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HOME DEPARTMENT

PROPOSAL TO ACCESS A NEW CENTRALISED VETTING & BARRING SCHEME FOR PEOPLE WORKING WITH CHILDREN AND VULNERABLE ADULTS IN THE LIGHT OF VETTING FAILURES IDENTIFIED BY THE BICHARD INQUIRY

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

31st July 2009

Dear Sir

1. EXECUTIVE SUMMARY

1.1 On the 12th October 2009 a new Vetting & Barring Scheme ('the Scheme') will be launched by the UK Home Office. The purpose of this Report is to recommend that legislation be enacted to enable the Bailiwick to participate in the Scheme.

1.2 The Scheme is the UK government's response to the tragic murders of Jessica Chapman and Holly Wells by Ian Huntley in 2002, and will build on existing vetting & barring procedures in order to provide a more comprehensive, centralised, integrated and updated system to prevent unsuitable people from gaining access to vulnerable groups through their work, and to ensure that those who become unsuitable do not continue in such work.

1.3 The legal framework for the Scheme is provided by the Safeguarding Vulnerable Groups Act 2006 ('the SVG Act 2006').

1.4 The key feature of the Scheme is the establishment of a new Independent Safeguarding Authority ('the ISA') to work in partnership with the Criminal Records Bureau ('the CRB') and the requirement that all persons working with children and/or vulnerable adults – whether in a paid or unpaid capacity – are registered with the ISA to do so.

1.5 This means that a specialist body with appropriate expertise will make the decision as to whether or not an individual should be permitted to work with children and/or vulnerable adults. Individuals who are registered with the ISA will be subject to continuous monitoring, and this is a significant improvement on the way in which checks are currently conducted. Failure to comply with the requirements of the Scheme will result in criminal sanctions that may apply to both the person working and to the employer, or equivalent in the voluntary sector, as appropriate.

1.6 The Scheme will operate under the SVG Act 2006 in England, Wales and Northern Ireland[1] from 12th October 2009. Scotland has elected to develop its own Vetting & Barring Scheme under Scottish legislation. Once operational, the Scottish Scheme will be closely linked to the Scheme functioning in the rest of the UK.

1.7 The Scheme is intended to complement, and not replace, safe recruitment practices. It is therefore essential that all employers and service-providers – including those employing people in voluntary positions – maintain recruitment and employment procedures which reflect best practice in this area.

1.8 The magnitude of the Scheme necessitates a phased implementation approach. England, Wales and Northern Ireland are to be reconciled to a single Vetting & Barring Scheme model from the 12th October 2009, with Scotland collaborating under its own legislation. From November 2010 all new applicants for posts with children and/or vulnerable adults in the UK will be required by law to register with the ISA. All existing members of the workforce in the UK will be phased into the Scheme by 2015.

1.9 The Home Office is willing for the Bailiwick to take advantage of the Scheme. In the view of the Department, there are powerful reasons for pursuing the Bailiwick's participation in the Scheme:

(a) The Scheme would provide the Bailiwick with the highest quality of background checks on those who seek and undertake employment with our society's most vulnerable groups; and

(b) The Scheme would ensure that decisions made as to the suitability of individuals to work with children and/or vulnerable adults are undertaken by appropriately trained personnel.

1.10 Furthermore, the Department is concerned that if the Bailiwick does not participate in the Scheme there is a real risk that the Bailiwick would be seen as a haven by potential abusers seeking to escape the restrictions of the Scheme in the UK.

1.11 In order for the Bailiwick to participate in the Scheme, it will be necessary to extend some of the provisions of the SVG Act 2006 locally so that the ISA has the necessary statutory authority to deal with local applications for registration.

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[1] Certain provisions of the Act extend to Northern Ireland. The Safeguarding Vulnerable Groups (NI) Order 2007 will replicate those provisions which do not extend to Northern Ireland, thus introducing a seamless vetting and barring scheme across the jurisdictions.

It would be possible to extend the SVG Act 2006 in its entirety to the Bailiwick. This course has previously been followed in areas such as immigration, and has the merit of simplicity. However, it is the view of the Department that this would not be appropriate in the present case as the Scheme will have an effect on day to day issues of employment and voluntary work.

1.12 In the circumstances, the Department believes that it would be preferable for the Bailiwick to enact its own legislation to provide for the enforcement of the Scheme. This legislation would mirror the enforcement provisions in the SVG Act 2006, and those provisions would be excluded from the legislation extending the SVG Act 2006 to the Bailiwick. The Home Office has indicated that it would be content for matters to proceed on that basis.

2. BACKGROUND

(a) The Soham Murders and the Bichard Inquiry

2.1 Following Ian Huntley's conviction in December 2003, an independent inquiry into child protection measures, record keeping, vetting and information-sharing was commissioned by the House of Commons.

2.2 Led by Sir Michael Bichard KCB, the Inquiry uncovered a series of errors, omissions and failures on the part of those agencies whose job it was to protect children and vulnerable adults. The Bichard Inquiry Report[2] ('the Report') was subsequently published in June 2004 and included some 31 separate recommendations for action.

2.3 Key issues considered by the Bichard Inquiry were:

- The efficacy of employers' checks on prospective employees' backgrounds; and
- Whether employers should be responsible for deciding whether a job applicant can be safely employed.

2.4 The Report concluded that

> "*if a sufficiently devious person is determined to seek out opportunities to work their evil, no one can guarantee that they will be stopped*"
>
> (Bichard Inquiry Report, pg. 12).

2.5 Acknowledging that it is consequently "*our task [...] to make it as difficult as possible for [such persons] to succeed*" (pg. 12), the Report recommended, inter alia, that:

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[2] Available at: http://police.homeoffice.gov.uk/publications/operational-policing/bichard-inquiry-report?view=Binary

"*new arrangements be introduced requiring those who wish to work with children, or vulnerable adults, to be registered. The register would confirm that there is no known reason why an individual should not work with these client groups*"

(Recommendation 19).

2.6 The Report recommended that this register be administered by a central body, which would take the decision – subject to published criteria – to approve or refuse registration on the basis of all of the information made available to them by the police and other agencies. The central body would also have the discretion to ignore any conviction information judged by the central body not to be relevant to the position in question.

2.7 The Report also recommended that the register be continuously updated and made available to prospective employers for checking online or by telephone.

2.8 Individuals should have a right to appeal against any refusal to place them on the register and that right should be exercised before any information is made available to a third party.

2.9 Such a Scheme would build on existing CRB services and also existing procedures by which people working with vulnerable groups are vetted.

2.10 As a direct result of Recommendation 19 of the Bichard Inquiry Report, the SVG Act 2006 was drafted. This provides the legal framework for the new Scheme as proposed by Sir Michael Bichard, and also provides for the establishment of the ISA to fulfil the role of central decision-making body across England and Wales and Northern Ireland.

(b) The CRB Disclosure Service

2.11 The CRB is an Executive Agency of the Home Office. Established under Part V of the Police Act 1997 and launched in 2002, the CRB provides wider access to criminal record information through its Disclosure Service.

2.12 This Service enables organisations in the public, private and voluntary sectors to make safer recruitment decisions by identifying candidates who may be unsuitable for certain types of work.

2.13 The checks undertaken by the CRB[3] are known as 'Standard' and 'Enhanced' Disclosures.

A Standard Disclosure will provide information pertaining to an

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3 In Northern Ireland the functions of the CRB are performed by Access NI. Access NI provides information on all Northern Ireland convictions in addition to those on the PNC. In Scotland the functions of the CRB are performed by Disclosure Scotland.

individual's convictions, cautions, reprimands and warnings held in England and Wales[4] on the Police National Computer ('the PNC');

An Enhanced Disclosure contains the same information as the Standard Disclosure but with the addition of any relevant and proportionate information held by local police forces. This will include non-conviction data.

2.14 These checks are available in cases where an employer is entitled to ask questions relating to a prospective employee's background which would normally be prohibited by The Rehabilitation of Offenders Act (ROA) 1974.

2.15 The ROA 1974 is the specific piece of legislation affecting ex-offenders' employment opportunities. Anyone who has been convicted of a criminal offence and received a sentence of not more than 2½ years in prison benefits as a result of the Act if he/she is not convicted again during a specified period, otherwise known as the 'rehabilitation period'. The length of this period depends on the sentence given for the original offence and runs from the date of the conviction. If the person does not reoffend during this rehabilitation period, they become a 'rehabilitated person' and their conviction becomes 'spent'. Once 'spent' a conviction can, for the purpose of employment, be treated as though it never existed and this means that an ex-offender is entitled to answer 'no' when asked on an application form, or in interview, if he/she has a criminal record.

2.16 There are some exceptions to the general principle that spent convictions do not have to be declared. The Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975 ('the Exceptions Order') sets out a range of posts involving a particular level of trust whereby the legal protection offered by the ROA 1974 to ex-offenders is not available and an employer is entitled to know about all previous convictions, both spent and unspent. These posts include work with children and/or vulnerable adults and employment involving the administration of justice, national security and financial services.

2.17 As part of an ongoing assessment process, the Exceptions Order is amended periodically to ensure that the criminal disclosure regime keeps pace with changes in public risk. The most recent amendments to the Order were made in 2008.

2.18 Employing organisations and other potential recipients of Disclosure information must be registered with the CRB prior to using the Disclosure Service. This requirement is, in part, to ensure that these recipients are assessed as suitable to handle sensitive and personal Disclosure information. These Registered Bodies also take responsibility for the verification of the identity of Disclosure applicants so as to ensure the integrity of all Disclosures issues by the CRB.

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[4] The most relevant convictions in Scotland and Northern Ireland, as provided by Disclosure Scotland and Access NI respectively, may also be included.

(c) Vetting & barring procedures under existing legislation

2.19 Employing organisations registered with the CRB obtain Disclosure information at either a Standard or an Enhanced level in respect of applicants seeking to work with children and/or vulnerable adults. The application must set out the level of Disclosure (i.e. either Standard or Enhanced) required by different roles based on the level of contact with children and/or vulnerable adults that the role entails.

2.20 As part of these checks, three separate barring lists are also searched:

- List 99, a secret register of persons barred from working with children in the education sector created under Section 142 of the Education Act 2002[5] and maintained by the Department for Children, Schools and Families[6] ('the DCSF').

- Protection of Children Act List (PoCA). Created under Section 1 of the Protection of Children Act 1999 and managed by the DCSF on behalf of the Department of Health ('the DH'). The Act ensures that any person included in the PoCA List is also included in List 99.

- Protection of Vulnerable Adults List (PoVA). Created under Section 81 of the Care Standards Act 2000) and held by the DCFS on behalf of the DH.

2.21 Where a prospective employee is not found to be included on any existing barred list, the employing organisation can, on the basis of the intelligence contained in the Disclosure, decide whether to employ.

2.22 This system has been identified as inadequate for a number of reasons, including:

(a) Decisions relating to the suitability of these prospective employees to work with children and/or vulnerable adults are taken locally, often by small employers who have relatively little experience of handling raw information about offences and allegations.

(b) The existing barred lists are reactive; that is, individuals are only considered for barring *after* harming, or having placed at risk of harm, a child and/or vulnerable adult[7].

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5 All UK legislation referenced in 2.23 is available at: http://www.opsi.gov.uk/acts

6 In June 2007 the DCSF replaced the Department for Education and Skills ('the DfES'). References to List 99 and the PoCA Scheme prior to 2007 therefore recognise the DfES as the organisation responsible for the administration of the PoCA Scheme and List 99 and the Secretary of State for Education as primary decision-maker for inclusion on these lists.

7 Cases of professional misconduct – such as helping students to cheat in exams – may also lead to inclusion on List 99.

(c) The existing barred lists operate under different legislation and there are, therefore, inconsistencies between the lists in respect of definitions of terms and the processes for deciding who should be placed on the lists. The Bichard Inquiry Report concluded that "*it is difficult to justify these differences and they lead to unnecessary complexity of regulation.*"

3. The SVG ACT 2006

(a) The ISA

3.1 The ISA is a non-departmental public body made up of a board of nine public appointees plus a Chair. These public appointees are supported by up to 250 employees who are trained and experienced in making decisions about which individuals are likely to pose a risk to children or vulnerable adults[8].

3.2 The ISA will work in partnership with the CRB to deliver the Scheme. The CRB will undertake all administrative processes necessary to support the ISA's operation.

3.3 The underlying objectives of the ISA are to ensure that barring decisions are taken by people who have the relevant experience and expertise and to promote confidence that decisions on barring are taken fairly, without bias and independently from government or any other interested party.

3.4 The ISA will have a statutory responsibility to prepare an annual report accounting for its work. Its performance, efficiency and effectiveness will be subject to close scrutiny by both government and other stakeholders.

3.5 On the 20th January 2009 the ISA became the central body responsible for taking all decisions on barring individuals from working with children and/or vulnerable adults based on the criteria set down in the Care Standards Act 2000 and the Protection of Children Act 1999. Prior to this date, decisions were made by the Secretary of State for Children, Schools and Families in respect of List 99 and the PoCA list, and the Secretary of State for Health in respect of the PoVA List.

3.6 From the 12th October 2009 all barring decisions undertaken by the ISA will be based upon the criteria set down in the SVG Act 2006.

(b) Definitions as set out in the SVG Act 2006

3.7 Definition of vulnerable adult:

As defined in Section 59 of the SVG Act 2006, "*a person is a vulnerable adult if he has attained the age of 18 and –*

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8 For example, in March 2008 some 70 members of staff from the DCSF transferred out of the Civil Service to become public servants at the ISA.

(a) *he is in residential accommodation,*

(b) *he is in sheltered housing,*

(c) *he receives domiciliary care,*

(d) *he receives any form of health care,*

(e) *he is detained in lawful custody,*

(f) *he is by virtue of an order of a court under supervision by a person exercising functions for the purposes of Part 1 of the Criminal Justice and Court Services Act 2000 (c 43),*

[(fa) *he is by virtue of an order of a court under supervision by a person acting for the purposes mentioned in section 1(1) of the Offender Management Act 2007 (c 21),]*

(g) *he receives a welfare service of a prescribed description,*

(h) *he receives any service or participates in any activity provided specifically for persons who fall within subsection (9),*

(i) *payments are made to him (or to another on his behalf) in pursuance of arrangements under section 57 of the Health and Social Care Act 2001 (c 15), or*

(j) *he requires assistance in the conduct of his own affairs.*

3.8 In addition to the above criteria, the person's age, health and/or any disabilities are factors which will determine whether or not he is 'vulnerable' within the terms of the Act.

3.9 <u>Definition of 'Child'</u>
For the purposes of the SVG Act 2006, a child is defined as "*a person who has not attained the age of 18*" (Section 60).

3.10 <u>Definition of 'Regulated' and 'Controlled' Activities</u>
The SVG Act 2006 establishes the concept of 'regulated activities' (Section 5) and 'controlled activities' (Section 21 in relation to children, and Section 22 in relation to vulnerable adults).

3.11 The SVG Act 2006 also establishes the principle that certain occupations (paid or unpaid) working with children or vulnerable adults require specific controls and a higher level of scrutiny.

3.12 In addition, regulated and controlled activities are further classified as either 'frequent' – that is, activities that take place once a month or more – or 'intensive' – that is, activities that take place on three or more days in a 30-day period.

3.13 A regulated activity will include any activity that involves:

- Contact with children or vulnerable adults frequently, intensively and/or overnight, including teaching, training, care, supervision, advice, treatment and transportation;
- Contact with children or vulnerable adults that is in a specified place frequently or intensively, for example, schools and care homes;
- Fostering and childcare;
- People undertaking certain defined positions of responsibility, for example, school governors, directors of social services and trustees of charities which support children and vulnerable adults.

3.14 Controlled activities will include those activities where somebody has frequent or intensive contact with children or vulnerable adults, but the contact through the activity is less direct. For example:

- Support staff in the health or education services, including: cleaners, caretakers, shop assistants, catering staff, car park attendants and receptionists in doctor's surgeries, clinics, hospitals etc;
- Individuals working for specified organisations (for example, a local authority) who have frequent access to sensitive records about children and vulnerable adults;
- Support staff working in adult social care settings, including: day-centre cleaners and those with access to social care records.

4. PROCEDURE BY WHICH THE SCHEME WILL OPERATE IN ENGLAND, WALES AND NORTHERN IRELAND

(a) CRB Disclosure and registration with the ISA

4.1 The CRB will accept requests for Disclosures from Registered Bodies and will conduct the necessary checks. Where no relevant information is found by the CRB, a unique ISA registration number will be issued to the prospective employee. The prospective employee is, thereafter, cleared to commence work.

4.2 Where relevant information is found, the CRB will pass all intelligence to the ISA.

(b) ISA decision-making process

4.3 The ISA will assess the data received from the CRB and also additional information referred to it by a range of other bodies, including employers, regulatory bodies and other agencies. Such information assessed by the ISA may, therefore, include:

- Offences – convictions or cautions;
- Evidence of inappropriate behaviours; and
- Evidence of behaviour that is likely to harm a child or vulnerable adult.

4.4 On the basis of all known information, the ISA will make a decision as to whether an individual is likely to pose a risk to children and/or vulnerable adults.

4.5 One of the key failings identified by the Bichard Inquiry was the fact that decisions previously being made by employers on the basis of CRB Disclosure information were often inconsistent. The benefit of the decision-making process being conducted by a central body, the ISA, will be to ensure consistency.

4.6 An additional key strength of the Scheme is that the ISA will be able to access any non-conviction intelligence relating to an individual when determining that individual's suitability or otherwise to work with children and/or vulnerable adults.

4.7 If the prospective employee is approved as suitable to work with children and/or vulnerable adults, the ISA will direct the CRB to allocate that individual a unique ISA registration number. The individual is at that time cleared to commence work and is subject to continuous monitoring.

4.8 If the prospective employee is not approved by the ISA and, as a result, registration with the ISA is refused, that individual will be placed on one or both of the ISA's two Barred Lists, as created by the SVG Act 2006. The individual may or may not have the right to make any representation against the Authority's decision to bar.

(c) Barred Lists

4.9 The Bichard Inquiry Report recommended the rationalisation of existing procedures by which records of individuals barred from working with children and/or vulnerable adults are maintained. Section 2 of the SVG Act 2006 therefore created two new Barred Lists:

- <u>People barred from working with children</u>: From the 12th October 2009, this list replaces the PoCA List, List 99, and the court-imposed disqualification order regime; and

- <u>People barred from working with vulnerable adults</u>: From the 12th October 2009, this list replaces the PoVA List.

4.10 These two lists will be separate but aligned, and will permit the ISA to keep a record of individuals who:

- Will not be permitted to work in regulated activities with children and/or vulnerable adults; and

- Can only work with children and/or vulnerable adults in controlled activities with appropriate safeguards.

4.11 Where there is evidence that an individual has committed a serious offence, that person will be automatically barred, whereas for less serious offences the individual will have the opportunity to make representations to the ISA as to why he/she should not be barred.

4.12 <u>Automatic barring with no right to make representations</u>
This covers the most serious offences against children and vulnerable adults and indicates that an individual poses a risk of harm to children or vulnerable adults in every conceivable case.

All individuals (aged 18 and over) who have committed sexual offences against children or vulnerable adults, and other specified sexual and violent offences, will be placed on the relevant Barred List automatically.

There is no opportunity for individuals who have been barred automatically as a result of their previous and/or current convictions to make any representation to the ISA against its decision to bar because there can be no mitigating circumstances that might explain why these offences were committed.

4.13 <u>Automatic barring with the right to make representation</u>
This covers other serious offences that may indicate a very probable risk of harm to children or vulnerable adults but not necessarily in every conceivable case. It is therefore necessary to give individuals the opportunity to make representation on their particular circumstances. The ISA will not, however, remove a bar unless it is satisfied that the individual does not pose a risk of harm to children or vulnerable adults.

(d) Employees duties and responsibilities

4.14 Anyone working in a regulated activity must be registered with the ISA. Under Section 7 of the SVG Act 2006, it will be an offence, punishable by up to 5 years in prison, for a barred individual to engage in any regulated activity. Under Section 8 it will also be an offence, punishable by a fine, for a person not subject to monitoring under the Scheme to engage in regulated activity.

(e) Employers duties and responsibilities

4.15 Employers must not employ anyone to carry out a regulated or controlled activity, as defined by Section 5 and Sections 21-22 of the SVG Act 2006, who is not registered with the ISA. To do so will be a criminal offence which is punishable by up to 5 years in prison in the case of employing a barred person, and punishable by a fine in the case of employing a person who is not subject to monitoring.

4.16 An employer must always check a person's status with the ISA ('a status check') before offering them employment. It is not sufficient for them to take prospective employee's word that they are registered with the ISA. An individual cannot hold any post, even with supervision, until the employer knows the outcome of that check.

4.17 It will be an offence for an employer to allow a barred individual, or an individual who is not yet registered with the ISA, to work (paid or unpaid) for any length of time in any regulated activity.

4.18 As with regulated activities, it will be a criminal offence punishable by a fine for an employer to take on an individual in a controlled activity if they fail to conduct a status check on that individual.

4.19 Employers will also be able to conduct a status check on prospective employees via a free online checking facility. Such a facility will minimise the potential for delays that may affect the business operations of the employer and restrict an individual's ability to work.

4.20 Employers may still be required to undertake CRB checks on some employees, depending on the post for which they are applying. The reason for this is that a prospective employee can be registered with the ISA as someone who is suitable to work with children and/or vulnerable adults, but could still have a criminal record which might make them an unsuitable candidate for a specific role.

For example: an employer wanting to recruit a school bus driver can carry out a status check on a prospective employee to ensure they are approved to work with children. The employer should also request a Standard Disclosure from the CRB as the same prospective employee may have a conviction for dangerous driving.

4.21 Employers have a duty to refer information to the ISA.

(f) Referral of relevant information

4.22 One of the key issues arising from the case of Ian Huntley was the fact that, despite Ian Huntley's behaviour causing concern to a number of agencies and on a number of different occasions, no one organisation was able to access all of those individual concerns such that his conduct may then have been considered holistically and thereby indicated Ian Huntley to be of a significant risk to children.

4.23 One of the principal failings identified in the Bichard Inquiry Report arose where pieces of information about an individual could be held by a number of different organisations but never shared.

4.24 Professional bodies, supervisory authorities and employers hold significant information about the people they register, regulate, inspect and employ. The ISA will work closely with these organisations to ensure that information is effectively shared.

4.25 Under the Scheme, certain organisations will also be required to refer relevant information to the ISA. That is, in cases where there is concern relating to actual harm or the risk of harm to children or vulnerable adults. The purpose of this requirement is to prevent any repetition of the circumstances which enabled Ian Huntley to secure employment as a school caretaker despite a number of agencies holding intelligence which should have raised concern. Other organisations or individuals may also refer relevant information about an individual to the ISA if they are concerned, or become aware of any concerns, about his/her behaviour and/or conduct.

4.26 The following organisations will have a legal obligation to refer relevant information to the ISA:

- Local authorities and Health and Social Care (HSC) Trusts in Northern Ireland;
- Professional bodies and supervisory authorities named in the SVG Act 2006 and Safeguarding Vulnerable Groups (Northern Ireland) Order 2007;
- Employers and service-providers of regulated and controlled activities; and
- Personnel suppliers (for example, employment agencies, employment businesses and education institutions).

4.27 The following organisations may also refer relevant information to the ISA:

- All other employers of those working with children and/or vulnerable adults;
- Parents/private employers – however, their information should be referred to a statutory agency in the first instance (for example, the social services or the police) who will investigate the matter and subsequently refer information to the ISA if deemed appropriate;

- Members of the public – again, this information should be referred through a statutory agency in the first instance.

4.28 Employers and service-providers will be required to refer information to the ISA when they have dismissed an individual, or an individual resigns, because they harmed, or may harm, a child or vulnerable adult. Similarly, local authorities (acting in their social services capacity), professional bodies and supervisory authorities must refer information to the ISA where:

- An individual who is working closely with vulnerable groups has harmed, or may harm, a child or vulnerable adult;

- An individual who might in the future work closely with vulnerable groups has harmed, or may harm, a child or vulnerable adult; or

- An individual or organisation believes the ISA may consider it appropriate to bar the individual.

4.29 Relevant information will be required to be referred to the ISA as soon as it becomes available. The Scheme will only be effective if the ISA can reduce the time between an individual becoming identified as potentially presenting a risk to children and/or vulnerable adults and the individual being barred from working in such a post.

4.30 Staff and Board Members at the ISA have a wide range of expertise, including allegations management. The ISA will scrutinise any information it receives and will only bar a person if its own criteria for barring are satisfied. Additionally, the individual about whom a barring decision is to be made will be given the opportunity to make representations.

4.31 It is a serious offence to make a malicious referral with an intention to mislead. A person found guilty of this may be subject to defamation and damages claims. Criminal sanctions, which include offences related to wasting police time, perverting or attempting to pervert the course of justice, conspiracy and perjury, could also apply.

(g) Continuous monitoring

4.32 Under the ISA system, the status of registered persons will be continuously updated on receipt of new information, including recent relevant convictions and referrals from employers, supervisory authorities and other professional bodies.

4.33 If new information indicates that a registered individual might pose a risk then the ISA will revoke that individual’s registered status by placing them on one or both of the ISA Barred Lists.

4.34 The introduction of a continuous checking system is an important development as, currently, CRB Disclosure information is only certain to be accurate on the day of issue.

4.35 Any employer or organisation wishing to receive updates on the ISA-registration status of an individual or many individuals for employment purposes – and with the consent of that individual – can do so using the ISA Online service. When registering an interest in an individual, that employer will be 'subscribing to' that individual.

(h) Registration portability

4.36 Historically, a person undertaking a number of roles working with children and/or vulnerable adults was required to provide a separate certificate for each post. For example, a nurse assisting with a Brownie pack and a church Sunday School would need to apply for three separate certificates.

4.37 Under the Scheme, a person registered with the ISA will <u>not</u> be required to apply for further certification should he/she change employment or wish to take up an additional post or role working with children and/or vulnerable adults.

4.38 ISA registration is fully portable, and any future or additional employers will only need to ask the prospective employee for their ISA Registration details to be able to conduct an online check of the prospective employee's registration status.

(i) Appeals

4.39 Appeals against ISA decisions are heard by the Upper Tribunal. They will grant permission for an appeal to be heard where an individual considers the ISA has made a mistake in law or in fact. There will be no appeal against the decision-making process.

(j) Fees

4.40 The fee for registration with the Scheme in the UK is £64 per person. This sum will cover the cost of an initial Enhanced Disclosure Check (£36) and also the administrative and operational costs in respect of the online checking system and continuous monitoring and updating of individual's status (£28). It is anticipated that an additional local administration fee will be levied however the exact figure is not yet known. It is not anticipated that this additional local administration fee will be levied on applications arising from within the States of Guernsey.

4.41 No charge will be levied for individuals working as unpaid volunteers however if at some subsequent point that person takes up paid employment in regulated activity then a fee would be payable at that stage.

4.42 It is anticipated that the registration fee will be paid by prospective employees as they will be able to benefit from the Scheme's registration portability should they change employment.

5. A BAILIWICK APPROACH

(a) Motivation for change

5.1 The fact that England, Wales and Northern Ireland are to be reconciled to a single Vetting & Barring Scheme model from 12th October 2009 – with Scotland collaborating under its own legislation – signifies to this Department the pressing need for the Bailiwick of Guernsey to synchronise its own legislation in this area so as to ensure that we do not fall short of providing the highest quality of background checks on those who seek and undertake employment with our society's most vulnerable groups. Further, we need to ensure that decisions made as to the suitability of individuals to work with children and/or vulnerable adults are undertaken by appropriately trained personnel. It is also essential to avoid the Bailiwick becoming, or being seen as, a place where it is easier for potential abusers to gain access to children and vulnerable adults. It is the Department's view that there is a real risk of this occurring if local requirements are out of step with those in the UK.

(b) Arguments against seeking to replicate the Scheme in the Bailiwick

5.2 There is an issue whether the public would baulk at the prospect of a UK authority making barring decisions over Guernsey residents. However, it could be argued that this already takes place where, for example, health professionals are members of UK bodies.

5.3 Furthermore, the Scheme in the UK has taken five years to develop, and seeks to deliver the highest quality of background and criminal records checks on those who undertake employment with our society's vulnerable groups. The Scheme will ensure that decisions made as to the suitability of prospective employees to work with vulnerable groups are undertaken by appropriately trained personnel.

5.4 The Department does not, therefore, recommend the development of a Bailiwick Scheme because:

- It would take too long – the development of the Scheme in the UK has taken five years and has endured significant delays in respect of the Scheme's delivery targets. Guernsey might expect a similar timescale in which to develop its own Scheme and this would greatly increase the risk that the Bailiwick could be exploited by malicious individuals who seek to evade the legal rigours of one jurisdiction by removing to another.

- There would be significant cost involved.

- There would be considerable difficulty in recruiting suitably skilled personnel.

5.5 The Department has therefore concluded that Guernsey should not undertake to devise its own Vetting & Barring Scheme.

5.6 Recognising the need for a coordinated Channel Islands approach, the Department has also remained in close contact with the Jersey Home Affairs Department in relation to the Scheme's development and possible operation in the Channel Islands. The Home Affairs Committee is proceeding in a manner identical to that of the Home Department and, pending approval of the Jersey States Assembly, will observe the same timelines for implementation.

6. LEGISLATION

6.1 As outlined above, the operation of the Scheme is dependent on information supplied by the CRB, which is itself governed by Part V of the Police Act 1997. It is therefore necessary that Part V of the Police Act be extended to the Bailiwick if the Scheme is to be effective locally, and the Department is currently working on this with the assistance of the Law Officers.

6.2 For the reasons set out above, it will also be necessary for parts of the SVG Act 2006 to be extended to the Bailiwick. This will facilitate the ISA's recognition of applications arising from within the Bailiwick as well as the continuous monitoring elements of the Scheme and the duty to refer information to the ISA. This work is being progressed with the assistance of the Law Officers.

6.3 It will be necessary for local legislation to be drafted in order to provide for appropriate criminal sanctions for failure to comply with any specification of the SVG Act 2006.

6.4 Some amendments to the Bailiwick's Rehabilitation of Offenders legislation will be necessary to ensure that once Part V of the Police Act has been extended locally, information received from the CRB can be lawfully disseminated as necessary within the Bailiwick. This work is being progressed by the Department with the assistance of the Law Officers.

7. PROJECTED TIMELINES FOR THE PHASED IMPLEMENTATION OF THE SCHEME IN THE BAILIWICK

7.1 The projected timeline in the UK for full implementation of the Scheme is as follows:

12th October 2009

- All barring decisions undertaken by the ISA will be based upon the criteria set down in the SVG Act 2006.

- The three current barring lists (PoCA, PoVA and List 99) will be replaced by the creation of two new barred lists administered by the ISA rather than several government departments. Checks of these new lists can be made as part of an Enhanced CRB check.

- Employers, social services and professional regulators have a duty to refer to the ISA any information about individuals who may pose a risk ensuring potential threats to vulnerable groups can be identified and dealt with.

- There will be criminal penalties for barred individuals who seek or undertake work with vulnerable groups and for employers who knowingly take them on.

- The eligibility criteria for Enhanced CRB checks will be extended to include anyone working in a regulated position.

26th July 2010

- The Scheme will apply to all new employees; that is, any person seeking employment in a regulated activity will be able to join the Scheme but it is not yet compulsory.

- Persons **already** working in a regulated activity can also be registered from this date[9].

1st November 2010

- Persons moving into a new role, whether paid or voluntary, **must** join the Scheme. It will be a criminal offence if such persons do not join the Scheme before starting a new role.

- Employing organisations will be committing a criminal offence in the event that they do not ensure that any prospective employee is registered with the ISA before allowing them to commence work. This also applies to any voluntary organisation.

July 2014

- Applications for employment in Controlled Activities will be handled from this date but there will be no legal obligation on either the employee or employer to register until 25th July 2015.

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9 Registered Bodies have been asked to help employers prioritise certain groups. Those who are already employed in regulated activity and who have not undergone any CRB checks should apply first, those with an older CRB check should apply next, and those with a recent CRB check should apply last. Employers should then review when their staff last had a CRB check and prioritise accordingly.

25th July 2015

- Persons employed in Regulated Activities **must** be registered with the Scheme.

- Persons employed in Controlled Activities **must** be registered with the Scheme.

7.2 The Department envisages the SVG Act 2006 being extended here by 26th July 2010, with the aim of following the predicted UK timeline from that point. It is therefore important that the necessary local legislation be ready in sufficient time to fit in with that timeline.

8. CONSULTATION WITH STATES DEPARTMENTS

8.1 In conjunction with the UK Home Office, the Department delivered a series of presentations on 27th April 2009. The purpose of these presentations was to introduce the Scheme to all politicians and key stakeholders based primarily in the local Health and Education sectors and to stimulate discussion of the practical implications of the Scheme for the Bailiwick.

8.2 The Department has since undertaken consultation with all States departments in respect of the proposal that the Bailiwick join the Scheme and has received in principle support from all departments.

8.3 The Department has also met with Human Resource representatives of the Health and Social Services Department and the Education Department and has received in principle support for the initial proposals of the means by which the Scheme is to be administered by the States of Guernsey.

9. CONSULTATION WITH ALDERNEY AND SARK

9.1 Representatives of the authorities of both islands were present at the Department's advisory presentations on 27th April 2009 and the Department has since received written confirmation that these Islands would, in principle, be prepared to join the Scheme.

10. CONSULTATION WITH H M PROCUREUR

10.1 HM Procureur has been consulted and concurs with the proposals as set out in this Report.

11. RESOURCES

(a) Human Resources

11.1 Whilst the administrative processes of the Scheme have yet to be finalised, it is anticipated that existing resources from within the Home Department will be able to assist in the administration of the Scheme. However, it is likely that a small number of additional personnel will be required as the Scheme gets underway and retrospective checks begin.

11.2 In addition, the Policy Council, in conjunction with the Home Department, is currently in the process of seeking to appoint a Project Development Officer for two years to work centrally and to research and develop policies, procedures and guidance for all departments in relation to the establishment of a more strategic approach to the safe recruitment and appointment of individuals within the States of Guernsey.

(b) Financial

11.3 The Vetting & Barring Scheme was endorsed by the States of Deliberation in July 2009 as the highest priority in the Social Policy Plan, although the States also noted that the Social Policy Plan priorities would need to be considered and prioritised alongside other service developments detailed in the States Strategic Plan, which will be debated by the States in the autumn of 2009. The costs associated with the administration of the Scheme and also the phasing in of some existing members of the States associated workforce from 2011, have been identified in the Plan and are shown in the table below. These figures do not account for the additional local administration fee because, as stated in 4.40, it is not anticipated that such local administration fees will be charged to States employees.

<table>
<tr><td>2010</td><td>£155,000</td><td>Estimated costs associated with the initial staffing of the Scheme and for the Project Development Officer (at 2009 prices).</td></tr>
<tr><td>2011</td><td>£250,000</td><td rowspan="3">Estimated costs associated with the above and with phasing in of existing members of the workforce into the Scheme. (A similar amount will also be required in 2014).</td></tr>
<tr><td>2012</td><td>£200,000</td></tr>
<tr><td>2013</td><td>£200,000</td></tr>
</table>

11.4 It is estimated that there are some 5,500 existing members of the local workforce that would need to be phased into the Scheme from 2011.

12. CONCLUSION

12.1 The extension of the Scheme to the Bailiwick of Guernsey will provide a more robust system by which individuals working in any position within the Bailiwick will be appropriately checked according to a national model.

12.2 By acting now, the Bailiwick will safeguard against potential exploitation by malicious individuals who seek to evade the legal rigours of one jurisdiction by removing to another.

13. RECOMMENDATIONS

13.1 The Department recommends that the States:

(a) Approve the Department's proposals as set out in this Report, and

(b) Direct the preparation of such legislation as may be necessary to give effect to the foregoing.

(c) Note that the funding requirements of the proposals set out in this report will be considered and require approval as part of the States Strategic Plan.

Yours faithfully

G H Mahy
Minister

(NB The Policy Council supports the proposals.)

(NB The Treasury and Resources Department supports the proposals subject to the funding requirements being approved as part of the States Strategic Plan.)

The States are asked to decide:-

XII.- Whether, after consideration of the Report dated 31st July, 2009, of the Home Department, they are of the opinion:-

1. To approve the Department's proposals as set out in that Report.

2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

3. To note that the funding requirements of the proposals set out in that Report will be considered and require approval as part of the States Strategic Plan

SOCIAL SECURITY DEPARTMENT

BENEFIT AND CONTRIBUTION RATES FOR 2010

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

31st July 2009

Dear Sir

Executive summary

1. This report is in five parts:

Part I ***Social insurance***
summarises the financial position of the Guernsey Insurance Fund;

recommends increases in the rates of social insurance benefits from 4 January 2010;

recommends a first phase increase in the upper earnings limits for employed, self-employed and non-employed people from 1 January 2010 as part of a 5 year phasing in period and reports on the finances of the social insurance scheme;

recommends an allowance be applied to income assessed for non-employed contributions from 1 January 2010; and

recommends an amendment to the social insurance regulations in relation to the rate of the overseas voluntary contribution;

Part II ***Health Benefits***
summarises the financial position of the Guernsey Health Service Fund;

reports on the pharmaceutical service and recommends an increase in the prescription charge;

recommends amendments to the Health Service (Benefit) Guernsey Law to allow the actuarial review of the Guernsey Insurance Fund to be undertaken by an actuary appointed by the Department and to allow monies to be paid from the Health Service Fund towards the cost of pilot studies;

Part III ***Long-term care insurance***
summarises the financial position of the Long-term Care Insurance Fund;

recommends increases in the standard co-payment and benefit rates to take effect from 4 January 2010.

Part IV ***Non-contributory services***
recommends increases in supplementary benefit requirement rates from 8 January 2010;

reports on discussions between the Social Security Department and the Treasury and Resources Department into the future shape of welfare provision in Guernsey and Alderney;

recommends amendments to the supplementary benefit law to bring the eligibility of pregnant women to claim supplementary benefit into line with the Department's existing maternity provisions, to reclassify single parents and prisoner's spouses and cohabitees with older children (12 and up) as job seekers and to update the classification relating to carers;

recommends maintaining family allowance at the 2009 rate;

summarises the findings of a review into the adequacy and effectiveness of attendance allowance and invalid care allowance;

recommends an increase in the rates of attendance and invalid care allowances from 4 January 2010;

comments on the Community and Environmental Projects Scheme;

comments on the free TV licence scheme;

Part V ***Recommendations***
sets out a summary of the Department's recommendations.

Introduction

2. The Department has undertaken its annual review of the social security and health benefits paid under the various schemes for which it is responsible and, with the exception of medical benefit grants, family allowances, personal allowances for residents of care homes and winter fuel allowances, will recommend increases in all benefit rates.

3. The Department's benefit uprating policy is, over the long-term, to increase benefit rates at the mid-point of the increase in RPI (prices) and the increase in earnings. Over the long-term, earnings generally exceed prices by 2% per year,

and the Department's benefit uprating policy is, effectively, RPI plus 1%. However, in any particular year, the benefit uprating may be more or less than the long-term target, depending on the current economic conditions and how they are affecting pensioners and other beneficiaries.

4. The most recent RPI figure for Guernsey was -1.3% for the year to 30 June 2009. The negative RPI of the first and second quarters of 2009 resulted from the historically low interest rates, responding to the extraordinary global economic conditions. The Department is mindful that, generally, pensioners have little or no borrowings subject to mortgage interest payments. Pensioners are, however, subject to the increases in the costs of goods and services that are other components of the RPI. At present, RPIX, which excludes mortgage interest and was 2.7% for the year to June 2009, appears a more appropriate index of prices for pensioners. The Department is also mindful that it would not be appropriate to change from one index to another to find that of best advantage to either the Social Security Funds or the pensioners. Notwithstanding these observations, the Department considers that the benefit uprating proposals for 2010 should be treated as a special case, given the unprecedented circumstances. The Department, therefore, is recommending general increases of approximately 2% for both the contributory social insurance benefits, which include old age pension, the non-contributory benefits funded from general revenue and for the long-term care insurance scheme. An exception to this general uprating is family allowance where, having regard to the severe pressures on general revenue expenditure across the States, the Department considers that a freeze on the benefit for 2010 is justifiable.

PART I
SOCIAL INSURANCE

5. While usually producing an operating surplus of income over expenditure, the Guernsey Insurance Fund has occasionally experienced an operating deficit. This last occurred for each of the 3 years 1992 to 1994 and will occur again in 2009, when the deficit, before investment income, is forecast to be £2.65m. At the July States meeting (Billet d'Etat XXI of 2009) the States considered proposals from the Department to ensure the long-term sustainability of the Guernsey Insurance Fund. Although the States approved the majority of the proposals, the States rejected a proposed increase of 0.5% in the employers' contribution rate. This was the largest source of additional income to the Fund and without that measure the Fund will remain in deficit in 2010. The amount of the operating deficit, before taking into account investment income, is estimated to be £0.5m in 2010.

6. At the July States meeting, the States did resolve to increase pension age to 67 through increases of 2 months per year starting in 2020, to raise the upper earnings or income limit for contributors over a 5 year period to match the upper earnings limit applicable to employers contributions and to introduce an allowance for the non-employed.

7. In 2009, the upper earnings or income limit for employed, self-employed and non-employed people is £69,108 and the Department will be increasing it to £79,872 from 1 January 2010. The situation regarding the increase in the upper earnings or income limit is explained later in this report in paragraphs 22 to 35.

8. The grant from General Revenue to the Guernsey Insurance Fund in 2009 is 15% of contribution receipts and the grant to the Guernsey Health Service Fund is 12% of contribution receipts. At the July States meeting (Billet d'Etat XXI of 2009), the States rejected a proposal to adjust downwards the percentage of the grant to the Guernsey Insurance Fund, which the Department intended to ensure that the 2010 cash amount of the grant would remain the same as in 2009 and would not be inflated as a result of the additional contribution income.

Number of people unemployed

9. At the end of June 2009 there were 402 jobseekers. This included 309 people claiming contributory unemployment benefit and 93 people without entitlement to the contributory unemployment benefit but receiving supplementary benefit. A further 29 people were temporarily employed on the Community and Environmental Projects Scheme or other form of training scheme. Adding all these groups together produces an unemployed total of 431, which is 1.3% of the working population.

10. Although unemployment fell slightly between April and June 2009, it is normal for unemployment levels to reduce in the late spring and summer months. The Department remains concerned about still having more than 400 people unemployed and, as of the date of this report, has yet to see what impact there will be from school leavers and graduates returning to the Islands in 2009.

11. The Department remains committed to working with jobseekers to improve their opportunities for obtaining employment and also continues to work closely with the Housing Department. As far as short-term housing licence applications are concerned, this helps to ensure that employers engage with the Job Centre and that vacancies are filled by local people wherever possible. To further improve the employment opportunities for some jobseekers the Department has submitted an application to the Environment Department for a change of use of a glasshouse block on the Raymond Falla House site in order to further extend the training opportunities it already provides through the Community and Environmental Projects Scheme. Further information on this development is outlined in paragraph 126. In addition, the Department is currently working on proposals to introduce a recruitment grant payable to employers who employ people who have been long-term unemployed or are returning to work following a prolonged illness.

Update on the number of people receiving invalidity benefit

12. In the 2008 benefit uprating report the Department commented on the rising number of people receiving invalidity benefit as a result of long-term illness. At

the end of June 2008, there were 788 people receiving invalidity benefit, which was 2.5% of the working population. At 13 June 2009, there were 841 people receiving invalidity benefit which is an increase of approximately 7.0% on the 2008 figure.

13. The tables set out below and overleaf show the age ranges and gender of invalidity benefit cases and the ten most frequent diagnoses as at 13 June 2009. Once again it is clear that mental health related incapacity accounts for a significant number of invalidity benefit claims. Approximately 33% of all invalidity benefit claimants have a primary diagnosis relating to mental health. As the Department only captures the primary diagnosis for any case, it is highly likely that many of the other invalidity benefit claimants who have been ill for prolonged periods may have secondary mental health related diagnoses which might also impede their return to work.

Age range and gender of invalidity benefit cases as at 13 June 2009			
Age	**Gender**		**Totals**
	M	**F**	
16-29	41	23	64
30-39	41	47	88
40-49	87	91	178
50-59	157	114	271
60-64	157	83	240
			841

Ten most frequent diagnoses on invalidity benefit claims as at 13 June 2009

Diagnosis	**Claim Numbers**	**% of all claims**	**Difference compared to 2008**
Mental disorder	138	16.4%	+0.5%
Depression	63	7.5%	+1.8%
Anxiety	27	3.2%	+0.5%
Back pain	24	2.9%	+0.9%
Low back pain	19	2.3%	+0.3%
Chronic obstructive lung disease	17	2.0%	N/A
Cerebrovascular accident	17	2.0%	+0.3%
Multiple sclerosis	13	1.5%	+0.13%
Epilepsy	12	1.4%	N/A
Chronic fatigue syndrome	12	1.4%	+0.1%

N/A means did not feature in top 10 list in 2008

14. The Social Security Department and the Health and Social Services Department have continued to discuss the rising trend in long-term incapacity in relation to mental health. During 2008, an independent external review of the secondary care adult mental health service was carried out by the Health and Social Care Advisory Service (HASCAS). This external review highlighted the gap in mental health services at primary care level and recommended that filling this gap should be a priority for service development. As a result, the Social Security Department and the Health and Social Services Department have been considering the introduction of a new medical benefit provided from the Guernsey Health Service Fund to partly or fully meet the cost of psychological therapies at primary care level.

15. The Social Security Department and the Health and Social Services Department have discussed the merits of funding a pilot programme to determine the scope and extent of the service gap, the results of which would inform the design and creation of a new benefit. Regrettably, the funds for a pilot programme are not available through the Health and Social Services Department or the Treasury and Resources Department and the disbursement of funds through the Guernsey Health Service Fund is restricted by law to the benefits provided under that Law and the associated administration. In order to avoid a similar impasse occurring in the future, the Department is recommending an amendment to the Health Service (Benefit) Law to allow monies to be paid from the Fund for research and development activities including the implementation of pilot programmes. In the meantime, the Department will continue to work with the Health and Social Services Department to develop proposals, without a pilot programme, for a new benefit to cover a psychological therapies service at the primary care level with a view to submitting a report to the States with recommendations within the next 12 months.

Proposed Benefit Rates for 2010

16. The Department is recommending increases in the rates of pension and all other social insurance benefits of approximately 2.0% to take effect from 4 January 2010.

17. In 2008, benefit expenditure on old age pensions amounted to £72.02m and constituted 82% of the total expenditure of £87.61m on social insurance benefits. At the end of June 2009, the Department was paying pensions to 14,593 pensioners worldwide. Approximately 9,700 of these pensions were being paid to residents in Guernsey and Alderney.

18. The proposed 2.0% increase in old age pension will add £3.40 per week to the full rate single pension, will add £1.75 per week to the so called 'married woman's pension' and will mean a £5.15 per week increase for a pensioner couple on full rate pension. The increase will be more than £5.15 per week in cases where both spouses were paying full-rate contributions throughout their working lives and they receive two full pensions.

19. The proposed new rates of pension and other contributory social insurance benefits are shown below:

Weekly paid benefits	**2010**	**(2009)**
Old Age Pension -		
Insured person	£174.65	(£171.25)
Increase for dependant wife or pension for wife over 65 (marriages pre 01-01-04)	£87.50 £262.15	(£85.75) (£257.00)
Widow's/Survivor's Benefits -		
Widowed Parent's Allowance	£183.61	(£180.00)
Widow's Pension/Bereavement Allowance	£157.85	(£154.75)
Unemployment, Sickness, Maternity and Industrial Injury Benefit	£128.52	(£126.00)
Invalidity Benefit	£156.52	(£153.44)
Industrial Disablement Benefit -		
100% disabled	£140.77	(£138.00)
One-off grants		
Maternity Grant	£322.00	(£316.00)
Death Grant	£500.00	(£490.00)
Bereavement Payment	£1,584.00	(£1,553.00)

20. These foregoing rates of weekly benefit and grants apply to persons who have fully satisfied the contribution conditions. Reduced rates of benefit are payable on incomplete contribution records, down to threshold levels.

Social insurance contributions

21. In accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009) the upper earnings and income limits for employed people, self-employed people and non-employed people will be increased from 1 January 2010 to match the upper earnings limit for employers. This change is to be phased in over 5 years. Paragraphs 38 to 42 recommend the introduction of an allowance on income for non-employed people and consequently an increase in the contribution rate for non-employed people over 65 from 2.6% to 2.9%.

Contribution rates for employed persons	**2010**	**2009**
Employer	6.5%	6.5%
Employee	6.0%	6.0%
Total	12.5%	12.5%

Contribution rates for self-employed persons	10.5%	10.5%

Contribution rates for non-employed persons under 65	9.9%	9.9%

Contribution rates for non-employed persons over 65	2.9%	2.6%

2010 upper earnings limit for employed people

22. As the first step toward the alignment of the upper earnings limit with that applicable to employers, the Department recommends that, from 1 January 2010, the upper earnings limit for employed people should increase from £69,108 per annum to £79,872 per annum. For people paid weekly, this means an increase from £1,329 to £1,536 per week. For people paid less frequently than weekly, this means an increase from £5,759 to £6,656 per month.

2010 upper earnings limit for employers

23. In order to keep pace with the general increase in benefit rates, the Department recommends that, from 1 January 2010, the upper earnings limit for the employers' contribution be increased by approximately 2.0%, from £115,128 per year to £117,468 per year. For people paid weekly, this means an increase from £2,214 to £2,259 per week. For people paid less frequently than weekly, this means an increase from £9,594 to £9,789 per month.

24. The effect of the proposed new upper earnings limit on people who pay a contribution at the new upper earnings limit is as follows:

Maximum 2010 contributions (2009 in brackets)

Weekly Earnings	**Contributions per week**		
	Employer	Employee	Total
	6.5%	6.0%	12.5%
	(6.5%)	(6.0%)	(12.5%)
Upper Earnings Limit	£2,259	£1,536	
	(£2,214)	(£1,329)	
Maximum payable	£146.84	£92.16	£239.00
	(£143.91)	(£79.74)	(£223.65)

Number of contributors paying at upper earnings limits

25. In 2009, with an upper earnings limit of £69,108 per year, there were 7% of employed persons and 18% of self-employed persons paying on earnings at that level.

26. In 2009, with an upper earnings limit of £115,128 per year for employers, contributions were being paid at that level of earnings in respect of 2% of employees.

2010 lower earnings limit for employed people

27. The Department recommends that the lower earnings limit be increased from £112 per week to £114 per week. The corresponding monthly limit would be £494.

28. The effect of the foregoing changes on a contribution at the lower earnings limit is as follows:

Minimum 2010 contributions (2009 in brackets)

Weekly Earnings	Contributions per week		
	Employer	Employee	Total
	6.5%	6.0%	12.5%
	(6.5%)	(6.0%)	(12.5%)
Lower Earnings Limit			
£114	£7.41	£6.84	£14.25
(£112)	(£7.28)	(£6.72)	(£14.00)

2010 upper and lower earnings limit for self-employed people

29. As the first step toward the alignment of the upper earnings limit with that applicable to employers, the Department recommends that the upper earnings limit for self-employed persons be increased from 1 January 2010 from £69,108 to £79,872 per year.

30. The effect of the proposed new upper earnings limit on self-employed people who pay a contribution at the upper earnings limit is as follows:-

Maximum 2010 contributions (2009 in brackets)

Annual earnings from self-employment	Contributions per week
	10.5%
£79,872 or more	£161.28
(£69,108 or more)	(£139.54)

31. Self-employed people who have applied to pay earnings related contributions, and whose earned income from self-employment was less than £79,872 per year, will pay less than the maximum contribution.

32. The proposed increase in the lower earnings limit from £112 to £114 per week would mean that the lower annual earnings limit for self-employed persons in 2010 would be increased from £5,824 to £5,928 (£114 x 52). The minimum self-employed (Class 2) contribution in 2010 would be £11.97 per week (£11.76 in 2009).

2010 upper and lower income limit for non-employed people

33. As the first step toward the alignment of the upper income limit with that applicable to employers, the Department recommends that the upper income limit for non-employed persons be increased from 1 January 2010 from £69,108 to £79,872 per year.

34. As with the self-employed, non-employed contributors are liable to pay non-employed, Class 3 contributions, at the maximum rate unless application is made to the Department and authorisation given for the release of the relevant information by the Administrator of Income Tax. This allows an income-related contribution to be calculated.

35. There are two categories of non-employed contributions:

(i) Full percentage rate contributions to cover social insurance, health service and long-term care insurance liabilities. This is the rate of contribution that non-employed adults under the age of 65 are liable to pay, based on their personal income. The contribution rate is 9.9% of income up to the upper income limit;

(ii) Specialist health insurance and long-term care insurance contributions. These contributions, which are payable by people aged 65 or over, go towards funding the specialist health insurance scheme and the long-term care insurance scheme. In accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009) the contribution rate is to be increased from 2.6% to 2.9% of income up to the upper income limit from 1 January 2010.

36. A small number of non-employed contributors aged between 60 and 65 have a preserved right to continue paying non-employed contributions at the reduced rate of 4.2% of income. This concessionary rate closed to new entrants from 1 January 2007. Consequently, the number of non-employed people paying the reduced contribution rate has since been decreasing and will reduce to zero by no later than 31 December 2011, as all such contributors will have reached 65 by that time.

37. The Department recommends that the lower income limit at which non-employed contributions become payable be increased from £14,560 per year to £14,820 per year from 1 January 2010.

Introduction of an allowance for non-employed people

38. The current situation is that if a non-employed person has annual income of up to £14,559, there is no requirement to pay a contribution. But if a person has annual income of £14,560 or over, that person pays a contribution of 9.9% of the

full £14,560, if under 65 years of age and 2.6% of that amount if over 65. However, in accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009) the Department will introduce an allowance for non-employed people which will be subtracted from their annual income figure with liability being calculated on the balance.

Non-employed people over 65

39. For non-employed people over 65, the contribution rate in 2009 is 2.6% of income. In accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009) this rate will increase to 2.9% from 1 January 2010. With regard to the allowance, the Department recommends an allowance on income of £6,290 per year from 1 January 2010. Notwithstanding the proposed increase in the upper income limit from £69,108 to £115,128 per year (in 2009 terms), which it is intended to phase-in over 5 years, the effect will be to bring in approximately the same amount of contributions to the Funds from people over 65. But the lower income contributors will pay less and the higher income contributors will pay more, as shown in the table below, which would apply in 2010.

Non-employed people over 65			
Annual income	Weekly contribution		
	Current rules	Proposed rules	Difference
£5,000	£0.00	£0.00	£0.00
£10,000	£0.00	£0.00	£0.00
£14,819	£0.00	£0.00	£0.00
£14,820	£7.41	£4.76	-£2.65
£20,000	£10.00	£7.64	-£2.36
£30,000	£15.00	£13.22	-£1.78
£40,000	£20.00	£18.80	-£1.20
£50,000	£25.00	£24.38	-£0.62
£60,000	£30.00	£29.95	-£0.05
£70,000	£35.00	£35.53	£0.53
£79,872	£39.94	£41.04	£1.10

40. The effect of the full transition over the 5 year period, in 2010 terms, is shown below.

£80,000	£39.94	£41.11	£1.17
£90,000	£39.94	£46.68	£6.74
£100,000	£39.94	£52.26	£12.32
£110,000	£39.94	£57.84	£17.90
£117,468	£39.94	£62.00	£22.06
£120,000	£39.94	£62.00	£22.06
£130,000	£39.94	£62.00	£22.06

Non-employed people under 65

41. For non-employed people under 65, the contribution rate is currently 9.9% of income. As there is no change being proposed to the employed and self-employed contribution rates, the latter being 10.5%, the Department considers that the non-employed contribution rate for persons under 65 cannot reasonably be increased. However, in accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009) the Department recommends an allowance on income of £6,290 per year to take effect from 1 January 2010. Taking into account the proposed increase in the upper income limit from £69,108 to £115,128 per year (in 2009 terms), which it is intended to phase-in over 5 years, and the introduction of an allowance on income, the effect on non-employed contributors under 65 is shown in the table overleaf, which would apply in 2010.

Non-employed people under 65			
Annual income	Weekly contribution		
	Current rules	Proposed rules	Difference
£5,000	£0.00	£0.00	£0.00
£10,000	£0.00	£0.00	£0.00
£14,819	£0.00	£0.00	£0.00
£14,820	£28.21	£16.24	-£11.97
£20,000	£38.07	£26.10	-£11.97
£30,000	£57.11	£45.14	-£11.97
£40,000	£76.15	£64.18	-£11.97
£50,000	£95.19	£83.22	-£11.97
£60,000	£114.23	£102.26	-£11.97
£70,000	£133.27	£121.30	-£11.97
£79,872	£152.06	£140.09	-£11.97

42. The effect of the full transition over the 5 year period, in 2010 terms, is shown below.

£80,000	£152.06	£140.33	-£11.73
£90,000	£152.06	£159.37	£7.31
£100,000	£152.06	£178.41	£26.35
£110,000	£152.06	£197.45	£45.39
£117,468	£152.06	£211.66	£59.60
£120,000	£152.06	£211.66	£59.60
£130,000	£152.06	£211.66	£59.60

43. The following table shows the minimum and maximum weekly contributions payable in 2010 by non-employed people. People with income at some point between the upper and lower income limits will pay pro-rata.

2010 non-employed weekly contributions (2009 in brackets)

Annual Income	**Full rate (under 65)**	**Specialist health and long-term care only (over 65)**
	9.9%	2.9%
	(9.9%)	(2.6%)
Less than £14,820	zero	zero
(less than £14,560)	(zero)	(zero)
£14,820	£16.24	£4.76
(£14,560)	(£27.72)	(£7.28)
£79,872	£140.09	£41.04
(£69,108)	(£131.57)	(£34.55)

Voluntary contributions

44. As shown above, where a non-employed person's annual income is below £14,820, that person will be exempted from the payment of contributions. However, this could affect old age pension entitlement. A voluntary contribution which counts towards old age pension can be paid by or on behalf of non-employed people, resident in Guernsey and under pension age, with personal income below the lower income limit.

45. The voluntary contribution in 2009 is £15.96 per week. The rate is calculated by applying the social insurance element of the non-employed contribution rate, being 5.7% of the total 9.9%, to the lower income limit. With a proposed lower income limit of £14,820 per annum in 2010, the voluntary contribution will increase to £16.24 per week.

Overseas voluntary contributions

46. People living outside of the Island are able to pay contributions in order to maintain their entitlement to old age pension. The rate payable in 2009 is £75.75 per week for the non-employed and £83.73 for the self-employed. These are based on the maximum rate of contribution for social insurance benefits only, not including health insurance and long-term care insurance. The maximum charge is made for these voluntary contributions because of the difficulties in establishing and verifying incomes of people resident overseas.

47. The overseas voluntary contribution rate is already considered expensive, and given that the Department will be increasing the upper earnings or upper income limit from 1 January 2010 as part of a 5 year strategy, the Department is recommending an amendment to the Social Insurance Regulations so that the

overseas voluntary contribution is no longer linked to the upper earnings limit or upper income limit. Instead, it is recommending that, from 1 January 2010, the overseas voluntary contribution should be increased in line with the general 2.0% increase recommended for both the non-contributory and social insurance benefits. If agreed, this means that from 1 January 2010 the voluntary overseas contributions would rise from £75.75 to £77.26 per week for non-employed people and from £83.73 to £85.40 per week for self-employed people.

Special (minimum) rate Class 3 contributions

48. A special rate non-employed contribution is payable by insured persons who would normally rely upon employed contributor's employment for their livelihood, but have a small gap in their record where they were neither employed nor receiving an unemployment contribution credit. The rate of this contribution is aligned with the rate of the voluntary contribution. The special rate Class 3 contribution would, therefore, be £16.24 per week in 2010.

Apportionment of contribution income between the Funds

49. The substantial increases in the upper earnings limits for employed, self-employed and non-employed people over the next 5 years are intended to increase contributions to the Guernsey Insurance Fund. However, unless there is an annual adjustment of the apportionment of total contribution income between the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund, those two latter funds will also receive a share of the additional income intended for the Guernsey Insurance Fund alone. To address the issue, and having taken actuarial advice, the Department recommends a change in the allocations for 2010 as set out below.

Employee's contribution	**2010**	**2009**
Guernsey Insurance Fund	3.4 %	3.2%
Guernsey Health Service Fund	1.3%	1.4%
Long-term Care Fund	1.3%	1.4%
	6.0%	6.0%
Self-employed contribution		
Guernsey Insurance Fund	6.5%	6.3%
Guernsey Health Service Fund	2.7%	2.8%
Long-term Care Fund	1.3%	1.4%
	10.5%	10.5%

50. No change of apportionment is recommended for the non-employed contribution for persons under 65 because the introduction of an allowance on income will result in a reduction of contribution income from non-employed persons over 65, not an increase. With regard to the non-employed contributions from persons over 65, there is a need to re-apportion contribution income consequent upon the increase in the contribution rate from 2.6% to 2.9% of relevant income (paragraph 39 refers). The Department recommends that the additional 0.3% be

allocated 0.2% to the Long-term Care Insurance Fund and 0.1% to the Guernsey Health Service Fund.

Income and expenditure on Guernsey Insurance Fund

51. The Guernsey Insurance Fund accounts for 2008 show income from contributions of £80.91m and from the States' Grant of £12.12m, giving a total income of £93.03m, before taking investment income into account. Total benefit expenditure and administration amounted to £91.13m, producing an operating surplus, before depreciation, of £1.90m. Depreciation of £1.18m, mainly comprising the Department's new computer systems, reduced the operating surplus to £0.72m for the year.

52. In 2008, the administrative costs, salary and superannuation costs for all of the Social Security Department's activities amounted to £3.81m, an increase of just 1.4% on the previous year.

States grants from general revenue

53. A key part of the Future Taxation and Economic Strategy, which took partial effect in 2007 and full effect in 2008, was to reduce the amount of the States grants to the Funds and to increase contribution rates to compensate. The original purpose of the grants was to supplement the contributions of people who were earning below the upper earnings limit and, consequently, not paying at the true support rate for the pay-as-you-go contributory schemes.

54. Currently, the Guernsey Insurance Fund receives a grant from general revenue equal to 15% of the total amount collected in contributions. The Guernsey Health Service Fund receives a similar grant equal to 12% of the contributions collected for that Fund.

55. The Department acknowledges the pressures on general revenue and was not seeking to increase the amount of the States grants in 2010. At the July States meeting, when the Department reported on the future financing of the contributory social security schemes (Billet d'Etat XXI of 2009), the Department proposed that the percentage of the grant to the Guernsey Insurance Fund should be adjusted downwards so that the combined cash amounts of the grants to both the Guernsey Insurance Fund and the Guernsey Health Service Fund should not exceed the total cash amounts in 2009. The States rejected that proposal, with the effect that the grant from General Revenue to the Guernsey Insurance Fund remains at 15% of contribution income. The States also resolved that the grant from General Revenue to the Guernsey Health Service Fund should remain at 12% of contribution income to that Fund.

56. The estimated costs to general revenue for the States grants to the two funds is shown below.

Fund	General Revenue Grant	General Revenue Grant
	2010	2009
Guernsey Insurance Fund	£13,711,000	£12,830,000
Guernsey Health Service Fund	£4,185,000	£4,126,000
	£17,896,000	£16,956,000

Estimated operating surplus/deficit on Guernsey Insurance Fund

57. Taking into account all of the foregoing including the proposed revised rates of benefits, for the Guernsey Insurance Fund, it is estimated that:

(1) there will be an operating deficit in 2009 in the order of £2.65m; and

(2) there will be an operating deficit in 2010 in the order of £0.5m.

PART II
HEALTH SERVICE BENEFITS

58. The health service benefits and administration, costing £31.97m in 2008, were financed by £32.30m from contributions allocated to the Health Service Fund and £3.88m from the States' grant from general revenue. There was an operating surplus, before investment income, of £4.21m.

Medical Benefit Grants

59. The total benefit expenditure on consultation grants in 2008 was £3.47m. This represented an increase of around 2.0% on the 2007 cost. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.

60. The Department will not be recommending any change in the level of the consultation grants for 2010. The Department included in its operational plan summary, appended to the Government Business Plan (Billet d'Etat XVIII of 2007) the comment that one of its longer term objectives was to give consideration to abolishing the grant and replacing it with a more targeted, income-related scheme of support.

Pharmaceutical Service

61. Prescription drugs cost a total of £14.90m in 2008, before netting off the prescription charges paid by patients. This was an increase of 2.6% over 2007, which in turn had been only 3.1% over 2006. These are very satisfactory financial outcomes, particularly in view of the number of prescription items continuing to increase each year. While being aware that there will be endless

pressures on the pharmaceutical service through the introduction of new drugs, the ageing population and the consequent increase in the number of prescriptions issued each year, the Department believes that pharmaceutical expenditure is at present better controlled than ever before. The Department is very grateful for the excellent cooperation received from prescribing doctors and community pharmacists. This has been facilitated through activities of the Prescribing Support Unit and, in particular, the States Prescribing Adviser. The Department also considers that the decision of the States, in 2003, to move from open-list prescribing to an approved 'white-list' is continuing to be very effective.

62. The total cost to the Health Service Fund of the drugs dispensed was reduced by approximately £1.5m collected in prescription charges.

63. The number of items prescribed under the pharmaceutical service increased by 3.6% in 2008 to 1.30 million items. However, the average cost of a prescription, including the dispensing fee paid to the pharmacist, reduced by 2.25%, from £11.60 per item to £11.34 per item.

Prescription charge

64. The prescription charge for 2009 is £2.80 per item. For a number of years the States have approved annual increases of 10p in the charge. The Department recommends the same increase this year, with a charge of £2.90 per item effective from 1 January 2010.

Specialist Health Insurance Scheme

65. The cost of the specialist health insurance scheme, which funds the services provided through the Medical Specialist Group, was £13.65m in 2008. After netting off a recovery of £104,000 from the Health and Social Services Department in respect of reciprocal health expenditure for visitors, the cost to the Guernsey Health Service Fund was £13.54m. The recovery in respect of the reciprocal health agreement will be substantially reduced in 2009 due to the cancellation of the agreement from 1 April 2009.

66. The contract with the Guernsey Physiotherapy Group is also based on the number of practitioners, but there are a range of prices depending on the grade of the physiotherapist. The contract with the Guernsey Physiotherapy Group cost £1.52m in 2008 and is expected to cost £1.71m in 2009.

Amendment to the Health Service (Benefit) Law

67. The three contributory Funds which are controlled and administered by the Department, namely the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund are required by each of the principal Laws to undergo actuarial review at intervals no longer than 5 years.

68. The Health Service (Benefit) (Guernsey) Law, 1990 specifies that the actuarial review shall be undertaken by the Government Actuary's Department. The Social Insurance (Guernsey) Law, 1978 used to have a similarly worded provision, but it was amended in 1999 to refer to an actuary appointed by the Department. The most recently approved law, the Long-term Care Insurance (Guernsey) Law, 2002, mirrors the latter, by referring to an actuary appointed by the Department.

69. With an actuarial review of the Guernsey Insurance Fund due for the period 2004 to 2008, the Department has decided, for reasons of efficiency, to bring forward by 2 years the actuarial reviews of the Guernsey Health Service Fund and the Long-term Care Insurance Fund so that all 3 funds are reviewed at the same time and that all 3 reviews will be in phase for the future. The Department, however, is unable to go out to tender for this work because of the obligation for the actuarial review of the Guernsey Health Service Fund to be undertaken by the Government Actuary's Department.

70. The Department recommends that, further to the amendment referred to in paragraph 15 of this report, the Health Service Law be amended to allow the actuarial review of the Guernsey Health Service Fund to be undertaken by an actuary appointed by the Department. This will allow the actuarial review for the period 2009 to 2013 to be subject to a tendering exercise.

PART III
LONG-TERM CARE INSURANCE

71. The Long-term Care Insurance Scheme pays benefits to assist with fees in residential and nursing homes. The Department is recommending increases of 2.0% in the benefit rates.

72. Contribution income to the Long-term Care Insurance Fund was £16.20m in 2008. The Fund no longer receives a grant from General Revenue. With benefit and administration expenditure of £12.31m for the year, the Fund had an operating surplus of £3.89m.

73. As reported in previous years, the operating surplus remains relatively large in proportion to expenditure. This reflects the strategy for this particular fund, approved by the States prior to commencement of the scheme in 2003. The strategy is to have a front-loaded contribution rate of 1.4%, which should hold good for a minimum of 15 years, assuming no fundamental change in the range of benefits. This strategy involves the accumulation of reserves to provide an investment income to supplement future contribution rates.

74. Benefit expenditure increased by 11.2% in 2008, driven partly by the annual increase in benefit rates, but also as a result of new provision and a change in status from residential care to nursing care in respect of some of the existing care establishments.

75. The long-term care insurance scheme currently has a very simple benefit structure of just 2 rates, one of residential care and the other for nursing care. However, the Department is aware that the future structure of the scheme will almost certainly change in order to respond to changing demographics. The Housing Department and the Health and Social Services Department are jointly leading the development of an older people's strategy. The strategy, which will be considered by the States in 2010, is expected to recommend the adoption of a broader definition of long term care than currently exists. If agreed, the expanded definition would enable long term care benefit to be paid for care in community settings, such as extra care housing schemes. This is largely because meeting the costs of care in the community is more cost-effective than institutional care, but also because delivering care into community settings is what older islanders want and because it enhances independence and wellbeing.

76. It should be noted that if fundamental changes to the nature of the long-term care insurance scheme result from States approval of a new strategy for older people, then there will certainly be a requirement for an increase in the contribution rate for long-term care.

Co-payment by person in care

77. It is a condition of entitlement to benefit under the long-term care insurance scheme that the person in care should make a co-payment. The 2009 co-payment is £162.40 per week. The Department recommends a co-payment of £165.62 per week from 4 January 2010.

78. It should be noted that the co-payment to the long-term care insurance scheme also sets the level of fee to be charged for accommodation in the States-run homes including the Castel and King Edward VII hospitals, Maison Maritaine and Longue Rue House as well as the long-stay beds in the Mignot Memorial Hospital, Alderney.

Nursing care benefit

79. The maximum nursing care benefit is currently £672.00 per week. The Department recommends that it should be increased to £685.44 per week from 4 January 2010.

Residential care benefit

80. The maximum residential care benefit is currently £359.94 per week. The Department recommends that it should be increased to £367.15 per week from 4 January 2010.

Respite care benefit

81. Persons needing respite care in private sector residential or nursing homes are not required to pay a co-payment. The long-term care fund pays instead. This is

to acknowledge the value of occasional investment in respite care in order to allow the person concerned to remain in their own home as long as practicable. It also acknowledges that persons having respite care also continue to bear the majority of their own household expenditure. The respite care benefits, therefore, are the sum of the co-payment and the residential care benefit or nursing care benefit, as appropriate. The Department, therefore, recommends a nursing care respite benefit of up to £851.06 per week and a residential care respite benefit of up to £532.77 per week from 4 January 2010.

PART IV
NON-CONTRIBUTORY SERVICES FUNDED FROM GENERAL REVENUE

82. For the non-contributory benefits contained in this part of the report, which are funded entirely from general revenue, the Department recommends general increases of 2.0%, with the exception of family allowances, personal allowances for residents of care homes and winter fuel allowances, for which no increase is recommended.

Supplementary benefit

83. Supplementary benefit expenditure amounted to £14.02m in 2008. The expected outturn for 2009 is £15.40m.

84. At 25 July 2009, there were 588 pensioners receiving weekly financial assistance from supplementary benefit and a further 158 pensioners covered for their medical expenses. There were 465 single parents, 468 people incapable of work through sickness and 265 jobseekers claiming supplementary benefit. None of the foregoing numbers includes the number of adult or child dependants associated with the claim.

Future shape of social welfare for Guernsey and Alderney

85. The former Government Business Plan directed the Social Security Department to investigate a more integrated tax and benefit system which targeted those that were vulnerable to or suffering most from relative poverty.

86. During the latter part of 2008 the Social Security Department and the States Treasury and Resources Department received presentations on Guernsey Supplementary Benefit, Jersey Income Support and UK Tax Credits. The purpose of the presentations was to increase the level of knowledge on the three systems and to inform discussion and consideration of the most appropriate system for Guernsey.

87. What became clear is that there is a need to separate “in work” and “out of work” welfare payments. The main principle behind this approach is that work should be incentivised and rewarded. But, in its current form, Guernsey’s

supplementary benefit scheme is not well suited to operate as an "in work" benefit. For example, for those that are undertaking some form of work, there is a need to declare earnings on a weekly basis which, after a £30 per week disregard, are valued pound for pound. This means that there is no incentive to work extra hours and so a disincentive to increase the amount of work done.

88. Given the growing concern among States members over the working poor, the Social Security Department and the States Treasury and Resources Department were keen to explore the concept of tax credits. A presentation given by Professor Jane Millar confirmed that the UK tax credit system was delivering benefit payments under a different brand. For example, a UK tax-paying family with an income of around £50,000 and receiving some element of child tax credit is receiving that tax credit by way of a payment to a bank account and not a credit line against their tax liability. Professor Millar also confirmed that, even with a tax credit system, a housing benefit system is still required from a local authority and an income support system is still required from a benefit office to provide out of work benefit support.

89. The presentation on the new Jersey Income Support scheme demonstrated that while it had resulted in some means-testing rationalisation, its key principles were still very similar to Guernsey's supplementary benefit scheme. As means-testing will always be a feature of any income support scheme adopted, it is probably of no surprise that similarities in approach are visible when making comparisons. But, where individual income support schemes can differ in a positive way is in terms of the work incentives that are built into a scheme to encourage work and less reliance on State dependency.

90. In February 2009, the Social Security Department and the States Treasury and Resources Department agreed that the Social Security Department should commence work on modernising the existing supplementary benefit scheme. In doing so, the two Departments agreed some guiding principles, which included the provision of help for low income workers and their dependents, much greater provision of work incentives and a rationalisation of various means-tested schemes.

91. The modernisation of the supplementary benefit scheme is a top priority for the Department and it will be reporting its progress on a regular basis to the Policy Council's Social Policy Group and to all States members through the annual benefit uprating report.

Supplementary benefit requirement rates

92. The Department recommends supplementary benefit requirement rates, to take effect from 8 January 2010, as follows:

(a)

Long-term supplementary benefit (after payment of short-term rates for 6 months)	**2010**	**(2009)**
Married couple	£217.91	(£213.65)
Single householder	£150.78	(£147.85)
Non-householder:		
18 or over	£117.04	(£114.75)
*16 - 17	£99.12	(£97.20)
16 - 17	£79.31	(£97.20)
Member of a household -		
18 or over	£117.04	(£114.75)
16 - 17	£99.12	(£97.20)
12 - 15	£61.32	(£60.15)
5 – 11	£44.45	(£43.55)
Under 5	£32.83	(£32.20)

*only if in payment prior to 8 January 2010 - see paragraph 95

(b)

Short-term supplementary benefit rates (less than 6 months)	**2010**	**(2009)**
Married couple	£176.61	(£173.15)
Single householder	£122.64	(£120.25)
Non-householder:		
18 or over	£93.38	(£91.55)
16 - 17	£79.31	(£77.75)
Member of a household -		
18 or over	£93.38	(£91.55)
16 -17	£79.31	(£77.75)
12 - 15	£49.07	(£48.10)
5 – 11	£35.63	(£34.90)
Under 5	£25.97	(£25.45)

A rent allowance, on top of the above short-term or long-term rates, will apply to people living in rented accommodation.

93. On a number of occasions in recent years, the Department has expressed uncertainty as to the level of supplementary benefit available to claimants under 18 years of age. The Department notes that the recommended increase in the supplementary benefit requirement rates would see the rate for a non-householder under the age of 18 increase to £99.12 per week after six months.

94. Consideration of the appropriateness of all of the supplementary benefit rates will be greatly assisted, in due course, by the minimum income standards study, which, subject to States approval, will be commissioned by the Policy Council's Social Policy Sub-Group. Pending the undertaking of that study and its reported findings, the Department will not recommend large adjustments to the supplementary benefit rates. However, the Department has questioned the need for a long-term benefit rate to apply, after 6 months' receipt of benefit, to non-householder claimants under the age of 18. The Department notes that if such claimants remain on benefit for an extended period, they will receive a higher rate of benefit in the course of time, when they reach 18.

95. The Department, therefore, is recommending that, with the exception of long-term claims already in payment, the long-term rate be removed in respect of 16 and 17 year old non-householders with effect from 8 January 2010. As at 4 July 2009, this proposed change would effect 29 young people, assuming that their claims to supplementary benefit last longer than six months.

Amendments to the Supplementary Benefit Law

96. Prior to modernising the supplementary benefit scheme, the Department is recommending amendments to update the eligibility classifications to bring the eligibility criteria for pregnant women to claim supplementary benefit into line with existing social insurance maternity benefit provisions, to amend the eligibility criteria so that single parents and prisoner's spouses and cohabitees can only claim supplementary benefit if their youngest dependant is below the age of 12 and to update the classification relating to carers.

97. Section 2 of the supplementary benefit law sets out the groups of people who are eligible to claim supplementary benefit. It specifies that a single pregnant woman is eligible to claim supplementary benefit from the moment she becomes pregnant. The Department believes that this provision is outdated and that it is not unreasonable to expect a pregnant woman to continue working or looking for work until at least the 29th week of the pregnancy. This approach would bring the eligibility criteria for claiming supplementary benefit into line with the existing social insurance maternity benefit provisions. If a single pregnant woman became incapable of work through illness she could claim supplementary benefit under a different classification and she would not be expected to work. The Department is, therefore, recommending that the classification that relates to pregnant women is varied so that eligibility commences no earlier than 11 weeks before the expected week of confinement, which is the earliest point at which the social insurance maternity benefits can be claimed.

98. The supplementary benefit law also specifies that a person is eligible to make a claim for supplementary benefit as a single parent if they themselves have attained school-leaving age, maintain a child, and do not live with a partner. Given that a child is defined as anyone in respect of whom family allowance is

paid, the Department considers this to be a generous provision. For example, where a single parent has one child aged 18 who is still at school, the default position in law is that they are entitled to claim supplementary benefit.

99. In the UK since October 2008, lone parents with older children (age 12 and up) wishing to claim income support through the Department for Work and Pensions have been required to actively seek work. From October 2009, the requirement to seek work becomes an issue when the youngest child is aged 10 or over; and from October 2010, when the youngest child is aged 7 or over.

100. The Department now believes that it should take steps to amend this eligibility classification and is, therefore, recommending that the supplementary benefit legislation be varied so that a single parent can only claim supplementary benefit if their youngest dependent is below 12 years of age. In practical terms, this means that from 8 January 2010, single parents with older children (12 and up) wishing to claim supplementary benefit shall be classified as job seekers and shall be required to actively seek work. However, the Department is keen to stress that this change would only apply to single parents who are able to work. Single parents who also have other reasons for claiming supplementary benefit, such as sickness, disability or a requirement to care for a disabled child age 12 or over, would continue to qualify without the requirement to seek work. The Department is conscious that based upon current claim information, this change could effect up to 50 single parents already in receipt of supplementary benefit. However, during the latter part of 2008, the Department conducted an exercise with many of these single parents in order to assess their employability and to identify training needs. As a result, the Department is aware that while there would be a requirement for them to become job seekers, the Department would have to make additional and targeted work rehabilitation resources available to this group of single parents in order to help them become job ready and, ultimately, make the transition into some form of suitable employment. The Department is further recommending that the classification for prisoners' spouses and cohabitees who are maintaining a child, be amended so that they can only claim supplementary benefit (under this classification) if their youngest child is under age 12. From 8 January 2010, prisoners' spouses and cohabitees with older children (12 and up) wishing to claim supplementary benefit will be classified as job seekers and will be required to actively seek work. This amendment is necessary to ensure that single parents and persons who are temporarily not living with their spouse or cohabitee by reason of that spouse's or cohabitee's detention in legal custody, are treated equally.

101. The Department recognises that it would have to be sensitive to those parents who wanted to be at home when their children (age 12 and up) returned from school. The Department would, in such circumstances, accept that the parent seek part-time work which fitted around school hours.

102. The Department has written to the Health and Social Services Department, the Education Department, the Home Department and the Housing Department as

part of a limited consultation exercise in relation to the recommendation for single parents with older children (12 and up) to become job seekers from 8 January 2010. The Department has received responses in support of the proposal from all 4 Departments.

103. A further classification within the supplementary benefit law deals with the eligibility of people to claim supplementary benefit if they have ceased employment to care for children while their partner is an in-patient in a hospital or similar institution. The Department recognises that this provision is outdated and that there needs to be provision to support people who have to cease employment to care for children because their partner, although residing at home, is too ill to look after the children's care needs. The Department is, therefore, recommending that the relevant classification is varied to include people that have to cease work to care for a dependent child under age 12 because their partner is too ill to provide the necessary care needs.

Benefit limitation - community

104. The benefit limitation is the maximum level allowed for the combination of supplementary benefit and income from other sources, excluding family allowances. It is envisaged that the planned review of the rent rebate scheme that applies to tenants of the Housing Department and to nominated tenants of the Guernsey Housing Association, referred to in the uprating report last year, will have an impact on the benefit limitation. However, the planned review was put on hold in late 2008 pending a decision regarding the future provision of social welfare in Guernsey and Alderney. Paragraphs 85 to 91 refer to the future shape of social welfare for Guernsey and Alderney and incorporating the Housing Department's rent rebate scheme into the modernised supplementary benefit scheme remains a key objective of the modernisation project. In view of the work in progress, the Department will, in the meantime, recommend an increase of 2.0% in the benefit limitation from 8 January 2010, taking it to £395.00 per week.

Benefit limitation - residential homes

105. Notwithstanding the existence of the long-term care insurance scheme, there needs to remain a benefit limitation applicable to a person residing in a residential home who does not satisfy the residence requirements for long-term care insurance and may, therefore, need to rely on supplementary benefit assistance. The benefit limitation is currently £454 per week. The Department recommends an increase to £463 per week from 8 January 2010. It should be noted that this particular benefit limitation, and that in the following paragraph, are very seldom called into effect.

Benefit limitation - nursing homes and Guernsey Cheshire Home

106. Being necessary for the reason explained above, the Department recommends that the benefit limitation applicable to a person residing in a nursing home or

the Guernsey Cheshire Home be increased from £651 per week to £664 per week from 8 January 2010.

Personal allowance for residents of residential or nursing homes

107. The amount of the personal allowance for supplementary beneficiaries in residential or nursing homes is currently £26.50 per week. It is intended to allow modest purchases of, say, newspapers, confectionery, toiletries, small family presents and so on. The Department will not be recommending any increase in the rate of the personal allowance for 2010.

Personal allowance for Guernsey residents in UK hospitals and care homes

108. The Health and Social Services Department pays for Guernsey and Alderney residents to be placed in UK hospitals and specialized institutions if their mental or physical health needs cannot be met on-island. While the Health and Social Services Department meets the cost of accommodation and care, residents are expected to pay from their own resources for items of personal expenditure. Residents who cannot afford these things can apply to the Social Security Department for a personal allowance.

109. There is a need for this particular personal allowance to be higher than the rate which applies in Guernsey residential and nursing homes, because the people living temporarily off-island tend to be a much younger age group, more active and with more opportunities for using a personal allowance in the course of their supervised activities and outings.

110. The current rate of the personal allowance is £44.60 per week. The Department will not be recommending any increase in the personal allowance for 2010.

Supplementary Fuel Allowance

111. A supplementary fuel allowance is paid from general revenue for 27 weeks from the last week in October until the last week in April of the year following. The fuel allowance was £22.70 per week for the 2008 to 2009 period.

112. In the year to June 2009, the price of fuel, light and power decreased by -4.1%. However, rather than reduce the existing level of the fuel allowance, the Department is recommending that the allowance is held at the current rate of £22.70 per week for the winter of October 2009 to April 2010 and that the 2 year movement in prices be taken into account when recommending a fuel allowance next year for the winter of October 2010 to April 2011.

113. The fuel supplement will cost in the region of £800,000 over each 27 week payment period referred to above.

Cost of proposals for Supplementary Benefit

114. The expected outturn for supplementary benefit expenditure for 2009 is £15.37m. It is estimated that benefit expenditure in 2010, taking account of the above proposals and allowing for growth, will increase by £0.5m to £15.84m.

Family Allowances

115. Family allowances expenditure amounted to £8.60m in 2008. The allowance for 2009 is paid at the rate of £14.60 per week per child. The budget for 2009 is £9.05m.

116. Family allowance is a universal benefit that is paid to all families with qualifying children. That being so, and having regard to the most recent RPI being negative and also to the constraints on States expenditure, the Department will not be recommending any increase in the rate of family allowance for 2010.

117. It is estimated that expenditure on family allowances in 2010 will remain at approximately £9.05m.

Attendance and Invalid Care Allowances

118. Attendance allowance is a benefit paid to people, including children, who are severely disabled, mentally or physically, and who need a lot of care by day or night. Invalid care allowance is paid to the person who is providing the care for a person receiving attendance allowance.

119. During 2009, the Department concluded the first step of a review into the adequacy and effectiveness of attendance allowance and invalid care allowance. The Department embarked upon the review because it believed that society's view on disability had altered significantly since the relevant legislation had been introduced back in 1984 and, in particular, because it was concerned that carers wishing to claim invalid care allowance were being adversely affected by the strict earnings limitation, which in 2009 prevents a person in receipt of invalid care allowance earning more than the lower earnings limit of £112 per week or £485.33 per month. Under the proposals in this report, the lower earnings limit in 2010 will be £114 per week or £494 per month.

120. The second step of the review is under way and involves the Department discussing its findings with disability organisations and the Policy Council's Social Policy Group. The Department will be recommending changes to both attendance allowance and invalid care allowance and will report to the States on this during 2010. In the meantime, as the review identified a need to actively market the two allowances and increase the level of information available to healthcare professionals, the Department will instigate a publicity campaign and work with healthcare professionals to raise the levels of knowledge regarding disability benefits, including attendance allowance and invalid care allowance.

121. In the meantime, the Department recommends that attendance allowance and invalid care allowance be increased with effect from 4 January 2010 as shown below:-

2010 rates (2009 in brackets)

Attendance Allowance - weekly rate	£87.71	(£86.00)
Invalid Care Allowance - weekly rate	£70.91	(£69.50)
Annual income limit for both allowances	£81,000	(£79,000)

122. The annual income limit is the upper limit of income that a family may have, while still being entitled to receive either attendance allowance or invalid care allowance.

123. Benefit expenditure on attendance and invalid care allowances in 2008 was £2.36m. The budget for 2009 is £2.58m. It is estimated that the Department's proposals in respect of the rates of the allowances will increase expenditure in 2010 by £100,000 to £2.68m. However, the publicity campaign referred to in paragraph 120 could result in a further increase in expenditure in 2010 of up to £1.0m.

Community and Environmental Projects Scheme

124. The Department administers the Community and Environmental Projects Scheme (CEPS), which offers short-term employment opportunities for unemployed people. The Department contracts with States Works for the necessary supervision of the work teams and also for the provision of transport, equipment and tools.

125. The CEPS teams have undertaken numerous and wide ranging activities during the last year, including:

- Longue Hougue Recycling Centre
- Bulk refuse collections
- Cleaning bring-bank sites
- Fontaine waste segregation site
- Re-laying the old paving slabs inside the refurbished and historically important greenhouse in Candie Gardens.
- Nature walk at Bordeaux
- Restoration of park benches
- Renovation of water trough in Torteval

- Litter picking at nature areas
- Pressure cleaning areas at La Vallette bathing pools

126. Since 2006, the Department has delivered short courses in painting and decorating, plastering and stonemasonry and is keen to further develop this important area of work. The Environment Department is currently considering an application from the Social Security Department for a change of use of a glasshouse block on the Raymond Falla House site in order to develop a training centre. If this change is approved, this would be an important step forward for the CEPS scheme as it would open up more opportunities for people on benefit to return to work. Not only is this good for the individuals concerned and their families, but supports States policy on maximising the Island's workforce. In addition, helping people return to sustainable employment through the provision of training also reduces the Department's long-term costs in terms of benefit expenditure.

127. The hourly wage rates for the CEPS scheme are set by the Department and do not require a resolution of the States. The Department will not be increasing the hourly rates for 2010. The rates will, therefore, remain as shown below.

	2009 and 2010
Under 18	£4.77 per hour
For 36 hours	£171.72
18 and over	£6.49 per hour
For 36 hours	£233.64

Free TV licences

128. In accordance with the resolutions of the States on the 2001 budget (Billet d'Etat XXIV of 2000), the Department administers a scheme to provide free TV licences for Guernsey and Alderney residents aged 75 or over and residents aged 65 or over and in receipt of supplementary benefit. Benefit expenditure under this scheme was £505,000 in 2008. The scheme is expected to cost £529,000 in 2009. The costs in 2009 will depend on the standard charge per TV licence made by the UK Department of Culture, Media and Sport.

PART V
RECOMMENDATIONS

129. The Department recommends:

(i) that, from 4 January 2010, the standard rates of pension and contributory social insurance benefits shall be increased to the rates set out in paragraph 19 of this report;

(ii) that, for employed persons, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2010, shall be £1,536, £6,656 and £79,872 respectively;

(paragraph 22)

(iii) that, for employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2010, shall be £2,259, £9,789 and £117,468 respectively;

(paragraph 23)

(iv) that, for employed persons and employers, the lower weekly earnings limit and the lower monthly earnings limit, from 1 January 2010, shall be £114 and £494 respectively;

(paragraph 27)

(v) that, for self-employed persons, the upper earnings limit and lower earnings limit, from 1 January 2010, shall be £79,872 per year and £5,928 per year, respectively;

(paragraphs 29 and 32)

(vi) that, for non-employed persons, the upper and lower annual income limits, from 1 January 2010, shall be £79,872 per year and £14,820 per year respectively;

(paragraphs 33 and 37)

(vii) that the allowance on income for non-employed people from 1 January 2010, shall be £6,290 per year;

(paragraphs 38 to 42)

(viii) that the voluntary contribution from 1 January 2010, shall be £16.24 per week for non-employed people;

(paragraph 45)

(ix) that the overseas voluntary contribution from 1 January 2010, shall be £77.26 per week for non-employed people and £85.40 for self-employed people;

(paragraphs 46 and 47)

(x) that the apportionment of contribution income for employed and self-employed persons and non-employed persons over 65 shall be as set out in paragraphs 49 and 50 of this report;

(xi) that, from 1 January 2010, the prescription charge per item of pharmaceutical benefit shall be £2.90;

(paragraph 64)

(xii) that the Health Service (Benefit) Guernsey Law, 2002 be amended:

(a) to allow monies to be paid from the Fund towards the cost of research and development activities, including pilot programmes;

(paragraph 15)

(b) to allow the actuarial review of the Guernsey Health Service Fund to be undertaken by an actuary appointed by the Department;

(paragraph 70)

(xiii) that, from 4 January 2010, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £165.62 per week;

(paragraph 77)

(xiv) that, from 4 January 2010, nursing care benefit shall be a maximum of £685.44 per week for persons resident in a nursing home or the Guernsey Cheshire Home and residential care benefit shall be a maximum of £367.15 per week for persons resident in a residential home;

(paragraphs 79 and 80)

(xv) that, from 4 January 2010, respite care benefit shall be a maximum of £851.06 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home and a maximum of £532.77 per week for persons receiving respite care in a residential home;

(paragraph 81)

(xvi) that, from 8 January 2010, the supplementary benefit requirement rates shall be as set out in paragraph 92 of this report;

(xvii) that the Supplementary Benefit Law 1971 (as amended) and the Supplementary Benefit (Classes of persons to whom the Law applies) Ordinance, 2005 be further amended on the lines set out in paragraphs 96 to 103 of this report;

(xviii) that, from 8 January 2010, the weekly benefit limitations for supplementary benefit shall be:

(a) £395 for a person living in the community;

(b) £463 for a person who is residing in a residential home; and

(c) £664 for a person who is residing as a patient in a hospital, nursing home or the Guernsey Cheshire Home;

(paragraphs 104 to 106)

(xix) that a supplementary fuel allowance of £22.70 per week be paid to supplementary beneficiaries who are householders from 23 October 2009 to 23 April 2010;

(paragraph 112)

(xx) that, from 4 January 2010, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in paragraph 121 of this report.

Yours faithfully

M H Dorey
Minister

(NB The Policy Council supports the report and its proposals. While the Policy Council has some reservations regarding the proposal to amend the Health Benefit Law to allow monies to be paid from the Fund for research and development activities including the implementation of pilot programmes, it would be content with an assurance from the Social Security Department that it will consult with the Treasury and Resources Department and the Policy Council before using funds for such purposes.)

(NB The Treasury and Resources Department has no comment on the proposals.)

The States are asked to decide:-

XIII.- Whether, after consideration of the Report dated 31st July, 2009, of the Social Security Department, they are of the opinion:-

1. That, with effect from 4th January 2010, the standard rates of pension and contributory social insurance benefits shall be increased to the rates set out in paragraph 19 of that Report.

2. That, with effect from 1st January 2010, for employed persons, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £1,536, £6,656 and £79,872 respectively.

3. That, with effect from 1st January 2010, for employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit shall be £2,259, £9,789 and £117,468 respectively.

4. That, with effect from 1st January 2010, for employed persons and employers, the lower weekly earnings limit, the lower monthly earnings limit shall be £114 and £494 respectively.

5. That, with effect from 1st January 2010, for self-employed persons, the upper earnings limit and lower earnings limit shall be £79,872 per year and £5,928 per year, respectively.

6. That, with effect from 1st January 2010, for non-employed persons the upper and lower annual income limits shall be £79,872 per year and £14,820 per year respectively.

7. That, with effect from 1st January 2010, the allowance on income for non-employed people shall be £6,290 per year.

8. That, with effect from 1st January 2010, the voluntary contribution shall be £16.24 per week for non-employed people.

9. That, with effect from 1st January 2010, the overseas voluntary contribution shall be £77.26 per week for non-employed people and £85.40 for self-employed people.

10. That the apportionment of contribution income for employed and self-employed persons and non-employed persons over 65 shall be as set out in paragraphs 49 and 50 of that Report.

11. That, with effect from 1st January 2010, the prescription charge per item of pharmaceutical benefit shall be £2.90;

12. That, the Health Service (Benefit) Guernsey Law, 2002 be amended:

    (a) to allow monies to be paid from the Fund towards the cost of research and development activities, including pilot programmes;

    (b) to allow the actuarial review of the Guernsey Health Service fund to be undertaken by an actuary appointed by the Department;

13. That, with effect from 4th January 2010, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £165.62 per week.

14. That, with effect from 4th January 2010, nursing care benefit shall be a maximum of £685.44 per week for persons resident in a nursing home or the Guernsey Cheshire Home and residential care benefit shall be a maximum of £367.15 per week for persons resident in a residential home.

15. That, with effect from 4th January 2010, respite care benefit shall be a maximum of £851.06 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home and a maximum of £532.77 per week for persons receiving respite care in a residential home.

16. That, with effect from 8th January 2010, the supplementary benefit requirement rates shall be as set out in paragraph 92 of that Report.

17. That, the Supplementary Benefit Law 1971 (as amended) and the (Classes of persons to whom the Law applies) Ordinance, 2005 be further amended on the lines set out in paragraphs 96 to 103 of that Report.

18. That, with effect from 8th January 2010, the weekly benefit limitations for supplementary benefit shall be:

    (a) £395 for a person living in the community;

    (b) £463 for a person who is residing in a residential home; and

    (c) £664 for a person who is residing as a patient in a hospital, nursing home or the Guernsey Cheshire Home;

19. That, a supplementary fuel allowance of £22.70 per week be paid to supplementary beneficiaries who are householders from 23rd October 2009 to 23rd April 2010.

20. That, with effect from 4th January 2010, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in paragraph 121 of that Report.

21. To direct the preparation of such legislation as may be necessary to give effect to their above decisions.

HOME DEPARTMENT

PAROLE REVIEW COMMITTEE - CHAIRMAN

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

14th August 2009

Dear Sir

Executive Summary

The purpose of this report is to propose the renewal of Mrs Judith Haslam's term of office as the Chairman of the Parole Review Committee.

Report

The Parole Review Committee (Guernsey) Law, 1989 came into force on 1st December 1989. The constitution of the Parole Review Committee is determined by States' resolution. On 14th December, 1989, the States resolved that the chairman of the Parole Review Committee shall be appointed by the States and should be an independent person, i.e. not a sitting member of the States nor a person holding judicial office, chosen because of their experience and standing in the community. The ordinary members of the Committee are appointed by the Royal Court and are also independent persons.

Mrs Judith Haslam was first appointed Chairman of the Parole Review Committee on 1 March 2006 after having served as an ordinary member since June 2003. Her present term of office expired on 28 February 2009 and was not renewed prior to this date due to an administrative oversight. Mrs Haslam's curriculum vitae is appended.

Recommendation

In the circumstances of this report, the Home Department recommends the States:

> To approve the appointment of Mrs Judith Haslam as Chairman of the Parole Review Committee for three years, retrospectively with effect from 1 March 2009

Yours faithfully

G H Mahy
Minister

APPENDIX

CURRICULUM VITAE

JUDITH HELEN HASLAM

Name: Judith Helen Haslam

Qualifications:
First part of M.A. Psychology with Open University (2004)
B.A. (Hons) Psychology (2001) Open University
F.I.A. Fellow of the Institute of Actuaries (1982)
B.Sc. (Hons) Mathematics (1974) London University

Voluntary work:

Jan 1996 to date: **Samaritan Volunteer** in Kingston Branch transferring to Guernsey in 1997, committing an average 20 hours of telephone listening per month.

I am also currently responsible for initial training in the Guernsey Branch and I am involved with the Friends of Samaritans fund raising.

Aug 2000 to Aug 2003: **Director of Guernsey Samaritans.**
This is a voluntary part-time position and involves management of the local Branch and attendance at Regional and National meetings in the U.K.

Jan 2005 to date: **Chairman of Guernsey Samaritans.**
Involves chairing the Branch Committee which is responsible for the finances, premises and day to day maintenance of the Branch.

Nov 2004 to date: **Samaritans Branch Visitor.**
This involves visiting Samaritans Branches throughout the UK and Ireland to check on the consistency of service being given to callers and to ensure that all policies and procedures are followed

Employment

Nov 1994 to 1999: **Avington Ltd and Avington (Guernsey) Ltd.**

Position: **Director and Manager**

Avington was an independent consultancy providing advice on actuarial and other insurance activities to corporate clients.

Nov 1987 to 1994: **Consolidated Insurance Group Ltd**

Position: **Director and Managing Actuary**

Responsibilities:

- Corporate actuarial activities for the three insurance companies in the Group.
- Product development.
- Sales and marketing of life assurance products.
- Non life insurance reserving.
- Investment management.
- Administration of specialist life products.
- Financial Services Act compliance.
- Development of overseas branches.

Involving:

- Management of a separate profit centre
- Supervision of 12 staff, including recruitment, training and motivation
- Preparation of budgets and business plans.

Previous employment and training:

My actuarial training was undertaken firstly at the Prudential Corporation and then at Equity & law Life Assurance Society. On qualification as an actuary I joined Consolidated Insurance Group in Richmond, Surrey where I was a Director and Actuary until 1994.

(NB The Policy Council has no comment on the proposals.)

(NB The Treasury and Resources Department has no comment on the proposals.)

The States are asked to decide:-

XIV.- Whether, after consideration of the Report dated 14th August, 2009, of the Home Department:-

To re-appoint Mrs Judith Haslam as Chairman of the Parole Review Committee for a term of three years from 1st March, 2009.

ORDINANCES LAID BEFORE THE STATES

THE ALDERNEY (APPLICATION OF LEGISLATION) (EDUCATION) ORDINANCE, 2009

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Alderney (Application of Legislation) (Education) Ordinance, 2009, made by the Legislation Select Committee on the 10^{th} August, 2009, is laid before the States.

THE CASH CONTROLS LAW (DEFINITION OF CASH) (BAILIWICK OF GUERNSEY) ORDINANCE, 2009

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Cash Controls Law (Definition of Cash) (Bailiwick of Guernsey) Ordinance, 2009, made by the Legislation Select Committee on the 10^{th} August, 2009, is laid before the States.

THE GAMBLING (BETTING) (AMENDMENT) ORDINANCE, 2009

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Gambling (Betting) (Amendment) Ordinance, 2009, made by the Legislation Select Committee on the 10^{th} August, 2009, is laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE COMPANIES (APPOINTMENT OF PANEL ON TAKEOVERS AND MERGERS) REGULATIONS, 2009

In pursuance of Section 537 of the Companies (Guernsey) Law, 2008, the Companies (Appointment of Panel on Takeovers and Mergers) Regulations, 2009, made by the Commerce and Employment Department on 16^{th} June 2009, are laid before the States.

EXPLANATORY NOTE

These regulations appoint the United Kingdom Panel on Takeovers and Mergers as the Panel on Takeovers and Mergers in Guernsey which will exercise the functions conferred by or under Part XVIIIA of the Companies (Guernsey Law, 2008.

THE COMPANIES (PANEL ON TAKEOVERS AND MERGERS) (AMENDMENT) REGULATIONS, 2009

In pursuance of Section 537 of the Companies (Guernsey) Law, 2008, the Companies (Panel on Takeovers and Mergers) (Amendment) Regulations, 2009, made by the Commerce and Employment Department on 16^{th} June 2009, are laid before the States.

EXPLANATORY NOTE

These regulations amend Schedule 6 to the Companies (Guernsey) Law, 2008 by adding two descriptions of disclosure of information that can lawfully be made for the purposes of section 340G of that Law by the Panel on Takeovers and Mergers appointed under section 340A(1) of that Law. The first is a disclosure to the Registrar of Companies; the second is a disclosure to the Guernsey Banking Deposit Compensation Board.

THE HEALTH SERVICE (BENEFIT) (LIMITED LIST) (PHARMACEUTICAL BENEFIT) (AMENDMENT NO. 2) REGULATIONS, 2009

In pursuance of Section 35 of The Health Service (Benefit) (Guernsey) Law, 1990, the Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) (Amendment No. 2) Regulations, 2009, made by the Social Security Department on 8th July 2009, are laid before the States.

EXPLANATORY NOTE

These Regulations add to the limited list of drugs and medicines available as pharmaceutical benefit which may be ordered to be supplied by medical prescriptions issued by medical practitioners or dentists, as the case may be.

THE DATA PROTECTION (NOTIFICATION AND NOTIFICATION FEES) (AMENDMENT) REGULATIONS, 2009

In pursuance of Section 66(4) of the Data Protection (Bailiwick of Guernsey) Law, 2001, the Data Protection (Notification and Notification Fees) (Amendment) Regulations, 2009, made by the Home Department on 14th July 2009, are laid before the States.

EXPLANATORY NOTE

These Regulations amend regulation 14(1) of the Data Protection (Notification and Notification Fees) Regulations, 2002, as amended, so as to include in the definition of "elected representative," a holder of any of the offices in Sark of Constable, Vingtenier, Assistant Constable, Procureur of the Poor or Deputy Procureur of the Poor. Under the 2002 regulations, elected representatives are exempt from the requirement to pay a notification fee where the notification is made by the representative for the purposes of lawfully carrying out functions as a representative.

THE SOCIAL INSURANCE (BENEFITS) (AMENDMENT) REGULATIONS, 2009

In pursuance of Section 117 of The Social Insurance (Guernsey) Law, 1978, the Social Insurance (Benefits) (Amendment) Regulations, 2009, made by the Social Security Department on 20th July 2009, are laid before the States.

EXPLANATORY NOTE

These Regulations amend the Social Insurance (Benefits) Regulations, 2003 ("the Benefits Regulations") to enable the Social Security Department to specify circumstances in which it is not necessary for claimants of sickness benefit, invalidity benefit or industrial injury benefit to furnish evidence of incapacity in respect of the day or days for which the claim is made by means of a certificate given, in accordance with the provisions of regulation 3(3) of the Benefits Regulations, by a certifying practitioner.

THE AIR NAVIGATION (RESTRICTION OF FLYING) (BAILIWICK OF GUERNSEY) REGULATIONS, 2009

In pursuance of Section 178(4) of the Aviation (Bailiwick of Guernsey) Law, 2008, the Air Navigation (Restriction of Flying) (Bailiwick of Guernsey) Regulations, 2009, made by the Director of Civil Aviation on 5 August 2009, are laid before the States.

EXPLANATORY NOTE

These regulations prohibit (subject to the granting of exemptions) all flights within four and a half miles of position:

N 49 27 18.1710
W 002 31 27.0479

between 0950 and 1225 hours UTC on the 10th September, 2009 by reason of an air display. They impose other restrictions on flying and the use of Guernsey Airport in order to enable the display to be undertaken safely.

THE HEALTH SERVICE (BENEFIT) (LIMITED LIST) (PHARMACEUTICAL BENEFIT) (AMENDMENT) (NO. 3) REGULATIONS, 2009

In pursuance of Section 35 of The Health Service (Benefit) (Guernsey) Law, 1990, the Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) (Amendment No. 3) Regulations, 2009, made by the Social Security Department on 11th August 2009, are laid before the States.

EXPLANATORY NOTE

These Regulations amend the Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) Regulations, 2004, which prescribe a limited list of drugs and medicines available as pharmaceutical benefit which may be ordered to be supplied by medical prescriptions issued by medical practitioners and dentists. The amendment restricts the description, nature and quantity of drugs and medicines available as pharmaceutical benefit, and which may be ordered to be supplied by medical prescriptions issued by dentists, to those specified in the Dental Practitioners' Formulary as published from time to time in the British National Formulary.

Guernsey Retail Prices Index

Quarter 2 - 30 June 2009

Issue Date - 15th July 2009

POLICY COUNCIL
THE STATES OF GUERNSEY

Introduction

The Guernsey Retail Prices Index (GRPI) is the measure of inflation used in Guernsey. It measures the change in the prices of goods and services bought for the purpose of consumption or use by households in Guernsey. It is published quarterly by the States of Guernsey Policy and Research Unit. The calculation of the GRPI is based on the price change of items within a 'shopping basket'. Whilst some prices rise over time, others will fall or fluctuate and the Index represents the average change in these prices. More detailed information on the RPI and its calculation can be found at the end of this handout.

Headlines

- **At the end of June 2009 Guernsey's annual headline rate of inflation was -1.3%, compared to -1.2% at the end of March 2009 and 5.5% at the end of June 2008.**

- **In the UK and Jersey the equivalent figures for the end of June 2009 were -1.6% and -0.4% respectively (see *Figure 1*).**

- **Guernsey's RPIX ("core" inflation excluding mortgage interest payments) was 2.7% this quarter, compared to 3.3% at the end of March 2009 and 5.4% at the end of June 2008.**

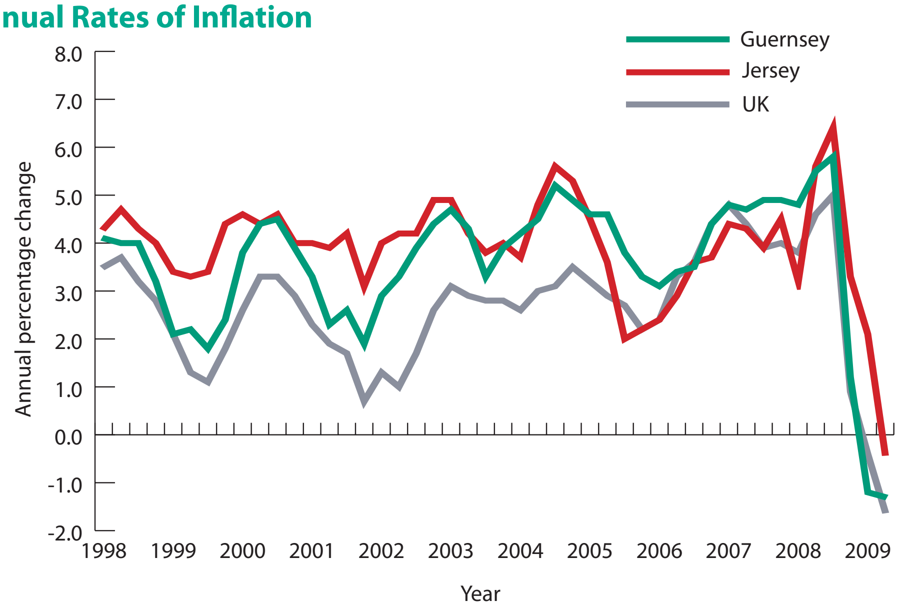
- **The Housing group contributed a decrease of -2.8 percentage points to the headline annual rate of inflation as a result of the decreases in mortgage interest rates over the first three quarters of the year ending 30th June 2009**

- **The Fuel Light & Power, Clothing and Footwear, Fares and Leisure Goods groups also decreased during the year.**

- **However, the remaining nine of the fourteen RPI groups increased or remained stable over the year ending 30th June 2009: the Food, Household Services and Leisure Services groups contributed the largest increases.**

- **The Index stood at 139.6 (1999 base).**

Figure 1: Annual Rates of Inflation



APPENDIX II

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY POST LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

31st July 2009

Dear Sir

Under Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, the year end accounts of Guernsey Post Limited are required to be published as an appendix to a Billet d'Etat.

I therefore submit the Report and Financial Statements of Guernsey Post Limited for the year ended 31 March 2009.

As set out in the Chairman's statement, the company's turnover has increased by more than 17% in 2008/09 to over £43m. The operating profit exceeded £1m for the first time since 2002 despite nearly £0.5m of exceptional items in relation to the company's restructuring process. Guernsey Post Limited also met all 21 of the Office of Utility Regulation's quality of service targets for the first time.

The profit on ordinary activities before taxation was £2,456,000 (2008: £2,449,000) and the company has paid a dividend to the States of £613,896 (2008: £627,250).

I should be grateful if you would include this matter as an Appendix to the September 2009 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Guernsey Post Limited

Annual report and financial statements

for the year ended 31 March 2009

Guernsey Post Limited

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Guernsey Post Limited

Corporate Details

Directors:

Dudley R Jehan (Chairman)
Gordon R Steele (Chief Executive)
Richard J Hemans (Finance)
Andrew Duquemin (Non-Executive)
Steve Hannon (Non-Executive)
Jeff Kitts (Non-Executive)
Dame Mary Perkins (Non-Executive)

Auditors:

KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
20 New Street
St Peter Port
GUERNSEY
GY1 4AN

Actuaries:

BWCI Consulting Limited
Actuaries and Consultants
PO Box 68
Albert House
South Esplanade
St Peter Port
GUERNSEY
GY1 3BY

Registered office:

Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Greffe Registration Number: 38693

Guernsey Post Limited

Chairman's Statement

I am pleased to report on a hard but very successful year for Guernsey Post. The financial and operational performance of the company has been exceptional and we have made good progress. There is still much work to do to meet our strategic objectives, and the outlook for the company remains challenging, given the external pressures it faces.

Company Performance

Guernsey Post delivered an excellent financial performance in 2008/9 producing record turnover in excess of £43m and grew by more than 17% against the previous year. The operating profit for the company surpassed £1m for the first time since 2002 and was achieved in spite of nearly £0.5m of exceptional items relating to the voluntary redundancy programme and the acquisition of BATIF.

The Finance Director will provide more detailed analysis of our financial performance in his statement, but it is worth emphasising that although the company is currently profitable, enjoys a strong balance sheet and generates positive cash flow, there are material threats that could undermine this position. Most immediately, Royal Mail costs are increasing significantly, and whilst Guernsey Post will continue to become more efficient, the company will depend on a fair price control decision this year from the OUR to secure its financial sustainability. The operational performance of the company has been no less exceptional, and I am delighted to note the progress against strategy.

Company Strategy

There is clear evidence that Guernsey Post is becoming more efficient and effective. We are handling 19% more mail volume than the OUR assumed in the current price control, but using the same amount of operational hours. The company's headcount has fallen following a voluntary redundancy programme. For the first time, we have met all 21 of the OUR's quality of service targets. Our customers are more satisfied and customer complaints are 45% lower than the previous year. A new focus on revenue protection has yielded lucrative results. We are making our asset base work harder by disposing of surplus properties such as Flamanville and reducing our debtor days.

Our efforts to diversify the business outside the regulated area and the traditional postal service are bearing fruit. We entered the foreign exchange market through the acquisition of BATIF, which represents a significant step into personal financial services, part of our strategy to leverage our retail network. In spite of the economic slowdown, the weakening of sterling and one-off set-up costs, BATIF made a positive contribution to our financial performance and has been successfully integrated into our business. Guernsey Post has also introduced a number of money transfer products and the opening of our new Smith Street Post Office has given us the opportunity to launch a variety of new retail products. We must continue to diversify the company but the current pace and scale of change is still not quick or deep enough to mitigate the real threats the business faces.

The company continues to develop its people to nurture future leaders of the business, to become more efficient and effective and to provide a better service to customers. The Executive Team and eight senior managers have undergone a comprehensive leadership development programme to ensure that they can lead the vital changes at Guernsey Post to make it more commercial and sustainable. Colleagues in the retail network have received training on how to sell proactively and to engage with customers. I am delighted that at its first attempt, Guernsey Post achieved the prestigious standard of Investors in People, an achievement which gives me particular pleasure.

Chairman's Statement – continued

Company Outlook

The company is prospering, but we face major challenges both immediate and in the future, which have the potential to undermine our achievements to date.

We have been forced to agree new prices with Royal Mail that will lead to a 40% increase in our charges over the next two years. Royal Mail is moving Guernsey Post to format-based pricing, which means that we will be charged according to the size of mail items as well as their weight.

There is no credible alternative to Royal Mail that offers the same level of service and in spite of protracted and frustrating negotiations, we have had to accept their final offer, or face service disruption and the withdrawal of key services. Guernsey Post has submitted a tariff application to the Regulator that regrettably will lead to higher prices for many customers. We will work with our customers to minimise the impact and to absorb costs by becoming even more efficient, but the future of the company depends upon a fair and equitable price decision from the Regulator.

Guernsey Post benefits from the presence of the fulfilment industry, but its existence remains under threat from pressure to withdraw or materially change Low Value Consignment Relief by the UK Government, higher prices owing to the introduction of format-based pricing and competition from other locations outside the EU. This dependence is particularly relevant given that our core postal business continues to decline as consumers turn to electronic communications, but we remain convinced that Guernsey is an excellent location for the fulfilment industry and Guernsey Post offers value for money and excellent service.

In 2008/9, the company defined benefit pension scheme swung from a net surplus of nearly £3m to a deficit of almost £5.2m as a result of the collapse in equity markets, lower interest rates and increasing life expectancy. The deficit represents a material risk to the future profitability and sustainability of the company, and we will have to consider its future in the coming year. Faced with these challenges to our future, Guernsey Post's strategy remains unchanged, although its implementation becomes more urgent. We are committed to diversifying the business outside the regulated, traditional postal business and are making significant progress in our efforts to enter the personal financial services market through the introduction of savings products. We believe that this market can be conveniently combined with our core operations, will be profitable for Guernsey Post and will benefit the States of Guernsey through taxation on company profits and the payment of dividends.

Moreover, we will strive to improve our efficiency further by improving the return we make on our assets through a review of our headquarters at Envoy House, by introducing new measures to increase our operational productivity and by ensuring that we have proper revenue protection processes in place.

The Board

The company welcomed two new members to the Board in 2008/9, with the appointments of Dame Mary Perkins as a non-executive director and Richard Hemans as Finance Director. Dame Mary is the co-founder of Specsavers, one of Guernsey's largest and most successful businesses, and brings with her a wealth of entrepreneurial experience. Richard is a qualified Chartered Accountant who has led finance teams in a variety of industries on the island and has particular skills in acquisitions and corporate finance.

Chairman's Statement– continued

We have focused on improving our corporate governance during this financial year. In April 2008 we signed a Memorandum of Understanding with our shareholder, Treasury and Resources, setting out the roles and responsibilities of each party, and have subsequently undertaken a number of new initiatives.

The Board underwent an effectiveness review for the first time in October 2008, which revealed that the team is cohesive, focused and committed to success and enjoys working together.

An Internal Audit function and an Audit Committee have been established with the specific objective of ensuring that Guernsey Post's financial reporting, risk management and internal control processes are robust. These bodies are still developing, but they are in place, have made significant progress and simply need time, resources and commitment to meet their objectives.

Other corporate governance achievements to note are the implementation of a formal appointment, induction and training programme for all non-executive directors. We have established a company secretarial function to support the Board and the Chairman. We have also introduced a scheme of delegated authorities that defines the decisions reserved for the shareholder, the Board and the Executive Team. I am very pleased with the progress we are making on corporate governance.

I take this opportunity to thank my fellow directors, management and staff for their efforts and dedication throughout the year, resulting in an outstanding performance.

Dudley Jehan
Chairman
July 2009

Guernsey Post Limited

Chief Executive's Report

Serving our Customers

Each year the service targets demanded of us by the Office of Utility Regulation (the OUR) are raised and last year was no exception. I am delighted to be able to report that, for the first time since the regulatory regime was established, we have hit all 21 of these targets. This is a highly significant achievement as it represents probably our best ever service delivery before, or since, commercialisation. Over 96% of local letters were delivered next day and over 82% of letters posted in Guernsey arrived at their UK addresses the following day. Not surprisingly, our level of complaints has continued to fall, with the total number down by 42% over the previous year and overall customer satisfaction has reached 89%.

The achievement of service excellence is entirely attributable to the dedication and co-operative approach of everyone in the business and their determination to ensure that the mail gets through and service is delivered whatever the circumstances. This was particularly apparent when Guernsey was brought to a halt by the heaviest snowfalls in many years last winter. The number of colleagues who arrived for work on time using a variety of transport, but mostly by walking in from across the island, was a typical demonstration of this positive attitude and approach.

The move of our main office in St Peter Port to new premises gave us a vastly improved environment for customers and colleagues, as well as bright modern premises at a lower rent. We invested in sales and service coaching for all of our colleagues working on branch counters and have received very positive feedback as a result.

We have continued to work with our major customers in the fulfilment sector to encourage and support their growth. Customers including HMV and Moonpig.com have grown their business with us during the last twelve months as we continue to provide a reliable, competitive service in support of their operations. Our volume of mail handled edged above the 70 million mark as a result of this growth. Part of our approach has been to work closely with HM Revenue and Customs and Guernsey Customs and Excise to put in place a revised Memorandum of Understanding that governs the way that bulk mail traffic enters the UK and the operation of the Low Value Consignment Relief scheme. We continue to support the activity of the States' Commerce and Employment department in the establishment of formal and informal conditions for this industry.

Business Efficiency and Effectiveness

Our improved service coincided with a determined drive for operational efficiency and effectiveness and it is especially pleasing that we were able to achieve both. This is best demonstrated by the fact that we delivered 19% more mail for the same man hours. This was in part achieved by a voluntary redundancy programme that resulted in 16 people leaving the business. Several more jobs were left unfilled and individuals redeployed as we focused on improving our efficiency standards. The process, approach and implementation was developed in consultation with our trade unions as were the changes to working practices that affected the vast majority of people in the company. Our partnership working approach, and support from the CWU in particular, was one of the key reasons behind our achievement of the Investors in People standard and commendation at the World Mail Awards. We are grateful to the CWU for their commitment and positive approach.

We made further improvements in other operational areas as we invested in driving the quality of our business to higher standards. These include more efficient use of transport and logistics, better energy efficiency, faster month end reporting, tighter credit control, improved treasury management, new risk and audit programmes, and new IT systems. These are perhaps a less

Chief Executive's Report – continued

glamorous side of our business but are none the less essential in our aspiration to achieve plc standards of performance and control.

The output of all this work can be seen in the price of stamps which remain among the cheapest in Europe.

Commercial Operations

Our strategy to drive new revenues from areas outside the regulated postal market was demonstrated by our completion of the BATIF acquisition and roll out of a foreign exchange service. There is still much to be done in this area and our investment in diversification is significant and will see us re-enter the personal financial services market with a range of savings products. This is a major undertaking and has many challenges but is well timed, within our capabilities and will provide a major new profitable revenue stream in the future. Our focus is on simple, local products for local people.

Sometimes neglected as a dying business, our philatelic operations had a good year with two issues winning awards and profits holding up well. Our improved management of the end to end process including the outsourcing of non-core operations contributed to this. It is easy to miss the design challenge of this part of our business and how well we perform. Our 20,000 collectors around the world regularly receive stamps that reflect the natural history, landscapes and history of the Bailiwick as well as those celebrating important anniversaries and events.

With all this progress it is very disappointing to report that our relationship with Royal Mail is poor following long negotiations over a new contract and very large cost increases. For the future we will explore how to reduce this dependency, but in the short term we have submitted proposals to the regulator for postage price increases. We intend that local letter prices are kept low with the majority of increases focused on packets where the cost of handling products is higher. We have begun work with all of our largest customers to find cheaper alternative services and ways of delivering their product and will continue to drive business efficiencies to keep our costs low.

People

Managing our colleague relationships has been at the forefront of our activity for the second year running. Our investment in developing future leaders saw the introduction of leadership development programme using external consultants to deliver a tailored best of breed programme over several months supported by internal coaching and mentoring.

Our training and development has extended to all parts of the operation as we have worked to ensure that Guernsey Post is a safe environment in which to work for our colleagues, visitors and suppliers. Everyone will complete an extensive health and safety programme and all related issues are reviewed on a monthly basis by the Executive Team and experts. This focus follows our efforts to ensure that we are respectful and embrace different cultures, religions, backgrounds and abilities. We believe that this approach, introduced through a comprehensive Dignity at Work programme, puts us in the lead amongst Guernsey businesses.

Our policy development and reviews covered discipline, attendance, capability, grievance, redundancy and cycle helmets. These have been jointly reviewed with our unions and implemented following training in all parts of the company. They are at the heart of defining how the company operates and how we can all expect to be treated and managed.

Guernsey Post Limited

Chief Executive's Report – continued

I would like to take this opportunity to thank all of my colleagues for their hard work and co-operation in what has been a dynamic and challenging year, when public confidence in our reputation has also hit new highs with 96% of customers surveyed stating that they trust Guernsey Post, higher than any other island institution included in the research.

Gordon Steele

Gordon Steele
Chief Executive
July 2009

Guernsey Post Limited

Finance Director's Statement

Guernsey Post's financial performance in 2008/9 was strong, with turnover and profits higher than the prior year, and positive cash flow in spite of significant investment. The company's financial position remains robust, although it has been impaired by the deficit in the pension scheme.

Profit and loss account

Income increased by 17% in 2008/9 as Guernsey Post raised its prices in line with the second year of the current OUR price control. Total mail volumes rose by over 6% thanks to the continuing success of the bulk mail industry and several key customers who grew their sales in the UK and Europe. Furthermore, the company enjoyed significant success in its ongoing revenue protection programme and entered the foreign exchange market through the acquisition of BATIF.

Operating profit increased by 15%, although the operating margin remained flat at 2.5%. Royal Mail continued to exercise its market power by increasing its prices further than Guernsey Post is allowed to by the OUR, whilst the company invested in commercial resources and suffered a substantial rise in its property rates. The company also incurred some material exceptional items during the year, including the voluntary redundancy programme, the renegotiation of the new Royal Mail contract and the acquisition of BATIF. Given these cost pressures, the financial performance was notable and is mainly thanks to a more efficient operation and higher pension credit.

The overall profit for the financial year was £2.13m, nearly £0.2m more than in 2007/8. Interest receivable fell only by 4% as interest rates plunged, thanks to more proactive treasury and working capital management. The profit on disposal of one of our surplus investment properties and a lower effective tax rate as the States introduced zero-10 contributed to this higher profit, which will allow Guernsey Post to pay a dividend of £0.61m.

Balance Sheet

Shareholders' funds declined by £7.3m as the company's defined benefit pension scheme moved from a net surplus of £3m to a net deficit of £5.2m. This represents a large and real long-term liability for Guernsey Post and has been caused by declining equity markets, lower discount rates and rising life expectancy. The swing in the pension scheme has also produced a negative profit and loss account reserve.

The balance sheet remains strong in spite of the pension deficit because the company continues to be profitable, owns some valuable physical assets including Envoy House and has over £13m of working capital. This will provide it with the resilience and flexibility it may need either to endure the economic downturn or to invest in any market opportunities that may arise.

Cash flow statement

Guernsey Post generated over £1m of cash in 2008/9 and had cash balances of nearly £20.5m at the year-end. The cash generated was lower than the prior year as the company invested in its future and returned more money to shareholders.

Net cash inflow from operating activities fell by £1.1m because the company incurred large exceptional expenditure as described above, and invested in the growth of some of its major customers. The company paid a significantly higher dividend than the previous year as its financial performance improved, and acquired BATIF as part of its strategy to diversify from its core postal operation.

Finance Director's Statement – continued

Outlook

The future is becoming more challenging and uncertain for Guernsey Post and the wider postal industry. Whilst core mail volumes are declining because of technology and the recession, Guernsey Post is becoming more dependent for growth on several key customers in a market that is subject to the vagaries of UK politics and the debate on LVCR. The company is dependent on a dominant main supplier and does not have control over the prices of products and services that generate over 90% of its revenues. Meanwhile, competitive threats are emerging all the time and the pension scheme is in deficit.

In spite of these risks, Guernsey Post is confident in its future and has a robust strategy in place to embrace the opportunities it foresees. The company will continue to expand in the resilient logistics, fulfilment and express markets and intends to diversify into the personal financial services market through the launch of savings products in the short term.

The company will strive to become more efficient, reduce its dependence on Royal Mail wherever possible and get closer to its key customers with an excellent level of service. There is a determined team in place and Guernsey Post will endeavour to attract the best talent in the island by becoming the employer of choice, whilst continuing to promote a collaborative approach of partnership working with its important unions.

2009/10 will be a difficult year financially for Guernsey Post with the economic downturn, higher Royal Mail charges and the investment in the creation of a Guernsey Savings Bank. But this year will ensure that the company builds a solid foundation for the future and goes on to prosper into the medium and long terms.

Richard Hemans
Finance Director
July 2009

Guernsey Post Limited

Environment and CSR

As an integral part of the island community on Guernsey and with a Bailiwick-wide network of postal branches, we are committed to the community for whom we provide postal services.

Part of this commitment includes acknowledging our environmental responsibility. Our challenge lies not only in identifying the environmental changes to be made to minimise our impact on the environment, but translating that change into practical action that becomes an intrinsic and fundamental part of how our company operates.

Where should we start? Which areas were the most important – energy usage, waste, CO2 footprint? How quickly should change happen and how should we ensure that the whole company not only gets behind this drive but continues to embrace it in the future?

These were some of the questions challenging our newly formed Environment Committee last September. The committee's mandate was to implement change within the company, as well as building an enthusiasm for, and endorsement of, environmental initiatives.

Making a commitment to address the prominent energy and waste issues was key, but so too was the need to make real and readily identifiable progress. The committee identified the need to concentrate its first push on cutting down waste by encouraging our fledgling recycling initiative. It looked to the States of Guernsey Environment Department for its guidance, using the Keep Guernsey Green Award as a focus for its efforts.

The committee, formed from colleagues in each department across the business, achieved the award in a swift seven months, by identifying and introducing the following initiatives: paper usage has been cut by 25% following a drive to print only when necessary; desk waste bins have been replaced by segmented recycling and waste bins; and recycling bins for a variety of waste materials have been sited throughout Envoy House. This reduction in waste has reduced the number of waste skips from 10 a month to 6, not only saving waste but also resulting in a cost saving of £4,000.

While recycling and waste reduction have been our initial focus we are now turning our focus to energy efficiency and expect to cut our oil consumption by £30,000 in 2009/10.

The added benefit is that our environmental work is not a passive activity but something with which our colleagues are actively engaged. What started as one individual's idea has now grown to be a company-wide initiative and is only one of many examples where we are promoting sustainability throughout our company.

An example of another initiative that shows our colleagues' commitment to the community is the variety of local charities our colleagues have supported in the last year.

In 2008 we focused on a single charity, Headway Guernsey, and we completed a very successful fundraising year in July, with our final event, a Van Pull, in which we enjoyed Geoff Capes' larger-than-life coaching skills. Headway Guernsey members joined in the day and it was an excellent example of a community charity event that brought together all involved. In October, we presented them with a cheque for over £16,000, and discovered more about their valuable work at a Headway House meeting.

Guernsey Post Limited

Environment and CSR - continued

This year we have widened our focus and our Supporting Together initiative has enabled colleagues to apply for fundraising support for individual charities and events with which they have a close link, for up to £1,000 for each charity.

The response to this has been amazing and this initiative has enabled us to endorse our ethos that people, whether colleagues, customers or the community, continue to be the most important part of our business.

From ad hoc charity initiatives, we now have a company-wide focus, which builds on our colleagues' determination to contribute to their island community. 2008-2009 has been a year of progress. Next year will be about embedding this commitment through our goals and our culture to ensure a sustainable future.

Guernsey Post Limited

Board Profile

Dudley Jehan, Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of seven local trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of non-executive directorships and has been a non-States Member for over 20 years. He is currently a director of the Guernsey Training Agency, University Centre and is a member of the Housing Board. He joined the board of Guernsey Post in 2003 and has served as Chairman for the last four years.

Gordon Steele, Chief Executive

Gordon Steele began his career in horticulture with Fisons after attending Bradford and Reading universities. He joined Unipart and worked in purchasing and company strategy. After preparing London Electricity for competition and taking it into the gas supply business, he rescued Eastern Energy's gas supply business, launched an electricity supply operation and grew its customer base to over 5 million residential and small business accounts. He returned to the motor trade to work for Mazda Cars Ltd before being recruited in 2001 to the UK Post Office. In his capacity as an executive board director he was responsible for commercial operations, the launch into financial services, and established a new Homephone service. He was also appointed Chairman of First Rate Travel Services, the leading provider of foreign exchange in the UK.

He joined Guernsey Post as Chief Executive in February 2007. Gordon is a fellow of the RSA, and a member of the Marketing Society.

Richard Hemans, Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a chartered accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Guernsey Post Limited

Board Profile - continued

Jeff Kitts

A Guernseyman, Jeff Kitts is now retired from business after a successful career in the motor industry. He began his career with the British Motor Corporation and ran a highly successful group of his own companies, the Motor Vehicle Group of Companies, based in Guernsey, which included Ruette Braye Motors Ltd, Jeffrey's Service Stations Ltd and Rabeys Garage Ltd.

He has been a highly successful politician on the island, topping the poll in the Vale Parish on two occasions, and during his political career he was a member of the Advisory and Finance Committee, President of the Civil Service Board and President of the Income Tax Authority.

He has had the honour of being President of the local Motor Trades Association for a number of years. He has been a member of the Rotary Club of Guernsey for 29 years and has been President twice during that period.

Steve Hannon

Steve Hannon has nearly 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Andrew Duquemin

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and The Channel Islands Stock Exchange. He is also a director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was managing director.

Andrew sits on the boards of several local trading companies and a London-listed hedge fund company. He is also a Fellow of the Securities Institute and holds the advanced diploma in Corporate Finance.

Guernsey Post Limited

Board Profile - continued

Dame Mary Perkins

Dame Mary Perkins DBE co-founded the Specsavers Optical Group in 1984, which introduced the joint venture concept to the optics market.

The first Specsavers Opticians opened in Bristol in 1984, and the group now has over 1,000 stores and 600 optical stores across the UK together with a retail networks in Holland, Sweden, Norway, Denmark, Spain and Finland. Specsavers expanded into Australia in 2008 and New Zealand in 2009 and has also launched Specsavers Hearing Centres.

She is a member of the board of directors of Specsavers Optical Group, which is the market leader in UK optics, celebrated a record turnover of £1.2bn in 2008 and has been voted the Most Trusted Brand of Opticians since 2002.

She was made a Dame Commander of the British Empire in 2007, is heavily involved in Guernsey's community, is an Honorary Fellow of Cardiff University and a patron of EveryWoman. She won the Most Outstanding Woman in Business Award in 2007.

Guernsey Post Limited

Corporate Governance

Compliance

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources, the States department which acts on behalf of the States of Guernsey in its management of States' trading companies. This MOU sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has worked hard to develop its corporate governance programme during the financial year ending 31 March 2009, and the achievements are summarised in this report.

The Board

Directors

The Board's role is to provide entrepreneurial leadership of the company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, sets its values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to committees of the Board or senior management.

There were 10 Board meetings held during 2008/9. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board committees are set out on pages 20 and 21, together with details of their terms of reference and of the meetings held during the year. The Board committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Post has a non-executive Chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive Officer responsible for the running of the company's business.

Guernsey Post Limited

Corporate Governance - continued

Dudley Jehan spends, on average, three days per month in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Board balance and independence

Throughout the year the Company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. Only Steve Hannon is not considered to be independent because he has previously been the Chief Executive of the Company. All the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five non-executive directors and two executive directors. The Board is currently seeking to appoint one or two other executive directors to redress this imbalance.

Jeff Kitts is the senior independent director and is available to talk to shareholders if they have any issues or concerns.

Dame Mary Perkins was appointed as a non-executive director on 29 September 2008. Dame Mary is the founder of the largest independently owned optical retailer in the world and brings with her a wealth of experience in customer service, people management, business development and public relations. The Board believes her expertise will be invaluable to the company as it seeks to diversify, build better relationships with its customers and become more commercial.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new Board members. The appointment of non-executive directors has to be ratified by the States of Guernsey.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for Board appointments and succession planning.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the directors receive a copy of the agenda for the meeting, Company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the directors receive the prior month and cumulative Company financial and operating information.

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on Board procedures and corporate governance. The Board is currently considering the implementation of a training programme for all directors on the role of the Board, its committees and a director.

Corporate Governance - continued

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with Board procedures. This includes taking minutes of the Board meetings and the recording of any concerns relating to the running of the Company or proposed actions arising therefrom that are expressed by a director in a Board meeting. The Company Secretary is also secretary to the Remuneration and Nominations committees. The Company Secretary is available to give ongoing advice to all directors on Board procedures, corporate governance and regulatory compliance.

Performance evaluation

Following the agreement of the Memorandum of Understanding with Treasury & Resources, the Chairman of the Board and the Chief Executive undertook a performance evaluation of the Board and its members in October 2008. The Chairman engaged an external evaluator to help ensure that the evaluation process was sufficiently robust and unbiased.

The performance evaluation was based on the completion of an initial questionnaire by all directors, a one-to-one interview with the external evaluator, the production of a consolidated report and a facilitated discussion. The Board agreed that it was becoming more effective and that it was satisfied with the directors' contribution and commitment, and the continuing improvement of the Board and its committees.

Whilst the performance evaluation did not identify any significant issues of concern, some recommendations for development and improvement were made that the Board is focused on implementing.

A full performance evaluation of the Board will continue to be conducted annually.

Election and re-election of directors

Guernsey Post Ltd's articles state that a director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each executive and non executive director be required to submit himself or herself for re-election by shareholders at least every three years.

Non-executive directors serve the company under letters of appointment, which are generally for an initial three-year term. Their appointment is also ratified by the States of Guernsey.

At the 2009 AGM, non-executive directors Steve Hannon, Andrew Duquemin and Dame Mary Perkins are being recommended by the Board and will be proposed for election or re-election. Steve Hannon is a former chief executive of the company who brings significant knowledge and experience of the UK postal industry. Andrew Duquemin is a Chartered Accountant who is very experienced in corporate finance, consulting and financial services. Dame Mary Perkins is a genuine entrepreneur who co-founded a hugely successful business and excels in business development, customer service and public relations.

Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic,

Corporate Governance - continued

benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by the States of Guernsey.

The Remuneration Committee, which is chaired by the senior independent director, consists of two independent non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the Group's annual salary negotiations. No director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

Accountability and audit

Financial reporting

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Ltd. The company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised in the light of this comparison and also reviewed by the Board.

Internal control and risk management

During 2008/9 the company launched a process for identifying, evaluating, managing, monitoring and reporting the risks it faces. The company has identified and evaluated all the risks that it faces, allocated owners to risks and developed action plans to manage them. During 2009/10 the company will focus on the implementation of these plans, and the monitoring and reporting of the risks it faces. This process, managed through Audit Committee meetings, is the responsibility of all of the Group's businesses, and is overseen by the Finance Director and Head of Internal Audit.

Audit Committee meetings also include a review of the results of internal audit activity covering the financial controls and risks as well as the physical risks of all operations in the Group. The results of this process are reported to the Audit Committee by the Finance Director and the Head of Internal Audit providing an opportunity for that Committee to discuss and analyse the risks reported.

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

During 2008 the company authority levels and related financial limits were defined and collated into one document, which included information on those matters that are specifically reserved for the Board's consideration.

Given the establishment of the Internal Audit function and Audit Committee in late 2008, the Board decided to engage an external advisor to carry out a review of the effectiveness of the internal control environment at Guernsey Post. This review confirmed that Guernsey Post is developing a

Guernsey Post Limited

Corporate Governance - continued

robust internal control environment, but the Internal Audit function and Audit Committee need to be properly established before it can be considered fully effective. The Board will continue to carry out such reviews on an annual basis.

Audit committee and auditor

The Audit Committee was re-constituted in December 2008. The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the company's relationship with the Company's external auditor. The Committee members comprise independent non-executive directors. Andrew Duquemin was appointed as the Chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Dame Mary Perkins is the other member of the Audit Committee and has spent many years sitting on internal audit committees of the States of Guernsey.

The Committee approves the appointment of the Head of Internal Audit. The annual programme of internal audit assignments is reviewed and approved by the Committee. The Committee meets twice a year with representatives of the Company's external auditor, and the Chief Executive, the Finance Director and the Head of Internal Audit also attend the meetings.

Shareholder relations

The Board believes that good communication with the shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to the shareholder every year.

The Chairman and senior independent director are available to meet with the shareholder should there be unresolved matters that the shareholder believes should be brought to its attention. The non-executive directors meet with the shareholder at the AGM, as well as the Executive Team. The date of the AGM is agreed with the shareholder and ten days' working notice is given. In future the AGM will be chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. The shareholder will be given the opportunity to ask questions of the Board and the Chairman of each Board committee during the AGM.

Committees of the Board and main terms of reference

In addition to regular scheduled Board meetings, the Company operates through various Board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Jeff Kitts and Steve Hannon are the two non-executive directors who serve on the Nominations Committee. The main terms of reference of this committee are to review regularly the structure, size and composition of the Board and to make recommendations to the Board on the role and nomination of directors for appointment to the Board, Board committees and as holders of any executive office. The Committee met twice in 2008/9 and all members of the Committee were present.

Corporate Governance - continued

Jeff Kitts and Steve Hannon are the two non-executive directors who serve on the Remuneration Committee. The main terms of reference of this committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met twice in 2008/9 and all members of the Committee were present.

Andrew Duquemin is the only non-executive director who sits on the Pensions Committee, although he is supported by the Chief Executive, Finance Director and HR Director. The main terms of reference of this committee are to review and make recommendations to the Board on the company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. The Committee was established in 2008 and met once, and all members of the Committee were present.

Guernsey Post Limited

Directors' report

The directors present their annual report together with the financial statements for the year ended 31 March 2009.

Principal activities

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

Significant events

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for cash consideration of £525,611 and deferred cash consideration of £200,000. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd.

Results

The results for the year are shown in the profit and loss account on page 26.

Dividend

The directors recommend that a dividend for the financial year of 2.74p (2008: 2.8p) per ordinary share is paid on 4th August 2009 (2008: 29th July 2008) to ordinary shareholders on the register at that date. The total value of the dividend is £613,895 (2008: £627,250). As this dividend is being recommended and will be paid after the year end no provision has been made in the financial statements.

Fixed assets

Fixed asset movements for the year are disclosed in note 8 to the financial statements.

Directors

The directors of the Company, who served throughout the year except as noted below, were as follows:

D R Jehan
G R Steele
R J Hemans
J Kitts
S Hannon
A Duquemin
Dame M Perkins (appointed 29th September 2008)
M Johnson (resigned 22nd April 2008)

No director has an interest either beneficially or non-beneficially in any shares of the Company (2008: no interest beneficially or non-beneficially).

In accordance with the Articles of Association S Hannon and A Duquemin are due to retire by rotation and being eligible offer themselves for re-election at the forthcoming AGM.

Guernsey Post Limited

Directors' report - continued

Statement of responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 and The Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

G.R. Steele

G R Steele
Chief Executive

27 July 2009

D R Jehan
Chairman

KPMG

20 New Street
St. Peter Port
Guernsey
GY1 4AN

Independent auditor's report to the members of Guernsey Post Limited

We have audited the financial statements (the "financial statements") of Guernsey Post Limited for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008 and Section 10(1) of The Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements which give a true and fair view and are in accordance with UK Accounting Standards and are in compliance with applicable Guernsey law are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are in accordance with UK Accounting Standards and comply with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

KPMG

Independent auditor's report to the members of Guernsey Post Limited (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2009 and of its profit for the year then ended;
- are in accordance with UK Accounting Standards; and
- comply with The Companies (Guernsey) Law, 2008; and Section 10(1) of The Post Office (Guernsey) Law,1969.

KPMG Channel Islands Limited

Chartered Accountants

28 July 2009

Guernsey Post Limited

Profit and loss account

For the year ended 31 March 2009

	Notes	31 March 2009 £'000	Restated 31 March 2008 £'000
Income		**43,306**	36,982
Expenditure	6	**(42,241)**	(36,059)
Operating Profit	2	**1,065**	923
Other income			
Interest receivable	3	**906**	946
Rents receivable		**61**	67
Exceptional item			
Profit on disposal of investment property	6	**77**	-
Profit on ordinary activities before net return on pension scheme		**2,109**	1,936
Net return on pension scheme		**347**	513
Profit on ordinary activities before taxation		**2,456**	2,449
Taxation charge	4	**(322)**	(485)
Profit for the financial year		**2,134**	1,964

Statement of total recognised gains and losses

For the year ended 31 March 2009

		31 March 2009 £'000	Restated 31 March 2008 £'000
Profit for the financial year		**2,134**	1,964
Actuarial (loss)/gain recognised in the pension scheme	19	**(10,920)**	4,198
Dividend paid	5	**(627)**	(204)
Movement on deferred tax attributable to actuarial (loss)/gain	13	**2,185**	(845)
Unrealised (loss)/surplus on revaluation of investment properties		**(75)**	35
Total recognised gains and losses relating to the year		**(7,303)**	5,148
Prior year adjustments as explained in note 16		**(26)**	182
Total gains and losses recognised since last annual report and financial statements		**(7,329)**	5,330

All activities derive from continuing operations

The notes on pages 29 to 49 form an integral part of these financial statements

Guernsey Post Limited

Balance sheet

At 31 March 2009

	Note	31 March 2009 £'000	Restated 31 March 2008 £'000
Fixed assets			
Intangible assets	7	**507**	-
Tangible assets	8	**12,866**	13,183
Investment properties	9	**875**	1,325
Investment in subsidiaries	10	**-**	-
		14,248	14,508
Current assets			
Stock		**201**	144
Debtors	11	**4,997**	4,477
Cash at bank and in hand	18	**20,420**	19,398
		25,618	24,019
Creditors: Amounts falling due within one year	12	**(12,248)**	(11,989)
Net current assets		**13,370**	12,030
Total assets less current liabilities		**27,618**	26,538
Provisions for liabilities and charges	13	**(142)**	11
Net assets excluding pension (liability)/asset		**27,476**	26,549
Net pension (liability)/asset	19	**(5,200)**	3,030
Net assets including pension (liability)/asset		**22,276**	29,579
Capital and reserves			
Share capital	14	**22,386**	22,386
Profit and loss account	15	**(70)**	7,113
Revaluation reserve	15	**(40)**	80
Shareholders' funds	17	**22,276**	29,579

The financial statements were approved by the board of directors and authorised for issue on 27 July 2009. They were signed on its behalf by:

G R Steele G.R. Steele
Chief Executive

D R Jehan
Chairman

The notes on pages 29 to 49 form an integral part of these financial statements

Guernsey Post Limited

Cash flow statement

For the year ended 31 March 2009

	Notes		31 March 2009 £'000		31 March 2008 £'000
Net cash inflow from operating activities	18		**1,542**		2,609
Returns on investments and servicing of finance					
Interest received		**906**		946	
Rent received		**61**		67	
Net cash inflow from returns on investments and servicing of finance			**967**		1,013
Taxation			**(339)**		(328)
Capital expenditure					
Proceeds from sale of fixed assets		**-**		1	
Purchase of tangible assets		**(603)**		(237)	
Sale of investment property		**452**		-	
Net cash outflow from capital expenditure			**(151)**		(236)
Dividend paid			**(627)**		(204)
Acquisitions and disposals					
Purchase of subsidiary undertaking			**(526)**		-
Net cash balances acquired with subsidiary undertaking			**156**		-
Increase in cash	18		**1,022**		2,854

The notes on pages 29 to 49 form an integral part of these financial statements

1. Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties, they give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards and are in compliance with The Companies (Guernsey) Law, 2008.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Post Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. They are recognised in the statement of total recognised gains and losses. The retirement benefit deficit is recognised in the balance sheet.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

1. Significant accounting policies - continued

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	**Depreciation % per annum**
Freehold land	N/A	Nil
Freehold buildings	30 – 50	2 – 3.3
Plant and equipment	15	6.67
Leasehold Improvements	12	8.3
Furniture and fittings, office equipment and postal machinery	3 – 10	10 – 33.3
Transport	5	20

Investment Properties

Investment properties are revalued annually. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties".

1. Significant accounting policies - continued

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

2. Operating profit

Operating profit is stated after charging:

	31 March 2009 £'000	31 March 2008 £'000
Staff costs	**12,510**	11,341
Auditors' remuneration		
Audit Fees	**30**	29
Other services	**5**	-
Amortisation of goodwill	**56**	-
Loss on disposal of fixed assets	-	1
Depreciation of tangible fixed assets	**920**	943

Average full time equivalent employee numbers for the period were as follows:

	31 March 2009	31 March 2008
Operational staff including postmen and women, post office counter staff and philatelic production staff	**201**	213
All other staff	**67**	66
Total	**268**	279

3. Interest receivable

	31 March 2009 £'000	31 March 2008 £'000
States Treasury	**892**	885
Other	**14**	61
	906	946

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

4. Taxation

The actual tax charge differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	Note	31 March 2009 £'000	31 March 2008 £'000
Current taxation			
Expected tax charge		**249**	381
Current year tax charge		**249**	381
Deferred taxation			
Timing differences:	13	**73**	104
Actual tax charge		**322**	485

With effect from 1 January 2008, the standard rate of income tax for Guernsey companies has changed. Thereafter, the Company will be taxed at a combination of the company standard rate of 0% and the company higher rate of 20%. Therefore the tax charge included in the financial statements is based on these rates. Guernsey Post Limited apportioned the tax adjusted profits so that the appropriate amount is taxed at 20% and the new rates as applicable. This has been disclosed as "Rate differences on current tax" in the financial statements.

The Company's profits or losses from the activities subject to licence from the Office of Utility Regulation will be chargeable to tax at the 20% rate, as will rental income from Guernsey properties. For all other company activities the zero rate is applicable. The basis of assessment to Guernsey tax continues to be on accrual current year basis.

	31 March 2009 £'000	31 March 2008 £'000
Operating profit	**2,456**	2,449
Tax at 20%	**491**	490
Effects of adjusting items:		
Timing differences	**13**	(17)
Profit on disposals of fixed assets	**15**	11
Rate difference on current tax	**(251)**	(47)
Net rental income and expenses	**-**	(3)
Adjustment for pension costs	**(97)**	(53)
Prior year adjustment	**78**	-
Current tax charge	**249**	381
Deferred tax - pension deficit	**120**	50
Deferred tax - losses utilised	**-**	-
Deferred tax - timing differences	**(47)**	54
Profit and loss taxation charge	**322**	485

5. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	31 March 2009 £'000	31 March 2008 £'000
Final dividend for the year ended 31 March 2008 of 2.8p (31 March 2007 0.91p)	**627**	204
	627	204

The board is proposing a final dividend for the year ended 31 March 2009 of 2.74p. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

6. Exceptional Items

Included in Expenditure is £428,674 relating to the costs of a voluntary redundancy programme following an operational reorganisation at Guernsey Post Ltd.

The profit on disposal of investment property relates to the sale of the property known as 'Flammanville' and is shown net of sale costs and previously recognised unrealised gains.

7. Intangible assets - Goodwill

Cost	£'000
At 1 April 2008	-
Additions	563
At 31 March 2009	563
Amortisation	
At 1 April 2008	-
Charge for the year	56
Impairment losses	-
At 31 March 2009	56
Net book value	
At 31 March 2008	-
At 31 March 2009	507

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for cash consideration of £525,611 and deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company.

The first year review of the carrying value of the goodwill relating to BATIF Bureau de Change Ltd confirmed that there had been no impairment.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

8. Tangible fixed assets

	1 April 2008 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2009 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,227	108	-	**8,335**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	-	357	-	**357**
Furniture and fittings	89	-	-	**89**
Office equipment	1,205	77	-	**1,282**
Postal machinery	2,229	9	-	**2,238**
Transport	745	52	-	**797**
	17,662	603	-	**18,265**

	1 April 2008 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2009 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	902	168	-	**1,071**
Plant and equipment	492	255	-	**747**
Leasehold improvements	-	45	-	**45**
Furniture and fittings	83	2	-	**85**
Office equipment	928	96	-	**1,023**
Postal machinery	1,526	261	-	**1,787**
Transport	548	93	-	**641**
	4,479	920	-	**5,399**
Net book value	13,183			**12,866**

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

9. Investment properties

	Market Value £'000	Market Value £'000
At 1 April 2008 (2007)	**1,325**	1,270
Sale of Flammanville	**(375)**	-
Revaluation	**(75)**	55
At 31 March 2009 (2008)	**875**	1,325

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2009 by Swoffers Ltd. Such properties are not depreciated.

10. Investment in subsidiaries

	31 March 2009 £'000	31 March 2008 £'000
Independent Delivery Solutions Limited	**-**	-
BATIF Bureau de Change Limited	**-**	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2008: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Ltd were transferred to Guernsey Post Ltd and BATIF Bureau de Change Ltd changed to a dormant company. Guernsey Post Ltd pays the admininstration costs for this company.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

11. Debtors

	31 March 2009 £'000	31 March 2008 £'000
Trade debtors	**4,795**	4,031
Less: Provision for bad debt	**(76)**	(154)
Other debtors	**66**	144
Prepayments and accrued income	**212**	456
	4,997	4,477

12. Creditors

	31 March 2009 £'000	31 March 2008 £'000
Amounts falling due within one year		
Trade creditors	**10,024**	10,076
Other creditors	**1,738**	1,480
Accruals and deferred income	**306**	170
Taxation payable	**180**	263
	12,248	11,989

13. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances	Deferred consideration	Sub Total	Deferred taxation - Pension deficit / surplus	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2008	(11)	-	**(11)**	765	**754**
Charged to profit and loss account	(47)	-	**(47)**	120	**73**
Charged to statement of total recognised gains and losses	-	-	-	(2,185)	**(2,185)**
Acquisition of subsidiary undertaking	-	200	**200**	-	**200**
At 31 March 2009	(58)	200	**142**	(1,300)	**(1,158)**

The Income Tax (Zero Ten) (Guernsey) Law, 2007 was passed by the States of Guernsey on 26 September 2007 and is subject to approval by Privy Council. Under UK GAAP, as the Fifth Schedule of the law clearly sets out the tax rates applying to various classes of income, the new rates are deemed to have been substantively enacted at this date.

Deferred tax in the financial statements is therefore measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. With effect from 1 January 2008, the standard rate of income tax for Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation will remain at 20% for regulated income and change to 0% for non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £1.3m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

Deferred consideration

The provision for deferred consideration relates to the acquisition of a subsidiary undertaking and is payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment is subject to meeting pre-determined adjusted profit targets in respect of financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide for the second instalment of £100,000.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

14. Share capital

	31 March 2009 £'000	31 March 2008 £'000
Authorised		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
22,386,000 ordinary shares of £1 each	**22,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

15. Reserves

Profit and Loss Account	31 March 2009 £'000	Restated 31 March 2008 £'000
Opening reserves at 1 April as previously stated	**7,139**	1,863
Prior Year Adjustments (please see note 16)	**(26)**	137
	7,113	2,000
Retained profit for the year	**2,134**	1,964
Actuarial (loss)/gain for the year, net of movement in deferred tax	**(8,735)**	3,353
Dividends paid	**(627)**	(204)
Realised revaluation surplus	**45**	-
As at 31 March	**(70)**	7,113

Revaluation Reserve	31 March 2009 £'000	31 March 2008 £'000
Opening reserves at 1 April (2008 as previously stated)	**80**	-
Prior Year Adjustments (see note 16)	**-**	45
Unrealised (Loss)/Gain on revaluation of investment properties	**(75)**	35
Realised revaluation surplus	**(45)**	-
As at 31 March	**(40)**	80

16. Prior Year Adjustment

The UK Accounting Standards Board (ASB) published an amendment to FRS17 Retirement Benefits on 7 December 2007, which stated that the bid value is to be used instead of mid market value to measure funds assets and that administration expenses are to be allowed for by a deduction from the Expected Return on Assets instead of being included in the Service Cost. The adoption of this amendment is mandatory for accounting periods beginning on or after 6 April 2007 and is to be applied retrospectively.

The effects of the change in the accounting standard are summarised below:

	2008
Profit and loss account	£'000
Expenditure	(77)
Net return on pension scheme	77
Change in profit for the financial year	-
Balance Sheet	
Net pension asset	(26)
Decrease in net assets	(26)

The Company's accounting policy for the recognition of tangible fixed assets was changed during the year ended 31 March 2008 to separate freehold buildings and investment properties. Two non-operational buildings were reclassified from freehold buildings to investment properties. The directors considered that the new policy provided a fairer presentation of the result and the financial position of the company because it differentiates those freehold properties used in the operation of the business and those held as investments.

This change resulted in an adjustment of £182,000. The investment properties are not depreciated and are revalued annually, which led to the reversal of £137,000 accumulated depreciation and the recognition of £45,000 of unrealised gains on investment properties, to 31 March 2007.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

17. Reconciliation of movement in shareholders' funds

	31 March 2009 £'000	Restated 31 March 2008 £'000
Profit for the financial year	2,134	1,964
Actuarial (loss)/gain recognised in the pension scheme	(10,920)	4,198
Movement on deferred tax attributable to actuarial (loss)/gain	2,185	(845)
Unrealised (loss)/surplus on revaluation of investment properties	(75)	35
Dividends paid on equity shares	(627)	(204)
Net (reduction in)/addition to shareholders' funds	(7,303)	5,148
Opening shareholders' funds as previously stated	29,605	24,249
Prior year adjustments (please see note 16)	(26)	182
Opening shareholders' funds as restated	29,579	24,431
Closing shareholders' funds	22,276	29,579

18. Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2009 £'000	Restated 31 March 2008 £'000
Operating profit	1,065	923
Depreciation charges	920	943
Amortisation	56	-
Net pension scheme service costs	(278)	247
Loss on disposal of fixed assets	-	1
Amounts written off fixed assets	-	12
(Increase)/decrease in stock	(49)	34
(Increase)/decrease in debtors	(507)	569
Increase/(decrease) in creditors	335	(120)
Net cash inflow from operating activities	1,542	2,609

Reconciliation of net cash inflow to movement in net funds

	31 March 2009 £'000	31 March 2008 £'000
Increase in cash balances	1,022	2,854
Net funds at 1 April	19,398	16,544
Net funds at 31 March	20,420	19,398

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

19. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet it's funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2009 by Mrs D Simon, Fellow of the Institute of Actuaries.

19. Pension Fund (cont'd)

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows:

	31 March 2009	31 March 2008
	£	£
Fair value of Fund Assets	**18,614,531**	23,285,081
Present value of funded obligations	**(25,114,506)**	(19,490,397)
(Deficit)/surplus in scheme	**(6,499,975)**	3,794,684
Related deferred tax Asset/(Liability)	**1,300,075**	(764,745)
Net pension (Liability)/Asset	**(5,199,900)**	3,029,939
Amounts in the Balance Sheet		
Assets	**-**	3,029,939
Liabilities	**(5,199,900)**	-
Net pension (Liability)/Asset	**(5,199,900)**	3,029,939

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2009	31 March 2008
	£	£
Current service cost	**873,702**	1,206,080
Interest on obligation	**1,334,500**	1,228,368
Expected return on Fund assets	**(1,681,098)**	(1,740,455)
Past service cost	**31,207**	-
(Gains) on curtailments	**(195,696)**	-
Expense recognised in the Profit and Loss	**362,615**	693,993
Actual return on Fund assets	**(5,345,628)**	28,288

19. Pension Fund (cont'd)

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2009	Restated 31 March 2008
	£	£
Opening defined benefit obligation	**19,490,397**	22,882,030
Service cost	**873,702**	1,206,080
Interest cost	**1,334,500**	1,228,368
Contributions by members	**461,951**	420,946
Actuarial Losses / (Gains)	**3,892,813**	(5,910,369)
Past service costs	**31,207**	-
Gains on curtailments	**(195,696)**	-
Benefits paid	**(774,368)**	(336,658)
Closing defined benefit obligation	**25,114,506**	19,490,397

19. Pension Fund (cont'd)

Changes in the fair value of Fund assets are as follows:	31 March 2009	Restated 31 March 2008
	£	£
Opening fair value of Fund assets	**23,285,081**	22,212,831
Expected return	**1,681,098**	1,740,455
Actuarial Losses	**(7,026,726)**	(1,712,167)
Contributions by employer	**987,495**	959,674
Contributions by member	**461,951**	420,946
Benefits paid	**(774,368)**	(336,658)
Closing fair value of Fund assets	**18,614,531**	23,285,081

Analysis of amounts recognised in statement of total recognised gains and losses	31 March 2009	31 March 2008
	£	£
Total Actuarial (Losses)/Gains	**(10,919,539)**	4,198,202
Total (Loss)/Gain in statement of total recognised gains and losses	**(10,919,539)**	4,198,202
Cumulative amount of (Loss)/Gain recognised in statement of total recognised gains and losses	**(3,893,971)**	7,025,568

The Employer expects to contribute £1,082,165 to the Fund from 1 April 2009 to 31 March 2010.

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2009	31 March 2008
	%	%
Equities	**66**	80
Gilts	**7**	3
Corporate Bonds	**5**	6
Index Linked Bonds	**14**	10
Other Assets	**8**	1

19. Pension Fund (cont'd)

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)):

	31 March 2009	31 March 2008
	% pa	% pa
Discount rate	**6.1**	6.9
Expected return on Fund assets at 31 March (for following year)	**6.5**	7.4
Rate of increase in pensionable salaries	**4.55**	5.2
Rate of increase in deferred pensions	**3.3**	3.7
Rate of increase in pensions in payment	**3.3**	3.7

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female.For a member currently aged 40 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 90 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

19. Pension Fund (cont'd)

Amounts for the current and previous periods are as follows:

	31 March 2009	31 March 2008	31 March 2007	31 March 2006	30 Sept 2005
	£	£	£	£	£
Defined benefit obligation	25,114,506	19,490,397	22,882,030	22,813,716	20,823,151
Fund Assets	18,614,531	23,285,081	22,212,831	20,321,316	17,940,730
Surplus / (deficit)	(6,499,975)	3,794,684	(669,199)	(2,492,400)	(2,882,421)
Experience Gains / (Losses) on Fund assets	(7,026,726)	(1,712,167)	(571,016)	1,345,582	1,511,130
Experience Gains / (Losses) on Fund liabilities	(658,148)	830,709	1,529,543	(537,837)	3,383,882

The Fund assets for the years ended 30 September 2005, 31 March 2006 and 31 March 2007 have not been restated to bid value (ie. they are mid market value).

20. Financial Commitments

Capital commitments are as follows:	Guernsey Post Ltd 31 March 2009 £'000
Alderney Sorting Hall	243
	243

Annual commitments under non-cancellable operating leases are as follows:

Guernsey Post Ltd	31 March 2009 Land and buildings
Expiry date	£'000
- within 1 year	6
- betweeen two and five years	-
- after five years	65
	71

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

Guernsey Post Limited

Year ended 31 March 2009
Notes to the financial statements - continued

21. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

22. Related party transactions

S Hannon, a Non-Executive Director, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). Guernsey Post received consultancy and management services from PLCWW during the prior year, transacted on an arm's length basis, which affect the comparative figures. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2009 were nil (2008: £34,748). The services of PLCWW have been contracted from April 2009.

During the year Gordon Steele, the Chief Executive, rented a flat at current market rates from the Company. The rent is subject to a triennial revaluation with RPI increase in intervening years to reflect current market rates. The next revaluation will be undertaken in May 2009.

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2009 amount to 1.3% of total turnover (2008: 1.4%). The total value of purchases for the year amounted to 1.5% of total expenses (2008: 1.8%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2009 the balance held was £19,535,429 (2008:£18,043,940).

APPENDIX III

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY ELECTRICITY LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

31st July 2009

Dear Sir

Under Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, the year end accounts of Guernsey Electricity Limited are required to be published as an appendix to a Billet d'Etat.

I therefore submit the Report and Financial Statements of that company for the year ended 31 March 2009.

As explained in the Director's Report, due to tariffs to customers not increasing during the year against a background of a very difficult energy market, the company made a loss on ordinary activities before taxation of £1,599,000 (2008: £1,160,000 profit). As a consequence no dividend will be paid to the States (2008: £326,000).

I should be grateful if you would include this matter as an Appendix to the September 2009 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Guernsey Electricity Limited

Report and financial statements

31 March 2009

Guernsey Electricity Limited

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Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	KA Gregson	(non-executive Chairman)
	I Watson	(managing)
	IJ Limond	(finance)
	SJ Morris	(engineering)
	KJ Guille	(non-executive)
	JR Shaw	(non-executive) – retired 2 April 2008
	Advocate IH Beattie	(non-executive)
	D Farrimond	(non-executive)
	MJ Mann	(non-executive)

Secretary: SB Pattimore

Bankers:
Barclays Bank Plc
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Legal advisers:
Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

Independent auditor:
KPMG Channel Islands Limited
Chartered Accountants
20 New Street
St Peter Port
Guernsey
GY1 4AN

Registered office:
PO Box 4
Electricity House
North Side
Vale
Guernsey
GY1 3AD

Company number: 38692

Guernsey Electricity Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2009. These comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and notes to the financial statements set out on pages 12 to 28.

Incorporation

Guernsey Electricity Limited was incorporated on 24 August 2001.

Principal activities

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

Financial performance

During the year ended 31 March 2009, turnover from electricity sales amounted to £35,113,000 (2008: £34,197,000) which represents an increase of 2.68% (2008: 17.94%). Tariffs to our customers did not increase during the year (2008: 14.82% increase). Our financial performance also reflects excellent control of costs in a very difficult energy market, and generally higher contribution from all parts of the business.

The loss for the year before the dividend paid amounted to £834,000 (2008: £987,000 profit). The retained loss, after the dividend paid in the year, of £1,160,000 (2008: £901,000 profit) has been transferred to reserves.

Also debited to reserves is the significant actuarial loss this year from the accounting for pensions calculated with assumptions based on financial market conditions at the balance sheet date.

Dividend

During the year a dividend of £326,000 was paid (2008: £86,000), being £0.0030 per share (2008: £0.00079).

Future prospects

The global energy market is continuing to give major concerns to governments, customers and companies operating in the energy industry. As directors of Guernsey Electricity Limited we share these concerns. The volatile costs in the global market are a severe risk which the company faces and manages on a daily basis. Although the directors are making efforts to minimise the impact on customers it was somewhat inevitable that charges to customers would have to increase. The price control decision determined by the Office of Utility Regulation (OUR) in February 2007 covers the four years from 1 April 2007 to 31 March 2011. Within that decision, tariff changes are provided for on 1 April. These changes reflect changes in non-controllable costs which are largely those relating to oil and import costs. After the first two years of this price control the OUR has determined that these additional costs relating to financial year 2007/08 only need to be shared with customers and this resulted in the decision to increase tariffs by 17% from 1 April 2009. Further income will be needed to address the continuing losses of the company. In all other respects our business activities are all making a positive contribution to the services we provide.

Customers

The number of customers as at 31 March 2009 is 28,934 (2008: 28,791).

Guernsey Electricity Limited

Directors' report - continued

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 55% (2008: 70%) of the island needs in the year ended 31 March 2009 and 45% (2008: 30%) was generated on the island, as shown by the units analysis below:

	2009	2008
Units imported MWh	**210,440**	257,093
Units generated MWh	**173,523**	110,655
Total units imported/generated MWh	**383,963**	367,748

Average price

The average price per kWh sold in the year ended 31 March 2009 was 9.89 pence (2008: 10.03 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost no minutes due to generation activity (2008: Nil minutes). However, 19.38 minutes were lost per customer in respect of distribution and the cable link (2008: 37.19 minutes).

Directors and their interests

The directors of the company who served during the year and to date are as detailed on page 1. The directors have no beneficial interests in the shares of the company.

Change to Guernsey Company Law

On 1 July 2008, The Companies (Guernsey) Law, 1994 was superseded by The Companies (Guernsey) Law, 2008. Under the transitional provision permitted by The Companies (Guernsey) Law, 2008, the company has prepared these financial statements in accordance with The Companies (Guernsey) Law, 1994. Future financial statements will be prepared in accordance with The Companies (Guernsey) Law, 2008.

Auditors

A resolution for the reappointment of KPMG Channel Islands Limited will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors

KA Gregson

I Watson
Directors
27 May 2009

Guernsey Electricity Limited

Corporate governance

Directors

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended the non-executive directors are appointed by the States of Guernsey on the nomination of the States of Guernsey Advisory & Finance Committee, now the Department of Treasury & Resources. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

The company is controlled through the Board of Directors, which currently comprises five non-executive and three executive directors. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on running the business and implementing strategy. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board monitors the exposure to key business risks and reviews the strategic direction. It also considers environmental and employee issues. The Board has established a number of standing sub-committees and each operates within defined terms of reference. The principal sub-committees are:

- Audit and Risk
- Land and Property
- Remuneration and Nominations

In addition senior management team meetings are held each fortnight.

Directors' remuneration

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended the remuneration of the non-executive directors is determined by the Department of Treasury & Resources. The remuneration of the executive directors is determined by the company's Remuneration and Nominations Committee, which comprises three non-executive directors.

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended provided for the States of Guernsey Advisory & Finance Committee (now Department of Treasury & Resources) to undertake on behalf of the States the role of shareholder. In accordance therewith the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Department of Treasury & Resources as nominees on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Department of Treasury & Resources on the policies it wishes to be pursued in fulfilling this role. Each year the company submits its forward plan to the Department of Treasury & Resources.

Guernsey Electricity Limited

Corporate governance - continued

Financial reporting

The company has a comprehensive system for reporting the financial performance of the company and each of its business units. Management and the Board of Directors review these monthly. The financial statements for the accounting period ending on the accounting reference date of 31 March are reviewed and signed on behalf of the Board of Directors, and will be presented to the shareholder at the forthcoming annual general meeting.

Internal control

An ongoing process for identifying, evaluating and managing the significant risks faced by the company is in place. The monitoring of this process is one responsibility of the Audit & Risk Sub-Committee and a system of developing the way in which the company captures and assesses its risks is in place.

Risk management

The Board of Directors has overall responsibility for identifying, evaluating and managing major business risks facing the company. A risk register is in place and this is administered by the Health, Safety & Risk Manager, who in turn gives regular updates to the Audit & Risk Sub-Committee providing assistance and assurance to the Board in these matters.

Compliance

All business units have well established compliance procedures.

IT systems

The company has established controls and procedures over the security of data held on IT systems and has in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by an independent consultant.

Internal audit

Internal audit has a continuing role in monitoring and reporting on business risks. This service continues to be provided by RSM Bentley Jennison, a leading entity in providing such services. The Finance Director, in association with RSM Bentley Jennison, report on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

Guernsey Electricity Limited

Statement of directors' responsibilities

The directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the revenue or deficit for that period and are in accordance with applicable laws and regulations. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Guernsey Electricity Limited

We have audited the financial statements ("the financial statements") of Guernsey Electricity Limited ("the Company") for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey law and UK accounting standards as set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and Corporate Governance statements and consider the implications for our report if we become aware of any apparent misstatements within them.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, of the state of the Company's affairs as at 31 March 2009 and of its loss for the year then ended; and

- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited

Chartered Accountants
Guernsey

2 June 2009

Guernsey Electricity Limited

Profit and loss account
for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Turnover	2	**39,379**	38,111
Cost of sales		**(32,315)**	(28,799)
Gross profit		**7,064**	9,312
Net operating expenses		**(10,060)**	(10,413)
Operating loss	4	**(2,996)**	(1,101)
(Loss)/profit on disposal of assets		**(88)**	74
Loss on ordinary activities before interest, other finance income and other income		**(3,084)**	(1,027)
Interest receivable	5	**1,015**	1,300
Interest payable	5	**(8)**	(12)
Other finance income	25	**341**	777
Other income	6	**137**	122
(Loss)/profit on ordinary activities before taxation		**(1,599)**	1,160
Taxation	7	**765**	(173)
(Loss)/profit for the financial year		**(834)**	987

All activities derive from continuing operations.

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses
for the year ended 31 March 2009

	Note	**2009 £'000**	2008 £'000
(Loss)/profit for the financial year		**(834)**	987
Actuarial (loss)/gain recognised in the pension scheme	*25*	**(10,025)**	5,070
Movement on deferred tax relating to pension deficit/(surplus)	*16*	**1,271**	(953)
Total recognised (loss)/gain for the year		**(9,588)**	5,104

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Balance sheet
at 31 March 2009

	Note	**2009 £'000**	2008 £'000
Tangible fixed assets	*9*	**93,263**	93,263
Investment	*10*	**1**	1
Current assets			
Stocks and work in progress	*11*	**4,698**	5,405
Debtors and prepayments	*12*	**7,189**	6,930
Balances with States Treasury	*13*	**13,718**	16,344
Cash at bank and in hand		**1,189**	169
		26,794	28,848
Creditors: amounts falling due within one year	*14*	**(6,812)**	(6,435)
Net current assets		**19,982**	22,413
Total assets less current liabilities		**113,246**	115,677
Creditors: amounts falling due after more than one year	*15*	**(2,857)**	(2,514)
Provision for liabilities and charges	*16*	**47**	(672)
Net pension (deficit)/surplus	*25*	**(5,818)**	2,041
Net assets including pension deficit/surplus		**104,618**	114,532
Share capital	*17*	**109,209**	109,209
Reserves	*21*	**(4,591)**	5,323
Shareholders' funds	*22*	**104,618**	114,532

The financial statements on pages 8 to 28 were approved by the Board of Directors on 27 May 2009.

Signed on behalf of the Board of Directors

KA Gregson

I Watson
Directors

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Cash flow statement
for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Net cash inflow from operating activities	*18*	**2,215**	913
Returns on investments and servicing of finance			
Interest received		**1,014**	1,300
Interest paid		**(8)**	(12)
Net cash inflow from returns on investments and servicing of finance		**1,006**	1,288
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(5,049)**	(6,420)
Proceeds of disposal of tangible fixed assets		**19**	318
Customers' contributions towards capital expenditure		**392**	717
Net cash outflow from capital expenditure and financial investment		**(4,638)**	(5,385)
Dividends paid		**(326)**	(86)
Net cash outflow before use of liquid resources and financing		**(1,743)**	(3,270)
Management of liquid resources			
Net cash movements with States Treasury		**2,626**	3,350
Other income	*6*	**137**	122
Net cash inflow from management of liquid resources		**2,763**	3,472
Increase in cash	*19 & 20*	**1,020**	202

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Notes to the financial statements
Year ended 31 March 2009

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Transfer of undertaking

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Company (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

Hire purchase

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

Interest

Interest receivable and payable are accounted for on an accruals basis.

Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted below.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2009

1. Principal accounting policies - continued

Tangible fixed assets and depreciation - continued

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition or on completion of construction. Any shortfall of depreciation arising on the disposal or write-off of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

		Estimated life in years
Buildings		40
Buildings Equipment		10
Cable Link		25
Plant and machinery	- Generation	25 – 30
	- Distribution	35
	- Street Lights	20
Distribution network comprising:		
Distributors		35
Meters		5 – 10
Cyclocontrol receivers		5
Motor vehicles		5
Furniture and equipment		3 – 10
Minor plant		5 – 10

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of goods held for resale a provision is made based on the time elapsed since the goods were purchased. Provision is made for other stocks relating to strategic plant based upon the remaining useful economic life of the assets to which they relate.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Deferred taxation

Provision for deferred tax is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. The pension scheme (deficit)/surplus shown in the accounts is net of the deferred tax (asset)/liability. Deferred tax assets and liabilities are not discounted.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

1. Principal accounting policies - continued

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

Financial instruments

The company enters into forward exchange contracts to mitigate a large percentage of the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. The company does not hold or issue financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil. Gains and losses are recognised in the profit and loss account.

Pension costs

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing current service cost and any past service cost is charged to the profit and loss account together with finance costs/income for the scheme which are charged/credited to the profit and loss account. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with FRS17.

Joint arrangements

The Channel Islands Electricity Grid Limited is a joint arrangement between the Jersey Electricity Company Limited and Guernsey Electricity Limited. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9") these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this joint arrangement where the company's entitlements are fully determined by contracts with the other party to the joint arrangement.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

2. Turnover

	2009 £'000	2008 £'000
Sales of electricity	**35,113**	34,197
Other sales	**4,266**	3,914
	39,379	38,111

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. With effect from 1 April 2009 the company will recover through the 17% tariff increase, non-controllable costs that arose in the financial year 2007/08 over and above the values allowed in the Office of Utility Regulation's final price control decision in February 2007. Similarly, the estimated value for 2008/09 costs to be recovered from 1 April 2010 is in the range £3 million to £4 million.

3. Cable link

The company previously had an ongoing obligation to its supplier, Electricité de France ("EdF"), to meet the cost of a minimum amount of electricity. Following the new pricing arrangements entered into with EdF, there is no longer a revenue commitment effective from 1 December 2005. The company remains committed to contribute towards the reinforcement of the French network. This liability is being satisfied by a revenue payment of approximately £110,000 per annum over the period of the contract.

4. Operating Loss

Operating loss is after charging/(crediting):

		2009 £'000	2008 £'000
Depreciation (note 9)		**4,974**	4,934
Investment impairment (note 10)		**-**	49
Rentals under operating leases		**11**	71
Auditors' remuneration	- statutory audit	**33**	30
	- non-audit services	**4**	-
Bad debts		**41**	20
Emoluments	- non-executive directors	**49**	51
	- executive directors (including pension)	**424**	425
Regulatory costs	- external (excluding non-audit services)	**241**	241
	- internal	**106**	85
Other operating income		**(479)**	(550)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

5. Interest

	2009	2008
	£'000	£'000
Interest receivable:		
Deposits with banks and States Treasury	**876**	1,152
Hire purchase	**139**	148
	1,015	1,300
Interest payable:		
Bank overdraft	**1**	2
Security deposits	**7**	10
	8	12

6. Other income

Of the £5,350,000 that the States of Guernsey Electricity Board had on deposit with the Bank of Credit and Commerce International when it ceased trading on 5 July 1991, £5,426,156 has been recovered. £136,565 was received in the current year (2008: £121,646). Distributions by the liquidator are denominated in US Dollars and therefore exposed to Sterling/Dollar fluctuation. This represents a full recovery of the original capital deposit together with interest.

7. Taxation

With effect from 1 January 2008, the standard rate of income tax for Guernsey companies has changed. Thereafter, the company will be taxed at a combination of the company standard rate of 0% and the company higher rate of 20%. Therefore the tax charge included in the financial statements is based on these rates. The tax adjusted profits of the company have been apportioned so that the appropriate amount is taxed at 20% and the new rates as applicable.

The company's profits or losses from the activities subject to licence from the Office of Utility Regulation will be chargeable to tax at the 20% rate, as will rental income from Guernsey properties. For all other company activities the zero rate is applicable.

The basis of assessment to Guernsey tax continues to be on an actual current year basis.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

7. Taxation - continued

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. With effect from 1 January 2008, various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate of 0% and the company higher rate of 20%. Deferred tax has been provided at 0% and 20% on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 12.6799% (2008: 18.8137%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2009.

The deferred tax (credit)/charge in the profit and loss account for the year is:

	2009 **£'000**	2008 £'000
Timing differences on capital allowances and depreciation	**234**	215
Short term timing differences (pension)	**(46)**	187
Short term timing differences (other)	**23**	(23)
Unrelieved trading losses	**(976)**	(206)
	(765)	173

8. Dividend

	2009 **£'000**	2008 £'000
Paid in the year, £0.0030 per share (2008: £0.00079 per share)	**326**	86

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

9. Tangible fixed assets

	1 April 2008 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2009 £'000**
Cost				
Land and buildings	28,404	988	14	**29,378**
Cable link	29,099	10	-	**29,109**
Plant and machinery:				
Generation	32,692	245	161	**32,776**
Distribution	8,783	549	-	**9,332**
Distribution network	21,511	2,704	137	**24,078**
Motor vehicles, furniture and equipment, minor plant	3,590	585	222	**3,953**
	124,079	5,081	534	**128,626**

	1 April 2008 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2009 £'000**
Depreciation				
Land and buildings	5,121	731	14	**5,838**
Cable link	7,701	1,271	-	**8,972**
Plant and machinery:				
Generation	10,248	1,471	60	**11,659**
Distribution	1,268	240	-	**1,508**
Distribution network	4,553	845	132	**5,266**
Motor vehicles, furniture and equipment, minor plant	1,925	416	221	**2,120**
	30,816	4,974	427	**35,363**
Net book value	93,263			**93,263**

Included above are assets in the course of construction of £2,986,000 (2008: £5,988,000), which are not depreciated.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

10. Investment

The company invested £250,000 in Marine Current Turbines Limited as part of its initiatives to keep abreast of the research and development of alternative energy sources. This investment is a minority interest and the holding is less than 5%. The benefits of this investment are spread over more than one year, and £Nil has been charged to the profit and loss account for impairment (2008: £49,000).

11. Stocks and work in progress

	2009		2008	
	£'000	**£'000**	£'000	£'000
Fuel stocks		**2,318**		3,019
Purchased goods for resale	**376**		346	
Provision	**(7)**	**369**	(5)	341
Other stocks	**2,938**		2,946	
Provision	**(1,175)**	**1,763**	(1,106)	1,840
Work in progress		**248**		205
		4,698		5,405

12. Debtors and prepayments

	2009	2008
	£'000	£'000
Estimated value of unbilled units	**3,793**	3,678
Customer accounts outstanding	**2,863**	2,741
Other debtors	**171**	150
Prepayments	**362**	361
	7,189	6,930

Included in "Customer accounts outstanding" is an amount of £291,000 (2008: £275,000) due after more than one year.

13. Balances with States Treasury

The treasury department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

14. Creditors: amounts falling due within one year

	2009 **£'000**	2008 £'000
Trade creditors	**2,287**	1,994
Customer payments received in advance	**3,116**	2,879
Employee taxes and Social Security	**155**	152
Deferred income	**96**	83
Accruals and other creditors	**1,158**	1,327
	6,812	6,435

The company has a £750,000 overdraft facility with Barclays Bank Plc (2008: £750,000), and interest is payable quarterly at 1% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. The facility is due for review on 1 August 2009.

15. Creditors: amounts falling due after more than one year

	2009 **£'000**	2008 £'000
Deferred income	**2,857**	2,514

16. Provision for liabilities and charges

	2009 **£'000**	2008 £'000
Deferred taxation:		
Balance at 1 April	**1,144**	18
Profit and loss account charge	**(765)**	173
Statement of total recognised gains and losses	**(1,271)**	953
Balance at 31 March	**(892)**	1,144
Which comprises:		
Capital allowances in excess of depreciation	**7,297**	7,063
Short-term timing differences (other)	**(53)**	(76)
Unrelieved trading loss for tax purposes	**(7,291)**	(6,315)
Provision for liabilities and charges	**(47)**	672
Deferred tax (asset)/liability on pension deficit (note 25)	**(845)**	472

17. Share capital

	2009 **£'000**	2008 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
109,208,844 ordinary shares of £1 each	**109,209**	109,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

18. Reconciliation of operating loss to net cash inflow from operating activities

	2009 £'000	2008 £'000
Operating loss	**(2,996)**	(1,101)
Depreciation charge	**4,974**	4,934
Pension service cost	**1,015**	1,481
Employer's pension cash contributions	**(1,523)**	(1,487)
Investment impairment	**-**	49
Deferred income	**(95)**	(92)
Decrease/(increase) in stocks and work in progress	**707**	(1,371)
Increase in debtors and prepayments	**(259)**	(1,486)
Increase/(decrease) in creditors	**392**	(14)
	2,215	913

19. Reconciliation of net cash flow to movement in net funds

	2009 £'000	2008 £'000
Increase in cash in the year	**1,020**	202
Cash used to decrease liquid resources	**(2,626)**	(3,350)
Change in net funds	**(1,606)**	(3,148)
Net funds at 1 April	**16,513**	19,661
Net funds at 31 March	**14,907**	16,513

20. Analysis of changes in net funds

	At 1 April 2008 £'000	Cash flows £'000	**At 31 March 2009 £'000**
Cash			
Cash at bank and in hand	169	1,020	**1,189**
	169	1,020	**1,189**
Balances with States Treasury	16,344	(2,626)	**13,718**
	16,513	(1,606)	**14,907**

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

21. Reserves

	2009 £'000	2008 £'000
Balance at 1 April brought forward	**5,323**	305
(Loss)/profit for the financial year	**(834)**	987
Dividend	**(326)**	(86)
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension (deficit)/surplus	**(8,754)**	4,117
Balance at 31 March carried forward	**(4,591)**	5,323

22. Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Shareholders' funds at 1 April brought forward	**114,532**	109,514
(Loss)/profit for the financial year	**(834)**	987
Dividend	**(326)**	(86)
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension (deficit)/surplus	**(8,754)**	4,117
Shareholders' funds at 31 March	**104,618**	114,532

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

23. Commitments

Capital commitments for which no provision has been made in these financial statements amounted to £4,861,000 as at 31 March 2009 (2008: £4,730,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Operating lease commitments

Commitments to make payments during the next year in respect of an operating lease are as follows:

	2009 £'000	2008 £'000
Land and Buildings		
Lease which expires:		
Within one year	**9**	-
Within two to five years	**-**	11

24. Financial instruments

(a) Import Financial Hedge

Our import contract with EdF is denominated in Euros. The company has entered into forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2009 €'000	2008 €'000
Forward contracts to purchase Euro	**6,835**	5,770
	£'000	£'000
Contracted prices	**5,419**	4,256
Closing value at 31 March	**6,305**	4,593
Unrecognised and unrealised gains	**886**	337

All forward contracts mature within eighteen months of the balance sheet date.

The sterling/euro rate at 31 March 2009 was 1.084 (2008: 1.2561).

(b) On-island Generation Financial Hedge

The company has entered into a financial hedge on the commodity price of heavy fuel oil used for its on-island generation. The commitment to this is for an annual volume for calendar year 2009 of 48,000 metric tonnes at quarterly prices ranging from US$248 per tonne to US$312 per tonne. Subsequent to the balance sheet date the company has also entered a US Dollar hedge for a proportion of its risk as the oil contract price has US Dollars inherent in the pricing that is contracted with the supplier.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2009

25. Pension Scheme

Employee benefit obligations for Guernsey Electricity Limited

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme (PSPS). This is a defined benefits pension scheme funded by contributions from both employer and employee to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and therefore the value of the pension fund assets and liabilities attributable to this company. The triennial valuation at 31 December 2007 recommended the increase of employer's contribution from 16.3% to 17.3% from 1 April 2009 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2009 to 31 March 2010 are estimated at £1,263,000. In recognising that further contribution was required to reduce the past service deficit, it was resolved by the Board of Directors to reduce the deficit by lump sums over a period of years. An additional sum of £400,000 has been provided for this year (2008: £400,000).

Description of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund ("the Fund")

The Fund is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") Retirement Benefits on the following basis:

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

25. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2009 £'000	2008 £'000
Fair value of Fund assets	28,610	35,868
Present value of funded obligations	(35,273)	(33,355)
(Deficit)/surplus in scheme	(6,663)	2,513
Related deferred tax asset/(liability)	845	(472)
Net pension (liability)/asset	(5,818)	2,041

Amounts in the balance sheet

	2009	2008
Assets	-	2,041
Liabilities	(5,818)	-
Net pension (liability)/asset	(5,818)	2,041

The amounts recognised in the profit and loss account are as follows:

	2009 £'000	2008 (restated) £'000
Current service cost	1,015	1,359
Interest on obligation	2,208	1,965
Expected return on Fund assets	(2,549)	(2,620)
Expense recognised in the profit and loss	674	704
Actual return on Fund assets	(8,255)	104

In accordance with the UK Accounting Standards Board published amendment to FRS17, administration expenses which are paid directly by the company's actuarial account, are allowed for by a deduction from the "Expected return on Fund assets" instead of being included in the "Current service cost" and the FRS17 disclosures as at 31 March 2008 have been restated to this effect. Other finance income of £341,000 represents the difference between the "Expected return on Fund assets" and the "Interest on obligation" (2008: £655,000 restated).

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2009

25. Pension Scheme - continued

Changes in the present value of the defined benefit obligation are as follows:

	2009 £'000	2008 (restated) £'000
Opening defined benefit obligation	**33,355**	38,055
Service cost	**1,015**	1,359
Interest cost	**2,208**	1,965
Contributions by members	**467**	410
Actuarial gains	**(780)**	(7,585)
Benefits paid	**(992)**	(849)
Closing defined benefit obligation	**35,273**	33,355

Changes in the fair value of Fund assets are as follows:

	2009 £'000	2008 (restated) £'000
Opening fair value of Fund assets	**35,868**	34,715
Expected return	**2,549**	2,620
Actuarial losses	**(10,805)**	(2,515)
Contributions by employer	**1,523**	1,487
Contributions by members	**467**	410
Benefits paid	**(992)**	(849)
Closing fair value of Fund assets	**28,610**	35,868

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):

	2009 £'000	2008 £'000
Total actuarial (losses)/gains	**(10,025)**	5,070
Total (loss)/gain recognised in STRGL	**(10,025)**	5,070
Cumulative amount of loss recognised in STRGL	**(10,967)**	(942)

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2009

25. Pension Scheme - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2009	2008
	%	%
Equities	**66**	80
Gilts	**7**	3
Corporate bonds	**5**	6
Index linked bonds	**14**	10
Other assets	**8**	1

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	31 March 2009	31 March 2008
	% p.a.	% p.a.
Discount rate	**6.5**	6.7
Expected return on Fund assets at 31 March (for following year)	**6.5**	7.4
Rate of increase in pensionable salaries	**4.5**	5.1
Rate of increase in deferred pensions	**3.0**	3.6
Rate of increase in pensions in payment	**3.0**	3.6

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 89 if female.

Description of the basis used to determine the expected rate of return on the assets

The company adopts a building block approach in determining the expected rate of return of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Notes to the financial statements - continued

Year ended 31 March 2009

25. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**35,273**	33,355	38,055	35,633	30,166
Fund assets	**28,610**	35,868	34,715	32,247	25,266
(Deficit)/surplus	**(6,663)**	2,513	(3,340)	(3,386)	(4,940)
Experience (losses)/gains on Fund assets	**(10,805)**	(2,515)	(933)	4,000	675
Experience gains/(losses) on Fund liabilities	**426**	659	(884)	791	2,039

The Fund assets for the years ended 31 March 2005, 2006, 2007 and 2008 have not been restated to bid value (i.e. they are mid market value).

26. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

27. Related party transactions

There are no disclosable related party transactions in this financial year.

Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.