project during 2020 and 2021. This development stage includes all necessary steps to the completion of an Outline Business Case (OBC) stage policy letter, referred to as the 'Design and Analysis' phase. The funding requirement is as set out in paragraphs 11.7 to 11.8 of the policy letter, and is not expected to exceed £2.3m.
 - (e) Enable the project to progress towards the completion of an Outline Business Case, setting out the developed proposal for the capital investment required for the construction of a replacement or refurbishment of the existing Guernsey Dairy, which would then be ready to go out to tender for a preferred solution. This would demonstrate that the preferred way forward optimises value for money, demonstrates its affordability and details the supporting procurement strategy and management arrangements for the successful delivery of the project.
 - (f) A policy letter would then be submitted by the STSB asking the States to approve the developed project and to agree that the STSB tender for the preferred solution, following which the Full Business Case will be finalised.

- (g) Subject to those approvals, the States will also be asked to give the Policy & Resources Committee delegated authority to open the substantive capital vote, to cover the principal capital costs for the preferred solution, provided the value is within agreed ranges and the specification and outcomes remain unchanged.
- 1.7 The STSB has taken the unusual step to propose that the Future Guernsey Dairy Project is formally included within the current capital portfolio, in the knowledge that this will mean that consideration will need to be given to reprioritising the portfolio to enable this project to progress. This is borne out of necessity, for the reasons that are described in this policy letter.
- 1.8 The current Guernsey Dairy building and equipment are in need of refurbishment or replacement in order to continue to comply with relevant regulatory requirements in the future. Officers at the Office of Environmental Health & Pollution Regulation (OEHPR) are appointed by the Committee for Health & Social Care under food legislation to enforce compliance with that legislation. The Director of Environmental Health and Pollution Regulation and officers at OEHPR also enforce requirements under the environmental pollution legislation.
- 1.9 The Guernsey Dairy are licensed by the OEHPR and can only operate as a food processing manufacturer, providing it complies with legal requirements. Unless ongoing improvements are made to the Guernsey Dairy building and equipment, it will become increasingly difficult to meet the requirements of the legislation, which provides operational challenges for the Trading Asset at present. The improvements are extensive and challenging to execute and there is a need for a complete refurbishment or new build.
- 1.10 The Guernsey Dairy faces daily challenges in providing its services. The design of the current Dairy and the legacy equipment have led to increasing inefficiency of production, resulting in high production overheads, increased wastage, machine breakdown/maintenance downtime, and additional staff overtime in order to maintain operations.
- 1.11 Currently, the Dairy has two days' storage capacity for milk prior to processing and limited capacity after processing which means the facility has to operate over seven days. In order to improve operating efficiency, for example over four days, increased storage capacity of raw and finished products is required.
- 1.12 The Guernsey Dairy has experienced a declining trend in milk sales, particularly in the last few years - with 2018 sales down by -2.8% by volume on the previous year and 2019 sales to date showing a further decline of -2.7%. The recent decline is thought to be driven by a combination of customers ordering less, due to a reduction in doorstep deliveries and the longer shelf life of milk, as well as the trend towards plant based alternatives to milk products.

- 1.13 Waste milk, water and cleaning materials (pollutants) are not reused and recycled and there is a lack of capacity on site for equipment to deal with this waste. This situation is not sustainable and will also need to be changed before new legislation and environmental good practice is introduced to Guernsey, which may include stricter controls of such discharges into water and the sewage systems. It is likely this will broadly reflect requirements under current UK legislation.
- 1.14 The Future Guernsey Dairy Project has taken this opportunity to consider the future form of States support for the Guernsey dairy industry, within the current strategic and policy framework. It considers a range of options for continuing to accept all raw milk produced by Guernsey farmers, processing the raw milk and meeting the island's demand for fresh liquid milk throughout the year.
- 1.15 At this early stage of the project, a short list of options has been proposed together with the 'preferred way forward' for further investigation. The options include the construction of a new Guernsey Dairy on a new site and a refurbishment of the existing Dairy.
- 1.16 The total capital investment required covers the 'whole life costs' for a 20 year period and includes building costs, plant, equipment, site purchase, fees and optimism bias. However, the main capital outlay for the build/construction costs and the plant and equipment replacement is currently estimated to be within a range of between £22m and £26m. This will be required during approximately 2022/24, given the necessary planning and financial approvals and construction lead in times.
- 1.17 The Future Guernsey Dairy Project investment proposal is inextricably linked to the wider dairy industry of Guernsey and its importance stretches well beyond that of simply a replacement milk processing facility. The Guernsey Dairy works closely with the Guernsey Farmers' Association in fulfilling its role as a key and pivotal part of the milk production system, linking the environment and farms to consumers. It has an impact on the dairy economy with a direct economic benefit calculated at £2.4m per annum. Its operation is required to balance the potentially competing demands of a modern economic dairy processor and helping to sustain Guernsey's rural environment, farming economy and the protection of the rare Guernsey Cattle Breed.
- 1.18 The consequences of not investing in either a refurbishment or replacement Dairy building may ultimately result in an inability to supply milk to meet demand, resulting in a requirement to import liquid milk. This may then lead to retailers dictating the market and importing cheaper liquid milk, leading to the decline of the dairy industry, resulting in farms being sold; adverse impact on the biodiversity of the countryside and Guernsey's unique rural environment; and ultimately the decline of the rare Guernsey Cattle Breed in her Island home.

2 Introduction

- 2.1 The principal reason for the existence of the Guernsey Dairy is to support the maintenance of the Guernsey's unique rural environment and to protect the Island's unique herd of Guernsey cows. The processing of the milk at the States owned Dairy and the sale of it at the Dairy's 'gate' is the financial mechanism that enables the continuation of the dairy farming industry.
- 2.2 There are currently 14 farms on the Island with approximately 1,400 milking cows. The cows produce in the region of 8 million litres of liquid milk per annum. Under the current legislative framework, the Guernsey Dairy is required to buy all the milk produced, whether it needs it or not. Guernsey Dairy requires approximately 7 million litres to meet existing demand.
- 2.3 The Guernsey Dairy collects milk from the farms in tankers daily and then processes the raw milk into liquid milk and milk-derived products. Milk production involves the processing of raw milk into full cream, skimmed, semi-skimmed (low fat) and organic milk. Other milk derived products include butter, cream, ice-cream and a range of cheeses. Full cream, skimmed and semi-skimmed milk, together with salted butter provide the most profitable product lines for the Guernsey Dairy currently, and contribute 90% of revenue.
- 2.4 The 'Producer Price' i.e. the price paid to farmers for the supply of raw milk, is set by the Dairy Management Board as is the 'Gate Price' i.e. the price paid by milk retailers, distributors and wholesale customers direct from the Guernsey Dairy's 'gate'. The retail price paid in stores or on the doorstep is set by retailers.
- 2.5 The quality of the milk is vital and there are stringent legislative requirements in place to ensure this. The milk is tested at the farm and several times at the Dairy during and after processing to ensure it meets these requirements.
- 2.6 Tests are carried out to ensure there is no extraneous water or antibiotics in the milk, the fat content is measured, as are the total viable counts of bacteria. The amount of milk in each carton is audited and samples of milk are held following distribution to check the shelf life and to be able to test previous batches if needed. Butter, cream and ice cream follow similar testing regimes.
- 2.7 Over the past years, the quality of Guernsey milk has improved and as a result, liquid milk has a longer shelf life in households. Coupled with changes to the way milk is now distributed and an increasing prevalence and popularity of milk substitutes (e.g. plant based milk) the Guernsey Dairy has seen a decline in milk sales in recent years. Respondents to the recent survey indicated that 89% of households regularly consume Guernsey Dairy milk, which has decreased from 97% in 2015. In addition, 30% of households regularly consume non-dairy milk³ which are often similarly or lower priced than liquid milk.

³ Island Global Research, Guernsey Dairy Survey Report, February 2020

- 2.8 The Guernsey Dairy is currently operated under the governance of the Dairy Management Board (DMB), which is a sub-committee of the States' Trading Supervisory Board (STSB) and the STSB is ultimately accountable to the States of Deliberation. The Guernsey Dairy is managed and operated in a commercial manner with all of its revenue received from selling milk and milk-derived products at the Dairy's 'gate'.
- 2.9 The STSB has a number of policy, statutory and operational responsibilities for managing the Guernsey Dairy, including ensuring it operates as efficiently as possible in the best long term interests of islanders. In particular, responsibilities include ensuring the continued and safe supply of all liquid milk (Guernsey milk) to the Island, as liquid milk can only be supplied by STSB. The Committee *for the Environment & Infrastructure* (CfE&I) is responsible for policy in relation to agriculture and the dairy industry.
- 2.10 The Guernsey Dairy became an unincorporated Trading Asset following the review of Government and the recommendations of the States Review Committee in 2016 when the STSB took on the management of the operation of the Dairy from the former Commerce and Employment Department.
- 2.11 There are 38 Full Time Equivalent staff that are employed at the Guernsey Dairy, which operates on a 10 hour day, 7 days a week, 365 days a year basis. Not all Guernsey milk derived products are produced by the Guernsey Dairy. One artisanal company purchases pasteurised milk from the Dairy to produce their own dairy products (such as cheese). Two of the Dairy Farms are licensed to retain some of their raw milk to produce yoghurt and ice-cream.
- 2.12 The scope of the Future Guernsey Dairy Project is shaped by the current policy framework and statutory responsibilities relating to the Guernsey Dairy and the dairy industry (see section 3).
- 2.13 The objective of the Future Guernsey Dairy Project ('the Project) focuses on the need to provide a cost-effective solution, including the modernisation of the States owned Dairy in some form, entailing the provision of improved or replacement infrastructure and plant, to maintain the supply of milk for the future. Any solution will need to comply with regulatory requirements and constraints, including those set out under the food and environmental pollution legislation, World Health Organisation food standards and also land planning policy and legislation.
- 2.14 The Guernsey Dairy works with the local Guernsey Farmers' Association (GFA) and the dairy industry as a whole to support and protect the world-famous Guernsey Cattle Breed and to sustain Guernsey's unique rural environment. Indirectly the Guernsey Dairy supports the Guernsey countryside and cultural heritage, the traditional (traced back to Celtic) field patterns, the boundaries and hedgerows. Dairy farming is the most important farm enterprise in Guernsey with over 8,000 verges of the 15,250 verges of agricultural land on island being used by this industry (the island area as a whole totals 38,801 verges).

- 2.15 There are currently 1,474 registered dairy cows in Guernsey (with a further 941 heifers likely to become milk cows). Without a dairy, the total number of cattle maintained would almost certainly reduce very significantly. Such a reduction in the gene pool would have long term consequences for the survival of the breed and have an impact on an important part of the Island's cultural heritage.
- 2.16 Should cheap liquid milk be imported into Guernsey it would most likely mean that most local dairy farms would cease operation. Without support to the dairy industry, the Guernsey Cattle Breed would likely be in permanent decline.

3 Strategic and Legislative Context

- 3.1 A Review of the Dairy industry was undertaken in 2014, *Dairy Farming in Guernsey and The Future – A Plan for the Long Term Future of the Dairy Farming Industry in Guernsey* – (“the Review”). The Review proposed, and subsequently the States of Deliberation agreed, that the environmental and other benefits the industry provides to the Island required a degree of involvement from the States to deal with the greatest risks in the areas of market protection and the processing and distribution of milk to the (local) market. The latter area of focus is that which encompasses the operation of the Guernsey Dairy.
- 3.2 The Review set out a coherent vision and ten point plan for the dairy industry, that concluded (and included) the need for:
- Effective statutory control over the importation of milk.
 - A continuing commitment to the Guernsey Breed.
 - An independent, but still States owned, Dairy.
 - A firm commitment from farmers to a year-round supply of milk for the Island.
 - A simpler approach to milk pricing in the industry.
 - The continuation of Dairy Farm Management Contracts.
 - Support for farm business development.
 - Protection for agricultural land and flexibility for ancillary uses.
 - Modernised arrangements for milk distribution and retailing.
 - A new Milk Ordinance.

3.3 The policy also sought to further strengthen controls in the Milk Ordinance so as to create a period of operation of the dairy industry with greater certainty about support and protections. The 2014 Resolutions focused on securing the long-term future of the dairy industry, including continuing the commitment to the Guernsey Cattle Breed. The continuing commitment to the Guernsey Cattle Breed, incorporated the “*commitment to an independent, but still States owned, Dairy*”⁴. This concurred with conclusion 9 of The Review that:

.. “The Guernsey Dairy should stay in overall States’ control, but a governance structure should be put in place that allows it greater independence to act in a commercial manner for the good of the Island and the dairy industry, but largely freed from the constraints of Political and States control...”

3.4 The Policy Letter also asserted that the Dairy has a vital role to play in the future of the dairy industry and that, given that important role, it is essential that the Dairy operates as efficiently as possible. It pointed to the need for this to be achieved through modernisation and reducing costs further. It went on to state⁵ that:

.. “A further task for the Dairy Management Board will be to examine the future needs of the Dairy and to consider the costs, benefits and feasibility of the development of a more modern facility. This review will not exclude the possibility of building a new Dairy on another site...” and

.. “The Department regards such a review as essential in order to determine how the Dairy can derive the greatest benefits from operational efficiencies and hence reduce its costs further.”

3.5 The Resolutions also agreed to proposals which effectively control the importation of milk. These included a continuing commitment to the Guernsey Cattle Breed and a new Milk Ordinance, whereby imported milk cannot be bought in Guernsey, effectively preventing other liquid milk from being sold.

3.6 The subsequently adopted and current Milk Ordinance of 2016⁶ requires *inter alia*, that:

- only fresh milk obtained from the STSB can be sold or supplied on the Island;
- that no one can buy fresh milk on the Island, other than from the STSB or registered distributor, that has not been produced on the Island, except with the express consent or contracted by the STSB;

⁴ See Resolution 1 a) of 25th September, 2014 following Billet d’État No.XX of 2014.

⁵ Paragraphs 3.31 and 3.32 of the 2014 Policy Letter

⁶ The Milk (Control) (Guernsey) Ordinance, 2016

- that any fresh milk that is produced on the Island has to be supplied to the Dairy, subject to certain exceptions including for farmers’ own consumption or for use in feeding calves and pre-agreed amounts for making milk derived products (by approved licence only); and
 - that the Dairy must therefore purchase all Guernsey milk produced on Island, subject to it meeting required best practice hygiene tests and not being under investigation under food or other legislation.
- 3.7 It is conditional that the raw milk purchased from Dairy Farmers must reach required best practice hygiene tests, as required under the Milk Ordinance and as specified in the Farmers’ Dairy Supply Agreements. The Agreements also set out the agreed level of supply of raw milk (or farm output target).
- 3.8 The policy framework, defined and subsequently approved by the States in 2014⁷, was effectively confirmed as unchanged in the Policy and Resource Plan Update Policy Letter of June 2019⁸. Further consultation has taken place during the development of this Policy Letter and the associated Strategic Outline Case (SOC) business case. This policy approach was recently re-endorsed by the Committee *for the Environment & Infrastructure* and noted by the States’ Trading Supervisory Board on 24th October 2019, who retain the policy and operational mandates for the Guernsey Dairy respectively.

Other Strategies of Relevance to the Project

Biodiversity Strategy

- 3.9 The dairy industry has shaped the farmed landscape of the Island for centuries. Nearly half of Guernsey land is allocated to agriculture and the 14 dairy farms constitute around a quarter of the land. The means of farming and production scale is small and non-intensive. The result of the use of largely traditional farming methods and the distinctive (or ‘iconic’) local Guernsey Cattle Breed has made a positive contribution to the management of the countryside and its environmental value. Hundreds of miles of hedgerows and earth banks are maintained providing an interconnected habitat resource and sanctuary for wildlife.
- 3.10 The dairy industry support Biodiversity Plans, as an important contribution to agro-biodiversity and agro-ecosystems. In the absence of significant areas of woodland, grass lands are among Guernsey’s most valuable habitats. Dairy farming, particularly in Guernsey, is a less intensive form of farming production and as a whole supports the Guernsey countryside and cultural heritage, the traditional field patterns, boundaries, hedgerows and earth banks.

⁷ As above “Review of the Dairy Industry”, Article IX of Billet D’État of 2014.

⁸ Policy and Resource Plan 2018 and 2019 Update, Billet d’État IX, Appendix 3 (e), pp8-13, 25 June 2019

- 3.11 Protecting the local Guernsey Cattle Breed is one of the key reasons and justifications for controls over importation of milk and other cattle breeds to the Island. On-island conservancy of the Guernsey Cattle Breed is in line with policies for the protection of the rarer and distinctive breeds in Europe. Whilst the breed numbers are increasing in the UK, US, Canada, South Africa, Australia and New Zealand, the on-island Guernsey Cattle Breed could be considered as the centre of breed excellence.
- 3.12 Dairy Farm Management Agreements with the dairy farming community encourage animal welfare and breed improvement, stocking density (numbers of cattle per vergee) and the requirement to have a biodiversity action plan in place for farmed land. The Agreements require Dairy farmers to conform to best practice in farm management, including the Code of Good Agricultural Practice for the prevention of environmental pollution from agricultural activity. Guernsey dairy farms are also committed to achieving RSPCA Farm Assured accreditation by January 2021.

Energy Policy and Climate Change

- 3.13 Agriculture, land use, land use change and forestry combined contribute a small proportion of Guernsey's total greenhouse gas emissions (3.7% in 2017)⁹. The majority of the emissions are methane released by the digestive processes of cattle. Livestock related emissions have remained at a steady level over a number of years.
- 3.14 Dairy production in Guernsey minimises environmental impacts and cost of transport reflecting the 'proximity principle'¹⁰ – where much of the raw materials, processing and production 'from farm to fork' are very close by. More of the raw materials, such as silage feed for cattle (some of which is currently imported), could be produced on-island in future, if the land was made available for agriculture.
- 3.15 Future investment in effluent treatment plant will also contribute to the States of Guernsey's Waste Strategy and enable the Guernsey Dairy to comply with future environmental best practice and regulatory standards, by minimising waste from milk processing by-products, re-using water and safely managing and disposing of chemicals.

The Policy & Resource Plan Update

- 3.16 The CfE&I Committee Policy Plan Update in the Policy & Resources Plan Update Policy Letter of June 2019¹¹, stated that:

“..The policy context for the dairy industry and its future development remains as set out in the policy letter (States' Report) approved in September 2014 (Billet D'État XX of 2014). This gave greater responsibility to the sector

⁹ Guernsey Annual Greenhouse Gas Bulletin, Aether Limited, 2017 (Issue date March 2019).

¹⁰ A principle under EU Law that environmental damage must be remedied at source.

¹¹ See Appendix 3 (e).

to develop a self-sustaining and forward looking industry in collaboration with the Guernsey Dairy...”

4 Operational Challenges for the Guernsey Dairy

- 4.1 The Guernsey Dairy facilities and equipment are nearing the end of their operational life and the building fabric is in poor condition. This is a limiting factor in maintaining food hygiene standards and improving the operational efficacy of the business. The building configuration limits the ability to continue to maintain standards and adapt to the needs of a modern food processing facility.
- 4.2 There is a continuous maintenance and improvement regime in place to ensure that the Guernsey Dairy can both continue to process raw milk and maintain regulatory standards, including those under Food and Environmental Pollution Law, but this is becoming increasingly costly and problematic to achieve.
- 4.3 Dairy processing technology has moved on significantly in the last 30 years and there is a lack of space within the current Guernsey facility and site footprint to accommodate modern and efficient dairy processing equipment.
- 4.4 There is no available space within the current building and property footprint of the Guernsey Dairy, for increased efficiency or environmental improvements, such as increased storage for unprocessed and packed milk, the inclusion of appropriate infrastructure for the recycling and disposal of residual waste chemicals, water and the by-products of milk processing.
- 4.5 These operational challenges have led to the development of a business case to identify a value for money solution to securing the future of the Guernsey Dairy. The project team commissioned E-Glen Projects Ltd (EPL) as technical subject matter experts to advise on the Future Guernsey Dairy Project and provide a detailed assessment, the **‘Guernsey Dairy Technical Report’**. Details from this report are included within the summary of the current problems in the following paragraphs. This has led to the conclusion that what is needed is either a complete factory redevelopment and layout, or a new build dairy.

The current Building is not ‘fit for purpose’

- 4.6 The Guernsey Dairy building is not fit for purpose and major refurbishment or new build is needed. Without this, it is unlikely that the current Guernsey Dairy would be economically viable in the medium to longer term. The current Guernsey Dairy facility would require a substantial continuous maintenance regime, to ensure the building remains fit for purpose, whereas a new (or refurbished) Dairy building would need less maintenance investment. The current condition of the property, facilities and equipment, threatens the ability of the Guernsey Dairy to operate effectively in the 21st century and fulfil its business objectives. There has been an under investment in the services and building fabric over a number of years.

- 4.7 Property Services regularly carry out stock condition surveys to identify indicative levels of maintenance expenditure. Technical surveys were completed at the Dairy and these included: stock condition, electrical, mechanical and drainage assessments and these informed the production of a medium term plan which was completed by Property Services in November 2017. These reports indicated that significant refurbishment to the building was needed and substantial expenditure would be necessary in the short and medium term.
- 4.8 In addition to this much of the Dairy plant and equipment is currently beyond its useful economic life and is incurring high repairs and maintenance costs currently, as well as presenting business continuity risks.

Food, Environmental, Health and Safety and other Regulatory Compliance Risks

- 4.9 There are high risks that the Guernsey Dairy will be unable to meet current and future food and environmental pollution regulatory requirements or meet good standards going forwards. The current building was refurbished more than 30 years ago, when legislation was less prescriptive affecting the building of Dairy factories.
- 4.10 In June 2016, officers from the OEHPR (acting on behalf of the Committee *for* Health & Social Care) served 15 Improvement Notices on the Guernsey Dairy. Whilst improvements have been put in place since, officers from the OEHPR have recently inspected the Guernsey Dairy (November, 2019) and downgraded the facilities to a 'two star' rating. The Improvement Notices reflect the ongoing position in relation to the poor condition of the facilities, including the deteriorating building fabric and finishes, some of which can be attributed to structural deficiency. A continuous and increasingly challenging maintenance regime will be necessary to try to maintain standards and the building fabric and its services make this difficult to achieve. Any work to improve the building fabric, or when replacing equipment and services will cause major disruption to milk processing and will increase the risks associated with food safety and food quality.
- 4.11 Work has been carried out on the Dairy to improve the situation, whilst the most difficult and challenging areas remain and are complex and costly to resolve. The disruption and planning to tackle the more difficult areas whilst production is still ongoing, creates significant risks in relation to food safety, food quality and the health, safety and welfare of staff and customers.

The current Guernsey Dairy is inefficient

- 4.12 Despite refurbishment and continual maintenance of equipment to ensure operations can continue, there are business continuity risks arising from the ageing and/or inadequate equipment. The longer that substantive refurbishment and replacement equipment is delayed, there is a risk that the operation of the Guernsey Dairy will be compromised. If Guernsey milk cannot be processed, this may result in milk importation (controlled or otherwise). This would set a potential precedent for changing the way that Guernsey milk is supplied to the Island and a major risk to the Guernsey Dairy's financial sustainability. Milk production on farms would continue in the short term leading to storage problems. The situation could quickly deteriorate, with significant raw milk wastage, leading to significant environmental and reputational damage.
- 4.13 Remedial repairs are costly and the increased costs of reactive maintenance are impacting on the Dairy's financial position. It is difficult to find equipment that fits within the footprint available, and it is an ongoing challenge to fit the new equipment into an old building. Often plant /equipment needs to be bespoke in order to 'fit' within the constraints of the building. There are challenges in maintaining operations when installing new, or retrofitting bespoke equipment. There is insufficient space within the current Guernsey Dairy site for improvements to production efficiency, product diversification and 'off the peg' processing equipment.
- 4.14 The maintenance and replacement of site services are even more problematic than the Guernsey Dairy processing equipment at the current site. These include chilled water distribution, mains water distribution, steam and air distribution systems – which are all severely corroded and do not meet current industry standards. These are in urgent need of replacement and do not meet recommended industry standards, associated with a food processing facility. The replacement of these types of services are problematic from both a time perspective and a hygiene perspective, due to their level of proximity to production processes. There are likely consequences that the Dairy may lose its operating licence in attempting to continue with the Dairy operation whilst replacing these systems in situ, due to high risks of contamination.
- 4.15 Other services such as IT and electrical/electronic interfaces have been added in the past, without overall site management and without complying with any Dairy related installation methodology. To replace and correctly reroute these would be a significant and expensive task and would pose challenges in meeting food and health and safety regulatory requirements. It must be noted that in more recent years, current standards have been followed where practical¹².

¹² Jon Eglen, Technical Adviser

- 4.16 There is inefficiency in the system currently, with significant downtime from machinery breakdown and maintenance. This causes direct loss of income and increased expenditure i.e. machine maintenance downtime (planned and unplanned), parts and staff costs. This often results in delays to product release affecting customers and consumers.
- 4.17 The lack of space and investment in modern equipment and infrastructure, prevents process efficiencies that could enable the reduction in resources to process milk, and thereby providing a direct benefit from the investment. It is estimated that a new Dairy could provide savings in production time and other efficiencies of approximately £550k per annum.
- 4.18 An example of this would be that if there was more raw and finished milk storage, i.e. chilled tanks for cold storage of milk, it is estimated that the operations of the Dairy could reduce from 7 days to four per week.

Waste materials and pollutants need to be disposed of more sustainably

- 4.19 Waste milk products, such as those when milk is separated from cream are usually disposed of down the drain; similarly the whey from cheese follows the same route. However, recent research (WRAP¹³) has suggested less wasteful methods to be adopted in the production of milk. The milk waste has the potential to be a by-product and a source of high nutrient value proteins. This could be used for alternative non-milk products or used in animal feed applications.
- 4.20 Guernsey's excess raw milk i.e. that which is surplus to liquid milk demand, is used to produce other milk derived dairy products. Milk and milk derived product manufacture produces waste, and whilst the Dairy utilises this as effectively as possible by producing milk derived products of cream, butter, cheese and ice-cream, some residual milk (i.e. the milky water waste by-product) is produced. The Guernsey Dairy has to balance raw milk intake from farmers with consumer demand, whilst this is not an exact science due to seasonal variations and calving patterns. The Guernsey Dairy works closely with dairy farmers to manage the balance of supply, ensuring it minimises the purchase of milk it cannot sell as liquid milk.
- 4.21 Guernsey Dairy disposes of 870,000 litres of milk residue (2018) – or around 11% of the total raw milk production per year. The Guernsey Dairy is working with the farmers to reduce this excess milk production and balance supply and demand. In addition, Guernsey Dairy also currently disposes of a number of pollutants, in the foul water drainage system including approximately 600 litres of caustic bleach per week and 100 litres of peracetic acid; both of which are diluted.

¹³ Waste and Resources Action Programme

- 4.22 There is approved States policy to introduce more stringent controls on water pollution which may affect the disposal of dairy waste products in Guernsey¹⁴. This may impact on the dairy industry. The Guernsey Dairy waste products will need to be managed in a more sustainable way going forwards including re-use, recycling and disposal with investment in appropriate equipment.
- 4.23 Improvement to effluent controls aimed at reducing the impact on the environment, will not be without cost. This is likely to have an impact on the financial viability of dairy farming as a whole, if inadequate investment is not made.

5 Potential consequences of failure to invest in the Guernsey Dairy

- 5.1 Should the Guernsey Dairy be left to continue as it is without investment, it is likely that there could be a number of consequences including business continuity issues and production failure and/or temporary or permanent closure of the existing Dairy operation because of food hygiene, food safety and/or health and safety compliance notices. This may result in the prospect of the States needing to licence a Dairy off-island to process and pack liquid milk. Research undertaken has identified that the cost is likely to be in excess of £4.5m per annum to carry out this function.
- 5.2 If the Guernsey Dairy could not fund the purchase of raw milk, this would lead to farms going out of business and the de-regulation of the local milk market. This may result in an imbalance in supply and demand with retailers importing liquid milk; a repeal or amendment of the Milk Ordinance and potentially irreversible damage from licensing of liquid milk imports; the decline of the dairy industry, resulting in farms being sold; an impact on the biodiversity of the countryside; and ultimately the decline of the rare Guernsey Cattle Breed from her Island home.
- 5.3 If the States decided to retain the principle of only fresh, Guernsey milk being sold on island, as in effect provided for under the Milk Ordinance, but not to provide a Dairy then the States would need to enter into a commercial licence with a Dairy off-island to produce liquid milk as an interim measure at significant cost. The exportation of raw milk and importation of packaged liquid milk would also need to meet the current controls on the import of animal products under the import control legislation and meet stringent requirements under food Law applying to food exports. These risks would need additional mitigation at further cost. There would also be additional risks of continuity of supply, due to adverse weather or other issues affecting transportation.

¹⁴ For example, the Committee *for the Environment & Infrastructure* estimate the commencement of a new Water Pollution Ordinance in 2021 (to the Environmental Pollution (Guernsey) Law, 2004).

- 5.4 An alternative could be to support the farmers by providing subsidy payments for milk production without the subsequent State provision of a facility to process it into liquid milk. This would enable the Guernsey Cattle Breed to survive and the dairy farming industry to maintain the islands green spaces and biodiversity. However, the raw milk may not be utilised effectively and the States of Guernsey would then need to step in with funding for the farmers by provision of further subsidy. The Guernsey Dairy currently pay the dairy farmers circa £5.1m p.a. for the raw milk. In approximate terms, this would cost in the region of £100m over 20 years. The milk could either be tipped away, at an environmental cost or potentially shipped off-island to process the milk.
- 5.5 Currently, the Guernsey Dairy as a commercial ongoing concern buys almost all the milk from dairy farmers to produce liquid milk and milk derived products, and in doing so creating a revenue stream and acting as an economic enabler for the dairy industry. The most secure conservation strategy for the rare Guernsey Cattle Breed is to promote measures which plan for the long term future of the Dairy farming industry in Guernsey and contribute to self-sustainability of the breed.

6 Strategic Drivers and Business Needs for Investment in the Guernsey Dairy

- 6.1 This Policy Letter sets out the proposed investment and associated plans to address the risk and issues with the current Guernsey Dairy. The strategic drivers and investment objectives are summarised as follows:

Investment Objective 1	The Dairy will continue to operate as an economic and environmental enabler to the dairy industry by purchasing milk from farmers who in turn are contracted to protect the biodiversity and rural landscape of the countryside, preserve the Guernsey Cattle Breed and continue the farming cultural heritage of the island.
Investment Objective 2	Any design changes to the Dairy to improve its operation should meet the highest food and environmental pollution regulatory standards. For food this should be <i>equivalent to the Food Hygiene Rating of four stars 'good' or five stars 'very good'</i> ¹⁵ .
Investment Objective 3	Improvements should be made to the cost effectiveness of the operation through process engineering efficiency and the reduction of overheads. Such improvements will enable the Dairy to produce the highest possible quality products at the lowest possible gate prices.
Investment Objective 4	Any design changes to the Dairy should meet future water pollution controls affecting the disposal of unused milk ¹⁶ , other waste products and chemical effluents on site through suitable effluent treatment facilities.

¹⁵ The Director of OEHPR advises that five stars should be a standard expectation and compliance with Regulation (EC) No 853/2004 is also important.

¹⁶ The Committee for the Environment & Infrastructure estimate the commencement of a new Water Pollution Ordinance in 2021 (to the Environmental Pollution (Guernsey) Law, 2004).

Investment Objective 5	The Dairy will provide a continuity of supply of fresh milk and milk by-products to the Guernsey consumer throughout any changes to its physical form. These changes should be brought about without delay - at least by 2024.
------------------------	--

Table 1: Investment Objectives

The Business Needs for the Guernsey Dairy

- 6.2 The business needs for the Guernsey Dairy are set out below according to each of the Strategic Investment Objectives and the problems and difficulties associated with the current situation.
- 6.3 **Investment Objective 1:** The Guernsey Dairy is currently making a small loss and dairy farming continues to need Government support to prevent more Dairy Farms from becoming unsustainable financially. ***To continue to be an economic enabler for the Dairy Industry, protecting the biodiversity of the countryside and the Guernsey Cattle Breed heritage*** the Guernsey Dairy's key business needs are as follows:
- To process milk more efficiently, so that the Dairy is financially self-sufficient and the product is affordable to the end user.
 - Continue to provide sufficient business incentive for the continuation of the Dairy Farming industry and to encourage new entrants.
 - Continue to enable a financially sustainable Dairy Farming business model, with sufficient income to allow for future business investment and to improve animal welfare standards, invest in technologies to reduce the environmental impact of farming, maintain biodiversity plans and increase food safety and quality standards in line with regulatory requirements.

6.4 **Investment Objective 2:** Remedial repairs during 2018 and 2019 improved the food hygiene star rating from 2 to 4 Stars, however these were temporary fixes. It is becoming increasingly more difficult to deal with the more challenging aspects of the building fabric and services, whilst not impacting on dairy operations or compromising food safety and quality standards, without whole scale refurbishment. In November 2019, an Environmental Health Officer undertook an inspection which resulted in the Guernsey Dairy being rated as 2 Stars once more (based on the condition of the building fabric). Food safety standards, other regulatory requirements and best practice standards are becoming more complex and expensive to implement and maintain¹⁷. Remedial repairs are costly and the increased costs of reactive maintenance are impacting on the Dairy's financial position. Future site options will also need to comply with planning legislation and land use policy. The Guernsey Dairy will need to ***improve its operation, meeting the highest food and environmental pollution regulatory requirements and best practice standards*** and therefore has the following business needs:

- Compliance with Food, environment pollution and health and safety regulatory requirements.
- Compliance with Planning Legislation and Land Use Policy.
- Avoidance/mitigation of product contamination, or food safety, or health and safety incidents.
- Maintain a share of the export market, where compliance to higher regulatory standards are often required.
- Maintaining the reputation of the States of Guernsey and the Guernsey Dairy by achieve standards *equivalent to the Food Hygiene Rating of four stars 'good' or five stars 'very good'*.

6.5 **Investment Objective 3:** The configuration and restrictions of the site, buildings and equipment mean that processing is a 7 day a week operation, is labour intensive and inefficient. Process flow and production reliability is very poor. Production is often complicated by failure of plant and equipment, resulting in extending the working day, resulting in the need for staff overtime. The Guernsey Dairy is currently operating at a slight deficit. The business needs ***to have a more reliable, cost effective operation, through modern process engineering efficiency and the reduction of overheads***. The key business needs to achieving this goal are:

- Modern building and plant providing opportunities for improved process engineering efficiency and potential to increase affordability to the end user.

¹⁷ In particular, the European Communities (Food and Feed Controls) (Guernsey) Ordinance, 2016 came into force on the 3rd October 2019.

- Increased storage capacity – including raw and finished milk product storage, larger capacity tanks and other equipment that enables more efficiency and fewer processing days e.g. 4/5 days a week processing.
- Lower production costs, leading to reducing overheads.

6.6 **Investment Objective 4:** There are no facilities for adequately treating, reducing and reusing waste. There is insufficient space on the current site to accommodate the required plant and infrastructure. This does not meet UK best practice and is likely to contravene proposed controls under future water pollution legislation in Guernsey. The business needs therefore are:

- To meet future water pollution and other environmental pollution regulatory requirements¹⁸
- Water treatment plant required to reduce and dispose of polluted waste water, manage strong chemical waste and milk residues.
- Sufficient land or space to accommodate appropriate plant and equipment.
- Flexible Farm Supply Agreements to harmonise raw milk production and liquid milk sales (supply and demand).

6.7 **Investment Objective 5:** There is an urgency for this Project for operational business continuity. However, the Project timelines to secure the relevant funding, approvals, procurement and construction are likely to take up to 2024 to secure. The current Guernsey Dairy building fabric, services and equipment are in a poor state of repair and are not fit for purpose, resulting in business continuity problems and supply risks, equipment break down, disruption to production, inefficiency and increased wastage. These problems and single points of failure pose a significant risk of extended shut down, which could threaten the ability to supply sufficient fresh local milk to meet the island's needs. In order to ***ensure the continuity of supply of fresh milk and milk by-products to the Guernsey consumer, proposals should be approved without delay.*** The key business needs are:

- Continue to purchase all raw milk supply produced by Guernsey farmers, according to legislation.
- To satisfy the local demand for processed fresh Guernsey liquid milk.
- Modern milk production and processing plant that is efficient and safe.
- Sufficient and safe access space for large vehicles (including tanker lorries).

¹⁸ The Committee for the Environment & Infrastructure estimate the commencement of a new Water Pollution Ordinance in 2021 (to the Environmental Pollution (Guernsey) Law, 2004).

- Sufficient and safe, clean working environment for employees and other site users.
- Sufficient space for modern plant and equipment, with access and sufficient capacity to allow for planned and preventative maintenance.
- Milk and milk product production processes and storage are optimised.
- An adaptable well designed, modern building facility that can meet a reduction or increase in production of milk and (potentially) milk-derived products
- A building which provides sufficient space for optimum layout of plant, equipment, laboratory and engineering support services.

7 Consumer Needs and Feedback

7.1 In the Autumn of 2019, Island Global Research undertook a Brand Reputation Index¹⁹ survey, sampling 1,061 respondents. The Brand Reputation Index is constructed from people’s perceptions of a brand, local values and whether they would be likely to recommend it to others. Over the past 12 months, 69% of respondents in Guernsey reported they had used Guernsey Dairy. Of those, 66% would describe themselves as a satisfied customer. The Guernsey Dairy has a good reputation and was ranked 6th out of 74 organisations in Guernsey, and 2nd out of 18 organisations in the Island Services Sector, as a total score, across the following seven dimensions:

	Score	Island Rank	Sector Rank
 IGR BRAND REPUTATION INDEX	121	6 / 74	2 / 18
 feel positive about	120	8 / 74	2 / 18
 associate with good quality	126	6 / 74	1 / 18
 would feel proud to work for	112	17 / 74	6 / 18
 makes a positive contribution to the local community	126	7 / 74	3 / 18
 cares about the environment	120	8 / 74	4 / 18
 would describe as trustworthy	121	10 / 74	3 / 18
 would be very likely to recommend to a friend	123	6 / 74	1 / 18

Table 2: Guernsey Dairy’s Brand Reputation Index score

¹⁹ Island Global Research, IGR Reputation Index Guernsey Report, November 2019

- 7.2 Guernsey Dairy milk, milk derived products and the associated dairy industry on which it is based, are well regarded and loyally supported by residents²⁰. Surveys of residents have been conducted with some comparable results in 2013, 2014, 2015 and 2019. Island Global Research conducted a Guernsey Dairy Survey in November/December 2019, completed by 1,615 residents, which showed that:
- 83% of people feel strongly or very strongly that Guernsey milk should continue to be produced on island (this compares with 96% in 2015).
 - 81% agree that supporting the Guernsey Dairy industry is essential to the maintenance of the Guernsey Cattle Breed.
 - 79% agreed that Guernsey should be self-sufficient in the production of local milk and dairy products.
 - 77% agree that supporting the dairy industry is essential to the maintenance of the island's traditional, and familiar, rural landscape.
 - 66% agree they are happy with controls on sales of dairy milk, even though there is a price premium to paid for local milk as a result (18% disagree, the remainder neither agree or disagree).
- 7.3 The Survey Report also indicated that whilst the level of consumption of milk has declined since 2015, the vast majority of households (89%) still regularly consume Guernsey Dairy milk. This includes 64% of households who only consume Guernsey Dairy milk and 25% of households who consume both Guernsey Dairy milk and milk alternatives. The number of households who do not regularly consume Guernsey Dairy milk has increased from 3% in 2015 to 11% in 2019. This reflects in the Guernsey Dairy's declining trend in milk sales, particularly in the last few years - with 2018 sales down by -2.8% by volume on the previous year and 2019 sales to date showing a further decline of -2.7%.
- 7.4 The recent decline is thought to be driven by a combination of customers ordering less, due to a reduction in doorstep deliveries and the longer shelf life of milk, as well as the trend towards plant based alternatives to milk products (30% of households regularly consume non-dairy alternatives). The most frequently cited reason for consuming non-dairy milk was because they "believe non-dairy milk is healthier than dairy products". Other responses cited were that "non-dairy production is better for the environment", "animal welfare reasons" and "dietary needs (i.e. allergy/intolerance)". In the UK, there is a similar trend to Guernsey, with the consumption of plant-based milk alternatives within 28.9% of households, even though the price of such alternatives is at a premium compared with the price of UK dairy milk.

²⁰ Island Global Research (IGR), Guernsey Dairy Survey Report, February 2020

- 7.5 The Guernsey Dairy survey respondents indicated that they are not particularly price sensitive, in respect of their brand loyalty or preferences, whilst changes in the level of consumption are evident. However, it must be noted that only 52% of respondents agreed in 2019 that “Guernsey Dairy milk represents good value for money”. This is set within the context of the price of liquid milk rising in the order of 20% to 30% between 2015 and 2019 and prices of other milk products have also increased quite significantly.
- 7.6 Islanders are currently paying more for milk on Island than their UK counterparts (at the time of writing the average retail price of a litre of Guernsey milk is £1.36). In Jersey, similar legislation exists, whereby only cow’s milk produced in Jersey can be sold in the island and the average price is currently £1.22 per litre. In 2018, the average retail price in the UK for a litre of liquid milk was £0.59 per litre. The equivalent premium quality milk sells for more in the UK (Tesco Finest Channel Island Milk retails for £1.15 per litre). Plant based alternatives to milk products (e.g. almond, soya) retail at an average £1.50 in Guernsey.
- 7.7 The Guernsey Dairy is currently engaging the services of a strategic marketing company, to help develop a future marketing direction for the Guernsey Dairy and its products, aligning with customer needs. This key appointment will assist the Dairy in its operational evolution and help to mitigate further decline in milk sales and improve financial viability whilst supporting ethical and environmental policy. It is envisaged that further work will also be done to promote local dairy products effectively to residents and the links to the Guernsey Cattle Breed.
- 7.8 The Marketing Strategy will consider how the Dairy can profitably optimise the product range and maximise the use of milk supplied, whilst mitigating the decline in consumption of milk and decline in milk sales. This is due to the fact that the milk derived products such as butter which are largely made from surplus cream from milk production, can only be made profitably when the milk constituent is also used. The challenge for the Guernsey Dairy is to balance all these variables to ensure continuity of supply of milk is maintained, whilst maximising the by-products to make a return for the dairy industry as a whole.
- 7.9 The marketing strategy will contribute to the commercial strategy for the Dairy in the medium term. The strategy will also inform the ‘Design and Analysis’ stage of the Future Guernsey Dairy Project in the lead up to the Outline Business Case.

8 The Opportunity

- 8.1 This policy letter explores the financial, economic, food safety and environmental benefits of a new dairy processing facility or substantial refurbishment. Either substantial, whole scale refurbishment of the existing building or a new building will be necessary together with the provision of replacement equipment and services and associated processing improvements, to ensure that the Guernsey Dairy is ‘fit for purpose’ and can adapt to future challenges either within or outside of its control.

- 8.2 This would provide a flexible facility that is suitable to meet the future business needs of the Dairy, increase production efficiencies, meet existing and new regulatory requirements and deal more effectively with the reduction and treatment of waste.
- 8.3 Infrastructure investment will provide a number of efficiency savings. A new purpose built facility would enable the Dairy to purchase more efficient 'off the shelf' plant and equipment, rather than bespoke equipment that requires 'bespoke' maintenance regimes, saving significant time and revenue costs.
- 8.4 Additional space would enable changes to the way the Guernsey Dairy processes and stores the milk, with for example, purchase of larger chillers and provision for storage for the milk, enabling processing to be reduced from 7 days a week, to 4 or 5 days a week. Combined with other efficiencies, this represents approximately 35% cost efficiency savings on current production wage costs (a saving of £340k per annum). Other ongoing costs savings in repair costs and utilities are estimated at £210k per annum, so totalling an ongoing saving of £550k per annum. These savings will assist the viability and efficiency of the Guernsey Dairy as an ongoing concern. Whilst a substantial refurbishment of the existing Guernsey Dairy facility would provide some of these benefits, the efficiency savings are likely to be less, whilst this will be tested further during the Outline Business Case stage.
- 8.5 In the development of the Strategic Outline Case (SOC) Business Case consideration has been given to what the States should provide in terms of 'essential' Dairy milk processing services and what could possibly be provided instead of the Guernsey Dairy through contracts or licences or by a joint venture or partnership arrangement.
- 8.6 Current policy and legislation assume that the Guernsey Dairy continues to produce liquid milk but there may well be opportunities in relation to milk derived products. In 2007, the States agreed a policy for the treatment of 'micro dairies' on island²¹. The then Commerce & Employment Department supported farmers interested in diversifying their businesses and manufacturing milk products, such as ice-cream. This should be subject to prior approval of the Department, to ensure that adequate supplies of milk for the Island and milk product needs are still received at the Guernsey Dairy. However it did :
- “...**not** intend that whole milk be processed on farms and marketed in competition with Guernsey Dairy...”
- 8.7 Third parties may be willing to process milk derived products off-island or set up Micro Dairies on-island – to produce Guernsey cheese for example. This will be tested further within the Outline Business Case alongside the development of the marketing and business development strategies for the Dairy.

²¹ Review of Support for Island Dairy Farming, Billet XIII, July 2007.

8.8 A potential new Dairy facility could also provide for complementary opportunities. Whilst not directly part of the Guernsey Dairy remit, the ‘do maximum’ scope could extend the Future Dairy project beyond the process of manufacturing liquid milk and milk derived products, to include the potential of a Heritage and Educational Centre, with the possible inclusion of a visitor viewing area, café and shop. This could provide a visitor attraction, an opportunity for education/learning (e.g. Key Stage 1 & 2 curriculum) and in turn encourage brand awareness and customer loyalty and to promote the role of the dairy industry in supporting our cultural heritage. Whilst there is no compelling business need from the STSB perspective, this business opportunity has been considered worthy of retaining on the shortlist, following early consultation with the Committee *for* Economic Development and the Committee *for* Education, Sport & Culture (December 2019).

9 Options Appraisal

9.1 The shortlisted options cover a range of the future possibilities for a Dairy facility – in terms of building and plant to continue to produce and supply Guernsey liquid milk to supply the Island’s needs. Within the broad scope outlined in the strategic case for the Future Guernsey Dairy Project, the following short list of options have been considered for further analysis:

Option Number	Description	Current Recommendation
1 – Do Nothing	Cease the provision of a Guernsey Dairy.	Discounted as the States has committed to the provision of a Guernsey Dairy
2B – Status Quo	Continue with the existing Guernsey Dairy, replacing critical equipment and making essential building repairs.	Retain for comparison but not recommended as a sustainable way forwards.
3A – Do Minimum I	Extensive Refurbishment and replacement of plant and equipment, with a reduced product range. Existing footprint (plus potential extra space for effluent treatment plant)	Possible option, but complex to achieve within the risks (including operational and food safety risks) and constraints of the existing Dairy.
3B – Do Minimum II	Extensive Refurbishment and replacement of plant and equipment, with the current product range. Existing footprint (plus potential extra space for effluent treatment plant)	Very complex to achieve within the risks (including operational and food safety risks) and constraints of the existing Dairy and potentially not achievable.
5A – Intermediate Scope I	New Dairy on a new site, with replacement plant and equipment, with a reduced product range.	Possible option / Preferred way forward
5B – Intermediate Scope II	New Dairy on a new site, with replacement plant and equipment, with the current product range	Possible option / Preferred way forward

Option Number	Description	Current Recommendation
6 – Intermediate Scope III	New Dairy on a new Site – plus the option for a 3 rd party to develop Micro-Dairies for milk derived products only.	Possible option
11B - Do Maximum	New Dairy (as per 5B) with visitor facilities and with additional features or service offerings to potentially include a Heritage/ Educational Centre, shop and Café.	Possible option including additional wider strategic benefits linked to heritage and education.

Table 3: Strategic Case Short List of Options

9.2 The shortlist was developed from a long list of options, following a number of workshops and briefings with key stakeholders (see section 14), and each of these options have been assessed according to potential business requirements and key service requirements. A description of each of the shortlisted options is provided in the following paragraphs.

Minimum Scope

9.3 The minimum scope is a States of Guernsey Dairy that can produce sufficient fresh liquid milk to supply the Islands’ year round needs. The STSB is obliged to purchase nearly all raw milk produced by the Guernsey dairy farmers, who are required to supply it to the STSB. The STSB is also required to ensure that the milk supplied is processed and distributed in Guernsey. The Milk Ordinance²² does not specifically prevent processing from being done by a third party, but the current scheme of the legislation and preceding policy assumed that processing would be done by the Guernsey Dairy.

Option 1: Do Nothing

9.4 The option to not provide a States owned Dairy has been discounted, based on the extant policy and legislation. The Policy Letter of the 25th September 2014 and the resolutions following it, make it clear that in order to protect the Guernsey Cattle Breed, there is a commitment to a States owned Dairy.

Option 2B: Status Quo

9.5 The current ‘**Status Quo**’ with the existing Guernsey Dairy is to continue with the existing products and replace critical equipment as it is about to fail and to make essential building repairs on the existing site. A derivation of this option is to provide a reduced range of products i.e. liquid milk plus cream and butter (Option 2A). Neither of these options are sustainable options going forwards (see section 6).

²² The Milk (Control) (Guernsey) Ordinance 2016.

Option 3A or 3B: Do Minimum

- 9.6 The 'Do Minimum' is the more extensive whole scale refurbishment of the existing Dairy building and replacement of end of life plant. ***These are the essential and core requirements.***
- 9.7 This option would ensure the future supply of fresh Guernsey milk to islanders. Anything less than this would be a change to existing States policy in support of the dairy industry. This would entail processing the liquid milk and a reduced range of milk derived products by effectively utilising the by-products of milk i.e. cream to make butter. Two derivations of this option are to produce the full range of products that are currently provided (3B) or expand the product range (3C). These options may be too complex, if not impossible, to achieve within the existing Dairy site footprint, given its limitations.

Option 5A or 5B (with a potential additional Option 6): The Intermediate Scope

- 9.8 There are a number of variants which could constitute an Intermediate scope, which are the essential and desirable requirements and outcomes. **Options 5A or 5B - A new, fit for purpose modern build States of Guernsey Dairy on a new site, replacing and upgrading equipment.** Option 5A includes a reduced product range – processing liquid milk and milk-derived products (e.g. cream and butter) from the residual cream. Option 5B includes the same product range that is currently produced in addition to the liquid milk processing i.e. cream, butter, ice-cream and cheese.
- 9.9 A new build on the existing site has effectively been discounted as unworkable as the consequence would be that milk could not be processed into liquid milk at a Guernsey Dairy for some years. It is possible liquid milk could be processed off island for several years or more, whilst this does not meet policy, would be costly and may cause difficulty in ensuring supply.
- 9.10 The intermediate scope options includes **option 6, the potential for micro-dairies to be set up by 3rd parties, in addition to the States owned Guernsey Dairy.** The scope for this option would be for Micro Dairies or off-island dairy processors to be allowed to produce local milk derived products. Several dairy farmers already produce a limited amount of their own ice-cream and yoghurt and artisan cheese is also produced locally. It is possible that the Guernsey Dairy may agree that third parties can produce milk products e.g. cheese from surplus liquid milk, either off-island, or on-island at a micro dairy. Land Planning policy is supportive of farm diversification.
- 9.11 A Micro dairy including the supply and sale of liquid milk, effectively in competition with the Guernsey Dairy has been discounted. This would be contrary to the scheme of control envisaged by the Milk Ordinance, as the Ordinance specifies that all milk is supplied by the Guernsey Dairy (or its Distributors). Whilst the Ordinance could be amended to allow micro-dairies to supply fresh milk, this could risk the financial viability of the Guernsey Dairy.

Option 11B: Do Maximum (Heritage and Educational Centre)

- 9.12 The Maximum scope explores variants beyond the essential and desirable to provide a range of **optional potential requirements**. Option 11B would need to be explored further for its potential merit as a business opportunity, whilst there is some anecdotal evidence of demand for tours of the Guernsey Dairy currently.
- 9.13 This option would allow for the introduction of new business ventures beyond the concept of just a Dairy to include complementary business propositions. These could be linked to the States of Guernsey's strategic commitment to the Guernsey Cattle Breed and a financially sustainable future for the dairy farming industry. This option could contribute to the reputation and protection of the dairy industry as a whole and have merit in further investigation.
- 9.14 There may be potential benefits of synergy in terms of the co-location of a Dairy and a Heritage and Educational Centre. Stakeholders and experts within this field in Guernsey suggest that a Heritage and Educational Centre is only likely to be viable in combination with additional facilities, such as a shop, café and viewing platform and would ideally include complimentary attractions nearby. If this option were to be developed, then traffic, planning legislation and policy matters would need to be considered in detail, as well as availability of land.
- 9.15 These opportunities for the creation of a heritage and educational centre do not rest with the Dairy's or the STSB's mandate. These commercial opportunities could be taken forward either by the States of Guernsey or potentially, by a third party such as the local dairy farming industry or another organisation. Such a facility could be considered at a later phase, following the more urgent provision of a Dairy.

10 The Preferred Way Forward

- 10.1 On the basis of the analysis within this business case, the preferred and recommended way forward is a new Dairy facility on a new site. The site will need to be flexible to accommodate the future business needs of the Dairy and the wider dairy industry. It will need to meet future expected demand and the range of products going forwards, informed by more detailed market research, analysis and market testing of other potential milk-derived product producers. The options 5A and 5B will continue to be assessed alongside the other options on the short list, as identified above.
- 10.2 The short listed options will continue to be analysed as part of the Design & Analysis phase, including the selection of one option which may require an Environmental Impact Assessment (EIA). Following completion of the 'Design and Analysis' phase, the project will progress to the completion of the Outline Business Case with a recommendation for the preferred option.

Site Selection

- 10.3 Further work will be required to identify a suitable site should the recommended way forward be to progress to a new facility on a new site or additional space be required for a refurbishment/replacement on the existing site. The selection of potential sites for the Future Guernsey Dairy project will be subject to Planning Legislation and Policy, including the Land Planning and Development (Guernsey) Law 2005 and the Island Development Plan 2016.
- 10.4 Opportunities exist within current planning Law and Policy to alter and refurbish the existing Dairy, or to extend the existing site, or to provide a new dairy on a new site, subject to compliance with the relevant Island Development Plan policies including potentially, Policy S5 Development of Strategic Importance.
- 10.5 The Project Team will continue to liaise with Property Services and the DPA, to identify the optimum sites, but this will need to be informed by more detailed designs and further analysis of requirements. Initial site identification work carried out for the development of the SOC is commercially sensitive.

Main Benefits by Stakeholder Group

- 10.6 The 'preferred way forward' for investment in the Future Guernsey Dairy Project is anticipated to deliver a range of strategic and operational benefits which will be tested further at the OBC stage. The high level benefits are identified in the table below, according to the Investment Objectives and by stakeholder group:

Investment objective	Main benefits criteria by stakeholder group
Investment Objective 1	<p>Secures the ongoing commitment to the future of the Guernsey Dairy and dairy industry. (CUSTOMERS/ISLANDERS)</p> <p>The public value of the Guernsey Dairy from the perspective of society is conservatively estimated as having a direct Economic Value of £2.4m per annum²³. (Dairy Industry/SoG)</p> <p>Secures the commitment to the future of Dairy Cattle farming (financial viability and sustainability) and the Guernsey Cattle Breed.(FARMERS)</p> <p>Contributes to the protection of the biodiversity of the countryside (Dairy Farmers' Biodiversity Action Plans) ISLANDERS/ENVIRONMENTAL GROUPS)</p> <p>Potential for farmers to improve financial viability. (FARMERS)</p> <p>To engender greater customer loyalty through the awareness of the Guernsey Cattle heritage (e.g. Heritage & Educational Centre) (Dairy Industry)</p>
Investment Objective 2	<p>Meets Food, environmental pollution and health and safety regulatory requirements and best practice standards, including improving the Food Hygiene Star Rating. (CUSTOMERS/SoG)</p> <p>Ensure safety of products for consumption (CUSTOMERS)</p> <p>Improved consumer reputation following a Food Hygiene Rating of four stars 'good' or five stars 'very good' (CUSTOMERS)</p>
Investment Objective 3	<p>To provide the facilities, accessibility and modern equipment that will reduce costs, reduce equipment downtime and increase effective production and process efficiency. (TRADING ASSETS)</p> <p>Reduce the number of days to process the same amount of milk (same for less) providing the necessary space to store milk enabling processing days to reduce from 7 days per week to 4 days per week– achieving a saving of circa £350k (Option 5B), plus savings in utilities and other costs. (STATES OF GUERNSEY)</p> <p>Future affordability of milk products for the end user, through ongoing efficiency savings (CUSTOMERS)</p> <p>Reduced spend on repairs and maintenance (TRADING ASSETS).</p> <p>To reduce the Guernsey Dairy's carbon footprint.(ISLANDERS)</p>

²³ This is based on an Economic Appraisal undertaken by the States of Guernsey's Economist as part of the Development of the Strategic Outline Case, Appendix 3 The Guernsey Dairy and its value in terms of public goods.

Investment objective	Main benefits criteria by stakeholder group
Investment Objective 4	Improve utilisation of raw milk. (TRADING ASSETS) Compliance with future water pollution controls affecting waste water (TRADING ASSETS) Reduce wastage (waste raw milk, chemicals and waste water) and increase re-use /recycling of by-products. (ISLANDERS) To provide sufficient space and equipment to effectively reduce waste and save costs. (TRADING ASSETS/STATES OF GUERNSEY/ISLANDERS)
Investment Objective 5	Enables the continuity of supply of liquid milk to Islanders (CUSTOMERS) Keeps Farmers in business/ensures a sustainable dairy industry. (DAIRY INDUSTRY)

Table 4: Benefits by Stakeholder Group and Investment Objective

10.7 Further work on the economic appraisal and benefits will be undertaken at the OBC stage. However initial work undertaken by the States Economist indicates that the public value of the Guernsey Dairy from the perspective of society is conservatively estimated as having a direct Economic Value of £2.4m per annum. Taking a wider view of the contribution to the dairy industry, as a means of land management, as part of the islands tourism and for its role in the preservation of the Guernsey Cow the indicative total Economic Value could be around £12m per annum.

11 Financial Considerations

Longer Term Investment Costs

- 11.1 The proposals set out in this Policy Letter have been developed following the completion of a Strategic Outline Business Case. This five case model business case included an economic analysis and financial case. The financial case suggests that an initial capital investment from the Capital Reserve may be made, for the build, plant and equipment, rather than for the whole 20 year capital costs. This could include only those capital costs that would be required during approximately 2022-23 for the initial build and fit out, rather than for the 'whole life' costs over 20 years.
- 11.2 The Financial Case within the SOC provides an estimate of the likely capital costs for the substantive investment for the design, analysis, construction, fit out and commissioning of a future Guernsey Dairy, to be in the region of £22m to £26m. The comprehensive financial analysis sets out in detail the early assumptions made and basis for these estimates. A more detailed financial analysis takes place during the next phase of the project, leading up to the preparation of the Outline Business Case on the proposed option.

Affordability

- 11.3 The impact of the proposed capital expenditure on the Guernsey Dairy Balance Sheet cannot yet be determined, until the funding arrangements have been agreed. In 2018, the Guernsey Dairy deficit was £486k after depreciation. The estimate for 2019 is for a deficit of £384k after depreciation.
- 11.4 The level of capital investment required is not currently affordable from the Guernsey Dairy's financial reserves, nor is a loan likely to be affordable from any potential future income surplus, as the operating margins are relatively small. Therefore, proposition 2 of this policy letter requests that the States agree that the Future Guernsey Dairy Project is formally included within the capital portfolio (2017 – 2021) to be funded from the States Capital Reserve. Capital investment will enable the Dairy to invest in process efficiencies and reductions in operating costs, thereby improving the financial sustainability of the Trading Asset.
- 11.5 The Guernsey dairy industry cannot be expected to compete with the economies of scale of the UK dairy farming industry. However, the market cannot be expected to meet price rises beyond what is considered 'affordable' to consumers. In the future, the whole dairy industry will need to continue to address the requirement to supply sufficient milk year round for islanders and to control the costs of producing milk. The financial model for the Guernsey Dairy going forwards, needs to ensure that both the retail price the consumer pays is affordable and that the dairy farming business remains financially sustainable. That also requires the States Guernsey Dairy and the dairy farming industry as a whole, to be as efficient as they can be. Whilst retailers set the retail price, this price is influenced by the Guernsey Dairy gate price and the milk distributors' charges.
- 11.6 Currently, the Dairy Management Board consider that any significant increase to milk prices would be likely to adversely impact demand and that the capital investment in the Future Guernsey Dairy Project should largely be met by the taxpayer. This more accurately reflects the position of the Guernsey Dairy in support of the wider benefits to the dairy industry and the island's cultural heritage.

Analysis and Design Phase

- 11.7 Subject to the States agreeing that the Future Guernsey Dairy Project is formally included within the current capital portfolio to be funded from the capital reserve, work can continue to progress the project towards the completion of an Outline Business Case (OBC). The development stage (the 'Design and Analysis Phase') will include all necessary steps to take the project to the OBC stage and next policy letter (up to 2021). The Design and Analysis Phase is estimated to cost around £2.3m and if proposition 2 is approved, the Policy & Resources Committee would be authorised to approve this sum from the capital reserve. These costs are based on estimated professional fees for: project management; specialist dairy/food manufacture technical advice; process engineering; an environmental impact assessment (if required) and other consultancy requirements; factory building construction design professional fees; potential site purchase option and contingency sums at 20%.

Design and Analysis Budget 2019 to 2021

Year	Analysis and Design Stage		
	2019 £'000	2020 £'000	2021 £'000
Project Management	30	70	200
Technical advisors	30	170	100
EIA Fees			250
Design layout professional fees			454
Site Options, Professional Fees (Planning, project reviews, process engineering etc)			591
Contingency (at 20%)	12	48	319
TOTAL	72	288	1,914

Table 5: Design & Analysis Phase 2020/21

- 11.8 Further financial modelling, including sensitivity analysis and forecasting revenues based on assumptions on supply and demand, will be carried out during the 'Design and Analysis' phase. This will inform the overall investment model. This will be informed by the outcomes of the Marketing Strategy, which will help determine potential future demand and the potential to mitigate decline in liquid consumption and encourage growth in new milk-derived products. This in turn will inform the Supply Agreements with dairy farmers and supply targets for dairy farmers.

12 Timescale and Implementation Plan

- 12.1 There is an urgency to ensure that the Guernsey Dairy is able to continue to provide business critical services, producing fresh liquid milk for Islanders, as supported by controls on supply, sales and purchasing of milk under the Milk Ordinance, whilst meeting food, environmental pollution, and health & safety regulatory requirements and best practice standards. The Investment Objectives set out an operational requirement that the project is completed by 2024. Whilst it would be preferable to deliver this more quickly, this is likely to be a realistic estimate, given the necessary approvals and construction lead in times.

The key milestones for the Project are set out below:

Milestone activity	Date
Policy Letter to States of Deliberation for debate on the strategic case for the project and for it to be formally included within the capital portfolio.	April 2020
Analysis and specification of Preferred Way Forward (including procurement, process and build design, space and site location)	From May 2020
Cost Estimates and approvals to proceed with preferred way forward	October 2020
Environmental Impact Assessment (if required) and local development framework	January 2021
Outcome of EIA (if required) and decision to go forward to planning	December 2021
Design and Outline Planning	Q1 2022
Decision on Outline Business Case (including States approval of a policy letter to approve the developed project and to agree that STSB tender for the preferred solution)	Q3 2022
Tender /Procurement	Q4 2022
Final Business Case and approval to open the substantive capital vote and commission the preferred bidder(s).	Q1 2023
Construction Commences	Q2 2023
Future Guernsey Dairy Solution Delivered	Late 2024

Table 6: Milestones

13 Engagement and Consultation

- 13.1 The Investment Objectives and short list of potential options on which the proposal for this project is based, as set out in this Policy Letter, were developed by the Future Guernsey Dairy Project Team. Representatives of the Guernsey Farmers Association (GFA) considered the Options Framework for a Future Guernsey Dairy on the 26th September 2019.

- 13.2 Further consultation has taken place during the development of this Policy Letter and the associated Strategic Outline Case (SOC) business case. The policy approach was re-endorsed by the Committee *for the* Environment & Infrastructure and noted by the States' Trading Supervisory Board on 24th October 2019. At this same meeting the Investment Objectives and indicative short list of potential options were agreed by the States' Trading Supervisory Board and the Committee *for the* Environment & Infrastructure on the 24th October 2019.
- 13.3 On the 19th of November 2019, the Dairy Management Board approved the Future Guernsey Dairy Project business case.
- 13.4 A Briefing paper on the Future Guernsey Dairy Project, investment objectives, options and associated information was considered by the Committee *for* Education, Sport & Culture on the 3rd December 2019 and three Members of the Committee *for* Economic Development on the 17th December 2019.
- 13.5 Following the completion of a Project Assurance Review in early December 2019, the States' Trading Supervisory Board approved the Strategic Outline Case business case relating to this Policy Letter on the 19th December 2019. Officers from the Policy & Resources Committee were provided with a draft of the Strategic Outline Business Case for a meeting on the 11th December 2019 and a revised draft with the results of the Project Assurance Review on the 15th January 2020.
- 13.6 On the 19th December 2019, the STSB President wrote to the President of Policy & Resources Committee, providing an update on the Future Guernsey Dairy Project and the need for the refurbishment or rebuild of the facility. It also explained that an SOC had been prepared and it was the intention of States' Trading Supervisory Board to prepare a Policy Letter for consideration in this political term.
- 13.7 The STSB approved this Policy Letter on 13th February 2020. The Committee *for the* Environment & Infrastructure were consulted on the Policy Letter at their meeting on the 20th February 2020.

14 Compliance with Rule 4

- 14.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.
- 14.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not to be put into effect.
- 14.3 In accordance with Rule 4(3), the Committee has included a Proposition which request the States to approve that the Future Guernsey Dairy Project is formally included within the capital portfolio (2017 – 2021) to be funded from the States Capital Reserve. Further details about the financial implications of this Proposition are provided in Section 11.

- 14.4 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions above have the unanimous support of the States' Trading Supervisory Board, noting that Deputy Roffey was only elected to the Board on 26th February, 2020 and had not yet been briefed on the detail of this Policy Letter.
- 14.5 In accordance with Rule 4(5), the Propositions relate to the duties of the States' Trading Supervisory Board. The Committee *for the* Environment & Infrastructure, the Committee for Economic Development, the Committee for Education, Sport & Culture have also been consulted on the subject of this Policy Letter.

Yours faithfully

States' Trading Supervisory Board

P T R Ferbrache
President, STSB

J C S F Smithies
Vice President, STSB

S J Falla MBE
J C Hollis
Non-States Members, STSB



The Office of Environmental
Health and Pollution Regulation

Longue Rue
St Martin, Guernsey

GY4 6LD

+44 (0) 1481 711161
envhealth@gov.gg
www.gov.gg

Mr Richard Evans
Deputy Managing Director
States of Guernsey Trading Assets

17th February 2020

Our Ref: WK/202000299

Dear Richard

The EC (Food and Feed Controls) (Guernsey) Ordinance, 2016 (as amended)
The EC (Food and Feed Controls) (Guernsey, Alderney and Sark) Regulations 2019
States Dairy, La Brigade, St. Andrew, Guernsey, GY6 8RJ

Thank you for providing a progress update on the Future Guernsey Dairy Project.

While repairs carried out to discrete areas of the dairy in 2016 remain satisfactory, it is clear that a long-term solution is required to address the disrepair and extensive ongoing maintenance within the dairy. I support options 5A and 5B, which are recommended in the paper, as the preferred way forward as carrying out extensive improvement to the current facility while remaining operational is likely to be exceptionally challenging in terms of hygienic food production.

It must be noted that a new dairy will take several years to be operational and immediate improvements are needed to bring the current facilities up to a reasonable level of legal compliance and on an ongoing basis until production can be transferred.

Please contact me if I can provide any further advice or information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Charlotte Jones'.

Charlotte Jones
Senior Environmental Health Officer
The Office of Environmental Health and Pollution Regulation