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ENVIRONMENT DEPARTMENT

TOWARDS A NEW INTEGRATED ROAD TRANSPORT STRATEGY

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

30th August 2011

Dear Sir

Executive Summary

1. The existing transport strategy is perceived by the States to be ineffective. However, the States has never clearly identified the problem or fully committed to clearly defined goals and supported policies and workstreams to deliver those goals. The extent of change and the rate of change desired have never been agreed. The initial 2003 strategy was clearly aimed at reducing commuter traffic impacts but whilst the States approved many of the incentives associated with that strategy the penalties/disincentives were never resolved. That strategy became, in the eyes of many, a resource drain. The current 2006 transport strategy, including the phrase "*freedom of transport choice",* clearly attempted to deliver all things to all people rather than driving policy and actions in a clearly defined direction. Specifically it sought to remove any perception of "demonising the car" contained in the earlier strategy. As a result quite widely divergent expectations can be laid at the feet of the current strategy.

2. An integrated road transport strategy needs an agreed vision and set of objectives which take into account the conflicting aims of social, economic and environmental policy. The desired speed and extent of change needs to be agreed and the sub policies along with the required resource funding must reflect that desired change. There is, therefore, a clear need for an iterative process. **This report starts that process**. It sets out a suggested vision along with a list of draft objectives. It then sets out and briefly appraises a range of policy options which could contribute to delivery of the vision and objectives. The policy options have been rated in terms of acceptability, ease of delivery and contribution to the objectives. Resource requirements have been indicated. The ratings are provided as a basis for discussion rather than setting out a definitive assessment. Policy options supported by the States would need to be worked up in greater detail and returned to the States, for final approval

and allocation of funding. The approach adopted throughout this States report is predicated on the assumption that it is necessary to both make car use less attractive whilst also making alternative transport choices more attractive. In doing so it is recognised that use of private motor vehicles is unavoidable and, therefore, some of the policy options and objectives will relate to ensuring the road infrastructure is safe and fit for purpose.

3. In preparing this document it has been suggested that the Department should simply make firm proposals for action/change and to cost those proposals accordingly. The Department considered this approach very early on but dismissed it. On reading this report members will realise why. Without a direction or firm indication from the States as to the extent of change and the speed of change required along with an indication as to which sub policies and actions are considered acceptable in delivering that change, the Department would be undertaking an impossible task. It would be second guessing the will of 47 individual members, many of whom have their own clear ideas as to what should constitute the elements of a transport strategy. From the myriad of different combinations available the Department would choose one and devote considerable resources to costing it. History demonstrates that such an approach would be a fruitless waste of time and resources.

4. Instead it is necessary to establish some key principles. The States must provide a clear indication as to what States members consider to be the real problems caused by the car. An indication as to the types of action that would be acceptable is required along with a clear indication as to the rate and degree of change required and whether States members are prepared to guarantee the resources to deliver that change. Without those indications the Department would, quite simply, be working in the dark.

5. It is against this background of:

- Absence of clear direction from the States in terms of outcome
- Absence of clear direction from the States in terms of rate of change
- Absence of clear direction from the States in terms of policy acceptability
- Absence of any secured funding route
- Absence of secured premises on which to base the public bus service proposals
- Absence of direction in terms of spatial land planning

that the Department asserts that delivering a fully costed sustainable integrated transport strategy with the role of the public bus service at its heart was and is, at present, an impossible task.

6. The Department urges the States to engage constructively in debating the problems identified, the desired outcomes of a strategy, the policy options for delivering the required change, the rate of change and the funding mechanisms

to deliver that change. Only then will the Department be able to start to cost a meaningful integrated strategy.

7. This report is not a strategy. It does not pretend to be one. It does, however, set out all the elements of a strategy and facilitates meaningful debate towards a strategy. It also, in paragraphs 17 to 49, sets out the current status of the bus service and contract.

Extract - Why is it so difficult to reduce car use?

8. Transport strategies around the world tend to centre on seeking to achieve a modal shift (i.e. encouraging users to adopt different transport means). The difficulties of achieving modal shift are well recognised and have been the subject of extensive research over many years. Roger L Mackett BA, MSc, PhD, FCILT, FIHT, Professor of Transport Studies at the Centre for Transport Studies, University College London, has carried out significant research into the change in public attitudes to transport and has written many scientific papers on the subject. It is clear from his work that Guernsey is not in a unique position in finding it difficult to balance social, economic and environmental policies in such a way that reliance on using the car is reduced. In his paper *"Why is it difficult to reduce car use?"* he sets out many social and spatial planning issues that both create and accommodate life style choices. Of particular relevance to Guernsey he states:

   a. For those who make short trips by car it is necessary to make the alternatives appear to be more attractive relative to the car, or, putting it another way, make use of the car less attractive. The latter is probably easier and can involve increasing the cost of car use or increasing travel time by car. Increasing the cost of using the car is, in theory, straightforward: increasing fuel tax or charging for the use of road space can both be implemented if the government has the will to do so.

   b. Many of the motivations for using the car arise from meeting the needs of children (Mackett, 2003). These needs partly arise because of parental concern about the risks to children of allowing them to walk or cycle without an adult. Hence, one need is to increase parental confidence in letting children out without an adult. This may involve making the streets safer and convincing parents that this is the case.

9. To date Guernsey's transport strategy and the supporting policies have done little to make the car less attractive, concentrating almost entirely on offering alternatives in the hope that drivers will simply elect to move away from the car because an alternative is available. The approach presented throughout this States report is predicated on the assumption that it is necessary to make car use less attractive, whilst also making alternative transport choices more attractive.

Background

10. At the States meeting held on 27 October 2010 the States approved Deputy Fallaize's amendment to add a workstream to the Environment Department's Operational Plan. That amendment directed the Department to "*lay before the June 2011 meeting of the States of Deliberation, or sooner if possible, a report which a) provides an update of all progress made against the objectives of the Road Transport Strategy since March 2006, and b) sets out proposals for a comprehensive, sustainable and integrated road transport strategy, including the role and funding of public transport in any such strategy, for a period of at least the next five years.*"

11. The Board advised the States that it was impossible to deliver according to the precise wording of the amendment. The Board advised that an integrated road transport strategy must a) take into account and contribute to the island's spatial plans and resultant development opportunities and b) must, as part of its integral core, encompass the functionality of the public bus service.

12. In respect of a) the Board noted that the States had yet to decide the future direction of strategic land planning. This work has, of course, developed over the intervening period but it remains incomplete and hence decisions taken by the States in respect of the Strategic Land Planning Options may impact on the policies adopted to deliver the Transport Strategy. In respect of b), the Board noted that it was under a States resolution to competitively tender the bus contract by 2012 and that to do so it was necessary to have long term security over suitable premises and that only after such security had been guaranteed would it be possible to specify a fleet mix and size compatible with the intended service. The Board stated that such issues could not be resolved in the prescribed time limit.

13. Similarly, the Department has previously attempted to look at HGV use on the island's roads and the impact on the road hierarchy. However, until the ports strategy has been agreed and the resulting impacts on the inter harbour route understood, no meaningful policies can be set to reduce the impacts of HGV movements.

14. As a result of such very real constraints States members and specifically Deputy Fallaize, in his summing up, accepted that the Department could not deliver to the letter of the amendment. Prior to the vote Deputy Fallaize commented to the effect that - *the assembly wanted to start the process of reviewing the transport strategy and that the amendment sought little more than that. If the work was delivered in phases then that should be acceptable*.

15. This report is, therefore, the start of the process and is not intended to, and cannot, be a full delivery of the prescriptive terms of the amendment. The Department believes it would be unreasonable to go further without obtaining States support for the broad direction of the strategy. The Board also notes

the desire of the Assembly to start afresh. As such this report is in two parts. The progress report on delivering the current strategy is confined to part two which is presented as appendix A. If the transport strategy is to be designed afresh then, save for identifying what has and has not worked, there is little to be gained from in-depth discussion of old initiatives unless they are carried forward as refocused initiatives under a new strategy.

16. Before the States considers the type of strategy it wishes to implement it is first desirable to consider two key issues. The first relates to a key element of the amendment, namely the role of the public bus service, whilst the second, that of funding the strategy, became apparent during the Board's deliberations. These two issues are dealt with in the following paragraphs after which the strategy options as developed by the Board are set out.

The Public Bus Service

17. The Department reported in detail to the States in November 2009, Billet D'Etat XXXI, on the issues surrounding the long term future of a public bus service. That report covered all aspects, issues and conflicts surrounding the future provision of a sustainable bus service but regrettably debate concentrated on the report's recommendation that the States endorse the appointment of consultants to assist in a full review of all operational, route, procurement and contract options. This recommendation was rejected and as such there has been no meaningful States debate on the long term future of the public bus service and its associated infrastructure.

18. **The key factor surrounding the future provision of a public bus service is the absence of dedicated premises.** As indicated to the States at the time, the Environment Department does not have long term security over the premises used to garage, clean, service, maintain, repair and fuel the bus fleet. Nor can the States secure long term free tenure security over the whole of the site currently used. The nature of the current bus service and the future direction it might take are predicated on the very real constraints imposed by the absence of dedicated accommodation.

19. The States cannot guarantee and prove best value of the bus contract without competitive tender. Competitive tender is not desirable when the only available site is not under the States control but rather is largely under the control of the current service provider. Regardless of how good the current provider might be, the fact that the States is beholden to the ongoing good will or co-operation of a single company for the provision of a core public service is unsatisfactory if not unacceptable.

20. If, for example, the States was to indicate support for Table D2, D4 or D7 then the States is largely at the hands of the operator in determining what fleet mix, size and number of vehicles could be accommodated at the operator's site. If the operator considered that maintaining spare parts, tools and the competency

required to service two different types of fleet vehicle was an undesirable burden then the contractor would seek to cost that undesirability into the service provision. The States ability to guarantee best value in such circumstances is severely undermined.

21. Setting aside financial issues, the fact that the site itself is constrained in size and outside of the States control means that it physically restricts the development the States might contemplate carrying out. Space cannot, for example, be optimised by underground garaging and hence accommodating a larger fleet becomes a practical impossibility. The use of ground floor space to park and service buses mitigates against freeing up space for the necessary training, rest room, changing and office facilities required by the operator.

22. The present fleet is nearing an age and vehicle reliability whereby thought must be given to a programme of replacement. Replacing the fleet on a like for like basis at the existing premises constrains the States to providing a like for like service. Any desire the States might hold for, inter alia, the future expansion of the bus service, increasing the number of vehicles, introducing a mixed fleet, integrating with the schools minibus service or competitively tendering the contract, necessitates consideration of the constraints imposed by the nature and lack of secure tenure of the premises.

23. Specifying vehicles for Guernsey is also fraught with difficulty. Manufacturers have, for safety reasons, increased the size of vehicles and a like for like replacement of the current fleet would result in slightly larger vehicles. Achieving a reduction in vehicle size would render the vehicle less suitable for disabled people and would result in significantly reduced carrying capacity. The latter might be acceptable if the States wished to scale back on the bus service but if services are to remain largely on par with the current provision or are to increase in the future, then additional buses would be needed to match the carrying capacity of the current fleet. The extra vehicle numbers would impose additional land requirements and, of course, drive up contract costs.

24. In order to tackle these problems, and in light of the States rejection of the Department's request for expert assistance in this area, the Department has worked with the Consultants to the Financial Transformation Programme.

25. The resulting report submitted by the Value for Money Team to the Transformation Executive took the view that there are too many competing capital bids for the States to commit funds to the procurement of dedicated bus garaging facilities at this time. The report expressed the view that even if it could be demonstrated that savings, resulting from removal of rental payments and competitive tendering of a revised contract, could fund the capital costs of developing a new site, those savings should be directed towards reducing the States deficit rather than investing in development. Thus the report assumes that the bus service must continue to be constrained by the existing premises at least for the next three to five years.

26. The Environment Department understands these views whilst not fully endorsing them. The Department does, however, recognise that, even if funds could be allocated to bus service infrastructure, the time required to acquire or allocate a site, specify and tender a contract and build the facilities, means that such a contract and facilities would be unlikely to be available during the next three years.

27. Discussions have been held with the owners of the sites used at Les Banques and whilst both are content to let longer leases, neither is willing to sell and one will only lease their premises to Island Coachways. Therefore, at present, the Department is unable to competitively tender the contract to any other operator. Better value for money is, therefore, being sought through negotiation with Island Coachways. But, as a consequence of the very real constraints, the Department cannot fulfil the States resolution to competitively tender the contract.

28. In light of the premises constraints and the resultant contract constraints the Department cannot, at the current time, deliver any of the options set out in tables D2, D4 or D7. The Department cannot present proposals to the States, as required by the amendment, which include *the role and funding of public transport in a comprehensive, sustainable and integrated road transport strategy for a period of at least the next five years.* The Department was, however, well aware of this fact at the time of the amendment and it was one of the reasons the Department asked the States not to support the amendment.

29. In the short term the Department can only, realistically, recommend that the role of the bus service continues to be along the lines of the service currently operated. The Department considers that there is no real scope to expand the bus services beyond the current offering over the next three years. Indeed the direction of the States, in respect of the fundamental Spending Review, was to take costs out of the service rather than increase costs by providing enhanced services.

30. It remains necessary, however, to plan now for the delivery of bus services beyond the short term. To do this it is necessary to form a firm view on the level of bus service that will be delivered over the longer term (20 years) in order that the nature of the fleet can be determined and hence the land and accommodation requirements identified. Setting these principles would allow the States to identify and make available a suitable land parcel and the Department would be able to specify the service requirements, contract form and performance indicators necessary to develop a tender pack. Such a contract could include capital investment by the service provider to develop the land and procure the fleet.

31. The Board has largely set out its view on the direction it would wish to see the bus service take within the tables below. However, to quantify that view the Board considers that whilst it would be desirable to have some smaller buses

perhaps operated on an interlinked service acting as feeder buses to larger buses the Board does not support a continuing expansion of the services currently provided especially if such expansion results in significantly increased costs. At present bus occupancy is running at between 28% and 87% dependant on the route being operated. One or two routes operate at very low occupancy levels, some routes are nearing capacity but most routes offer scope to increase carryings without additional expense. The Board is largely of the view that Guernsey already has a very good bus service and the Island, for its size and population, is already well served. The Board considers that there may be scope for more evening services but at premium fares and hence self funding. In essence the Board does not consider that there is any need to enhance the size of the fleet to deliver extra services but that if a mixed fleet could deliver efficiencies over the existing service then the garaging and maintenance facilities should be available to accommodate that. Due to the costs involved the Board does not support a wholesale swap from large to smaller vehicles solely to reduce the size of the vehicles on the road. The Board does see value in moving more commuters away from private vehicles onto buses but believes the public bus service should follow rather than create the market demand in this area. The Board considers that other policy options as set out in this report should be the tools to drive the market demand. Should the States agree with the above observations then it will be possible for the Department to quantify the land requirements to accommodate the bus fleet required to deliver services over the next 20 years.

32. A related issue that also needs to be considered is the future provision of school bus services. The Board has placed significant importance on the potential to reduce the impact from school traffic and has indicated its support for free bus travel for all students. This is not, however, the same as guaranteed bus seats for all students.

33. In 2009 the Department reported fully on the outcome of its trials in respect of free school buses. Monitoring since that period has demonstrated that the one third increase in student carryings as a result of the introduction of free services has been retained. The experiment has, therefore, demonstrated that which was assumed in 2006 – namely that providing free seats is an effective means of encouraging students to use the bus as a means of getting to school. It is, of course far more difficult to state with certainty that it is those students who previously travelled by car, who now travel by bus rather than those students who walked or cycled. Nevertheless, the fact remains that the experiment demonstrated a positive and sustained response.

34. At present the Department provides circa 3,000 bus “seats” per day (am and pm combined) requiring a maximum afternoon provision of 31 buses and coaches delivering 40 pm journeys (including some double runs). The costs to provide these services are in the order of £300,000 for Private Hire services (contracted out on an annual basis to a number of providers) and a notional cost (contained within the scheduled bus service contract) of about £110,000

for the integrated services. This notional cost only relates to the variable additional costs of providing the integrated schools services and does not include an allowance for premises, vehicle depreciation and other standing costs. A further 600 students travel free on the scheduled services using the voucher system. At present the Department provides free school transport, regardless of the distance the student must travel to get to school, for all secondary schools and most primary schools. St Martin's, Forest, St Sampsons infants and Amherst as well as the Colleges fall outside of this provision. Where available capacity is exceeded, priority is given to those students living in excess of the minimum distances stated in the law. Increasing the numbers of students carried by 25% would require provision of approximately 12 extra buses (provided the service continues to be delivered through a mix of scheduled, integrated and private buses). The Board is of the view that any target beyond this would be overly ambitious and entail excessive costs. Take up of an additional 25% of availability would require provision of free services to those schools currently excluded along with the introduction of other supporting policies to encourage take up. Providing a dedicated school bus service guaranteeing a free bus seat to any student wanting one would involve a fleet expansion far in excess of that stated.

35. As for all the workstream options set out in this report, greater detail can be provided as a result of more comprehensive work carried out once decisions in principle have been taken, but it is imperative that the States indicates whether it is committed to providing bus services through a longer term contract serviced by premises on land under States control; whether the current frequency and coverage of services is, in broad terms, the level of service to be offered into the future; whether services are to be delivered by a larger fleet of smaller vehicles; and whether free school bus services should be offered island wide. Based on the assumptions that the Board has set out above for future bus service provision it is estimated that a public bus fleet of between 55-60 vehicles would be required.

Bus Contract Negotiations

36. The form of contract, known as a cost plus contract, under which the bus service operates, has not changed significantly since its signing in 2002. It operates on the basis of open book accounting. The nature and the extent of the services are set by the States and the service provider is reimbursed with the full costs of providing that service plus a profit element. Whilst the contract was appropriate to the circumstances at the time of its commencement, it is no longer the preferred form of contract and as set out in the Department's 2009 States Report other forms of contract could potentially provide a better platform for the ongoing provision of bus services.

37. Under the current form of contract the service provider sets out a budget for providing the services specified within the contract. That budget includes all salaries, consumables, materials, rents etc. Income arising from fares,

advertising and other sales is deducted from the contract costs and the difference, which is a deficit, is met by the "States Subsidy". The contractor is also paid a profit element as a percentage of the contract.

38. A company's profit is, under most circumstances, recognised as a reward for taking on risk or for investing capital. The payment of profit in the absence of risk and investment was identified by the Environment Department as an undesirable element of the bus services "cost plus" contract. The Department observed that if the service was, in effect, "nationalised", the profit element being paid to the company could immediately be saved, thus reducing the tax payers' costs. This is, of course, an overly simplistic view and other factors, in particular the issue of what services should be provided by Government and what services contracted out, comes into play alongside issues such as reducing the size of the States staff establishment. Nevertheless, in January 2009 the Department put forward the bus services as an area for examination under the initial Fundamental Spending Review.

39. The Department also commenced work on a States report seeking the resources necessary to conduct a full review of the routes, fares, service provision and form of contract with a view to identifying the best way to take the bus services forward over the next decade. That report was submitted to the States in October 2009 but the Department's proposals were rejected.

40. The Department, therefore, commenced a stage by stage review utilising in house resources as available. Various amendments were made to the routes in order to facilitate the enhanced services required under the then transport strategy and in 2010 enhancements were made to the ticketing machines to facilitate the Ormer card which can operate as both a stored journeys and stored value card.

41. The Department also reviewed the fares and considered that, in light of fares charged in other jurisdictions, a £1 fare was appropriate. Simultaneously, the Fundamental Spending Review team had commenced examination of passenger carryings on the various services in order to identify where routes could potentially be cut to reduce the cost of the service. The Department, mindful of the Treasury and Resources concern that increases in any charges and taxation should represent a fair charge, approached that Department for comment prior to increasing the fare level and as a consequence the Value for Money Team was tasked to review fare levels and to comment on the Department's proposal. The team endorsed the Department's position that a £1 fare was appropriate. Fares were, therefore, increased in summer 2010.

42. For the later part of 2010 through to early 2011 discussions were held in respect of the premises from which the bus services are provided. The premises are in two parts with two separate owners/landlords. One part – the Tram sheds – is leased directly to Island Coachways. The other part, which was acquired following the loss of the Bouet sheds to housing, is leased

directly to the Department. Both parts are necessary to accommodate the bus operations including garaging, fuelling, servicing, cleaning etc. The area available, which is barely sufficient and does not facilitate efficient operations, equates to approximately 4250 square meters. Whilst both landlords are willing to extend leases the States is unable to take full control of both sites. As a consequence, use of the sites is dependent on ICW being the service provider. The importance of the premises and the constraints imposed by them should not be underestimated.

43. The Department had expressed a strong desire to competitively tender the bus contract and hence made representations in respect of other potential sites, specifically the Pitronnerie site and the fuel premises offered for sale by Shell. Simultaneously the FTP consultants commenced a search of available States sites including land around States Works and the Electricity station, the Water Board land at St Andrews, The Fire Station, the Catel Hospital and the reclaimed land to the east of Marine and General. To date, none of the sites examined have been identified as both suitable and available.

44. In spring 2011 attention turned to the form of contract let with Island Coachways. It had become clear to all concerned that competitively tendering the service was not viable within the time frame, that the research and advice the Department had identified as being necessary within its States report would not materialise and securing a suitable site to facilitate competitive tender was many months, if not years, away. As a consequence a negotiated contract with ICW became the preferred option. The negotiations were conducted under the auspices of the Fundamental Spending Review with the objective of delivering the Saving Opportunity identified in the initial FSR report.

45. The criteria set by the Transformation Executive set for negotiating the new contract with ICW sought to:

- Remove the current guaranteed profit element, and
- replace it with the ability for the company to generate profit by meeting performance targets relating to the delivery of operational efficiencies.
- Seek a reduction in the baseline cost for the current service of at least £250,000.

46. The realities presented by the premises and time constraints alongside the desire to competitively tender a long-term contract at the earliest opportunity has resulted in negotiations that have sought to deliver the stated objectives but with the least change possible to the contract form. The intention is that the contract fundamentally remains as a cost plus contract but the level of subsidy paid by the States in 2012 and thereafter will be capped. The value of the subsidy will be negotiated down to achieve the savings required and hence ICW as service provider will be taking operational and cost risk.

47. It is intended that the term of the contract be set as 12 months commencing on the 1 January 2012 automatically renewable each year thereafter unless either party provides notice of termination six months prior to the contract term. The contract is intentionally short term in order to accommodate competitive tendering as soon as a suitable site can be made available.

48. One key consequence of the reduction in cost and enhanced risk to ICW is that the States cannot expect to continuously amend the time table or increase the number of unprofitable services offered. This, however, accords with the statements made in the preceding paragraphs concerning the current state of the bus services and the uncertainty over the direction of the future transport strategy.

49. The States has a window of opportunity over the next two to three years to identify a site for the long term future provision of bus services, to competitively tender those services and to ensure that the tender documentation is in respect of a service that meets the identified needs of a longer term, sustainably funded transport strategy.

Funding

50. In preparing this document the Department received comment from the Treasury and Resources Department. The core thrust of that comment was that the Department must not work under any assumption of linked funding. Any income the strategy, ultimately approved by the States, might deliver cannot, in the Treasury and Resources Department's view, be linked to delivering the strategy. If the strategy has, as a disincentive to vehicle use, taxes, charges or deposits then that income, the Department has been informed, must not be targeted to fund incentives which deliver alternatives to private vehicle use. The funding of cycle paths, pedestrian facilities, enhanced public bus services, car share data bases, etc, must not be part and parcel of the income attached to the strategy.

51. This advice poses not just the Department, but the States generally, with a significant problem in delivering any integrated strategy. As the opening extract makes clear, an effective strategy requires incentive and disincentive to be delivered as a package. One cannot function without the other. Whilst the Department has no desire to argue for full hypothecation it feels obliged to point out that delivery of an integrated strategy is unlikely to become a reality without an element of linked funding. The amendment calls for a "sustainable strategy". In the current economic climate with increasing restrictions on departmental budgets and increasing competition for capital and new service developments, a strategy which is not linked to the income derived from that strategy will not only fail the "integrated" requirement, it will also fail the "sustainable" requirement.

52. Having considered the options set out in this report, the States may provide indications as to the extent and rate of change it seeks and may give clear indications as to the workstreams and policies that would be acceptable in delivering that change. The Department would then work up the detail of those indications and present to the States a fully costed set of actions. The States would be able to see to what extent the income from disincentives matched expenditure on incentives and the States could be asked to endorse that integrated strategy. However, before the Department could deliver any element of the approved integrated strategy – for example enhanced pedestrian facilities – it would need to seek a capital allocation in the four year capital prioritisation cycle. It would be for the States to balance that request for funding against all the other education, health and social welfare requests. A failure to prioritise the funding towards the transport strategy would mean that the States, having approved an integrated strategy, would have taken the income from the disincentives and applied it as funding to some other priority thus ignoring the incentive aspect of the strategy. Quite simply the reality of the States prioritisation process could seriously undermine the integrated strategy.

53. Indeed, many of the elements of a new strategy are most likely to fall below the thresholds for inclusion in the capital prioritisation and/or new service development bid process and would exceed the current diminishing resources of the Department. In this respect, it is worth noting that in recent years the majority of the Department's capital spend has been in response to coastal maintenance following acts of God. The ability of the Department to prioritise funding to transport issues is, therefore, extremely limited. Without linked funding the Department would be unable to take many elements of the strategy forward.

54. The issue of sustainable funding for an integrated strategy within the current States rules should not be underestimated. The 2006 transport strategy has seen considerable restriction of available funding over the last two years. Whilst the income, from revenue sources approved by the States in 2006, continues to provide adequate funds to deliver projects supported by the strategy principles, funding is not being released due to a more restrictive interpretation of the States report being applied by the Treasury and Resources Department. The Department is unable to take forward some work, particularly for vulnerable road users, that it would wish to undertake. In essence, unless the project is specifically included within table 1 of the 2006 report then funds are not released even if the project supports the strategy policies and objectives. The Department cannot use strategy funding for, for example, dropped kerbs at zebra crossings or pedestrian enhancement schemes such as the pedestrian refuge opposite Royal Chambers.

55. Not only is it, therefore, necessary for the States, through debating this report, to provide the direction necessary as indicated in paragraph 4 but in addition

the States must form a view on the acceptability of approving an integrated strategy without any element of linked funding.

56. In order to develop proposals, the Department, initially, made assumptions based on the somewhat limited indications given by the States in debating the amendment. Those assumptions were the basis for the vision, objectives and workstreams set out below. It had been the Department's intention to test the acceptability of these proposals by presenting them to the States for debate and vote in the normal way. However, because the proposals were not costed (for the reasons set out in the paragraphs above), the Department was advised by the Treasury and Resources Department and the Policy Council that this would be an inappropriate route to adopt.

57. As a consequence the Department sought to test the acceptability of its draft proposals through a presentation/workshop with States members. Whilst the Department is grateful to the 24 members who attended the workshop, sadly only 11 provided feedback of which only nine provided the requested scores against the policy options. As a consequence, whilst the presentation/ workshop achieved a shared understanding of the problems in addressing a transport strategy, it did not assist the Department in establishing the will, commitment or direction of the States in respect of the various elements put forward.

58. In light of this the Department has considered four options. First, to set aside the advice of the Policy Council and Treasury and Resources Department and seek a States vote on the uncosted proposals contained in this report. Second, to proceed with fully detailing and costing the proposals and as a consequence not submit a report during this assembly. Third, submit the proposals as a green paper. Fourth submit the proposals under rule 12 (4). The Department has chosen the latter route, as in this way it hopes to gain the clear indications identified as necessary to progress the strategy without delaying progress by costing a potentially abortive strategy.

The Strategy Context

59. **What and How Bad is the Problem? -** When a problem is universally recognised there is generally a shared ownership and commitment to addressing it. This does not currently appear to be the case in respect of transport. It has been suggested that the problem (however defined) is bad enough to generate criticism but is not so bad that anyone wants to give up a perceived right to address the problem. Policies that increase the cost of motoring or that increase the cost of public bus services to the tax payer are heavily criticised. Projects that increase the safety of pedestrians and cyclists but reduce road width or increase delays at traffic lights are heavily criticised. Policies that seek to prevent motorists from parking directly outside the shop or house of their choice are heavily criticised. Attempts to prevent vehicle driven land take (wider driveways, more parking areas, hard landscaping etc)

are heavily criticised and policies to pedestrianise areas also receive heavy criticism.

60. Traffic congestion and lack of parking appear to be a major concern, yet the people who cause that congestion and who compete for parking spaces are not generally calling for a sustainable strategy in terms of reduced car use. Many are calling for car friendly policies – wider roads, more parking, fewer cycle ways, fewer footpaths, fewer pedestrian crossings and pedestrian phases at traffic lights, car friendly (pedestrian hostile) filters etc.

61. The questions that must be answered are: What is the problem, how bad is it and, therefore, are we truly committed to delivering change? Whilst the Direction from the States to review the strategy clearly indicates acceptance of a problem, the nature and scale of that problem has not been clarified.

62. To define the vision for the transport strategy it is first necessary to consider the policy context impacting on the strategy. A transport strategy need not, and should not, be solely about meeting environmental objectives. An effective transport strategy must be in conformity with the States Strategic Plan in meeting the objectives of the Social, Fiscal and Environmental Policies and thereby will contribute to:

Social Policy issues including:	
Social inclusion Independence Reduced Crime	Bridging the poverty gap Anti social behaviour Sense of wellbeing
Health Policy issues including:	
Healthy exercise Disabled access - accessible transport	Obesity Road Safety Accident prevention
Economic issues including:	
Economic sector support Infrastructure spend	Business independence Sustaining retail and tourism centres
Spatial issues including:	
Land take by transport, infrastructure and parking	Sustainable communities Visual impact Accessibility
Environmental issues including:	
Climate change Air quality (including noise)	Resource use

63. Meeting many of these objectives will generate conflict or tension with others in the list. A policy argued on health and environmental grounds, which denied or severely restricted peoples' access to private vehicles, could run against some of the social and economic objectives. The strategy cannot, therefore, be the panacea for all ills and the approach adopted must be one of reasoned balance. This is important when setting targets. An ambitious target of heavily cutting private motor vehicle use or car ownership will necessitate strong policies and initiatives that go beyond incentives and invoke cost and penalty. Such policies must impact on Economic and Social outcomes. Conversely a balanced strategy attempting to deliver many conflicting outcomes is unlikely to achieve large swings in consumer behaviour.

64. The amendment approved by the States may under some interpretations limit the options open for consideration. The amendment states that the strategy must be "sustainable". Taking commonly held viewpoints on sustainability and the environmental context ubiquitously assigned, it would appear that the States has voted for a strategy that addresses issues surrounding consumption, carbon footprint, congestion, air quality, land take, infrastructure loadings, etc impacted by vehicle ownership and use, and that these environmental gains are to take precedence over other potential strategy options. But the strategy must also be sustainable in financial terms. Policies which could deliver environmentally sustainable transport will deliver nothing if they are not financially sustainable. The funding of the strategy is, therefore, key and the Department does not accept that each element of the strategy must take its separate chances in the funding prioritisation bids. The Department strongly believes in an element of linked funding.

65. The States during the October debate also appeared to demonstrate the view that car ownership was part and parcel of the Guernsey lifestyle and that there was no intention or desire to introduce draconian policies to deny people the opportunity to own and circulate a private motor vehicle.

66. The Environment Department has taken these presumptive messages as the starting point for a transport strategy. Put succinctly, the assumption is that the States is not looking to support "car is king" policies involving, for example, more roads and car parks. Nor is it looking to work towards "eco, car-free Guernsey" outcomes. What appears to be desired is:

- A strategy that recognises the essential role of the private motor vehicle in delivering social and economic policies whilst discouraging unnecessary use;
- A strategy where private vehicle use is not the option of preference but is available when required;
- A strategy that recognises the fact that everyone needs to travel by whatever means are most appropriate for that journey; and

- A strategy that seeks to balance the competing requirements of those different transport modes providing safe transport choices whilst also balancing the competing economic, social and environmental impacts.

67. This approach sits comfortably with the States Environmental Policy contained in the States Strategic Plan: *"To reduce traffic pollution by encouraging cleaner emissions and supporting reduced use of motor vehicles"***.** But it is not a strategy that will deliver extensive rapid change. It is a strategy that, at best, will stem further growth in car use and perhaps slowly turn the tide. It is a strategy where many "soft" policies working together discourage rather than deny car use. Even within the constraints of these proposed outcomes, a myriad of options exist in respect of the sub policies and workstreams adopted and the extent to which they are pursued.

68. With these assumptions in mind the Board has adopted the following vision statement as the starting point for its considerations.

A community that recognises that vehicle use is a privilege not a right and in exercising that privilege accepts and welcomes the social, environmental and economic responsibilities that accompany it.

69. The policy options supported by the Board and detailed below are compatible with this vision statement and the Board is seeking from the States an indication of its support for this vision.

70. Board members have heard arguments that car use is not a privilege and is in fact a right. The Board totally dismisses these arguments. Car use denies others. It denies those who feel it is too unsafe to walk or cycle. It denies those who would prefer to see fields instead of tarmac. It denies those who suffer from pollution triggered asthma. The environmental take to produce and circulate vehicles unarguably damages the planet and hence denies future generations. Car use is not a right, it is a privilege. Acceptance of that fact by a society that considers its obligations, rather than its rights, would move the responsible vehicle ownership agenda forwards.

Objectives

71. Before one can cost an integrated strategy it is necessary for the States to clearly state the objectives or outcomes the strategy is required to deliver as well as the rate of change desired. In order to assist debate the Board proposes the following objectives **in order of priority**.

(i) To promote a transport hierarchy in order of preference : Walk, Cycle, Bus, Share, Drive alone;
(ii) To improve road safety particularly for vulnerable road users;

(iii) To foster a culture where private vehicle use is not the transport option of preference;
(iv) To reduce the number of private (including commercial) vehicle movements;
(v) To reduce the number of vehicles owned;
(vi) To reduce the spatial demands of private vehicle ownership and use;
(vii) To reduce damaging environmental effects of vehicle ownership and use;
(viii) To penalise irresponsible vehicle ownership and use;
(ix) To ensure the ongoing provision of a user affordable, reliable and available, quality public transport service as a contributor to social inclusion and access for all;
(x) To balance the competing needs of transport methods with the environmental, social and economic needs;
(xi) To recognise and provide for the legitimate and necessary demands of private vehicle ownership and use through effective provision and management of highway infrastructure; and
(xii) To ensure measures taken do not unduly damage the economic wellbeing of the island.

72. The Board considers that these objectives and vision can have a life far in excess of the five years referred to in the amendment. It is a vision that can encompass developments within the strategic spatial land planning of the island and it is a vision which can accommodate the capabilities and constraints of the public bus service both now, over the next five years and into the future.

Targets

73. A road or junction operating at 70 - 80% of its theoretical maximum capacity will deliver fairly free flowing traffic. A road or junction operating at above 80% of its capacity will start to result in traffic jams and backlogs of vehicles. The reality is far more complex but it is true to say that relatively small swings in traffic volume can have major impacts.

74. The worst conditions of traffic congestion are experienced at commuter hours during school term times. If one was to assume that commuters, and parents taking children to school, each make two journeys per working day (one outbound and one inbound) then each driver makes 10 journeys during the working week. A decision to use an alternative transport option on just one of those journeys would, therefore, lead to a reduction in commuter and school traffic of 10%. Again there is no presumption that this is easy to do but it would only require a significant percentage of motorists to choose not to use their private vehicle for one or two journeys a week to have a major beneficial impact. Similarly at key roads and junctions, such as Braye Road, weekend traffic accessing new developments and services leads to significant

congestion and discouraging vehicle use at these times and locations could deliver significant gain.

75. The Environment Department has not previously committed Road Transport Strategy funding to significant (long time) comprehensive traffic count and driver survey data to establish driver preferences and in the limited time available it has not been able to capture data in any meaningful way. Therefore, it has no robust evidence base on which to more accurately calculate and describe driving trends. In the absence of hard data, the Department is unwilling to postulate, in quantitative terms, the impact that specific policies or workstreams may have on reducing vehicle ownership or the number of journeys made. Jersey, in developing its transport strategy, relied on substantial road traffic data from its “Traffic Assessment Model” system linked to its permanent automatic traffic counters monitoring all 13 of the main routes into St Helier. It supplemented this data with new modelling tools procured specifically to formulate the strategy and engaged the assistance of specialist consultants.

76. Therefore, in setting targets for vehicle ownership or private vehicle use, the States has two options: either to commit to resourcing workstreams to establish and model hard empirical data in order to set evidence based quantitative targets or, alternatively, to set qualitative targets.

77. Targets can be set without the need to capture that data. Examples of such targets are listed below but these are for demonstration purposes only. The targets should only be selected and set once the vision, objectives and policy options have been agreed.

(a) X% pedestrian crossings illuminated by 2015
(b) X% of school area highway plans implemented by 2020
(c) Cycle stand facilities doubled by 20xx
(d) Travel Plans in all schools by 20xx
(e) x% of students undergoing cycle training by 2015
(f) X% bus punctuality by 2014
(g) X% reduction in on street parking per annum from 2012 to 2016
(h) X% reduction in use of motor fuel by 2020 (base year 2010)
(i) The cost of private vehicle motoring to increase by RPI plus X% per annum from 2012 to 2016
(j) The cost, in real terms, to the user of public transport to be frozen until 2016.

The above represents an indicative not prescriptive nor comprehensive list of the types of targets that could be formulated without incurring significant cost in data gathering and modelling.

Policy Options

78. The following policy options are presented as supporting policies of the vision and objectives stated above. If the vision is not accepted by the States then some of the policy options set out may be incompatible with any alternative vision and other policy options currently excluded may need to be brought forward. For example, if the vision was aimed more towards accommodating vehicles and smoothing their passage then work streams to create more parking and widen roads would need to be considered.

79. The policy options listed below are based on accepting continued vehicle ownership whilst seeking to move away from private vehicle use as the transport option of preference. None of the policies presented are considered so draconian as to prevent private vehicle ownership but the policies individually and severally seek to make each discreet private vehicle journey less attractive and to discourage unnecessary vehicle ownership.

80. The Board is not proposing that every policy option listed should be adopted. They are presented as a menu of choices and the Board fully expects that other policies will be presented by States members for addition to the menu. Which and how many of the menu choices are ultimately selected and how aggressively they are promoted will directly affect the speed and magnitude of the move in consumer behaviour. By presenting the strategy and policy options in this way States members need not debate for or against one of the myriad of potential strategies that the Department could present but rather can debate and indicate support for an outline whilst choosing from a palette of colours which will add depth and detail to the picture.

81. The Department has not spent any significant time in costing the various policy options, for, as the Board indicated in the October States debate, this would be a fruitless exercise in advance of acceptance of a vision and broad direction. The Department has, however, provided indicative costs where possible and these are considered to be accurate enough to facilitate informed debate. Similarly the Department has not spent any significant amount of time detailing the arguments for and against any of the policy options. Instead the Department has used simple bullet points and tables to present the outline information. Any policy ultimately adopted by the States will need substantial reworking to establish the clarity and detail required to take it forward .

82. Scores have been included in the tables below for the purpose of transparency. Where possible “partner policies” have been indicated i.e a cross reference has been made to policies which are closely related either because one cannot proceed without the other or because if delivered jointly the resultant impact would be magnified. Similarly contra policies have been listed as a cross reference to those which have the potential to directly conflict with each other unless steps are taken to mitigate that conflict. In this way the Department has indicated its preferred strategy direction and has put forward a

template against which the States will can be measured. The Board's preferred options can, by and large, be scaled over time. Hence they can be introduced in phases and the impact of each phase monitored thus informing the extent to which subsequent phases are promoted.

Options to Reduce Car Use

A1 – One way and no right turn approach (ring road)

<table>
<tr><td colspan="4">Description – One way roads introduced alongside no right turns and traffic calming in selected areas and roads</td></tr>
<tr><td colspan="2">Pros
Makes vehicle journeys less attractive
Creates space for cycle paths (including contra flow) and pavements
With traffic calming can make roads safer
Can increase tranquillity and property values
May be delivered in selected roads in short time frame</td><td colspan="2">Cons
Can lead to more on street parking
Wider carriageway widths can lead to speeding
Leads to longer journeys
Places extra load on other roads
Disruptive to residents
Exaggerates road closure problems
Urbanisation through street signage
Impacts on scheduled bus services</td></tr>
<tr><td colspan="2">Revenue Cost £30 per annum
Revenue Income £ 0
Staff Reqs average 50 hrs per project</td><td colspan="2">Capital Cost £ 300,000 (based on approx 20 projects over 5 years)
Infrastructure life 10-15 years (eg signage, speed cushions)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">7</td><td>Ease of Delivery</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments: One ways free up carriageways. This partnered with clear ways and reduced on street parking can generate the required space for cycle ways, possibly bus lanes and pavements. Painted pavements reduce cost and retain future flexibility to accommodate road closure diversions etc.</td></tr>
<tr><td colspan="2">Partner Policies
B7, B8, C4, E1, F2, F3</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

A2 – Congestion charging in St Peter Port

<table>
<tr><td colspan="4">Description Instead of paid parking a charge levied for each entry into defined areas at defined times.</td></tr>
<tr><td colspan="2">Pros
Makes vehicle journeys less attractive
Raises funds to support other strategy workstreams
Contributes to reduced congestion in targeted areas</td><td colspan="2">Cons
May be seen as unfair
Considered to penalise less well off
May undermine St PP as a trading area
Unless charge is significant unlikely to have significant impact
Urbanisation resulting from signs and cameras etc
Diverts through traffic</td></tr>
<tr><td colspan="2">Revenue Cost £ un-quantified
Revenue Income £ un-quantified
Staff Reqs 50 hrs to tendering contract</td><td colspan="2">Capital Cost £ un-quantified
Infrastructure life 7 years (cameras/signage/barriers)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">1</td><td>Ease of Delivery [score]</td><td>2</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="4">Comments Unless restricted to the inner town area requiring 8 to 10 monitoring points (which then places additional burdens on the outer town area) the number of routes/access points into St Peter Port that would need to be monitored are significant, presenting problems for implementation. Barrier systems would present severe traffic management issues and hence a system similar to that operated in London with cameras reading number plates and automatically checking against charge payment would be required.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
A11, A12, A13</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

A3 – Enhanced residents parking schemes

<table>
<tr><td colspan="4">Description Schemes which allow residents of target areas more flexibility in vehicle parking times to reduce the need to circulate their vehicle during peak periods.</td></tr>
<tr><td colspan="2">Pros
Facilitates residents decisions to walk/cycle
Reduces some unnecessary vehicle movements
Prevents commuters from seeking parking in edge of town roads</td><td colspan="2">Cons
Negates attempts to reduce on street parking
Renders car ownership easier for some
Seen as unfair by those outside of the designated areas</td></tr>
<tr><td colspan="2">Revenue Cost £Negligible
Revenue Income £ 100,000 p/a
Staff Reqs 2 hours per week permit administration</td><td colspan="2">Capital Cost £5,000

Infrastructure life 10-15 years (signage)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">8</td><td>Ease of Delivery [score]</td><td>8</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="4">Comments This workstream is already well underway.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
B8</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

A4– Pedestrianisation (Church square/Pollet)

<table>
<tr><td colspan="4">Description Pedestrianisation of target areas (car free or permit only).</td></tr>
<tr><td colspan="2">Pros
Safer, more pleasant walking/shopping experience
Reduced air pollution in built up town areas
Makes vehicle journeys less attractive</td><td colspan="2">Cons
Reduced access for disabled
Reduced access for delivery vehicles
Some increased signage
Prevents customers being dropped off and picked up at the door of businesses</td></tr>
<tr><td colspan="2">Revenue Cost £ Negligible
Revenue Income £ 0
Staff Reqs 10 hours per area</td><td colspan="2">Capital Cost £200 per area
Infrastructure life 10-15 years (signage)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">7</td><td>Ease of Delivery [score]</td><td>9</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments Such a policy is readily undermined by the issuing of permits to enter the pedestrianised area outside of tightly controlled times. Failure to enforce vehicle free areas undermines policy and signals acceptance of the “car is king” mentality.</td></tr>
<tr><td colspan="2">Partner Policies
A5</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

A5 – Target (in-house) enforcement using extended fixed penalty tickets and Environment Dept employed staff

Description A dedicated "policy enforcement" team applying fixed penalty tickets at targeted areas to support/enforce policy delivery.			
Pros Raises funds to support other strategy workstreams Reinforces policies that deliver clear ways, pedestrian areas, responsible driving. Signals a clear commitment to deliver the strategy Drives behaviour change		Cons Overlap with Police/Traffic wardens Public perception	
Revenue Cost £ 60,000 Revenue Income £ 100,000 Staff Reqs 2 FTE		Capital Cost £ negligible Infrastructure life N/a	
Policy acceptability [score]	6	Ease of Delivery [score]	9
		Contribution to Objectives [score]	8
Comments Guernsey Police and the Traffic wardens have their own priorities and resource demands. A team dedicated to policy enforcement would allow problem areas and areas impacted by policy change/development to be targeted thus supporting the bedding in of the policy change. As an alternative the traffic wardens could be transferred to the Environment Department.			
Partner Policies A4, B6, B7, F3, B8		Contra Policies	
Supported by Board YES			

A6 – Duty free fuel for motorcycles

Description Extend Marine fuel entitlement to motorcycles			
Pros Encourages switch away from cars to motorcycles Reduces fuel consumption Reduces congestion Space efficient		Cons Lost revenue from duty Greater potential for abuse of the system	
Revenue Cost approx £ 350,000 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £0 Infrastructure life N/A	
Policy acceptability [score]	2	Ease of Delivery [score]	9
		Contribution to Objectives [score]	4
Comments Approx 11,000 motorcycles currently registered representing approx 12% of all registered vehicles but a percentage of which will not be in regular use. Motorcycles on average have a lower fuel consumption and annual mileage. Assume motorcycles account for 7% of petrol fuel duty.			
Partner Policies		Contra Policies	
Supported by Board NO			

A7 – Prioritised parking for motorcycles (or other strategy preferred vehicles)

Description Location of motorcycle/cycle parking in close proximity to shopping areas.			
Pros Encourages switch away from cars to motorcycles, bicycles, Reduces fuel consumption/pollution Reduces congestion Space efficient		Cons Could undermine the clearway and pedestrian free policies	
Revenue Cost £ Negligible Revenue Income £ 0 Staff Reqs 10 hours per area		Capital Cost £200 per area Infrastructure life 10-15 years (signage)	
Policy acceptability [score]	4	Ease of Delivery [score]	6
		Contribution to Objectives [score]	6
Comments Few suitable spaces exist. More would need to be created by freeing space from on street car parking. Without restricting access to cars the switch to motorcycles would be limited.			
Partner Policies A10		Contra Policies B9	
Supported by Board YES			

A8 – Promote/ incentivise travel plans

Description Travel plans are created by companies/organisations and are targeted at their staff/members. Travel plans provide incentives not to drive private motor vehicles and can include, for example, – free lunches, changing facilities, free bus passes, reduced working hours, company coach, split hours, crèche etc. and may be accompanied by charges for parking on company premises			
Pros Reduces private vehicle movements Has social benefits in terms of team spirit Frees up parking space for other uses including capital gain		Cons Government intervention may be needed to incentivise the company e.g. tax breaks or legal obligation May require private parking tax as an incentive.	
Revenue Cost £ subject to the level of any incentive payment awarded Revenue Income £ 0 Staff Reqs 2 hours per week		Capital Cost £0 Infrastructure life N/A	
Policy acceptability [score]	6	Ease of Delivery [score]	4
		Contribution to Objectives [score]	7
Comments The success of travel plans may be limited without a reward for the individual (e.g. free lunches). The Private company may also need an incentive to implement a travel plan. Simple promotion is unlikely to be sufficient.			
Partner Policies		Contra Policies	
Supported by Board YES			

A9 – Revised highway funding priorities

<table>
<tr><td colspan="4">Description Public spend on highways is currently focused on delivering roads of a quality demanded by road users (drivers). A proportion of this spend could be diverted towards creating and enhancing Rights of Way networks aimed at non vehicular traffic.</td></tr>
<tr><td colspan="2">Pros
Cost neutral
Encourages walking and cycling
Good for visitor economy</td><td colspan="2">Cons
Reduced quantity and quality of vehicle highway network
May require legislative changes re standards of adopted roads</td></tr>
<tr><td colspan="2">Revenue Cost £ 0
Revenue Income £ 0
Staff Reqs 2hrs per week</td><td colspan="2">Capital Cost 0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>6</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments Ratings and resource reqs apply only to the change in policy. The setting up of the rights of way, cycle networks etc is dealt with in other tables.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

A10 -Phased removal of town long stay parking spaces

<table>
<tr><td colspan="4">Description A phased removal of parking facilities. Provision of on street and off street parking signals acceptability of private motor vehicle use and undermines policies to create clearways, spatial gain and discourage private vehicle journeys.</td></tr>
<tr><td colspan="2">Pros
Discourages private vehicle use
Frees highway space for other uses</td><td colspan="2">Cons
May undermine St PP as a trading area
Add to congestion as vehicles search for spaces</td></tr>
<tr><td colspan="2">Revenue Cost £ Negligible
Revenue Income £ 0
Staff Reqs 10 hours per area</td><td colspan="2">Capital Cost £Negligible
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>8</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>7</td></tr>
<tr><td colspan="4">Comments Some of the listed policies can only be delivered by increasing highway space. Removal of parking is the easiest and cheapest way of creating such space.</td></tr>
<tr><td colspan="2">Partner Policies
A7, B8</td><td colspan="2">Contra Policies
A11, A12, A13</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

A11 – Paid public parking St Peter Port

<table>
<tr><td colspan="4">Description – An hourly fee applied to long and/or short stay disc parking zones on street and off street in St Peter Port (1700 spaces)</td></tr>
<tr><td colspan="2">Pros
Makes individual vehicle journeys to St Peter Port less attractive
Raises funds to support other strategy workstreams
May contribute to reduced congestion and emissions in targeted areas</td><td colspan="2">Cons
Seen as discriminatory unless linked to private parking charges
Considered to penalise less well off
May undermine St PP as a trading area
Unless charge is significant unlikely to have significant impact
May require additional street furniture</td></tr>
<tr><td colspan="2">Revenue Cost £ netted off
Revenue Income £ 0.5 million net (at 25p per hour)
Staff Reqs 50 Hrs to tendering contract and 2hrs per week support/admin</td><td colspan="2">Capital Cost £ Netted off from revenue
Infrastructure life 5 to 7 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">1</td><td>Ease of Delivery</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments: The mechanisms for delivery e.g. scratch cards, pay and display, barrier system, cell phone charging all have pros and cons. A cost effective solution requires a single approach to all charged parking spaces. A fully contracted service minimises staff requirements after initial setup.</td></tr>
<tr><td colspan="2">Partner Policies
A12, A13</td><td colspan="2">Contra Policies
A2, A10</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

A12 – Paid public parking all island

<table>
<tr><td colspan="4">Description – An hourly fee applied to long and/or short stay disc parking zones on street and off street across the island</td></tr>
<tr><td colspan="2">Pros
Makes individual vehicle journeys less attractive
Raises funds to support other strategy workstreams
Contributes to reduced congestion and emissions in targeted areas
More equitable than Option A.11</td><td colspan="2">Cons
Seen as discriminatory
Considered to penalise less well off
Diverts trading to developments with private parking facilities
Unless charge is significant unlikely to have significant impact
May require additional street furniture</td></tr>
<tr><td colspan="2">Revenue Cost £ netted off
Revenue Income £0.75 – 1 million net (at 25p per hour)
Staff Req 50 hours to tendering contract and 3 hours per week support admin</td><td colspan="2">Capital Cost £ netted off from revenue
Infrastructure life 5 to 7 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments: The mechanisms for delivery e.g. scratch cards, pay and display, barrier system, cell phone charging all have pros and cons. A cost effective solution requires a single approach to all charged parking spaces. A fully contracted service minimises staff requirements after initial setup.</td></tr>
<tr><td colspan="2">Partner Policies
A11, A13</td><td colspan="2">Contra Policies
A2, A10</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

A13 – Island wide charged parking (Private parking charge)

<table>
<tr><td colspan="4">Description – In addition to an hourly fee applied to long and/or short stay disc parking zones on street and off street across the island, a charge would be applied possibly though TRP or other tax methods in respect of all parking facilities at places of work.</td></tr>
<tr><td colspan="2">Pros
Makes individual vehicle journeys less attractive
Raises funds to support other strategy workstreams
May contribute to reduced congestion and emissions in targeted areas
Forces land owners to consider the value and cost of providing employee parking</td><td colspan="2">Cons
Already exists within TRP charges
Considered to penalise less well off
May be detrimental to businesses
Unless charge is significant unlikely to have significant impact
May require additional street furniture
Could lead to benefit in kind issues
Problematic to define places of work (e.g. home worker)</td></tr>
<tr><td colspan="2">Revenue Cost £
Revenue Income £ Unquantified
Staff Reqs subject to nature of charge/tax and method of collection</td><td colspan="2">Capital Cost £ Negligible (if extended through TRP)
Infrastructure life N/A</td></tr>
<tr><td>Policy acceptability [score]</td><td>3</td><td>Ease of Delivery
Contribution to Objectives [score]</td><td>4
5</td></tr>
<tr><td colspan="4">Comments:</td></tr>
<tr><td colspan="2">Partner Policies
A11, A12</td><td colspan="2">Contra Policies
A2, A10</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

Options to Reduce Car Ownership

B1 – Responsibility deposit

<table>
<tr><td colspan="4">Description A refundable tax/duty is imposed at first registration (a figure of £500 has been suggested). Each new owner of the vehicle pays this sum to the previous owner along with the vehicle cost i.e. the deposit transfers with the vehicle. When the vehicle is broken up, destroyed or exported and the documents returned to DVL the tax/duty is refunded to the last registered keeper.</td></tr>
<tr><td colspan="2">Pros
Greatly reduces abandoned vehicles
Ensures proper (Legal) sale, exchange and registration of used vehicles
Facilitates insurance and other enforcement issues.
Reduces multi vehicle ownership
Reduces short term vehicle ownership
Reduces attractiveness of older poor quality vehicles
Negates need for MOT</td><td colspan="2">Cons
Inflates purchase price
Makes vehicles less affordable and hence impacts more on the poor
Initial introduction would be problematic but not insurmountable</td></tr>
<tr><td colspan="3">Revenue Cost £ 20,000 (issue of refund cheques)
Revenue Income £1 million (interest on deposits)
Staff Reqs 0.5 FTE</td><td>Capital Cost negligible (DVL IT upgrade)
Infrastructure life n/a</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">7</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments If vehicle ownership use is to be a privilege and social and environmental obligations are to be enforced a robust data base is essential. Such a policy may also ensure poor condition vehicles are less sellable hence negating the need for MOTs</td></tr>
<tr><td colspan="2">Partner Policies
B2</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

B2- MOTs

<table>
<tr><td colspan="4">Description MOTs test a vehicle's suitability for circulation and hence lead to removal of poor condition vehicles from circulation.</td></tr>
<tr><td colspan="2">Pros
Removes poor quality vehicles from circulation
Makes vehicle ownership less attractive
Conformity with UK for vehicles used off-island</td><td colspan="2">Cons
Needs to be considered against vehicle rectification scheme
Requires test centre approval and inspection mechanism
Impacts on the less well off</td></tr>
<tr><td colspan="2">Revenue Cost £5,000 (visiting assessor of MOT service providers
Revenue Income £5,000 (subscription charge from MOT centres)
Staff Reqs 100 hours to scheme set up.</td><td colspan="2">Capital Cost £0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">2</td><td>Ease of Delivery [score]</td><td>5</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments Capital and infrastructure costs are born by the service centre and this is funded from the test fee paid by the vehicle owner to the test centre. The revenue cost quoted is in respect of States costs to engage an inspector to check and accredit test centres. This is set to be cost neutral by charging the cost centres an accreditation fee. Setting up the accreditation system would be administratively burdensome</td></tr>
<tr><td colspan="2">Partner Policies
B1</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

B3 – Annual tax on second vehicle ownership

<table>
<tr><td colspan="4">Description For every vehicle registered to a keeper an annual tax would be levied the first vehicle being tax exempt. This is different to the one vehicle per household policy</td></tr>
<tr><td colspan="2">Pros
Reduces dual vehicle ownership
May reduce vehicle ownership more generally
Reduces visual impact of parked vehicles</td><td colspan="2">Cons
Would penalise collectors
Easy to circumvent using family members and corporations.
Penalises businesses unless tax emption granted which adds complication to the policy.
Extremely difficult to capture data</td></tr>
<tr><td colspan="2">Revenue Cost £0
Revenue Income £ Not quantified
Staff Reqs 50 hours to legislation stage 30 hours to specify and test DVL changes</td><td colspan="2">Capital Cost £ Not quantified (major changes to DVL database structure)
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>5</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments Significant scope to use loopholes in who vehicles are registered to makes it impossible to determine revenue income .</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
B4</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

B4 – One vehicle per household

<table>
<tr><td colspan="4">Description Legislation is enacted to prevent a household from owning more than one vehicle.</td></tr>
<tr><td colspan="2">Pros
Reduces dual vehicle ownership
May reduce vehicle ownership more generally
Reduces visual impact of parked vehicles</td><td colspan="2">Cons
Very difficult to define household
Easy to circumvent
Undesired social impacts –splitting families
May penalise collectors</td></tr>
<tr><td colspan="2">Revenue Cost £ not quantified
Revenue Income £ 0
Staff Reqs 50 hours to legislation stage 30 hours to specify and test DVL changes</td><td colspan="2">Capital Cost £ Not quantified (major changes to DVL database structure
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">0</td><td>Ease of Delivery [score]</td><td>5</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>8</td></tr>
<tr><td colspan="4">Comments Very difficult to define household in acceptable terms (en famille, extended family and dower units) would need to be considered. Sufficient loopholes would exist to reduce the impact of the policy.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
B3</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

B5 - Emissions tax

<table>
<tr><td colspan="4">Description Typically applied as a first registration “fossil fuel” tax in terms of quoted CO2 values for the vehicle. However, this disregards the type of fuel used (bio fuels can be CO2 neutral) and the pay load of the vehicle i.e. ignores efficiency</td></tr>
<tr><td colspan="2">Pros
Increased cost leads to reduced car ownership
Drives consumer choice to low CO2 rated vehicles</td><td colspan="2">Cons
Only influences purchase behaviour if backed by annual tax
Lowest CO2 rated vehicles have small pay loads
Can be complex to administer</td></tr>
<tr><td colspan="2">Revenue Cost £ 0
Revenue Income Circa £2million but decreasing annually
Staff Reqs 50 hours to legislation and 3 FTE to administer supporting annual road tax</td><td colspan="2">Capital Cost £ Negligible (change to DVL database)
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">0</td><td>Ease of Delivery [score]</td><td>5</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments The Department previously consulted on an emissions tax and concluded the tax would be unfair, was unnecessary, was extremely unpopular and would, in order to have an impact, require support from an annual road tax, which in turn would necessitate reduction of the fuel tax.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

B6 - Future property/land development to apply lower space standards for vehicles

<table>
<tr><td colspan="4">Description Space standards are applied for vehicle parking at all developments. Those standards could be reduced making it more difficult to own or use private motor vehicles.</td></tr>
<tr><td colspan="2">Pros
Makes vehicle ownership less attractive
Makes vehicle use less attractive
Frees space for other uses
Increased footprint for development (i.e. more efficient use of land)</td><td colspan="2">Cons
Results in more on street parking around the development unless enforcement is targeted
Only applies to new developments</td></tr>
<tr><td colspan="2">Revenue Cost £ 0
Revenue Income £ 0
Staff Reqs Within existing resources</td><td colspan="2">Capital Cost £0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">5</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>8</td></tr>
<tr><td colspan="4">Comments The revised standards would be applied as a planning policy and addressed at the planning determination stage.</td></tr>
<tr><td colspan="2">Partner Policies
A5</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

B7 - Reduce on street parking opportunities except for approved residents parking schemes

<table>
<tr><td colspan="4">Description Policies which divert parking from paid parking areas or divert parking facilities from new developments, will lead to increased on street parking. Save for designated residential parking areas, such on street parking would need to be restricted to free up the highway for cycle lanes, bus stops, pavements etc. This could be achieved through zoned clear way(s) applying to the urban area (or parts of) and/or beyond.</td></tr>
<tr><td colspan="2">Pros
Makes vehicle ownership less attractive
Makes vehicle use less attractive
Frees space for other uses</td><td colspan="2">Cons
Impacts on town/urban residents</td></tr>
<tr><td colspan="2">Revenue Cost £ 0
Revenue Income £ 0
Staff Reqs 10 hours per area</td><td colspan="2">Capital Cost Negligible
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">6</td><td>Ease of Delivery [score]</td><td>6</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>8</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies
A1, A5, B8, C4, E1, F2, F3</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

B8 - Presumption towards urban area roads operating as a no stopping, no parking clearway.

<table>
<tr><td colspan="4">Description Policies which seek to reduce on street parking to create cycle ways, pavements, bus stops etc are undermined if drivers can abuse unloading bays, or block pavements and roads. Application of yellow lines is costly and contributes to urbanisation. Legislation that creates a presumption of a clearway in the urban area means areas designated as suitable for parking/stopping would be signed as opposed to signing all areas where parking/stopping is prohibited.</td></tr>
<tr><td colspan="2">Pros
Reduces signage and hence cost
Reduces urbanisation
Supports responsible motoring (don’t park or stop unless in designated area)</td><td colspan="2">Cons
Easily misunderstood by visitors
Requires new legislation
Scope for application could be limited</td></tr>
<tr><td colspan="2">Revenue Cost £ Negligible
Revenue Income £
Staff Reqs</td><td colspan="2">Capital Cost £30,000
Infrastructure life 10-15 years (signage)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">6</td><td>Ease of Delivery [score]</td><td>6</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>8</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies
A1, A5, A10, B7, C4, E1, F2, F3</td><td colspan="2">Contra Policies
A3</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

B9 –Motor cycle licence age restrictions

<table>
<tr><td colspan="4">Description Increasing the lower age limit for motorcycle driving licences would reduce the number of motorcycles circulating on the highway</td></tr>
<tr><td colspan="2">Pros
Reduces number of motorbikes
May reduce number of motorbike accidents</td><td colspan="2">Cons
Works against social inclusion
Ageist
Increases school hours car traffic
Increases reliance on cars/lifts</td></tr>
<tr><td colspan="2">Revenue Cost £minimal
Revenue Income £ 0
Staff Reqs 0</td><td colspan="2">Capital Cost £0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">1</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments. Increasing the lower age limit would reduce number of 14 year olds having motorcycle accidents but if accidents are linked to inexperience the number of 16/17 year olds having accidents may increase.</td></tr>
<tr><td colspan="2">Partner Policies
B10</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

B10 - Driving licence age related annual medical requirement

<table>
<tr><td colspan="4">Description Compulsory annual medical examination for licence holders over the age of 75</td></tr>
<tr><td colspan="2">Pros
Reduces number of vehicles owned and circulated
Reduces congestion
Improves safety</td><td colspan="2">Cons
Works against social inclusion
Ageist
Increases use of buses by non fare payers</td></tr>
<tr><td colspan="2">Revenue Cost £ Negligible
Revenue Income £
Staff Reqs 0</td><td colspan="2">Capital Cost £0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies
B9</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

Options to Reduce School Car Journeys

C1 – Extension of school bus service free at point of delivery

Description Bus journeys to and from school are currently provided by scheduled bus services, integrated services (a school bus that becomes a scheduled service after dropping the students off) and dedicated school services. Journeys during school time are delivered by Education Department minibuses.			
Pros Enhanced availability of school bus increases parent confidence Supports a culture of school bus use Reduces reliance on motor vehicles		Cons Space requirements to accommodate a larger fleet Additional driver requirements Take up of "student bus seats" might be poor	
Revenue Cost £200,000 Revenue Income £ 0 Staff Reqs		Capital Cost £ 120,000 Infrastructure life 10 years	
Policy acceptability [score]	7	Ease of Delivery [score]	5
		Contribution to Objectives [score]	8
Comments Assumes increasing school carryings by 25% 12 extra buses. Hindered by absence of suitable garaging/servicing facilities.			
Partner Policies C2, C4, C5, C6, C7, C8		Contra Policies	
Supported by Board YES			

C2 - Require all schools to prevent car drop off/pick up on school premises

Description If a dedicated school bus service existed, alongside compulsory school travel plans, it could be possible to prevent parents using cars to drop off and pick up students from school premises. This in turn discourages the "school run".			
Pros Reduced vehicle movements Encourages alternative healthier transport options Reduced congestion and safer roads around schools		Cons Access requirements for those with special needs Creates congestion at 'pick up' times on surrounding streets Parents and Teacher concerns re child safety Wide catchment areas makes implementation difficult	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	2	Ease of Delivery [score]	2
		Contribution to Objectives [score]	8
Comments Requires comprehensive school bus service and safer school routes through clearways, cycle paths etc.			
Partner Policies C1, C4, C5, C6, C7, C8		Contra Policies	
Supported by Board No			

C3 - Reinvent park and ride (Footes Lane)

<table>
<tr><td colspan="4">Description Park and ride facilities at Footes lane are used primarily by students and visitors to Footes Lane. Targeting this area for priority use by Park and Ride bus users would reduce school vehicular traffic. A daily parking permit would be issued with the purchase of a bus ticket from machines in the vicinity. Other parking would be prohibited.</td></tr>
<tr><td colspan="2">Pros
Supports bus use
Reduces private vehicle use
Reduces congestion</td><td colspan="2">Cons
May be seen as discriminatory by Grammar School students and sports field users</td></tr>
<tr><td colspan="2">Revenue Cost £ 10,000
Revenue Income £
Staff Reqs 10 hrs per week</td><td colspan="2">Capital Cost £ Negligible
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">4</td><td>Ease of Delivery [score]</td><td>5</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments Needs to be linked to effective park and ride policies (see section D below)</td></tr>
<tr><td colspan="2">Partner Policies
D9</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

C4 - School highway plans - one ways and walking/cycling provision around all schools

<table>
<tr><td colspan="4">Description The road infrastructure changes around the new St Sampsons School are considered by the Department to be a resounding success. A phased introduction of similar one way, traffic calming and walking priority routes could be implemented for other schools.</td></tr>
<tr><td colspan="2">Pros
Reduces traffic and congestion around schools
Increases safety and health
Enhances neighbourhood</td><td colspan="2">Cons
Enforced change for residents
Diverts traffic loads to other roads</td></tr>
<tr><td colspan="2">Revenue Cost £ 3,000 per project
Revenue Income £ 0
Staff Reqs 100 hrs per project</td><td colspan="2">Capital Cost £50,000 per project
Infrastructure life 10-15 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">6</td><td>Ease of Delivery [score]</td><td>4</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>8</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies
C1, C2, C5, C6, C7, C8, A1, B8</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

C5 - Require all schools to operate a walking bus

Description A walking bus is part of a school travel plan. Teachers or parents commence the walk to school along a specified route picking up other students along the way.			
Pros Reduced traffic and congestion around schools Health benefits		Cons Ongoing commitment needed from parents/teachers	
Revenue Cost £ Negligible Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	7	Ease of Delivery [score]	5
		Contribution to Objectives [score]	7
Comments			
Partner Policies C1, C2, C4, C6, C7, C8		Contra Policies	
Supported by Board YES			

C6 - Require all schools to operate car share system where bus use, cycling and walking are not an option (GILE (Guernsey Integrated Learning Environment) could provide the platform)

Description			
Pros Reduces traffic and congestion around schools		Cons Undermines the “schools free from car drop offs” approach Parents/users need to ensure safety of lift offered	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £0 Infrastructure life N/A	
Policy acceptability [score]	4	Ease of Delivery [score]	7
		Contribution to Objectives [score]	5
Comments			
Partner Policies C1, C2, C4, C5, C7, C8		Contra Policies	
Supported by Board YES			

C7 – Compulsory provision of cycle training schemes at all primary schools

Description Requires all primary schools to offer and aggressively promote a cycle training scheme with the intention of capturing 100% pupils before secondary school			
Pros Provides confidence in cycle use Increases safety		Cons Drain on school curriculum time	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	6	Ease of Delivery [score]	8
		Contribution to Objectives [score]	6
Comments Could be delivered in liaison with trained volunteers at weekends, evenings.			
Partner Policies C1, C2, C4, C5, C6, C8		Contra Policies	
Supported by Board YES			

C8 - All schools to operate a travel plan

Description Travel plans provide incentives not to drive private motor vehicles and can include, for example, – free lunches, changing facilities, walking bus, house points, credits scheme, car share data base.			
Pros Reduces traffic and congestion around schools Encourages cycling Has health benefits		Cons	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	6	Ease of Delivery [score]	7
		Contribution to Objectives [score]	6
Comments			
Partner Policies C1, C2, C4, C5, C6, C7		Contra Policies	
Supported by Board YES			

D Options to Increase Bus Use

D1 - Bus lane

<table>
<tr><td colspan="4">Description Proposed bus lane along Les Banques (Bulwer Avenue to Red Lion) – would require shared cycle/pavement area, loss of some grassed areas and use of road in parts</td></tr>
<tr><td colspan="2">Pros
Reduced commuter times when compared with car transport
Supports buses as alternative transport means</td><td colspan="2">Cons
Limited space
Urbanisation
Increased conflict between buses, cars, cycles, pedestrians</td></tr>
<tr><td colspan="2">Revenue Cost £ 40,000
Revenue Income £ 0
Staff Reqs 100 hours</td><td colspan="2">Capital Cost £ 1 million
Infrastructure life 25 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">6</td><td>Ease of Delivery [score]</td><td>3</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="4">Comments likely to be the most persuasive factor in increasing bus use on this route</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

D2 – Mixed fleet for scheduled bus service

<table>
<tr><td colspan="4">Description European manufacturers are building buses to larger dimensions to meet various safety standards. If Guernsey wished to circulate smaller buses on all routes then the only real option is to exchange the main bus fleet with smaller (16 to 19 seat) minibuses. To maintain the current carrying capacity the fleet would need to more than double in size and hence cost. However, a mixed fleet would allow some smaller buses to be operated on selected routes alongside a like for like replacement of the current fleet.</td></tr>
<tr><td colspan="2">Pros
More comprehensive services (serving areas where larger vehicles are unable to traverse)
More efficient operation with vehicles matched to carryings</td><td colspan="2">Cons
More expensive to operate
Additional drivers needed
More vehicles needed
More storage/garage space required
Possible exclusion of disabled and pushchair access</td></tr>
<tr><td colspan="2">Revenue Cost £ 100,000 additional
Revenue Income £ insignificant additional
Staff Reqs 100 hours to specification and tender</td><td colspan="2">Capital Cost £200,000 additional on fleet renewal
Infrastructure life 10 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">8</td><td>Ease of Delivery [score]</td><td>2</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>7</td></tr>
<tr><td colspan="4">Comments Assumes additional 10 small buses replacing 5 current buses. Cannot be delivered without dedicated bus depot.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

D3 –Fit for purpose bus terminus

Description Central Town, weather protected waiting, queuing and information terminus			
Pros Sheltered / warm waiting facilities Improved information systems Organised queuing		Cons Limited sites available Visual impact of build	
Revenue Cost £ 150,000 Revenue Income £ 0 Staff Reqs 200 hours to tender		Capital Cost £ 1m Infrastructure life 25 years	
Policy acceptability [score]	7	Ease of Delivery [score]	3
		Contribution to Objectives [score]	7
Comments			
Partner Policies D5		Contra Policies	
Supported by Board YES			

D4 - Free bus service

Description Scheduled bus service provided free of charge to all users – OAPs and some students already travel free			
Pros Incentivises bus travel Reduced private vehicle use		Cons Demand will outstrip supply Meeting demand will necessitate larger premises, more drivers etc hence increased costs	
Revenue Cost c £1 million Revenue Income £ 0 Staff Reqs 0		Capital Cost £ N/A Infrastructure life N/A	
Policy acceptability [score]	3	Ease of Delivery [score]	9
		Contribution to Objectives [score]	8
Comments			
Partner Policies		Contra Policies D8	
Supported by Board NO			

D5 - More sheltered bus stops

Description Sheltered bus stops provide a more pleasant travel experience offering protection from wind and rain			
Pros Encourages bus use Reduced private vehicle use		Cons Urbanisation Visual impact Sites are limited without procuring adjacent land	
Revenue Cost £150 per shelter Revenue Income £ 0 Staff Reqs 10 hours per stop		Capital Cost £ 4,000 per shelter Infrastructure life 10 years	
Policy acceptability [score]	9	Ease of Delivery [score]	5
Resource Requirements [score]		Contribution to Objectives [score]	5
Comments The Department is continuing to roll out sheltered bus stops but each new phase is becoming more difficult and costly to deliver due to scarcity of suitable sites			
Partner Policies D3		Contra Policies	
Supported by Board YES			

D6 - Real time bus info

<table>
<tr><td colspan="5">Description Transponders fitted to buses can give real time bus location info to web sites, mobile phones and bus information boards</td></tr>
<tr><td colspan="3">Pros
Encourages bus use
Updated and accurate information</td><td colspan="2">Cons
Delivered through advertising deals resulting in lost income
Requires agreement of all operators of scheduled/school buses</td></tr>
<tr><td colspan="3">Revenue Cost £ 30,000
Revenue Income £ 0
Staff Reqs 50 hours</td><td colspan="2">Capital Cost £ N/A
Infrastructure life N/A</td></tr>
<tr><td>Policy acceptability [score]</td><td colspan="2">8</td><td>Ease of Delivery [score]</td><td>4</td></tr>
<tr><td>Resource Requirements [score]</td><td colspan="2"></td><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="5">Comments The Department has been working on such a scheme for over a year on the basis that it would be a service enhancement but cost neutral. In reality a revenue cost will be realised through lost advertising income and this has prevented the initiative from moving forward.</td></tr>
<tr><td colspan="3">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="3">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

D7 – Electric fleet

<table>
<tr><td colspan="4">Description Electric engines are available on the Optare fleet including the 25 seater bus</td></tr>
<tr><td colspan="2">Pros
Reduced fossil fuel use
Quieter
Less pollution</td><td colspan="2">Cons
Capital cost is near double per bus
If all electric then the fleet size would also need to near double
All electric buses do not have a proven basis on which to calculate running costs</td></tr>
<tr><td colspan="2">Revenue Cost £ Assumed cost neutral
Revenue Income £ Assumed cost neutral
Staff Reqs</td><td colspan="2">Capital Cost £9m
Infrastructure life 10 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">4</td><td>Ease of Delivery [score]</td><td>2</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>3</td></tr>
<tr><td colspan="4">Comments It is assumed that reduced running and service costs will cover battery replacement costs and the service would thus be cost neutral, excluding the increased depreciation costs resulting from the higher capital purchase costs. This technology is considered by key industry players to be unproven.</td></tr>
<tr><td colspan="2">Partner Policies
D2</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

D8 - Period Ormer card

<table>
<tr><td colspan="4">Description complements journey card with a time limited period card (weekly, monthly, quarterly)</td></tr>
<tr><td colspan="2">Pros
Incentivises bus use to those holding the period card</td><td colspan="2">Cons
Initial purchase cost higher</td></tr>
<tr><td colspan="2">Revenue Cost £ Cost neutral
Revenue Income £ Cost neutral
Staff Reqs</td><td colspan="2">Capital Cost £ Negligible
Infrastructure life N/A</td></tr>
<tr><td>Policy acceptability [score]</td><td>6</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Resource Requirements [score]</td><td></td><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments Discounted journey cards with no expiry date do not incentivise bus use. Period Ormer cards would give a return to the States (extra journeys) for the discount offered.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
D4</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

D9 - Free parking for Park and Ride (Ormer swipe card)

<table>
<tr><td colspan="4">Description Introduction of paid parking at Footes Lane would free up space for Park and Ride. Bus users swiping an Ormer card would be able to enter the area and park free of charge i.e. the bus ticket acts as a route to free parking. Similar facilities could be created at other locations (e.g. Grandes Rocques/ St Martins village/Northside). Such a scheme could only be introduced as part of a paid parking initiative</td></tr>
<tr><td colspan="2">Pros
Promotes bus use for at least part of the journey
Reduced town congestion</td><td colspan="2">Cons
Increases traffic and congestion at the park and ride locations
Difficult to encourage adoption of a split journey (part car part bus)</td></tr>
<tr><td colspan="2">Revenue Cost £ 25,000 per annum
Revenue Income £ 0
Staff Reqs 10 hrs per week</td><td colspan="2">Capital Cost £30,000
Infrastructure life 7 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">5</td><td>Ease of Delivery [score]</td><td>4</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>6</td></tr>
<tr><td colspan="4">Comments * see below - Only supported if Paid Parking was introduced. Increased revenue cost is due to the need to service the ticket machines.</td></tr>
<tr><td colspan="2">Partner Policies
C3</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES (*but see above)</td><td colspan="2"></td></tr>
</table>

D10 – Around town shuttle buses

Description The walk from the bus drop off to business centres acts as a disincentive to bus use. Shuttle buses around Town seek to address this.			
Pros Encourages bus use		Cons Journey times and time constraints of users limit the practicality.	
Revenue Cost £ 100,000 Revenue Income £ 30,000 Staff Reqs		Capital Cost £ 200,000 Infrastructure life	
Policy acceptability [score]	2	Ease of Delivery [score]	4
		Contribution to Objectives [score]	2
Comments			
Partner Policies D2		Contra Policies	
Supported by Board NO			

D11 - Bikes on buses – fold down/pull out double bike rack front and back

Description bus racks can be mounted to front and rear of buses and can be operated by the passengers. Limited to 3 or 4 bikes per bus			
Pros Encourages bike and ride Supports bus use Offers alternative to car use		Cons Very limited in extent Makes buses longer Delays at bus stops impacts timetable Loss of advertising space	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ Negligible Infrastructure life N/A	
Policy acceptability [score]	4	Ease of Delivery [score]	6
		Contribution to Objectives [score]	3
Comments			
Partner Policies E1, E2		Contra Policies	
Supported by Board NO			

D12 - Review routes and frequency

Description A comprehensive review of routes in an attempt to better match route and route timings to peak demands.			
Pros May result in increased bus use May result in reduced car use Target specific user groups		Cons Urban sprawl/ribbon development of the island mitigates against such measures	
Revenue Cost £ Cost neutral Revenue Income £ Cost neutral Staff Reqs 20 hrs		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	8	Ease of Delivery [score]	4
		Contribution to Objectives [score]	6
Comments Routes are regularly tweaked to improve services. A root and branch review would aim to enhance reach and would ideally be linked to increased resources.			
Partner Policies		Contra Policies	
Supported by Board YES			

E Options to Increase Cycling

E1 - Cycle network

Description By using green lanes, coastal paths, cycle contra flows in one way roads and creation of new cycling routes a cycle safe network can be created.			
Pros Provides an alternative to vehicle use Supports healthy living Makes cycling a safer option		Cons Conflict with pedestrians	
Revenue Cost £ 10,000 Revenue Income £ 0 Staff Reqs 0.5 days per week		Capital Cost £150,000 Infrastructure life 15 years	
Policy acceptability [score]	7	Ease of Delivery [score]	4
		Contribution to Objectives [score]	7
Comments A comprehensive network will require highway space to be given over to cycles.			
Partner Policies A1, B7, B8, C4, D11, F2, F3		Contra Policies	
Supported by Board YES			

E2 - Improved cycle stands

Description Cycle stands providing better support and protection to bikes plus offering more aesthetically pleasing appearance than standard hoop/keylock rails.			
Pros Signals that bikes are welcomed, encouraged rather than suffered Safety of bikes encourages use Covered stands with lockers support cycling.		Cons Additional cost over basic options	
Revenue Cost £ 5,000 Revenue Income £ 0 Staff Reqs 2 hrs per week		Capital Cost £ 100,000 Infrastructure life 10-15 yrs	
Policy acceptability [score]	8	Ease of Delivery [score]	6
		Contribution to Objectives [score]	7
Comments			
Partner Policies D11		Contra Policies	
Supported by Board YES			

E3 - Subsidised bike purchase for bike to work/school schemes

Description Based on the assumption that the cost of bike purchase inhibits a change in behaviour the cost of purchase is deducted by the employer through ETA payments giving a discounted bike. The employee then meets the purchase costs through interest free monthly payments. Can be extended to schools.			
Pros Makes cycling as an option more affordable.		Cons Administratively burdensome but can be done through public private partnership/agency arrangement. Demand in Guernsey is doubtful	
Revenue Cost £ Negligible Revenue Income £ 0 Staff Reqs 50 hrs to tender		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	3	Ease of Delivery [score]	7
		Contribution to Objectives [score]	3
Comments			
Partner Policies		Contra Policies	
Supported by Board NO			

E4 - Bike banks (hire)

<table>
<tr><td colspan="4">Description Bikes are unlocked from bike banks by payment of a deposit and hire charge. The deposit is refunded when the Bike is returned to a bike bank. Deposits can be through coin slot, mobile phone etc and membership of the scheme may be a prerequisite. These systems are usually beneficial for cross city movement but might lend themselves to travel between St PP and St S along the front</td></tr>
<tr><td colspan="2">Pros
Encourages bike use
Supports existing cycle path</td><td colspan="2">Cons
Vandalism to infrastructure
Abandoned bikes
Bikes prone to theft
Regular redistribution and repair of bikes necessary.</td></tr>
<tr><td colspan="2">Revenue Cost £ Cost neutral
Revenue Income £ Cost neutral
Staff Reqs 50 hrs to tender</td><td colspan="2">Capital Cost £ Netted off
Infrastructure life</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>3</td></tr>
<tr><td colspan="4">Comments The hire charge would have to reflect costs of service, unless subsidised.</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
E5</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

E5 - White bike scheme

<table>
<tr><td colspan="4">Description Old, lost, or stolen bikes in Police possession and not reclaimed are painted white and distributed for “free use”</td></tr>
<tr><td colspan="2">Pros
No major initial outlay</td><td colspan="2">Cons
With no investment in the bike they are prone to being abandoned or stolen
Can be unsightly
Need collection, redistribution and repair service.</td></tr>
<tr><td colspan="2">Revenue Cost £ 30,000
Revenue Income £ 0
Staff Reqs 1 FTE</td><td colspan="2">Capital Cost £ Negligible
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">2</td><td>Ease of Delivery [score]</td><td>6</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>3</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies
E4</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

F Options to enhance road safety

F1 – Shared roads/space

Description This concept is slowly growing in popularity in Europe. Instead of having dedicated roads, pavements, cycle paths, lights or crossings the space is shared by all without any presumption of right of way. Traffic signs, lights, zebra crossings, pavements etc are all removed. The road surface is changed to remove any presumption of vehicle priority. All road users using whatever form of transport must share the space with all other users and proceed with caution respecting the presence and movements of those other users.			
Pros Uncertainty slows vehicles Removal of street clutter "Road" space becomes more attractive for cyclists and pedestrians.		Cons The concept to date has only been adopted in selected discrete areas rather than wholesale. Works better where traffic is residential/commercial as opposed to "through" traffic. Not supported by many disability groups.	
Revenue Cost £ Unquantified Revenue Income £ 0 Staff Reqs Significant		Capital Cost £ Unquantified Infrastructure life 25 yrs	
Policy acceptability [score]	3	Ease of Delivery [score]	4
		Contribution to Objectives [score]	5
Comments Schemes can be built into new developments at no additional cost or can involve extensive infrastructure work – removing pavements, resurfacing, removing barriers, lights bollards etc. As such it is impossible to cost this option at this stage.			
Partner Policies		Contra Policies F2,F3	
Supported by Board NO			

F2 Wide spread traffic calming

Description Proactive and prolonged campaign to calm roads through speed cushions, raised tables, traffic lights, additional illuminated pedestrian crossings/zebra crossings , one ways, width restrictions etc			
Pros Discourages car use Reduces speeding Renders residential areas more tranquil		Cons Impacts on bus and emergency services Impacts on HGV movements More street infrastructure/urbanisation Creates congestion	
Revenue Cost £ 20,000 Revenue Income £ 0 Staff Reqs 0.5 days per week		Capital Cost £200,000 Infrastructure life 10 – 15 yrs	
Policy acceptability [score]	6	Ease of Delivery [score]	4
		Contribution to Objectives [score]	5
Comments Capital cost reflects the number of schemes that could practicably be introduced during the life of the strategy.			
Partner Policies A1, B7, B8, C4, E1,F3		Contra Policies F1	
Supported by Board YES			

F3 Yellow lines/clearways

<table>
<tr><td colspan="4">Description Extensive use of yellow lines/clearways to regulate parking</td></tr>
<tr><td colspan="2">Pros
Improves sight lines for exits onto highway
Reduces overtaking manoeuvres
Widens roads</td><td colspan="2">Cons
Encourages speeding
Lack of enforcement capability
Urbanisation</td></tr>
<tr><td colspan="2">Revenue Cost £3,000
Revenue Income £ 0
Staff Reqs 1 hr per week</td><td colspan="2">Capital Cost £ 15,000
Infrastructure life 5 yrs</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">7</td><td>Ease of Delivery [score]</td><td>7</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>5</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies
A1, A5, B7, B8, C4, E1, F2</td><td colspan="2">Contra Policies
F1</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

F4 Road hierarchy/HGV use

<table>
<tr><td colspan="4">Description Greater restriction on the circulation of HGVs.</td></tr>
<tr><td colspan="2">Pros
Improves manoeuvring in narrow roads
Reduces wear on roads
Reduces pollution/Enhances environment on restricted roads</td><td colspan="2">Cons
Makes some deliveries difficult (and in some cases impossible)
Increases distribution costs
Requires increased land and infrastructure for distribution bases
Increases loads on adjacent roads
Increases signage/enforcement burden</td></tr>
<tr><td colspan="2">Revenue Cost £ negligible
Revenue Income £ 0
Staff Reqs 1 hr per week</td><td colspan="2">Capital Cost £ Negligible
Infrastructure life 10-15 yrs (signage)</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">5</td><td>Ease of Delivery [score]</td><td>4</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>4</td></tr>
<tr><td colspan="4">Comments Requires robust resistance to requests for exemptions. Categories of exemptions leads to requests for more exemptions and seriously undermines any beneficial impacts</td></tr>
<tr><td colspan="2">Partner Policies
A9</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

G Other Miscellaneous Policy Options

G1 Electric vehicle charging points incorporated in significant developments

Description Provision of electric charging points in new developments of a significant size.			
Pros Reduces pollution Reduces fossil fuel consumption Electric vehicles are quieter		Cons Extra strain on grid (but mitigated by night time charging) Impact on development costs	
Revenue Cost £ 0 Revenue Income £ 0 Staff Reqs Within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	6	Ease of Delivery [score]	5
		Contribution to Objectives [score]	3
Comments Peak demand is during the day and hence private charging at night rather than public charging facilities used during the day is preferred.			
Partner Policies		Contra Policies	
Supported by Board Yes			

G2 Small car parking

Description Provision of dedicated small car parking spaces			
Pros Encourages move to smaller vehicles Smaller vehicles tend to be more fuel efficient		Cons Few suitable areas remaining Encouraging switch to smaller cars does not reduce number of cars/congestion etc	
Revenue Cost £ Negligible Revenue Income £ 0 Staff Reqs within existing resources		Capital Cost £ 5,000 Infrastructure life 10-15 yrs (signage)	
Policy acceptability [score]	7	Ease of Delivery [score]	7
		Contribution to Objectives [score]	4
Comments			
Partner Policies		Contra Policies	
Supported by Board YES			

G3 Enhanced taxi offering

Description Increasing availability and affordability of Taxis.			
Pros Offers alternative to private transport	Cons Increased availability equates to reduced income per operator which increases costs Complexity due to existing white plate market place value Addressing affordability would require government subsidies		
Revenue Cost £ Unquantified - subject to subsidy level Revenue Income £ 0 Staff Reqs 0.5 days per week		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	3	Ease of Delivery [score]	3
		Contribution to Objectives [score]	4
Comments			
Partner Policies		Contra Policies	
Supported by Board NO			

G4 Electric "hire" cars

Description Akin to the cycle hire option (table E4) government owned electric vehicles are left in designated parking spaces from which they can be "hired" by subscribers			
Pros Offers an alternative to private vehicle ownership Promotes switch to electric vehicles		Cons Very few vehicles could be provided in this way and hence uncertainty over availability mitigates against scheme adoption	
Revenue Cost £ cost neutral Revenue Income £ cost neutral Staff Reqs 100 hrs to set up		Capital Cost £250,000 Infrastructure life 10 years	
Policy acceptability [score]	2	Ease of Delivery [score]	5
		Contribution to Objectives [score]	1
Comments Could be revenue neutral if hire charge matches operational costs. Including capital depreciation in hire costs is likely to destroy demand.			
Partner Policies		Contra Policies	
Supported by Board NO			

G5 Car pools

Description People in residential areas (and/or offices) create a car pool and share the use of the vehicles. As communities could do this already the absence of the scheme probably signals a need for a Government incentive e.g. tax breaks/subsidies.			
Pros Reduces vehicle ownership Reduces land take from vehicles		Cons Requires common parking and "key sharing" facilities. Take up may be limited to new developments	
Revenue Cost £ subject to level of subsidy Revenue Income £ 0 Staff Reqs within existing resources		Capital Cost £ 0 Infrastructure life N/A	
Policy acceptability [score]	5	Ease of Delivery [score]	4
		Contribution to Objectives [score]	6
Comments			
Partner Policies A8		Contra Policies	
Supported by Board YES			

G6 Enhanced promotion

<table>
<tr><td colspan="4">Description A prolonged and targeted campaign to promote alternative forms of traffic in all their guises including road shows, sponsored weeks (e.g. cycle loan, free bus weeks, walk to work days), media penetration.</td></tr>
<tr><td colspan="2">Pros
Communicates a consistent government message
Incentivises take up of alternative travel means</td><td colspan="2">Cons
Selling a message which may already be well understood</td></tr>
<tr><td colspan="2">Revenue Cost £ 30,000
Revenue Income £ 0
Staff Reqs 2 hrs per week</td><td colspan="2">Capital Cost £ 0
Infrastructure life N/A</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">8</td><td>Ease of Delivery [score]</td><td>8</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>7</td></tr>
<tr><td colspan="4">Comments PR contract</td></tr>
<tr><td colspan="2">Partner Policies
A8</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board YES</td><td colspan="2"></td></tr>
</table>

G7 Targeted increase in the capacity of the road infrastructure

<table>
<tr><td colspan="4">Description Road construction and widening projects for example Bellegreve Bay/ Les Banques, St Sampsons corridor, La Ramee etc.</td></tr>
<tr><td colspan="2">Pros
Reduces congestion
Vehicles moving freely generate less pollution and are more efficient</td><td colspan="2">Cons
Land take
Supports/encourages a policy of car use
Without compulsory purchase unable to address some of the significant capacity issues.</td></tr>
<tr><td colspan="2">Revenue Cost £ unquantified
Revenue Income £ 0
Staff Reqs unquantified</td><td colspan="2">Capital Cost £ significant
Infrastructure life 25 years</td></tr>
<tr><td rowspan="2">Policy acceptability [score]</td><td rowspan="2">3</td><td>Ease of Delivery [score]</td><td>2</td></tr>
<tr><td>Contribution to Objectives [score]</td><td>1</td></tr>
<tr><td colspan="4">Comments</td></tr>
<tr><td colspan="2">Partner Policies</td><td colspan="2">Contra Policies</td></tr>
<tr><td colspan="2">Supported by Board NO</td><td colspan="2"></td></tr>
</table>

Prioritised Policy Options

83. The tables above set out the options considered, to date, by the Board of the Environment Department. The Board has scored those options and identified those it supports and those it does not. The options supported by the Board are listed below:

A.1 – One way and no right turn approach (ring road)
A.3 – Enhanced Residents Parking schemes
A.4 – Pedestrianisation (Church Square/Pollet)
A.5– Target (in-house) enforcement using extended fixed penalty tickets and Environment Dept staff
A.7 – Prioritised parking for motorcycles (or other strategy preferred vehicles)
A.8 – Promote/ Incentivise Travel Plans
B.1 – Responsibility deposit
B.6 - Future property/land development to apply lower space standards for vehicles
B.7 - Reduce on street parking opportunities save for approved residents parking schemes
B.8 - Presumption towards Urban area roads operating as a no stopping, no parking clearway
B.10 - Driving licence age related annual medical requirement C.4 - School Highway Plans - one ways and walking/cycling provision around all schools
C.1 – Extension of school bus service free at point of delivery C.8 - All schools to operate a travel plan
C.3 - Reinvent park and ride (Footes Lane)
C.5 - Require all schools to operate a walking bus
C.6 - Require all schools to operate car share system where bus use, cycling and walking are not an option (GILE could provide the platform)
C.7 – Compulsory provision of cycle training schemes at all primary schools
D.1 - Bus lane
D.2 – Mixed fleet for scheduled bus services
D.3 – Fit for purpose bus terminus
D.5 - More sheltered bus stops
D.6 - Real time bus info
D.8 - Period Ormer card
D.9 - Free parking for park and ride (Ormer swipe card) BUT only if paid parking is introduced
D.12 - Review routes and frequency
E.1 - Cycle network
E.2 - Improved cycle stands
F.2 - Wide Spread Traffic Calming
F.3 - Yellow Lines/Clearways
F.4 - Road Hierarchy/HGV use
G.1 - Electric vehicle charging points incorporated in significant developments
G.2 - Small Car Parking
G.5 - Car Pools
G.6 - Enhanced promotion.

84. As stated in the section “Policy Options”, it is not possible at this stage of the process to accurately quantify capital costs or revenue costs and receipts of the various policy options. It is, however, worth noting that the “Responsibility Deposit” policy option could generate revenue of circa £1 million per annum through interest payments which along with the 1.2p per litre fuel tax already being captured, the first registration fees and the increased income from bus receipts would generate an annual total income of between £1.5 -2 million. Such funds (or the appropriate proportion thereof) would, however, need to be treated as linked funding to the transport strategy over its life, rather than being accrued to central revenue funds held by the Treasury and Resources Department, if an integrated strategy is to be delivered.

Legislation Resources

85. A number of the policy options set out in the tables above would, if adopted, require the drafting of legislation. However, of those supported by the Board only options B1, B9 and B10 are likely to require amendments to existing legislation. Again these matters have not been examined in any detail and legislative drafting resources would be identified as part of a fuller options’ appraisal for those options supported, in principle, by the States.

Conclusion

86. The Environment Department Board has set out in the tables above its views on the acceptability or otherwise, in respect of delivering a transport strategy, of a host of policy options. Those it considers acceptable have been set out, for ease of reference, in the summary section above. Each of these policy options will need to be worked up in greater detail, costed and returned to the States for approval. The policy options proposed by the Board will deliver phased incremental change rather than large rapid change in consumer behaviour. If States members seek greater and quicker change, then the States will need to commit to policies which will have a greater detrimental impact on other strategic issues listed in the table under the heading “Context”. Indeed, it may be necessary to change the proposed “Vision”.

87. The Board has set out its views in respect of linked funding and would urge the States to support linked funding for such integrated strategies. The Board has also set out its views on the future direction of the bus service and would urge States members to make their views in this respect clearly known. Without a clear direction as to the nature and scale of future bus services, specifying the land and facilities required and tendering a fixed cost long term contract is not possible. The Board would have preferred to have gained an indication of States members’ will by the usual method of voting against propositions. However, it is clear that without detailed costs members cannot make firm commitments and. without an indication of direction, detailed costs cannot be delivered.

88. The Board fully expects the policies and workstreams it has identified to be challenged and for policy options excluded by the Board to be argued for inclusion. The Board welcomes such debate, as only when States Members have fully and collectively signed up to a strategy, including the prioritised policy options and funding mechanism, will the States have collective ownership of delivering the strategy. Only then will the States be able to take forward in a constructive manner each of the individual policy options.

89. Regrettably, the current transport strategy appears to have failed due to a mismatch between expected/desired outcomes and approved/acceptable policies; those policies that could deliver more significant change were not endorsed by the States and those policies that were endorsed by the States could not deliver the degree of change that may have been expected or demanded. Only by achieving a common and shared ownership of the desired outcomes and only by following through with policies that will deliver that outcome, will Guernsey have a successful transport strategy. This report provides the basis on which the States can formulate such a strategy.

Recommendations

The Environment Department has indicated the need for debate on this report to address the general policy issues contained therein and has recognised that without detailed costs the States cannot commit to a definitive position. The Department wishes to have the opportunity to reflect on all feedback from the debate and to consult further, as necessary, before returning to the States with more detailed proposals. The Department, therefore, requests that the recommendation which follows be considered by the States without amendment - in accordance with Rule 12 (4) of the Rules of Procedure of the States of Deliberation.

The Environment Department Recommends the States to:

1. (i) Approve the Vision as set out in paragraph 68 of this report
   (ii) Approve the Objectives as set out in paragraph 71 this report.
   (iii) Support the Board's view on future bus services as set out in paragraph 31 of this report.
   (iv) Support the Board's view in respect of school bus services as set out in paragraph 34 of this report
   (v) Support in principle the development of dedicated bus garaging and servicing facilities, on land under States control, as part of the long term sustainable development of a competitively tendered value for money service.
   (vi) Direct the Strategic Property Services unit of the Treasury and resources Department to commence the process of identifying an appropriate site for development as dedicated bus garaging and servicing facilities.
   (vii) Approve in principle its support for linked funding as set out in the section of this report headed "Funding".

(viii) Provide agreement in principle for the Policy Options and workstreams supported by the Board as set out in the tables in this report.

(ix) Direct the Environment Department to return to the States with detailed costs and timescales for moving forward by October 2012.

2. To note the inability of the Environment Department to competitively tender the bus service contract from January 2012.

Yours faithfully

Deputy Peter Sirett
Minister, Environment Department

Deputy J Tasker, Deputy Minister
Deputy J Le Sauvage
Deputy J Honeybill
Deputy B Paint

Appendix A

2006 Road Transport Strategy (RTS) – Progress with States Resolutions

1. Following the States debate on the RTS in March 2006, thirty two resolutions were adopted, some of which related to the rescinding of earlier resolutions. From these a number of workstreams were identified and progress has been made on all but one of these, namely heavy goods vehicle movements on the road hierarchy. The following sets out progress in each of the workstreams that were identified:

Paid Parking

2. Perhaps the most high profile of the resolutions passed by the States in 2006 related to the issue of paid parking. The original States Report that introduced the RTS sought to finance the Strategy by access to a number of new funding sources, including a tax on fuel. In the event, an amendment to the Report was brought by Deputy Peter Roffey designed to make paid parking the principal funding source for the Strategy.

3. Deputy Roffey's amendment was specific in its stipulations; paid parking would be charged at the rate of 15 pence per hour for long term parking in St Peter Port. The Environment Department was also instructed to examine the benefits of extending paid parking into other areas and to report back to the States on this. In order to bring the proposals into fruition the Department:

   - Researched the various methods for delivering paid parking. It was early ascertained that, given the constraints of the resolution, only systems involving scratch cards or pay and display tickets would be workable.
   - Conducted a tender process for the delivery of paid parking by either of the selected methods.

4. The outcomes of the tender process indicated that, while either method would deliver the required income, scratch cards afforded a higher and more reliable revenue stream than the pay and display method. Moreover, for either method to provide the required income, paid parking would have to be operated on Saturdays and be extended to include 5 and 3 hour parking.

5. In February 2007 the Environment Department reported back to the States (in accordance with the requirements of the Roffey amendment) on the feasibility of extending paid parking beyond the long term car parking of St Peter Port. This report made clear that it was not practical to extend paid parking into coastal areas or to include paid parking in "private" work car parks such as those used by civil and public servants. It was also reported that paid parking could simply be extended into any areas where the setting of a parking clock is

required. In the event, the States chose not to note the report and the matter of paid parking was placed in abeyance.

6. Following the 2008 general election the Environment Department again reported back to the States with a recommendation for the introduction of an annual charge for the "parking clock". This report gave rise to a number of amendments for alternative methods of raising the funds required for the RTS. Eventually, and by a very close margin, the States voted to reject renewed proposals for hourly paid parking and approved an increase in the duty on motor spirit as the preferred principal revenue source for the RTS.

7. It is no exaggeration to state that a great deal of departmental time and energy has been expended in efforts to create a workable scheme for paid parking in Guernsey, but the measure has not yet been introduced. It can at least be stated that the Department has built a level of knowledge and understanding of the issues and difficulties that the introduction of paid parking presents.

Bus Services

8. In order to provide the transport choice that lay at the heart of the objectives of the RTS, a considerable emphasis was placed on developing and expanding the public bus service.

9. Unfortunately, soon after the RTS was approved by the States, the decision was taken to demolish the existing facilities for overnight storage of the Island's buses and use the land area for the construction of domestic dwellings. This left the Environment Department and the service operator without the means for running a proper service and a great deal of time and effort was given over to establishing new arrangements for the operation of the service. This problem remains the main impediment to a proper expansion of bus services in Guernsey. Without effective garaging and servicing facilities and without a modern warm and dry terminus expansion of bus services is all bare impossible.

10. Nevertheless, a range of new initiatives have been introduced to ensure that the bus service continues to provide a practical alternative means of travel for Islanders. These include:

- Eight second hand vehicles have been purchased, bringing the overall strength of the States owned fleet up to forty one;
- CCTV has been introduced on all services;
- Both winter and summer timetables have been expanded by a total of circa 11,920 additional services and the numbers using the buses have increased in all categories
- New ticketing machines and a new multi-journey card system have been introduced;

- Six new shelters have been introduced at various bus stops (further installations are planned).

11. These improvements have been supported by the fare change introduced in July 2006 (as approved by the States) and a further fares increase in 2010. In the four and half years since the Strategy was debated, record bus passenger figures have been recorded.

12. The Environment Department brought a full report on bus services to the States of Guernsey in November 2009; this report included an update on the progress made with the schools bus services and recommended that the States give approval for a comprehensive review of bus services in the Island, to be conducted by a professional organisation. This recommendation was rejected by the States.

Driving Licence Age Requirements

13. Research into structures used in other jurisdictions (where driving licences are exchangeable with the UK) along with the requirements of the EU 3rd Directive on Driving Licences has been carried out. A consultation document was formulated and issued for public consultation. Research has been carried out referencing police accident records to the status of the drivers involved in the accident including age and experience.

Schools Bus Services

14. In accordance with the resolution in the RTS, the Department commenced a free school bus trial initiative in 2007. The trial was conducted at three of the Island's schools (Vauvert, St Sampson andLa Houguette) and was used to ascertain the extent to which free services would encourage parents to consider alternative forms of transport for their children. The Department reported back to the States on the outcomes of the trial in November 2009.

15. A great deal of effort was put into encouraging pupils to use school bus services when the new St Sampson High School high school was opened and, accordingly, the free service was extended to include this school. Additionally, extra services have been introduced to La Mare de Carteret following the decision to transfer pupils from St Peter Port School.

Schools Speed Limits

16. An amendment to the RTS required the Department to introduce a fixed speed limit of 25 mph in the vicinity of the Island's schools. The amendment stipulated that the new limit should be introduced in time for the commencement of the autumn term, 2006, which left approximately five months for planning and implementation. After consultation with the parish and schools authorities proposals were published for public consultation and,

following consideration of the comments received, orders transmitted for the required signs and supports. These were installed over a two week period prior to the commencement of the new term on a one year experimental basis. In August 2007 the system was made permanent.

Number Plates Legislation Reform

17. New legislation was introduced permitting the issue of five figure registration numbers for two wheeled vehicles. This requirement had arisen due to increasing demands for motorcycle registration and the prospect that the available four figure numbers would shortly run out. At the same time the opportunity was taken to allow registration marks to be fixed over two lines on a number plate.

Abolition of Motor Taxation

18. Although not directly part of the RTS, the States gave approval for the abolition of motor taxation in the course of 2007. This measure required the application of a great deal of resources on the part of the Department and, consequently, affected the time available for work on other RTS matters. Nevertheless, a scheme was put in place and motor taxation in Guernsey ceased with effect from 1st January 2008.

Residential Parking

19. Outline proposals for a revamped residential parking scheme were included in the RTS as part of the mechanism for securing funding. Unfortunately, the matter is extremely complicated and the development of a new scheme has taken longer than originally anticipated. The matter has, however, now been mostly resolved and a report was taken to the Environment Department Board in November 2010. This has been followed by a consultation process with the Police Service and the parishes where controlled parking is located and it is anticipated that the scheme will be introduced sometime during 2011.

Strategic Review of Speed Limits

20. The original resolution regarding a review of speed limits envisaged the use of specialist consultants to deliver the report and recommendations. A tender process was duly conducted but the Environment Department Board rejected all submissions and directed that the matter should be undertaken by officers “in house”. Subsequently, a working party was drawn from representatives of the Police Service and the Public Services Department and was led by officers of the Environment Department. The working party undertook speed monitoring tests on roads throughout the Island, both from standing and mobile positions. This work was collated and included in a factual report that was presented to the Environment Department Board in December 2010 when

approval was given for the report to be prepared for public consultation. This proceeded in January 2011.

21. In light of the misunderstanding resulting from the media coverage of that report it is perhaps worth stressing that an island speed limit of 20mph was never proposed by the Department. What was suggested, as a possible option, was to have a lower limit from which other roads would be signposted upwards. This would mean that lanes would not be littered with speed signs but that major roads would have speed signs indicating the higher speed that would apply. Such a proposal would only be beneficial if there was a desire for a wide spread speed reduction in lanes (either 20 or 25mph). The alternative would be to individually signpost every lane with the specific speed applying to that lane.

22. It is also worth bearing in mind that vehicles can generally travel at a speed higher than that signposted without prosecution. In England, for example, the norm is 10 percent plus 2mph above the speed limit before fines are imposed. Under such a "leniency" policy the driver of a vehicle travelling at 30 mph in a 25mph lane would not be prosecuted. A vehicle travelling at just over 40mph in the current 35mph lanes would similarly not be prosecuted. It is drivers travelling at these speeds that result in many complaints to the Department.

Travel Plans/Car Sharing

23. Plans for introducing a car sharing scheme for persons employed in Sir Charles Frossard House and the Princess Elizabeth Hospital were examined by the Environment Department in the course of 2006. Following the completion of a survey of potential users and after due consideration it was decided that the scheme should not proceed. Apart from certain difficulties regarding data protection issues, the proposals proved too costly given the very small numbers who indicated a willingness to take up the opportunity. More recently a free web service is being trialled with a view to promoting its use by Guernsey residents.

Amendments to the Legislation in Relation to Signs and Lines

24. The RTS envisaged a wholesale review of the Traffic Signs and Traffic Light Signals Ordinance, 1988 and this has yet to be undertaken. It does, indeed, represent a vast body of work that would take up a substantial proportion of the Department's resources and, therefore, it is not envisaged that it will be put in place at any time in the near future.

25. The Department has, however, commenced a business process review of the administrative processes for dealing with all signs, signals and junctions issues with a view to spatially mapping requests and actions. Part of this process, if taken forward will automate much of the administrative procedures thereby

creating spare resources to take forward other projects including the legislative review that is currently outstanding.

26. The core legislation required for the simplification of the process for creating new and additional signs has been put in place.

Amendments to the Legislation in Relation to Provisional Driving Licences

27. An adjustment to the requirements in respect of provisional driving licences was deemed necessary in order to allow (predominantly) young drivers the opportunity to retain a driving licence for lower powered machines despite not having passed the commensurate driving examination. This was brought into effect in January 2008. This legislation has, however, delivered unforeseen and undesirable consequences and hence review of the policies and legislation has commenced as part of the driving licence age requirements workstream.

Amendments to the Legislation in Relation to the Exchange of Driving Licences Issued by Other Jurisdictions

28. This adjustment was brought into effect in 2008. As a result, a person seeking to exchange a driving licence issued overseas for a Guernsey issued licence may now do so on the same terms as a locally based individual taking out a licence.

Amendments to the Legislation Relating to Vehicle Registration Log Books

29. Although the RTS only envisaged a small alteration to the legislation in respect of log books (it was proposed that the term be changed to *registration documents* in order to comply with standards operating elsewhere), the Environment Department undertook the challenging task of computerising the entire system for the registration of vehicles. After an extensive joint project, in January 2008 the new registration document was issued and approximately six months later the new driving licence came into being. Each of these are produced using new technologies and offer much improved systems for security, traceability, international recognition and better record keeping.

Register of Driving Instructors

30. Plans for the establishment of a register of driving instructors have been written up and presented to the body of driving instructors in the island. Initial costings for the scheme (which would be self funding), have also been drafted. At the present time the Department is evaluating legal advice on certain aspects of the scheme; it is anticipated that further progress will be made in 2011.

Introduction of Probationary Learner Plates

31. In accordance with the resolution in the RTS, the Environment Department reported back to the States in February 2008 with proposals for the introduction of "P" plates for newly qualified drivers. In light of the proposals the States elected not to proceed with the introduction of P plates.

Banning of "Bull Bars"

32. Legislation for this measure has been drafted.

Control of Exhaust Emissions and Excessive Vehicle Noise

33. This resolution has, to a large degree been superseded by a States resolution that tasked the Home Department to report with recommendations to control the fitting of, alterations to and maintenance of vehicle exhausts.

34. Nevertheless, the Department has examined this matter and concluded that the measures for the effective control of exhaust emissions and excessive vehicle noise are constrained by virtually identical requirements for the delivery of MOTs which have previously been rejected by the States.

35. For example, it is not possible to test a vehicle for excessive noise other than in a controlled environment using specialist equipment. The testing process would need to be accredited by independent inspection and licensing. Such a system (essentially a restricted MOT) would, of itself, present a range of challenges for implementation and administration, but has not been ruled out as a possible way forward. In the meantime, the Department is also examining the possibilities offered by the Responsibility Deposit (see policy option B1) as a means for reducing the number of decrepit and low value vehicles on the Island's roads.

Developments in Respect of the Eastern Seaboard Junctions

36. A presentation on the options that had been investigated for developing the eastern seaboard junctions was made to States Members in October 2006. Those in attendance at the meeting demonstrated opposition to proposals for installations to regulate traffic along the eastern seaboard and the proposals were taken no further.

Sites for Private Parking and Small Car Parking

37. Whilst the concept of providing sites for off-street private parking was included in the RTS with all good intentions for freeing land that might increase the availability of parking in the Town area, no land has become available for this purpose and funds are not available to compete on the open market. At the same time, several major building schemes have commenced

or been completed and, by the terms of the planning requirements, these all contain extensive parking facilities. This has acted to negate the need for additional areas of publicly owned private parking.

38. It is worthy of note that a resolution to create more parking, hence making it easier to own and circulate a vehicle, whilst meeting the "freedom of transport choice policy" runs counter to a policy which seeks to achieve sustainable living and sustainable transport with reduced congestion.

39. Part 4.11 of the RTS dealt with parking for smaller cars and, although no recommendations were approved, the report stated: "*The Department will be monitoring the operation of this scheme and, if it is successful, will consider extending it to other parts of the Town."* In keeping with the intentions expressed in this part of the RTS, the Department has introduced additional parking schemes for smaller vehicles at both the North Beach Car Park and the Albert Pier.

Assistance for Vulnerable Road Users

40. Vulnerable road users include pedestrians, cyclists and persons with a disability. In addressing the needs of vulnerable road users the Environment Department has taken steps to introduce more cycle ways, bicycle parking, blister paving, lighting of pedestrian crossings and alterations to parking arrangements for motor vehicles. These works have included cycle contraflows around Baubigny, Le Bordage, Les Effards and Oatlands Lane. New cycle stands erected at the Town bus terminus with planning permission granted for a significant number of further stands at North Beach, Crown Pier and Church Square.

41. In addition to cycling facilities listed above motorcycle facilities have been provided at Le Bordage, Millbrook Estate, Upper St Jacques, Trinity Square and Church Road.

42. Pedestrian signal facilities have been introduced at Baubigny/Rue de Dol and Effards/Rue de Dol; Route Militaire/Saltpans; and Crossways. A pedestrian refuge was installed at Glategny Esplanade. Blister paving has been added to virtually traffic lights with pedestrian facilities.

Review of the Road Hierarchy and the Movement of Heavy Goods

43. No specific action has been taken on these features of the RTS, although some new regulations regarding the importation and circulation of cranes have recently been introduced. Many of the concerns regarding the movement of heavy goods on the Island relate to the situation of the major harbours at St Peter Port and St Sampson. If steps are taken to reorganise the present means of importing and exporting goods as part of a new harbour strategy, then the requirement for rationalisation of the routes permitted to carry heavy goods may become more pertinent.

Annex 1 Relevant Statistics

Driver & Vehicle Licensing:

- Vehicles Registered as at 31/12/10:
  63,710 cars and light vans
  12,796 commercials
  11,047 motorcycles

- Active Full Driving Licences (43,944), Provisional Driving Licences (4,975)
- Driving Licences issued in 2010 – Full (13,700), Provisional (3,301)
- Vehicle Registration transactions in 2010:

  - Transfer of Vehicle Ownership – 17,004
  - Change of Owner Details – 11,897
  - Registration of New (or second hand) Vehicles – 6,557
  - Deregistering of Vehicles – 4,629
  - Change of Registration Mark – 4,619
  - Issuing of Duplicate Vehicle Certificates – 1,089
  - Change of Vehicle details – 206

Source: Driver & Vehicle Licence System

Traffic management:

- Road Hierarchy

  (Combined hourly peak movements; i.e. both directions for 2006)
  Inter-harbour (2,673)
  Traffic Priority – Grange (1,331)

  Source: Quarterly Average Statistics from Fixed Traffic Counters

  Local Circulation – Typically (500)
  Neighbourhood – Typically (250)

- Junction Usage (morning peak flows)

  Admiral Park (circa 2,700)
  Grange / Doyle Road (2,279)
  Rue Maze (2,205)
  Crossways (1,380) (rising to circa 2,000 with new developments)
  L'Aumone (1,555)
  La Braye du Val (1,196)
  Le Chene (1,345)
  Les Bassieres (763)

Source: Summary Report – Review of Traffic Control Junctions (April, 2001)

- Parking Provision (Disc and Approved Parking Spaces)

  St. Peter Port - 1,754 long-term and 1,189 short-term
  St. Sampson's - 510
  St. Martin's – 103

Source: Department Records

- Permits issued annually

  Residents' permits - 618
  Extended Resident's permits – 950
  Disabled permits – 2294
  Temporary disabled permits – 41
  Abnormal vehicle permits – 65
  Flashing Light permits – 69
  Prohibited Street permits – 388

Source: Department Statistics

- Highway management

  Requests for speed changes/traffic calming – Approx 150 per annum
  Numbers of yellow lines 1,074 in 269 roads
  Number of signs – 3,500
  Number of poles – 2,600
  Number of Mirrors – 78
  Number of Bollards – 32 reflective & 99 illuminated
  Number sets traffic lights - 32
  Number of escort movements – 2,500

Source: Department Statistics

- Driving Test Service - Total 1,981 in 2010 (pass rate across all cats 46.13%)
  Car tests 1,730, Motorcycle tests 126, Car & Trailer 6, HGV 74 & PSV 45

Source: Department Driving Test Statistics

Public Transport

- Total Bus Passengers – 2010

- 1,588,046 passengers (excluding transfers and under 3's) in 2010
- 209,145 of which were undertaken by OAPs and
- 527,587 by Commuters (i.e. all passengers travelling between 06.30/09.30 and 16.30/19.00.

Source: Wayfarer Merit Reporting System

- Scheduled Services WINTER 2009/10
  - 240 services per day "Town – Town" (Monday to Saturday)
  - 76 services on a Sunday.
  - Total 1,516 services per week.
  - 45,480 winter services per year.

- Scheduled Services SUMMER 2010
  - 267 services per day (Monday to Saturday)
  - 90 services on a Sunday.
  - Total 1,692 services per week.
  - 37,224 Summer services per year.

- 82,704 services per year grand total - 2010.

- Of which 11,920 services have been added as enhanced services under the Road Transport Strategy since October 2006.

- Percentage occupancy per service route:

Route 1	34%
Route 1A	38%
Route 2	43%
Route 3	73%
Route 3A	87%
Route 3B	49%
Route 4	53%
Route 5	33%
Route 5A	29%
Route 6	55%
Route 6A	60%
Route 7	78%
Route 7A	73%
Route 8	28%
Route 8A	32%

Source: Analysis of bus statistical data by Tribal

- Frequencies (Services into Town before 9.00am) – Summer 2010

  St. Martin's - 9
  The Bridge - 7
  L'Islet / Rte Carre - 7
  Cobo - 6
  Forest - 4
  St. Peters – 3 (*via L'Eree)

- Travel Habits Survey - St. Sampson's School:

Mode	% Feb'08	% June'09
Car	34%	6%
Walk	22%	27%
M/C	4%	9%
Cycle	20%	23%
School Bus	20%	35%

Source: Feb'08 - Survey of Parents/Students attending St. Sampson's Secondary School, June'09 – Staff counts undertaken at St. Sampson's High School Site

- Schools Transport - Capacities 2010
  Dedicated Private Hire Services – 960 return seats per day
  Integrated School Bus Services (using scheduled buses) – 2,070 spaces per day
  Total of 1,234 spaces (am) and 1,796 (pm)

Source: 2010/2011 Schools Bus Contract

- School Vouchers (for use on scheduled bus services)
  Ladies College (113 users), Elizabeth College (111 users), Delancey and Brock Road Campus (65 users)

Source: November 2010 data provided by Education Department

(NB The Treasury and Resources Department has commented as follow.)

TREASURY AND RESOURCES
A STATES OF GUERNSEY GOVERNMENT DEPARTMENT

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The Chief Minister
Policy Council
Sir Charles Frossard House
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3 October 2011

Dear ~~Deputy Trott~~ Lyndon

ENVIRONMENT DEPARTMENT – TOWARDS A NEW INTEGRATED ROAD TRANSPORT STRATEGY

The Treasury and Resources Department recognises the difficult task facing the Environment Department in its attempts to put in place a robust, comprehensive and sustainable integrated road transport strategy. While acknowledging that the construct of the strategy and its underpinning policies are not matters upon which it would wish to comment, the Treasury and Resources Department would caution the States about the potential for committing to significantly increasing expenditure in this area, particularly if the States are not prepared to embrace difficult choices or new funding options in the future.

The new policy options favoured by the Environment Department in this Report could not be met from within the Department's existing cash limit and have been roughly calculated as amounting to £3.2m of capital investment and some £850k in revenue projects. Once these are finalised and brought back for final approval, they will need to be subject to prioritisation either as part of a future States Strategic Plan (revenue) or Capital Prioritisation process in the same way as all other States spending.

In terms of the resources required to meet the strategy, the Report should recognise that States-owned land is a public resource just as much as cash in the States bank accounts. It therefore follows that the provision of land for parking free of charge represents a subsidy to the private motorist. Equally, land provided free of charge which might be allocated to facilitate the construction of a bus garage, would represent a subsidy to bus users. While public subsidies may well be required to support some of the services proposed, the strategy should make clear the arguments (on social and/or environmental grounds) for those subsidies.

Exhaustive investigations have already been carried out to try and identify a suitable site for the bus garaging facilities requested. These have involved lengthy investigations of both public and privately owned sites throughout the island, and have involved the help and assistance of the forward planning officers within the Environment Department. Unfortunately no sites have currently been identified that can offer the area and planning compliance required. The options therefore are limited and any solutions are likely to involve both substantial costs and planning issues.

Furthermore, the Department does not subscribe to the idea of "linked funding" laid out in this report. While there is acceptance that a strategy may require both incentive and disincentive in terms of the user, it does not follow that hypothecation will deliver a more effective strategy.

Finally, the States need to be fully informed of the total capital and revenue costs when determining what future policy options should be implemented. The States can then decide whether or not there are policies which, simply on the grounds of cost, should not be pursued, while having regard to any associated implications for the overarching strategy. Subsequently, the States will then need to determine how the overall costs of the agreed strategy are to be met which will certainly involve difficult political choices in terms of prioritising current revenue expenditure or alternatively the need to agree new sources of funding which would involve potentially unpopular decisions.

Yours sincerely

Charles

C N K Parkinson
Minister

(NB The Policy Council appreciates the difficult position in which the Environment Department finds itself following previous States debates. The Department has had to make a number of assumptions over the direction of a new integrated road transport strategy and while it is not putting forward a finished strategy for immediate implementation, the Policy Council is satisfied that this paper will begin the process of identifying the overall direction.

It is clear from the report that buses are likely to form an integral part of an integrated road transport strategy and the Policy Council would support the Environment Department's decision to renegotiate the current bus contract ahead of the adoption of a strategy, as set out within the report.)

The States are asked to decide:-

XV.- Whether, after consideration of the Report dated 30th August, 2011, of the Environment Department, they are of the opinion:-

1. (i) To approve the Vision as set out in paragraph 68 of this report.

   (ii) To approve the Objectives as set out in paragraph 71 this report.

(iii) To support the Board's view on future bus services as set out in paragraph 31 of this report.

(iv) To support the Board's view in respect of school bus services as set out in paragraph 34 of this report.

(v) To support in principle the development of dedicated bus garaging and servicing facilities, on land under States control, as part of the long term sustainable development of a competitively tendered value for money service.

(vi) To direct the Strategic Property Services unit of the Treasury and Resources Department to commence the process of identifying an appropriate site for development as dedicated bus garaging and servicing facilities.

(vii) To approve in principle its support for linked funding as set out in the section of this report headed "Funding".

(viii) To provide agreement in principle for the Policy Options and workstreams supported by the Board as set out in the tables in this report.

(ix) To direct the Environment Department to return to the States with detailed costs and timescales for moving forward by October 2012.

2. To note the inability of the Environment Department to competitively tender the bus service contract from January 2012.

TREASURY AND RESOURCES DEPARTMENT

SUPERANNUATION FUND: ACTUARIAL VALUATION

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

14 September 2011

Dear Sir

Executive Summary

The purpose of this Report is to place before the States the latest triennial Actuarial Valuation (as at 31 December 2010) of the Superannuation Fund prepared by BWCI Consulting Limited which is included as an appendix to this Report.

For the avoidance of doubt, this Report deals solely with the pension benefits for public sector employees and States Members. There is no impact on the "States Old Age Pension" funded by the Guernsey Insurance Fund administered by the Social Security Department.

The overall value of the Superannuation Fund as at 31 December 2010 was £930million and the Actuarial Valuation calculates the Scheme's liabilities to be £1,000million which means that the Scheme is 93% funded.

This Report recommends no change to the employers contribution rates for the Combined Pool and small decreases are proposed for Guernsey Electricity Limited, Guernsey Post Limited, the Guernsey Financial Services Commission and the post-May 2004 States Members Pension Scheme.

Background

The States of Guernsey, in common with most public sector employers, maintains defined-benefit pension schemes. In general terms, this means that the pension payable to employees is determined by their years of service and their final salary. Market performance of investments does not impact upon the benefits accruing to the employees (or their contribution rates) as it does with a defined-contribution scheme.

Providing a pension is a contractual agreement between the States and its employees and pensioners and forms part of the annual pay and conditions negotiations undertaken by the Public Sector Remuneration Committee. The States therefore need to make financial provision for the ongoing payment of future liabilities (mainly pensions).

An Actuarial Valuation is carried out to compare the value of the Scheme's assets (Superannuation Fund) with a funding target which calculates the value of the benefits that will be paid from the scheme in the future using information about the scheme at the valuation date. The actuary makes assumptions about factors which have an influence on the scheme's finances in the future including investment returns (discount rate), inflation, pay increases, pension increases, when members will retire and how long members will live.

These assumptions are derived from historical data, present knowledge and future projections. The one thing of which we can be certain is that the actuarial assumptions will almost invariably never be precisely borne out in practice and, in the short-term, actual experience can vary significantly from that assumed. The findings of the valuation will result in an assessment of the surplus or deficit in the scheme at the valuation date and an estimation of the employer contributions needed to meet the scheme's funding target in the future.

It should be clearly understood that irrespective of the amount of employer contributions that are made to the Fund, Members will accrue benefits for which there will be a future obligation to pay. The only way in which the cost of these future liabilities can be cut is by increasing the employee contribution or reducing the benefits of the Scheme.

In respect of the Combined Pool, the funding target is 90% of the benefits accrued as at 31 December 2007 and 100% thereafter. The funding target for the Actuarial Accounts (Guernsey Electricity Limited, Guernsey Post Limited and Guernsey Financial Services Commission) is that their liabilities should be 100% funded.

The States General Revenue contribution into the Superannuation Fund in 2010 was £18.7million (the remainder of the employer contributions [£7.2m] relate to other Scheme Members including Guernsey Electricity Limited, Guernsey Post Limited, Guernsey Financial Services Commission, 'trading' operations – Guernsey Dairy, Guernsey Water, States Works, Ports and Social Security Funds, etc.).

2010 Actuarial Valuation Results

The Actuarial Valuation Report includes detailed explanation and analysis on the membership data, developments since the last Valuation (31 December 2007), assumptions used to calculate the funding target and the funding position.

At 31 December 2007, the overall Superannuation Fund had a funding position of 95.38% which fell to 92.76% as at 31 December 2010. The investment return was, over the three year period, an average of 1.9% per annum which is significantly lower than the assumed discount rate of 6.5% per annum.

Actual returns were:

- 2008 – (19.32%)
- 2009 – 16.46%
- 2010 – 12.69%

However, pay and pension increases were lower than earlier estimated which partially offset the investment return shortfall.

If there were no changes to the future assumptions used to calculate the funding target, this would mean that contribution rates would have to rise. However, there have been a number of changes to the assumptions which have the net effect of reducing the value placed on the Fund's future liabilities. The key assumption is investment return (discount rate) and this has been set at 6.85% (inflation of 3.6% plus investment outperformance premium of 3.25%) compared to 6.5% (a 2% outperformance over gilt yields) at the previous valuation. The reason for this change in assumption is as a result of the change in investment strategy (detailed below), the investment return target has been set at inflation plus 4% but it is considered prudent to not fully take this higher expected return into account. Other assumption changes include lower inflation levels and expected pay and pension increases but higher life expectancy.

The following Sections summarise the results of the Actuarial Valuation for each of the Scheme components and detail the funding recommendations.

<u>Combined Pool (includes Teachers' Scheme)</u>

The results of the Actuarial Valuation are summarised below:

	Funding Target (90% of accrued benefits to 31/12/2007, 100% thereafter) £'000	100% funding of accrued benefits £'000
Market Value of Scheme Assets	**840,994**	840,994
Present Value of Scheme Liabilities	**834,759**	918,332
Surplus / (Deficit)	**6,235**	(77,338)
Funding Percentage	**100.7%**	91.6%
Future Service Contribution Rate	**13.9%**	13.9%
Past Service Adjustment	**(0.4%)**	4.7%
Total Required Contribution Rate	**13.5%**	18.6%
Current Contribution Rate	**14.1%**	14.1%

Although it would be possible to slightly reduce the employer's contribution rate from 14.1% to 13.5% to comply with the funding target, **it is recommended that the base level rate of employer contributions to be paid remains 14.1% of Pensionable Pay** with additional contributions payable in respect of the special benefit groups (as set out in Appendix 1). This approach is prudent, given the sensitivity of the funding position in relation to changes in any of the underlying assumptions and mindful of the long-term desirability of returning to a position of fully funding accrued benefits (ie improving the current position of 91.6% funding).

States Trading Companies and the Guernsey Financial Services Commission

When the States Trading Companies (Guernsey Electricity Limited and Guernsey Post Limited) were commercialised it was agreed that each of these would have their own separate Actuarial Account. Furthermore, following advice from the Actuaries, a separate Actuarial Account is also maintained for the Guernsey Financial Services Commission to ensure that there is no cross subsidy between the contributions paid to the Superannuation Fund by the Guernsey Financial Services Commission and those by other participating employers. These three Actuarial Accounts represent less than 10% of the overall value of the Superannuation Fund.

The results of the Valuation for the three Actuarial Accounts are summarised below:

	Guernsey Electricity Limited £'000	Guernsey Post Limited £'000	Guernsey Financial Services Commission £'000
Market Value of Scheme Assets	42,092	28,595	14,812
Present Value of Scheme Liabilities	39,909	25,893	13,667
Surplus	2,183	2,702	1,145
Funding Percentage	105.5%	110.4%	108.4%
Future Service Contribution Rate	14.6%	14.2%	15.6%
Current Contribution Rate	17.3%	15.0%	17.8%

The employer contribution rate could be set at a level that eliminates the surplus over the average working lifetime of the current active members which would have the effect of reducing the required contribution rate by approximately 3%. However, in light of the sensitivity of the funding position to changes in the assumptions and the recent significant turbulence in global stock markets, it is considered prudent not to do this.

Under Rules 2(2)(f) and (g) of the Superannuation Fund, the States of Guernsey determines the contribution rates payable by the States Trading Companies and any other body for which an Actuarial Account has been established. Therefore, it is proposed that:

- The employer contribution rate for Guernsey Electricity Limited be decreased from 17.3% to 14.6% with effect from 1 April 2012.
- The employer contribution rate for Guernsey Post Limited be decreased from 15.0% to 14.2% with effect from 1 April 2012.
- The employer contribution rate for Guernsey Financial Services Commission be decreased from 17.8% to 15.6% with effect from 1 January 2012.

States Members Pension Scheme

This Scheme represents approximately 0.4% of the overall Superannuation Fund assets and liabilities.

In October 2006, the States agreed to the establishment of the post-May 2004 contributory States Members Pension Scheme. The initial States contribution rate was, following actuarial advice, set at 25% of Basic Allowances and this was not revised following the December 2007 Actuarial Valuation. An additional fixed annual sum of £35,000 is also paid into the Superannuation Fund to eliminate past service deficits (relating to the pre-May 2004 contributory States Members Pension Scheme and the pre-January 1990 non-contributory States Members Pension Scheme).

The results of the Actuarial Valuation of the States Members Pension Scheme are:

- In respect of the post-May 2004 Scheme that the States contribution rate should be set at 21.6% of Basic Allowance in order to fully fund benefits that have accrued and will accrue. Based on current membership, this would result in a £27,000 per annum saving in the formula led heading of Payments to States Members within the Treasury and Resources Department's budget

- In respect of the pre-May 2004 contributory States Members Pension Scheme and the pre-January 1990 non-contributory States Members Pension Scheme, there is a funding shortfall of £1,304,000. It is recommended that this shortfall is eliminated by increasing the £35,000 annual fixed sum to £66,000 per annum, maintained in real terms.

Investment Performance and Strategy

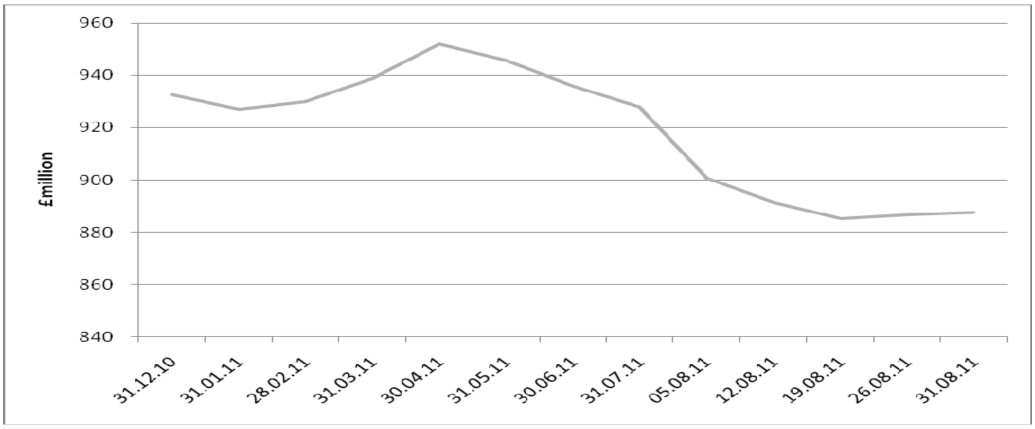
The assets of the Superannuation Fund as at 31 December 2010 totalled £929,979,000, attributed to the Fund constituents as follows:

Public Servants (including Teachers)	£840,994,000
Guernsey Electricity Limited	£ 42,092,000
Guernsey Post Limited	£ 28,595,000
Guernsey Financial Services Commission	£ 14,812,000
States Members	£ 3,486,000

The Superannuation Fund's annual performance is reported as part of the overall States Accounts and can be summarised as follows:

	2010	2007	2004	2001
	£m	£m	£m	£m
Employer contributions	26	16	13	10
Employee contributions	12	10	8	7
Refunds and Transfers (net)	1	(1)	(1)	(1)
Pensions and Lump Sums paid	(40)	(28)	(21)	(18)
Net investment income	10	17	15	19
Net increase	9	14	14	17
Investment appreciation / (depreciation)	92	35	34	(75)
Balance at 1 January	829	847	608	675
Balance at 31 December	930	896	656	617
Scheme Liabilities at 31 December	1,003	940	764	554
(Deficit) / Surplus	(73)	(44)	(108)	63
Funding Ratio	93%	95%	86%	111%

At the time of writing this Report, there has been significant turbulence in global stock markets triggered by a number of factors including uncertainty over the United States' (US) economic prospects and the downgrading of its 'AAA' status by Standard and Poors as well as concerns about the state of certain European Union (EU) countries' economies including Spain and Portugal. This turbulence has had a material impact on the investments within the Superannuation Fund as depicted in the following graph which highlights the fall in the value of the Fund from £930m to £888m during August:



A clearer picture is likely to emerge over the next few months, both on the measures that the US and EU adopt and how they are received by the markets. However, it is important to appreciate that short and medium-term volatility is to be expected but the Superannuation Fund has a long-term investment strategy for funding the long-term liabilities for paying occupational pensions to public sector employees.

In early 2009, the Investments Sub-Committee of the Treasury and Resources Department initiated a process to reduce the risk of adverse short-term volatility involved in the Superannuation Fund by further diversifying the investment portfolio in terms of asset types, manager and currency. The key reason for this objective was to make the portfolio more dynamic and flexible with targets set at the total fund level and the appointed managers given flexibility to make key decisions within their specific area of expertise whilst still ensuring compliance with the investment rules approved by the States.

The overall investment objective for the Superannuation Fund is UK RPI plus 4% per annum on a rolling three year basis although each manager has, depending on the investment area they are responsible for, individual target rates of return. There was a staged period of implementing the revised structure which is largely complete and involved finding, appointing and funding new managers and changing mandates for existing managers. The number of managers has increased to twelve active managers.

<u>Financial Reporting Standard (FRS) 17 disclosures</u>

FRS17 is an Accounting Standard which includes the following main requirements:

- Pension Scheme assets are to be measured using market values.
- Pension Scheme liabilities are to be discounted at an AA corporate bond rate.
- The Pension Scheme surplus (to the extent it can be recovered) or deficit is recognised in full on the balance sheet in the Accounts of the sponsoring employer.

There are extensive disclosures required under FRS17 which are intended to be an aid in comparing pension costs and liabilities between companies. FRS17 is prepared for accounting purposes whereas an Actuarial Valuation is carried out to compare the value of the Scheme's assets with a funding target which calculates the value of the benefits that will be paid from the scheme in the future using information about the scheme at the valuation date.

The General Revenue Accounts are not currently prepared fully in accordance with Accounting Standards and, therefore, the deficit on the Fund calculated using FRS17 assumptions is not included on the Balance Sheet (but this would be required if the States Accounts are prepared using Generally Accepted Accounting Principles). However, the FRS17 position is calculated and detailed information is disclosed within the notes to the Accounts.

The basis of preparing FRS17 is very prescriptive and, whilst many of the assumptions used are the same or very similar to those used in the Actuarial Valuation, there is a major variance in the key assumption of discount rate which makes a substantial difference to the size of the reported deficit.

The FRS17 calculations for 31 December 2010 effectively assumed a discount rate of inflation plus 2.05% (based on the return on an AA corporate bond) whereas the Actuarial Valuation assumes a discount rate of inflation plus 3.25% (based on the Superannuation Fund target rate of future investment return). The two bases result in material differences in the calculation of liabilities and the resultant net funding position of the scheme.

For example, in respect of the Combined Pool:

	Using FRS17 Assumptions £'000	As per the Actuarial Valuation £'000
Market Value of Scheme Assets	840,994	840,994
Present Value of Scheme Liabilities	1,111,636	918,332
Deficit	270,642	77,338
Funding Percentage	75.7%	91.6%

Principles of Good Governance

In preparing this Report, the Department has been mindful of the States Resolution to adopt the six core principles of good governance as defined by the UK Independent Commission on Good Governance in Public Services (Billet d'État IV of 2011). The Department believes that all of the proposals in this Report comply with those principles.

Recommendations

The Treasury and Resources Department recommends the States:

a) To note the Actuarial Valuation of the States of Guernsey Superannuation Fund as at 31 December 2010.

b) To agree that, except for Guernsey Electricity Limited, Guernsey Post Limited, the Guernsey Financial Services Commission and the post-May 2004 States Members Pension Scheme, the employer and additional employer contribution rates in respect of the States of Guernsey Superannuation Fund shall remain as set out in Appendix I.

c) To agree that the employer contribution rate for Guernsey Electricity Limited be decreased from 17.3% to 14.6% with effect from 1 April 2012.

d) To agree that the employer contribution rate for Guernsey Post Limited be decreased from 15.0% to 14.2% with effect from 1 April 2012.

e) To agree that the employer contribution rate for the Guernsey Financial Services Commission be decreased from 17.8% to 15.6% with effect from 1 January 2012.

f) To agree that the States contribution rate for the post-May 2004 States Members Pension Scheme be decreased from 25.0% to 21.6% with effect from 1 January 2012

g) To agree that the annual sum paid into the Superannuation Fund in respect of the pre-May 2004 States Members Pension Schemes from the revenue budget of the Treasury and Resources Department shall be increased to £66,000 with effect from 2012 and maintained in real terms.

Yours faithfully

C N K Parkinson
Minister

Deputy J Honeybill
Deputy A H Langlois
Deputy S L Langlois
Deputy R Domaille

Appendix 1

	Total employer contribution rate %pa
Base employer rate (including Teachers)	14.1
Special Benefit Groups	
Police and Firemen	
entrants on or before 31.10.91	29.1 (+15%)
entrants between 31.10.91 and 31.12.07	24.1 (+10%)
entrants after 31.12.07 Police	20.1 (+6%)
Fire	18.1 (+4%)
Senior Police and Fire Officers – entrants before 01.01.08	21.1 (+7%)
Mental Health Officers – entrants prior to 01.12.98	23.1 (+9%)
Crown Officers and Magistrates	
entrants on or before 31.10.91	24.1 (+10%)
entrants between 01.01.92 and 31.12.03	23.1 (+9%)
entrants after 01.01.04	20.8 (+6.7%)

BWCI Consulting Limited

STATES OF GUERNSEY SUPERANNUATION FUND

Actuarial Valuation as at 31 December 2010

Prepared for

The States of Guernsey Treasury and Resources Department

Prepared by

Steven Jones, FIA
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27 September 2011

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Executive Summary

We have carried out an actuarial valuation of the States of Guernsey Superannuation Fund (the Fund) as at 31 December 2010. The main purposes of the valuation are to review the financial position of the Fund as a going concern, and to help establish the contributions payable to the Fund in the future.

In summary:

Targeted funding levels

- Benefits accrued to 31 December 2007 in the Combined Pool Section have a targeted funding level at the valuation date (ie 31 December 2010) of 90%. Benefits accrued on or after 1 January 2008 have a targeted funding level of 100%. The benefits in the Actuarial Accounts have a targeted funding level of 100%.

Current funding positions

- At the valuation date, the assets exceeded the target funding liabilities by £6,235,000 in respect of the Combined Pool. A **funding surplus** of £2,702,000 is revealed in respect of Guernsey Post Limited, corresponding to a **funding ratio** of 110.4%. A **funding surplus** of £2,183,000 is revealed in respect of Guernsey Electricity Limited, corresponding to a **funding ratio** of 105.5%. A **funding surplus** of £1,145,000 is revealed in respect of the Guernsey Financial Services Commission, corresponding to a **funding ratio** of 108.4%.

Combined Pool

- The Combined Pool Section includes the Teachers' Scheme. The current rate of Employer contributions is 14.1% of Pensionable Pay.
- The long-term rate of Employer contributions required to be paid in the Combined Pool Section to cover the cost of benefits accruing in respect of future service amounts to 13.9% of Pensionable Pay. This rate includes an allowance of 0.25% of Pensionable Pay to meet the expenses of the Fund.
- If allowance were made for the spreading of the assets in excess of the target funding liabilities in respect of the Combined Pool over the average working lifetime of the current active members, a period of 12 years, the rate of contributions required could be reduced by 0.4% of Pensionable Pay. The total rate of Employer contributions to be paid following the valuation would then be 13.5% of Pensionable Pay.
- If the targeted **funding level** in the Combined Pool was 100% for all accrued benefits there would be a **funding shortfall** of £77,338,000 corresponding to a **funding ratio** of 91.6%. If allowance were made for the spreading of this funding shortfall over the average working lifetime of the current active members, the rate of contributions required would be increased by 4.7% of Pensionable Pay. The total rate of Employer contributions required would then be 18.6% of Pensionable Pay.
- We recommend that the additional contribution rates in respect of the special benefit groups are maintained. Full details are set out in Section 7.

Executive Summary

Guernsey Post Limited

- We have calculated that the long-term rate of Employer contributions to cover the cost of benefits accruing in respect of future service in the Guernsey Post Limited Actuarial Account amounts to 14.2% of Pensionable Pay. This rate includes an allowance of 0.25% of Pensionable Pay to meet the expenses of the Fund.
- If allowance were made for the spreading of the ongoing **funding surplus** in respect of Guernsey Post Limited over the average working lifetime of the current active members, a period of 13 years, the rate of contributions required could be reduced by 3.0% of Pensionable Pay. The total rate of Employer contributions to be paid following the valuation could be 11.2% of Pensionable Pay.

Guernsey Electricity Limited

- We have calculated that the long-term rate of Employer contributions to be paid to cover the cost of benefits accruing in respect of future service in the Guernsey Electricity Limited Actuarial Account amounts to 14.6% of Pensionable Pay. This rate includes an allowance of 0.25% of Pensionable Pay to meet the expenses of the Fund.
- If allowance were made for the spreading of the ongoing **funding surplus** in respect of Guernsey Electricity Limited over the average working lifetime of the current active members, a period of 12 years, the rate of contributions required could be reduced by 2.8% of Pensionable Pay. The total rate of Employer contributions to be paid following the valuation could be 11.8% of Pensionable Pay.

Guernsey Financial Services Commission

- We have calculated that the long-term rate of Employer contributions to be paid to cover the cost of benefits accruing in respect of future service in the Guernsey Financial Services Commission Actuarial Account amounts to 15.6% of Pensionable Pay. This rate includes an allowance of 0.25% of Pensionable Pay to meet the expenses of the Fund.
- If allowance were made for the spreading of the ongoing **funding surplus** in respect of Guernsey Financial Services Commission over the average working lifetime of the current active members, a period of 11 years, the rate of contributions required could be reduced by 2.7% of Pensionable Pay. The total rate of Employer contributions to be paid following the valuation could be 12.9% of Pensionable Pay.

General

- Any changes to the contribution rates for the Actuarial Accounts could be implemented with effect from 1 January 2012 for Guernsey Financial Services Commission and from 1 April 2012 for Guernsey Post Limited and Guernsey Electricity Limited.
- The rates of contributions payable will be reviewed at the next valuation which is due to be made as at 31 December 2013.
- The two pension arrangements for States Members are combined with the States of Guernsey Superannuation Fund for investment purposes. A valuation of the States Members Pension Fund has been made as at 31 December 2010. A separate report containing the results of this valuation has been prepared. A summary of the results of that valuation are included as Appendix G.

Contents

Limitations on extent to which 3rd parties can rely on advice

This report and any enclosures or attachments are prepared under the terms of the Client Agreement dated 13 April 2004 between BWCI Consulting Limited and the States of Guernsey and is solely for the benefit of the addressee(s). This report must always be considered in the context of and subject to the reservations with which it is given. Unless express prior written consent has been given by BWCI Consulting Limited, this report should not be disclosed to or discussed with anyone else unless they have a statutory right to see it. Notwithstanding such consent, BWCI Consulting Limited does not accept or assume any responsibility to anyone other than the addressee(s) of the report.

Compliance statement

This report falls outside the scope of the Technical Actuarial Standards (TASs) issued by the Board for Actuarial Standards and therefore the TASs do not apply.

1. Introduction

1.1 Regular valuations

This report, prepared for the Treasury and Resources Department of the States of Guernsey, sets out the results of our actuarial valuation of the States of Guernsey Superannuation Fund (the Fund) as at 31 December 2010.

Rule 4(1) of the Fund's Rules requires the States Treasury and Resources Department to obtain regular actuarial valuations of the Fund.

The valuation reviews the financial position of the Fund as a going concern at the valuation date, and helps establish what actions should be taken regarding future contribution rates.

Our previous valuation report of 8 October 2008 considered the financial position of the Fund as at 31 December 2007.

1.2 A snapshot view

This report concentrates on the Fund's funding position at the valuation date. As time moves on, the Fund's finances will fluctuate. It will therefore be necessary to carry out further valuations to monitor the position.

In the meantime, if you are reading this report some time after it was prepared, you should bear in mind that the Fund's position could have changed significantly.

We comment briefly on developments between the valuation date and the date of signing this report in Section 12.

1.3 Technical terms

A glossary of the technical terms used in this report is provided in Appendix F. These technical terms are shown in **bold type.** Pensionable Pay is as defined in the Rules of the Fund.

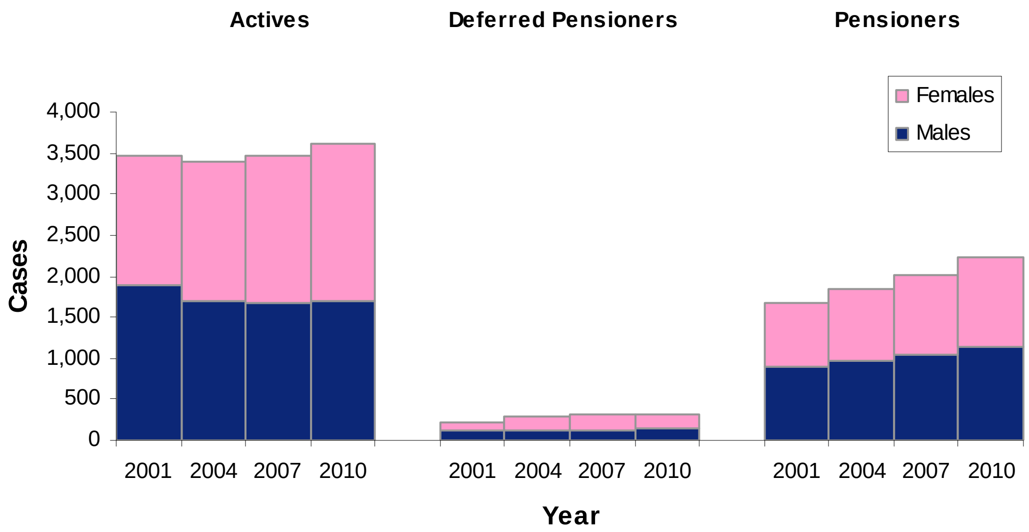
2. Data

2.1 Membership data

The valuation results are based on the membership data supplied to us by the States Payroll Section as at 31 December 2010. This is summarised in Appendix B.

2.2 Membership changes – Public Servants

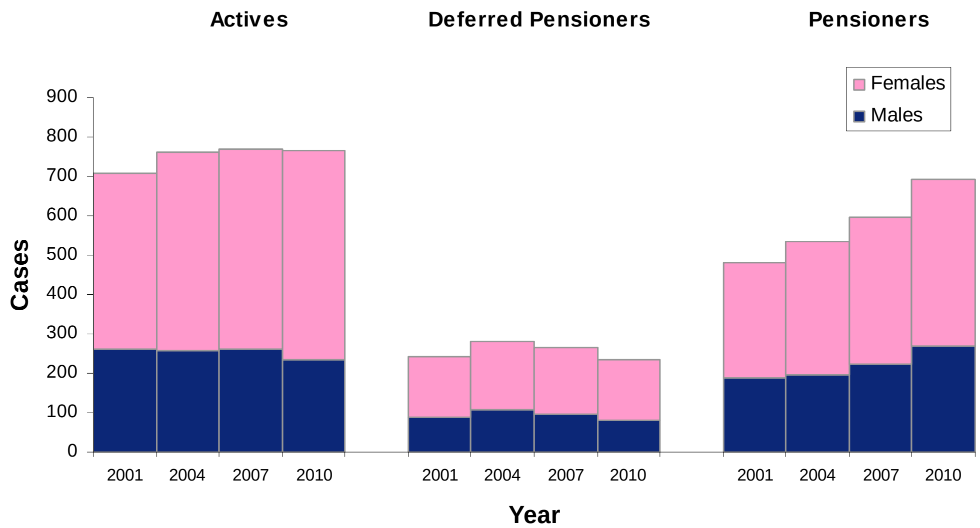
Changes in the number of members of the Public Servants' Combined Pool since 31 December 2001 are illustrated below.



The Public Servants section has experienced a small rise in the number of active members and deferred pensioners since the previous valuation. There has been a steady increase in the number of pensioners over time.

2.3 Membership changes – Teachers' sections

Changes in the total membership of the Teachers' Scheme and the new Teachers' section of the Combined Pool since 31 December 2001 are illustrated below.

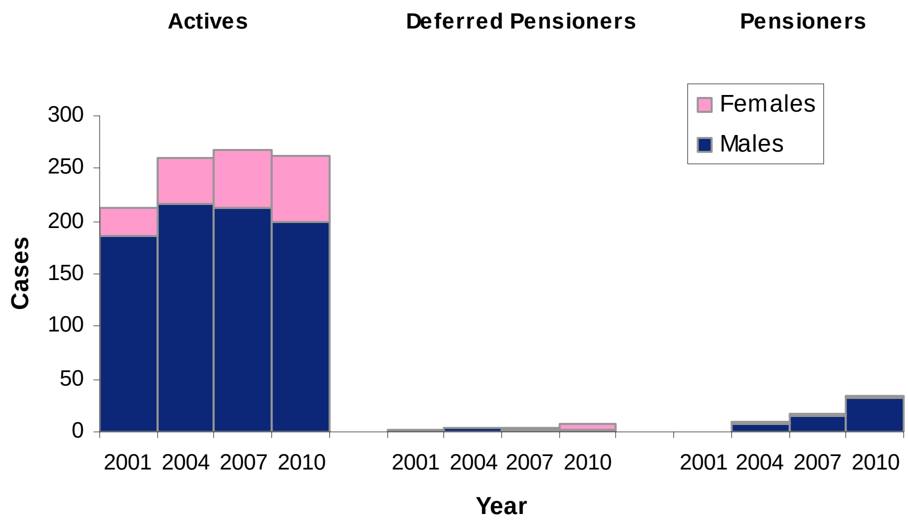


2. Data (continued)

The active membership of the combined Teachers' sections has remained stable since the previous valuation and there has been a steady increase in the number of pensioners over time. There has been a small decrease in the number of deferred pensioners since the previous valuation.

2.4 Membership changes – Guernsey Post Limited

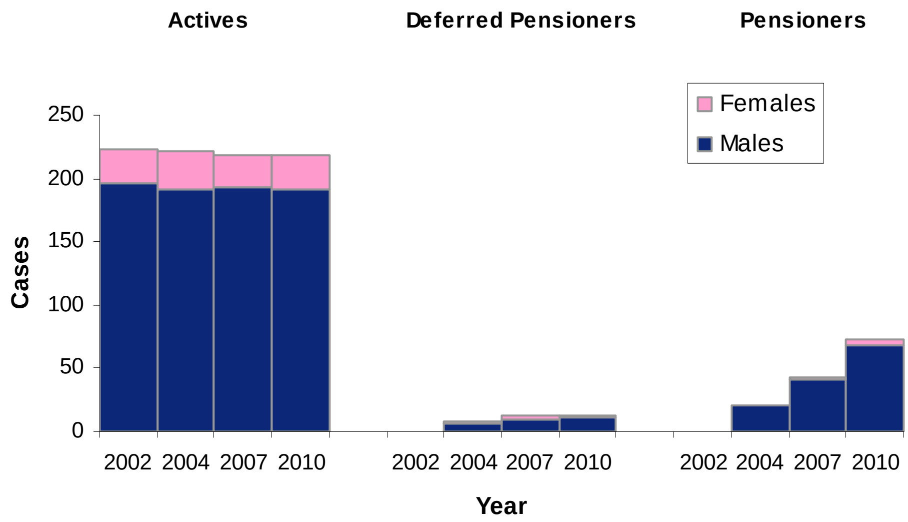
Changes in the number of members of the Guernsey Post Limited Actuarial Account since 31 December 2001 are illustrated below.



The Guernsey Post Limited Actuarial Account has experienced a slight fall in the number of active members since the previous valuation. There has been a small increase in the number of deferred pensioners and pensioners.

2.5 Membership changes – Guernsey Electricity Limited

Changes in the number of members of the Guernsey Electricity Limited Actuarial Account since the Actuarial Account was established (1 February 2002) are illustrated below.

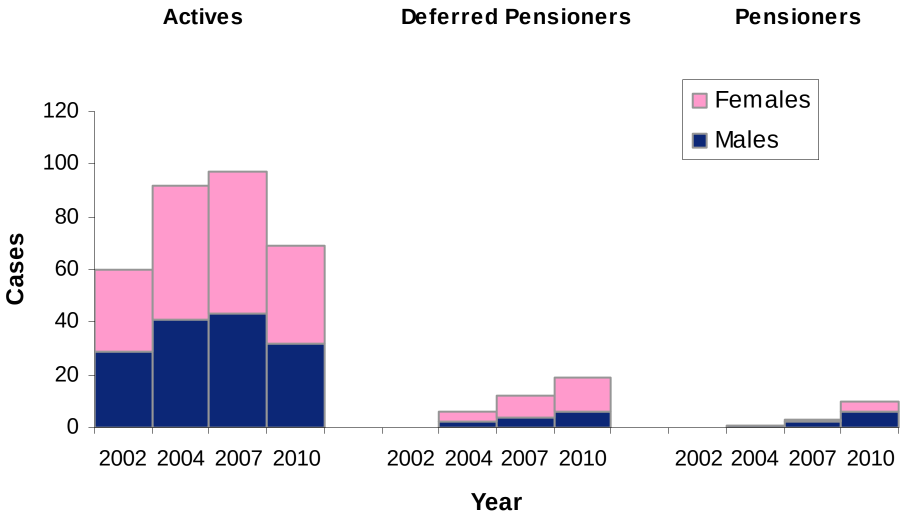


2. Data (continued)

The active membership of the Guernsey Electricity Limited Account has remained stable since the previous valuation, as has the number of deferred pensioners. There has been an increase in the number of pensioners.

2.6 Membership changes – Guernsey Financial Services Commission

Changes in the number of members of the Guernsey Financial Services Commission Actuarial Account since the Actuarial Account was established (1 January 2002) are illustrated below.

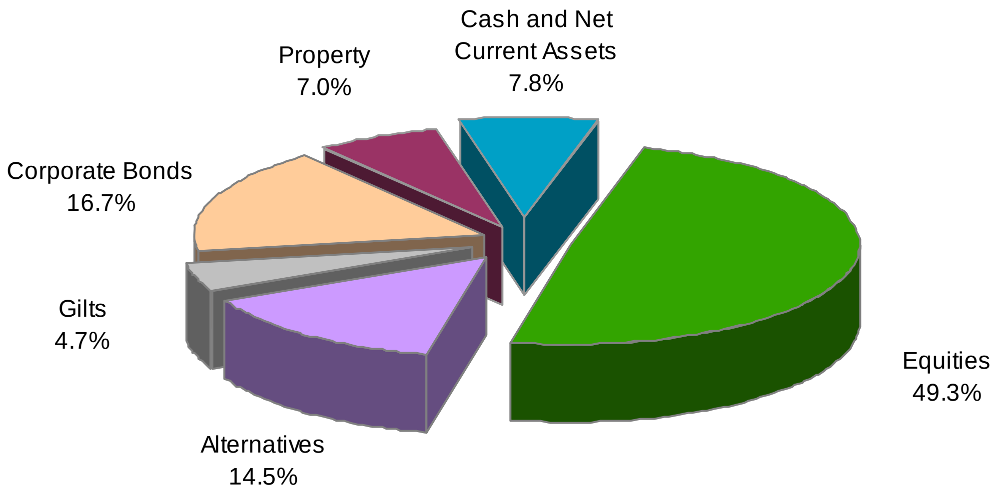


The Guernsey Financial Services Commission Actuarial Account ceased to be open to new members from 1 January 2008. Consequently the Guernsey Financial Services Commission Actuarial Account has experienced a significant fall in the number of active members. There has been an increase in the number of deferred pensioners and pensioners since the previous valuation.

2.7 Assets

The Fund's audited report and accounts show that its assets had a market value of £840,994,000 in respect of the Combined Pool (including teachers) at the valuation date. The assets allocated to the Actuarial Accounts for Guernsey Post Limited, Guernsey Electricity Limited, and the Guernsey Financial Services Commission were £28,595,000, £42,092,000, and £14,812,000 respectively. The total assets held in respect of the Superannuation Fund, excluding the States Members' Pension Fund, amounted to £926,493,000 at the valuation date. These assets are analysed as follows:

2. Data (continued)



A summary of the Fund's investments at the valuation date is included in Appendix C.

2.8 Reliability of information

We have carried out some general checks to satisfy ourselves that:

- the information used for this valuation is reasonable compared with the information used for the previous valuation
- the results of this valuation can be reconciled with results of the previous valuation.

3. Benefits

3.1 Benefits valued

The valuation is based on the benefits defined in the Fund's legal documents at the valuation date. There are no external insurance arrangements in place to provide any of the benefits of the Fund, although the death in service and ill health retirement benefits from the Guernsey Financial Services Commission Actuarial Account are insured internally by the payment of a premium to the Combined Pool.

3.2 Pension increases

The pension and deferred pension increases provided by the Fund are not guaranteed in the Rules but determined by the States of Guernsey. In 1988, the States of Guernsey resolved that an increase of less than the increase in the Retail Prices Index should only be recommended if certain criteria apply. The intention is to provide pension and deferred pension increases annually on 1 January for the Combined Pool and the Actuarial Accounts based on the annual increase in the Guernsey Retail Prices Index to the preceding June. The Teachers' Scheme provides pension increases in line with the increases granted by the UK Teachers' Scheme which are now based on the UK Consumer Prices Index.

We have assumed in our calculations that the current intention of providing these increases will continue in future and have allowed fully for future pension and deferred pension increases in the economic assumptions.

3.3 Future accrual of benefits

The Fund remains open to new members, but the benefits available to new joiners have been changed from 1 January 2008 onwards.

4. Developments since the previous valuation

4.1 Previous valuation – Combined Pool (including teachers)

At the previous valuation the Public Servants Combined Pool and the Teachers' Scheme were combined for funding purposes, to create an expanded Combined Pool Section.

The previous valuation showed that the assets of the Combined Pool exceeded the target funding liabilities by £42,620,000 as at 31 December 2007. There was a **funding shortfall** of £43,994,000 relative to a target funding level of 100% of accrued benefits.

The basic rate of Employer contributions in respect of this section was 17.1% of Pensionable Pay in respect of future service accrual. This rate was reduced by 3.0% of Pensionable Pay, in order to spread the assets in excess of the target funding liabilities over the average working lifetime of the active members.

The actual rate of Employer contributions paid over the intervaluation period was 7.85% of Pensionable Pay from 1 January 2008 to 31 December 2009, then 14.1% of Pensionable Pay from 1 January 2010.

We recommended that the additional contribution rates payable in respect of the special benefit groups were reviewed in light of the changes to the benefit structure. These additional contributions were paid at the recommended rates from 1 January 2010.

4.2 Previous valuation – Guernsey Post Limited

The previous valuation showed that the Guernsey Post Limited Actuarial Account had a **funding surplus** of £1,283,000 as at 31 December 2007.

The basic rate of Employer contributions in respect of this section was 16.4% of Pensionable Pay in respect of future service accrual. This rate was reduced by 1.4% of Pensionable Pay in order to spread the **funding surplus** over the average working lifetime of the active members. Thus the total recommended rate of Employer contributions was 15.0% of Pensionable Pay.

The rate of Employer contributions paid into the Guernsey Post Limited Actuarial Account was increased from 14.0% of Pensionable Pay to 15.0% of Pensionable Pay with effect from 1 April 2009.

4.3 Previous valuation – Guernsey Electricity Limited

The previous valuation showed that the Guernsey Electricity Limited Actuarial Account had a **funding surplus** of £287,000 as at 31 December 2007.

The basic rate of Employer contributions in respect of this section was 17.7% of Pensionable Pay in respect of future service accrual. This rate was reduced by 0.4% of Pensionable Pay in order to spread the **funding surplus** over the average working lifetime of the active members. Thus the total recommended rate of Employer contributions was 17.3% of Pensionable Pay.

The rate of Employer contributions paid into the Guernsey Electricity Limited Actuarial Account was increased from 16.3% of Pensionable Pay to 17.3% of Pensionable Pay with effect from 1

4. Developments since the previous valuation (continued)

April 2009. Annual lump sum payments of £400,000 have been made to improve the funding position in relation to the FRS 17 accounting standard.

4.4 Previous valuation – Guernsey Financial Services Commission

The previous valuation showed that the Guernsey Financial Services Commission Actuarial Account had a **funding shortfall** of £225,000 as at 31 December 2007.

The basic rate of Employer contributions in respect of this section was 17.4% of Pensionable Pay in respect of future service accrual. This included the cost of insuring the death in service and ill health retirement benefits within the Combined Pool, which we calculated as 1.4% of Pensionable Pay. We recommended that the **funding shortfall** be eliminated by additional contributions of 0.4% of Pensionable Pay over the average working lifetime of the active members. Thus the total recommended rate of Employer contributions was 17.8% of Pensionable Pay.

The rate of Employer contributions paid by the Guernsey Financial Services Commission was increased from 10.4% of Pensionable Pay to 17.8% of Pensionable Pay with effect from 1 January 2009.

In addition, a lump sum of £1 million was paid into the Guernsey Financial Services Commission Actuarial Account at the end of 2009 to improve the funding position.

This Actuarial Account was closed to new members from 1 January 2008.

4.5 Benefit changes

Following a review of benefits, a new benefit structure was introduced for all members joining the Fund on or after 1 January 2008. This applies to members of all sections. The most fundamental change is that pensions accrue on a $1/60^{ths}$ rate rather than on $1/80^{ths}$ and that there is now no automatic terminal grant payable in respect of these members. The age of normal retirement for new members not in a special benefit group has increased to 65.

The benefits available to Existing Members were also amended. The lump sum available on death in service was increased from 2 x Pensionable Pay to 3 x Pensionable Pay. The calculation of reckonable service in respect of ill health retirement benefits and death in service spouse's pensions was changed and there are now two tiers of ill health retirement benefits, with higher tier benefits awarded in cases of Total Incapacity.

The option to commute part of the member's pension for a lump sum at retirement was introduced for all members. This lump sum is additional to the terminal grant automatically paid to all Existing Members.

Following the changes the basic member contribution rate was increased from 6% of Pensionable Pay to 6.5% of Pensionable Pay.

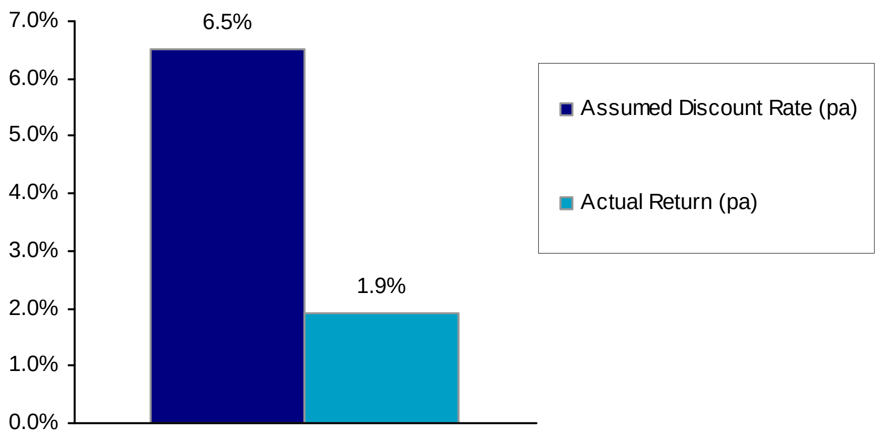
4.6 Financial development

A variety of factors affect the financial position of the Fund, including investment returns, changes in the yields on gilts, pension increases and pay increases. To illustrate the Fund's financial development since the previous valuation, we have compared in the charts below:

4. Developments since the previous valuation (continued)

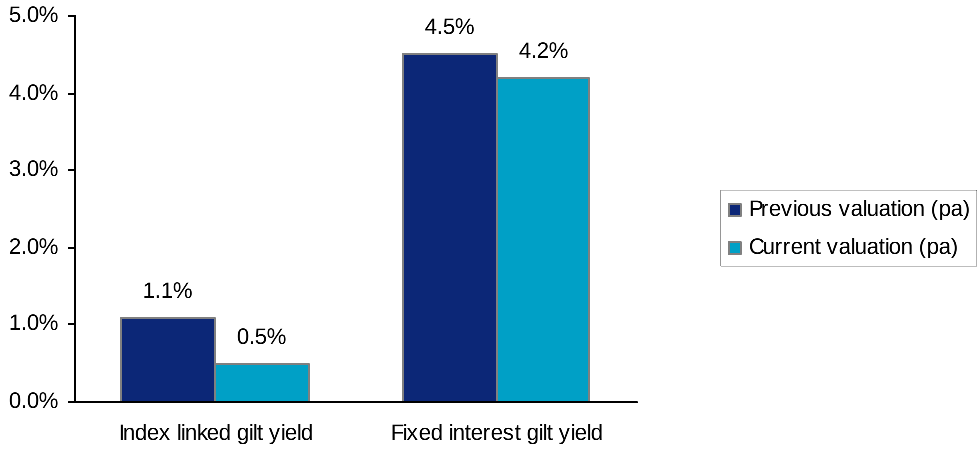
- the investment return achieved on the Fund's assets with the **discount rate** used to calculate the Fund's **funding target**;
- the yields on index-linked gilts and fixed interest gilts at the previous valuation with the yields at this valuation;
- the assumptions made at the previous valuation for pension and pay increases with the increases actually awarded.

Investment return achieved compared with discount rate used



Over the three years since the previous valuation the rate of investment return achieved on the Fund was significantly lower than expected.

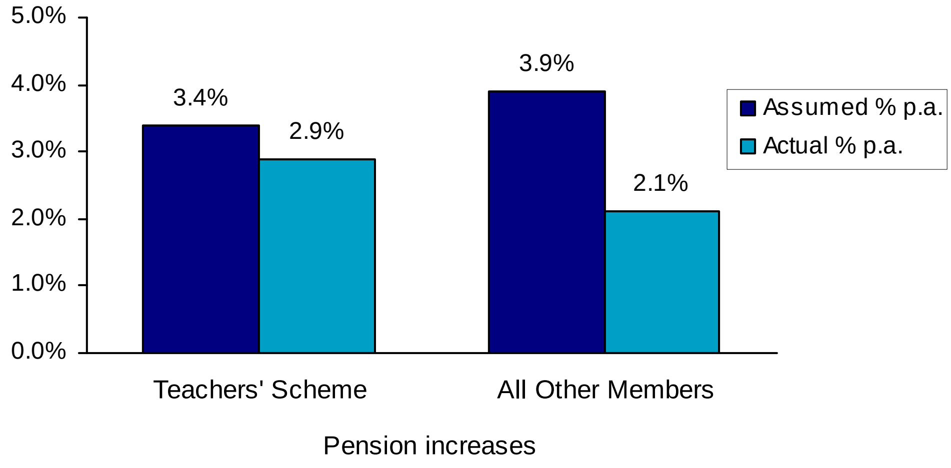
Comparison of gilt yields



During the intervaluation period the yields on both fixed interest and index-linked gilts have fallen, with the yields on index-linked gilts having fallen further. The widening of the gap between fixed interest gilt yields and index-linked gilt yields indicates the market's expectation of an increase in future rates of inflation.

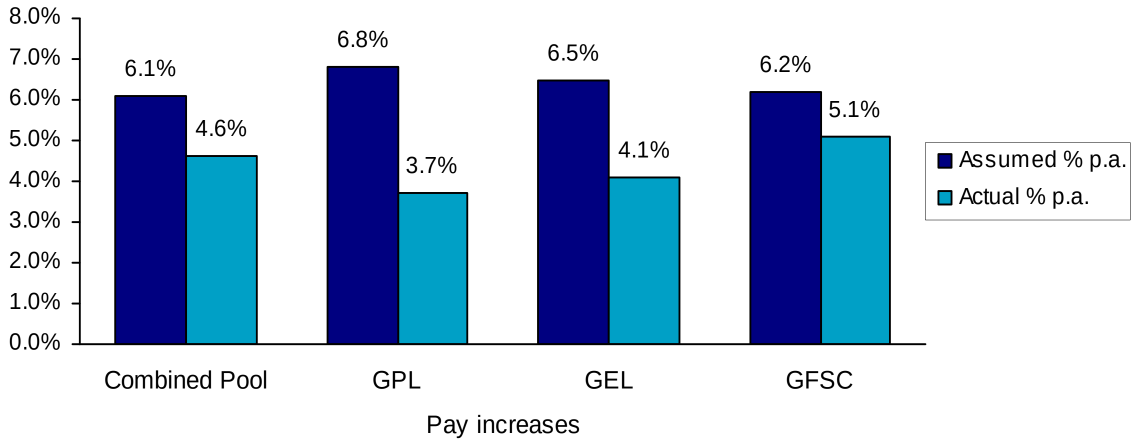
4. Developments since the previous valuation (continued)

Pension increase comparison



Average pension increases during the intervaluation period have been lower than expected. The pension increase for the Teachers' Scheme was based on UK RPI, rather than on Guernsey RPI.

Pay increase comparison



Average pay increases over the intervaluation period have been lower than expected.

The expected pay increase figures shown on the above chart include expected promotional increases for each section for the members who were present at both valuation dates and will reflect the different age profiles of these members in each section.

5. Funding objective

5.1 Introduction

A **funding target** is an assessment of the **present value** of the benefits that will be paid from a pension scheme in the future, based on pensionable service prior to the valuation date. In order to calculate a **funding target**, assumptions need to be made about the various factors that will influence the scheme in the future, such as the level of pay increases, when members will retire and how long members will live. These assumptions are used to project the future cash flows out of the scheme, which are then discounted back to the valuation date using the assumed rate of investment return to place a **present value** on the scheme's liabilities, ie the **funding target**.

5.2 Rule requirements

Under Rule 2 of the Fund, the States of Guernsey determine the Employer contributions to be paid into the Fund. For the Teachers' Scheme this is covered by Regulation 68.

The funding objective and the level of contributions payable is therefore determined by the States of Guernsey. In accordance with Rules 2(2)(f) and (g), the States of Guernsey also determine the contribution rates payable by the States Trading Companies and any other body for which an Actuarial Account has been established.

5.3 Setting the funding objective

The funding objective is that the Fund should meet its **funding target.**

The **funding target** adopted by Treasury and Resources for the Combined Pool at the 2007 actuarial valuation was that benefits accrued to 31 December 2007 should be 90% funded at 31 December 2010. Benefits accrued from 1 January 2008 should be 100% funded.

It was decided at the last valuation that in a government backed scheme, such as the Fund, 100% funding is not necessary as part of members' pensions could be met by a pay-as-you-go system. If the assets held in respect of benefits accrued to 31 December 2007 remain at 90% of accrued benefits over time, then broadly 10% of the pension benefits would be payable from general revenue. If the whole of the benefit is paid from the Fund (despite the targeted underfunding) then in the absence of other sources of surplus emerging (such as better than expected investment returns) the funding level will worsen over time.

The **funding target** for the Actuarial Accounts is that their liabilities should be 100% funded.

5.4 The funding target

Pension scheme liabilities are a series of future cash payments. Other than immediate and deferred annuities provided by an insurance company, the assets that would provide the closest match to these cashflows are a combination of fixed interest and index-linked gilts. Hence a **funding target** could be equal to the **present value** of the expected payments discounted at the market yields on gilts of appropriate term. The expected payments for active members would relate to pensionable service up to the valuation date and would include an allowance for expected future increases to Pensionable Pay.

5. Funding objective (continued)

However, funded occupational pension schemes may not hold assets which are equal to the full amount of the liabilities valued in this way. Instead, the **funding target** could be set at a lower level.

The **funding targets** assume the Fund continues in its present form. This is not the same as the cost of securing the benefits if the Fund were to wind-up.

The Fund's assets are currently invested in equities and other return seeking assets. This investment strategy is expected to produce a target real return of 4% pa above UK inflation over the long term. Treasury and Resources have decided to take part of this higher expected return into account in the **funding target** and to accept the funding risks that this involves. The **funding target**, assuming 100% funding, is therefore calculated as the **present value** of the expected payments discounted at the expected rate of UK inflation over the appropriate mean term of the liabilities plus 3.25% pa. In the case of the Combined Pool this value is then reduced to 90% of the calculated value for benefits accrued to 31 December 2007, in accordance with the **funding target** adopted by Treasury and Resources as described in paragraph 5.3. It should be noted that if the assumed investment return is not achieved, the funding position could worsen, and additional contributions may be required.

The assumptions adopted are set out in Section 6.

5.5 Speed of reaching funding target

An adjustment to the contribution rate could be used to eliminate a **funding surplus** or a **funding shortfall** relative to the **funding target** over an agreed period of time. There are a number of ways in which such an adjustment may be determined. For example the **funding surplus** or **shortfall** for each section could be eliminated over the future working lives of the section's current active membership. Alternatively the **funding surplus** or **shortfall** could be eliminated over a shorter, fixed, period. It is proposed that the **funding surplus** or **shortfall** is eliminated over the future working lives of the current active membership.

5.6 Funding target - method

If each section of the Fund had no **funding surplus** or **funding shortfall** and its assets were exactly equal to its **funding target**, contributions would still be required to cover the cost of benefits expected to accrue to members in the future.

Following our recommendations, it has been agreed to use the **Projected Unit Method** with a 1 year control period to calculate this future service contribution rate. This measures the increase in the **funding target** (assuming 100% funded) relating to benefits expected to accrue to active members over the year following the valuation date.

The **Projected Unit Method** was also adopted for the previous valuation. We assume that there will be sufficient new entrants for the future service contribution rate to remain stable until the next valuation.

5.7 Comparison with funding objectives for previous valuation

The funding objective is unchanged from the previous valuation of the Fund.

5. Funding objective (continued)

For this valuation we have measured the funding position of the Combined Pool relative to the **funding target** of 90% of accrued liabilities up to 31 December 2007 and 100% of accrued benefits for service on or after 1 January 2008.

The funding target of 100% of accrued liabilities has been maintained for the Actuarial Accounts.

5.8 Stability of contribution rate

The contribution rate for each section of the Fund will remain broadly stable before and after eliminating a **funding surplus** or a **funding shortfall** if the funding objective remains unchanged, all assumptions made are borne out in practice and the age/sex/salary profile of the active membership of the section is stable and only the proportion of benefits for which funding is being made is paid out of the section. If the funding objective changes, contribution rates are likely to change.

However, as the Combined Pool liabilities in respect of service to 31 December 2007 are targeted to be 90% funded at the valuation date but 100% of all the benefits are to be paid from the Fund, the funding level for benefits accrued at 31 December 2007 would be expected to fall by the time of the next valuation and additional contributions may be required at that time.

6. Assumptions used to calculate funding target

6.1 Facts and assumptions

The benefit structure of the Fund, its membership and its assets at the valuation date are all known facts. However, the Fund's future finances also depend on uncertain factors such as future investment returns, pay and pension increases, how long members live and employee turnover. Assumptions are therefore needed about the long-term future, covering the period until all the present members have retired and all benefits arising from their membership have been paid. The assumptions adopted for this valuation have been agreed by the Treasury and Resources Department.

6.2 Sensitivity of assumptions

Although the valuation results are sensitive to the choice of the absolute levels of the financial assumptions, it is important to note that the differences between the rates have a bigger impact on the results of the valuation than the absolute levels of each assumption. Hence the valuation results are particularly sensitive to the difference between the **discount rate** and the rate of pay or pension increases.

The valuation results are also sensitive to the assumptions made for the life expectancy of current and prospective pensioners.

These sensitivities are considered further in Section 11.

6.3 Derivation of financial assumptions

As set out in Section 5, the **discount rate** used to calculate the **funding target** has been set equal to the rate of UK inflation over the appropriate mean term of the liabilities at the valuation date plus 3.25% pa both for active members and deferred pensioners over the period to retirement and during the period while benefits are in payment to pensioners.

The UK inflation assumption used in obtaining the discount rate has been derived as the annual UK inflation spot rate provided by the Bank of England as at the valuation date calculated at the mean duration of the Fund's liabilities. For the local inflation assumption, this is then combined with an allowance of 0.25% pa to allow for higher expected levels of inflation to be experienced locally compared with those in the UK.

Pensions for all sections except the Teachers' Scheme have been assumed to increase at the rate of local inflation during deferment and when in payment. For the Teachers' Scheme future pension increases are instead effectively linked to UK CPI inflation, so it has been assumed that pensions will increase at the rate of UK CPI inflation (assumed to be UK RPI inflation less 0.7% pa) during deferment and when in payment.

Pensionable Pay has been assumed to increase at the rate of local inflation plus 0.5% pa for all sections. In addition promotional salary scales have been included as described in Appendix D.

In our opinion, the derivation of financial assumptions in this way is compatible with taking assets at market value.

6. Assumptions used to calculate funding target (continued)

The table below shows the key financial assumptions used for this valuation and those used for the previous valuation.

Key financial assumptions		
	Current valuation % pa	Previous valuation % pa
Pre-retirement outperformance premium	3.25 (over UK inflation)	2.0 (over gilt yields)
Post-retirement outperformance premium	3.25 (over UK inflation)	2.0 (over gilt yields)
UK Price inflation	3.6	3.4
Guernsey Price Inflation	3.85	3.9
Pre-retirement discount rate	6.85	6.5
Post-retirement discount rate	6.85	6.5
Pay increases	4.35	4.65
Pension increases – Teachers' Scheme	2.9	3.4
Pension increases – All Other Sections	3.85	3.9

6.4 Financial assumptions

The valuation results are sensitive to the choice of financial assumptions. Important points to bear in mind are:

- the differences between the rates have a bigger impact on the results of the valuation than the absolute levels of each assumption;
- the assumptions were derived from market yields at the valuation date to ensure compatibility with the market value of the assets.

6.5 Changes in financial assumptions

The main reasons for the changes in the financial assumptions from 31 December 2007 to 31 December 2010 are as follows:

- real yields on index-linked gilts fell more than fixed interest gilt yields over the period which has led to an increase in the assumed rate of UK inflation.
- the derivation of the discount rates have been based on outperformance relative to UK inflation to take account of the current long term investment strategy. For the previous valuation, we applied an outperformance premium of 2.0% pa over gilt yields reflecting the investment strategy at that time.
- the assumption for local inflation has been revised from the rate of UK inflation plus 0.5% pa to the rate of UK inflation plus 0.25% pa to better reflect more recent experience of the differences between UK and Guernsey inflation.

6. Assumptions used to calculate funding target (continued)

- the assumption for general pay increases has been revised from the rate of inflation plus 0.75% pa to the rate of inflation plus 0.5% pa in the light of the recent experience.
- the benefit increases for members in the Teachers' Scheme are now effectively linked to UK CPI inflation.

6.6 Changes to post-retirement mortality assumption

It has been agreed to adopt the latest published mortality tables, the Self Administered Pension Schemes (SAPS) tables (known as the "S1 Series") which are based on UK occupational pension scheme experience.

The S1 Series contain "All" tables which summarise the mortality experience of the full data received and also the following tables based on subsets of the data received:

- "Light" tables which summarise the mortality experience of those pensioners with the largest pensions (in excess of £13,000 pa for males and £4,750 pa for females). This represents the top 13% and 16% of pensioners in the data collected for males and females respectively. These pensioners tend to experience "lighter" mortality, ie they live for longer.
- "Heavy" tables which summarise the mortality experience of those pensioners with the lowest pensions (below £1,500 pa for males and below £750 pa for females). This represents the bottom 20% and 25% of the data collected for males and females respectively. These pensioners tend to experience "heavier" mortality.

Following analysis of the experience of the Fund over a 6 year period, it was agreed to adopt the following tables:

- the "Light" tables for teachers and GFSC
- the "All" tables for non-teachers, GPL, GEL and dependants, as these groups comprise both office and manual workers.

In order to allow for future improvements in mortality we have again used the latest available information which is a Mortality Projection Model published by the Continuous Mortality Investigation (CMI). The current version of the model is known as "CMI_2010". The model takes recent rates of mortality improvements and blends them into a long-term rate.

We have suggested that a long term trend of 1.25% pa for the annual improvements in mortality rates for both males and females is a reasonable fit to past data.

Our recommendation was to update the post-retirement mortality assumption to make use of the latest available information. Our recommended assumption was:

- S1 "All" base tables for non-teachers, GPL, GEL and dependants and S1 "Light" tables for teachers and GFSC
- with a scaling factor of 100% for all membership groups
- allowing for future improvements in line with the CMI_2010 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.25% for men and women.

6. Assumptions used to calculate funding target (continued)

The life expectancy at age 65 for a non-teacher currently aged 65 and for a non-teacher currently aged 45, at age 65, is set out below:

	2007 valuation basis years	2010 valuation basis years
Male aged 65	20.8	22.2
Female aged 65	22.9	24.4
Male aged 45	23.2	24.1
Female aged 45	24.4	26.4

6.7 Changes to other demographic assumptions

Following our recommendations, it has been agreed to adopt other assumptions which differ from those used at the previous valuation. These have been based on an analysis of the experience of the Fund over the intervaluation period.

6.7.1 Normal retirement rates

The experience for Existing Members of the Public Servants' section and for Teachers and the staff of both Guernsey Electricity Limited and the Guernsey Financial Services Commission showed that over the intervaluation period members retired, in general, later than expected based on the assumptions made at the 2007 valuation. We have revised the assumed incidences of retirement to allow for this experience.

Retirement rates for the other groups were found to remain appropriate and so we have retained the same assumptions for this valuation.

6.7.2 Ill health retirement rates

We have revised our ill health retirement assumptions to reflect actual experience over the intervaluation period for some of the Public Servants' membership groups.

We have assumed that 80% of ill health retirements would be on grounds of total incapacity, based on experience over the last intervaluation period. Previously we assumed that 50% of such retirements would be on grounds of total incapacity as no experience was available.

6.7.3 Withdrawals from service

Our experience showed that the number of withdrawals has greatly exceeded the expected number on the assumptions adopted for the 2007 valuation. We have revised our assumptions for some Public Servants' groups to anticipate a higher number of withdrawals over the next intervaluation period.

6.7.4 Family Statistics

We have revised our assumption for the proportion of members who are married at retirement or earlier death from a particularly prudent assumption to an assumption typical of other occupational pension schemes. There are no details available to analyse the actual experience

6. Assumptions used to calculate funding target (continued)

of the Fund. Previously we assumed 100% of members were married at retirement or earlier death which was a very prudent assumption. For this valuation we have assumed that 85% of male members and 80% of female members are married.

6.8 Net effect of changes in assumptions

Overall these changes reduce the value placed on the Fund's liabilities compared with the previous valuation.

7. Funding position – Combined Pool

7.1 Funding position

The funding objective is to bring the assets of each section of the Fund into line with the **funding target**. We have therefore compared the market value of the assets in the Fund in respect of the Combined Pool with the proposed **funding target** as at the valuation date. The result of this comparison is as follows:

	£'000	£'000
Funding target in respect of:		
Active members	396,731	
Deferred pensioners and Refunds Due	49,228	
Pensioners and dependants	388,800	
Funding target (90% of accrued benefits to 31 December 2007, 100% thereafter)		834,759
Market value of the assets		840,994
Assets in excess of target funding liabilities		6,235

The Combined Pool has assets in excess of the target funding liabilities of £6,235,000 relative to the **funding target** of £834,759,000.

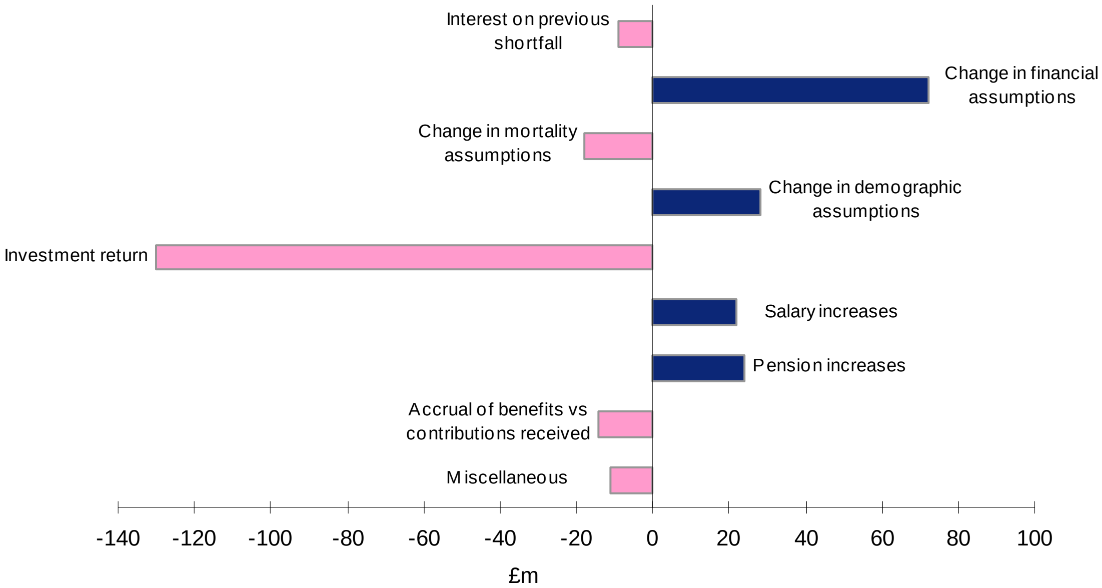
The liabilities in respect of active members include a reserve for the potential death in service and ill health retirement benefits for Guernsey Financial Services Commission which are funded for within the Combined Pool and for which Guernsey Financial Services Commission pay an appropriate contribution to the Combined Pool.

The assets represent 91.6% of the value of the total liabilities of the Combined Pool. If the **funding target** had been 100% of accrued liabilities, a **funding shortfall** of £77,338,000 would have been revealed.

7. Funding position – Combined Pool (continued)

7.2 Change in funding position

At the previous valuation the Combined Pool had a **funding shortfall** of £43,994,000 on the 100% funding target basis. The funding position (on a 100% funding target) has therefore worsened by £33,344,000 since the previous valuation. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



The main reasons for the change in the past service position (before allowing for the changes in the assumptions) are:

- the investment return obtained on the assets was much lower than assumed
- the actual rate of contributions paid during the inter-valuation period was lower than the cost of accruing benefits

These effects were partly offset by the following:

- the actual levels of pay and pension increases granted since the previous valuation were lower than assumed

The net effect of the changes in financial and demographic assumptions at this valuation has been to reduce the value placed on the liabilities in respect of the Combined Pool. These changes include:

- the changes made to the financial assumptions have reduced the value placed on the liabilities
- the effect of the changes made to the post-retirement mortality assumptions has been to increase the value placed on the liabilities
- the net effect of the changes in the demographic assumptions regarding retirements, withdrawals and family statistics has been to reduce the value placed on the liabilities.

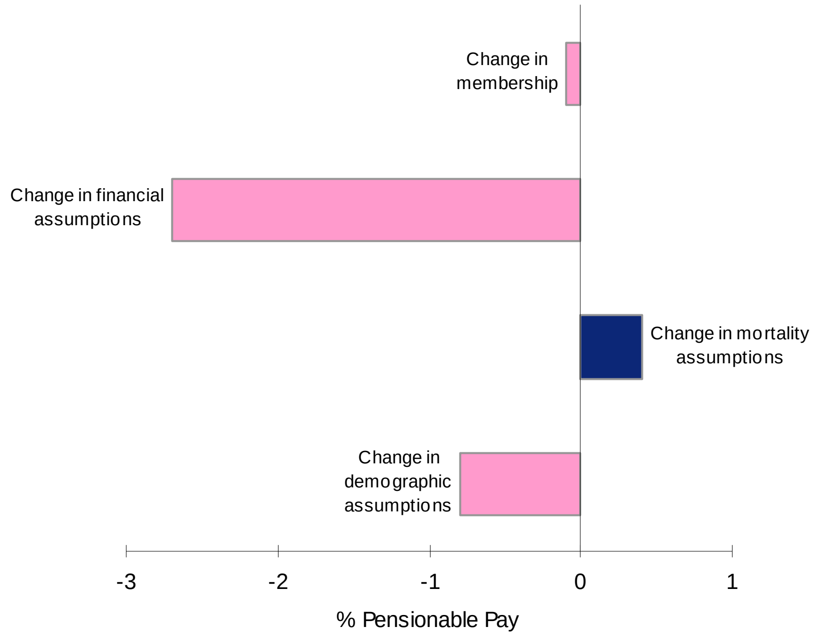
7. Funding position – Combined Pool (continued)

7.3 Future benefit accrual

We have also calculated the Employer contribution rate for benefits expected to accrue to members in future. This is the rate of contribution that would normally be appropriate if there was no **funding surplus** or **funding shortfall**.

The method we have used to calculate this is the **projected unit method**. This measures the increase in the **funding target** (based on 100% funding) relating to benefits expected to accrue to members over the year following the valuation.

The Employer's future service contribution rate on the basis of our assumptions is 13.9% of Pensionable Pay which includes an allowance for expenses of 0.25%. The corresponding rate at the previous valuation was 17.1%. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



The main reasons for the reduction at this valuation are:

- the changes made to the financial assumptions
- the changes in demographic assumptions regarding retirements, withdrawals and family statistics.

This has been partly offset by the changes made to the post-retirement mortality assumptions.

Additional contribution rates in excess of the basic Employer rate are required in respect of the special benefit groups. We have assumed that the additional rates for each of these groups will be maintained.

A summary of the future service contribution rates applicable to each group is set out below.

7. Funding position – Combined Pool (continued)

	Employer future service contribution rate % pa
Base Employer rate	13.9
Special Benefit groups	
Police and Firemen	
entrants on or before 31.10.91	28.9 (+15%)
entrants between 31.10.91 and 31.12.07	23.9 (+10%)
entrants after 31.12.07 Police	19.9 (+6%)
Fire	17.9 (+4%)
Senior Police and Fire Officers – entrants before 01.01.08	20.9 (+7%)
Mental Health Officers – entrants prior to 01.12.98	22.9 (+9%)
Crown Officers	
entrants on or before 31.10.91	23.9 (+10%)
entrants between 01.01.92 and 31.12.03	22.9 (+9%)
entrants after 1.1.04	20.6 (+6.7%)

7.4 Allowance for funding position

We have also calculated the required contribution rate if the assets in excess of the target funding liabilities were amortised over the average working lifetime of the current active members, a period of 12 years. Allowing for this amortisation period, the required basic rate of Employer contributions could reduce by 0.4% of Pensionable Pay, to 13.5% of Pensionable Pay.

This compares with the current basic contribution rate for the Combined Pool of 14.1% of Pensionable Pay.

The additional contribution rates for the special groups, as set out above, would also be paid.

If the targeted funding level was 100% and the **funding shortfall** revealed was amortised over the average working lifetime of the current active members, an increase of 4.7% of Pensionable Pay would be required resulting in a total Employer contribution rate of 18.6% of Pensionable Pay.

8. Funding position – Guernsey Post Limited

8.1 Funding surplus

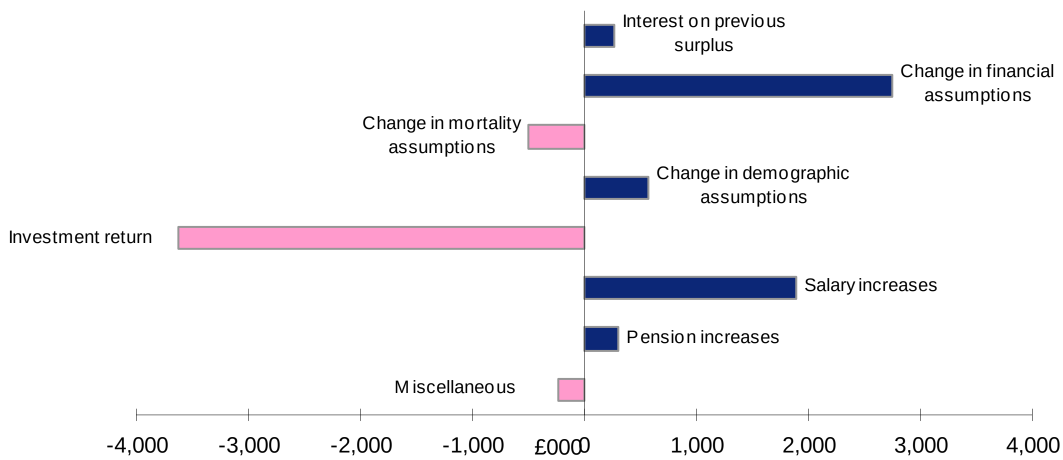
The funding objective is to bring the assets of each section of the Fund into line with the **funding target**. We have therefore compared the market value of the assets in the Fund in respect of the Guernsey Post Limited Actuarial Account with the **funding target** as at the valuation date. The result of this comparison is as follows:

	£'000	£'000
Value of past service ongoing liabilities:		
Active members	19,806	
Deferred pensioners and Refunds Due	1,091	
Pensioners and dependants	4,996	
Funding target		**25,893**
Market value of the assets		28,595
Funding surplus		**2,702**
Funding ratio		**110.4%**

The Guernsey Post Limited Actuarial Account has a **funding surplus** of £2,702,000 relative to the **funding target** of £25,893,000 and a **funding ratio** (assets as a proportion of the **funding target**) of 110.4%.

8.2 Change in funding position

At the previous valuation the Guernsey Post Limited Actuarial Account had a **funding surplus** of £1,283,000. The funding position has therefore improved by £1,419,000 since the previous valuation. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



8. Funding Position – Guernsey Post Limited (continued)

The main reasons for the change in the past service position (before allowing for the changes in the assumptions) are:

- the investment return obtained on the assets was much lower than assumed

This was partly offset by the following:

- the actual level of pay increases granted since the previous valuation was lower than assumed

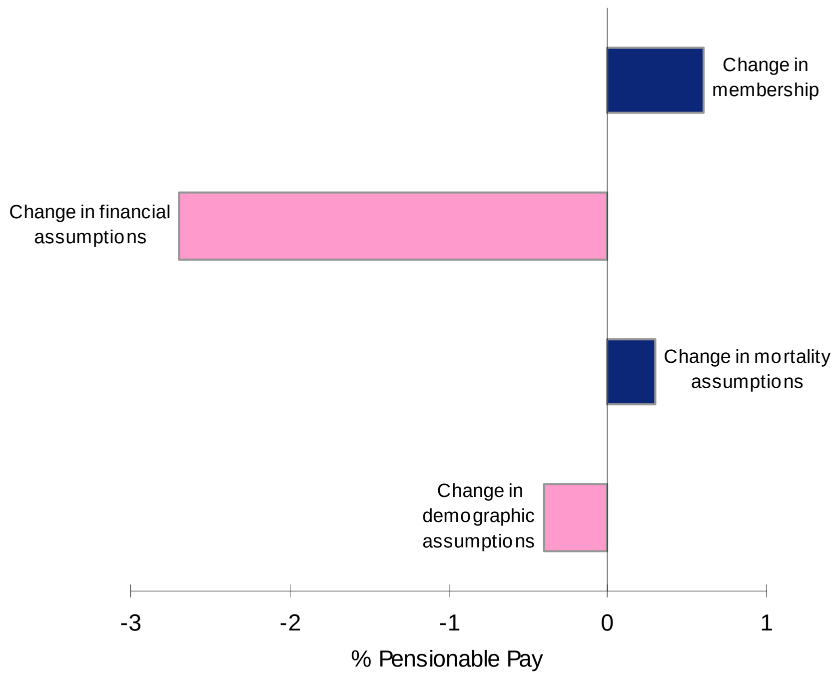
The net effect of the changes in financial and demographic assumptions at this valuation has been to reduce the value placed on the liabilities in respect of the Guernsey Post Limited Actuarial Account. These changes include:

- the changes made to the financial assumptions have reduced the value placed on the liabilities
- the effect of the changes made to the post-retirement mortality assumptions has been to increase the value placed on the liabilities
- the changes in the demographic assumption regarding family statistics have reduced the value placed on the liabilities

8.3 Future benefit accrual

We have also calculated the Employer contribution rate for benefits expected to accrue to members in future using the same method as was adopted for the Combined Pool.

The Employer's future service contribution rate on the basis of our assumptions is 14.2% of Pensionable Pay which includes an allowance for expenses of 0.25%. The corresponding rate at the previous valuation was 16.4%. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



8. Funding Position – Guernsey Post Limited (continued)

The main reasons for the reduction at this valuation are:

- the changes made to the financial assumptions
- the changes in demographic assumptions regarding family statistics

This has been partly offset by:

- the changes made to the post-retirement mortality assumptions
- the change in the age profile of the membership

8.4 Allowance for funding surplus

We have also calculated the required contribution rate assuming that the **funding surplus** would be amortised over the average working lifetime of the current active members, a period of 13 years. Allowing for this amortisation period, the required rate of Employer contributions would reduce by 3.0% of Pensionable Pay to 11.2% of Pensionable Pay.

This compares with the current contribution rate for Guernsey Post Limited of 15.0% of Pensionable Pay.

9. Funding position – Guernsey Electricity Limited

9.1 Funding surplus

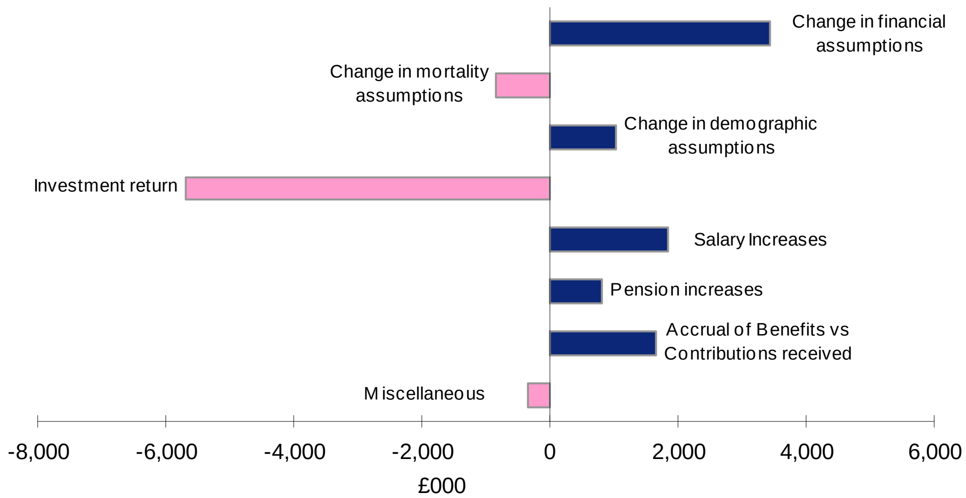
The funding objective is to bring the assets of each section of the Fund into line with the **funding target**. We have therefore compared the market value of the assets in the Fund in respect of the Guernsey Electricity Limited Actuarial Account with the **funding target** as at the valuation date. The result of this comparison is as follows:

	£'000	£'000
Value of past service ongoing liabilities:		
Active members	23,951	
Deferred pensioners and Refunds Due	1,361	
Pensioners and dependants	14,597	
Funding target		**39,909**
Market value of the assets		42,092
Funding surplus		**2,183**
Funding ratio		**105.5%**

The Guernsey Electricity Limited Actuarial Account has a **funding surplus** of £2,183,000 relative to the **funding target** of £39,909,000 and a **funding ratio** (assets as a proportion of the **funding target**) of 105.5%.

9.2 Change in funding position

At the previous valuation the Guernsey Electricity Limited Actuarial Account had a **funding surplus** of £287,000. The funding position has therefore improved by £1,896,000 since the previous valuation. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



9. Funding position – Guernsey Electricity Limited (continued)

The main reasons for the change in the past service position (before allowing for the changes in the assumptions) are:

- the investment return obtained on the assets was much lower than assumed

These effects were partly offset by the following:

- the actual contributions paid during the inter-valuation period were higher than the cost of accruing benefits
- the actual levels of pay and pension increases granted since the previous valuation were lower than assumed

The net effect of the changes in financial and demographic assumptions at this valuation has been to reduce the value placed on the liabilities in respect of the Guernsey Electricity Limited Actuarial Account. These changes include:

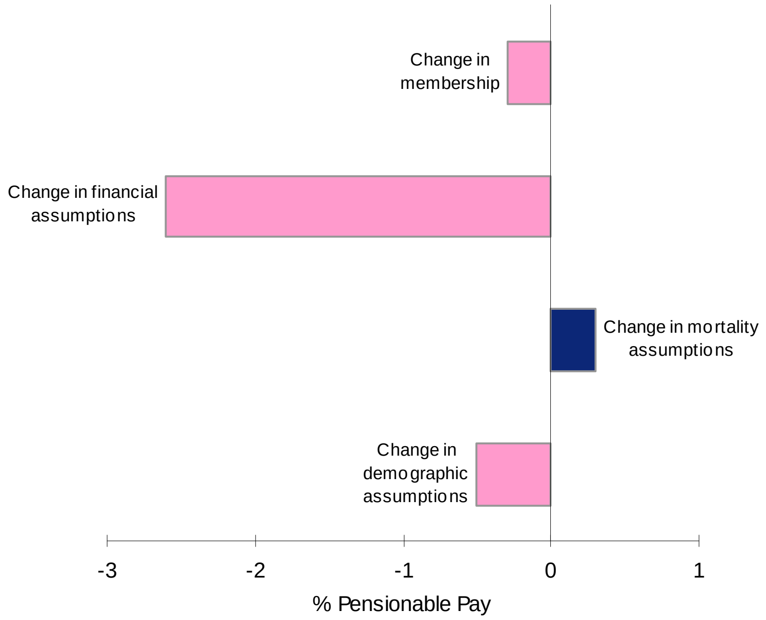
- the changes made to the financial assumptions have reduced the value placed on the liabilities
- the effect of the changes made to the post-retirement mortality assumptions has been to increase the value placed on the liabilities
- the changes in the demographic assumptions regarding retirements and family statistics have reduced the value placed on the liabilities

9.3 Future benefit accrual

We have also calculated the Employer contribution rate for benefits expected to accrue to members in future using the same method as was adopted for the Combined Pool.

The Employer's future service contribution rate on the basis of our assumptions is 14.6% of Pensionable Pay which includes an allowance for expenses of 0.25%. The corresponding rate at the previous valuation was 17.7%. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.

9. Funding position – Guernsey Electricity Limited (continued)



The main reasons for the reduction at this valuation are:

- the changes made to the financial assumptions
- the changes in demographic assumptions regarding retirements and family statistics
- the change in the age profile of the membership

This has been partly offset by:

- the changes made to the post-retirement mortality assumptions

9.4 Allowance for funding surplus

We have also calculated the required contribution rate assuming that the **funding surplus** would be amortised over the average working lifetime of the current active members, a period of 12 years. Allowing for this amortisation period, the required rate of Employer contributions would be reduced by 2.8% of Pensionable Pay to 11.8% of Pensionable Pay.

This compares with the current contribution rate for Guernsey Electricity Limited of 17.3% of Pensionable Pay.

10. Funding position – Guernsey Financial Services Commission

10.1 Funding surplus

The funding objective is to bring the assets of each section of the Fund into line with the **funding target**. We have therefore compared the market value of the assets in the Fund in respect of the Guernsey Financial Services Commission Actuarial Account with the **funding target** as at the valuation date. The result of this comparison is as follows:

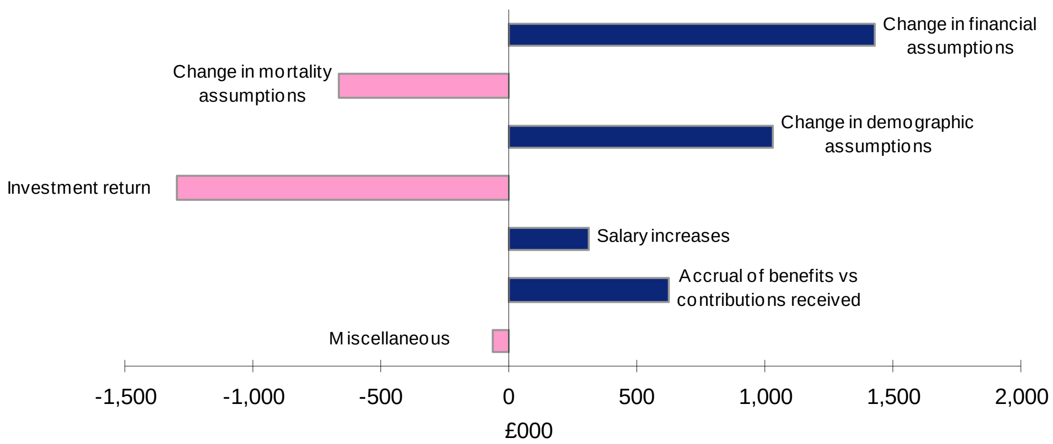
	£'000	**£'000**
Value of past service ongoing liabilities:		
Active members	9,209	
Deferred pensioners and Refunds Due	2,653	
Pensioners and dependants	1,805	
Funding target		**13,667**
Market value of the assets		14,812
Funding surplus		**1,145**
Funding ratio		**108.4%**

The Guernsey Financial Services Commission Actuarial Account has a **funding surplus** of £1,145,000 relative to the **funding target** of £13,667,000 and a **funding ratio** (assets as a proportion of the **funding target**) of 108.4%.

The liabilities in respect of active members exclude any reserve for the potential death in service and ill health retirement benefits which are funded for separately within the Combined Pool.

10.2 Change in funding position

At the previous valuation the Guernsey Financial Services Commission Actuarial Account had a **funding shortfall** of £225,000. The funding position has therefore improved by £1,370,000 since the previous valuation. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.



10. Funding position – Guernsey Financial Services Commission (continued)

The main reasons for the change in the past service position (before allowing for the changes in the assumptions) are:

- the investment return obtained on the assets was much lower than assumed

These effects were partly offset by the following:

- the actual contributions paid during the inter-valuation period (including the lump sum contribution) were higher than the cost of accruing benefits
- the actual levels of pay increases granted since the previous valuation were lower than assumed

The net effect of the changes in financial and demographic assumptions at this valuation has been to reduce the value placed on the liabilities in respect of the Guernsey Financial Services Commission Actuarial Account. These changes include:

- the changes made to the financial assumptions have reduced the value placed on the liabilities
- the effect of the changes made to the post-retirement mortality assumptions has been to increase the value placed on the liabilities
- the changes in the demographic assumptions regarding retirements and family statistics have reduced the value placed on the liabilities

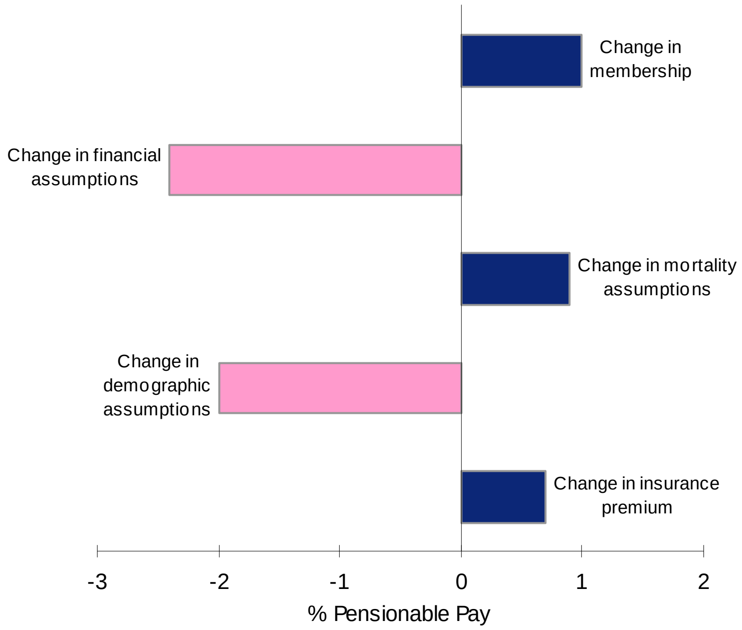
10.3 Future benefit accrual

We have also calculated the Employer contribution rate for benefits expected to accrue to members in future using the same method as was adopted for the Combined Pool.

We have included in this rate the cost of insuring the death in service and ill health retirement benefits within the Combined Pool. We have calculated that this contribution should be increased from the current rate of 1.4% of Pensionable Pay to 2.1% of Pensionable Pay. This increase is due to the ageing membership of the Actuarial Account.

The Employer's future service contribution rate on the basis of our assumptions is 15.6% of Pensionable Pay which includes an allowance for expenses of 0.25%. The corresponding rate at the previous valuation was 17.4%. We have analysed the reasons for the change and indicated the impact of each factor in the chart below.

10. Funding position – Guernsey Financial Services Commission (continued)



The main reasons for the reduction at this valuation are:

- the changes made to the financial assumptions
- the changes in demographic assumptions regarding retirements and family statistics

This has been partly offset by:

- the change in the age profile of the membership
- the increase in the insurance cost
- the changes made to the post-retirement mortality assumptions

10.4 Allowance for funding surplus

We have also calculated the required contribution rate assuming that the **funding surplus** would be amortised over the average working lifetime of the current active members, a period of 11 years. Allowing for this amortisation period, the required rate of Employer contributions would reduce by 2.7% to 12.9% of Pensionable Pay.

This compares with the current contribution rate for the Guernsey Financial Services Commission of 17.8% of Pensionable Pay.

11. Purpose of funding

11.1 Purpose of funding

The primary purpose of funding is to provide members with more security for their pensions than if they relied on their employer to pay them directly.

11.2 Funding does not eliminate risk

However, despite a scheme being funded, there is still the risk that the assets would not be sufficient to pay all of the promised benefits if a sponsoring employer becomes insolvent. There are a number of risks that a scheme is exposed to, including:

- Sponsor risk — the ability of the employer to continue contributions to the scheme and to make good any shortfalls;
- Funding risk
  - the **funding target** might be less than the cost of buying out the liabilities with an insurance company.
  - the assets might be less than the **funding target**.
- Investment risks - if the assets do not match the liabilities their values will not move in line. The risk is that the value of the assets falls without a corresponding fall in the value of the liabilities, which can happen over a short space of time. Alternatively, the future investment return on the assets may be positive, but insufficient to meet the funding objective. The more mismatched the investment strategy is, the greater the risks.
- Mortality risk – unanticipated future improvements in mortality will increase the cost of benefits.
- Options risk – members might exercise options resulting in extra costs that were not funded for. For example, if members choose to commute more/less of their pension for tax free cash at retirement than allowed for in the assumptions, then this will result in lower/higher costs for the scheme.

11.3 Investment risks

The majority of the Fund's liabilities are linked to inflation via either pension increases or pay increases. The assets that most closely match the Fund's liabilities in terms of future cashflows are a combination of index-linked gilts and derivative instruments to match inflation-linked liabilities and fixed-interest gilts and/or investment grade corporate bonds to match the fixed liabilities.

The Fund's investments are mismatched because the States of Guernsey has (having taken advice) chosen to invest some of the Fund's assets in asset classes, such as equities, that are expected to produce higher future returns than gilts over the long term.

11. Purpose of funding (continued)

11.4 Risk factors

In order to illustrate the sensitivity of the funding position, we have investigated the following selected risk factors on the **funding target** basis:

Equity market returns. This is the effect of a potential change in the market value of equity holdings.

Net discount rate. This is the effect of a potential change to the discount rate net of inflation. This could arise if there were a change in the expectations of future investment returns above inflation.

Guernsey inflation. This is the effect of Guernsey inflation exceeding UK inflation by a different level than expected over the long term.

Pay increases. This is the effect of pay increases exceeding Guernsey inflation by a different level than expected over the long term.

Commutation. This is the effect of members commuting their pensions to receive a different proportion of the maximum lump sum available than expected over the long term.

Life expectancy. This is the effect of a potential change in life expectancies, which is likely to arise due to new information being available eg new mortality tables being published. While in theory this may not result in a step change (since it will emerge over time), in practice the impact will appear immediately as a result of changing the relevant assumption.

11.5 Risk modelling

We have carried out approximate sensitivity analyses based on the Combined Pool Section of the Fund, on the **funding target** basis.

The results of the approximate sensitivity analysis to the following scenarios are set out in the table below:

1. the market value of equities falls by 25%
2. the discount rate is set as UK inflation plus 3% pa (ie 0.25% pa lower)
3. Guernsey inflation is set equal to UK inflation (ie 0.25% pa lower)
4. Guernsey inflation is set equal to UK inflation plus 0.5% pa (ie 0.25% pa higher)
5. general pay increases are set equal to Guernsey inflation plus 0.25% pa (ie 0.25% pa lower)
6. general pay increases are set equal to Guernsey inflation plus 0.75% pa (ie 0.25% pa higher)
7. life expectancy from age 65 for current and future pensioners is one year higher
8. members exchange pension to receive the maximum lump sum available on retirement.

11. Purpose of funding (continued)

Scenario	Ratio of assets to liabilities on target funding level %	Resultant overall Employer contribution rate % Pensionable Pay
Baseline figure at 31 December 2010	100.7	13.5
1. 25% fall in equities	88.4	19.9
2. Discount rate = UK inflation + 3% pa	96.9	16.7
3. Guernsey inflation = UK inflation	104.5	10.6
4. Guernsey inflation = UK inflation + 0.5% pa	97.0	16.6
5. General pay increases = Guernsey inflation +0.25% pa	101.8	12.5
6. General pay increases = Guernsey inflation + 0.75% pa	99.7	14.7
7. Approximate 1 year increase in life expectancy	98.2	15.2
8. Commutation – 100% of the maximum	102.6	12.0

11.6 Comments

These results show that funding is very sensitive to future investment market changes. Falls in equity values or reduced expectations of future investment returns could lead to a reduction in the Fund's **funding ratio** and an increase to the contributions required.

The primary reason for the possible volatility in the funding position is that the States of Guernsey's investment policy involves a deliberate and justifiable mismatch between the Fund's assets and liabilities, in expectation that this will result in higher investment returns over the long term than a policy that was more matched.

The results also show that, like many pension schemes the Fund is susceptible to variations in future mortality experience.

The scenarios considered are not "worst or best case" scenarios, and a combination of these events could either compound or (with a converse event) mitigate one another.

12. Summary and conclusions

12.1 Summary of results – Combined Pool

- At the valuation date the assets of the Combined Pool exceeded the target funding liabilities by £6,235,000 relative to the **funding target** of 90% in respect of benefits accrued to 31 December 2007 and 100% in respect of benefits accrued from 1 January 2008.
- On the basis used to set the **funding target**, the recommended long-term rate of Employer contributions payable in respect of future benefit accrual within the Combined Pool is 13.9% of Pensionable Pay. Additional contributions are required in respect of the special benefit groups as detailed in Section 7.
- If the **funding target** was 100% of accrued liabilities there would be a **funding shortfall** of £77,338,000.
- A summary of the actuarial valuation results is as follows:

	Funding target 90% of accrued benefits to 31 December 2007, 100% thereafter	Funding target 100% of accrued benefits
Assets in excess of target funding liabilities	£6,235,000	(£77,338,000)
Funding level in relation to target funding liabilities	100.7%	91.6%
Future service Employer contribution rate	13.9%	13.9%
Past service adjustment	(0.4%)	4.7%
Total contribution rate required from the Employers	13.5%	18.6%
Contribution rate currently being paid	14.1%	14.1%

12.2 Summary of results – Guernsey Post Limited

- At the valuation date, there was a surplus of £2,702,000 relative to the **funding target** in respect of the Guernsey Post Limited Actuarial Account. This corresponds to an ongoing **funding ratio** of 110.4%.
- On the basis used to set the **funding target**, the recommended long-term rate of Employer contributions payable in respect of future benefit accrual within the Guernsey Post Limited Actuarial Account is 14.2% of Pensionable Pay.
- A summary of the actuarial valuation results is as follows:

Past service surplus	£2,702,000
Funding level	110.4%
Future service Employer contribution rate	14.2%
Past service adjustment	(3.0%)
Total contribution rate required from the Employer	11.2%
Contribution rate currently being paid	15.0%

12. Summary and conclusions (continued)

12.3 Summary of results – Guernsey Electricity Limited

- At the valuation date, there was a surplus of £2,183,000 relative to the **funding target** in respect of the Guernsey Electricity Limited Actuarial Account. This corresponds to an ongoing **funding ratio** of 105.5%.
- On the basis used to set the **funding target**, the recommended long-term rate of Employer contributions payable in respect of future benefit accrual within the Guernsey Electricity Limited Actuarial Account is 14.6% of Pensionable Pay.
- A summary of the actuarial valuation results is as follows:

Past service surplus	£2,183,000
Funding level	105.5%
Future service Employer contribution rate	14.6%
Past service adjustment	(2.8%)
Total contribution rate required from the Employer	11.8%
Contribution rate currently being paid	17.3%

12.4 Summary of results – Guernsey Financial Services Commission

- At the valuation date, there was a surplus of £1,145,000 relative to the **funding target** in respect of the Guernsey Financial Services Commission Actuarial Account. This corresponds to an ongoing **funding ratio** of 108.4%.
- On the basis used to set the **funding target**, the recommended long-term rate of Employer contributions payable in respect of future benefit accrual within the Guernsey Financial Services Commission Actuarial Account is 15.6% of Pensionable Pay.
- A summary of the actuarial valuation results is as follows:

Past service surplus	£1,145,000
Funding level	108.4%
Future service Employer contribution rate	15.6%
Past service adjustment	(2.7%)
Total contribution rate required from the Employer	12.9%
Contribution rate currently being paid	17.8%

12.5 Developments since the valuation date

Since the valuation date, equity markets have been highly volatile. Fixed-interest gilt yields and index-linked gilt yields have moved broadly together, indicating a relatively stable market expectation of inflation.

This experience since the valuation date will have led to volatile funding positions for each section of the Fund on the **funding target** basis.

12. Summary and conclusions (continued)

12.6 Contributions – Combined Pool

Allowing for a contribution reduction of 0.4% of Pensionable Pay to amortise the assets in excess of the target funding liabilities in respect of the Combined Pool the total rate of Employer contributions to be paid following the valuation could be 13.5% of Pensionable Pay.

This contribution rate includes an allowance for expenses of 0.25% of Pensionable Pay. Members will continue to contribute at the basic rate of 6.5% of Pensionable Pay, increased for special benefit groups as detailed in the Rules of the Fund. This rate does not include any Additional Voluntary Contributions members may choose to make.

We recommend that additional contributions are continued to be paid in respect of the special benefit groups as detailed in the table below.

	Additional Employer contribution rate %pa
Special Benefit groups	
Police and Firemen	
entrants on or before 31.10.91	+15%
entrants between 31.10.91 and 31.12.07	+10%
entrants after 31.12.07 Police	+6%
Fire	+4%
Senior Police and Fire Officers – entrants before 01.01.08	+7%
Mental Health Officers – entrants prior to 01.12.98	+9%
Crown Officers	
entrants on or before 31.10.91	+10%
entrants between 01.01.92 and 31.12.03	+9%
entrants after 1.1.04	+6.7%

If the **funding target** was 100% of accrued liabilities, additional contributions of 4.7% of Pensionable Pay would be required to amortise the **funding shortfall** resulting in a base level of Employer contributions of 18.6% of Pensionable Pay.

12.7 Contributions – Guernsey Post Limited

If allowance were made for a contribution reduction of 3.0% of Pensionable Pay to amortise the **funding surplus** in respect of the Guernsey Post Limited Actuarial Account, the total rate of Employer contributions to be paid following the valuation could be 11.2% of Pensionable Pay.

This contribution rate includes an allowance for expenses of 0.25% of Pensionable Pay. Members will continue to contribute at the basic rate of 6.5% of Pensionable Pay. This does not include any Additional Voluntary Contributions members may choose to make.

12. Summary and conclusions (continued)

12.8 Contributions – Guernsey Electricity Limited

If allowance were made for a contribution reduction of 2.8% of Pensionable Pay to amortise the **funding surplus** in respect of the Guernsey Electricity Limited Actuarial Account, the total rate of Employer contributions to be paid following the valuation could be 11.8% of Pensionable Pay.

This contribution rate includes an allowance for expenses of 0.25% of Pensionable Pay. Members will continue to contribute at the basic rate of 6.5% of Pensionable Pay. This does not include any Additional Voluntary Contributions members may choose to make.

12.9 Contributions – Guernsey Financial Services Commission

If allowance were made for a contribution reduction of 2.7% of Pensionable Pay to amortise the **funding surplus** in respect of the Guernsey Financial Services Commission Actuarial Account, the total rate of Employer contributions to be paid following the valuation could be 12.9% of Pensionable Pay.

This contribution rate includes an allowance for expenses of 0.25% of Pensionable Pay and the cost of insuring the death in service and ill health retirement benefits within the Combined Pool of 2.1% of Pensionable Pay. Members will continue to contribute at the basic rate of 6.5% of Pensionable Pay. This does not include any Additional Voluntary Contributions members may choose to make.

12.10 Implementation of any revised contributions

Any revised contribution rates for the Actuarial Accounts could be implemented with effect from 1 January 2012 for Guernsey Financial Services Commission and from 1 April 2012 for Guernsey Post Limited and Guernsey Electricity Limited.

12.11 Monitoring the Fund

The next formal valuation is due to take place as at 31 December 2013 when the contribution levels will be reviewed.

Signed for BWCI Consulting Limited

Steven Jones, FIA

Diana Simon, FIA

Appendix A Outline provisions of the Fund

The Fund has been established to provide for the payment of pensions and other benefits to or in respect of employees of the States of Guernsey who are either Public Servants or Teachers.

The Fund in respect of Public Servants was established with effect from 1 October 1972 by The States of Guernsey (Pensions and Other Benefits) Rules, 1972, and has been subsequently modified by various Resolutions of the States of Guernsey.

The Fund in respect of Teachers was established with effect from 1 January 1977 by the Teachers' Superannuation (Guernsey) Regulations, 1978, and has been subsequently modified by a number of amendments. This Fund was effectively closed to new entrants on 31 October 2005 since when new teachers join a separate section established in the Public Servants scheme. The majority of members of the Teachers' Scheme transferred to this new section.

An Actuarial Account was established with effect from 1 October 2001 for Guernsey Post Limited in accordance with paragraph 1 of the Third Schedule to the States of Guernsey (Public Servants) (Pensions and Other Benefits) Rules.

An Actuarial Account was established with effect from 1 January 2002 for the Guernsey Financial Services Commission in accordance with paragraph 2 of the Third Schedule to the States of Guernsey (Public Servants) (Pensions and Other Benefits) Rules. This Account was closed to new entrants from 1 January 2008.

An Actuarial Account was established with effect from 1 February 2002 for Guernsey Electricity Limited in accordance with paragraph 1 of the Third Schedule to the States of Guernsey (Public Servants) (Pensions and Other Benefits) Rules.

By a resolution passed on 12 December 2007 the States of Guernsey has amended the Rules of all sections to introduce a new tier of benefits for all sections that applies for all members who commence service on or after 1 January 2008.

Appendix B Membership data

Active members at 31 December 2010

		Number Of Cases	Total Pay (£ pa)
Public Servants (including special groups)	**Men**	1,691	60,331,833
	Women	1,929	55,816,438
Teachers Scheme	**Men**	38	1,817,046
	Women	93	3,500,212
Teachers Section of Combined Pool	**Men**	197	9,019,514
	Women	439	17,594,713
Guernsey Post Limited	**Men**	199	5,714,300
	Women	63	1,554,983
Guernsey Electricity Limited	**Men**	191	6,291,589
	Women	28	827,727
Guernsey Financial Services Commission	**Men**	32	2,330,794
	Women	37	1,752,463
Total	**Men**	**2,348**	**85,505,076**
	Women	**2,589**	**81,046,536**

Deferred pensioners at 31 December 2010

		Number Of Cases	Amount of deferred pension (£ pa)
Public Servants (including special groups)	**Men**	135	892,421
	Women	178	880,961
Teachers Scheme	**Men**	59	260,651
	Women	121	374,610
Teachers Section of Combined Pool	**Men**	20	187,946
	Women	35	236,668
Guernsey Post Limited	**Men**	2	14,459
	Women	5	44,879
Guernsey Electricity Limited	**Men**	11	74,566
	Women	2	7,543
Guernsey Financial Services Commission	**Men**	6	79,776
	Women	13	75,153
Total	**Men**	**233**	**1,509,819**
	Women	**354**	**1,619,814**

Notes: Deferred pension amounts include revaluations up to the valuation date.

There were also 801 former members at the valuation date who were entitled to a refund of their member contributions to the Fund.

Pensioners at 31 December 2010

		Number Of Cases	Amount of pension (£ pa)
Public Servants (including special groups)	**Men**	1,110	13,670,389
	Women	726	4,268,375
	Widowers	22	77,121
	Widows	382	1,937,115
Teachers Scheme	**Men**	23	280,977
	Women	45	279,353
	Widowers	4	7,064
	Widows	13	49,693
Teachers Section of Combined Pool	**Men**	234	3,840,222
	Women	328	3,952,901
	Widowers	7	23,486
	Widows	37	167,322
Guernsey Post Limited	**Men**	32	268,428
	Women	1	2,228
	Widows	1	3,430
Guernsey Electricity Limited	**Men**	68	787,613
	Women	2	5,271
	Widows	2	14,802
Guernsey Financial Services Commission	**Men**	6	90,355
	Women	4	8,322
Total	**Men**	**1,473**	**18,937,984**
	Women	**1,106**	**8,516,450**
	Widowers	**33**	**107,671**
	Widows	**435**	**2,172,362**

Note: No data was received in respect of children's pensions.

Assets

The Fund's audited accounts for the year ended 31 December 2010 show its assets (excluding the States Members' Pension Fund) as £926,493,000. These can be categorised as follows:

	Market Value (£'000)	% of Total
Equities	455,850	49.3
Alternatives	134,567	14.5
UK Gilts	43,897	4.7
Corporate Bonds	155,073	16.7
Property	64,906	7.0
Cash and Net Current Assets	72,200	7.8
TOTAL	**926,493**	**100.0**

Appendix D Assumptions for funding target

The assumptions used for assessing the **funding target** are summarised below.

Financial Assumptions

Discount rate	
- before retirement	6.85% pa
- after retirement	6.85% pa
Rate of UK price inflation	3.6% pa
Rate of Guernsey price inflation	3.85% pa
Rate of pay increases (excluding promotional increases)	4.35% pa
Rate of pension increases – Teachers Scheme	2.9% pa
Rate of pension increases – All Other Sections	3.85% pa
Rate of deferred pension increases – Teachers Scheme	2.9% pa
Rate of deferred pension increases – All Other Sections	3.85% pa

Demographic Assumptions

Post-retirement mortality

- S1 "All" base tables for non-teachers, Guernsey Electricity Limited, Guernsey Post Limited and dependants allowing for future improvements in line with CMI_2010 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.25% for men and women
- S1 "Light" base tables for teachers and Guernsey Financial Services Commission allowing for future improvements in line with CMI_2010 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.25% for men and women

Using these tables implies the following life expectancies for a non-teacher who retires in normal health at age 65:

Life expectancy at age 65	Males	Females
Current 65 Year Old	22.2	24.4
Current 45 Year Old, assuming survival to age 65	24.1	26.4

Pre-retirement mortality

Males: Standard table AMC00

Females: Standard table AFC00

Early retirements

Allowance has been made for retirements before the age of normal retirement by means of age related scales (see sample rates below).

Ill-Health retirements

Allowance has been made for ill-health retirements before the age of normal retirement by means of age related scales (see sample rates below). It has been assumed that 80% of ill health retirements will relate to total incapacity.

Withdrawals

Allowance has been made for withdrawals from service by means of age related scales (see sample rates below).

On withdrawal, for most sections of the Fund 25% of members are assumed to leave a deferred pension in the Fund and 75% are assumed to take a refund of their member contributions to the Fund. For Teachers and GFSC employees, 50% of members are assumed to leave a deferred pension in the Fund and 50% are assumed to take a refund.

Members are not assumed to exercise their option to take a **transfer value**.

Family details

Male members are assumed to be three years older than their spouses. Female members are assumed to be three years younger than their spouses.

85% of males and 80% of females are assumed to be married at retirement or earlier death.

Commutation

Each member is assumed to commute their pensions to the extent required to receive 75% of the maximum lump sum available to them.

Promotional salary increases

Allowance made for age-related promotional increases (see sample rates below).

Expenses

0.25% of Pensionable Pay added to the value of future benefit accrual.

Death benefits

There are no separate insurance arrangements for the Fund. The cost of providing death benefits from the Fund is included in the contribution rates payable.

Sample rates

The tables below illustrate the allowances made for withdrawals from service, early retirements and ill health retirements at various ages. Also shown is the allowance included for promotional pay increases, which is shown as the percentage increase over the next year.

	Percentage leaving the Fund in the next year as a result of withdrawal from service			
Current age	**Established Staff, Teachers, GEL, GPL, and GFSC employees**	**Unestablished Staff**	**Male Police and Fire members**	**Female Police and Fire members**
20	17.7	26.5	13.2	8.8
25	12.7	19.0	9.5	6.3
30	8.8	13.1	6.6	4.4
35	5.7	8.5	4.3	2.8
40	3.3	4.9	2.5	1.6
45	1.4	2.1	1.0	0.7
50	0.0	0.0	0.0	0.0
55	0.0	0.0	0.0	0.0
60	0.0	0.0	0.0	0.0

Current age	Percentage of Existing Members leaving the Fund in the next year as a result of retirement in normal health							
	Male Established Staff	Female Established Staff	Male Unestablished Staff	Female Unestablished Staff	Police and Fire members other than Senior Officers	Teachers	GEL	GPL
50	0	0	0	0	20	0	0	0
51	0	0	0	0	20	0	0	0
52	0	0	0	0	20	0	0	0
53	0	0	0	0	20	0	0	0
54	0	0	0	0	20	0	0	0
55	0	0	0	0	100	0	0	0
56	0	0	0	0	100	0	0	0
57	0	0	0	0	100	0	0	0
58	0	0	0	0	100	0	0	0
59	0	0	0	0	100	0	0	0
60	40	30	20	50	100	75	60	67
61	10	10	7.5	7.5	100	30	15	15
62	10	10	7.5	7.5	100	30	15	15
63	10	10	7.5	7.5	100	30	15	15
64	10	10	7.5	7.5	100	30	15	15
65	100	100	100	100	100	100	100	100

GFSC employees are assumed to retire at age 62. Senior Officers in the Police and Fire sections and New Members are assumed to retire at their Normal Retirement Ages.

Current age	Percentage leaving the Fund in the next year as a result of retirement in ill health					
	Male Established Staff	Teachers, Female Established staff and male Unestablished Staff	Female Un-established Staff	GEL, GPL and GFSC employees	Male Police and Fire members	Female Police and Fire members
30	0.02	0.01	0.00	0.01	0.05	0.01
35	0.02	0.01	0.00	0.01	0.05	0.01
40	0.06	0.03	0.02	0.05	0.18	0.03
45	0.14	0.07	0.03	0.10	0.41	0.07
50	0.29	0.14	0.07	0.21	0.86	0.14
55	0.66	0.33	0.17	0.50	0.00	0.00
60	2.50	1.25	0.63	1.88	0.00	0.00

The assumption for ill health retirements is set to zero at the point at which normal retirement is assumed.

Age retirement and ill health retirement rates apply to active members of the Fund only, current deferred pensioners are assumed to retire immediately on reaching their normal retirement ages.

Current age	Percentage promotional pay increase over year	
	Established Staff, Teachers, Police and Fire members, GEL, GPL, and GFSC employees	Unestablished Staff
20	9.0	3.1
25	4.6	1.1
30	2.9	0.5
35	2.1	0.5
40	1.5	0.5
45	1.4	0.5
50	1.3	0.5
55	0.9	0.5
60	0.9	0.5

Appendix E General background

This Appendix explains the background to actuarial valuations.

Background to valuations

The finances of a pension scheme fluctuate in response to both external and internal factors. Money continually flows into the scheme as contributions and investment income and flows out of the scheme as benefit payments. The main purposes of the actuarial valuation are to review the scheme's finances and to recommend the rate at which the employers contribute to the scheme in the future.

The actuarial valuation involves calculations which compare the scheme's assets with a **funding target.** The **funding target** calculations assess the value of the benefits that will be paid from the scheme in the future using information about the scheme at the valuation date.

The information used in a valuation

The information about the scheme which is used in the actuary's calculations is as follows:

- Details about its members, supplied by the scheme's administrator
- Information about the assets, from the scheme's audited accounts
- The rules of the scheme which define the member's benefit entitlements

There are other factors which will have an influence on the scheme's finances in the future. These include:

- Investment returns
- Pay increases
- Pension increases
- When members will retire
- How long members will live

The actuary makes assumptions about how these factors will behave in the future and uses these assumptions to put present values on the scheme's assets and liabilities.

The valuation process and the actuarial report

The valuation is carried out by a scheme's actuary. The main results of the actuarial valuation are:

- An assessment of the surplus (or shortfall) in the scheme at the valuation date, which shows how the scheme's assets compare to its **funding target**
- The long term cost of providing the scheme's benefits
- The actuary combines the results of these two calculations to estimate the contributions needed to meet the scheme's **funding target** in the future. This may be lower or higher than the long term cost in order to adjust for the past service surplus or shortfall.

What happens next?

The pension scheme's legal documents will set out the process which must be followed to agree the rate of contribution which the employers pay to the scheme.

The results of the valuation will also be used to decide whether the investment policy needs to change. This is because as part of the report, the actuary is required by professional guidance to highlight any particular investment risks. These are useful pointers to consider as part of any investment review.

Attained Age Method (AAM)

This is one of the common methods used by actuaries to estimate the cost of future benefits from a pension scheme. This method calculates the cost of the benefits expected to accrue to members over their expected remaining membership of the scheme expressed as a percentage of their expected future pensionable pay. It allows for projected future increases in pay through to retirement or date of leaving service. The method is based on the current membership and takes no account of the possibility of further members joining the scheme. If there are no new members, this method would be expected to result in a stable contribution rate, once surpluses or deficits are taken into account. However if more members join the scheme to replace older leavers, the contribution rate can be expected to fall if all the other assumptions are borne out in practice.

Defined accrued benefit method

This is one of the common methods used by actuaries to calculate a recommended contribution rate for a pension scheme. This method calculates the **present value** of benefits expected to accrue to members over a period (often one year) following the valuation date. The **present value** is usually expressed as a percentage of the members' pensionable pay. The accruing benefits are calculated on the assumption that the scheme is discontinued, firstly at the valuation date and then secondly at the end of the relevant period after the valuation date, allowing for pay increases over the period. **Present values** are, however, calculated on the assumption that the scheme is ongoing. Provided that the distribution of members remains stable with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable, if all the other assumptions are borne out. If there are no new members, however, the average age will increase and the cost of the benefits accruing will rise.

Discount rate

This is used to place a **present value** on a future payment. A "risk-free" **discount rate** is usually derived from the investment return achievable by investing in government gilt-edged stock. A **discount rate** higher than the "risk-free" rate is often used to allow for some of the extra investment return that is expected by investing in assets other than gilts.

Funding ratio

This is the ratio of the value of assets to the **funding target**.

Funding shortfall

This is the **funding target** less the value of assets. If the value of assets is greater than the **funding target,** then the difference is called the **funding surplus**.

Funding surplus

This is the value of assets less the **funding target**. If the **funding target** is greater than the value of assets, then the difference is called the **funding shortfall**.

Funding target

This is defined individually for each scheme. Often, the **funding target** is the actuarial value of the "past service ongoing liabilities" calculated as the **present value** of members' benefits based on pensionable service to the valuation date. It allows for projected future increases to pay through to retirement or date of leaving service.

Under the **defined accrued benefit method** it is the **present value** of the benefits which members are entitled to based on service completed to the valuation date and on the assumption that the scheme is discontinued. In the case of a final salary scheme this means that no allowance is made for future pay increases. It also includes the value of the benefits for members who have already left service – ie pensioners and deferred pensioners.

Present value

Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a **discount rate**. This value is known as the **present value**. For example, if the **discount rate** was 6% a year and if we had to pay a lump sum of £1,060 in one year's time the **present value** would be £1,000.

Projected Unit Method (PUM)

One of the common methods used by actuaries to calculate a contribution rate for a pension scheme. This method calculates the **present value** of the benefits expected to accrue to members over a control period (often one year) following the valuation date. The **present value** is usually expressed as a percentage of the members' pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service. Provided that the distribution of members remains stable with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable, if all the other assumptions are borne out. If there are no new members however, the average age will increase and the contribution rate can be expected to rise.

Transfer Value

Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in the scheme, and a sum of money (called the **transfer value**) is paid into another pension scheme, which then provides the member with pension benefits.

Actuarial Valuation as at 31 December 2010

We have carried out an actuarial valuation of the States Members Pension Fund as at 31 December 2010, for which a separate actuarial valuation report has been issued. The valuation has been carried out on broadly the same basis as the States Superannuation Fund valuation. The main conclusions of this valuation are as follows:

Funding shortfall

The funding objective is to bring the assets of the Fund into line with the **funding target**. We have therefore compared the market value of the assets of the States Members Pension Fund with the **funding target** as at the valuation date (set in the same way as for the Superannuation Fund but with a **funding target** of 100%). The results below include both the old and new States Members Pension Funds. The result of this comparison is as follows:

	£'000	£'000
Value of past service ongoing liabilities:		
Active members	1,424	
Deferred pensioners	801	
Pensioners and dependants	2,565	
Funding target		4,790
Market value of the assets		3,486
Funding (shortfall)		(1,304)
Funding ratio		72.8%

The States Members Pension Fund has a **funding shortfall** of £1,304,000 relative to the **funding target** of £4,790,000 and a **funding ratio** (assets as a proportion of the **funding target**) of 72.8%.

Change in funding position

At the previous valuation the States Members Pension Fund had a **funding shortfall** of £738,000. The funding position has therefore worsened by £566,000 since the previous valuation. This is mainly due to investment return being lower than expected. Regular contributions paid since the New Scheme was established have been more than sufficient to meet the cost of benefits accruing. However, when the Old Scheme was closed, there was a **funding shortfall** which is continuing to be met by capital payments.

Future benefit accrual

We have calculated the States' contribution rate for benefits expected to accrue to members in future. This is the rate of contribution that would normally be appropriate if there was no **funding surplus** or **funding shortfall** and the assets were exactly equal to the **funding target**.

The method we have used to calculate this is the **projected unit method**. This measures the increase in the **funding target** relating to benefits expected to accrue to members over the year following the valuation.

The States' future service contribution rate in respect of the benefits accruing in the Fund on the basis of our assumptions is 21.6% of Basic Allowances including an allowance for expenses of 0.25%. The corresponding rate calculated at the previous valuation amounted to 19.8% of Basic Allowances.

Allowance for funding shortfall

If the **funding shortfall** was to be eliminated over the average expected lifetime of the Fund, a period of broadly 30 years, annual capital payments of £66,000 increasing in line with Guernsey inflation would be required.

(NB The Policy Council, by a majority supports the proposals contained in this Report.)

The States are asked to decide:-

XVI.- Whether, after consideration of the Report dated 14th September, 2011, of the Treasury and Resources Department, they are of the opinion:-

1. To note the Actuarial Valuation of the States of Guernsey Superannuation Fund as at 31 December 2010.

2. That, except for Guernsey Electricity Limited, Guernsey Post Limited, the Guernsey Financial Services Commission and the post-May 2004 States Members Pension Scheme, the employer and additional employer contribution rates in respect of the States of Guernsey Superannuation Fund shall remain as set out in Appendix I.

3. That the employer contribution rate for Guernsey Electricity Limited be decreased from 17.3% to 14.6% with effect from 1 April 2012.

4. That the employer contribution rate for Guernsey Post Limited be decreased from 15.0% to 14.2% with effect from 1 April 2012.

5. That the employer contribution rate for the Guernsey Financial Services Commission be decreased from 17.8% to 15.6% with effect from 1 January 2012.

6. That the States contribution rate for the post-May 2004 States Members Pension Scheme be decreased from 25.0% to 21.6% with effect from 1 January 2012.

7. That the annual sum paid into the Superannuation Fund in respect of the pre-May 2004 States Members Pension Schemes from the revenue budget of the Treasury and Resources Department shall be increased to £66,000 with effect from 2012 and maintained in real terms.

COMMERCE AND EMPLOYMENT DEPARTMENT

INDEPENDENT REVIEW OF THE DAIRY INDUSTRY

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

14th September 2011

Dear Sir

1. Executive Summary

1.1 In October 2008 the States resolved that the Policy Council should appoint a working party to review all aspects of the dairy industry. A Dairy Industry Review Panel (the "Review Panel") was appointed and it carried out its task during 2010 and submitted its final report to the Policy Council in May 2011.

1.2 The Policy Council has passed the final report of the Review Panel to the Commerce and Employment Department (the "Department") for presentation to the States.

1.3 The recommendations of the Review Panel are set out in sections 3 to 7 of this Report, together with the Department's comments on those recommendations.

1.4 For the avoidance of doubt, whilst the propositions set out in this Report are presented to the States for consideration by the Commerce and Employment Department, they have been formulated on the basis of the recommendations made by the Independent Review Panel in its Report to the Policy Council.

1.5 The final report of the Review Panel is appended to this Report.

2. Background

2.1 In October 2008, the States resolved, inter alia, that:

"….. the distribution model shall be reviewed as part of a comprehensive report on the future of all aspects of the dairy industry, to be prepared by a working

party appointed by the Policy Council, and presented to the States of Deliberation by no later than the end of 2013." (Billet d'Etat XIII of 2008).

2.2 The Policy Council appointed a Dairy Industry Review Panel which submitted the first draft of its report to the Council in December 2010.

2.3 The report was published for public and stakeholder consultation in January 2011 and having analysed and commented on the representations received, the Review Panel amended its report and submitted the final version to the Policy Council in May 2011.

2.4 In June 2011, the Review Panel presented its report to stakeholders and States Members.

2.5 The Policy Council passed the final report to the Department for presentation to the States. That final report is reproduced as Appendix 1.

2.6 Sections 3 to 7 below set out the Review Panel's recommendations and the Department's comments on those recommendations. The underlined recommendations are those of the Review Panel and have not been amended by the Department.

2.7 The Review Panel's recommendations are wide ranging and in accordance with the terms of reference, cover the whole industry. The following sections of the States Report take each of the Review Panel's numeric references in turn, but due to the complexity of the issues there is a degree of overlap between sectors and the Department's comments on certain recommendations also apply to others.

3. Dairy Industry Review Panel Recommendations, Section A - Related Market and Consumer Issues

Panel Recommendation A1 *That the 1955 Milk Law (as amended) and ordinances be progressively amended to allow the industry changes proposed in this report.*

3.1 The timescale for the amendment of the milk law (Ordinance) is dependent on the pace of the changes proposed by the Review Panel. In this respect the Panel recommends that those changes should take place from 2015 or sooner, and in the case of "sooner", the earliest possible date for the completion of the changes would be in 2012.

3.2 It is not therefore possible to make immediate recommendations for specific amendments to legislation other than the amendments that arise from Recommendation C7 and Recommendation D4.

3.3 The Department will need to report further to the States on any other amendments to this legislation as and when the changes proposed by the Review Panel take place.

Panel Recommendation A2 *That when the proposed industry change is complete, the Milk Law should be replaced by up-dated legislation to give price control for a further 5 years. After that, and subject to satisfactory legislation being in place to bring local food regulation in line with EU practice, the Milk Law should be repealed.*

3.4 As with Recommendation A1 above, the timescale is determined by the pace of the "industry changes" proposed by the Review Panel.

3.5 If the earliest date for the completion of those "industry changes" is 2012 and price control is to remain for five years after those changes, the repeal of the Milk Ordinance would have effect in 2017 (subject to the Review Panel's Recommendation regarding local food regulation).

3.6 Alternatively, the latest date proposed for the industry changes is 2015, and therefore the repeal of the Ordinance would take place in 2020.

3.7 In the case of local food regulation, on 26 May 2011, the States approved recommendations from the Health and Social Services Department to consolidate existing food legislation and to implement European Union food safety and food hygiene provisions in the Island.

Panel Recommendation A3 *That the prices of Guernsey fresh milk, ex-farm, from the Dairy and at retail level continues to be controlled by the Milk Law (as amended) for 5 years from the date of implementation of the distribution changes.*

3.8 The Department's comments on Recommendation A2 also apply in this instance.

Panel Recommendation A4 *That the structure of the industry should allow farmers, the Dairy and distributors to better meet the needs of retailers and consumers*

3.9 It is clear that the Panel believes that restructuring is necessary in order to address issues of co-ordination within the Dairy industry. The Panel makes recommendations elsewhere that will give effect to this Recommendation.

Panel Recommendation A5 *That legislation be put in place to ensure that all distribution of milk and dairy products to major retail outlets should be by refrigerated transport. Also that all dairy products delivered to other retailers must be by insulated container. A derogation being provided for doorstep milk delivery.*

3.10 The Department understands that Environmental Health requirements in relation to delivery are likely to focus on the requirements for temperature control during the course of distribution and that these requirements will apply to deliveries to all retail establishments.

4. Dairy Industry Review Panel Recommendations, Section B - Dairy Farming in Guernsey

Panel Recommendation B1 *Consideration should be given to introducing legislation or some other form of control to retain land for agricultural use.*

4.1 The Department agrees that open land suitable for farming should be protected from development and this view has been made to the Strategic Land Planning Group during the process of review of the Island's Strategic Land Use Plan. The importance of agricultural land should remain part of the Island's strategic plan for land use and be supported by appropriate provisions in the Environment Department's Development Plans to ensure this happens. The Department believes that further consultation on this important issue is required, particularly with farmers, land owners, and the Environment Department and would most appropriately form part of the process of refining future Development Plans. The Department is well placed to facilitate such consultations and assist the Environment Department in this regard and proposes that whether a specific report is presented (or the proposals are integrated into new Development Plans when they are considered by the States) should be considered once this work is complete.

Panel Recommendation B2 *In order to sustain the present importance of the 'Guernsey Cow' present regulations and support for the Guernsey breed should be retained.*

4.2 The Department provides support for the Guernsey breed through the provision of a range of charged-for farm and veterinary services (artificial insemination, milk recording and health testing) and by providing financial assistance to the locally-based Secretariat of the World Guernsey Cattle Federation. It has no plans to discontinue this support.

Panel Recommendation B3 *The Guernsey Farmers Association should collectively encourage an on-going study on cattle feeding and the cost of imported concentrates.*

4.3 This Recommendation is addressed to the Guernsey Farmers Association. The Department has drawn it to the attention of the GFA. The Department is supportive of any measures that reduce farming costs.

Panel Recommendation B4 *Closer relationships should be developed between the farmers, the Dairy, and dairy retailers by the establishment of a farmers (GFA) seat on the Dairy Guernsey Dairy Board Ltd (GDL).*

4.4 This Recommendation links to Recommendations C1, C2 and Recommendation D9. The Departments comments on Recommendation C1 is particularly pertinent to this point.

Panel Recommendation B5 *Milk quota, seasonal pricing and a quality programme should be part of a direct contract with the Dairy. The Dairy and the farmers should be advised on these issues by an independent Panel.*

4.5 In 2007 the States agreed that milk supply would be the subject of a separate contract between farmers and the Dairy and that that contract would deal with all matters relating to the supply of milk and the seasonal pattern of milk production. These contracts are now in place. The Dairy is currently working on rules of supply, which include quality standards, in consultation with dairy farmers.

4.6 Two independent panels currently provide advice. The Milk Supply Panel advises on the allocation of any milk supply quota that becomes available and the Milk Price Review Panel advises the Department annually, on retail, gate and producer prices. The mandates of these panels could be amended to encompass the intentions in the Recommendation.

Panel Recommendation B6 *As the current slaughterhouse does not satisfy EU standards it should be replaced without further delay to allow the development of a sustainable beef business to supplement dairy farm incomes.*

4.7 Work on proposals for a replacement slaughterhouse is in progress. The Department expects to seek tenders for this project in 2011 and to submit proposals to replace the existing slaughterhouse to the States in the early part of 2012.

Panel Recommendation B7 *That the price of milk received by efficient producers should be sufficient to maintain the volume at levels demanded by the market.*

4.8 The price paid to producers for milk delivered to the Dairy is reviewed annually by the Milk Price Review Panel which makes recommendations to the Department. The Department is guided by the Panel on this issue and it has no plans to change the current arrangement.

Panel Recommendation B8 *The Dairy Farm Management Contract Payment should remain in place for the foreseeable future.*

4.9 In the body of the report, the Review Panel states:

"Guernsey milk production will remain high cost, consequently this payment is justified to maintain sufficient milk volume for the market.

The basis of payment should be reviewed with a portion being attributed to environmental and countryside issues."

4.10 In September 2007 the States considered a review of support for island dairy farming and noted that it was intended to modify the Dairy Farm Management Contract such that it would be split into two. One contract would deal with the supply of milk to the Dairy and the other would be a contract between farmers and the Department which would deal with animal welfare standards, anti-pollution measures and the conservation, management and enhancement of the countryside.

4.11 Since 2007 the Department has maintained the level of revenue funding for the Dairy Farm Management Scheme as part of the normal budgetary process. The Department has no plans to change this arrangement.

Panel Recommendation B9 *The Farm Loan Scheme should be reviewed to provide support for the development of partnerships including the financing of working capital, herd transfer and housing using commercial but attractive rates of interest and repayment arrangements.*

4.12 The current farm loan scheme was approved by the States in June 1992 and the guidelines of the Scheme, including the repayment terms, are set out in Appendix 2. The Department believes that the existing repayment terms, including interest rates, remain attractive and do not require amendment.

4.13 The scope of projects which could qualify for support from the Farm Loan Scheme is currently restricted to projects aimed at pollution reduction and development of farm infrastructure.

4.14 In September 2007 the States agreed that the Department could vary the conditions and rules affecting the Farm Loans Scheme in consultation with the Treasury and Resources Department (taking account of the needs of the dairy industry). This mechanism will enable the scope of the scheme to be extended in accordance with the Recommendation of the Review Panel.

5. Dairy Industry Review Panel Recommendations, Section C - The Dairy

Panel Recommendation C1 *That the Dairy becomes a separate limited company, Guernsey Dairy Ltd (GDL) at an early date with the States retaining all the issued shares in the first instance.*

5.1 In the body of the report, the Review Panel states:

"The Panel now believes that there is a strong case for a progressive commercialisation of the Dairy to allow the business greater freedom of commercial activity without the constraint or even the interference of the State, and the ability to bring stakeholders together."

and

"The Panel considers that commercialisation should be on a progressive basis and controlled step-by-step with the State maintaining a majority of the shares for the foreseeable future.

A separate Dairy entity does not have to be a limited company with shareholders It could be a 'company limited by guarantee' with government providing the guarantee in the early years."

5.2 The Panel makes recommendations regarding the "independence" of the Board of Guernsey Dairy Limited in recommendation E1.

5.3 Notwithstanding its Recommendation, the Department considers that the primary concern of the Review Panel is that the Dairy is allowed greater freedom of commercial activity and that the Review Panel believes that this might be achieved by a number of means, including the incorporation of the Dairy.

5.4 The issue of the commercialisation of the Dairy needs careful consideration by the States and the Department therefore recommends that, if it is clear that the principle of commercialisation of the Dairy is accepted, it should submit a separate, detailed report to this issue to the States. That report should address matters such as costs and benefits, governance and the protection of employment of the current Dairy staff.

Panel Recommendation C2 *That the GDL Board is composed of 5 persons, to represent the interests of the States, farmers and dairy retailers using the experience of Non-executive business people.*

5.5 The Department comments in relation to recommendation C1 also apply to this recommendation.

Panel Recommendation C3 *The Dairy should take responsibility for managing milk quota, seasonal pricing and quality payments by direct contract with the farmers. (The Milk Quota Panel should continue to advise on these issues).*

5.6 The Department's comments in relation to Recommendation B5 also apply to this recommendation.

Panel Recommendation C4 *That the Dairy should take total responsibility for the distribution, sale and marketing of all Guernsey Dairy milk and milk* *products to all appropriate rational retail outlets as from 2015 or sooner by agreement with the payment of compensation to those distributors who lose business.*

5.7 This issue is dealt with in slightly more detail in Recommendation D1 and the issue of compensation is dealt with in Recommendations D6 and D7.

Panel Recommendation C5 *A capital expenditure plan with suitable financing, should be followed to improve and ensure the efficiency and standards within the Dairy.*

5.8 In the body of the report the Review Panel states:

"The Panel has seen the forward plans and believes that the business should reinvest to maintain efficient production and to meet the standards required by retailers and consumers."

5.9 In 2007 the Dairy Management Board was established to take direct responsibility for the oversight of the operation of the Dairy. That Board produces a rolling programme of capital expenditure that is intended to achieve the objectives identified by the Review Panel. However, the pace of the capital programme is dictated by the availability of finance and that, in turn, is determined by the trading position of the Dairy.

Panel Recommendation C6 *That a formal arrangement be established with Jersey Dairy to achieve reciprocal product manufacture and distribution, maximising throughput and minimising cost. A joint marketing strategy would be appropriate.*

5.10 In the body of the report, the Review Panel puts forward various possibilities for joint working with Jersey Dairy.

5.11 As a general principle, the Dairy has explored opportunities for joint working with Jersey Dairy and it will continue to do so, taking into account the recommendations of the Review Panel. However, the underlying principle must always be the commercial viability of any opportunity for joint working, and any project must be viable for both parties.

Panel Recommendation C7 *The restriction on farmers selling their milk to a manufacturer of dairy products – typically a small scale artisan business - should be removed in an amendment of the Milk Law; relying upon suitable Health and Hygiene Regulations to control subsequent production and standard of premises.*

5.12 The Department accepts the principle of this Recommendation, however, it proposes that the volume of milk that a farmer sells to an artisan business should be subject to the prior approval of the Dairy in order that significant volumes of milk are not directed away from milk production to the detriment of the supply of liquid milk to satisfy the needs of the Island.

6. Dairy Industry Review Panel Recommendations, Section D - Distribution of Milk and Dairy products in Guernsey

Panel Recommendation D1 *From 2015 (or sooner, in accordance with recommendation 4 of Section C) the Dairy should take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by Waitrose, the Sandpiper Group, the Co-op, Marks & Spencer, Alliance and Forest Stores or their successors.*

6.1 The Panel has concluded that:

"…. that the major retailer has no direct contact with the supplying Dairy as they do business with the distributor only. There is therefore no direct commercial contact on price and promotional activity to the serious disadvantage of the whole industry."

This lack of buyer and seller dialogue is having a serious effect on the marketing of Guernsey products which is reflected in their low uptake within the local markets."

6.2 The actual timescale for the implementation of this Recommendation is dependent on the proposals for compensation that are set out in Recommendations D6 and D7. The earliest possible date for implementation could be in 2012.

6.3 The Review Panel has recommended that the Dairy take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by certain specified businesses and links this to the payment of compensation.

6.4 The Department received representations on behalf of the Guernsey Milk Retailers Association that unless the principles were extended to **all** retail outlets, the distribution system would be complicated by a mixture of service arrangements (some arranged by the Dairy and some by independent distributors). There could also be difficulties in the future if an outlet not currently included in the arrangements for compensation was subsequently taken over by one of the businesses specified by the Review Panel.

6.5 Having considered these representations, the Department agreed to recommend that the Dairy take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all retail outlets, not just those specified by the Review Panel.

6.6 The Dairy Management Board supports this view and that position is recorded in its published response to the consultation on the Panel's report.

6.7 Extending the principles proposed by the Review Panel to all retail outlets will also mean that the whole distribution system could be reorganised in a single event, an event that would also be clearly recognisable as the point at which the industry changes envisioned by the Panel came into effect.

6.8 For the avoidance of doubt, the Department would consider a "retail outlet" to be a commercial business that sold Guernsey milk and Guernsey Dairy milk products to the final consumer in the packaging in which it was distributed from the Dairy.

6.9 The Department would like to make it clear that taking responsibility for the delivery does not automatically mean that the Dairy will need to buy vehicles and employ extra staff to undertake deliveries.

6.10 In Recommendation D4, the Review Panel puts forward a proposal for delivery contracts between the Dairy and distributors. This would not preclude distributors from continuing to deliver to retail outlets that they currently serve, provided that they could satisfy any delivery requirements that may be specified by the Dairy and those outlets. Such deliveries would, however, be paid for at a commercial rate and would not be the subject of the "discount" that distributors currently receive for milk delivered to shops.

Panel ***<u>Recommendation D2</u>*** *<u>That the present 'zoning' system of doorstep and catering deliveries of fresh milk be retained. The control of 'zoning' being carried out by the Guernsey Milk Retailers Association using an independent arbitrator to settle any disputes'.</u>*

6.11 In the body of the report, the Review Panel states that it:

"… considers that zoning remains commercially sensible for the distributors and the industry and should be retained by the distributors themselves to minimize cost."

6.12 This Recommendation is principally a matter for the Guernsey Milk Retailers Association to consider, in particular, whether or not it wishes to use the services of an independent arbitrator as recommended by the Review Panel.

<u>Panel Recommendation D3</u> *<u>An amended Milk Law should be retained for 5 years after the industry has restructured (in 2015 or sooner) to provide price control and stability for fresh milk.</u>*

6.13 The Department's comments in relation to Recommendation A2 also apply to this recommendation.

***Panel Recommendation D4** That the current licensing of milk distributors by the Department of Commerce and Employment should be replaced by a commercial contract between the Dairy and the distributor confirming suitability of the distributor and his vehicle, the existence of a GMRA 'zoned' fresh milk round.*

6.14 In the body of the report, the Review Panel states:

"As the pivotal point in the dairy chain, the Dairy needs to have contractual arrangements for the supply of milk (farmers) and the sale of fresh milk to distributors and major retailers."

6.15 The issue of contractual arrangements with farmers on the supply of milk is dealt with in Recommendation B5.

***Panel Recommendation D5** That the sale of all Guernsey Dairy milk products (other than fresh milk) be available to all legitimate traders, who are approved by the Dairy for distribution in Guernsey.*

6.16 The view of the Review Panel is:

"If the sale of Guernsey product is to be developed within the local market the Dairy must take total control of the sales, distribution and delivery of these products, to the major retail outlets, controlling price and promotional activity utilising refrigerated vehicles.

The distribution and delivery to the doorstep could continue along the present lines.

However, all Guernsey Dairy products (except fresh milk) should be available for legitimate traders approved by the Dairy for sale to restaurants, cafes and hotels within a truly free market."

6.17 The Department has noted that other recommendations of the Review Panel (for example, see Recommendation C4) provide that the Dairy take control of sales, distribution and delivery from 2015 or sooner. It considers that in order to maintain consistency in the approach to the re-organisation of the industry proposed by the Panel, that Recommendation D5 should be implemented in accordance within the same timeframe.

***Panel Recommendation D6** That compensation be paid on a 'without prejudice' basis to those distributors who have lost business with the transfer of fresh milk deliveries to Waitrose, the Sandpiper Group, the Coop, Marks and Spencer, Alliance and Forest Stores or their successors to the Dairy.*

6.18 In its comments in relation to recommendation D1, the Department agreed to recommend that the Dairy take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all retail outlets, not just those specified by the Review Panel.

6.19 Accordingly it also agreed to recommend that compensation be paid to those distributors who lose business with the transfer of fresh milk deliveries to **any** retail outlets, not just those specified by the Review Panel and the payment of compensation being made subject to an appropriate set of qualifying conditions.

Panel Recommendation D7 *That the level of compensation for loss of business to the named retailers should be funded by the States, and agreed by an Independent Milk Distribution Settlement Tribunal. This body to be in place as soon as possible, but in any event prior to 2015 to provide cost estimates and make early settlements as appropriate.*

6.20 In relation to compensation, the Review Panel has stated that it considers:

".. that for the sake of good order and goodwill a level of compensation should be paid. This compensation should not be based on the original cost of purchasing the business but on its current valuation. This value may be influenced by the now limited market for milk distribution businesses.

An independent expert will be needed to give a valuation related to profitability or other parameters."

and

".. that the payment of compensation should not directly impinge upon the on-going Dairy operation and that Guernsey consumers should not be expected to pay for this restructure in the retail price, but it should be handled as a separate matter."

The States should consider providing funds to reorganise the industry and underpin Guernsey agriculture, particularly dairy farming, in this case to provide compensation for loss of distribution business profitability."

6.21 Whatever mechanism might be adopted to address the issue of compensation the Department believes that it should not be responsible for such arrangements so that there can be no question of the independence of that process.

6.22 Following discussions with the Policy Council and the Treasury and Resources Department, the Department is of the view that appointing a group of independent persons and in the manner envisaged by the Review Panel may not be the most appropriate way to ensure that whatever compensation package that may emerge from these deliberations is set in the context of competing bids for States funds.

6.23 The Department believes that a more appropriate approach would be for the States to direct the Policy Council to appoint a qualified independent adviser with experience in business valuation (which in all likelihood is likely to be through one of the larger accountancy firms). The appointed adviser will engage with milk distributors and produce, for the Policy Council, an initial assessment of the potential cost of a reasonable compensation package based on the principles outlined in section D 15 of the report of the independent Dairy Industry Review Panel and having regard to the overall cost to the taxpayer.

6.24 On the basis of that assessment and following further consultation with the Treasury and Resources Department and the Commerce and Employment Department, the Policy Council would then formulate a New Service Development Bid to be placed before the States as part of the States Strategic Plan debate in October 2012. In this respect the Department believes it is important that any firm proposals for compensation are set in the context of the States' financial circumstances and are considered alongside competing bids for any funds that may be released for other New Service Developments.

6.25 On the assumption that the States is able to agree an overall figure which should be distributed as a result of this process, it is at that stage that a suitable body can be created to assess individual claims and recommend payments to specific milk distributors. This is similar to the approach taken by the Department's Milk Quota Panel which takes a finite quota allocation and divides it amongst dairy farmers on the basis of carefully argued claims.

6.26 The Department therefore proposes that the Policy Council should:

a) appoint a suitably qualified independent adviser to engage with the milk distributors and report to the Policy Council no later than 15 May 2012 with recommendations for a fair and equitable basis for a compensation scheme and an assessment of the likely overall cost of that scheme,

b) following consultation with the Treasury and Resources Department and the Commerce and Employment Department, prepare a New Service Development Bid for inclusion in the States Strategic Plan to secure in principle agreement to the overall funding for the compensation scheme in 2012, and

c) subject to States approval of that bid to establish a suitable independent Panel to hear and deliberate on individual claims from retailers within the amount agreed by the States for the compensation scheme.

Panel Recommendation D8 *That the GMRA, using the services of an arbitrator, encourages the rationalisation of milk rounds to maintain a sustainable doorstep delivery system.*

6.27 This Recommendation is addressed to the Guernsey Milk Retailers Association. The Department has drawn it to the attention of the GMRA.

Panel Recommendation D9 *That a seat is reserved on the Board of Guernsey Dairy Ltd for a person with dairy retailing experience.*

6.27 This Recommendation links to Recommendations B4, C1 and C2.

Panel Recommendation D10 *That all deliveries of milk and milk products to major retail outlets are carried out using refrigerated vehicles and that legislation is introduced to enforce these requirements .Delivery of milk products to other outlets to be made by refrigerated or insulated container. Milk deliveries to the doorstep to be given a derogation from this requirement.*

6.29 This matter is dealt with in Recommendation A5. The Department's comments in relation to that Recommendation apply to this recommendation.

7. Dairy Industry Review Panel Recommendations, Section E - The Role of the Commerce and Employment Department

Panel Recommendation E1 *The Dairy becomes a limited commercially driven company, with an arms length reporting line to the C&E Board with no common personnel or Directors.*

7.1 The Department's comments in relation to Recommendation C1 also apply to this recommendation.

Panel Recommendation E2 *The Dairy takes full operational responsibility for milk quota, quality and other issues with the farmers and for licensing/contract and similar matters with distributors.*

7.2 These matters are dealt with in Recommendations B5 and D4. The Department's comments in relation to those Recommendations also apply in this instance.

Panel Recommendation E3 *The Director of Environmental for the Board of Health continues licensing under the terms of the Milk and Dairies Regulations.*

7.3 The existing arrangements for oversight will remain in place.

Panel Recommendation E4 *The C&E Department continues to use its expertise to manage Farm Services together with the environmental, animal welfare and payment issues for the Farm Management Contract Payment Scheme, together with other regulatory matters.*

7.4 These matters are dealt with in Recommendations B2 and B8. The Department's comments in relation to those Recommendations apply to this recommendation.

8. Consultation

8.1 During the course of its work, the Review Panel met individuals and representatives of various organisations. The full list is recorded in the Panel's report (in Appendix 3 of that report).

8.2 The first draft of the Panel's Report was published for consultation in January and February 2011. The respondents are listed in the Panel's report (in Appendix 5 of that report).

8.3 The Final Report was published in May 2011 and face to face meetings were held between the Panel and stakeholders and States Members in June 2011.

8.4 The Department held stakeholder meetings in August 2011.

8.5 The Law Officers Chambers have been consulted on the contents of this States Report.

8.6 The Department believes that it has complied fully with the six principles of corporate governance in the preparation of this States Report.

9. Resource Implications

9.1 The propositions set out in section 10 do not have any fiscal consequences at this stage. However, there are recommendations which will require further States Reports which may have an impact on the States Fiscal and Economic Plan and those further States Reports will comply with Rule 15.2 of the States of Deliberation's Rules of Procedure.

9.2 The proposals have no resource implications in terms of staffing.

10. Propositions

10.1 The Department lays the following propositions before the States:

Dairy Farming: Support and Related Issues

1. to direct the Commerce and Employment Department to consult with farmers, landowners, and the Environment Department on the options for controls to retain land for agricultural use and, if deemed necessary outside the Island's planning laws, to report to the States with options for legislation or other forms of control;

ii) to direct the Commerce and Employment Department to consult the Treasury and Resources Department on the variation of the conditions of the Farm Loan Scheme such that farm loans could be made available to support the development of dairy farming partnerships, the financing of working capital and herd transfers and the development of cattle housing;

iii) to agree that:

a) the system of Dairy Farm Management Contracts should remain in place and that any amendment of that system should be subject to the prior approval of the States; and

b) the Commerce and Employment Department should continue to make revenue provision for Dairy Farm Management Contract payments in accordance with normal budgetary procedures;

iv) to agree that the Commerce and Employment Department should continue to support the Guernsey breed through the provision of Farm Services and financial assistance to the locally-based Secretariat of the World Guernsey Cattle Federation and to continue to make revenue provision for such services and assistance in accordance with normal budgetary procedures;

v) to agree in principle that the existing slaughterhouse should be replaced and to note the intention of the Commerce and Employment Department to submit detailed proposals for a replacement facility to the States in 2012;

vi) to note the recommendation of the Review Panel that the Guernsey Farmers Association should collectively encourage an on-going study on cattle feeding and the cost of imported concentrates;

vii) to note that the price of milk received by efficient producers should be sufficient to maintain the volume at levels demanded by the market;

<u>Guernsey Dairy</u>

viii) to agree in principle that the Dairy should become a limited company, and to agree that:

a) all of the issued shares of that company should initially be held by the States of Guernsey; and

b) the Board of the company should consist of five persons:

i. none of whom shall be a States Member or a Civil Servant,

ii. one of whom shall be a member of the Guernsey Farmers Association; and

iii. one of whom shall have dairy retailing experience,

and to direct the Commerce and Employment Department to submit a detailed report on the incorporation of the Dairy, including issues relating to costs, governance and the protection of the employment of Dairy employees, to the States no later than 30 September 2012;

ix) to agree that milk supply quota, the seasonal pricing of producer payments and a milk supply quality programme should be part of a direct contract between milk producers and the Dairy;

x) to agree that the distribution of Guernsey milk and Guernsey Dairy milk products from the Dairy to all customers should be the subject of a distribution contract between the Dairy and distributors and that the requirements relating to the licensing of retailers in the Milk (Control) (Guernsey) Ordinance, 1958 be repealed;

xi) to agree that existing arrangements for the sale of Dairy milk products to commercial customers should be extended to all commercial traders with effect from 1 January 2015 or when the reorganisation of the dairy industry has occurred, whichever is the sooner;

xii) to note that the Commerce and Employment Department will review the mandates of the Milk Quota Panel and Milk Price Review Panel to ensure that the Panels, between them, can provide the Dairy with advice on milk supply quotas, the seasonal pricing of producer payments and milk quality payments;

xiii) to note that the Dairy already has a rolling plan of capital expenditure;

xiv) to note the intention of the Dairy to continue to explore the opportunities for joint projects with Jersey Dairy;

Distribution – Reorganisation and Related Issues

xv) to:

a) agree that the Dairy should be responsible for sales, marketing and the arrangements for the delivery of Guernsey milk and Guernsey Dairy products to all retail outlets from 1 January 2015, or prior to that date, on the payment of compensation to qualifying distributors who currently deliver Guernsey milk and Guernsey Dairy products to those outlets,

b) direct the Policy Council to:

1) appoint a suitably qualified independent adviser to engage with the milk distributors and report to the Policy Council no later than 15 May 2012 with recommendations for a fair and equitable basis for a compensation scheme and an assessment of the likely overall cost of that scheme.

2) following consultation with the Treasury and Resources Department and the Commerce and Employment Department, prepare a New Service Development Bid for inclusion in the States Strategic Plan to secure in principle agreement to the overall funding for the compensation scheme in 2012, and

3) subject to States approval of that bid to establish a suitable independent Panel to hear and deliberate on individual claims from retailers for compensation within the amount agreed by the States for the compensation scheme.

c) agree that the reorganisation of the dairy industry will be completed on the conclusion of the arrangements for the payment of compensation;

Regulation and Amendments to Legislation

xvi) to agree that the Milk (Control) (Guernsey) Ordinance, 1958, as amended, should be further amended to enable farmers to sell their milk directly to an artisan manufacturer of dairy products subject to the prior approval of the Dairy;

xvii) to agree that the fixing of the price payable to milk producers in respect of milk delivered to the Dairy and the fixing of the price charged for milk on sale by retail should be regulated until:

a) 1 January 2020; or

b) five years following the reorganisation of the dairy industry,

whichever is the sooner;

xviii) to direct the Commerce and Employment Department to submit recommendations to the States for any further amendments of the Milk (Control) (Guernsey) Ordinance, 1958, that are consequential to the reorganisation of the dairy industry;

xix) to agree that the Milk (Control) (Guernsey) Ordinance, 1958, as amended, shall be repealed:

a) on 1 January 2020; or

b) five years following the reorganisation of the dairy industry,

whichever is the sooner;

xx) to confirm that the Commerce and Employment Department shall continue to be responsible for the regulation of matters relating to animal health and welfare and to farming and the Guernsey Breed; and

xxi) to note that the Director of Environmental Health will continue to be responsible for the regulation of all matters relating to food hygiene in the dairy industry.

Yours faithfully

C S McNulty Bauer
Minister

M Lainé
Deputy Minister

R Matthews
R Sillars
M Storey
States Members

P Mills
Non States Member

APPENDIX 1

States of Guernsey
Policy Council
Dairy Industry Review
AMENDED REPORT 2011

The Panel

Brian D Peacock
Professor J Malcolm Stansfield MBE
Kathy Tracey

Contents

1. FOREWORD TO THE AMENDED REPORT

Following consultation on the 2010 Report and the publication of the Independent Panel Response on Secondary Consultation Matters the 2010 Report has been amended to reflect further consideration of the issues raised.

The Secondary Consultation process attracted a number of responses from differing interests as now recorded in the Appendix to this report.

This provided wide ranging comment and posed important questions for further consideration.

The Panel considered these responses taking note of the comments, questions and information provided on the issues.

The Panel responses to the Secondary Consultation were made available in May 2011 on the website.

To provide clarity and simplicity the major responses and amendments have now been reflected in this consolidated report.

The main issues reviewed by this consolidated report highlight the need to maintain support for the island's unique dairy farmers in the form of the Dairy Farm Management Contract Payment Scheme, the necessity to encourage producer continuity by modifying the Farm Loan Scheme to assist with the development of farm partnerships and pressure to retain land for agricultural purposes.

The report confirms the need for the Dairy, remaining in States ownership, to be a completely independent entity with a shareholding or a company limited by guarantee to incorporate farmer and retailer interests.

The whole question of the structure and format of milk distribution is again reviewed, reaffirming the need to retain doorstep delivery and reorganise distribution to the progressively more important shop and supermarket sector. The prospects of some milk imports in future years are noted.

The question of providing refrigerated transport for shop delivered dairy products to provide assurance for the Guernsey consumer is again emphasised.

The need to provide an equitable level of compensation for those businesses that suffer a loss in the distribution change envisaged is reviewed in some depth.

A conclusion is drawn that compensation should be dealt with as a States issue and that the levels of compensation should be agreed by an independent tribunal.

The Panel makes a new recommendation on these lines.
Having supported the Secondary Consultation the Panel remains convinced that the Guernsey dairy industry has to change along the lines proposed to meet the challenges of the future.

Brian Peacock
J Malcolm Stansfield MBE
Kathy Tracy

June 2011

2. INTRODUCTION AND BACKGROUND TO THE REPORT

This review and report has been carried out in response to a Resolution of the States of the Island of Guernsey on the 30th day of October 2008 concerning Billet d'Etat No XIII dated 10th October 2008 entitled:

'Commerce and Employment Department'
Distribution of Guernsey Dairy Milk and Milk Products – Exclusive Rights.

The full details of this Resolution are given in Appendix 1.

In summary it was resolved that the distribution model should be reviewed as part of a comprehensive report on the future of all aspects of the dairy industry by a Panel appointed by the Policy Council and the report presented to the States of Deliberation by no later than the end of 2013.

Panel Terms of Reference

These Terms of Reference were formulated to provide certain Key Objectives for the Panel to consider and make recommendations.

Key Objective

To review all aspects of the dairy industry in Guernsey and make recommendations for its long term sustainability.

This Key Objective has been addressed under the following headings.

Issue 1

Safeguarding the future of the Guernsey Dairy Industry.

Key Question: What are the current and future opportunities and threats to milk production in Guernsey and how should these be addressed?

The Panel has reviewed the following aspects:

Related market and consumer issues.

The current viability and long-term sustainability of dairy farming in Guernsey.

The current viability of the island Dairy and its long term future.

The Panel makes various recommendations on aspects of these studies and gives some thoughts to time scale and sequence of potential changes to ensure that any new structure could be in place by the end of 2015 when current distribution arrangements cease under the terms of the 30th October 2008 Resolution.

Issue 2

The distribution of Guernsey milk and milk products.

Key Question: To what extent should Commerce and Employment (acting through the Guernsey Dairy) grant exclusive distribution rights over the sale of the Guernsey dairy range of milk products.

The Panel has considered the present and future aspects of this question and now makes recommendations on operational and structural issues in line with the Panel's views and recommendations provided in Issue 3.

Issue 3

The dual roles of the Commerce and Employment Department as operator and regulator for the Dairy.

Key question: Consider the conflict between the operational responsibility for the Dairy and a responsibility for policy formulation for the future of the islands' dairy industry.

The Panel has reviewed and considered the implications of this issue and makes recommendations for the future relationship of the Department with the industry in line with recommendations made concerning the future of the Dairy and the distribution system.

The Panel considers that these issues are substantially inter-related and should be considered as a whole.

However, to ensure that all aspects are thoroughly reviewed each sector of the industry is considered separately before overall industry conclusions are made.

An Analysis of the Key Issues to be considered by the Panel

The present structure of the dairy industry in Guernsey has developed over many years from an era with more then 300 dairy farms and a milk distribution system almost totally reliant on doorstep delivery.

This original structure required the involvement of the State to provide guidance and stability. Hence the part played by the Commerce and Employment Department.

The current industry structure works due to the dedication of the people involved, albeit with some difficulties and inefficiencies.

In the opinion of the Panel the now changed circumstances within the dairy chain question the present structure and conclude that there is a need to bring the various parties within the island's dairy industry together as a unit to manage future challenges.

The Panel believes that it is essential that stability is maintained during a period of change. Also that any change should be evolutionary and carried out at a pace that the industry can accept.

3. KEY ISSUES TO BE CONSIDERED BY THE PANEL

Issue 1.

Section A **Related Market and Consumer Issues**.
- A1 Population change
- A2 The influence of the Milk Law
- A3 Product availability – factors influencing the market:
  - imported
  - Guernsey produced.
- A4 Consumer issues and the market:
  - analysis of specific dairy product sectors
  - fresh milk
  - products
  - delivery and refrigerated transport.
- A5 Market Relationships

Section B **Dairy Farming in Guernsey**
- B1 Cost of Milk Production
- B2 Non-milk income - slaughterhouse
- B3 Dairy Farm Management Contract Payments.

Section C **The Dairy**
- C1 Efficiency
- C2 Product Range

Issue 2.

Section D. **Distribution of Milk and Dairy Products in Guernsey**
- D1 Doorstep Delivery Zoning
- D2 Shop Delivery - Refrigeration
- D3 Food Service

Issue 3.

Section E **The Role of the Commerce and Employment Department**
- E1 Conflict of Interest

Earlier Reports reviewed in consideration of these Issues

Commerce and Employment Department:

- Review of support for Island Dairy Farming - February 2007.
- Distribution of Guernsey Dairy Milk and Milk Products Executive Rights August 2008.

The Scrutiny Committee Review of the Department of Commerce and Employment proposals for the Dairy industry 2007.

Mr Alan Hinton Report November 2006.

Discussions and evidence taken from many organisations including:

Guernsey Farmers Association
Guernsey Dairy Board and Managers
Guernsey Milk Retailers Association
Cimandis, Manor Farm Foods and Phoenix Foods (Food Service)
Food Retailers: Sandpiper, Coop, Marks and Spencer
Consumer Survey carried out by Submarine
Jersey Milk Marketing Board
Isle of Man Creameries

A full list of the many people associated with or having an interest in Guernsey and its dairy industry who have given their time to help the Panel is given in Appendix 3.

The Panel is grateful to all concerned –Thank you

4. EXECUTIVE SUMMARY

The Panel recognises that Guernsey is synonymous with dairying, the island pastures, the Guernsey Cow and Guernsey Cream and Butter.

The Panel has reviewed all aspects of dairying and dairy products on the island by meeting a wide spectrum of island stakeholders, visiting premises and farms and distributing milk on retail rounds. The Terms of Reference are given in Appendix 2 and the list of people met are given in Appendix 3.

The Panel has also visited Jersey Dairy and Isle of Man Creamery to take evidence and experience from similar island based dairy businesses.

Allied with this approach has been detailed consideration of the earlier reports that have been carried out on aspects of dairying in Guernsey.

The study has led the Panel to believe that currently there is no clear understanding of issues along the milk chain from the cow to the consumer. There is no co-ordination and suspicion is widespread to the serious detriment of the industry. Clearly the number of farmers and distributors has fallen rapidly reshaping the industry but this is not the cause of this lack of co-ordination.

The Panel is of the view that this lack of co-ordination has been brought about by the Dairy, which is pivotal to the industry, being State controlled and managed, lacking commercial edge.

The Panel is of the opinion that with a change of structure it should be possible to manage the relationships between 19 farmers, the Dairy and 26 distributors, but to achieve this significant restructuring is necessary.

The current distribution arrangements put the long-term viability of the industry at risk as there is an in balance of remuneration between doorstep delivery and through shops.

Equally the current arrangements for dairy product distribution are unsustainable. Change is necessary and needs to be handled in a commercial and equitable manner.

The report is arranged in sections for easy reference though many of the issues are common hence some duplication of decision. Each section includes a firm set of recommendations many of which could be implemented long before the 2015 date for distribution change.

The industry would benefit from early evolutionary change as indicated in the Action Plans recommended by the Panel.

Definitive legal opinion has not been sought on all aspects of the recommendations for change but the States lawyers have been appraised of the outline of the proposals.

The Panel has considered the industry as it is today and attempted to look forward 10/15 years to the requirements of stakeholders particularly consumers. For convenience the industry is reviewed in the following sectors:

Section A	Related Market and Consumer issues
Section B	Dairy Farming in Guernsey
Section C	The Dairy
Section D	Distribution of Milk and Dairy Products in Guernsey
Section E	The Role of the Commerce and Employment Department

Executive Summary Section A - Related Market and Consumer issues

The Panel has taken note of the population changes but does not expect the numbers to increase significantly from the present 61200 level.

The influence of the 1955 Milk Law (as amended) and the various ordinances is recorded and considered with particular regard to its influence on future changes.

The various routes to market for dairy products, island produced or imported are considered - including doorstep delivery, shop sales or food service.

The levels of island dairy product consumption are estimated. See Tables 3 to 6.

From this work the following Recommendations are made:

(1) That the 1955 Milk Law (as amended) and ordinances be progressively amended to allow the industry changes proposed in this report.

(2) That when the proposed industry change is complete, the Milk Law should be replaced by up-dated legislation to give price control for a further 5 years. After that, and subject to satisfactory legislation being in place to bring local food regulation in line with EU practice, the Milk Law should be repealed.

In later sections of this report the Panel is recommending a commercial, but still State controlled structure for the Dairy bringing together farmers and distributors in a contracted format without direct government involvement.

To make this work, at least in the early years, price and quota control will be essential.

Hence the need for amendment of the Milk Law and ordinances in the early years followed by up-dated legislation when industry change is complete.

(3) That the prices of Guernsey fresh milk, ex-farm, from the Dairy and at retail level continue to be controlled by the Milk Law (as amended) for 5 years from the date of implementation of the distribution changes.

The Panel having considered the implications of the changes recommended in Sectors A-E believe that price stability will be required and therefore supports the continuation of an independent Milk Price Review Panel making price recommendation for approval by the States.

(4) That the structure of the industry should allow farmers, the Dairy and distributors to better meet the needs of retailers and consumers.

The Panel has established that there is currently a lack of co-ordination and understanding by farmers, distributors and the Dairy which is having a serious affect on marketing of Guernsey Dairy products.

This lack of co-ordination influences retailer [shops and supermarkets] decisions and is almost certainly is detrimental to the consumer.

The Panel makes appropriate recommendations in other sections of this report.

(5) That legislation to be put in place to ensure that all distribution of milk and dairy products to major retail outlets should be by refrigerated transport. Also that all dairy products delivered to other retailers must be by insulated containers. A derogation should be provided for doorstep milk delivery.

Executive Summary Section B - Dairy Farming in Guernsey

The Panel has reviewed all aspects of Guernsey dairy farming paying particular attention to the best use of the island's countryside and the importance of the Guernsey Cow.

Milk production will always be high cost in Guernsey due to the fragmented nature of land holding. There is growing pressure on the availability of land for dairying, an aspect that warrants better control.

The Panel confirms the importance of Guernsey cattle to the image of the industry and remains convinced that current controls are justified and should be retained.

Milk production volume is well controlled by the quota system which the Panel considers could now be converted into a contract arrangement direct with the Dairy. Costs of milk production could be improved by better co-operative buying of imported concentrates.

Farm incomes would benefit from better calf and cull cow returns with the availability of an updated slaughterhouse facility.

The long term importance of the Dairy Farm Management Contract payment to underpin the industry is highlighted.

The following recommendations are made:

(1) Consideration should be given to introducing legislation or some other form of control to retain land for agricultural use.

There is pressure on dairying due to the growing transfer of land to non-agricultural use which warrants control.

(2) In order to sustain the present importance of the 'Guernsey Cow' present regulations and support for the Guernsey breed should be retained.

(3) The Guernsey Farmers Association should collectively encourage an on-going study of cattle feeding and the cost of imported concentrates.

The cost of imported concentrates into Guernsey are higher than into Jersey which warrants collective investigation alongside other aspects of dairy cow feeding.

(4) **Closer relationships should be developed between farmers, the Dairy and dairy retailers by the establishment of a farmers (GFA) seat on the Guernsey Dairy Board Ltd (GDL).**

The industry lacks co-ordination from cow to consumer a fact which allows poor marketing of Guernsey manufactured products. The Panel takes the view that a re-constructed Dairy Board will help eliminate this deficiency.

(5) **Milk quota, seasonal pricing and a quality programme should be part of a direct contract with the Dairy.**

The Dairy and the farmers should be advised on these issues by an independent Panel.

With the establishment of a commercialised Dairy it would be appropriate that direct contracts between farmers and the Dairy should include quota management, seasonal pricing and if appropriate a quality programme.

(6) **As the current slaughterhouse does not satisfy EU standards it should be replaced without further delay to allow the development of a sustainable beef business to supplement dairy farm incomes.**

The slaughterhouse which does not satisfy EU standards must be replaced to allow the development of a beef business to underpin farm incomes. Guernsey dairy farms currently lack the non-milk incomes which are available to producers in other markets.

(7) **That the price of milk received by efficient producers should be sufficient to maintain volumes at levels demanded by the market.**

A suitable milk price is essential to ensure that the volume of milk is available to meet the needs of the Dairy and consumers.

(8) **The Dairy Farm Management Contract Payment should remain in place for the foreseeable future.**

Guernsey milk production will remain high cost, consequently this payment is justified to maintain sufficient milk volume for the market.

The basis of payment should be reviewed with a portion being attributed to environmental and countryside issues.

When the proposals made elsewhere in this report, particularly on distribution, are implemented, it should be possible to review the milk prices to farmers and the level of Contract Payment support.

(9) The Farm Loan Scheme should be reviewed to provide support for the development of partnerships including the financing of working capital, herd transfer and housing using commercial but attractive rates of interest and repayment arrangements.

Partnerships are a developing transaction which allows young farmers to enter the industry under manageable financial circumstances and allow farmers who wish to retire to move away from day to day cow management but at the same time retain a financial interest in the enterprise.

The Panel believes this would be an attractive way to underpin dairy farming in Guernsey.

Executive Summary Section C - The Dairy

The Panel has reviewed the operation of the Dairy in two ways looking at it's position within the dairy chain from the Guernsey cow to the Guernsey consumer, and by benchmarking activities with Jersey Dairy and Isle of Man Creameries being similar operations.

The Panel finds the Dairy pivotal in the industry linking the sale of milk from island farmers, through distribution, shops and the doorstep to the consumer. The Panel is of the view that this chain is not working efficiently and that changes are needed to allow better co-ordination.

To allow the necessary co-ordination of the stakeholders within the chain it is considered that the Dairy should become a limited company run by business people albeit remaining in State control, but separate from the Department of Commerce and Employment.

With a structure designed to be commercial and to include farmers and retailers it should be possible to achieve a co-ordinated approach to the market.

Detailed recommendations are given in the report.

The operation of the Dairy has been benchmarked against other similar dairies in Jersey and the Isle of Man, confirming that the efficiency of Guernsey Dairy is much improved in recent years, however due to the lack of throughput the operation will always be high cost.

With a programme of production rationalisation and a move to a separate limited company the Panel consider that cost saving should be possible. At the same time recognising that the premises need refurbishment and some items of plant require replacement.

The following recommendations are made:

(1) **That the Dairy becomes a separate limited company Guernsey Dairy Ltd (GDL), at an early date with the States retaining all the issued shares in the first instance.**

The Panel consider that this step should be taken as soon as possible, well before the 2015 planned date for the distribution review.

Consideration is given in Section E on the question of the reporting line of the dairy company to the States.

The share structure, should allow the longer term possibility of outside investment by farmers, distributors or others, when and if the Board consider this sort of investment appropriate.

(2) **That the GDL Board is composed of 5 persons to represent the interest of the States, farmers, and dairy retailers using the experience of non-executive business people.**

To aid co-operation seats should be reserved on the GDL Board for an active farmer nominated by the Guernsey Farmers Association and for a retailer with dairy experience.

This structure is important to remove control of the Dairy from the political arena into a commercial environment and at the same time co-ordinate the dairy chain.

(3) **The should take responsibility for managing milk quota, seasonal pricing and quality payments by direct contract with the farmers. (The Milk Quota Panel should continue to advise on these issues).**

With the limited number of Milk Producers it is appropriate that these issues are managed by a direct contract between the buyer and the seller.

(4) **That the Dairy should take total responsibility for the distribution, sale and marketing of all Guernsey Dairy milk and milk products to all appropriate rational retail outlets as from 2015 or sooner by agreement with the payment of compensation to those distributors who lose business.**

This recommendation is dealt with in detail in Section D.

(5) **A capital expenditure plan, with suitable financing, should be followed to improve and ensure the efficiency and standards within the Dairy.**

(6) **That a formal arrangement be established with Jersey Dairy to achieve reciprocal product manufacture and distribution maximising throughput and minimising cost. A joint marketing strategy would be appropriate.**

Both dairies suffer from the problem of high milk prices and low throughput for fresh milk and short production runs for milk products. For these reasons costs of production are high so it is in the interests of both dairies to co-operate.

Equally joint marketing has the attraction of minimising these costs and maximising sales. Details of these proposals are given in a suggested Action Plan.

(7) The restriction on farmers selling their milk to a manufacturer of dairy products – typically a small scale artisan business - should be removed in an amendment of the Milk Law; relying upon suitable Health and Hygiene Regulations to control subsequent production and standard of premises.

Currently, to comply with the Milk Law, the farmers are obliged to sell all their production to the Dairy. The Dairy in turn is required to buy all milk produced by the farmers subject to the constraints of the quota restrictions.

In most free markets the farmers have the ability to sell their milk where they wish. The current restriction in Guernsey places a serious constraint on the ability of artisan businesses to market products at acceptable prices and places a restriction on market development.

Executive Summary Section D - Distribution of Milk and Dairy Products in Guernsey

The Panel has studied distribution of milk and milk products in Guernsey in detail and considers this system taken overall to be dysfunctional and to the disadvantage of the whole industry and the consumer. There is no co-ordination of activity from the Dairy through the distributors to the major customers, the shops and the supermarkets, and price structures are inappropriate.

To ensure the sustainability of the industry for farmers and consumers this has to change.

It is difficult to be certain how this situation arose but the Panel consider that it is due to the fact that the Dairy is controlled directly by the State (through the Department of Commerce and Employment) thus failing to provide a commercial approach to the market.

A serious mistake was made in 2007 which allowed a Single Gate price for milk sold from the Dairy to distributors. This allows distributors who supply ‘shops only’ to make an over-remunerated return due to their low costs compared with a poor return experienced by ‘doorstep only’ distributors with the high cost of home delivery.

Furthermore the complexities of Guernsey milk and milk product distribution cause difficulties for the ultimate seller, the shops, who have no direct contact with the producer and the Dairy.

All the major retailers have stated that this sort of arrangement cannot continue as they require direct contact for supply and promotional matters.

The Panel is surprised that the major retailers have not insisted on more co-ordinated market management and a delivery service using refrigerated vehicles.

Guernsey Dairy needs to be enabled to provide a much more commercial service to major retailers or the whole industry will not survive the competition of imported products. As a consequence of the above the Panel has made the recommendations which follow together with a proposed Action Plan for implementation.

THE PANEL GIVES THESE DISTRIBUTION RECOMMENDATIONS AND SUMMARISES THE REASONS FOR MAKING EACH PROPOSAL.

(1) From 2015 (or sooner, in accordance with recommendation 4 of Section C) the Dairy should take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by Waitrose, the Sandpiper Group, the Co-op, Marks & Spencer, Alliance and Forest Stores or their successors.

This change is needed for two fundamental reasons. The present single gate price arrangement over remunerates direct shop delivery. Shop delivery costs are well below the margin available. This change will eventually benefit the whole industry and consumers as it is a cost saving measure. The change also creates a direct link between the Dairy and the major retailers allowing direct negotiation on pricing, promotional and delivery issues for fresh milk and dairy products. (See Recommendation 6)

(2) That the present 'zoning' system of doorstep and catering deliveries of fresh milk be retained. The control of 'zoning' being carryout by the Guernsey Milk Retailers Association using an independent arbitrator to settle any disputes'.

In many areas of the UK and in Jersey, doorstep delivery has been abandoned due to lack of sales and staffing problems. This may eventually happen in Guernsey but steps should be take in the medium term to maintain delivery to doorsteps as this provides some level of public service. Also the movement of all milk sales into shops would prove difficult due to lack of floor space available for fresh milk in many of the present retail outlets.

In a total shop scenario large trucks would be required for delivery which would be unsuitable for many of the islands roads and lanes.

(3) An amended Milk Law should be retained for 5 years after the industry has restructured (in 2015 or sooner) to provide price control and stability for fresh milk.

As outlined in earlier sectors a degree of stability is required to allow controlled change. This is required in the distribution chain to allow re-organisation, and compensation as appropriate. This arrangement should be reviewed to allow free-pricing 5 years after the industry has restructured.

(4) That the current licensing of milk distributors by the Department of Commerce and Employment should be replaced by a commercial contract between the Dairy and the distributor confirming suitability of the distributor and his vehicle, the existence of a GMRA 'zoned' fresh milk round.

As the pivotal point in the dairy chain, the Dairy needs to have contractual arrangements for the supply of milk (farmers) and the sale of fresh milk to distributors and major retailers.

In the proposed new structure the Dairy would be the appropriate body to agree commercial contracts incorporating Milk Law (amended) requirements.

(5) That the sale of all Guernsey Dairy milk products (other than fresh milk) be available to all legitimate traders, who are approved by the Dairy for distribution in Guernsey.

Presently the sale of Guernsey Dairy milk products is confused and is failing to provide Guernsey Dairy with an adequate share of the island market for dairy products – particularly cheese and cream.

The sensible way to solve this problem is to make the produce freely available and allow traders free access to sell and distribute.

(6) That compensation be paid on a 'without prejudice' basis to those distributors who have lost business with the transfer of fresh milk deliveries to Waitrose, the Sandpiper Group, the Coop, Marks and Spencer, Alliance and Forest Stores or their successors to the Dairy.

Legal opinion as to whether the provision of a license gives the distributor title to the goodwill of the business is unclear and is outside the scope of this report.

However, the Panel consider that for the sake of good order and goodwill a level of compensation should be paid. This compensation should not be based on the original cost of purchasing the business but on its current valuation. This value may be influenced by the now limited market for milk distribution businesses.

An independent expert will be needed to give a valuation related to profitability or other parameters.

(7) That the level of compensation for loss of business to the named retailers should be funded by the States, and agreed by an Independent Milk Distribution Settlement Tribunal. This body to be in place as soon as possible, but in any event prior to 2015 to provide cost estimates and make early settlements as appropriate.

The Panel considers that the payment of compensation should not directly impinge upon the on-going Dairy operation and that Guernsey consumers should not be expected to pay for this restructure in the retail price, but it should be handled as a separate matter.

The States should consider providing funds to reorganise the industry and underpin Guernsey agriculture, particularly dairy farming, in this case to provide compensation for loss of distribution business profitability.

(8) That the GMRA, using the services of an arbitrator, encourages the rationalisation of milk rounds to maintain a sustainable doorstep delivery system.

With the 2015 changes, subsequent further movement of milk from rounds into shops and the need for distributors to retire, a mechanism is needed to assist with the rationalisation of retail milk rounds.

As change occurs rationalisation will be needed to maintain viable continuing businesses. The GMRA should play an active part in this process in the interest of their members.

(9) That a seat is reserved on the Board of Guernsey Dairy Ltd for a person with dairy retailing experience.

The Panel believes that farmers and retailers should take an active interest in the management of the Dairy to provide co-ordination and cohesion from the cow to the consumer.

The involvement of a retailer in the Dairy is essential to achieve this objective.

(10) That all deliveries of milk and milk products to major retail outlets are carried out using refrigerated vehicles and that legislation is introduced to enforce these requirements.

Delivery of milk products to other outlets to be made by refrigerated or insulated container.

Milk deliveries to the doorstep to be given a derogation from this requirement.

Executive Summary Section E - The Role of the Commerce and Employment Department

The Dual Role of the Commerce and Employment (C&E) as Operator and Regulator for the Dairy

The Panel has considered and taken widespread views on possible conflict between operational responsibility for the Dairy and a responsibility for policy formation for the future of the dairy industry.

The Panel considered the matter in three ways.

Has there been a conflict in the past?

In the Panel's opinion evidence shows that there have been instances of conflict of interest which arose as C&E dealt with issues involving the Dairy with farmers and with distributors on licensing and zoning matters.

These conflicts were a significant factor in the management of the issues.

Is there any conflict of interest at the present time?

C&E are presently managing the Dairy with a lighter touch through a somewhat re-structured Board with less C&E involvement.

Consequently it is now more difficult to isolate conflict of interest but distributor issues do remain unresolved and could give rise to conflict at any time. Also Dairy line management reporting remains direct to the Director of Client Services within C&E.

Is there potential for conflict of interest in the future?

In the Panel's view the answer must be 'Yes' if the present structure is retained and the Dairy remains part of C&E albeit with its separate Board.

The Panel consider that there is a need to completely separate the responsibilities with no common personnel at Board or operational level.

The Panel is recommending elsewhere in this Report that the Dairy becomes a separate limited company with its own Board of Directors (as described) with a reporting line to the States. On the assumption that this separate dairy company is created the reporting line should remain with C&E, in the short/medium term.

In the longer term it may need to report to Treasury and Resources.

The following recommendations are made:

(1) The Dairy becomes a limited commercially driven company, with an arms length reporting line to the C&E Board with no common personnel or Directors.

(2) The Dairy takes full operational responsibility for milk quota, quality and other issues with the farmers and for licensing/contract and similar matters with distributors.

(3) The Director of Environment for the Board of Health continues licensing under the terms of the Milk and Dairies Regulations

(4) The C&E Department continues to use its policy expertise to manage Farm Services together with the environmental, animal welfare and payment issues for the Farm Management Contract Payment Scheme, together with other regulatory matters.

5. SECTION A - RELATED MARKET AND CONSUMER ISSUES

Issue 1 Safeguarding the future of the Guernsey Dairy Industry

Factors Influencing the Present and Future Market

For this study importance is placed upon obtaining a measure of the existing dairy products market in Guernsey and how this has been influenced over time and to give some view on future changes. Attempts are made to estimate demand and disappearance of dairy products looking at six topics.

A1	**Population change**
A2	**Influence of the Milk Law**
A3	**Product availability – Factors influencing the market**
A4	**Consumer issues and the Market**
A5	**Dairy Product Consumption in Guernsey**
A6	**A review of the Commodity Sector**
A7	**Recommendations**

A1 - POPULATION CHANGE

The estimated total population was 61726 in March 2008

For most of the period 1836 to 2006 the Guernsey population growth measured by census has been around 2% per year.

The period 1956 to 2006 showing an approximate 3% growth with the period 1986 to 2006 showing 2.5% growth.

This appears to be in line with Western cultures showing stabilisation or limited growth.

In the case of Guernsey, an attractive place to live, we would expect slow growth to continue at not more then 2% net.

However, at this level the influence on dairy product consumption will be limited and only really noticeable at the end of a 10 year period. During this period however other influences on consumption such as healthy eating are likely to be more important.

A2 - INFLUENCE OF THE MILK LAW

The 1995 Milk Law requires the Department of Commerce and Employment to fix the retail price of milk (by order), licence those who sell milk, licence the import of milk and require the farmers to sell their milk to the State run dairy.

It is clear from the written evidence and from discussion with stakeholders that the implications of the 1955 Milk Law have a great influence on the thinking within the island industry, particularly on the question of import control and pricing of liquid milk.

This evidence indicates that the protected status of the monopoly State Dairy and the restrictions provided by the Law appear contrary to the commitment given by Guernsey to free movement of agricultural products under EU Protocol 3.

The popular interpretation of the Milk Law is that it provides farmers and distributors with protection from the possible challenge of imports of liquid milk and on price. Lawyers have advised firmly that this is not the case and that much of the Milk Law would not stand up to challenge.

In the Panel’s view the State should not allow this misunderstanding to remain as the island’s farm and distributor businesses continue to make operational and investment decisions on this erroneous premise which leaves the State open to possible challenge.

A recommendation that the Law needs to be repealed should be considered. However staged amendment may be more appropriate to allow retention of certain controls provided by the current legislation until essential industry change is complete.

Operational and related legislative change is now needed throughout the dairy sector to provide a more commercial environment, to bring the industry in line with best commercial practice, to support the needs of the consumer and to create industry sustainability.

Guernsey cannot insulate itself, in the long-term, from international developments in the dairy market. The key to this change is a progressive removal of State influence at the same time underpinning dairying on the island in line with local wishes

However, the speed and the sequence of any change is crucial.

As a consequence Panel recommendations on matters within Issues 1 and 2 have been formulated taking a staged amendment proposal into consideration.

A2.1 - Price Control

The Panel having considered the implications of changes needed throughout the dairy chain as described in Sections A to E takes the view that price control is essential for Guernsey fresh milk (not products) for 5 years from the implementation of the distribution changes.

This control to be maintained under the Milk Law (as amended) using the services of an independent Milk Price Review Panel making recommendations to the States for approval.

After the 5 year period an open market should be put in place. The Dairy negotiating ex-farm milk prices with the farmers and setting the transfer price to distributors and retailers who in turn would set their selling prices.

A3 – PRODUCT AVAILABILITY – FACTORS INFLUENCING THE MARKET

Dairy products on Guernsey are available from local milk production or are imported on to the Island.

Local dairy product manufacture is now, and in the future, governed by fresh milk availability from the farms, the presence of expertise at the Dairy to manufacture the product and the economics of production and distribution within the island.

On the other hand the potential range of imported products is infinite and only restricted by the economics of transport and price.

A3.1 - Routes to Market.

The important factor governing the size and shape of the market on the island is the route to market.

Currently there are four major routes to the consumer:

i) Doorstep Delivery

Historically all retail liquid milk and many dairy products were distributed by direct delivery to the doorstep.

In most areas of the world, it is now considered to be something from a by-gone age. In a totally market related world doorstep delivery will not survive but in the view of the Panel it should be supported in Guernsey in the medium term for environmental and caring society reasons.

Evidence is available which shows that there is a steady movement of sales from the doorstep into shops. Experience elsewhere has shown that as sales move from the doorstep there is a reduction in total sales.

With this steady erosion of volume into shops and a continuing pressure on distribution costs, doorstep delivery becomes a marginal profit undertaking in all markets. In order to sustain doorstep delivery in Guernsey positive commercial steps will need to be taken.

Aspects of doorstep delivery will be discussed in the appropriate Distribution section highlighting the challenges.

ii) Retail Shop Sales (and Retail Shop Development)

In recent years the face of food retailing on the island has been significantly altered. Traditionally each village and locality had its own privately owned local shop selling a range of dairy products with limited offerings of liquid milk.

This has all now changed with the development of supermarkets and larger stores selling an extended range of dairy products with considerable volumes of liquid milk. The Guernsey grocery market is now controlled by six retail operators, Waitrose, the Sandpiper Group, the Coop, Marks and Spencer, Alliance and Forest Store.

The long-term success or failure of local dairy farming is substantially in the hands of these retailers and their control of the market, which for liquid milk now appears to be in excess of the 60% share.

The Panel will return to this issue throughout the report as it has great importance to the longer term structures of dairying in Guernsey.

The Panel has discussed aspects of shop development with the retailers with the exception of Waitrose as a measure of the future market for dairy products. The Panel recognised differing aspirations, with the Coop wishing to develop further supermarket capacity whilst others wished to replace and upgrade existing capacity.

However, all the retailers recognise that store development must occur to satisfy the consumer who is the ultimate arbiter.

iii) Food Service Sector (a Growing Route to Market)

A significant development in the market for dairy products in recent years has been the expansion of out-of-home food consumption. This expansion has been mirrored by the development of specialist food services supply companies which are capable of delivering a full range of foods, catering and hospitality products to cafes, restaurants, hotels and canteens.

The success of this group of companies is the integrated delivery of a wide product portfolio, including a range of dairy products.

This expansion of food service to support out-of-home consumption applies equally to Guernsey with the growth of Cimandis, Manor Farm Foods and Pheonix Foods who now have an influence on the market for dairy products and will continue to do so.

Hotels and restaurants demand a full portfolio of dairy products in bulk and retail packs for direct and instant consumption.

Due to the present restrictions of supply associated with the distribution agreement the sale of locally produced products is not maximised. As a consequence the Food Service market in Guernsey is in the main supplied by products imported to the island.

The Panel will return to this issue when considering Distribution.

iv) Imports by Container

The competition provided by container delivery from the UK is real as it is efficient.

The drawback for dairy products is timing and possible bad weather but this is not a routine threat. Bulk and cost remain the major restricting factors. Freight costs may be high but can be overcome by marginal product costing.

The Panel notes the continued growth of imported dairy product sales, regardless of these constraints.

A4 - CONSUMER ISSUES AND THE MARKET

The consumer is concerned with three main issues, price, availability and quality:

i) Price

As local products are manufactured utilising high priced milk they are constantly under pressure from imported products. This is unlikely to change in the future so local products have to provide other attractions for the buyer.

Consumer Group evidence confirms that Guernsey products have a clear following from the island's population based on the attraction of the Guernsey Cow and the island countryside. These attributes need to be defended and built upon by ensuring availability and quality to provide a competitive edge to price.

ii) Availability

On-shelf availability is key to retail success and the best way to achieve this in Guernsey is to stock a locally produced item with a recognised local brand linking the customer with the product and the island – a feel good factor at point of purchase!

Instant availability has positive attractions to the stockist for customer satisfaction and in some cases cash flow.

In the opinion of the major retailers this is not currently being exploited due to the lack of co-ordination between the Dairy and the supermarkets on distribution, pricing and promotional matters – brought about by the dysfunctional distribution arrangements.

iii) Quality – Product Refrigeration

Three aspects of quality are of concern to the consumer, safety and acceptability of appearance and taste.

It is recognised that the bacteriological and chemical quality of food products in Guernsey is well monitored and controlled throughout the current distribution chain. However, from a risk management aspect safety and acceptability the lack of refrigerated storage and transport leave the industry vulnerable to challenge.

Present legislation in this area is now behind the norm elsewhere and needs updating. Marks and Spencer insist upon the use of refrigeration for all deliveries on the island as they do elsewhere. It is expected that Waitrose will require similar refrigeration. It is somewhat surprising that Sandpiper and the Coop have not placed similar conditions on their suppliers.

The Panel will make recommendations on the issue.

A4.1 - Consumer Research (Table 1)

The Panel has carried out research on Consumer opinions in areas where the Panel is likely to make recommendations and has also noted the outcomes from the ‘Guernsey Tomorrow’ Survey.

In the dairy sector the importance of ‘Guernsey products’ is confirmed with a clear demonstration of the preferences for these products. The potential for a new island product, yoghurt was suggested and gained a very positive response, albeit without the question of price. However, the response to the possibility of a doorstep delivery charge was in line with expectations.

Table 1- Guernsey Dairy Survey 2010

How important is the availability of Guernsey dairy products to you?

Response	Response Count	Percentage
Very Important	195	73.58%
Preferable	50	18.87%
Not Important	20	7.55%
Totals	265	

How regularly do you purchase the following?

	Daily	Weekly	Every 2 Weeks	Monthly	Once a Year	Rarely	Never
Guernsey Butter	11 4.21%	76 29.12%	35 13.41%	45 17.24%	22 8.43%	37 14.18%	35 13.41%
Guernsey Cheese	6 2.35%	69 27.06%	33 12.94%	48 18.82%	17 6.67%	48 18.82%	34 13.33%
Guernsey7 Cream	1 0.38%	40 15.21%	38 14.45%	91 34.60%	36 13.69%	42 15.97%	15 5.70%
Guernsey Ice Cream	1 0.40%	18 7.11%	5 1.98%	68 26.88%	44 17.39%	77 30.43%	40 15.81%

Would you buy Guernsey yoghurt if it were available?

Response	Response Count	Percentage
Yes	171	64.29%
No	40	15.04%
I don’t know	55	20.68%
Totals	266	

Would you pay a delivery charge of up to 3 pence per litre to ensure that milk could continue to be delivered to your doorstep?

Response	Response Count	Percentage
Yes	77	28.95%
No	46	17.29%
I don’t know	15	5.64%
We don’t receive doorstep deliveries	128	48.12%
Totals	266	

Source: Submarine

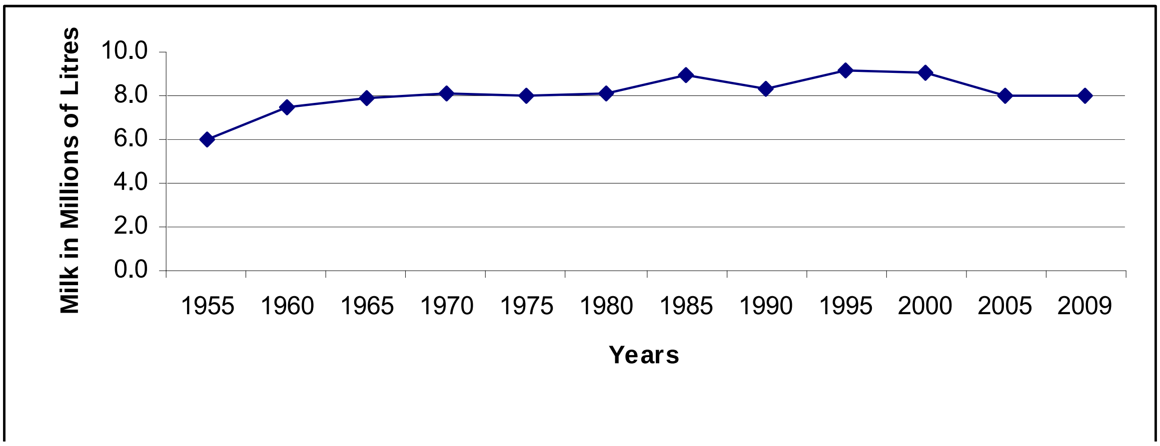
A5 – DAIRY PRODUCT CONSUMPTION IN GUERNSEY

A5.1 - Milk and Milk Products Manufactured in Guernsey

Guernsey Fresh Milk

Production of fresh milk from Guernsey Farms. The details of the annual production of milk in Guernsey are shown below in Table 2 and Table 3.

Table 2 - The Total Annual Sales of Milk to Guernsey Dairy



It can be seen that ex-farm milk production increased from around 6 million litres per annum in 1955 to a peak of some 9.89 million litres in 1998. This peak created a serious over-supply of milk which had to be made into cheddar cheese and exported to England.

The over-supply was encouraged by high ex-farm price which forced the Dairy into a loss on every tonne of cheese exported.

To correct this problem a production Quota System was introduced in 2000 and the retail price reduced.

This action encouraged many small and part time producers to give up dairy farming. Progressively, over the following years milk production has fallen to around 8 million litres per annum and has recently been maintained at this level.

Present production is around this level with 6.7million litres being used to supply the fresh milk market. The balance of the supply being converted to cheese, butter, ice-cream and fresh cream.

This history of this supply and its utilisation is illustrated in Table 3.

Table 3 - Guernsey Milk Supply and Utilisation

	1955	1988	1999	2002	2009
Supply					
Milk from Farms (m litres)	6.00	9.28	9.88	7.68	8.10
Utilisation of Fresh Milk					
Fresh Milk (m litres)		7.25	6.98	6.54	6.73
Full Cream (litres)			1341877	914687	841449
Low Fat (litres)			4581170	4763577	4826591
Skimmed (litres)			657804	865145	1137988

Shop – Doorstep Sales (3 year average 2007 to 2009)					
Total Fresh Milk Sales			6.630 million litres		
Retail Shop Sales			4.146 million litres (62.5%)		
Doorstep and Catering Sales			2.284 million litres (37.5%)		
	1988	**1995**	**1999**	**2002**	**2009**
Products					
Cheese (tonnes)	145	192	191	16	22
Butter (tonnes)	68	118	145	149	199
Cream (litres)	16948	221008	195080	180548	123751
Yogurt (litres)	132088	97778	67823	-	-
Exported					
Cheese (tonnes)	125	170	170	-	-
Butter (tonnes)	-	-	-	-	42

Fresh Milk Sales in Guernsey.

Table 3 confirms that 2009 fresh milk market at some 6.73 million litres having shown a gradual decline from 7.25 million litres in 1988, through 6.9 million litres in 1995 to the present level.

Table 3 also shows the influence of the introduction of low fat milks to the market and the move away from full fat milk to low fat and now to skimmed milk. These changes are in line with the trends in the UK.

Shop and Doorstep Sales (Table 3)

Utilising retail shop cash sales figures for milk for the past 3 years and knowing the selling price it has been possible to estimate the volume of milk sold through these outlets (a 3 year average is used due to the differing number of annual weeks given in the statistics provided).

This analysis shows an average shop and supermarket sale of 4.14 million litres per year or 62.5% of the total market for the years 2007/2009. Doorstep and catering sales averaging 2.484 million litres (37.5%) for the same period.

Outlook for the Fresh Milk in Guernsey

The history of the market as described (Table 3) indicates a degree of stability which we would expect to continue with the population showing limited growth.

We expect the trend of sales to continue showing the movement from full fat towards lower fat milks. This is in line with the UK trend which is once again accelerating with the promotion of 1% fat milk.

These sales are at a higher level of consumption per person than in the UK. We assume this is due to a different population profile.

UHT Milk

As a consequence of the import ban there is no long life UHT milk on the Guernsey market with the exception of some flavoured milks and catering jigger packs. Commercially and for the satisfaction of the consumer this cannot be acceptable in the longer term.

Due to the lack of a UHT supply volume is being lost by some retailers, for the marina and similar outlets. The controlled provision of this type of milk requires further consideration – the Panel will recommend.

The Guernsey Market for Other Dairy Products

There is a considerable difficulty in calculating the total sales of dairy products in Guernsey as import statistics are not available.

As shown in Table 3 it is relatively easy to analyse the products sold from milk produced on the island as they are well recorded by the Dairy. Cheese production and sales were reduced from 2000 in line with the decision to reduce farm milk production by quota control to prevent financial losses on cheese sales. Equally yoghurt production ceased due to the high cost of production and the low volume. In recent years ice cream has been added to the portfolio.

An Estimate of the Total Guernsey Dairy Market using UK Food Surveys

Table 4 - UK Average dairy consumption per person per week

	2008	**1994**
Yogurt and Fromage Frais	202 (ml)	122 (g)
Cheese	111 (g)	106 (g)
Butter	40 (g)	40 (g)
Cream	21 (g)	16 (g)

2008 – Defra Family Food Survey, 1994 – National Food Survey

Table 5 – Estimate of Guernsey Consumption (Applying UK Consumption Data in 4)

	2009	**1994 (a)**
Yogurt (litres)	648370	391678
Cheese (tonnes)	356	340
Butter (tonnes)	128	125
Cream (litres)	67404	51356
Guernsey Population	61726	61740

[a] Casebow A 1996 University of Reading Doctorate Thesis

A5.2 - The Total Market for Milk and Dairy Product in Guernsey (and an Estimate of Imports to the Island).

To get a clear view of the potential for the local dairy industry it is necessary to get an estimate of the Guernsey market size for individual dairy categories and from these calculate the imports into the island.

As these statistics are not available, two differing methods are utilised

The Market Estimate using the Food Survey Data

Estimates of food markets can be achieved by reference to the UK Family Food Surveys. An attempt to measure the total market is shown in Tables 4 and 5 which is based on the DEFRA Family Food Survey for the UK and its earlier equivalent the National Food Survey utilising actual household consumption data.

Whether these UK consumption levels are applicable to Guernsey is questionable due to the fact that these surveys include areas of the UK with very different eating patterns to the Guernsey experience.

Table 4 gives details of consumption levels for 1994 and 2008. These details are then used to calculate a theoretical total market for Guernsey with a 2008 population of 61,726 (Table 5).

We note that the calculated Guernsey consumption level per head appears considerably in excess of the UK experience as did Casebow in his 1996 review of the Guernsey dairy industry, presumably due to the influence of the less favourable areas in the UK sample. Consequently further analysis is required using industry data.

Market Estimate using Shop/Supermarket and Food Service Data

Table 6 - Trade Sales Data the Guernsey Dairy Market 2007-2009

	Retail Sales	**Dairy Sales**	**Dairy Catering**	**Catering Other (a)**	**Total**	**1994 (b)**
Yogurt (litres)	834000	-	-	80000	914000	391678
Cheese (tonnes)	463	18	4	130(c)	597	422
Butter (tonnes)	143	76	89	30	253	178
Cream (litres)	61000	41000	83000	30000	174000	166000
Ice Cream (litres)	164000	22032	2292	26000	192298	-

(a) Catering other figures are best estimates.
(b) 1994 estimates from Casebow. The figures shown for the dairy catering are actual sales.
(c) Includes grated and pizza cheese.

We believe a more promising and accurate approach is analysis of the catering/shop/supermarket sales figures kindly made available on a confidential basis by leading operators.

Knowing the cash sales value of these products for a 3 year period and the selling prices it is possible to make a reasonable estimate of the size of the market for these products. (Table 6)

The influence of promotional pricing and changes in product mix can have an influence on the result. These estimates should be considered as a guide rather than a definitive figure, but have given the Panel guidance when reviewing the industry.

Market Changes 1994 – 2009 column (b). It is interesting to note the changes in the market since 1994 when Casebow carried out a similar estimate with the help of retailers.

Cream sales have remained reasonably static, cheese and butter showing steady growth, yoghurt and desserts having more than doubled.

A6 – A REVIEW OF THE COMMODITY SECTOR (TABLE 6)

A6.1 - Cheese

The total cheese market in Guernsey is estimated at some 597 tonnes per annum most of which is imported. Local production being 22 tonnes. This market has grown from an estimated 422 tonnes in 1994. The sale of locally produced cheese represents some 4% of retail sales.

<u>Outlook for Cheese</u>

We would expect sales to continue slow growth in line with population leaving a market which could be exploited by local production.

The earlier export of block cheddar cheese to England was not viable and is unlikely to be so in the future due to the high cost of milk. An alternative strategy is needed to increase sales within the Island, in Jersey and for the premium UK market.

Other island manufacturers, on Orkney and the Scottish islands, have developed a unique presentation for a standard but good quality Cheddar to compete in the UK market using high cost milk. The Panel will return to this opportunity when considering the Dairy.

A6.2 - Butter

Any estimate of butter sales within the yellow fats market is difficult due to the impact of spreads and spreadable butters. The current estimate shows the total consumption of butter in Guernsey to be 253 tonnes in 2008 (178 tonnes in 1994) with local production taking a high proportion of sales.

Outlook for Butter

The butter market is unlikely to grow substantially both on the Island and elsewhere. However, the Dairy's experience of supplying to Waitrose indicates that there is a potentially greater UK market for this unique and attractive product, which should command a premium price.

There may again be a case for a unique presentation for Guernsey butter that would have a wider attraction and achieve a premium price in 'Buerre d' Guernsey' for the South East UK market.

A6.3 - Cream

We estimate the market for fresh cream to be 174,000 litres showing slow growth from 166000 litres in 1994. This increase is in line with the experience elsewhere. This reflects slow growth of fresh retail packs and the increased use of cream in manufactured products and within the catering market for cream cakes and desserts.

Outlook for cream

We would expect that the level of cream sales will continue to show some increase particularly in the catering area and that there is likely to be pressure for range extension to lower fat creams for the retail consumer market. In other words little change in butterfat terms.

A6.4 - Yogurt and Fresh Dairy Desserts

The market for yoghurt and dairy desserts has grown from some 391678 litres in 1994 to 894000 litres in 2008. This estimate of the Guernsey market does not look un-realistic as the total retail market for this range of products has shown similar growth elsewhere.

Outlook for Yoghurt and Fresh Dairy Desserts

The yoghurt and dairy dessert sector is the growing part of the dairy cabinet and is likely to continue along this track with continuing innovation of probiotic and low fat variants which leaves some openings for specialist products that will attract the consumer.

Some years ago, the Dairy ceased production of yoghurt which could have utilised locally produced milk. It is difficult to see how this could be reversed without the development of a niche product to be aimed at the specialist market as the standard product sector is ultra competitive and dominated by the brands. As costs of local production would be high due to milk costs and small runs, co-operation with Jersey Dairy would be a possibility.

A6.5 - Ice Cream

This market is divided into two distinct parts - the bulk pack sector and the hand held portion substantially dominated by Nestle and Unilever. It is even more difficult to assess this market due to the influence of water ices which are included in the statistics.

We have evidence of shop sales of 164000 litres with catering sales to be added which we believe gives a total market of some 192292 litres.

Outlook for Ice Cream

We see little growth for locally produced bulk product and continued price competition. The hand held area will remain dominated by the brands but with very little real growth.

In these circumstances the Panel sees no future for the development of a locally produced, profitable, ice cream market. Again discussions with Jersey Dairy are appropriate to attempt the development of a 'Channel Island's' brand with reasonable joint volumes.

A6.6 - Conclusion on the Guernsey Dairy Market

Guernsey is an attractive market for dairy products with consumption well in advance of the average UK experience.

This market should be exploited even more vigorously by the Dairy to place local farm milk and products with local consumers, working jointly with Jersey Dairy.

The Island's dairy farmers produce a first class product, albeit at high cost, but the marketing of this raw material is confused and inadequate and distribution chaotic.

The basic problem is the lack of access and co-ordination between the stakeholders, the farmers, the Dairy, the distributors and the shops/supermarkets created by the present structure and commercial arrangements.

Present arrangements fail to recognise that the future of dairy marketing is, in the main, governed by the supermarkets. The farmers must therefore have direct access to the retailers through the Dairy who in turn must provide the necessary sales and marketing programme to maximise the use and return on local milk.

This would be best achieved by a reciprocal arrangement with Jersey Dairy on product rationalisation, cost reduction, product specialisation and positive marketing.

A7 - RECOMMENDATIONS ON MARKET AND CONSUMER ISSUES

The Panel makes the following recommendations:

(1) **That the 1955 Milk Law (as amended) and ordinances be progressively amended to allow the industry changes proposed in this report.**

(2) **That when the proposed industry change is complete, the Milk Law should be replaced by up-dated legislation to give price control for a further 5 years. After that, and subject to satisfactory legislation being in place to bring local food regulation in line with EU practice, the Milk Law should be repealed.**

(3) **That the prices of Guernsey fresh milk, ex-farm, from the Dairy and at retail level continues to be controlled by the Milk Law (as amended) for 5 years from the dated of implementation of the distribution changes.**

(4) **That the structure of the industry should allow farmers, the Dairy and distributors to better meet the needs of retailers and consumers**

(5) **That legislation be put in place to ensure that all distribution of milk and dairy products to major retail outlets should be by refrigerated transport. Also that all dairy products delivered to other retailers must be by insulated container. A derogation being provided for doorstep milk delivery.**

6. SECTION B - DAIRY FARMING IN GUERNSEY

B1	**Dairy Farm Benchmarking**
B2	**Land use**
B3	**The Cattle**
B4	**Grass and Forage Crops**
B5	**Milk Production**
B6	**Physical and Financial Performance**
B7	**Building and Equipment**
B8	**Farming and the Countryside**
B9	**Farm Services**
B10	**The Slaughtering Facilities**
B11	**The Support Services**
B12	**The Dairy Farm Management Contract**
B13	**Young Entrants**
B14	**Conclusions**
B15	**Recommendations**

B1 - DAIRY FARM BENCHMARKING

Table 7 Farm Milk Prices as Percentage Share of Retail price 2009

	Farm Milk Price (ppl) (a)	**Retail Price (ppl)(c)**	**Farm % of Retail**
Guernsey	38.10	98	38.90
Jersey	42.48	98 + gst	43.30
Isle of Man	23.89	100	23.8
UK Shop	26.47 (b)	65.21	40.06
Doorstep	26.47	90	29.40

(a) Farm Prices are yearly average without Single Farm Payments.
(b) UK farm prices show premium paid for fresh market.
(c) Retail prices are averages calculated from a mix of packages and sizes.
(d) IOM + Guernsey statutory retail prices.

Cost of Production	**Guernsey**	**Jersey**	**UK**	**IOM**
2008	56.20	46.38	23.20 ppl	below
2009	49.40	53.17	23.7 ppl	20.00 ppl

(Best estimates)

Average Concentrate Price	**Guernsey**	**Jersey**	**UK**
£/tonne 2008/2009	338	310	308

Yield per Cow (2006 – 2008)

Guernsey Cow	(in Guernsey)	5710	Jersey Cow	(in Jersey)	4022
	(in UK)	5928		(in UK)	5568
	(in USA)	6919		(in USA)	7301

Sources: Trade information, Dairy Industry News

The Panel's benchmarking review shows that the cost of milk production in Guernsey are similar to those achieved in Jersey though considerably in excess of those experienced in the UK and the Isle of Man, which we understand is below 20 ppl.

Fragmentation of land holding being an important factor contributing to these high costs. Feed costs from imported concentrate are high and warrant collective investigation as the suppliers are common to milk producers in Jersey.

Yield per cow is in line with the UK but remains well below the yields in USA, a point worth noting.

The Guernsey farmers’ percentage share (37%) of the retail price seems in line with the market.

B2 - LAND USE

Milk production is the most important farm enterprise in Guernsey. Of the 15,250 vergees of agricultural land, dairy farmers use some 8,000 vergees.

Potato and vegetable growers occupy 1,500 vergees, the remainder being used for a wide range of hobby farming and leisure activities – especially equine.

The area used for dairying is divided into over 3000 small fields averaging less then 4 vergees – the system being traced back to a Celtic field pattern.

The farmers own a variable, often small amount of the land they farm, renting the remainder from numerous owners. This leads to fragmentation, reduced efficiency and added costs. Current rental values were quoted at £55 per vergee for pasture land. The ongoing loss of land from farming to alternative uses such as horse paddocks and large gardens is a concern to dairy farmers and to other local people when gardens are planted to trees and mown lawns, changing the traditional landscape of the island.

Efforts to increase efficiency by undertaking an exchange arrangement of rented land between farmers have met with minimal success, as tenants often develop effective working relationships with land owners, which they value. An interesting suggestion to have a wide gateway at each end of a common boundary between adjacent fields would markedly improve machinery operation.

The increasing interest in smallholders growing vegetables, rearing sheep, goats, poultry and pigs confirms the interest in local food and more sustainable life styles.

There is on going pressure on agricultural land by purchasers who wish to convert the use to equine and garden purposes. This continuing conversion is beginning to have an affect on dairying and needs to be brought under legislative or planning control.

An outright ban may not get widespread support but a measure such as a 2-3 year notice requirement on transfer from agriculture to other uses could be introduced by planning control to slow the movement by deterring sellers.

The Panel is of the opinion that legislation or some form of control will be necessary and recommends accordingly.

B3 - THE CATTLE

The only breed of cattle permitted on the island is the Guernsey. There are currently around 1500 cows plus 1200 cattle – mainly young heifer replacements. The average herd size is 75 cows, although there are five farms with over 100 cows.

Several farmers are rearing a few beef animals and one has developed a specialist market for "pink" veal. A limitation to the expansion of beef and veal is the current inadequacy of the slaughter house, although it is understood that there is an unsatisfied market.

The result of the recent survey "Guernsey Tomorrow" confirms the importance of the breed to local residents (and visitors) – as an important part of maintaining the countryside.

Producers undertake milk recording as a requirement to participate in a Global Breeding Programme. Semen from a number of young sires is widely used and the results have shown to be most successful in raising the genetic merit of the island's cattle. The average yield per cow has risen from 5000 litres in 2000 to 5700 litres today due to genetic improvement as well as better feeding and management.

B4 - GRASS AND FORAGE CROPS

Permanent pasture comprises a high proportion of the forage, especially for summer grazing but also for silage making. One producer still operates tethering of cows in milk, but most use strip fencing or paddock grazing. Cutting and carting fresh grass to housed cattle is permitted in the early spring and to supplement summer grazing, but the Farm Management Contract requires cows to graze throughout the summer. The Panel agree to this restriction.

Alternative forages are also grown, forage maize in particular – planted and harvested by contractor providing higher energy diets. Fodder beet, utilizing mechanical harvesting adds variation to the diets, so increasing feed intake. Opportunities to expand the area of such crops were discussed with farmers, but it appears that most opportunities have been utilised.

One producer grows some wheat to replace a proportion of purchased concentrates. The opportunities to expand this activity was investigated, but lack of combine harvester availability, grain storage and processing cost, as well as small fields and bird damage are serious limitations.

B5 - MILK PRODUCTION

The current level of milk production is 8.1 million litres per year. Quotas were introduced in 2000 to reduce the considerable volume of milk, over that required for the fresh milk market which was being manufactured into cheese and exported at a loss.

Producers are generally satisfied with the arrangements by the Dairy for milk collection, testing and monthly payment. The quality of the ex-farm milk is generally good, although the test results for a small number of herds are at times less than ideal.

The quota system and payment encourages production at the times when the market requires the milk. However, there was a feeling from a number of farmers that they would welcome the opportunity to have a closer relationship with the Dairy – such as a seat on the Board.

Ideally the Quota system should be replaced by a direct contract between the farmer and the Dairy. The Panel will make a recommendation.

B6 - PHYSICAL AND FINANCIAL PERFORMANCE

As a requirement of the Farm Management Contract, the producers are required to present their records annually to an Independent Agency – which analyses and reports on performance back to the farmer, along with group averages for comparative purposes.

The averages are also available to the Milk Review Panel to assist in decision-making re milk pricing.

Costs of most inputs are high, especially of imported concentrate feed, fertilizers, agro-chemicals, machinery and even veterinary services.

Imported concentrates are important in farm feeding regimes. The Panel noted that the costs of imports are higher to Guernsey than into Jersey and therefore warrant investigation. The GFA is to review feeding costs.

As expected, profitability varies widely, being influenced by business size, land fragmentation, but particularly by management ability.

Over the years, efforts have been made to improve business performance by offering training opportunities, but they were not taken up. It may be worthwhile offering bursaries for young potential farmers to attend courses in England.

The Farm Loan Scheme is well used and does serve an important role in allowing young farmers to expand, once established in business.

B7 – BUILDINGS AND EQUIPMENT

In order to increase efficiency, in particular that of labour, most farms now have modern facilities for feeding, housing in cubicles, slurry handling and parlour milking. In order to meet the requirements of The Dairy Farm Management Contract, capital investment has been required on most farms to construct storage facilities for slurry and dirty water. No slurry or manure can be applied to the land from 1st October – 31st December or even after this date if the ground is frozen.

A few farmers have plans to invest in improved facilities, even in herd expansion, but are keeping these plans on hold – awaiting the outcome of this review. Certain producers have been constrained in developing improved buildings by the Planning system failing to appreciate the need for optimum location for livestock and logistics of material handling.

B8 - FARMING AND THE COUNTRYSIDE

The Agricultural industry of the island not only produces food, but delivers other public goods, such as responsible animal welfare and the protection and management of the countryside.

A Countryside Management Scheme is operated for farmers and landowners to enhance for example: biodiversity, wildlife habitats the purity of groundwater and reduced air pollution.

Milk producers are offered considerable incentive to comply with basic environmental conditions by participating in the Dairy Farm Management Contract. This is currently paid on the output of milk within the quota allocation for the business.

A Farm Biodiversity Action Plan has been developed for each farm with a points scoring system based on the management options for each field. Compliance monitoring has been tested and became operational in January 2010.

These schemes should protect and enhance the natural environment of the island, but also adequately reward the farmers who undertake the work and costs incurred.

B9 - FARM SERVICES

The Commerce and Employment Department operates a range of essential services to the farm businesses. These extend from Artificial Insemination, milk recording and animal identification (calf tagging) to health testing soil sampling and operation of a Cull Cattle scheme.

A small team of employees is well managed, undertakes multitasking and with a budgeted cost for 2010 of £215k predicts to recoup £115k from charges to users.

A small quantity of semen is exported – assisting in the continuation of Guernsey cattle in Europe, Africa, America & Australasia.

B10 - THE SLAUGHTERING FACILITIES

The current Victorian facilities, as well as being inappropriately located, are also outdated and not up to EU standards. The need therefore for new facilities is paramount. If the unit could be located adjacent to the modern incinerating facilities this would produce efficiency gains in labour as well as in materials handling costs.

The potential saving by the slaughter of cull cows for use in the food industry rather than disposal by incineration would be considerable. More bull calves could be reared for beef and veal and other producers of lamb and pork could expand to meet the often quoted considerable demand for fresh local meat.

Currently the Guernsey dairy farmer suffers from a lack of 'non-milk' income which could be overcome by the ability to develop a beef trade with up-dated slaughter facilities. Equally the islands butchery trade could benefit from the development of local supply across their meat purchases.

In an era of food supply sustainability the development of a modern, local meat trade must be attractive to the islands consumers.

The Panel supports the replacement of the slaughterhouse facilities.

B11 - THE SUPPORT INDUSTRIES

With the reduced number of farmers and people employed in farming, it is difficult for local supply and service businesses to remain viable. There are now few feeding stuffs, fertilizer, agrochemical and machinery businesses remaining, so that the cost of, for example, repairing and maintaining equipment is high.

The majority of the agricultural contracting is carried out by one business, which has the contract to make most of the silage for winter feed – with just one harvester.

Opportunities to share machinery have been tried over the years, but the farmers prefer to be able to carry out field operations at the optimum time and not to wait for the machines to be available.

Few farmers have the time or skills to repair equipment on the farm and in an attempt to avoid expensive repair and lost operating time, there is a tendency to replace machines early, thus creating higher investments and depreciation costs.

B12 - THE DAIRY FARM MANAGEMENT CONTRACT

This review of dairy farming on the island and in particular the cost of production confirms the continuing need for the Dairy Farm Management Contract Payment currently costing some £2 million.

The Panel has considered the costs of milk production in Guernsey in comparison with production costs elsewhere and concludes that due to the unique nature and structure of land availability this extra-ordinary payment can be justified.

The justification can be made both on an extra-ordinary cost basis and on countryside stewardship responsibility.

Without this payment it is unlikely that sufficient milk would be produced on the island to satisfy local fresh milk consumption.

There is some scope for cutting milk production costs by better concentrated buying but production costs will remain high and warrant the 25 ppl subsidy.

The Panel is convinced that for a viable industry this support is required in future years or milk supplies will fall.

However, if the Panel's recommendations on distribution reform are accepted and acted upon, the States in conjunction with the Dairy should periodically review the level of payment considering factors throughout the production and distribution chain.

This additional dairy margin could be used to either pay the farmers a higher milk price or pay a dividend to the States, which could be netted off the Dairy Farm Management Contract Costs. This would be to the advantage of the Guernsey tax payer in the longer term.

As this payment is controlled, at least partially, by environmental and countryside issues the Panel believe that a portion of the payment should be paid relating to these matters. The basis of the payment should be reviewed.

B13 - YOUNG ENTRANTS

The Farm Loan Scheme needs to be reviewed to support the development of "Partnerships".

Partnerships are a developing transaction which allows young farmers to enter the industry under manageable financial circumstances and allow farmers who wish to retire to move away from day to day cow management but at the same time retain a financial interest in the enterprise.

Partnerships take differing formats but most need some financial support, which the banks do not always wish to provide.

Usually the retiring farmer retains control of the land and buildings with the young farmer financing the herd and providing the labour. This type of arrangement could have application in Guernsey but is likely to need government support to help and encourage the new entrant.

The Panel recommends that the Department of Commerce and Employment should review its farm loan scheme to provide support for the development of partnerships including the financing of working capital, herd transfer and housing using attractive rates of interest and repayment arrangements.

The Panel believes this would be an attractive way to underpin dairy farming in Guernsey.

B14 - CONCLUSIONS

The continued prosperity of dairy farming on the island is finely balanced. If farm output – mainly milk volume x price, does not leave a satisfactory margin over all costs, there will be more farmers retiring leaving insufficient milk to operate an efficient processing dairy. If the retailers were then unable to obtain adequate supplies of milk, they would have every justification to import fresh and long-life product. There is however a nucleus of younger producers – who given the appropriate encouragement, such as an adequate milk price and more involvement in the management of the Dairy would no doubt produce the required quantity of milk.

B15- RECOMMENDATIONS

The Panel makes the following recommendations:

(1) **Consideration should be given to introducing legislation or some other form of control to retain land for agricultural use.**

(2) **In order to sustain the present importance of the 'Guernsey Cow' present regulations and support for the Guernsey breed should be retained.**

(3) **The Guernsey Farmers Association should collectively encourage an on-going study on cattle feeding and the cost of imported concentrates.**

(4) **Closer relationships should be developed between farmers, the Dairy and dairy retailers by the establishment of a farmers (GFA) seat on the Guernsey Dairy Board Ltd (GDL).**

(5) **Milk quota, seasonal pricing and a quality programme should be part of a direct contract with the Dairy.**

The Dairy and the farmers should be advised on these issues by an independent Panel.

(6) **As the current slaughterhouse does not satisfy EU standards it should be replaced without further delay to allow the development of a sustainable beef business to supplement dairy farm incomes.**

(7) **That the price of milk received by efficient producers should be sufficient to maintain the volume at levels demanded by the market.**

(8) **The Dairy Farm Management Contract Payment should remain in place for the foreseeable future.**

(9) **The Farm Loan Scheme should be reviewed to provide support for the development of partnerships including the financing of working capital,**

herd transfer and housing using commercial but attractive rates of interest and repayment arrangements.

7. SECTION C - THE DAIRY

C1 Dairy Benchmarking
C2 Relationship between the Dairy and Farmers
C3 Dairy Operations Review
C4 Sales, marketing and Product Development
C5 Distribution and Relationships with Distributions
C6 Relationship with Retailers (Shops and Supermarkets)
C7 Governance
C8 Progressive Commercialisation
C9 Price Control
C10 The Board
C11 Production Rationalisation and Development
C12 Co-operation with Jersey Dairy
C13 Recommendations
C14 Action Plan (2011 – 2015)

Table 8 - Dairy Benchmarking (2009)

	Guernsey	**Jersey**	**IOM**	**Model (of similar size)**
Milk Processed 2009				
Million Litres	8.07	11.80	27.06	
Daily Average Litres	25983	37820	88461	
Fresh Milk Sales				
Million Litres	6.60	9.00	7.00	
Processing Costs				
Ppl	24.35	25.30	21.29	Below 18
Wastage % of Intake	2.65			1.50
Staffing				
Drivers	-	30.00	33.20	
Administration	5.00	5.00	17.20	
Engineering	4.00	-	6.00	
Quality	4.00	-	3.60	
Production	23.00	27.00	30.00	
Total	36.00	62.00	90.00	30.00
Annual Cost per Person £	33000	35000	32000	29000
Turn Over (million £)	6.20	10.50	14.00	
Profit £	580000	17000	106000	
Return on Sales %	9.30	-	0.75	5.00

NB. Jersey or IOM are co-operatives and distribute surplus in the price paid to farmers.
Source: Dairy accounts and industry.

Table 9 Dairy Percentage Share of Retail Price

	Dairy Margin (excluding cost of distribution)	Retail Price (p)	% Dairy Share
Shops			
Guernsey	38.65	98.00	39.40
Jersey	37.02	98.00	37.70
IOM	57.11	100.35	56.70
UK Supermarket	17.74	65.21	27.20
UK Shop	48.53	100.00	48.53
Doorstep			
Guernsey	38.65	98.00	39.40
IOM	55.46	100.35	55.30
UK Private	36.33	90.00	40.40
In House	42.53	90.00	47.20

C1 - DAIRY BENCHMARKING

Due to the low throughout of the Dairy production costs are higher at 24.35ppl (Table 8) compared with a dairy model of similar size (below 18 ppl). This again is reflected in the annual cost of people employed £33k against a model of £29k.

Whilst these statistics stand up well when compared with Jersey Dairy and Isle of Man Creameries the Guernsey Dairy should be able to operate with a staff of 30.

Within this processing cost wastage remains too high at 2.65% against a model of 1.5%.

The Panel takes the view that further reduction in staffing levels and reduced wastage would remove £200k in on cost.

The Dairy share of the retail price shown in Table 9 at 39.4% is mid sample but probably equitable when compared with other experience.

C2 - RELATIONSHIPS BETWEEN THE DAIRY AND FARMERS

The changes in the market for milk confirm the need for an even closer relationship between the Dairy and milk producers. This has already been recognised as regular meetings are now being held to discuss issues. The Panel, however, believes that this relationship should be put on a more formal basis with the following actions to cement the relationship.

i) The introduction of the Quota system has been a success managing the flow of milk from the farms to the Dairy. The system should now be modified to a Contract between the milk producer and the Dairy covering this and other related matters.

ii) There is a requirement to further encourage the production of milk to meet seasonal market demand. The Milk Price Review Panel has indicated an intention to provide the structure that will allow the Seasonal Pricing of milk managed by the Dairy in agreement with the farmers.

iii) The quality of milk supplied to the Dairy is high but should be underwritten, to convince the consumer, by an element of quality payment. The Dairy and the farmers should develop this sort of scheme to be discussed with the Milk Price Review Panel as part of an annual settlement.

iv) The cost of milk production and transport should be under constant joint review.

v) The Dairy should take full responsibility for managing the commercial relationships with the farmers leaving the States to manage Regulatory matters of dairy hygiene, husbandry, animal welfare, land use and the environment.

vi) To assist the Dairy with these issues the Milk Quota Panel should be retained, and its remit extended to advice on these and similar commercial issues working directly with the Dairy.

To help to co-ordinate this objective a seat should be reserved on a new Dairy Board to be filled by an active milk producer nominated by the Guernsey Farmers Association and approved by the Dairy Board.

This farmer Director would be expected to play an active part in maintaining this relationship and in the marketing of Guernsey milk and milk products.

C3 - DAIRY OPERATIONS REVIEW

C3.1 - Efficiency

The overall performance of the Dairy in efficiency terms is much improved when compared with earlier years, but more remains to be done. Due to the low throughput, the Dairy cannot attain maximum efficiencies. Costs of processing (24/25 ppl) are higher than we would expect for this type of operation and require further analysis.

Production wages are too high as a consequence of heavier staffing than is truly necessary. Attempts have and are being made to reduce staff but this is difficult with the current structure of the business.

Machinery utilisation and down time has a mixed record with the cartoning machines being key to production performance.

These machines are ready for re-placement as they have been installed for many years and even with good maintenance are approaching the time for replacement. Steps to replace one of these machines are currently being taken.

C3.2 - Production Planning –Milk Balancing

Detailed production planning has been carried out on the milk balancing throughout the week to meet the liquid market demand also to plan product manufacture on the appropriate day to utilise surplus milk and butterfat.

Experience has shown that due to seasonal and breeding fluctuation at farm level an annual production of around 8.0 million litres is required to service a fresh milk market of 6.7 million litres thus leaving a surplus of up to 1.4 million litres. Consequently a profitable market has to be found to utilise this surplus.

Cheesemaking:

Currently Guernsey manufacture surplus butterfat into butter with a satisfactory, but unimpressive, return.

The conversion of whole milk into cheese is financially challenging. With high priced Guernsey milk it is virtually impossible to sell mild Cheddar at a profit. Mature Cheddar which commands a higher price does allow a profit in a volume restricted market. To maintain long term profitability the Dairy needs, an alternative product.

The first option is to use the current cheesemaking skills to produce a unique artisan cheese as described by the Panel in Appendix 4.

UHT/Skim Concentrate:

An alternative is to develop a market for UHT milk and skim concentrate working with Jersey Dairy who have the required equipment.

This potentially more profitable route would require the separation of surplus milk and the fat used for butter sales and the skim fraction sold/transferred to Jersey for UHT milk and skim concentrate.

The Panel considers that these ideas should be explored.

The Dairy does not utilise the whey, a by-product of cheese production. Whey is used at larger cheese factories for the production of whey powders, whey proteins and alcohol. In some markets whey is used for animal feed.

However, the volumes of whey produced at the Dairy on two or three days per week cannot support the level of capital expenditure required for this type of product. Having been involved in cheese making elsewhere we have difficulty offering a sound financial solution. However the use of whey should remain on the Dairy agenda.

C3.3 - Milk and Product Wastage

The Panel has analysed the wastage of milk and products and recognises that these losses have been substantially improved but remains higher than the industry norm. A level of wastage under 2% should be achievable.

C3.4 - Product Quality

Maximum effort is made to ensure product quality throughout shelf-life.

The scope of control of ex-farm milk is appropriate and the level of monitoring of the quality of products is in line with other typical dairy operations.

The quality results are similar to those achieved by other comparable commercial dairy undertakings.

C3.5 - Plant Maintenance

The Standards of plant maintenance of machinery are good, attention is given to all equipment. Some of the plant is now reaching the end of its useful life and needs replacement.

C3.6 - Premises

Until recently the premises were looking tired but they have now been freshened up. Longer term changes are needed to the buildings depending upon future use. Additional coldstore capacity is essential and needs to be planned together with a renew of vehicle loading facilities.

Repairs are required to existing floor and wall finishes to bring them up to modern standards which should not be too difficult with the new wall treatment methods.

C3.7 - Capital Expenditure

The Dairy could be criticised as capital expenditure has been slow and the standards of plant and buildings are below the industry norm. Expenditure can now be accelerated as the necessary funds are in place within the Dairy's balance sheet.

The Panel has seen the forward plans and believes that the business should reinvest to maintain efficient production and to meet the standards required by retailers and consumers.

The Dairy cannot rely on cash flow from the fresh milk market to provide the finance in any one year for this expenditure. The Dairy will need to take a commercial view on financing to balance cash with expenditure.

C4 - SALES, MARKETING AND PRODUCT DEVELOPMENT

The sales of fresh milk are relatively static, marketing and promotional activity within the existing range should be aimed at maintaining volume. However, the present distribution system, with no direct contact between the Dairy and retail customers prohibits the possibilities of targeted promotional activity with shops, supermarkets and on retail rounds.

C4.1 - Sales and Marketing

In the case of the Guernsey Dairy range of milk products, the restrictions on distribution and the lack of direct contact with shops and supermarkets is seriously inhibiting the sales of these products. Currently the Dairy has a very small share [under 5%] of the large island cheese market, a falling share of the fresh cream sales and a small proportion of the ice cream market.

To achieve a planned business to balance the supply of milk from the farms and to handle surplus butterfat a well structured market is essential. Presently the sales, marketing and distribution structure fails to maximise the sales of the Guernsey products and requires urgent attention.

C4.2 - Product Development

As consumer tastes change new products are necessary. The Dairy needs to give attention to this challenge with a regular review of possibilities.

A further range of Guernsey cheese could be developed using existing cheddar production methods with re-packaging along the lines of those marketed by Orkney and the Scottish Highlands (see separate proposal), and gain better margins.

In discussion with the retailers there is a demand for UHT milk. This demand should be met by controlled importation by the Dairy for direct distribution on island as investment in UHT production equipment could not be justified.

An arrangement is possible with Jersey Dairy to provide a Channel Island product utilising Guernsey milk.

The yoghurt market is highly competitive, but there could be room for a well formulated and attractive packaged product at the top end of the market. This potential development needs research. A deal with Jersey Dairy to market their range under a Channel Island banner could be appropriate as part of an agreement (see co-operation with Jersey Dairy).

An interesting issue has been raised concerning the availability and supply of milk to small entrepreneurial processors of milk. Currently, to comply with the Milk Law, the farmers are obliged to sell all their production to the Dairy. The Dairy in turn is required to buy all milk produced by the farmers subject to the constraints of the quota restrictions.

In most free markets the farmers have the ability to sell their milk where they wish. This would include selling to a small processor or to their own on-farm processing of liquid milk or the manufacture of dairy products. This sale or internal transfer being related to the Dairy buying price.

The current restriction in Guernsey places a serious constraint on the ability of artisan businesses to market products at acceptable prices and places a restriction on market development.

The Panel considers that this restriction should be removed in an amendment of the Milk Law relying upon suitable Health and Hygiene Regulations to control subsequent production and standard of premises.

C5 - DISTRIBUTION AND RELATIONS WITH DISTRIBUTORS

The present distribution arrangements are unsatisfactory which disadvantages the Guernsey consumer and fails to maximise the sale of products.

The Panel gives wider discussion to this matter in the separate Distribution section.

Distribution presently has two basic problems:

i) Firstly there is a steady but relentless movement of sales from the doorstep to the shops and supermarkets which is forecast to continue. With failing sales and the present margins it is difficult to make a profit with doorstep delivery.

ii) The second difficulty is that the margin for milk delivery from the Dairy to the shop is in comparison too high. This problem stems from the serious mistake that was made in 2007 with the introduction of a Single Gate Price. Separate Gate Prices are warranted for doorstep and shop deliveries. Earlier reports refer to a tense relationship between the Dairy and the distributors (Guernsey Milk Retailers Association) on issues relating to zoning, licensing and milk product sales.

These problems have to be faced and are discussed in Section D with recommendations for change. Change is necessary to place the island’s dairy industry on a sustainable footing for the future.

C6 - RELATIONS WITH RETAILERS (SHOPS AND SUPERMARKETS)

The major island retailers are highly supportive of the Guernsey Dairy industry and wish to maximise the sale of island manufactured products.

However, they are highly critical of the existing distributive and marketing arrangements.

These present arrangements do not allow the retailers to have a direct relationship with the supplier – the Dairy.

This arrangement is totally unsatisfactory and must be amended to support the marketing of island manufactured dairy products to satisfy consumer demands (see Section D).

C7 - GOVERNANCE

The evidence that the Panel has received confirms that there is a problem with relationships along the dairy chain from farmer to consumer. This applies particularly to the distribution, sales and marketing activities from the Dairy to the shops and supermarkets.

This lack of co-operation is disadvantaging the whole industry and must be corrected to ensure future success. Some change is therefore essential to bring together the farmers, the Dairy, distributors and retailers whilst retaining the involvement of the State.

C8 - PROGRESSIVE COMMERCIALISATION

The Panel now believes that there is a strong case for a progressive commercialisation of the Dairy to allow the business greater freedom of commercial activity without the constraint or even the interference of the State, and the ability to bring stakeholders together.

Various structures could be followed to provide a degree of commercialisation for the Dairy. These could include the formation of a farmers co-operative or even the complete privatisation of the business.

The Panel has visited Jersey Dairy and the Isle of Man Creameries, both farmers co-operatives, to study their structure and governance.

The Panel considers that commercialisation should be on a progressive basis and controlled step-by-step with the State maintaining a majority of the shares for the foreseeable future.

A separate Dairy entity does not have to be a limited company with shareholders. It could be a ‘company limited by guarantee’ with government providing the guarantee in the early years.

To achieve this commercial objective the Panel is of the opinion that the Dairy should become a separate limited company, Guernsey Dairy Ltd (GDL) with an issue of shares and a Board of Directors controlling all aspects of the business. In a first instance the State would retain all the shares.

However, the State could eventually make up to 49% of the shares available for investors, particularly for farmers and others within the dairy chain. This should not occur until the distribution changes have been finalised and price stability achieved.

Due to the strategic nature of the business the Panel believes that the State should retain ultimate, arms length, control in the short term.

C9 - PRICE CONTROL

To underpin industry restructuring the present price control mechanism provided by the Milk Price Review Panel should remain in place to facilitate the substantial restructuring of the industry and to create stability for five years once that restructuring takes place. This will require the Milk Law to remain in place with the necessary ordinance amendments.

C10 - THE BOARD

The make-up of the Board of Directors for GDL should minimise State and political involvement and encourage dairy chain cohesion. The Panel recommends that the make-up of the board would be as below;

Guernsey Dairy Board Ltd Structure (5 Directors)

Non Executive:
Chairman; Independent
Senior Director representing the States (with business background)
Farmer Director
Director (with food industry background)
Director (with dairy retailing experience)

Non-voting Executive Directors (in attendance):
Dairy Director
Finance Director

Appointments would initially be made by the States and then by the Board with the approval of the States sponsoring department (see Section E for discussion on the reporting line to the States)

C11 - PRODUCTION, RATIONALISATION AND DEVELOPMENT

The Panel has analysed the production mix and plant utilisation and taken the view that rationalisation and specialisation is essential. The view is that the Dairy should concentrate on liquid milk, fresh cream and butter production as at present, and develop a unique cheese, with higher margin.

To achieve this specialisation, and to cut costs, ice cream production should cease as volumes are too small. There should be no attempt to re-introduce yoghurt production as volumes and costs do not justify investment in a highly competitive market.

Investment should be concentrated on milk and cream distribution and an artisan style of cheese. This will need additional cold store capacity, for fresh products and cheese storage and a rearrangement of some plant.

C12 - CO-OPERATION WITH JERSEY DAIRY

The Panel believes there is a strong case for co-operation with Jersey Dairy, particularly with their new dairy. In contemporary terms both dairies are small and product production runs are small making it difficult to compete in the market.

C12.1 - Product Rationalisation and Development

i) To allow Guernsey Dairy to rationalise and cut staffing and costs ice cream production should be transferred to Jersey for packing in a Channel Island label. Guernsey Dairy to market the product and to nominate an approved distributor in Guernsey.

ii) Jersey Dairy should be encouraged to pack a range of Yoghurt for the Guernsey market made under a suitable label marketed by Guernsey Dairy.

iii) UHT Milk. Guernsey needs a supply of UHT milk which could be packed in Jersey, again with a suitable label for controlled import and distribution by Guernsey Dairy. If appropriate a tanker load of milk or skimmed milk could be shipped to Jersey and stored separately for UHT Production.

iv) Cheese. As part of the deal Guernsey Dairy would specialise in cheese manufacture for the Jersey and Guernsey market. Jersey Dairy would need to purchase at least some of their cheese from Guernsey for distribution in Jersey.

   Guernsey Dairy would take steps to develop a specialist high margin range of Channel Island cheese for joint distribution in both islands and SE England.

v) Marketing and Management. The Panel considers this plan of co-operation should be progressed under a joint marketing banner, maybe 'Channel Islands Dairies', with a 'Channel Islands' or Les Isles Anglo-Normandes Brand.

This should be managed initially by a working group of the two Chairman and two General Managers with a plan to set up a Joint Strategy.

C13 - RECOMMENDATIONS

The Panel makes the following recommendations

(1) That the Dairy becomes a separate limited company, Guernsey Dairy Ltd (GDL) at an early date with the States retaining all the issued shares in the first instance.

(2) That the GDL Board is composed of 5 persons, to represent the interests of the States, farmers and dairy retailers using the experience of Non-executive business people.

(3) The Dairy should take responsibility for managing milk quota, seasonal pricing and quality payments by direct contract with the farmers. (The Milk Quota Panel should continue to advise on these issues).

(4) That the Dairy should take total responsibility for the distribution, sale and marketing of all Guernsey Dairy milk and milk products to all appropriate rational retail outlets as from 2015 or sooner by agreement with the payment of compensation to those distributors who lose business.

(5) A capital expenditure plan with suitable financing, should be followed to improve and ensure the efficiency and standards within the Dairy.

(6) That a formal arrangement be established with Jersey Dairy to achieve reciprocal product manufacture and distribution, maximising throughout and minimising cost. A joint marketing strategy would be appropriate.

(7) The restriction on farmers selling their milk to a manufacturer of dairy products – typically a small scale artisan business - should be removed in an amendment of the Milk Law; relying upon suitable Health and Hygiene Regulations to control subsequent production and standard of premises.

C14 - ACTION PLAN TO IMPROVE THE LONG TERM VIABILITY OF GUERNSEY DAIRY BY PRODUCTION SIMPLIFICATION AND COST REMOVAL

In the Panel's view of the present Dairy performance and in the existing dairy market in Guernsey an action plan is required to re-shape the dairy business.

C14.1 - Limited Company (2011)

The first step is to set up a separate limited company and restructure the Board to provide industry co-ordination and a marketing base followed by production simplification and cost removal.

The Panel estimates that it should be possible to take £200K per year out of the cost base of the Dairy.

C14.2 - Product Simplification (2011)

The operation of the Dairy should be simplified and costs removed by the following:-

i) Liquid milk and fresh cream should be produced as at present.

ii) Butter should continue to be manufactured to balance the butter fat availability and packaging provided to allow maximum return for Guernsey butter.

iii) Cheese manufacture should be expanded with a cooperation deal with Jersey Dairy to maximise volume throughput. To achieve this a wider range of packaging and presentation is necessary along the lines of the Scottish Highland Creameries and the Orkney Cheese Company (see separate note in Appendix 4). Investment will be required for packaging plant and specialist cheese expertise will be necessary to achieve the type of cheese required for a specialist market.

iv) Ice Cream production at its present volumes has no long-term viability and should cease. A deal should be done with the Jersey Dairy to manufacture a Channel Island brand product for distribution in Guernsey.

v) Yoghurt. An arrangement should be made with Jersey Dairy to pack a suitable product to be distributed in Guernsey by the Dairy.

vi) UHT Milk for which there is a demand within Guernsey could be sourced using the Jersey UHT plant. An arrangement should be made with Jersey to pack a Guernsey, or Channel Islands product.

C14.3 - Cost Removal

<u>Staff Levels</u>

Having taken these production rationalisation steps the staffing levels should be reviewed.

The Panel estimates that staffing levels could be reduced by 6 positions. Attempts to reduce staff levels and costs have been difficult. However the issue has to be tackled, redundancy may well be needed and should be dealt with on a generous basis to restructure the business as part of the total industry restructuring process.

This production simplification will also aid wastage control, so the present level of 2.65% should be reduced by some 1%. These cost saving steps would go a long way to achieve the aim of total cost reductions.

C14.4 - Investment (2011 – 2015)

Investment will be required in the cheese production and storage. Additional product cold store capacity would be needed to aid the distribution of milk products. Further re-organisation of packing equipment would assist the flow of products through the factory.

A detailed, staged, plan of premises refurbishment and re-organisation should be drawn up.

C14.5 - Distribution Changes (2015 or earlier)

Plans should be developed to ensure that suitable refrigerated vehicles are available to distribute fresh milk and the full range of dairy product to major retail outlets. Good, smart vehicles are required, these could be leased by the Dairy and operated. Alternatively, the distribution could be put out to a competitive tender process.

All invoicing, order processing and marketing to be controlled by the Dairy.

8. SECTION D - DISTRIBUTION OF MILK AND DAIRY PRODUCTS IN GUERNSEY

D1	**Distribution Benchmarking**
D2	**Basic of Review**
D3	**Current Distribution Structure for Fresh Milk**
D4	**Implications of the Milk Law**
D5	**Price Setting**
D6	**Implications of 2010 pricing**
D7	**Licensing and Zoning**
D8	**Doorstep Delivery**
D9	**Shop Delivery**
D10	**Refrigerated Delivery to shops**
D11	**Catering Supplies**
D12	**Distribution of Fresh Cream, Butter and Cheese**
D13	**Distribution of Ice Cream**
D14	**Action Plan to re-organise the distribution of milk and milk products from 2015**
D15	**Compensation for loss of Business (without prejudice)**
D16	**Recommendations**

D1 - DISTRIBUTION BENCHMARKING

Fresh Milk

Total Fresh Milk	6.639 million litres [3year average]
Milk to Shops [estimate]	4.146
Doorstep /Catering	2.484
No of Distribution Rounds	26
Litres per round per day	379 doorstep/catering
(6 day delivery)	2657 shops

D1 - DISTRIBUTION BENCHMARKING

Table 10 - Sector Shares of Retail Price in Guernsey, Jersey, IOM & UK

TO SHOPS	FARMER	DAIRY	DISTRIBUTOR	SHOP	RETAIL PRICE
GUERNSEY	38.9	39.4	13.5	8.2	98 ppl
JERSEY	43.3	44.9	(c)	11.8	98+ gst
IOM	23.8	63.9	(c)	12.3	(a) 100.35
UK SUPERMARKETS	40.6	31.8	(c)	27.6	(b) 65.21
UK SMALL SHOP	26.5	58.5	(c)	15	100
(c) Distribution margin in dairy					

TO DOORSTEPS	FARMER	DAIRY	DISTRIBUTOR	SHOP	RETAIL PRICE
GUERNSEY	38.9	39.4	21.7	-	98
IOM	23.8	76.2	(c)	-	(a) 100.35
UK (PRIVATE)	29.4	40.4	30.2	-	90
UK (IN HOUSE DAIRY)	29.4	70.6	(c)	-	90
(a) Converted from pints to litres (b) Average from mix of packages and sizes (c) Distribution margin in dairy					

Table 11 - Distribution Costs and Margins

Margin & profit	Price to farmer	Dairy margin (Excluding distribution cost)	Gate (Dock) Price	Cost of Distribution	Price into Shops	Distribution Profit	Shop Margin	Retail Price	D2 ppl
TO SHOPS									
Guernsey	38.1	38.65	76.75	7.00	90	6.25	8.0	98	
Jersey	42.48	37.02	-	7.00	86.5	**In dairy margin**	11.5	98+**gst**	
IOM	23.89	57.11	-	7.00	88	**In dairy margin**	12.35	100.35 (b)	
UK Supermarket	26.47	17.74	-	3.00	47.21	**In dairy margin**	18.00	65.21	
Small Shop	26.47	48.53	-	10.00	85	**In dairy margin**	15.00	100	
TO DOORSTEPS									
Guernsey	38.1	38.65	76.75	21.00	-	0.25	-	98	
IOM	23.89	55.46	79.35	21.00	-	In dairy	-	100.35 (b)	
UK (Private Distributor)	26.47	36.33	62.8	21.00	-	6.2	-	90	
(In House)	26.47	42.53	-	21.00	-	In dairy	-	90	
(a) Cost of Distribution accepted by various operators									

Table 10 compares the percentage division of the retail price between the farmer, dairy/distributor and the retail outlet, either the milkman or a shop during 2010 in the markets studied.

It should be noted that these averages are compiled from data covering greatly varying package types and sizes and consequent pricing.

It can be seen that the Guernsey doorstep margin at 21.7% is considerably less than the equivalent UK doorstep margin. The costs of operation are likely to be somewhat similar even though the Guernsey distributors use smaller vehicles which on occasions necessitate separate loads.

The shop distribution margin of 13.5% in Guernsey appears high when compared with other island operations, where the dairy do the distribution and the costs/profit are held within their ‘dairy’ margin.

Table 11 analyses the cost of distribution to shops and to the doorstep in comparable island situations, together with the cash margins currently taken by retailers. Again it should be noted that these are averages compiled from data covering varying package types, sizes and pricing policies and can change at anytime.

The Panel has been investigating costs of distribution to shops in a limited island mileage situation and received views that the costs varied in an area between 5 and 7 ppl. We have used the higher 7 ppl for this study.

The costs of distribution to shops in the UK vary much more depending upon mileage and volume of delivery. The best estimate is a cost of 3 ppl to supermarkets and up to 10ppl to small shops (unconfirmed).

The costs of distribution to doorstep again vary greatly in a spectrum of 17 to 24 ppl depending upon many factors. The Panel has taken a view that a 21ppl cost is representative.

Conclusion

A study of the table will therefore show that the Guernsey distributor delivering solely to shops has around 6 ppl profit after costs whilst the Guernsey distributor delivering solely to doorsteps is currently just breaking even after costs.

When sales volumes are considered, the Guernsey doorstep distributor appears under remunerated and the Guernsey shop distributor is over remunerated.

D2 - BASIS OF THE REVIEW

The Panel has reviewed the present arrangements for the distribution of milk and milk products and has considered the future requirements of the market. The Panel now makes recommendations on operational and structural issues which need to be addressed to fulfil these requirements.

The Panel has studied the history of this issue by reviewing the following reports:

- ‘The Department of Commerce and Employment proposals for the dairy industry 2007’

- ‘The Scrutiny Committee review of the Department of Commerce and Employment proposals for the dairy industry 2007’

- The Panel has also taken evidence from distributors and other interested parties

The Panel has based its recommendations on the structure and arrangements which currently prevail.

D3 - CURRENT DISTRIBUTION STRUCTURE FOR FRESH MILK

Some 26 distributors deliver milk within a controlled and commercially zoned system.

This operational system is made up of three factors:

i) shop delivery

ii) doorstep delivery

iii) catering supplies

The distributors are all privately owned licensed businesses which collect milk and products from the Dairy for resale in their own zoned territory.

These businesses are controlled by the Milk Law, pricing, zoning and licensing requirements.

D4 - IMPLICATIONS OF THE MILK LAW

The Milk Law requires the Department amongst other things to ‘fix the retail price of milk (by order) and to licence those who sell milk’.

These two requirements are of fundamental importance to the operation and constraints of the current distribution system. These controlling factors have been widely discussed in earlier reports. The current price structure having developed from these reports is enforced by the Milk Law.

The licensing system and zoning arrangements having suffered due to confusion as to where control resides, with the Dairy, the Department of Commerce and Employment or in the case of zoning with the distributors.

D5 - PRICE SETTING

The C&E Department currently sets the retail price of milk, the ex-farm price and the Dairy Gate Price taking recommendations from the Milk Price Review Panel on an annual basis.

Instinctively, the Panel takes the view that the market should set these prices but this is not realistic in the Guernsey milk market.

The Panel consider that price control of fresh milk should be retained using an annual Milk Price Review for 5 years after the implementation of the proposed distribution changes. These recommendations being approved by a States department.

Furthermore, flexible pricing is necessary in the interim to incorporate seasonal pricing of ex-farm milk and separate Dairy Gate prices for shop and doorstep delivery. This would be allied with an ability to allow delivery charges for doorstep milk.

D6 - IMPLICATIONS OF CURRENT (2010) PRICING

Currently there is a single Dairy Gate Price of 76.75ppl charged by the Dairy to all distributors for distribution regardless of volume or eventual sale.

This presently creates a margin of 21.25ppl for doorstep, catering and shop milk based on the controlled retail price of 98ppl

The full margin of 21.75ppl is available for doorstep delivery. Catering and larger office supplies are delivered at a distributor negotiated level within this margin.

The distributors negotiate directly with shops and supermarkets within this overall margin to achieve an 'into shop price.' This is currently averaging 90ppl thus allowing the shop an average margin of 8ppl and the distributor 13.75ppl.

The implication of these pricing arrangement is fundamental to the future success of the Guernsey dairy industry.

In the Panels' view the current formula under-remunerates the doorstep and over-remunerates delivery to shops relative to the costs involved when benchmarked with the industry elsewhere. The failure of the Dairy to link commercially with the major supermarkets and shops, creates dysfunction of market management, promotion and service which would not be tolerated elsewhere.

D7 - LICENSING AND ZONING

D.7.1 - Licences

Licences to operate as a distributor are issued by the Department of Commerce and Employment under the terms of the Milk Law which requires distributor notification of the intention to retail milk.

To achieve this licence a suitable letter of credit is required together with evidence that the applicant does not have a criminal record.

This is in line with buyer and seller agreements currently in force elsewhere in the dairy industry administered by the supplying dairy.

D.7.2 - Zoning

There is a long history of territorial zoning which fixes the boundaries of all the island milk rounds.

There, however, appears to be no record of the detail of these zones which have developed over-time by agreement amongst the distributors. From time to time the Dairy and the Department of Commerce and Employment have been involved in attempts to record the agreements but currently no reliable information appears to be available.

The Department and the Dairy maintain that they do not attempt to protect the territorial boundaries or get involved in resolving disputes. There is clearly some disagreement between the Department, the Dairy and of the Guernsey Milk Retailers Association (GMRA) as to who has or should have maintained a record of these territories.

The Panel considers that zoning remains commercially sensible for the distributors and the industry and should be retained by the distributors themselves to minimize cost.

D8 - DOORSTEP DELIVERY

D.8.1 - Current Situation

Traditionally all retail milk was delivered to the doorstep but in recent years there has been a steady drift from the doorstep to the shop.

There is evidence that in 2007 approximately 50% of the supplies were sold through shops.

The Panel currently estimates that this has now increased to around 60% and that it is likely to continue growing placing a question on the sustainability of doorstep delivery.

Within the UK some 90% of all milk is now sold in shops and supermarkets and as a consequence in many areas doorstep delivery has ceased.

This trend in the drift of milk sales from the doorstep into the shops is likely to continue but the speed is related to the number and size of the retail outlets and the use of larger sizes of retail packaging. The introduction of 2/4 litre plastic containers in other markets has accelerated the movement of milk into shops on a price basis. Equally, the development of large supermarkets has provided sufficient space to handle the sale of milk in store.

Elsewhere, the decision to abandon doorstep delivery has been made by dairy companies and distributors, employed, self-employed or franchisees, who could not carry on with falling sales and increasing costs in a price competitive market.

The decision to cease doorstep delivery being related to the number of consumers willing to pay the doorstep on-cost and the availability of people to do distribution.

Consequently doorstep delivery is now substantial in the more affluent areas. Jersey Dairy, who owned the milk rounds, have ceased doorstep deliveries and made all their milkmen redundant as they calculated that distribution was creating losses.

Doorstep delivery has its challenges within Guernsey due to the narrow streets and lanes which require small vehicles with low carrying capacity creating higher cost due to the need for multiple journeys to the Dairy for milk collection.

There is currently an agreement that a delivery charge for doorstep milk may be applied but this is rarely done as the distributors are concerned that a charge would accelerate the transfer of sales into shops.

The Panel has reviewed the economics of Guernsey milk rounds and is of the view that rounds purely serving the doorstep are only marginally profitable and maybe unsustainable in the longer term without a better margin.

The incorporation of milk to catering and office outlets obviously helps with the economics of these rounds. As does, the incorporation of the delivery to shops.

Those distribution rounds incorporating a good volume of catering and office supplies should be sustainable with some rationalisation of the number of rounds over a period.

The major problem is that with a single Gate Price the rounds carrying out ‘shop only’ deliveries are taking too great a portion of the total delivery margin, are over remunerated for their activity and failing to commercially satisfy the supermarkets.

D.8.2 - The Future of Doorstep Delivery, Zoning and Licensing

There is a positive rationale for attempting to maintain doorstep delivery for the type of consumer resident on the island to provide service within a carrying society.

Furthermore, existing retail outlets would struggle to handle increased volume through shops without significant development to provide additional space.

The Panel takes the view that efforts should be made to retain doorstep delivery by the present system, at least in the medium term.

This could be achieved by switching more of the delivery margin to the doorstep and possibly by a delivery charge.

Attempts to solve the problem by regular increases of the retail price will not be acceptable to the consumer so fundamental operational and price structure changes are required.

Zoning

The Panel is of the opinion that continuation of zoning is essential to underpin the economics of doorstep delivery.

The Panel considers that maintaining details of territories is the responsibility of the distributors, and that the GMRA should endeavour to keep zoning in place by formal agreement between members. The GMRA should retain an independent arbitrator to resolve zoning disputes and be prepared to assist rationalisation of rounds when changes occur.

Licensing

As the Panel has elsewhere proposed that the Dairy becomes a limited company, the Panel considers that the licensing process is replaced by a commercial contract linking the seller (the Dairy) with the buyer (the distributor).

D9 - SHOP DELIVERY

D9.1 - Current Structure

Milk is delivered to shops in Guernsey by three or four main distributors whose sole business is direct shop supply. Some six or seven other distributors make deliveries from their retail doorstep rounds to the smaller outlets of major retailers. Independent shops are being supplied from doorstep distributors within their zone.

Panel discussion with the major retailers has indicated that they are unhappy with the current distribution structure. They find the present multiple supplier arrangement difficult to manage and the lack of direct commercial contact with their supplying processor troublesome. They are looking for a direct link to manage sales, promotional activity and new product development in the manner similar to their contemporaries in the UK. The Panel is surprised that the Coop and the Sandpiper Group have continued to accept this non commercial structure.

D9.2 - Pricing and Distribution Costs

Currently with a retail price of 98ppl, a Gate Price of 76.75ppl and the sale into shops at an average of 90ppl a margin of 13.25ppl is available to the shop distributor.

The Panel has information that milk distribution to shops can be achieved in the cost region of 5 to 7ppl in a small island with limited mileage.

This indicates a minimum profitability of 6ppl which appears excessive for the investment required and the time taken.

This anomaly was created in 2007 with the decision to scrap Direct Billing and proceed with only one Gate Price. In retrospect this decision was a serious mistake.

This imbalance of remuneration and cost needs to be corrected to allow a satisfactory commercial future for the Island industry.

D9.3 - Future

Fundamental change is therefore necessary.

The Panel takes the view that from 2015 (or earlier if agreed) the Dairy should take responsibility for sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by the major retailers thereby managing the costs retaining margin within the dairy chain and providing a commercial link with supermarkets.

D10 - REFRIGERATED DELIVERY TO SHOPS

The Panel is concerned that fresh milk products are presently being distributed to major retailers in un-refrigerated vehicles. The exception being deliveries to Marks and Spencer which are refrigerated in line with company policy.

The fact that this practice complies with present Guernsey legislation is true but unrealistic as it leaves all concerned vulnerable to risk and does not protect the consumer. Distribution times and distance in Guernsey may be low but the use of un-refrigerated vehicles is contrary to best practice elsewhere and should not continue.

It is surprising that the Coop and the Sandpiper Group allow this practice to continue as all major retailers elsewhere demand cold chain distribution. The arrival of Waitrose, who operate with high standards, will no doubt require refrigeration.

In the best interests of the consumer the Panel considers that Guernsey legislation should be brought into line with the UK.

D11 - CATERING SUPPLIES

The ‘out of home’ consumption of milk in cafes, restaurants and hotels is a growing and important part of the distribution business which is currently essential to the viability of doorstep delivery.

As the Panel are proposing that doorstep delivery is retained supported by the zoning system catering distribution needs to be retained within the zone for the foreseeable future.

Whilst this recommendation may disappoint specialist catering (food service) companies, who wish to add fresh milk to their product range, it is in the best interest of the whole industry.

D12 - DISTRIBUTION OF FRESH CREAM, BUTTER AND CHEESE

At the present time the system of distribution of the above milk products is totally dysfunctional and complex and underselling Guernsey manufactured products due to the fact that product sales are restricted to the distributors.

The 26 distributors are collecting their products from the Dairy in the main in un-refrigerated vehicles and delivering to doorsteps, to catering outlets, and the shops as required.

D12.1 - Milk Products on the Doorstep

The distribution system works satisfactorily to the doorstep as small volume of product can be carried in insulated containers. However, this procedure is totally unsatisfactory for larger deliveries to the retail outlets because of the greater volumes. If strict control of the use of insulated containers can be demonstrated the delivery to the doorstep and small retail customers should continue.

D12.2 - The major retailers

The milk product delivery mechanism has an in-built problem in that the major retailer has no direct contact with the supplying Dairy as they do business with the distributor only. There is therefore no direct commercial contact on price and promotional activity to the serious disadvantage of the whole industry.

This lack of buyer and seller dialogue is having a serious effect on the marketing of Guernsey products which is reflected in their low uptake within the local markets. Again unrefrigerated transport is being used.

D12.3 - To Catering

This whole scene is complicated by the fact that other non-milk distributors (Food Service) buy certain milk products from the Dairy for resale to their customers along with their other range of products, but there are restrictions on certain product availability.

There is no commercial co-ordination of the sales and marketing activities of this stream of distribution, and needs total re-organisation within a free market.

D12.4 - Future

If the sale of Guernsey product is to be developed within the local market the Dairy must take total control of the sales, distribution and delivery of these products, to the major retail outlets, controlling price and promotional activity utilising refrigerated vehicles.

The distribution and delivery to the doorstep could continue along the present lines.

However, all Guernsey Dairy products (except fresh milk) should be available for legitimate traders approved by the Dairy, for sale to restaurants, cafes and hotels within a truly free market.

D13 - DISTRIBUTION OF ICE CREAM

Regardless of where ice-cream is manufactured it is appropriate that the Dairy controls the market and that there should be one bulk holder of Guernsey Ice Cream. This main distributor should arrange deliveries to major outlets working on orders obtained by the sales and marketing activities managed by the Dairy.

The main distributor would be free to wholesale the product to the distributors in the food service sector, by agreement with the Dairy Marketing Plan.

D14 - ACTION PLAN TO RE-ORGANISE THE DISTRIBUTION OF MILK AND MILK PRODUCTS

D14.1 - Sales, Marketing and Delivery to Major Retailers (shops) (2015 or sooner)

As from 2015 or sooner, the Dairy will take direct responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by the following organisations (or their successors):

Waitrose
Sandpiper Group
Co-op
Marks & Spencer
Alliance
Forest Stores

The Dairy will retain management of the sales, marketing and invoicing. The Dairy may decide to operate their own vehicles or they may put the delivery function out to tender under a Dairy contract.

D14.2 - Doorstep and other milk deliveries (2011)

The present zoning arrangements should be retained, monitored and solely controlled by the Guernsey Milk Retailers Association, from an early date with the help of an Independent Arbitrator.

To support this, milk would only be supplied by the Dairy to a member of the GMRA who has a zone agreed with the Association.

As the sale of milk is expected to continue to drift from the doorstep to the shops the rationalisation of the distribution businesses will be necessary. The GMRA should assist with this rationalisation using an independent arbitrator to help with the evaluation and transfer of business between distributors.

The discrepancy of under-remunerating doorstep delivery and the apparent over-remuneration of shop delivery due to the influence of a single Dairy gate price will be brought to the attention of the Milk Price Review Panel for consideration in the short-term.

D14.3 - Price Discovery and Control (2015 or sooner)

In order to maintain stability statutory control on prices from the farm to the consumer should remain in place for 5 years after distribution reorganisation is complete by using an annual Milk Price Review.

After this date pricing should be freed with the Dairy negotiating direct with farmers, major retailers and doorstep distributors.

D14.4 - The Milk Law will need to be progressively amended to allow these changes

D14.5 - The Dairy should agree contracts with distributors and major retailers covering these issues (2015 or sooner)

D14.6 - Establish a free market for milk product sale (2012)

D15 COMPENSATION FOR LOSS OF BUSINESS [WITHOUT PREJUDICE]

D15.1 - Background – creating the change (2015 or sooner)

The discussion regarding the legal status of licensing and zoning is confused by various legal opinions concerning the existence of a contract.

There is a firm view that no definitive contract is in place governing these issues and therefore there would be no obligation to provide compensation for transfer of business as recommended. However, the Panel believes that the legal position is not within its remit.

The Panel assumes that to create change the Dairy will offer, to sell and deliver to the named retailers their requirements of fresh milk and products.

The Panel takes the view, however, that to further industry restructure a level of compensation should be available to those who have lost business with the changes.

Compensation should be discussed on a ‘without prejudice basis’.

D15.2 - Level of Compensation

The value of business lost will be complex to evaluate and will require specialist independent advice.

Multiples of Turn Over and Litreage have been used in the past to provide a business asking price, but these measures will not be relevant in a competitive loss of business situation.

Compensation could not now be based on the price that might have been originally paid for the purchase of the business as the value of milk distribution businesses has significantly changed.

D15.3 - A Source of compensation Funding

2010/2011 Position

Compensation could be based on a formula relating to the present 2010 margin and delivery costs using the volumes that apply in 2014 ie audited 2014 volumes as supplied by the distributor to the named retailers.

An example of this calculation is give below using mid 2010 prices

Retail Price	98.00ppl
(less the average shop margin)	8.00ppl
(less the gate price)	76.75ppl
(less an estimated distribution cost)	7.25ppl

Possible Position in 2015

However the Panel considers that prices will change before 2015 and could erode margins across the dairy sector.

The split of the retail price between farm, dairy (including distribution and the shops) could change towards the UK experience as shown in the table 12 below.

Table 12

Guernsey 2010 (all milk)	% of Retail Price	UK Supermarket Milk	% of Retail Price
Farm	39	Farm	40
Dairy (with distribution)	53	Dairy/Distribution	32
Supermarket Retail price 98ppl	8	Supermarket 65ppl	28

As supermarket sales on the island are now substantially in the hands of two national operators, pressure could be applied to increase shop margins to those achieved in the UK.

As can be seen above the split of the retail prices is very different particularly for dairy and distribution. This completely changes the profitability of these functions.

The Panel has applied its experience of supplying supermarkets and the terms and conditions required, as part of this consideration. As an example

Waitrose purchases (through Dairy Crest plc) some 100 million litres per year from specially selected and monitored dairy farms paying a premium price for excellence.

This milk is sold in their supermarkets at competitive supermarket prices with offers matching other operators.

The Panel is of the view that current distribution arrangements will not satisfy these conditions and changes could occur before 2015.

D15.4 - Payment of Compensation

The Panel considers that the payment of compensation should not directly impinge upon the on-going Dairy operation but should be handled as a separate matter.

The States should consider providing funds to reorganise the industry and underpin Guernsey agriculture, particularly dairy farming.

Central funds should be used to provide compensation for loss of distribution business profitability and a review of the Farm Loan Schemes.

The Panel believes that Guernsey consumers should not be expected to pay for this restructure in the retail price.

In certain circumstances distribution cost savings could arise. If so these should be utilised for compensation payment by agreement between the States and the Dairy.

The cost of such a proposition is almost impossible to estimate for 2015.

The Panel takes the view that the cost in 2015 could be less than in 2010/2011 due to potential margin change, loss of profitability in distribution and the consequent reduction in business valuation.

In these circumstances some distributors supplying the named retailers may wish to exit before 2015.

It would seem therefore appropriate that the States should budget for change from 2012/2013.

Valuations for loss of business for compensation claims on milk supplied to the named retailers should be handled by an independent valuation and settlement body with powers to negotiate, recommend settlement and authorize payment.

Every effort should be made to settle this issue amicably in the best interests of the industry.

D16 - DISTRIBUTION RECOMMENDATIONS

The Panel makes the following Recommendations:

(1) From 2015 (or sooner, in accordance with recommendation 4 of Section C) the Dairy should take responsibility for the sales, marketing and delivery of all fresh milk and dairy products to all outlets controlled by Waitrose, the Sandpiper Group, the Co-op, Marks & Spencer, Alliance and Forest Stores or their successors.

(2) That the present 'zoning' system of doorstep and catering deliveries of fresh milk be retained. The control of 'zoning' being carryout by the Guernsey Milk Retailers Association using an independent arbitrator to settle any disputes'.

(3) An amended Milk Law should be retained for 5 years after the industry has restructured (in 2015 or sooner) to provide price control and stability for fresh milk.

(4) That the current licensing of milk distributors by the Department of Commerce and Employment should be replaced by a commercial contract between the Dairy and the distributor confirming suitability of the distributor and his vehicle, the existence of a GMRA 'zoned' fresh milk round.

(5) That the sale of all Guernsey Dairy milk products (other than fresh milk) be available to all legitimate traders, who are approved by the Dairy~~,~~ for distribution in Guernsey.

(6) **That compensation be paid on a 'without prejudice' basis to those distributors who have lost business with the transfer of fresh milk deliveries to Waitrose, the Sandpiper Group, the Coop, Marks and Spencer, Alliance and Forest Stores or their successors to the Dairy.**

(7) **That the level of compensation for loss of business to the named retailers should be funded by the States, and agreed by an Independent Milk Distribution Settlement Tribunal. This body to be in place as soon as possible, but in any event prior to 2015 to provide cost estimates and make early settlements as appropriate.**

(8) **That the GMRA, using the services of an arbitrator, encourages the rationalisation of milk rounds to maintain a sustainable doorstep delivery system.**

(9) **That a seat is reserved on the Board of Guernsey Dairy Ltd for a person with dairy retailing experience.**

(10) **That all deliveries of milk and milk products to major retail outlets are carried out using refrigerated vehicles and that legislation is introduced to enforce these requirements.**

Delivery of milk products to other outlets to be made by refrigerated or insulated container.

Milk deliveries to the doorstep to be given a derogation from this requirement.

9. SECTION E - THE ROLE OF THE COMMERCE AND EMPLOYMENT DEPARTMENT

Issue 3

KEY QUESTION: Consider the conflict between the operational responsibility for the dairy and a responsibility for policy formation for the future of the dairy industry

The Panel has considered the matter in as follows:

E1	**Has there been a conflict of interest in the past?**
E2	**Is there any conflict of interest at the present time?**
E3	**Is there potential for a conflict of interest in the future?**
E4	**The Way Forward**
E5	**Recommendations**

E1 - HAS THERE BEEN A CONFLICT OF INTEREST IN THE PAST?

Evidence of conflict of interest in the past

The Panel has taken evidence from a wide range of interested people who when faced with the issue confirm the view that there have been instances of conflict of interest in the past.

These in the main, relate to C&E involvement with the Dairy, concerning issues with the farmers such as quota control and with distributors on licensing and zoning matters.

From consultations with individuals and groups involved with the operation of the Dairy, it is apparent that over the years, there has been on occasions, a conflict by C & E being both operator and regulator. An example being that of credit control – where C & E laid down tight rules for terms of payment, but the management when undertaking commercial business, required flexibility in dealing with individual customers.

Analysis shows that C & E has two separate functions which it must fulfil under the terms of the 1955 Milk Laws (as amended). These are management control of the Dairy and regulatory control for the whole industry including the Dairy.

It should be noted that in terms of the Milk & Dairy Regulations, Hygiene and Public Safety, it is the Director of Environmental Health who undertakes the licensing on behalf of the Board of Health. No evidence of conflict exists in this area.

This dual responsibility appears to have arisen with the earlier amalgamation of industry boards/committees to form C & E, when the States Government structure was amended some years ago.

The complexity of dual control was compounded by the fact that Senior Management from C & E and C & E Board Members served on the Dairy Board and became directly involved in commercial matters with farmers and distributors when also setting the regulations.

This complexity of a dual role was noted by the 2006 Scrutiny Committee Report on Milk Distribution Proposals.

The depth of evidence provided to the Panel indicates that there have in the past been instances of conflict of interest. The Panel confirm this view and note that the dual role prevents the Dairy taking true commercial strategies.

E2 - IS THERE ANY CONFLICT OF INTEREST AT THE PRESENT TIME?

It is apparent, that in recent years, the C & E have managed the Dairy with a light touch – having devolved the operational management to the Dairy's own Board and that of milk pricing to the independent Milk Review Panel. Consequently it is now more difficult to clearly pinpoint a conflict of interest but distributor issues remain unresolved and could give rise to conflict at anytime. However, the Dairy management reporting line remains direct to the Director of Client Services which could create conflict with decisions of the Dairy Board at any time.

This change has been brought about by a clarification of the roles of the Dairy Board and of the C & E Board and Senior Management but potential conflict remains.

An outstanding issue is that C&E Board members serve on the Dairy Board which limits commercial development due to policy constraints.

E3 - IS THERE POTENTIAL FOR A CONFLICT OF INTEREST IN THE FUTURE?

In the Panel's view the answer must be YES, if the present structure is retained.

The implications of the Milk Law still place responsibility on C & E and the Dairy with a real lack of clarity. The Panel takes the view that there is benefit in clearly separating the control of Dairy operations from the setting of regulation by creating separate bodies to manage these functions.

If the Dairy remains part of C & E, as at present, the impression of State interference and control continues when certain Directors serve on both Boards.

The retention of this structure emphasises a lack of commercial drive, which for various reasons highlighted in the Report the Panel wish to overcome.

The Panel takes the view that unless there is a clearly defined separation of a commercially driven Dairy from a regulatory C&E Department conflicts of interest will arise in the future.

The need, therefore, is for two separate entities with no common personnel at Board or operational level.

E4 - THE WAY FORWARD.

The Panel remains of the view that the Dairy should become a separate limited company with its own Board of Directors as described elsewhere in the Report.

Contact with the States being by the independent Chairman reporting appropriately to Government, as required by good corporate governance.

The Panel has had detailed discussions on the most appropriate reporting line into Government. To remain with C&E or to move to reporting into Treasury and Resources in line with other State controlled commercial companies.

The recent establishment of a company to import oil (James Co 750) and in particular the management and reporting structure would appear to confirm the benefits of separating operation and regulation.

However after due deliberation the Panel considers that with the experience currently available the Dairy should continue to report to C&E during the period of change if the separate dairy company, as proposed, has been created with no common Directors.

In the longer term the Dairy may need to report to Treasury and Resources along with the other commercial entities but if operations and policy are truly separated this may not be necessary.

E5 - RECOMMENDATIONS

The Panel recommends that:

(1) The Dairy becomes a limited commercially driven company, with an arms length reporting line to the C&E Board with no common personnel or Directors.

(2) The Dairy takes full operational responsibility for milk quota, quality and other issues with the farmers and for licensing/contract and similar matters with distributors.

(3) The Director of Environmental for the Board of Health continues licensing under the terms of the Milk and Dairies Regulations.

(4) The C&E Department continues to use its expertise to manage Farm Services together with the environmental, animal welfare and payment issues for the Farm Management Contract Payment Scheme, together with other regulatory matters.

(REVIEW PANEL)APPENDIX 1 STATES RESOLUTION OCTOBER 2008

IN THE STATES OF THE ISLAND OF GUERNSEY ON THE 30TH DAY OF OCTOBER, 2008

(Meeting adjourned from 29th October 2008)

The States resolved as follows concerning Billet d'Etat No XIII dated 10th October 2008

COMMERCE AND EMPLOYMENT DEPARTMENT

DISTRIBUTION OF GUERNSEY DAIRY MILK AND MILK PRODUCTS –

EXCLUSIVE RIGHTS

IV – After consideration of the Report dated 29th August, 2008 of the Commerce and Employment Department:-

1. That the Commerce and Employment Department (acting through Guernsey Dairy) should grant executive rights to licensed milk distributors to deliver:

   a) Guernsey Dairy Milk to doorstep customers, and commercial customers within specified rounds; and

   b) Guernsey Dairy branded Milk Products to doorstep customers in those rounds.

2. That the Commerce and Employment Department (acting through Guernsey Dairy) should **not** grant exclusive rights to licensed milk distributors to deliver Guernsey Dairy Milk Products to commercial customers.

3. That the Commerce and Employment Department (acting through Guernsey Dairy) should grant non-exclusive rights to licensed milk distributors to deliver Guernsey Dairy Milk Products to commercial customers and not limited to specified rounds.

4. That the above Resolutions, and all rights granted pursuant to them, shall have effect until the end of 2015, and that the distribution model shall be reviewed as part of a comprehensive report on the future of all aspects of the dairy industry, to be prepared by a working part appointed by the Policy Council, and presented to the States of Deliberation by no later then the end of 2013.

(REVIEW PANEL) APPENDIX 2 PANEL REMIT

POLICY COUNCIL - DAIRY INDUSTRY REVIEW

TERMS OF REFERENCE

KEY OBJECTIVE OF THE WORKING PARTY

To review all aspects of the dairy industry in Guernsey and make recommendations for its long-term sustainability

To achieve this objective the Working Party will consider three issues

1. Safeguarding the future of the Guernsey dairy industry

2. Distribution of Guernsey milk and Guernsey milk products

3. The dual roles of the Commerce and Employment Department as operator and regulator for the Dairy

ISSUE 1

SAFEGUARDING THE FUTURE OF THE GUERNSEY DAIRY INDUSTRY

Key Question: What are the current and future opportunities and threats to milk production on Guernsey and how should these be addressed?

The Working Party will review:

RELATED MARKET AND CONSUMER ISSUES

The current and future size of the Guernsey market for liquid milk and dairy products

The implications of the removal of control on imports of milk

The continuing need for statutory control of milk price from the farm to the consumer

The potential for export of dairy products from Guernsey

THE CURRENT VIABILITY AND THE LONG-TERM SUSTAINABILITY OF DAIRY FARMING IN GUERNSEY

The tenure and availability of land including the consideration of conflict with arable and other animal users

The potential constraints on the development of dairy farming provided by planning regulation

The continuing need for subsidies for financial or environmental support

The need for on-farm services

The future of the Guernsey breed of cow and the importance of genetics within island herds

The continuing need for milk production control by quota or contract

The succession of dairy farmers, the encouragement of younger farmers and their training needs

THE CURRENT VIABILITY OF THE ISLAND DAIRY AND ITS LONG-TERM FUTURE

The present condition of plant, machinery and buildings

Future modernisation requirements to process milk from island farms and service the local market needs

Consider product innovation to satisfy consumer needs, provide export potential and meet import competition

The longer term financial structure of the Dairy, does it remain State owned, become a farmers coop, privatised or a mixed structure

ISSUE 2

THE DISTRIBUTION OF GUERNSEY MILK AND GUERNSEY MILK PRODUCTS

Key question: to what extent should the Commerce and Employment Department (acting through the Guernsey Dairy) grant exclusive distribution rights over the sale of the Guernsey Dairy range of milk products?

The Working party will review:

The distribution of milk to doorstep customers

The distribution of milk to shops, hotels, restaurants and other retails outlets

The influence of pricing issues, retail price maintenance, differential pricing and delivery charges

The importance of ‘other goods’ on distribution viability

The potential for the development of other routers of distribution, supermarket or food service

ISSUE 3

THE DUAL ROLES OF THE COMMERCE AND EMPLOYMENT DEPARTMENT AS OPERATOR AND REGULATOR OF THE DAIRY

Key question: Consider the conflict between and operational responsibility for the Dairy and a responsibility for policy formulation for the future of the dairy industry?

The Working Party will review this issue in the light of matters raised dealing with Issues 1 and 2

The Working Party will comment on potential conflict and provide appropriate recommendations

TIMING

The review to be completed and a report submitted with recommendations by 30th September 2010

October 2009

POTENTIAL AND ACTUAL CONFLICT OF INTEREST

The key matter in Issue 3 being a request to consider whether there is a conflict between the Commerce and Employment Department's operational responsibility for the Dairy and its responsibility for the formulation of policy for the future of the island dairy industry.

After due consideration the Working Party concluded that as the Dairy is pivotal to the relationship between dairy farmers, distributors and retailers and is a natural point for the implementation of dairy legislation there is likely to be conflicts of interest.

These potential conflicts of interest have developed historically due to the changes that have occurred in the industry over many years particularly at farm and retail level.

Across this period the number of island dairy farms has reduced dramatically from around 300 to the present 17. The ownership of retail outlets and the movement of milk sales from the doorstep to these shops have played a significant part in creating a need for new relationships.

To date these developments have not been reflected in the legislation governing the operational responsibilities of the Commerce and Employment Department.

The influence of this potential conflict is reviewed in the Working Party's response to Issue 3. However, the Working Party's attitude to matters within Issues 1 and 2 are influenced by a need for a re-structure of the industry and a reduction of the State control.

(REVIEW PANEL) APPENDIX 3 LIST OF CONTRIBUTORS

Guernsey Dairy Review discussions and evidence taken from the following:

Guernsey Farmers Association – 2 full meetings, 6 farms visited.
Chairman & members of Guernsey Dairy Board
Members of Guernsey Milk Retailers Association – 2 full meetings/ time spent on milk rounds
Andrew Table – Guernsey Dairy Manager
Martyn Streeting – Dairy Consultant
Dave Chilton – Formally Guernsey Dairy

Martyn Querpiel – Formally Sales Manager
Andy Le Lievre – Previous Dairy Manager
Jon Buckland – C&E
Mike Northmore – C&E
Richard Nash – C&E
Andrew Casebow – C&E
Kevin Buckley – Cimandis
Kenny McDonald – Checkers – 5 shops visited
Jim Hopley – Chanel Islands Coop
Gill Syvret-Berbore – Marks & Spencer
Manor Farm Foods – A Batiste & G Le Tissier
Gary Wilcocks – Phoenix Foods
Ian Watson – Guernsey Electricity Ltd
David Gorvel – Consumer
Bill Luff – Guernsey Breed Society
Caroline Creed – Farm Services
Richard McMahon – HM Controller
Peter Roffey – Farmer President of Agriculture
Nigel Lewis – Deputy CEO Policy Council
David Twigg – Strategic Planning Officer
Bethan Haines – Chief Accounts T&R
Andrew Le Gallais – Chairman Jersey Dairy
Richard Le Boutillier – Vice Chairman Jersey Dairy
Eamon Fenlon – Manager Jersey Dairy
Paul Huze – Jersey Farmer – visit
Stuart Jacques – IOM Director of Agriculture
Derek Legg – Secretary Isle of Man Board of Agriculture
Findlay Macleod – MD – IOM Creamery Ltd
Stephen Keeley – Finance Director IOM Creamery Ltd
Mike Clarke – Logistics Manager IOM Creamery Ltd
Submarine – Assistance with Consumer Survey
John West & Matt Waterman – joined their morning milk rounds
The Tribal Group

(REVIEW PANEL) APPENDIX 4 CHEESE RECOMMENDATIONS

Artisan Style Cheese Production

The Panel believes that it is likely to remain difficult to produce the existing style of cheese profitably due to the high price of the milk. It will remain almost impossible to make a good return on mild cheddar. Mature cheddar should be profitable within a restricted market. The alternative and remedial actions to this problem are likely to include:

1. Change the retail package to attempt to increase sales of the existing product (last years a ‘new’ packaging was not a success)

2. Minimize the volume of milk put to cheese by exploring alternative uses with Jersey Dairy

3. Progressively move cheese production from the present standard Cheddar to a much more artisan style presentation that will command higher margins at wholesale and retail level.

4. Investigate the cost structure of the grated cheese imported into Guernsey (130 tonnes per year). Could Guernsey cheese compete for any of this business?

ARTISAN STYLE CHEESE

The Panel believes that Dairy should investigate the production of the artisan style cheese being made by similar small producers around Britain and present a ‘new’ cheese as a Guernsey or Channel Island product with appropriate branding.

The type of cheese we refer to are those manufactured by the following:

- First Milk Creameries in the Highlands and Island
- Milk of Kintyre and Arran
- The Orkney Cheese Co in Orkney
- Wensleydale Creameries, Yorkshire Dales

These creameries are all producing small retail size cheese from 200 gram upwards using small moulds of varying shapes.

These, with the exception of Wensleydale, are using Cheddar production methods, some are sold as mature but much is sold as a mild product.

Product development has moved on and these products are all using similar presentation for blended cheeses i.e. with fruit and herbs.

All these small cheeses are wax coated which creates attractive packaging to withstand transport.

The equipment needed to convert to this format would be alternative cheese moulds and a waxing machine – all relatively low cost.

The Panel believes we have an expert who could help with this project

The downside to the project is that production is labour intensive and therefore more expensive than current production.

The upside is much greater margin from a product that should sell locally and be capable of entering the South East England market.

The big advantage is an entry to the artisan market with a non – artisan product with a potential for increasing sales.

The project needs more cost investigation but is very low risk.

The Panel recommends further investigation in this product area to develop cheese production in Guernsey.

(REVIEW PANEL) APPENDIX 5 SECONDARY CONSULTATION LIST OF RESPONDENTS

Response 1	Guernsey Dairy (Joint DMB, GFA and GMRA response)
Response 2	Robert Waters (President GFA)
Response 3	Kevin Gaudion (Mapleleafstud)
Response 4	Tim & Liz Guilbert
Response 5	Frank Robinson
Response 6	Paul Zietsman
Response 7	Deputy Janine Le Sauvage
Response 8	Deputy Graham Guille
Response 9	Deputy Al Brouard
Response 10	Deputy Andy Le Lievre
Response 11	Dr D P Haughey
Response 12	Margaret M.V. Bartlett
Response 13	C A Langlois
Response 14	Fenella Madison (Torteval Cheese)
Response 15	John West
Response 16	Deputy Mary Lowe
Response 17	P. Doyle
Response 18	Brian Martell
Response 19	Department of Commerce and Employment Minister: Carla McNulty Bauer
Response 20	Deputy David Jones

APPENDIX 2

FARM LOANS SCHEME GUIDELINES

(a) <u>Introduction and Aims</u>

The Department is empowered by States resolution to use the fund specifically to assist with projects that reduce the nitrate pollution of groundwater.

(b) <u>Scope of the Scheme and Projects Supported</u>

The loans fund will be used to support dairy farm infrastructural projects that will improve environmental protection, animal welfare standards, enable the maintenance and development of milk production and are supportive of a sustainable dairy industry in the future

It is important to note that loans are <u>not</u> available for such things as:

- The purchase of land other than where it is essential for the operation of the farm
- The purchase of equipment other than fixed equipment
- The purchase of livestock
- Working capital

Loans will only be made available who derive a living wholly or mainly from dairy farming.

Please note that there is no set limit for loans and the Department will treat each application on its merits. The provision of loans is discretionary and the Department reserves the right to refuse a loan, or to provide assistance for only part of a project.

(c) <u>Interest Rates</u>

<u>The standard terms</u> of a loan are based on 75% of the cost of a project or the part of a project that the Department has agreed to support. The term of a loan can be 5, 10 or 15 years and the following schedule of interest rates apply:

YEAR	15 YEARS	10 YEARS	5 YEARS
1	0	0	0
2	0	0	2.5
3	1.5	2.5	5.0
4	3.0	5.0	7.5
5	4.5	7.5	10.0
6	6.0	10.0	
7	7.5	12.5	
8	9.0	15.0	

9	10.5	15.0
10	12.0	15.0
11	13.5	
12	15.0	
13	16.5	
14	18.0	
15	18.0	

In exceptional circumstances and depending on the nature of a project the Department may agree that a loan can be made available on preferential terms. Assistance may be based on 100% of the cost of a project or the part of a project that the Department has agreed to support and the term of a preferential loan can be 10 or 15 years and the following interest rates apply:

YEAR	15 YEARS	10 YEARS
1	0	0
2	0	0
3	0	0
4	0	5.0
5	0	7.5
6	6.0	10.0
7	7.5	12.5
8	9.0	15.0
9	10.5	15.0
10	12.0	15.0
11	13.5	
12	15.0	
13	16.5	
14	18.0	
15	18.0	

(d) Application Procedure

Applications must be made in writing on the standard application form. Applications should be supported by any relevant additional information and applicants may obtain assistance from the Agricultural and Environment Officer in preparing their application.

Applications must be accompanied by plans that have sufficient detail to allow an assessment of the technical suitability of a project. The Department must be satisfied that the nature and scale of a project is appropriate for the scale of the farm business. Other than in exceptional circumstances, the Department requires the minimum of two written quotations for all individual items costing more than £5,000.

It is important to note that it is the responsibility of the applicant to have made all relevant applications to the Environment Department, the Parish and Guernsey Water as appropriate, to ensure that any equipment is manufactured to appropriate British Standards and that construction works are carried out in accordance with the local standards set by Building Control.

Applications may be made at any time, but the Department cannot guarantee that funds will be available at the time of application. The limit on available funding at any one time is the amount in the loan fund, that has not been issued as loans.

(e) **Approvals Procedure**

Applications should be submitted to the Department as early as possible in the planning stage of the project. In appropriate circumstances the A&EO may decide to seek the advice of a qualified engineer before that report is submitted for consideration.

If the application is in line with standard guidelines, in-principle approval for the extent of a project which will receive support, the type of loan (standard or preferential), the maximum sum, or to refuse a loan will normally be given at Director level. The applicant will be advised of the decision in writing as soon as possible.

Final approval and the release of payments has also been delegated to staff on the basis of the following guidelines:

- There has been no material change in the project compared to the details submitted in the original application,
- The final cost does not exceed the original estimates by more than 5%; and
- The project is complete.

If any of the guidelines are not satisfied, the Minister or Deputy Minister has the authority to approve any variations or to refer the matter to the full Department for consideration.

(f) **Conditions of Approval**

Loans will only be made available where adequate security is provided. If an applicant has assets such as property he or she will be required to enter into a Bond in favour of States. Alternatively the Department will consider offers of security from guarantors.

Applicants will be asked to instruct their Advocate to prepare a draft Bond. The Law Officers of the Crown will be consulted regarding this document and also on the issue of security.

Applicants must have signed a manure management plan for their farm.

Applicants who receive a loan will be required to submit annual audited accounts of their farming business to the Department. These accounts must be no more than 15 months old.

In appropriate circumstances an applicant may be required to provide adequate insurance for premises, facilities or equipment that are the subject of a loan or any property that forms the security for that loan. The Department will ask for evidence of such insurance.

(g) Final Approval of the Loan

Final approval and payment will be made once the following requirements are satisfied:

1. The project is complete;
2. There has been a site inspection to confirm that the work has been completed to appropriate standards; and
3. The Department has been provided with receipted invoices for all the items for which support has been claimed. (These will be checked against standard costs based on experience in Guernsey and the UK).

To assist with the financing of the cash flow on a project it will be possible to arrange for staged draw downs of the agreed total loan sum. Stage details will need to be arranged in advance and the security will have to be fully in place before payment is made.

Final payments will be calculated as either:

- The sum approved in-principle by the Department (plus or minus 5%),
- The sum approved by the Minister where there has been any greater variation of works; or
- 50% of the value of all approved receipted invoices

Final payment will be authorised by the Director of Client Services or the Chief Officer and will be paid to the applicant by the States Treasury.

(h) Repayments

Repayments must be made by monthly direct debit, and a schedule of repayments will be drawn up by the Treasury and Resources Department. The capital is repaid in equal quarterly instalments over the period of the loan and interest is calculated quarterly on the basis of the reduced capital balance.

Applicants who receive a loan and leave the farming industry will be required to repay all outstanding amounts of capital and interest at the time that they stop farming.

The Department may also require that a loan is repaid in full if there is a breach in the conditions of the Bond, the applicant fails to submit annual audited accounts, does not implement the provisions of their manure management plan, or defaults on the repayments.

(i) <u>Information</u>

Applicants should contact the Agricultural and Environment Officer at Raymond Falla House on 234567 for further advice on the Farm Loans Scheme.

Revised September 2009

APPENDIX 3

CORRELATION OF RECOMMENDATIONS

Review Panel Recommendation	Department Recommendation
<u>Related Market and Consumer Issues</u>	
A1	xxi)
A2	xxii)
A3	xx)
A4	xviii)
A5	xvii)
<u>Dairy Farming</u>	
B1	i)
B2	iv), xxiii)
B3	vi),
B4	viii)
B5	ix), xii)
B6	v)
B7	vii)
B8	iii)
B9	ii)
<u>The Dairy</u>	
C1	viii)
C2	viii)
C3	ix), xii)
C4	xv)
C5	xiii)
C6	xiv)
C7	xix)
<u>Distribution of Milk and Dairy Products in Guernsey</u>	
D1	xv)
D2	xvi)
D3	xx), xxii)
D4	x)
D5	xi)
D6	xv)
D7	xv)
D8	xvi)

D9	viii)
D10	xvii)

The Role of the Commerce and Employment Department

E1	viii)
E2	ix), x)
E3	xxiii)
E4	iii), xxiv)

APPENDIX 4

DRAFTING OF LEGISLATION – PRIORITY RATING SCHEME
STATES REPORT REVIEW OF THE DAIRY INDUSTRY

Criterion 1 – Need for legislation

The amendments to the Milk (Control) (Guernsey) Ordinance, 1958 are necessary to give effect to some of the recommendations of the Review Panel/

Criterion 2 – Funding

There are no immediate funding requirements.

Criterion 3 – Risks and benefits associated with enacting/not enacting the legislation

It is the view of the Review Panel that operational and structural changes in the Dairy Industry are necessary to safeguard the future of that industry.

Criterion 4 – Estimated Drafting Time-

The proposals require minor amendments to the Milk (Control) (Guernsey) Ordinance, 1958 and should not require a significant amount of drafting time. Subsequent Reports may include proposals for legislation and those reports will address the resource requirements in terms of drafting time.

(NB While recognising the difficult problems facing the Commerce and Employment Department, the Treasury & Resources Department has concerns over the potentially significant financial implications associated with recommendation xv(b)(1). The Department will expect to see a robust process put in place to deliver "a fair and equitable basis for a compensation scheme and assessment of the likely overall cost of that scheme" which takes into account the interests of the consumer and/or taxpayer. The Department believes there may be a case for any compensation payments to be funded by the dairy, perhaps by way of a loan from the Treasury, and is prepared to give the matter further consideration at the appropriate time and in consultation with the Commerce and Employment Department.)

(NB The Policy Council welcomes the States' debate on the Dairy Industry and would like to thank both the Review Panel and the Commerce and Employment Department for ensuring that this report has been submitted to the States promptly. The timetable of work set out over the next year is challenging given the forthcoming elections but the Policy Council would encourage the States to support the report to help safeguard the Industry for the future.)

The States are asked to decide:-

XVII.- Whether, after consideration of the Report dated 14th September, 2011, of the Commerce and Employment Department, they are of the opinion:-

<u>Dairy Farming: Support and Related Issues</u>

1. To direct the Commerce and Employment Department to consult with farmers, landowners, and the Environment Department on the options for controls to retain land for agricultural use and, if deemed necessary outside the Island's planning laws, to report to the States with options for legislation or other forms of control.

2. To direct the Commerce and Employment Department to consult the Treasury and Resources Department on the variation of the conditions of the Farm Loan Scheme such that farm loans could be made available to support the development of dairy farming partnerships, the financing of working capital and herd transfers and the development of cattle housing.

3. To agree that:

   a) the system of Dairy Farm Management Contracts should remain in place and that any amendment of that system should be subject to the prior approval of the States; and

b) the Commerce and Employment Department should continue to make revenue provision for Dairy Farm Management Contract payments in accordance with normal budgetary procedures.

4. To agree that the Commerce and Employment Department should continue to support the Guernsey breed through the provision of Farm Services and financial assistance to the locally-based Secretariat of the World Guernsey Cattle Federation and to continue to make revenue provision for such services and assistance in accordance with normal budgetary procedures;

5. To agree in principle that the existing slaughterhouse should be replaced and to note the intention of the Commerce and Employment Department to submit detailed proposals for a replacement facility to the States in 2012.

6. To note the recommendation of the Review Panel that the Guernsey Farmers Association should collectively encourage an on-going study on cattle feeding and the cost of imported concentrates.

7. To note that the price of milk received by efficient producers should be sufficient to maintain the volume at levels demanded by the market.

Guernsey Dairy

8. To agree in principle that the Dairy should become a limited company, and to agree that:

   a) all of the issued shares of that company should initially be held by the States of Guernsey;

   b) the Board of the company should consist of five persons:

      i. none of whom shall be a States Member or a Civil Servant,

      ii. one of whom shall be a member of the Guernsey Farmers Association; and

      iii. one of whom shall have dairy retailing experience,

   and to direct the Commerce and Employment Department to submit a detailed report on the incorporation of the Dairy, including issues relating to costs, governance and the protection of the employment of Dairy employees, to the States no later than 30 September 2012.

9. To agree that milk supply quota, the seasonal pricing of producer payments and a milk supply quality programme should be part of a direct contract between milk producers and the Dairy.

9. To agree that milk supply quota, the seasonal pricing of producer payments and a milk supply quality programme should be part of a direct contract between milk producers and the Dairy.

10. To agree that the distribution of Guernsey milk and Guernsey Dairy milk products from the Dairy to all customers should be the subject of a distribution contract between the Dairy and distributors and that the requirements relating to the licensing of retailers in the Milk (Control) (Guernsey) Ordinance, 1958 be repealed.

11. To agree that existing arrangements for the sale of Dairy milk products to commercial customers should be extended to all commercial traders with effect from 1 January 2015 or when the reorganisation of the dairy industry has occurred, whichever is the sooner.

12. To note that the Commerce and Employment Department will review the mandates of the Milk Quota Panel and Milk Price Review Panel to ensure that the Panels, between them, can provide the Dairy with advice on milk supply quotas, the seasonal pricing of producer payments and milk quality payments.

13. To note that the Dairy already has a rolling plan of capital expenditure.

14. To note the intention of the Dairy to continue to explore the opportunities for joint projects with Jersey Dairy.

Distribution – Reorganisation and Related Issues

15. To:
    a) agree that the Dairy should be responsible for sales, marketing and the arrangements for the delivery of Guernsey milk and Guernsey Dairy products to all retail outlets from 1 January 2015, or prior to that date, on the payment of compensation to qualifying distributors who currently deliver Guernsey milk and Guernsey Dairy products to those outlets,

    b) direct the Policy Council to:

        i) appoint a suitably qualified independent adviser to engage with the milk distributors and report to the Policy Council no later than 15 May 2012 with recommendations for a fair and equitable basis for a compensation scheme and an assessment of the likely overall cost of that scheme.

        ii) following consultation with the Treasury and Resources Department and the Commerce and Employment Department, prepare a New Service Development Bid for inclusion in the States Strategic Plan to secure in principle agreement to the overall funding for the compensation scheme in 2012, and

iii) subject to States approval of that bid to establish a suitable independent Panel to hear and deliberate on individual claims from retailers for compensation within the amount agreed by the States for the compensation scheme.

c) agree that the reorganisation of the dairy industry will be completed on the conclusion of the arrangements for the payment of compensation.

Regulation and Amendments to Legislation

16. To agree that the Milk (Control) (Guernsey) Ordinance, 1958, as amended, should be further amended to enable farmers to sell their milk directly to an artisan manufacturer of dairy products subject to the prior approval of the Dairy.

17. To agree that the fixing of the price payable to milk producers in respect of milk delivered to the Dairy and the fixing of the price charged for milk on sale by retail should be regulated until:

    a) 1 January 2020; or

    b) five years following the reorganisation of the dairy industry,

    whichever is the sooner.

18. To direct the Commerce and Employment Department to submit recommendations to the States for any further amendments of the Milk (Control) (Guernsey) Ordinance, 1958, that are consequential to the reorganisation of the dairy industry.

19. To agree that the Milk (Control) (Guernsey) Ordinance, 1958, as amended, shall be repealed:

    a) on 1 January 2020; or

    b) five years following the reorganisation of the dairy industry,

    whichever is the sooner.

20. To confirm that the Commerce and Employment Department shall continue to be responsible for the regulation of matters relating to animal health and welfare and to farming and the Guernsey Breed.

21. To note that the Director of Environmental Health will continue to be responsible for the regulation of all matters relating to food hygiene in the dairy industry.

STATES ASSEMBLY AND CONSTITUTION COMMITTEE

SIMULTANEOUS ELECTRONIC VOTING IN THE STATES OF DELIBERATION

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

12th September 2011

Dear Sir

EXECUTIVE SUMMARY

This report recommends the States to agree to –

- the introduction of a system of simultaneous electronic voting in the States of Deliberation;
- authorise the Treasury and Resources Department to approve the acceptance of tenders and a capital vote for the installation of a system of simultaneous electronic voting in the Royal Court Chamber charged to the routine capital allocation of the Treasury and Resources Department – Courts and Law Officers;
- direct the States Assembly and Constitution Committee to report to the States regarding any amendments to the Rules of Procedure required to enable the use of a system of simultaneous electronic voting in the States of Deliberation.

REPORT

BACKGROUND

1. On 17th May 2002, after consideration of the Joint Report, dated 11th April 2002, of the States Advisory and Finance Committee and the States Procedures and Constitution Committee regarding the Machinery of Government in Guernsey[1] the States Resolved, *inter alia*:

> *"To direct the States Procedures and Constitution Committee to report to the States and submit appropriate proposals…for…voting in the States of Deliberation, to include provision for simultaneous electronic voting."*

[1] Billet d'État VII of 2002, p. 567

2. Prior to approval by the States in April 2005 of essential maintenance and refurbishment works at the Royal Court House, there were practical limitations which precluded the serious consideration of the installation of a simultaneous electronic voting system (hereinafter referred to as 'SEV'). This included inadequate desk space, an audio system which could not accommodate SEV and the presence of asbestos which would have made any installation difficult and expensive.

3. Essential maintenance works undertaken in 2006 provided the opportunity to equip and adapt the Royal Court chamber for the 21st century. The maintenance works involved, *inter alia*, the removal of asbestos from the building and the installation of a new audio system. The opportunity was taken to reconfigure the layout of the seating in order to create wider desks, more legroom and improved sightlines for Members sat adjacent to the bench.

4. Included within the contract was the installation of a 'Digital Signal Processing' (DSP) audio system, similar to that which had been installed in the new Criminal Courts 1 and 2, tailored specifically to handle both Court and States proceedings. DSP has many advantages including the capacity to add wireless electronic voting facilities as an integral element either at the time of installation or at a later date. A further benefit of DSP is compatibility of components, units, software and hardware.

5. The work undertaken included the installation of the necessary cabling to allow for the installation of the audio system and the ability to introduce an electronic voting system at a later date. The use of wireless voting units would mean that some ushers' time would be required in setting out the equipment before each session and storing it at the end of the session.

6. In September 2006 the then House Committee reported to the States[2] that whilst it was of the view that electronic voting would provide a number of positive benefits over the current system of voting, it had concluded that the level of expenditure required to implement such a system could not be justified at that time. The States subsequently resolved *"that a system for simultaneous electronic voting not be introduced in the States of Deliberation at this time"*.

VOTING IN THE STATES OF DELIBERATION

7. At present, voting in the States of Deliberation is conducted by Members simultaneously calling out *'pour'* or *'contre'* (known as *'de vive voix'*) in response to propositions, unless a Member requests a roll-call vote (known as an *'appel nominal'*) whereby Members call out their votes in turn in response to a roll-call conducted by H. M. Greffier. Members present but wishing to abstain respond by saying *'je ne vote pas'*.

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[2] Billet d'État XVI of 2006, p. 1745

8. SEV allows Members to vote simultaneously using a delegate handset. Votes are cast by activating one of three buttons: *'pour', 'contre'* or *'je ne vote pas'*. The results of votes are recorded and can be visually displayed immediately on a computer, printed or saved. Such a system was introduced by the States of Jersey in 2004 as a replacement for the '*appel nominal'*. The States of Jersey opted at that time to retain the 'standing vote' (Jersey's equivalent to the *'de vive voix'*) as it was considered more suited and less time consuming for non-controversial, routine matters.

9. Many parliaments world-wide now use SEV systems, including the U. S. Congress and the European Parliament. Whilst voting in the U. K. Parliament at Westminster is still carried out traditionally, the Scottish Parliament and Welsh Assembly use SEV systems as does Tynwald in the Isle of Man. Indeed, some members of the Committee have seen the Manx system in operation and found it to be effective and efficient. It is understood that the technology employed there is somewhat outdated and does not, therefore, serve as a suitable model for Guernsey.

ARGUMENTS FOR AND AGAINST THE ADOPTION OF ELECTRONIC VOTING

10. The following main advantages of SEV over the current systems of voting have been identified:

    (a) It would remove any possibility of the perceived effect of one Member's vote influencing another's: in the Committee's opinion a Member should decide how to vote by force of argument in debate, not by how another Member has voted;

    (b) It would ensure total accuracy: votes could not be questioned;

    (c) It would create a more open and transparent system of government, as a record of individual Members' voting would be retained and available upon request by Members of the States, the media, the public, States departments and committees;

    (d) The system would potentially save time compared to the *'appel nominal'*. Where there are a large number of votes during one meeting, the time savings would clearly accrue. Each *'appel nominal'* takes approximately three minutes. At the February 2011 session of the States a total of 14 *'appels nominal'* were requested which took up about three-quarters of an hour of States' time.

11. The following main disadvantages of SEV over the current systems of voting have been identified:

    (a) The media and members of the public following the business of the Assembly on the radio would not be able to hear whether individual Members had voted *pour* or *contre*;

(b) Appropriate SEV systems offering the necessary degree of security and reliability are relatively expensive when compared to the current systems which do not cost anything to operate.

12. Disadvantage (a) could be addressed by giving Members of the States the option to request H. M. Greffier to announce the record of individual voting following the casting of votes. However, this would reduce the time savings achieved by using the SEV system. The results could be added to the States website and printed versions of the record could also be available to Members of the States, the media and the public upon request or via printers located in the Members' and media rooms.

13. The States Assembly and Constitution Committee, having by a majority concluded that the merits of SEV outweigh the disadvantages, has established the cost of installing an appropriate system.

ESTIMATED COSTS

14. Given the technical nature of this matter, the Committee sought professional advice with a view to obtaining a budget estimate for the provision of a suitable SEV system which incorporates -.
    - o reliability and serviceability
    - o fail-proof security
    - o ability to be integrated with the DSP audio system
    - o cost-effectiveness
    - o ease of use
    - o ease of installation with minimum disruption to the furniture
    - o efficient use of desk space, allowing maximum space to be retained for Members'/Advocates' papers.

15. The Committee was advised that whilst there are a number of electronic voting systems on the market, relatively few cater specifically for parliamentary voting. Many of the 'cheaper' systems would be quite unsuitable as they are engineered for commercial use such as television (ask the audience) shows or educational (multi-question) polling and these do not have the necessary degree of security, reliability and integrity of specialist parliamentary systems.

16. The Committee has been provided with a budget estimate of £20,000 for the procurement and installation of a wireless SEV system specifically designed, tried and tested for parliamentary voting and capable of being fully integrated with the DSP audio system. The main advantages of a wireless system is that –

    - o its installation does not entail any rewiring under the benches
    - o it does not compromise the décor of the room
    - o the handsets can be moved or stored until required, thus minimising obtrusive clutter.

17. The voting handsets of the system identified are small (similar to a small television remote control) with just three buttons. The system allows a full analysis of results and the ability for the results to be printed out. The system is proven to be reliable and secure.

18. A further security measure provided is a facility for H. M. Greffier to exclude voting by Members not present at the roll call and who have not subsequently been *relevé(e)*. The proposed amendment to the Rules of Procedure referred to in paragraph 22 will include a provision to prohibit Members from removing voting handsets from the States Chamber.

19. The budget cost of £20,000 includes:
    - 50 delegate handsets
    - central console and power supply
    - all necessary receivers, aerials, interfaces and software
    - delivery and installation / programming.

20. Costs have reduced considerably since 2006. The present estimated cost of £20,000 compares most favourably with the estimated cost of £30,000 in 2006.

VOTING BY *VIVE VOIX* AND *APPEL NOMINAL*

21. The Committee is of the opinion that if the States approve the introduction of simultaneous electronic voting, use of the *'vive voix'* should be retained, as it is more suited and less time-consuming for non-controversial, routine matters and to preserve a traditional practice. However, the SEV system would, of course, be available for use if any Member called for a recorded vote before the Presiding Officer ruled that the matter had been carried or lost, or immediately after such a ruling, just as, at the present time, any member can call for an *'appel nominal'* under Rule 14(2) of the Rules of Procedure of the States of Deliberation. The Committee favours the retention of voting by *'appel nominal'* in the event of a breakdown in the electronic voting system.

AMENDMENT TO RULES OF PROCEDURE / OUTLINE OF VOTING PROCEDURE

22. If the States approve the introduction of SEV the Committee will propose appropriate amendments to the Rules of Procedure to facilitate the use of SEV in the States of Deliberation. Detailed discussions in that regard will be required with both the Presiding Officer and H.M. Greffier but the Committee envisages a procedure on the lines set out below.

23. When a recorded vote is required the Greffier will announce that the voting is open. Members will then have 15 seconds in which to record their vote by pressing a button. During that period Members would be able to change their vote. At the end of the period the Greffier would announce that voting was

closing. The overall result (i.e. without names) would be displayed on a screen on the Greffier's desk and/or the Presiding Officer's desk. He would then announce the result of the vote in the usual manner.

24. The Greffier's computer would have a display of the voting of each individual Member. At the conclusion of voting Greffe staff would arrange for the result to be made available electronically and for printouts (where necessary) of the full result, with names, to be displayed in the States Members' Room, with copies being available for the media.

25. Immediately after a vote has been declared by the Presiding Officer any Member will be able to request that the Greffier reads out the list of names of either all the "pour" votes or all the "contre" votes or all the abstentions, or indeed all three lists. This latter procedure is followed in Jersey. The Committee understands that whilst such requests are made in approximately 80% of votes, they are not considered to impact adversely on the efficient running of the Assembly in that Island.

STATEMENT OF DISSENT

26. Deputy M. J. Fallaize opposes the proposals contained in this Report and favours maintaining the present voting system. He will, therefore, speak and vote against these proposals in the States of Deliberation.

CONSULTATION

27. The Presiding Officer, H. M. Greffier and the Law Officers have been consulted regarding this matter. All are in agreement that this is a political matter and none has identified any problem with the introduction of SEV in the event that the States so decide.

FINANCIAL AND MANPOWER IMPLICATIONS

28. The budgetary responsibility for the provision of equipment for use in the Royal Court House rests with the Treasury and Resources Department. The Committee has been advised by the Treasury and Resources Department that, if the States approve the propositions set out at the end of this report, the existing capital allocation for Courts and Law Officers will be reprioritised to fund a capital vote to enable the introduction of simultaneous electronic voting.

29. The introduction of SEV would have no implications for the manpower resources of the States.

PRINCIPLES OF GOOD GOVERNANCE

30. The Committee considers that the proposals contained in this report comply with the relevant Principles of Good Governance.

RECOMMENDATIONS

31. The States Assembly and Constitution Committee recommends the States to agree to:

(1) the introduction of a system of simultaneous electronic voting in the States of Deliberation;

(2) authorise the Treasury and Resources Department to approve the acceptance of tenders and a capital vote for the installation of a system of simultaneous electronic voting in the Royal Court Chamber charged to the routine capital allocation of the Treasury and Resources Department – Courts and Law Officers;

(3) direct the States Assembly and Constitution Committee to report to the States regarding any amendments to the Rules of Procedure required to enable the use of a system of simultaneous electronic voting in the States of Deliberation.

Yours faithfully

I. F. RIHOY

Chairman
States Assembly and Constitution Committee

Members of the Committee are
Deputy I. F. Rihoy (Chairman)
Deputy M. M. Lowe (Vice-Chairman)
Deputy T. M. Le Pelley
Deputy S. L. Langlois
Deputy M. J. Fallaize

(NB The Treasury and Resources Department has no comments on this Report.*)*

The States are asked to decide:-

XVIII.- Whether, after consideration of the Report dated 12th September, 2011, of the States Assembly And Constitution Committee, they are of the opinion:-

(1) To agree to the introduction of a system of simultaneous electronic voting in the States of Deliberation.

(2) To authorise the Treasury and Resources Department to approve the acceptance of tenders and a capital vote for the installation of a system of simultaneous electronic voting in the Royal Court Chamber charged to the routine capital allocation of the Treasury and Resources Department – Courts and Law Officers.

(3) To direct the States Assembly and Constitution Committee to report to the States regarding any amendments to the Rules of Procedure required to enable the use of a system of simultaneous electronic voting in the States of Deliberation.

ORDINANCE LAID BEFORE THE STATES

THE SYRIA (RESTRICTIVE MEASURES) (GUERNSEY) (AMENDMENT) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law,1948, as amended, The Syria (Restrictive Measures) (Guernsey) (Amendment) Ordinance, 2011, made by the Legislation Select Committee on 26th September 2011, are laid before the States.

STATUTORY INSTRUMENT LAID BEFORE THE STATES

THE MILK (RETAIL PRICES) (GUERNSEY) ORDER, 2011

In pursuance of Section 8 (1) of the Milk (Control)(Guernsey) Ordinance, 1958, The Milk (Retail Prices) (Guernsey) Order, 2011, made by the Commerce and Employment Department on 13th September 2011, is laid before the States.

EXPLANATORY NOTE

This Order changes the retail price to be charged for milk sold in litres and half litres from 2nd October 2011. This Regulation came into operation on 2nd October 2011.

COMMERCE AND EMPLOYMENT DEPARTMENT

OUR ANNUAL REPORT AND AUDITED ACCOUNTS 2010

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

23 September 2011

Dear Chief Minister

OUR ANNUAL REPORT AND AUDITED ACCOUNTS 2010

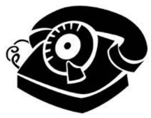
I enclose a copy of the Annual Report and Accounts 2010 of the Office of Utility Regulation and would be grateful if you would arrange for it to be published as an Appendix to the November 2011 Billet d'Etat.

Yours sincerely

Carla McNulty Bauer
Minister

The Office of Utility Regulation

Annual Report and Accounts 2010



OUR
OFFICE OF UTILITY
REGULATION

Office of Utility Regulation

12th September 2011

Deputy Carla McNulty Bauer
Minister for Commerce and Employment
Raymond Falla House
Longue Rue
St Martins
Guernsey
GY4 6AF

Dear Deputy McNulty Bauer,

I am pleased to submit this report on the activities of the Office of Utility Regulation for the period 1st January 2010—31st December 2010.

In accordance with Section 8 of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001, I would be grateful if you would present this report to the States of Guernsey.

Yours sincerely,

John Curran
Director General

OUR
OFFICE OF UTILITY REGULATION

Contents

Director General's Report

I am pleased to submit the OUR's Annual Report for 2010 to the States of Guernsey.

2010 marked a significant year for the OUR. The call for closer co-operation with Jersey on regulatory issues, expressed by both the business community and politicians, produced a real milestone in 2010. Following the departure of the head of the Jersey Competition Regulatory Authority (JCRA) last summer, the opportunity to have the OUR and the JCRA work more closely together was taken up by the Commerce & Employment Department and their counterparts in Jersey the Economic Development Department. As a result, the JCRA Board agreed to appoint the Director General of the OUR as their Executive Director.

This has presented a real opportunity for sharing resources between both offices, closer working on shared areas of responsibility and where possible joint projects. There will be matters which will require a local solution. However the positive reaction from licensed operators and the business community to this joint approach is very welcome.

The telecoms and postal sectors lend themselves very strongly towards joint projects. In the telecoms market, many of the licensees regulated in Guernsey are also regulated in Jersey. Many of the issues we are tackling in the postal market are matters that need to be addressed in Jersey. This produces certain synergies for the regulators, but more importantly produces real benefits for the companies we regulate.

I am conscious that all of the regulated companies have limited resources and where they have pan Channel Island operations those internal resources are in almost all cases shared across both islands. Therefore working on a particular regulatory initiative jointly with Jersey has real benefits for the regulated companies.

The postal markets in both islands face the same challenges. Declining mail volumes, off-island pressure on the bulk mail industry and the challenge of meeting the Universal Service Obligation while still ensuring postal charges remain affordable are issues faced by both Guernsey Post and Jersey Post. However much we as consumers may regret it, change in the postal sector is happening at a pace faster than previously seen. It is important that this change is managed which will involve the need for further tough decisions being taken in both Islands.

Our role as a regulator remains, as ever, focused on increasing competition where it is sustainable and also ensuring that all consumers are able to get competitively priced utility services at a high quality. We maintain our view that competition in the provision of services is a much more effective tool than regulation alone. Competition in the provision of services helps make firms more efficient and more productive. Competitive markets also benefit consumers by driving innovation and improving quality of service.

The decision to open the postal market to limited competition regrettably resulted in a legal challenge which occupied considerable resources of the OUR during 2010. The introduction of competition, I strongly believe, has now been demonstrated to have been a positive move for Guernsey Post and their customers.

Not only has it pushed the company to realise over £3million in savings – savings previously argued not attainable – but better positions the company for the challenges it now faces. These include the continuing decline in mail volumes and the threat to LVCR and its potential impact on the bulk mail industry.

Director General's Report

Without this push from the OUR, however uncomfortable it may have been perceived at the time, Guernsey Post would have to face bigger and faster changes which would have brought even greater disruption and unease for its staff, its customers and ultimately its shareholder, the States of Guernsey.

As the postal regulator our role is to ensure Guernsey has a strong, sustainable postal operator capable of delivering the Universal Service Obligation. This is a goal we share with Guernsey Post and with the States. It is one we take extremely seriously. However we still believe that competition has a role in the postal market and that competition, properly regulated by experts, will in the long term be of benefit to Guernsey, Guernsey Post and Guernsey consumers.

In telecoms, we continue to focus on increasing competition where feasible. Significant progress has been made in the mobile market with increasingly better value being offered by all three operators. Our focus during 2010 was on the fixed market and this will remain an area where considerable effort will be made during 2011.

We are looking to develop, in consultation with the industry, solutions that will enable fixed line customers, both business and residential, get greater choice which in turn should deliver savings for the mobile market. This approach, like most of our telecoms work now, is being undertaken on a pan Channel Island basis, a move strongly supported by the industry. Where competition is not yet effective we continued to monitor and control C&W Guernsey's charges for key services such as line rental. Guernsey customers continue to benefit from one of the lowest line rental charges in most comparable jurisdictions.

In common with the postal sector, the working relationship with Guernsey Electricity has, I am pleased to say, greatly improved over the past 12 months. The external influences on the energy sector remained uncertain during 2010, and the events in the Middle East in Spring 2011 has contributed to the volatility we see in energy prices. It is important therefore that those costs that are more directly influenced by Guernsey Electricity are tightly managed. During 2010, the OUR reviewed the price control that applied to Guernsey Electricity and set a further one year control from April 2011. A significant factor impacting on our work in this area is the lack of a fit for purpose energy plan. This issue was also identified by the advisors to Commerce & Employment during the review of regulation. It is hoped that the work currently underway will address this gap.

I would like again acknowledge the continued hard work and support of our Audit, Risk and Remuneration Committee (ARRC) for its assistance and advice over 2007. I would like to thank Mr. Alan Bougourd, who stepped down from his role as Chairman of the ARRC in 2010, for his support and contribution to the office. The report of the Chairman of the ARRC is included in this report and sets out the issues which the committee addressed in 2010. I would also like to thank the staff at the OUR for their continued professionalism and for embracing the opportunity to work more closely with Jersey. The OUR remains a small team of experienced regulators that is committed to ensuring consumers needs are adequately protected.

I am pleased to submit this report to the States of Guernsey.

John Curran
Director General

2010 in Brief

February

Roll forward of Cable & Wireless Guernsey's Price Control - Call for Comment

2.6GHz Spectrum Licence Award-Consultation launched

March

Telecommunications Market Data January — June 2009 Report issued

May

Consultation launched into Licensing of Postal Operators

Review of Mobile Licence Conditions — consultation launched

July

Latest Register of Mobile Phone Operator Mast Sites in Bailiwick published

Audit of Emissions from Radio Masts — report published

Invitation to Comment launched on Amendment to Cable & Wireless Guernsey's Fixed Telecommunications Licence

August

A statutory invitation to comment is launched on a proposed amendment to the reserved area of postal services

September

Final decision issued on Reserved Postal Services in Guernsey

October

Consultation Paper issued on Guernsey Post's Proposed Tariff Change

November

A consultation paper is issued on Guernsey Electricity's Price Control

Draft Decision issued on the licensing of Postal Operators

Consultation paper issued on Cable & Wireless Guernsey's Price Control

December

A draft decision is issued on a review of Mobile Licence Conditions

The Guernsey Regulatory Environment

The States of Guernsey has set out the regulatory framework for telecommunications, post and electricity sectors in various Laws and Orders that were made in 2001 and 2002.

The States has also issued a number of Directions to the Director General of Utility Regulation that develop States policy in more detail. The OUR, which was established in 2001, is charged with implementing that policy and regulating in the best interests of the Bailiwick.

Legislation

The principal piece of regulatory legislation is the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (as amended), which establishes the OUR, sets out the governing principles of the Office and allows the States to assign further functions to the Office over time. Three other key laws are:

- The Telecommunications (Bailiwick of Guernsey) Law 2001;
- The Post Office (Bailiwick of Guernsey) Law 2001; and
- The Electricity (Guernsey) Law.

Where empowered to do so, the Director General has also introduced regulations and orders. Texts of all relevant legislation can be found on the OUR website at www.regutil.gg.

States Directions

The Regulation Law provides that the States of Guernsey may give States Directions to the Director General on certain specific issues in each of the sectors.

Directions issued to-date have addressed issues such as the identity of the first licensee in each sector to be granted a licence with a universal service obligation, the scope of a universal service or minimum level of service that all customers in the Bailiwick must receive and any special or exclusive rights that should be granted to any licensee in any of the sectors.

The States debated and agreed policy directions in relation to all three sectors in 2001. The full text of the directions that were in place in 2008 is included in Annex A to this report, in accordance with Section 8 of the Regulation Law.

The OUR Team

John Curran, Director General

John has been Director General of Utility Regulation since February 2005 and in 2010 was appointed Executive Director of the Jersey Competition Regulatory Authority. He previously worked with the OUR when the office was first established in 2001. After a period as a regulatory advisor with the Australian telecoms incumbent Telstra John returned to the OUR in April 2003 as Director of Regulation. John has a strong background in regulation. Before joining the OUR he worked for six years in communications regulation in Ireland. He began his career in the Irish Civil Service upon graduating from the Galway Institute of Technology. John also holds a Diploma in Company Direction from the Institute of Directors.

Michael Byrne, Deputy Director General

Michael joined the OUR in June 2005 as Director of Regulation. He became Deputy Director General in 2007. Michael has led work across a variety of projects in all three sectors, in particular in the energy and telecoms sectors. Prior to joining the OUR, Michael was head of Retail Competition at Ofgem in the UK. He led case investigations across various aspects of the UK energy sectors. He has worked in commercial television regulation and as a consultant, specialising in the dairy manufacturing industry. He has a BSc Honours degree in Mathematics, Statistics and Economics from the University of Natal. In addition, Michael has a post-graduate diploma in Competition Policy and an MBA from the University of Warwick and a Diploma in Company Direction from the IoD.

Jeanne Golay, Head of Regulatory Policy

Jeanne Golay joined the OUR in June 2010 after 13 years as Economic Regulation Advisor for Water UK, the industry association for the water companies in the UK. Prior to this Jeanne worked for the UK Post Office Group Planning department and as an accountant, for managing the Post Office £300m capital budget. She has also worked in the gas industry as an Ofgas director, and in the telecommunications and transport sectors for Coopers & Lybrand. She has economics and law degrees from the University of Lausanne, a Master in Science from the London School of Economics and a diploma in European competition law from King's College, University of London.

The OUR Team

Jonathan Tooley, Head of Policy and Consumer Affairs

Jonathan joined OUR in October 2010. He has worked across the utilities sector and has extensive experience of energy markets and economic regulation. Jonathan began his career at Ofwat, the UK water industry's economic regulator where he worked in a range of areas and led work on operating cost analysis and efficiency assessment before becoming Head of Economic Regulation at Northumbrian Water.

He subsequently moved to the energy sector, working on electricity and gas market trading and risk analysis, developing hedging strategies for structured contracts and energy derivatives. His experience of electricity generation ranges from large scale coal and nuclear to small scale oil and renewables. Prior to joining the OUR Jonathan headed the Strategic Assets team at British Energy. He has a first degree in Physics and a Masters in Environmental Management.

Rosie Allsopp, Office Manager/Case Officer

Rosie joined the OUR in January 2007. She manages the office and provides administrative support. In addition to this, she is a case officer for dispute resolution. Rosie was educated locally at the Grammar School and was formerly a journalist with the Guernsey Press for more than seven years where she was deputy news editor and business editor and developed a strong interest in local politics and business. Rosie studied for a post-graduate diploma in journalism at the Press Association-affiliated Editorial Centre.

Communication and Expert Support

It is OUR policy to operate with a small core team of professional staff and utilise expert consultants as needed on specific projects. This ensures that the Office works efficiently and effectively and keeps its skills and expertise up to date with knowledge transfer from experts in their fields.

The OUR operates in an open and transparent way, and seeks to consult with as wide a range of stakeholders as possible on all key decisions.

The OUR website (www.regutil.gg) is used as a means of communicating with operators within the regulated industries and with the public.

All consultation documents are published on the site as well as being made available in hard copy on request and responses, where not confidential, are also made available. The OUR publishes all decisions with reasons and a commentary on the views received.

During 2010, the following consultants and external specialists worked with the OUR on a range of specific projects, as well as providing general support for the OUR work programme:

- **KPMG LLP** provided assistance and support across a range of telecommunications projects ;
- **Parsons Brinckerhoff Ltd** provided assistance on the Guernsey Electricity Ltd price control;
- **Red-M** undertook the audit of emissions from radio masts;
- **Cambridge Economic Policy Associates** provided assistance to the OUR in its work on Guernsey Post Ltd;
- **Brockley Consulting Ltd** provided assistance with Guernsey Post Ltd's proposed Tariff changes;
- **Power Consult International** provided assistance with the OUR's review of Guernsey Electricity Ltd for the Emergency Powers Advisory Group;
- **Sirius Consulting** provided assistance with the OUR's review of Guernsey Post Ltd for the Emergency Powers Advisory Group;
- **AO Hall and McCann Fitzgerald Solicitors** provided legal advice during 2010;

Activity Report:

Under the Regulation of Utilities (Guernsey) Law, 2001, the Director General has a duty to promote, and where they conflict, to balance, objectives that underpin the work of the OUR. The following report outlines the Office's duties as set out in Section 2 of the Regulation Law 2001 and some of the initiatives undertaken in 2009 in performing these duties.

Duties	**Performance**
To protect interests of consumers and other users in the Bailiwick in respect of prices charged for and the quality, service levels, permanence and variety of utility services.	Following a detailed review of the financial information provided by the three mobile telecoms operators, mobile termination rates were reduced with effect from 1st April 2010 to 4.11 pence per minute (ppm) from 2010 onwards, representing a 40% decrease from the existing charge. Fixed telecom prices remained largely frozen or fell further over the course of 2010 as the OUR's price control of C&WG saw local call charges fall by almost 9%. Price freezes saw exchange line prices remain at £7.99 per month, in effect a decrease of over 2%. In electricity the need to balance price stability against cost reflectivity saw tariffs rise by 8.5% from April 2010 as international energy costs rose further.

Activity Report:

Duties

Performance

To secure, as far as practicable, the provision of utility services that satisfy all reasonable demands for such services within the Bailiwick, whether those services are supplied from, within or to the Bailiwick.

The levels of investment in additional generation capacity has been driven by greater than expected demand over recent years which is set to continue. The large costs of such investment and the long term implications for the cost of electricity saw the OUR commit considerable resource to appraising the capital expenditure plans of GEL.

The OUR also gauged interest in bandwidth in the 2.6GHz frequency band given technology developments allowing this bandwidth to provide far greater speed and volume of information content delivered wirelessly. At this time there remain technical issues to address with the deployment of this spectrum and the OUR has halted any further work in this area until the results of trials under the auspices of Ofcom have been assessed.

To ensure utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick;

The OUR, with the JCRA, an telecoms operators in both islands are working to identify wholesale fixed line products that facilitate improved access to customers. This project seeks to avoid duplication of infrastructure, in particular the extent of road digging that inconveniences islanders and raises costs, where entrants seek to build their own network infrastructure rather than utilise that of the incumbent. This has the additional benefit of more rapid implementation of wholesale products and the potential benefits to consumers of innovation and choice, as well as price.

In post the need to protect the universal service obligation saw the OUR commence the process for creating a framework within which new postal operators may be licensed to compete against Guernsey Post. A fair licensing regime is seen as been This seeks to ensure that should it be necessary, such operators make a contribution to the USO to enable Guernsey Post to meet the obligations of the USO.

Activity Report:

Duties	Performance
To introduce, maintain and promote effective and sustainable competition in the provision of utility services in the Bailiwick, subject to any special or exclusive rights awarded to a licensee by the Director General pursuant to States' Directions.	The OUR reviewed the level of the reserved area needed by Guernsey Post to sustain the USO and decided to open the market for postal packets to competition. Despite an initial appeal of this decision, agreement was reached with Guernsey Post in September 2010 which enabled this change to be implemented. The OUR will assess the impact of this change on customers as competition begins to place pressure on GPL to make the necessary changes and adapt to the challenges that exist in the marketplace.
To improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick.	In electricity, GEL continued to rollout automatic meters subject to deadlines as set out in the OUR's price control decision. It is the intention that better customer information and improved intelligence on where network failures occur will allow more rapid repair and improve consumption decision. Restrictions have been removed from mobile licences that limit how certain spectrum can be used. This allows the market to take more responsibility for quality standards and allow mobile operators to better utilise the spectrum they have been granted. In 2010 a further fixed licence was also issued to 2e2.
To lessen, where practical, any adverse impact of utility activities on the environment.	The OUR carried out a further audit of mast emissions, where a further 16 sites were audited to ensure operators' ongoing compliance with the ICNIRP guidelines. To-date all sites have complied fully with the guidelines applied. Site sharing obligations on mobile operators continue in force with the key aim of minimising the need for additional mobile masts where existing masts have the capacity to be shared with other operators.

Report of the Director General and

Financial Statements for the Year Ended 31 December 2010

for

Public Utilities Regulation Fund

Contents of the Financial Statements for the Year Ended 31 December 2010

Fund Information
for the Year Ended 31 December 2010

DIRECTOR GENERAL:	Mr J Curran
OFFICE ADDRESS:	Suites B1 & B2 Hirzel Court St Peter Port Guernsey GY1 2NH
AUDITORS:	Grant Thornton Limited PO Box 313 Lefebvre House Lefebvre Street St Peter Port Guernsey GY1 3TF

Report of the Director General for the Year Ended 31 December 2010

The Director General presents his report with the financial statements of the Fund for the year ended 31 December 2010.

PRINCIPAL ACTIVITY
The principal activity of the Office of The Director General in the year under review was that of a utilities regulator.

REVIEW OF BUSINESS
The results of the year and the financial position of the Fund are as shown in the annexed financial statements.

STATEMENT OF THE DIRECTOR GENERAL'S RESPONSIBILITIES
The Director General is responsible for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the surplus or deficit of the Fund for that period. In preparing those financial statements the Director General is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Fund will continue in operation.

The Director General is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to ensure that the financial statements comply with the applicable accounting standards. The Director General is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 13 of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Director General shall keep all proper accounts and records in relation to those accounts and shall prepare in respect of each year a statement of account giving a true and fair view of the state of affairs of the Office of the Director General.

The Law also requires the Director General to have the accounts audited annually by auditors appointed with the approval of the Department of Commerce and Employment. The Director General, with the approval of the Department of Commerce and Employment, has appointed Grant Thornton Limited as the auditors of the Public Utilities Regulation Fund.

The audited accounts shall be submitted to the Department of Commerce and Employment which shall in turn submit them together with the auditors' report thereon to the States of Guernsey with the Director General's annual report.

AUDITORS
The auditors, Grant Thornton Limited, have indicated their willingness to continue in office.

Mr J Curran
Director General of Utility Regulation

Dated: 29 July 2011

Report of the Independent Auditors to the Director General of the Public Utilities Regulation Fund

We have audited the financial statements of Public Utilities Regulation Fund for the year ended 31 December 2010 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standards for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the office of the Director General, in accordance with The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. Our audit work has been undertaken so that we might state to the fund's members those matters we are required to state to them in an auditors' 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 fund and the office of the Director General as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director General and auditors

As described in the Statement of the Director Generals' Responsibilities on page 2, the Director General is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director General; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements
- give a true and fair view of the state of the Fund's affairs as at 31 December 2010 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been properly prepared in accordance with The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you, if in our opinion:
- the fund has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Grant Thornton Limited

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

Date: 29 July 2011

Income and Expenditure Account
for the Year Ended 31 December 2010

	Notes	2010 £	2009 £
INCOME			
Licence fees		680,458	931,179
Bank interest		2,757	6,432
		683,215	937,611
EXPENDITURE		949,118	857,838
(DEFICIT)/SURPLUS FOR THE YEAR		(265,903)	79,773
TRANSFER FROM/ (TO) CONTINGENCY RESERVE	7	265,903	(79,773)
NET OPERATING RESULT FOR THE YEAR		-	-

The Fund has no other gains or losses for the current or preceding financial year other than those stated in the Income and Expenditure Account.

The notes form part of these financial statements

Balance Sheet
31 December 2010

	Notes	2010 £	2010 £	2009 £	2009 £
FIXED ASSETS					
Tangible assets	4		6,741		11,621
CURRENT ASSETS					
Debtors	5	20,967		19,398	
Cash at bank and in hand		382,473		611,925	
		403,440		631,323	
CREDITORS					
Amounts falling due within one year	6	122,019		88,879	
NET CURRENT ASSETS			281,421		542,444
TOTAL ASSETS LESS CURRENT LIABILITIES			288,162		554,065
RESERVES					
Contingency reserve	7		288,162		554,065
			288,162		554,065

The financial statements were approved on 29 July 2011 and were signed by:

....
Mr J Curran
Director General of Utility Regulation

The notes form part of these financial statements

Notes to the Financial Statements
for the Year Ended 31 December 2010

1. ACCOUNTING POLICIES

Accounting convention
The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice.

Income
Income represents net invoiced licence fees and income from organisation of conferences and is accounted for on an accruals basis.

Tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Office equipment	- 20% on cost
Fixtures and fittings	- 20% on cost
Computer equipment	- 20% on cost

2. OPERATING (DEFICIT)/SURPLUS

The operating (deficit)/surplus is stated after charging:

	2010 £	2009 £
Depreciation - owned assets	4,952	4,496
Auditors & accountants' fees	6,540	6,300

3. TAXATION

Under Section 12 of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 the Fund is exempt from Guernsey Income Tax.

4. TANGIBLE FIXED ASSETS

	Office equipment £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 1 January 2010	39,433	3,265	35,926	78,624
Additions	72	-	-	72
Disposals	(7,598)	-	(8,978)	(16,576)
At 31 December 2010	31,907	3,265	26,948	62,120
DEPRECIATION				
At 1 January 2010	35,004	3,208	28,791	67,003
Charge for year	1,527	57	3,368	4,952
Eliminated on disposal	(7,598)	-	(8,978)	(16,576)
At 31 December 2010	28,933	3,265	23,181	55,379
NET BOOK VALUE				
At 31 December 2010	2,974	-	3,767	6,741
At 31 December 2009	4,429	57	7,135	11,621

continued...

Notes to the Financial Statements - continued
for the Year Ended 31 December 2010

5. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£	£
Accrued interest	77	59
Other debtors	20,890	19,339
	20,967	19,398

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£	£
Trade creditors	55,721	33,530
Deferred income	23,771	16,402
Other creditors	42,527	38,947
	122,019	88,879

7. CONTINGENCY RESERVES

Any surplus or deficit in the Income and Expenditure Account is either transferred to or from the contingency reserve.

	£
At 1 January 2010	554,065
Movement in the year	(265,903)
At 31 December 2010	288,162

Detailed Income and Expenditure Account
for the Year Ended 31 December 2010

	2010		2009	
	£	£	£	£
Income				
Post office revenue	160,000		140,000	
Telecoms revenue	360,458		638,179	
Electricity revenue	160,000		140,000	
Other income	-		13,000	
		680,458		931,179
Other income				
Bank interest		2,757		6,432
		683,215		937,611
Expenditure				
General overheads	94,631		90,749	
Salaries and staff costs	413,066		488,394	
Consultancy fees	297,431		206,393	
Legal costs	124,354		52,506	
Auditors and accountancy fees	6,540		6,300	
ARRC fees	8,000		9,000	
		944,022		853,342
		(260,807)		84,269
Finance costs				
Bank charges		144		-
		(260,951)		84,269
Depreciation				
Office equipment	1,527		1,357	
Fixtures and fittings	57		44	
Computer equipment	3,368		3,095	
		4,952		4,496
(DEFICIT)/SURPLUS FOR THE YEAR		(265,903)		79,773

This page does not form part of the statutory financial statements

OUR Corporate Governance

Audit Risk and Remuneration Committee Chairman's Report

The Committee continued to work under the terms of the 31st March 2007, the Projet de Loi entitled "The Regulation of Utilities (Bailiwick of Guernsey) (Amendment) Law, 2007, passed by the States of Guernsey. Section 6 of that Law introduced a new Section 13A to the 2001 Law which set out the formal establishment of the Audit, Risk and Remuneration Committee.

During the year Alan Bougourd (chairman) resigned his membership. The current membership of the Committee is as follows:

- Peter Woodward (chairman)
- Deputy Martin Storey
- Jane Needham

All members are considered to be independent of the OUR. The current committee would like to record its thanks for the valuable contribution made by Mr Bougourd during his time on the committee.

The Committee met formally on four occasions in 2010 and carried out the following specific activities:

- Participating with a detailed risk review for the activities of the OUR and reviewing, on an on-going basis, the implementation of the agreed risk management actions.
- Reviewing the Financial Statements of the Public Utilities Regulation Fund for 2009 and discussing the results of the audit thereof with the external auditors.
- Meeting the external auditors to monitor their independence and to confirm the nature, scope, fees and timetable for the audit for 2010.
- Monitoring and approving recruitment and remuneration of staff.
- Recommending improvements to employment contracts and the staff handbook and monitoring their implementation.
- Reviewed the report into the review of regulation carried out by RPI and gave their recommendations to the Commerce and Employment Department.
- Discussed closer working with Jersey in the context of the OUR's Director General taking up the role of Executive Director of the JCRA.
- Reviewed current and planned workloads on a periodic basis and offered advice if applicable.

The Committee were pleased that their reviews, meetings and plans all produced positive results and thank the Director General and his staff for their co-operation and assistance throughout the year. The total annual costs of the Committee were less than £10,000.

Peter Woodward
Chairman

OUR Corporate Governance

In 2005, the OUR established an independent Audit, Risk and Remuneration Committee (ARRC) and in May 2006 the States formally agreed a Resolution requiring its establishment.

The OUR complies with a very high standard of controls and the OUR's annual accounts are externally audited. The OUR's ARRC provides further independent scrutiny of the controls in place within the OUR.

The members of the OUR ARRC during 2010:

- Alan Bougourd
- Deputy Martin Storey
- Ms Jane Needham
- Mr Peter Woodward

Alan Bougourd resigned from the committee during the year and the OUR wishes to record its thanks to him for the valuable contribution he made.

The following sets out the instruction to the ARRC.

OUR Audit, Risk and Remuneration Committee Terms of Reference

The following sets out the terms of reference of the OUR's Audit, Risk and Remuneration Committee (ARRC) as agreed by the Director General and the ARRC.

Role of the Committee:
The role of the ARRC will be, as part of the ongoing, systematic review of the control environment and governance procedures within OUR to;

- Oversee the external and internal audit function and advise the Director General in relation to the operation and development of that function;
- Review and advise on the Office's risk management procedures;
- Review and comment on the financial accounts of the Office;
- Review and comment on the remuneration policy of the OUR.

Membership
- The ARRC will be appointed by the Director General with the approval of the Commerce and Employment Department and will consist of not more than four people, who shall be external appointees. One of the four will be appointed by Commerce and Employment.

Duties
The duties of the ARRC shall be:

- to approve and keep under review the Charter for Internal Audit services so as to ensure that it clearly defines the purpose, authority, roles and reporting relationships for internal audit;
- To review and approve the work programme for internal audit;
- To request the inclusion in the programme of Internal Audit reports as considered appropriate;
- To assess the outcome of the internal and external audit processes having regard to findings, recommendations and management responses;
- To assess the implementation of agreed corrective actions by management having regard to follow up audits;
- Generally to foster the development of best practice in the conduct of internal audit, risk management and external reporting;
- To advise the Director General on all matters relating to risk management, internal control, governance, external financial reporting and remuneration;
- To advise on and review the membership of the ARRC as necessary.

Annual Report of the External Auditors
The ARRC will consider any report issued by the external auditors.

Meetings
ARRC meetings will be held not less than twice each calendar year.

A quorum of two will be required for each meeting. The members shall decide on the appointment of the Chairperson. The Chairperson's appointment shall expire on 31st December 2011. Thereafter the term will be for a period of two years.

The ARRC may request any person who has been contracted to carry out an internal audit assignment to attend a Committee meeting. The Director General shall attend on the invitation of the ARRC. The ARRC will also have the authority to request staff members to attend meetings if necessary.

At least once a year, the ARRC will invite the external auditor to meet them to discuss matters of mutual interest including the audit approach.

The OUR will provide such administrative support to the ARRC as it may require.

Working Procedures
The ARRC will adopt its own working procedures.

Access
Any member of the ARRC will have right of access to the Director General and/or any staff member.

Reporting
The ARRC will formally report to the Director General and will offer such advice and recommendations as it may deem appropriate. The ARRC's activities will be recorded and reported in the Annual Report of the Director General.

The ARRC may report to any States Department or States Committee, including the Public Accounts Committee and the Scrutiny Committee.

Access to Independent Advice
The ARRC is authorised to:

- investigate any activity within its terms of reference;
- seek any information that it requires from any employee or external party, and all employees are directed to co-operate with any request made by the Committee, and;
- obtain outside legal or other independent professional advice.

Amendment of Charter
This Charter may be amended or updated in joint consultation between the Director General and the ARRC. It shall be reviewed by 31st December 2008 and thereafter as required.

Internal Audit Charter

Introduction
This Charter sets out the purpose, authority and responsibilities of OUR's Internal Auditor. It is intended that internal audit assignments will be outsourced to an appropriate, qualified, third party and conducted under contract.

Purpose
The Internal Audit function is an independent appraisal function established to examine, evaluate and report on the adequacy and effectiveness of the OUR's systems of financial internal control. As such, it provides management and stakeholders with assurance over the financial management of the Office of Utility Regulation, and stewardship of the resources entrusted to it.

Authority
Internal Audit is authorised to have:

- Unrestricted access (subject to the comments below) to all functions, records, property and personnel.
- Full and free access to staff, the Audit Committee and the Director General.
- Authority to require and receive such explanations from any employee as are necessary concerning any matter under examination
- Sufficient resources and personnel with the necessary skills to perform the internal audit plan.

Access to confidential commercial information is permitted for the purpose of carrying out an internal audit solely in respect of enabling the auditors to ascertain that the Director General has carried out his functions as provided for within sections 2 and 4 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the various sector specific laws and States Directions to the Director General. Access will not be given to confidential information unless it can be proven that its intended purpose falls within scope of the internal audit role.

Internal Audit is not authorised to perform any operational duties or initiate or approve accounting transactions.

Role and Scope
The primary responsibility for identifying and implementing an adequate system of internal control rests with the Director General. The role of internal audit is to appraise the adequacy and effectiveness of those controls.

In particular, its role is to understand the key financial risks of the organisation and to examine and evaluate the adequacy and effectiveness of the system of risk management and financial control as operated by the organisation so as to ensure that:

- the systems of financial control, and their operation in practice, are adequate and effective;
- follow-up action is taken to remedy weaknesses identified by Internal Audit;
- employees and organisation actions are in compliance with policies, standards, procedures and applicable laws and regulations; and
- the corporate governance arrangements of the organisation are appropriate to the organisation and comply with relevant requirements.

Responsibilities and Reporting
The internal auditor will be accountable to OUR's ARRC and its work programme will be subject to the approval of the ARRC. No work should be undertaken without the prior approval of the ARRC.

All work undertaken should be planned and carried out in accordance with the Standards of Professional Audit Practice set by the Institute of Internal Auditors-UK.

On completion of an assignment, before a final report is issued, the internal auditor will communicate its findings to management and staff of the audited area for their views. These views will be considered and recorded in the final report.

Copies of the final report will be provided to the Director General and ARRC.

Annex A: States Directions; Telecommunications

Scope of Universal Service Obligation (USO)

The States resolved to give the following direction to the Director General in accordance with Section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

All users in the Bailiwick shall have available to them the services set out below at the quality specified, independently of geographical location and, in the light of local and national conditions, at an affordable price:

Access at Fixed Locations:

- *all reasonable requests for connection to the public telephone network at a fixed location and for access to publicly available telephone services at a fixed location shall be met by at least one operator;*
- *the connection provided shall be capable of allowing users to make and receive local, national and international telephone calls, facsimile communications and data communications, at data rates that are sufficient to permit Internet access;*

Directory enquiry services and directories:

- *at least one subscriber directory covering all subscribers of direct public telephone service providers shall be made available to users and shall be updated regularly and at least once a year;*
- *at least one telephone directory enquiry service covering all listed subscribers' numbers shall be made available to all users, including users of public pay telephones;*

Public Pay telephones:

- *public pay telephones shall be provided to meet the reasonable needs of users in terms of the geographical coverage, the number of telephones and the quality of services.*

Special measures for disabled users and users with special needs:

- ***these provisions shall also apply to disabled users and users with special social needs, and specific measures may be taken by the Regulator to ensure this.***

Identity of First Licensee with USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a telecommunications Universal Service Obligation to Guernsey Telecoms Limited, the company established to take over the functions of the States Telecommunications Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Special or Exclusive Rights

The States resolved to give the following direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

In accordance with section 3(1)(b) of that Law, the States directs the Regulator to decide the duration of any exclusive or special privilege granted to any licensee in relation to the provision of telecommunications networks and/or services with a view to ensuring that competition is introduced into all parts of the market at the earliest possible time.

The Regulator may decide on different terms for privileges granted in different markets or segments of the market. In any case, the States directs that the term of any such rights shall not exceed three years at most from the date of this Direction.

Annex A: States Directions; Post

Universal Service Obligation

The States resolved to give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.

"access point" shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain a postal Universal Service Obligation to Guernsey Post Limited, the company established to take over the functions of the States Post Office Board pursuant to the States agreement to the recommendations of the Advisory and Finance Policy letter published in this Billet.

Post: Special or Exclusive Rights

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Post Office Limited the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure the maintenance of the universal postal service specified by States' directions under section 3 (1)(c) of that Law; and

To request the Director General to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service.

Annex A: States Directions; Electricity

Universal Service Obligation ("Public Supply Obligation")

The States did not make any Directions in relation to a Universal Service Obligation in the electricity markets, as it noted that the provisions of the Electricity Law adequately protected the interests of users by ensuring a Public Supply Obligation would be in place.

Identity of First Licensee with a USO

The States resolved to give the following direction to the Director General in accordance with section 3(1)(a) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The Director General of Utility Regulation shall issue the first licence to contain an electricity Universal Service Obligation to Guernsey Electricity Limited, once that company is established to take over the functions of the States Electricity Board.

Special or Exclusive Rights

Conveyance

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited an exclusive electricity conveyance licence in respect of the conveyance of electricity in Guernsey for a period of 10 years once that company has been formed.

Subsequently, the States resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for conveyance activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Generation

The States made no resolution giving a direction to the Director General in relation to the period of exclusivity of any generation licence to be granted under the Electricity (Guernsey) Law, 2001.

Supply

The States resolved to give a direction to the Director General in accordance with section 3(1)(b) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 to award to Guernsey Electricity Limited (once that company has been formed) an exclusive electricity supply licence in respect of the supply of electricity in Guernsey for a period of one year.

The States also resolved to request the Director General to investigate the impact of the introduction of competition into the electricity supply market further and to provide a recommendation and advice to the Board of Industry on the introduction of such competition.

The States subsequently resolved to give a direction to the Director General to issue an exclusive licence to Guernsey Electricity Ltd for supply activities subject to any exemptions granted by the Director General under section 1(2) of the Electricity (Guernsey) Law, 2001 for the period ending 31st January 2012.

Annex B—Documents published in 2010

10/01	Roll Forward of Cable & Wireless Guernsey's Price Control—Call for Comment
10/02	2.6 GHz Licence Award—Consultation
10/03	Telecommunications Market Data Report—January to June 2009
10/04	Licensing of Postal Operators—Consultation Document
10/05	Review of Mobile Licence Conditions—Consultation Document
10/06	Register of Mobile Phone Operator Mast Sites in the Bailiwick of Guernsey
10/07	Audit of Emissions from Radio Masts—Information Notice
10/08	Amendment to Cable & Wireless Guernsey's Fixed Telecommunications Licence—Statutory Invitation to Comment
10/09	C&WG Reference Offer and Interconnection Rates—Final Decision
10/10	Amendment to the Reserved Area of Postal Services; Statutory Invitation to Comment
10/11	Reserved Postal Services in Guernsey—Final Decision
10/12	Guernsey Post's Proposed Tariff Changes—Consultation Paper
10/13	Guernsey Electricity Ltd Price Control—Consultation Paper
10/14	Licensing of Postal Operators—Draft Decision
10/15	Cable & Wireless Guernsey Price Control—Consultation Paper
10/16	Review of Mobile Licence Conditions—Draft Decision

PUBLIC SECTOR REMUNERATION COMMITTEE

STATES OF GUERNSEY PUBLIC SERVANTS' PENSION SCHEME:
2012 PENSIONS INCREASE

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

20 September 2011

Dear Sir

In accordance with the States of Guernsey (Public Servants) (Pensions and other Benefits) (Amendment No. 2) Rules, 1997, approved by the States on 29 October 1997 (Article X of Billet d'Etat No. XIX of 1997), I would advise you that the Public Sector Remuneration Committee, after consultation within the Pensions Consultative Committee, has resolved that pensions in payment and preserved pensions and other benefits not yet in payment be increased with effect from 1 January 2012 as follows:

(a)	awarded prior to 1 January 2011	by **3%**
(b)	awarded in the period from 1 January 2011 to 31 December 2011	by $^{1}/_{365}{}^{th}$ **of 3% for each day of entitlement**

(i.e. in line with the change in the Retail Price Index for the twelve months ending on 30 June 2011).

In accordance with the above mentioned Rules, I should be grateful if you would arrange for this letter to be published as an Appendix to a Billet d'Etat.

Yours faithfully

A H LANGLOIS

Chairman

R W Sillars, Vice-Chairman
S J Ogier
B J E Paint
Mrs T J Stephens – *abstained due to a declared interest*
Ms D J Le Noury (Non-States Member)
R Clark (Non-States Member)

PUBLIC SECTOR REMUNERATION COMMITTEE

ESTABLISHED STAFF OF THE STATES OF GUERNSEY -
THE SALARY MINIMA & MAXIMA OF THE GENERAL GRADES

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

12 September 2011

Dear Sir

In accordance with States Resolution XXXVI of 28 October 1987, as amended, I have the honour to enclose, for publication as an Appendix to a Billet d'Etat, details of the salary minima and maxima of the Established Staff general grades applying between 1 May 2011 and 30 April 2012. This is the second part of a three year settlement reached in May 2010.

Yours faithfully

A H LANGLOIS

Chairman

Deputy R W Sillars, Vice-Chairman
Deputy S J Ogier
Deputy B J E Paint
Deputy T J Stephens
Ms D J Le Noury (Non-States Member)
Mr R Clark (Non-States Member)

ESTABLISHED STAFF OF THE STATES OF GUERNSEY

The Salary Minima & Maxima of the General Grades

	At 1.05.11 £
Senior Officer 12	121883/137423
Senior Officer 11	111386/125588
Senior Officer 10	101800/114777
Senior Officer 9	93041/104898
Senior Officer 8	85030/95875
Senior Officer 7	77718/87620
Senior Officer 6	71025/80087
Senior Officer 5	64910/73192
Senior Officer 4	59322/66888
Senior Officer 3	54218/61131
Senior Officer 2	49550/55867
Senior Officer 1	45284/51061
Executive Grade V	42838/45257
Executive Grade IV	39455/41681
Executive Grade III	35929/38281
Executive Grade II	32436/34724
Executive Grade I	28870/31199
Administrative Assistant 2	23885/27219
Administrative Assistant 1	18333/23327
Clerical Assistant	14389/18333
Personal Assistant 2	31830/35257
Personal Assistant 1	27836/30768
Typist C	24719/26963
Typist B	17166/24719
Typist A	14465/21056
Other Grades	11933/43985

NOTES:

The number of Established Staff is included in figures published annually in the States Accounts.

Other Grades are Non-Standard, Miscellaneous, Home Staff, School Administration Assistant whose salaries broadly span Clerical Assistant to Executive Grade V.

IN THE STATES OF THE ISLAND OF GUERNSEY
ON THE 30TH DAY OF NOVEMBER, 2011

The States resolved as follows concerning Billet d'État No XIX dated 21st October 2011

THE INSURANCE BUSINESS (BAILIWICK OF GUERNSEY) (AMENDMENT) ORDINANCE, 2011

I.- To approve the draft Ordinance entitled "The Insurance Business (Bailiwick of Guernsey) (Amendment) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE INCOME TAX (GUERNSEY) (APPROVAL OF AGREEMENTS WITH ARGENTINA, THE BAHAMAS AND CAYMAN ISLANDS) ORDINANCE, 2011

II.- To approve the draft Ordinance entitled "The Income Tax (Guernsey) (Approval of Agreements with Argentina, the Bahamas and Cayman Islands) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE ATTENDANCE AND INVALID CARE ALLOWANCES ORDINANCE, 2011

III.- To approve the draft Ordinance entitled "The Attendance and Invalid Care Allowances Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE HEALTH SERVICE (BENEFIT) (AMENDMENT) ORDINANCE, 2011

IV.- To approve the draft Ordinance entitled "The Health Service (Benefit) (Amendment) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE SOCIAL INSURANCE (RATES OF CONTRIBUTIONS AND BENEFITS ETC) ORDINANCE, 2011

V.- To approve the draft Ordinance entitled "The Social Insurance (Rates of Contributions and Benefits etc) Ordinance, 2011 and to direct that the same shall have effect as an Ordinance of the States.

THE SUPPLEMENTARY BENEFIT (IMPLEMENTATION) (AMENDMENT) ORDINANCE, 2011

VI.- To approve the draft Ordinance entitled "The Social Insurance (Rates of Contributions and Benefits etc) Ordinance, 2011 " and to direct that the same shall have effect as an

Ordinance of the States.

THE FAMILY ALLOWANCES ORDINANCE, 2011

VII.- To approve the draft Ordinance entitled "The Family Allowances Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE LONG-TERM CARE INSURANCE (GUERNSEY) (RATES) ORDINANCE, 2011

VIII.- To approve the draft Ordinance entitled "The Long-Term Care Insurance (Guernsey) (Rates) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

POLICY COUNCIL

APPOINTMENT OF ORDINARY MEMBER OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

IX.- After consideration of the Report dated 5th October, 2011, of the Policy Council, to elect Mr Richard Hobbs as an ordinary member of the Guernsey Financial Services Commission.

POLICY COUNCIL

THE STRATEGIC LAND USE PLAN

X.- After consideration of the Report dated 5th October, 2011, of the Policy Council, to approve the revised Strategic Land Use Plan, attached as Appendix 1 of the States Report, but subject to the modification that Policy SLP11 and the text in the paragraphs preceding it under, and including, the heading "Golf course development" shall be omitted and that Policies SLP12 to SLP 39 shall be re-designated as Policies SLP11 to SLP38 respectively.

POLICY COUNCIL

STATES OFFICIAL GAZETTE

XI.- After consideration of the Report dated 5th October, 2011, of the Policy Council:-

1. To rescind the Resolution of 27th February 2008 on Article VI of Billet d'État II of 2008, which directed the preparation of such legislation as may be necessary for the establishment and maintenance of the States Official Gazette, as set out in that Report.

2. To resolve that the current legislation be amended so that it is no longer a requirement to publish a notice in full in La Gazette Officielle but rather to provide for an abbreviated notice to be placed in La Gazette Officielle with information on the full details provided on the States website or in printed form on request.

3. To resolve that the current legislation be amended to permit the use of plain English in Notices that are published in La Gazette Officielle.

4. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

POLICY COUNCIL

THE COURT OF APPEAL (GUERNSEY) LAW, 1961

XII.- After consideration of the Report dated 5th October, 2011, of the Policy Council:-

1. To approve the proposals for amending the Court of Appeal (Guernsey) Law, 1961 as set out in Her Majesty's Procureur's letter.

2. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

ORDINANCE LAID BEFORE THE STATES

THE SYRIA (RESTRICTIVE MEASURES) (GUERNSEY) (AMENDMENT) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, The Syria (Restrictive Measures) (Guernsey) (Amendment) Ordinance, 2011, made by the Legislation Select Committee on 26th September 2011, was laid before the States.

STATUTORY INSTRUMENT LAID BEFORE THE STATES

THE MILK (RETAIL PRICES) (GUERNSEY) ORDER, 2011

In pursuance of Section 8 (1) of the Milk (Control) (Guernsey) Ordinance, 1958, The Milk (Retail Prices) (Guernsey) Order, 2011, made by the Commerce and Employment Department on 13th September 2011, was laid before the States.

D J ROBILLIARD
HER MAJESTY'S DEPUTY GREFFIER