



BILLET D'ÉTAT

WEDNESDAY 27th APRIL 2011

VI
2011

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B I L L E T D ' É T A T

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE**, on **WEDNESDAY**, the **27th APRIL, 2011** at 9.30am, to consider the items contained in this Billet d'État which have been submitted for debate.

G. R. ROWLAND
Bailiff and Presiding Officer

The Royal Court House
Guernsey
18 March 2011

PROJET DE LOI

entitled

THE INCOME TAX (PENSION AMENDMENTS) (GUERNSEY) LAW, 2011

The States are asked to decide:-

- I.-
1. Whether they are of the opinion to approve the Projet de Loi entitled “The Income Tax (Pension Amendments) (Guernsey) Law, 2011” and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.
 2. Considering it expedient in the public interest so to do, to declare, pursuant to section 1 of the Taxes & Duties (Provisional Effect) (Guernsey) Law, 1992, that the said Projet de Loi shall have effect on and from 27th April, 2011 and in respect of any year of charge after 2010, as if it were a Law sanctioned by Her Majesty in Council and registered on the records of the Island of Guernsey.

PROJET DE LOI

entitled

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

The States are asked to decide:-

- II.- Whether they are of the opinion to approve the Projet de Loi entitled “The Terrorist Asset-Freezing (Bailiwick of Guernsey) Law, 2011” and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.

**THE INCOME TAX (EXEMPTION OF BENEFITS)
(AMENDMENT) ORDINANCE, 2011**

The States are asked to decide:-

- III.- Whether they are of the opinion to approve the draft Ordinance entitled “The Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

**THE EVIDENCE IN CIVIL PROCEEDINGS (GUERNSEY AND ALDERNEY)
LAW, 2009 (COMMENCEMENT) ORDINANCE, 2011**

The States are asked to decide:-

IV.- Whether they are of the opinion to approve the draft Ordinance entitled “The Evidence in Civil Proceedings (Guernsey and Alderney) Law, 2009 (Commencement) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

**THE LIVE-LINK EVIDENCE IN CIVIL PROCEEDINGS
(GUERNSEY AND ALDERNEY) ORDINANCE, 2011**

The States are asked to decide:-

V.- Whether they are of the opinion to approve the draft Ordinance entitled “The Live-Link Evidence in Civil Proceedings (Guernsey and Alderney) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

TREASURY AND RESOURCES DEPARTMENTAPPOINTMENT OF NON-EXECUTIVE DIRECTORS
GUERNSEY POST LIMITED

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

31st January 2011

Dear Sir

Under the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, non-executive directors of a States Trading Company shall be appointed by the States on the nomination of the Treasury and Resources Department.

The Treasury and Resources Department is recommending the appointment of two new non-executive directors of Guernsey Post Limited, Mr Simon Milsted and Mr Stuart Le Maitre, who have both agreed that their names can be put forward.

Mr Jeff Kitts is retiring, with effect from 31 March 2011, as one of the five non-executive directors on the Board of the Guernsey Post Limited. The Treasury and Resources Department would like to express its appreciation to Mr Kitts for his contribution during his tenure as a non-executive director.

It is essential for the good corporate governance of the States Trading Companies that the non-executive directors on the Board have, between them, wide experience of all areas of the Company's business. It is proposed to increase the number of non-executive directors on the Board of Guernsey Post Limited to six. The two nominees, Mr Milsted and Mr Le Maitre, have extensive experience and it is considered that their appointment will complement and enhance the skill set of the Board.

Mr Simon Milsted, a qualified Chartered Accountant with substantial UK business experience, has recently moved to Guernsey. He was Chairman of Milsted Langdon for five years, a firm of Chartered Accountants he founded in 1988, from 1995 to 2010 was Chairman of the BSI Group Limited; a business process outsourcer in the business travel sector and has acted as an advisor to two other UK companies. He served on the Board of Governors of Taunton Public School from 2005 to 2010.

Mr Stuart Le Maitre was educated in Guernsey and from 1989 to 2006 was employed in the Civil Service mainly with the Board of Industry/Commerce and Employment Department and he therefore has experience of the workings of the States of Guernsey and the Office of Utility Regulation

Mr Le Maitre is a Chartered Director, he currently serves on the Board of Directors of Elizabeth College and is Chairman of the Tax on Real Property Appeals Panel and also has a very senior, part-time position within the Medical Specialist Group.

Recommendation

The Treasury and Resources Department recommends the States, in accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, to:

- (a) appoint Simon Milsted as a non-executive director of Guernsey Post Limited.
- (b) appoint Stuart Le Maitre as a non-executive director of Guernsey Post Limited.

Yours faithfully

C N K Parkinson
Minister

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

The States are asked to decide:-

VI.- Whether, after consideration of a Report dated 31st January, 2011, of the Treasury and Resources Department, they are of the opinion:-

In accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, to appoint

1. Simon Milsted as a non-executive director of Guernsey Post Limited.
2. Stuart Le Maitre as a non-executive director of Guernsey Post Limited.

HOUSING DEPARTMENT

HOUSING (CONTROL OF OCCUPATION) (GUERNSEY) LAW, 1994 REQUEST FOR FURTHER EXTENSION

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

20th January 2011

Dear Sir

1. Executive Summary

- 1.1. The purpose of this report is to seek approval for a further extension to the Housing (Control of Occupation) (Guernsey) Law, 1994. The Law came into force on 1 July 1994 and was first due to expire on 30 June 2004. The Law has been extended on a number of occasions and is currently due to expire on 31 December 2011.
- 1.2. At the time of writing, the Policy Council has commenced an Island-wide consultation on proposals for a new population management regime as developed by the Policy Council's Population Policy Group (PPG). Based on that consultation, the Policy Council will bring forward firm proposals on what it considers is the best population management regime for the Island; however, whatever regime is ultimately put forward, the Policy Council has advised that the legislation and associated management framework will not be able to be put in place before the expiry of the Housing Control Law at the end of this year.
- 1.3. Consequently, unless a further extension is agreed, the ramifications of the expiry of the Law would include the absence of any mechanism by which to control the occupation of the Island's housing stock; and the inability to continue to administer the Right to Work Law (as these two pieces of legislation are intrinsically linked).
- 1.4. Furthermore, given that the Housing Control Law is the primary means by which the Island's population is currently managed, it is necessary for the Housing Department to seek a further extension of the Housing Control Law to ensure that there is a means to manage population while the Policy Council completes its work.

- 1.5. In light of the indicative timescale provided by the Policy Council and the ensuing legislative and other work (referred to in paragraphs 4.3 and 5.1), the Housing Department recommends that the Housing Control Law be extended for a further 2 years – i.e. until 31 December 2013.

2. Introduction

- 2.1. Since its first introduction in 1948, the Housing Control Law, in its various guises, has always been time limited. Historically, although not always in advance of the initial expiry date of the various Laws, a review of the Law has taken place; changes have been proposed and have variously been amended and/or agreed by the States; and a replacement Housing Control Law has been put in place.
- 2.2. At the time of its commencement, the Housing (Control of Occupation) (Guernsey) Law, 1994, was due to expire on 30 June 2004. However, for the reasons set out in full in Appendix I, the Law has been extended on four separate occasions¹.
- 2.3. The most recent of those extensions, agreed by the States in November 2008², was based on the advice of the Policy Council with regard to the likely timescale for the completion of the PPG's research into the most appropriate population management regime for the Island.
- 2.4. As a result of that extension, the present Law is due to expire on 31 December 2011.

3. The Work of the Population Policy Group

- 3.1. As indicated at the time of the most recent extension, it had been hoped that that the work of the PPG would be sufficiently advanced that its proposals for a population management regime, and thus the long-term future of the Housing Control regime, would have been brought to the States for debate ahead of the expiry date of the Law.
- 3.2. Indeed, in an effort to ensure this, the States resolved in November 2008 to instruct the Policy Council to increase the level of staffing available to the PPG to a level reflecting "the urgency of the work streams assigned to that group."
- 3.3. In response to this, a senior officer was appointed as principal advisor to the PPG and has been assisted by a team of other senior civil servants from various

¹ Aside from these extensions, the provisions of the Housing (Control of Occupation) (Guernsey) Law, 1994 have been amended on a number of occasions since its introduction; for example, to permit the introduction of charges for the processing of applications for certain types of documents and to provide that appeals be heard in the Ordinary Court as opposed to the Royal Court. Collectively, the Law and its amendments is referred to as the Housing (Control of Occupation) (Guernsey) Laws, 1994 to 2008.

² Billet d'État XV, November 2008.

departments - including Housing - to progress the PPG's work, which they have done assiduously.

- 3.4. States Members have been kept apprised of the progress of the PPG through both their attendance at special workshops and through updates in the States Strategic Plan (which are reproduced in full in Appendix II.)

4. Public consultation

- 4.1. As part of the States Strategic Plan 2009 – 2013³, the PPG indicated the likely timeframe required for it to conclude its work and for the Policy Council to make formal proposals to the States for debate. At that time, it was indicated that the Policy Council planned to report to the States in early 2010. However, given the enormity and complexity of the work being undertaken, this timetable proved unachievable.

- 4.2. At the time of writing, the PPG's consultation process has just begun. Following the consultation period, the Policy Council has informed the Housing Department that it anticipates that the PPG will require a further 4-6 months to produce a report of its proposals and recommendations for consideration by the Policy Council.

- 4.3. Therefore, it will be the final quarter of 2011, at the earliest, before the Policy Council is in a position to bring firm proposals to the States with regard to its recommended population management regime for the Island. (NB The Policy Council has made it clear that until the PPG has fully analysed the feedback from the consultation process, the above timescale is only indicative.)

5. Further Extension of the Housing Control Law

- 5.1. Clearly, on the assumption that the Policy Council's recommendations are agreed by the States, before any regime is capable of being implemented there will still be much work to do to draft the necessary legislation and establish the associated management framework. In the meantime, if it is not extended further, the Housing Control Law will expire on 31 December 2011.

- 5.2. Consequently, unless a further extension is agreed, the ramifications of the expiry of the Law would include the absence of any mechanism by which to control the occupation of the Island's housing stock; and the inability to continue to administer the Right to Work Law (as these two pieces of legislation are intrinsically linked).

- 5.3. Furthermore, given that the Housing Control Law is the primary means by which the Island's population is currently managed, it is necessary for the Housing Department to seek a further extension of the Housing Control Law to ensure

³ Billet d'État XXVI, October 2009.

that there is a means to manage population while the actions identified above are carried out.

- 5.4. In light of the indicative timescale provided by the Policy Council and the ensuing legislative and other work (referred to in paragraphs 4.3 and 5.1), the Housing Department recommends that the Housing Control Law be extended for a further 2 years – i.e. until 31 December 2013.

6. Consultation with the Law Officers of the Crown

- 6.1. The contents of this report have been discussed with the Law Officers of the Crown.

7. Recommendation

- 7.1. **The Housing Department recommends the States to agree to the preparation of an Ordinance to enable the Housing (Control of Occupation) (Guernsey) Laws, 1994 to 2008, to remain in force until 31 December 2013.**

Yours faithfully

D Jones
Minister

APPENDIX I

**HOUSING (CONTROL OF OCCUPATION) (GUERNSEY) LAW, 1994
REASONS FOR PREVIOUS EXTENSIONS**

1. The extension of 2004

- 1.1. In a report dated 12 December 2003⁴, the then Housing Authority stated that it had completed a review of the Open Market elements of the Housing Control Law, which had been considered by the States at their meeting of 14 March 2001⁵. Consequently, only the provisions of the Law relating to occupation of Local Market dwellings remained to be reviewed.
- 1.2. The Authority went on to say that its full review of the remaining provisions of the Law had been well-advanced, enabling a replacement to come into force upon the expiry of the existing Law; however, the Authority's timetable for reporting on the outcome of this review had been severely disrupted because of its previous undertaking to deal separately with the provisions relating to the checking of criminal convictions, and to make this element the subject of a special report to the States.
- 1.3. The Authority thus advised that, following consultations at political level, a staff-level working party comprising representatives from all the interested parties had been established, under the chairmanship of HM Procureur, for the purpose of investigating this matter and making suitable recommendations for onward transmission to the States. However, because these inter-committee discussions were still at an early stage, it would not be possible to submit a report to the States in time for any resultant new Law to come into force in July 2004.
- 1.4. Accordingly, the Authority proposed - and the States agreed - to extend the Housing Control Law, 1994 for a period of one year, i.e. until 30 June 2005.

2. The extension of 2005

- 2.1. In a report dated 17 January 2005⁶, the Housing Department explained that it would not be in a position to bring into being a new Housing Control Law by 30 June 2005. The two reasons given for this were that:
- i. the working party established under the chairmanship of the then HM Procureur in order to investigate the issue of criminal conviction checks was not, at the time of writing, in a position to report its findings; and

⁴ Billet d'État I, January 2004.

⁵ Billet d'État III, February 2001.

⁶ Billet d'État III, March 2005.

- ii. upon the advice of HM Procureur, the Housing Department had decided to take comprehensive advice from an expert UK human rights lawyer on all aspects of the Law. His written opinion was in the process of being finalised and the Department wished to have the full benefit of his views before concluding its review of the Law.
- 2.2. Owing to the above, the Housing Department proposed - and the States agreed - to extend the Housing Control Law for a further period of two years, i.e. until 30 June 2007.
 - 2.3. At that time it was expected that this would enable the Department to report to the States with recommendations on the checking of criminal convictions and also to complete its review of the Law with the benefit of additional expert legal advice to ensure its robustness.
 - 2.4. The Department went on to say that a further unintended benefit of the delay would be the opportunity to consider the relationship between the new Housing Control Law and the new States' population objective, which was then being developed through the Policy Council's Strategic Population Review Group.

3. The extension of 2007

- 3.1. After considerable delay (much of which was attributable to attempts to resolve the issue of criminal conviction checks), the Policy Council came forward with a report on a new strategic population and migration policy, which was published in the Billet d'État for February 2007⁷. This report was based on work undertaken by the Policy Council's Strategic Population Review Group which had assumed responsibility for all population policy matters, including reviewing the issue of criminal conviction checks.
- 3.2. This report was accompanied by a separate but related report, also from the Policy Council, the purpose of which was to determine whether it was necessary to introduce a new system of population management, or whether the Housing Control and Right to Work Laws should continue to be used for this purpose, with modifications where appropriate. In particular, the report on "Controls on Housing/Population" assessed the strengths and weaknesses of the Housing Control regime, and evaluated the potential for the introduction of residence permits and work permits, to supplement or replace housing controls.
- 3.3. Although published in January 2007, the debate of both reports was further delayed until April 2007, as a result of the resignation of the Policy Council in the wake of the Welsh Audit Office inquiry into the development of the new Clinical Block at the Princess Elizabeth Hospital.
- 3.4. Then, immediately prior to the planned debate in April 2007, there was a high profile court case which raised a number of significant issues about the

⁷ Billet d'État IV, February 2007.

application of the Housing Control Law following the Human Rights (Guernsey) Law, 2001 coming into force in 2006. As a result, the report entitled “Controls on Housing/Population” was never considered by the States, as it was withdrawn while the ramifications of that court case were investigated⁸.

- 3.5. However, even before this occurred, the ongoing uncertainty over which system of population management the States wished to pursue had already meant that it would not be possible for the existing Law to be reviewed and replaced before it was due to expire at the end of June 2007. As a result, the States agreed in March 2007 that the Housing Control Law should be further extended by two years - i.e. to expire on 30 June 2009.

4. The extension of 2008

- 4.1. Following the 2008 General Election, the Policy Council established the Population Policy Group (PPG) to take forward work begun by the Labour Utilisation Strategy Group (LUSG)⁹. It was based on the advice of the PPG with regard to the likely timescale for the completion of its work that the Housing Department recommended - and the States agreed - a further extension of the Housing Control Law – until 31 December 2011¹⁰.

⁸ Paragraphs 4.1-4.8 of that report outlined the attempts to resolve the matter of criminal convictions checks, concluding: “... *that if any measures are to be introduced to protect Guernsey from persons seeking to enter who are not conducive to the public good, then such measures should be formulated and implemented by the Home Department, which is mandated to deal with law and order issues.*”

⁹ In November 2007 The Policy Council created the LUSG as a successor to the Strategic Population Review Group. The PPG assumed many of the work streams in the LUSG’s mandate.

¹⁰ Billet d’État XV, November 2008.

APPENDIX II

**STATES STRATEGIC PLAN
REFERENCES TO THE WORK OF THE
POPULATION POLICY GROUP**

Extract from States Strategic Plan 2009 – 2013¹¹

“APPENDIX 3 – SUMMARIES OF ISLAND RESOURCE PLANS

Population Management

The overriding priority for the Population Policy Group (PPG) is to develop a clear, consistent legal framework for the management of migration and settlement in Guernsey by the time the existing Housing Control laws expire towards the end of 2011. The proposals which are being developed by the PPG are set in the context of the Island’s current population challenges and will seek to balance the needs of the Island’s economy and States commitment to safeguard Guernsey’s way of life and its environment.

The Group is taking a two stage approach, concentrating initially on the mechanism through which acceptable levels of migration will be implemented by means of a new legal and administrative framework that is responsive over the long term to changes in States priorities and changing circumstances (for example the Island’s demographic, economic and social circumstances at a particular point in time). Once an acceptable and workable alternative to the current arrangements has been established the Group will turn its attention to the strategic objectives that the new proposals might seek to deliver.

Over the course of the last year the PPG:

- Has reviewed the population management regimes of other Crown Dependencies and British Overseas Territories;
- Has developed core principles upon which the future regime might be based and which will form the subject of future consultation;
- Has begun to develop details of a new population management regime and to test the extent to which that approach might be compatible with the Island’s domestic and international obligations.

A series of workshops for States Members and other interested groups is planned for the late Autumn of 2009 with the intention of presenting a Green Paper to the States earlier [sic] in 2010.”

¹¹ Billet d’État XXVI, October 2009.

Extract from States Strategic Plan 2010 – 2015¹²

“APPENDIX 3

Population Management

In the States Strategic Plan 2009 - 2013, the Policy Council provided an update on the work of its sub-group, the Population Policy Group, to establish a new legal and administrative framework for the management of the population in Guernsey. Since that time, a number of areas of that development work have progressed.

The proposals which are being developed are set in the context of the Island’s future population challenges and will seek to provide a robust and sustainable mechanism that is responsive to changes in the Island’s demographic, economic, environmental and social circumstances over time. The Population Policy Group has defined five key objectives which its proposals will seek to achieve.

The new regime will need to be:

- 1 Legally robust and designed to meet the Island’s domestic and international obligations.
- 2 Capable of operating within the context of the policies and priorities identified in the States Strategic Plan and flexible enough to enable the States to respond quickly to any changes in them.
- 3 Supported by an efficient and flexible administrative process that supports objectives of maintaining Guernsey as an attractive place to live, to work and to do business. The process must not deter people from using it and it should avoid being unnecessarily complex and bureaucratic.
- 4 Capable of providing regular population statistics. This will allow the monitoring of changes in the population level and the extent to which the new regime is effective in managing changes in the population. Informed decisions can then be made on what policies need to be adjusted to take account of changes in the population.
- 5 Transparent with well publicised policies, procedures and rules. The public need to be able to understand how and why decisions are being made.

The Group has developed its proposals over the last year to the point where, at the time of writing, a public consultation exercise is being planned which will be launched later this year. The consultation process sets out draft proposals, including various options which could be considered as part of a future population management regime.

The consultation process will last for 12 weeks. The feedback obtained will then be analysed and taken into account as the Population Policy Group prepares final proposals which will then be brought forward to the States at the earliest opportunity.”

¹² Billet d’État XIX, September 2010.

(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:-

VII.- Whether, after consideration of the Report dated 20th January, 2011, of the Housing Department, they are of the opinion:-

1. To agree to the preparation of an Ordinance to enable the Housing (Control of Occupation) (Guernsey) Laws, 1994 to 2008, to remain in force until 31 December 2013.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

HEALTH AND SOCIAL SERVICES DEPARTMENT

THE CHILD PROTECTION (GUERNSEY) LAW, 1972 – DEFINITION OF REGULATED CARE

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

28th February 2011

Dear Sir

EXECUTIVE SUMMARY

1. During the course of preparing to introduce fees in connection with registrations of child care services, an anomaly has been identified between what those performing child care inspections do in practice and what the current legislation prescribes. This Report proposes a simple amendment to the Child Protection (Guernsey) Law, 1972 in order to clarify that the scope of regulation of child care should in future be confined to childminders and care centres providing care for children who are under five years old.

BACKGROUND

2. The Health and Social Services Department's Early Years Service registers and inspects the activities of registered childminders, nurseries, pre-schools and crèches.
3. The Service's inspectors only regulate those businesses which take in children under the age of five years old. Indeed, the Department believes that this has been the consistent practice since the 1972 Law first entered into force.
4. Businesses taking in children where all of them are five years or older, ie, none is below five years of age, have historically been treated as exempt from the need to register.
5. Section 15 of the Child Protection (Guernsey) Law, 1972 specifies the situations where a person engaging in child care activities must be registered.
6. Where the activities are those of a person commonly referred to as a *childminder*, the position is clear. Section 15 expressly states that people who take *children under five* into their homes need to be registered. Because the

provision is explicit in relation to age, it means that those who take in children aged five or older do not need to seek registration.

7. However, where the activities involve looking after children on premises other than those wholly or mainly used as private dwellings, commonly referred to as *care centres* (i.e. nurseries, pre-schools and crèches), section 15 does not make reference to children of any particular age. Consequently, by reference to the general definition of “child” for these purposes, the obligation to register applies to any premises in which any child who has not attained the upper limit of the compulsory school age is looked after for at least two hours on a given day.
8. The difference between the registration obligations for childminders and care centres has not been applied in practice. Both the former Children Board and, since May 2004, the Department have applied the “under five” qualification to both categories.
9. Section 18(1) of the 1972 Law makes it an offence for an occupier of premises to receive children in the circumstances set out in section 15(1)(a) unless those premises are registered. The implication from the practice historically adopted is that organisations taking in children where all of them are above the age of five (e.g. after school clubs) have never been registered, as required, and it now appears that, through misapplying the statutory requirements, they have been breaking the law.

OPTIONS CONSIDERED

10. Having identified that the requirements of the 1972 Law were not being applied, the Department considered whether the underlying policy requiring all such care centres to be registered remained valid. If the Law were now strictly applied it would necessitate regulating, for example, after school clubs. The resources available in this area are limited and there is no realistic scope to re-deploy resources from other areas. The inspectorate is tightly stretched to regulate what it currently regulates and, in the absence of any justification to extend regulation to those other care centres, a bid for extra resources would inevitably be rejected.
11. The Department concluded that extending the current approach to be consistent with the Law would be inappropriate because it does not believe that one category of child care should be subjected to a different extent of regulation from the other. The issue of whether the care is provided in domestic or non-domestic premises is potentially relevant to the set of standards to apply when considering whether to grant or refuse, or maintain, registration, but it is not in itself significant in determining whether the child care activities should fall within the scope of legislation. Instead, maintaining a consistent age limit for all premises, as has been applied in practice, is believed to be the better course of action. The age of a child being cared for has a direct impact on the risk associated with carrying on that activity. Under five centres theoretically pose the greatest risk.

12. Following the enactment of the Children (Guernsey and Alderney) Law, 2008, the Department has the long term intention to propose further legislation extending the age limits in respect of child care under the 1972 Law so that, in the future, *all forms of child care in relation to children up to the age of eight years old will be regulated*. However, the Department recognises that this will be a major service development. Its timing will depend on the financial climate and the availability of funding for the additional resources needed. At the moment, it is appreciated that there are higher priorities.
13. Accordingly, the Department concluded that it would be premature to increase the age limits at this stage, but intends to review them at some point in near future (most likely within the next five years). Whilst it may have been possible to delay taking action until such time as that wider review is undertaken, the Department feels that a delay of several years is too long to perpetuate the current unequal application of the registration requirements. Given that the required remedial legislation is quite straightforward, the Department favours rectifying the issue as soon as possible.
14. Having given consideration to the alternatives, the Department is firmly of the view that the only option is to amend the 1972 Law so that it is made consistent with current, and long-standing, practice. To achieve this end, the age limit relating to the requirement to obtain the registration of premises used as a care centre should be amended so that it applies only where children under the age of five are being cared for. By virtue of the enabling powers contained in the 2008 Law, this amendment can be made by way of an Ordinance.

CONSULTATION

15. The Law Officers Chambers have been consulted on the contents of this Report.

RECOMMENDATIONS

16. The Health and Social Services Department recommends the States:
 - i) to agree that the Child Protection (Guernsey) Law, 1972 should be amended to provide that the requirement for registration of premises known as care centres where children are received to be looked after shall apply only where this involves any child who is under five years old; and
 - ii) to direct the drafting of appropriate legislation.

Yours faithfully

A H Adam
Minister

(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:-

VIII.- Whether, after consideration of the Report dated 28th February, 2011, of the Health and Social Services Department, they are of the opinion:-

1. That the Child Protection (Guernsey) Law 1972 shall be amended to provide that the requirement for registration of premises known as care centres where children are received to be looked after shall apply only where this involves any child who is under five years old.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

PUBLIC ACCOUNTS COMMITTEE

REVIEW INTO THE INVESTMENTS OF THE STATES OF GUERNSEY

The Presiding Officer
The States of Guernsey
Royal Court House
St Peter Port
GY1 2PB

28th February 2011

Dear Sir

1. EXECUTIVE SUMMARY

- 1.1 The Public Accounts Committee (“the Committee”) in 2007 resolved to investigate investment of funds by certain States Departments as an area to review. Between them, the Treasury and Resources and Social Security Departments hold investments and cash of around £2 billion. In view of the size of these funds and their importance to Guernsey, the Committee resolved to investigate whether the governance and management of these funds were robust and in line with best practice.
- 1.2 Following the setting up of its framework agreement in 2008, the Committee appointed PricewaterhouseCoopers CI LLP (“PwC”) to carry out a review to seek assurances that the funds held by the States are secure and safe while maximising returns for appropriate levels of risk. PwC carried out its work in 2009 and the report they prepared is included as Appendix Three. In February 2010 the Committee held a hearing on the PwC report and this report is based on the PwC report findings, the evidence given at that hearing, an update on the progress made in implementing the recommendations and other evidence gathered.
- 1.3 The Treasury and Resources Department (“T&R”) is mandated to be responsible for the management of financial assets including cash and other investments and associated activities. The funds under its care are the Superannuation Fund, the Contingency Reserve Fund and the General Revenue Cash Pool. The Social Security Department (“SSD”) is accountable for the investment of one fund entitled the Common Investment Fund in accordance with extant legislation. The Committee questioned why the funds were held in this way and understands that following completion of the review, the two Departments began to work closely together to standardise the approach to investments.

- 1.4 Originally agreed by the States in October 2006¹ in respect of the Superannuation Fund and the Common Investment Fund, the permitted investments of funds held by T&R for the Superannuation and Contingency Reserve Funds have since been amended and a report is made to the States as part of the budget. Although SSD operates under legislation conferring upon it the control and management of the Common Investment Fund, there has been no recent report to update the States on the permitted investments in respect of this Fund. There is no reporting at all of the permitted investments for the General Revenue Cash Pool. As the States are ultimately responsible, they should be made aware of the permitted investments in respect of all of these Funds annually through the Annual Accounts.
- 1.5 As systems in the two Departments have historically been developed independently of one another, it is inevitable that there are differences in the way investments are controlled and the performance of investment managers and other external providers is monitored. Differences do not necessarily imply that one solution makes for better practice than the other. As the two Departments commence working more closely together, the differences are lessening.
- 1.6 The Committee concludes that the investments held are secure and safe and the day to day management and investment of the funds are conducted in a professional and competent manner. The work of PwC and subsequent discussions have led to improvements in governance, but there are some minor areas where further improvements could be made. Also, given the importance of the investments, the Committee feels that more information should be given to the States. This would include the investment parameters for the individual funds and should be provided as part of the Annual Accounts of the States.**

¹ Billet d'État XVII, October 2006, page 2028.

2 BACKGROUND TO REVIEW

- 2.1 The Committee is mandated to ensure that proper scrutiny is given to the States' assets, expenditure and revenues to ensure that States' bodies operate to the highest standards in the management of their financial affairs and to examine whether public funds have been applied for the purposes intended by the States and that extravagance and waste are eradicated.
- 2.2 The Committee agreed to carry out a review on investments in July 2007 after observing varying performances from invested income of funds and following a suggestion of the former States Treasurer that there may be more financial benefit from taking a holistic view of all States investments. The Committee indicated its intention to carry out the review in its third annual report².
- 2.3 At that time the States had £2 billion invested which covered funds from other non States bodies, Superannuation and Social Security funds. Since then, the economic downturn has meant that there is the need for greater assurance that the funds held by the States are secure and safe while maximising returns for appropriate levels of risk.
- 2.4 Following the setting up of a framework agreement to provide value for money and other investigations by third parties in 2008, the Committee selected two entities to provide a quotation for and outline of the work involved, following which PwC was appointed.
- 2.5 During 2009 PwC carried out its work which resulted in the appended report (see Appendix Three). A hearing was held on that report in February 2010 to enquire further into the PwC findings and establish what, if any, progress had been made in addressing the points raised in the report. The hearing was attended by the Chief Accountant representing T&R (supported by its Investment Advisor and Investment Consultant) and the Chief Officer SSD (supported by staff), who answered questions posed by members of the Committee. They also explained the governance arrangements relating to the investment of funds under their control and recent changes which had been made in this regard following receipt of the PwC report.

² Billet d'État XX, September 2007.

3 BACKGROUND TO INVESTMENTS

3.1 Two States Departments are responsible for investing States funds worth just over £2 billion. T&R is mandated to manage financial assets including cash and other investments and manages three funds: the Superannuation Fund, the Contingency Reserve Fund and the General Revenue Cash Pool. Under the legislation for which it is responsible, SSD manages investments in its care through one investment pool entitled the Common Investment Fund which combines the funds for the Guernsey Insurance Fund, the Health Service Fund and the Long Term Care Insurance Fund.

3.2 The States hold these funds for a variety of purposes as follows:

a. Superannuation Fund

- To pay pensions of employees of the States of Guernsey

b. Contingency Reserve

- To provide protection against major emergencies including economic downturns

(In June 2006, the States resolved that up to half of this fund be used to fund the shortfall in public sector expenditure during the transitional phase of the Economic and Taxation Strategy – influencing the way in which the funds are invested)

c. General Revenue Cash Pool

- All other reserves of the States including
 - i. Capital reserve fund and specific capital accounts
 - ii. Unspent balances of the States departments and committees
 - iii. Deposits from trading entities such as Guernsey Electricity Ltd., Guernsey Post Ltd. plus other third party organisations

d. Common Investment Fund comprising:

- Guernsey Insurance Fund covering contingencies that may interrupt or end wage earning capacity e.g. sickness, unemployment, work injury and old age
- Health Service Fund financing the pharmaceutical service and specialist health insurance scheme and medical consultation grants subsidising the cost of a consultation with a doctor or nurse

- Long Term Care Insurance Fund providing financial assistance with residential and nursing homes accommodation costs.

3.3 The investments held are quite substantial in value and at the end of 2010 totalled £2,171 million, comprising:

VALUE OF INVESTMENTS HELD BY THE STATES	
	31 December 2010 £m
Total Funds under management	2,171
Treasury and Resources Department	
Superannuation Fund	932
Contingency Reserve Fund	258
General Revenue Cash Pool	263
Social Security Department	
Common Investment Fund comprising:	718
<i>Guernsey Insurance Fund</i>	<i>611</i>
<i>Guernsey Health Service Fund</i>	<i>66</i>
<i>Long Term Care Insurance Fund</i>	<i>41</i>

Source: Provisional Accounts 2010 States of Guernsey

- 3.4 At the hearing held in February 2010 the Committee asked why T&R did not amalgamate its funds like SSD and vice versa, i.e. why SSD funds were not separate. In relation to the T&R funds, the Chief Accountant indicated the different objectives of the funds and the need to draw down from some funds more often than others, although all were subjected to the same governance arrangements. SSD's Chief Officer indicated the efficiencies achieved from amalgamating the investment of their funds.
- 3.5 The required liquidity of each fund differs and thus the proportion of cash held in each fund will necessarily vary and, as a consequence, this will influence the return achieved. The diverse nature of each of the funds held by the two Departments makes it difficult to compare the returns with each other. Furthermore, performance can only be measured against benchmarks and up to now these have only been available on a short term basis. It has not proved possible to produce meaningful figures to show performance against benchmarks on a long term basis due to developments in benchmarking procedures. However, details on investment returns for the years 2007, 2008 and 2009 are provided in Appendix One, with performance against benchmark and valuations over the past seven years in Appendix Two.

4 PROGRESS MADE AGAINST PwC RECOMMENDATIONS

- 4.1 In its report of November 2009, PwC made 18 recommendations to improve the investments of the States of Guernsey. These are contained in its report, which was circulated to the Departments prior to the hearing held in February 2010. During 2010, T&R and SSD considered each of the recommendations applicable to them and have started actively to implement them. Eight recommendations have been implemented by both, three by the individual Department concerned, and seven are still under consideration.
- 4.2 The Committee will continue to monitor the progress made by the Departments against these recommendations in investing States' funds safely and securely as part of its monitoring programme, following up from its past reviews.
- 4.3 **Figure 1** records the progress made against each of the recommendations in the PwC report of November 2009, as at September 2010.

Figure 1: Progress made against previous PwC Recommendations

PwC Recommendation	Response By Treasury and Resources Department	Response By Social Security Department
<p>States wide recommendations</p>		
<p>PwC 1. The list of permitted investments should be reviewed and revised better to define the type of financial instrument or investment vehicle and the associated risk, for example, although investments in hedge funds are subject to an overall limit of 10%, there are no restrictions on derivative instruments or stock lending. In addition, it is recommended that the list of permitted investments and limits is reviewed and updated on a regular basis.</p>	<p>T&R gave considerable thought to the key elements of this recommendation when the permitted investment rules were updated in December 2009. Various options for the presentation of the rules to the States were discussed but it was decided that a set of very wide overarching rules that are unrestrictive in the context of being workable in a constantly changing investment world would be used. The Department believes that the decisions on the definitions of restrictions and limits should be made by the Departments, in discussion with their consultants and advisors.</p>	<p>The scope within the existing range of permitted investments for SSD has helped in the implementation of the Department's diversification strategy to reduce risk whilst aiming for 'equity like' returns. SSD is aware of UK legislation that is being considered to provide extra protection to investors, for example in the use of derivatives. SSD would support a review of the permitted investments of the States by a suitably qualified professional. SSD is of the preliminary view that, while it is appropriate for the States of Deliberation to approve the types of investments that can be pursued, the specific parameters for the value or percentage of funds to be allocated to the asset classes within the permitted investments should be left to the Departments in discussion with their advisors.</p>
<p>PwC 2. A mechanism should be established to monitor exposure to</p>	<p>See PwC3 below - being discussed under the mandate of the cross Departmental</p>	<p>Discussions have taken place – see PwC 3. Below.</p>

<p>investment risk on a States wide basis.</p>	<p>Committee.</p>	
<p>PwC 3. The States should consider establishing a cross Department Investment Sub-Committee with responsibility for the management of investments, reporting to both Department Boards. We envisage that this Sub-Committee could comprise of representatives of the existing Department Boards or other States members who have relevant investment experience and supplemented by independent expertise, such as the investment adviser.</p>	<p>Two cross Departmental meetings have been held to date that have been an educational process for each Department in understanding the other's processes and structure and providing an opportunity to discuss the recommendations of the report and an agreed way forward. The consultants of each Department were asked to present their ideas for the management of risk at a States wide level. The recommendation from both was that the funds should continue to be managed separately with a joint officer level sub-committee being established to manage governance issues and monitor risk. It was agreed that the Chief Accountant would lead this cross Departmental group.</p>	<p>Two SSD and T&R meetings have been held involving members, officers and fund advisors. The recommendations from these discussions are that the two funds remain separately managed and that a joint officer-level group develop an appropriate way of reviewing and monitoring governance issues and share best practice.</p>
<p>PwC 4. The States should define the permitted investments of the General Revenue Cash Pool, or at least approve the investment guidelines currently in operation.</p>	<p>T&R will need to give careful consideration to this recommendation. There are currently investment guidelines in place agreed by the Department but how they are presented to the States will need to be in line with recommendation PwC1 to ensure continuity.</p>	<p>N/A</p>
<p>PwC 5. Consideration should be given to ensuring that all investment custodians are independent of investment managers. However where</p>	<p>The majority of the custody for the T&R portfolios is through Northern Trust however there are certain instances where the relationship is with an individual</p>	<p>Custodians are separate from the investment managers throughout the SSD-controlled portfolio. For all segregated funds, the custodian is Northern Trust. When investing</p>

<p>this is not the case, enhanced ongoing due diligence procedures should be performed by the departments.</p>	<p>custodian if it is cheaper or more importantly is more efficient for the Manager. Discussions will be held with IAM Ltd to ensure that the current custodial checks meet the “enhanced” due diligence requirements.</p>	<p>in pooled funds, the custodian arrangements of the particular fund are part of the due diligence undertaken by SSD’s fund advisors.</p>
<p>Department policy level recommendations</p>		
<p>PwC 6. The level of investment experience should be evaluated after any change in Department Board or election and appropriate action taken to ensure governance arrangements continue to be appropriate. This could include changes in the organisational structure and the amount of independent investment advice that is required.</p>	<p>T&R already has a process in place to address this recommendation. When the incumbent Board was appointed, Members were asked to complete a short questionnaire to ascertain their level of understanding and to highlight areas that they felt they would like to expand their knowledge and gain confidence on. This process was followed up with targeted literature to aid the educational process, supported by presentations by IAM Ltd. The annual T&R investment visit to Managers typically includes a topic of investment education such as hedge funds or the impact of inflation/deflation.</p>	<p>Governance documentation is under development and will be completed in 2011. This will provide the basis for the induction, education or training of new Members and new officers. In addition SSD has a series of well documented strategy documents and undertakes annual reviews with the fund advisers and fund managers to enable strategic issues to be discussed and knowledge enhanced. The quarterly performance reviews also provide valuable learning experience for new members and officers.</p>
<p>PwC 7. The Departments should continue to cooperate, to share experience and to align investment operating and control procedures. They should also consider opportunities</p>	<p>The existing cross Departmental relationship has been built upon with officers attending their opposite number’s investment related Board meetings on a regular basis. Communication and the sharing of</p>	<p>Officers from both SSD and T&R attend each other’s meetings to review prospective fund managers, undertake annual reviews and performance reviews and to exchange information.</p>

<p>where aspects of the administration and management of investments can be centralised to achieve efficiency gains.</p>	<p>information such as performance data continue to improve and T&R is keen to promote this further.</p>	
<p>PwC 8. Department Boards should be fully aware of the underlying risks of stock lending and collateral pools should only be invested on terms that are consistent with the Departments' existing investment guidelines and risk appetite.</p>	<p>Since the collateral deficiency issues, Northern Trust has been directed to provide regular and clear communications on T&R's position within the programme, and have been asked to explain in detail the implications for the Fund of any changes to the collateral investment pools. In September 2008, T&R placed a \$234m cap on lending balances and as a result of a restructure of the Superannuation Fund the value of lending opportunities has reduced. The current balance on loan is \$40m and discussions are being held with Northern Trust as to the viability of T&R remaining in the programme with the final stage of the restructuring of the Fund imminent.</p>	<p>On 2 October 2008, following the collapse of Lehman Bros and the declaration by Northern Trust of a collateral deficiency on stock lending, SSD placed a \$60m cap on the total value of securities that could be on loan. In the two years since that cap was imposed, the extent of securities lending within SSD's portfolio has reduced, in part because of the allocation of significant parts of the portfolio into pooled funds, where the securities lending opportunity is not available to SSD. As of September 2010, SSD had \$40m of securities on loan with Northern Trust. SSD's securities are expected to reduce further in the year ahead.</p>
<p>PwC 9. T&R should continue to perform long-term cash flow forecasting for the General Revenue Cash Pool and should review the current investment strategy if it is identified that there is a lesser requirement for liquidity.</p>	<p>Agreed. It has been identified that there is a portion of the fund with a lesser liquidity requirement and, as such, a £50m bond portfolio has now been established. The allocation to this portfolio is kept under review as cash flow modelling is updated.</p>	<p>N/A</p>
<p>PwC 10. The liquidity needs of the States trading entities and third party</p>	<p>At the time of the review being undertaken T&R had already identified the need for</p>	<p>N/A</p>

<p>depositors should be factored into the cash flow forecasting for the General Revenue Cash Pool and reflected in its investment strategy.</p>	<p>more accurate cash flow forecasting. In April 2010 a letter was sent out to all depositors requesting information on a range of requirements, from timings and value of regular cash flows to the nature of their maturity profile and appetite for depositing funds for a period of 1-5 years. The responses were mixed with only a small number of depositors having the ability or interest in working with a more complex structure. The programme is ongoing with more forecasting internally being required before a final strategy is decided upon.</p>	
<p>Control procedure recommendations</p>		
<p>PwC 11. Both Departments should ensure that they receive SAS70 or equivalent reports from all outsourced investment managers and custodians. These reports should then be reviewed by an appropriate individual within each investment team and any issues identified and conclusions reached reported to the Board.</p> <p>In the event that no SAS70 or equivalent is available, the Boards should make a formal assessment of the organisation at least annually.</p>	<p>Historically, reports were reviewed on an ad-hoc basis. A procedure has now been established whereby IAM Ltd arrange for copies to be sent to them for central collation and review. The Investments Subcommittee will be updated with any issues or concerns that may be identified.</p>	<p>SAS70 / FRAG21 or equivalent reports are reviewed annually as part of our year-end audit process. Our auditors also review these documents and have given them a clean bill of health.</p>

<p>PwC 12. SSD should consider using the custodian's compliance system to enhance their monitoring of their investment managers' mandates.</p>	<p>N/A</p>	<p>Will be considered in 2011 as part of enhancing governance procedures.</p>
<p>PwC 13. Both Departments should request and evaluate Global Investment Performance Standards Reports from their investment managers.</p>	<p>Noted but not a priority at this stage.</p>	<p>Not an immediate priority – will be discussed with our Fund Advisors in 2011.</p>
<p>PwC 14. States wide minimum standards of due diligence should be set out for the assessment of service organisations providing outsourced investment services.</p>	<p>To be addressed under the mandate of the cross Departmental Committee.</p>	<p>Will be addressed as part of the cross Department collaboration.</p>
<p>PwC 15. Where relevant the Departments should monitor performance fees paid on gains not yet realised where those gains are subsequently reversed. This will enable a proper assessment of the performance of that investment manager.</p>	<p>To be discussed with IAM Ltd.</p>	<p>Fund manager fees are paid on a basis points percentage of the value of the fund. This includes realised and unrealised gains. The aim is to achieve increases in fund values typically over a 3 year time frame and create a win:win situation. If unrealised gains were to be excluded it would run the real risk of distorting behaviour to sell equity prematurely and thus lose out in increasing the fund value. This would be lose:lose. The Department monitors performance of each fund manager closely and if performance was not up to scratch, they would be put on notice and change made if results did not improve.</p>

<p>PwC 16. Where common service providers are used, the Departments should review agreement terms to ensure they are consistent and that they provide the best overall value for money for the States.</p>	<p>To be addressed under the mandate of the cross Departmental Committee.</p>	<p>Will be addressed as part of the cross Department collaboration.</p>
<p>PwC 17. T&R should ensure that agreements are in place with all parties from which deposits are accepted which reflect the full terms of the arrangement.</p>	<p>It is acknowledged that some of the records for each depositor are incomplete, therefore T&R will undertake a complete review of these and the documentation in the archives, to ensure that all records are up-to-date and the terms of the deposit agreement are easy to refer to.</p>	<p>N/A</p>
<p>PwC 18. The financial statements of the States should disclose (not applicable to SSD):</p> <ul style="list-style-type: none"> (i) Investment management expenses separately from interest income to provide consistency between the General Revenue, Contingency Reserve and Superannuation Fund; and (ii) Internal reallocations of interest received separately from interest payable to third parties. 	<p>This recommendation will be addressed during the production of the year end accounts.</p>	<p>N/A</p>

- 4.4 **The Committee is pleased with the progress made by both Departments during 2010 to address the issues raised by the PwC report.** However, the rest of this section highlights comments and concerns arising from the PwC report, the hearing and subsequent meetings with Departmental representatives.
- 4.5 All States Departments are accountable to the States for the management and safeguarding of public funds and other resources entrusted to the Department. Therefore, it is in the best interests of the tax payer that the public funds held and invested are administered by those most experienced in that task.
- 4.6 The governance arrangements in respect of investments for each of the two Departments differ. In 2008, the T&R Board selected certain politicians on the basis of a specific self-assessment to form the Investment Sub-Committee supported by dedicated investment staff, accountants, investment advisors and consultants. The Investment Sub-Committee has a formal mandate and meets at least every two months, with regular feedback through its minutes to the full T&R meetings. The Sub-Committee will focus on monthly performance reports. There is also an Investment Working Group comprising the Investment Consultant³, Investment Advisor⁴, Chief Accountant and Investment Officer, who meet regularly and discuss matters of detail, making recommendations to the Sub-Committee.
- 4.7 SSD integrate investment management into the fortnightly board meetings with extra meetings if needed. Investment consultants attend the full Board of SSD every six months, at which meeting the Chief Accountant is also present. The investment consultants also meet with SSD staff quarterly.
- 4.8 At the hearing, the Committee was informed that SSD and the T&R Sub-Committee had both considered creating a cross departmental sub-committee to review the rules and approach to risk, which would potentially produce the benefits of lower administration costs, better education of Board members, more ability to develop expert skills, more dedicated investment time and ability to manage the entire portfolio realistically. As reported above in figure 1 this is now being introduced and a draft mandate is under consideration.
- 4.9 The Committee was concerned by the lack of information provided to the States of Deliberation on investments. Although it is possible to glean some information from the States accounts, other reports and data provided by T&R, such as the 'Quarterly Bulletin', there is no dedicated reporting of investments to the States. In discussions during 2010, it was agreed with both Departments that they would provide more information on the investment strategy for the

³ The Investment Consultant is responsible for investing the funds in accordance with investment rules.

⁴ The Investment Advisor is an independent person appointed by the Treasury and Resources Board to supplement their investment skills and knowledge. The current holder was appointed by the former Advisory and Finance Committee and has been retained since, his contract being renewed after each change in Minister of the Board.

annual accounts. The Committee believes that the States of Deliberation, as ultimately accountable for safeguarding the investments of the States, should be more informed concerning the investment strategies adopted by those to whom it has delegated responsibility.

- 4.10 There is a wide and diverse portfolio of investments within pre-determined set limits in each investment strategy, which in itself reduces the risk to each fund. Although responsibility for that strategy rests with Departmental Boards, they rely heavily on the investment consultants for advice. Following the appointment of the T&R investment consultants, the Superannuation Fund moved to a risk based approach in August 2008. SSD reviewed its approach during 2010, following the appointment of its new consultants and Head of Finance.
- 4.11 The investment consultants for both Departments monitor the performance of the outsourced activities, whether custodian or investment managers. T&R and SSD investment consultants report monthly and bi-annually respectively. A further report disclosing the control environment within the organisation is sent to the Departments, but not used. **The Committee recommends that the Departmental Boards, as those accountable for investments, utilise the reports available.**
- 4.12 Related parties' funds are deposited in the General Revenue Cash Pool following the loss of funds some ten years ago. **The Committee believes it appropriate for T&R to establish agreements in order to ensure that the arrangements are properly documented in writing.** The liquidity of these related parties' needs to be factored into the General Revenue Cash Pool investment strategy and to facilitate this, these related parties should provide detailed cash flow forecasts.

5 CONCLUSION

- 5.1 The Committee entered into this review to ascertain whether the funds held by the States were secure and safe while maximising returns for appropriate levels of risk.
- 5.2 The Committee found that investments are held secure and safe and that there is a commitment from both Departments to improve governance over them. It was also evident that both Departments were making risk management a higher priority in their respective investment strategies.
- 5.3 The Committee is pleased with the progress made against the recommendations but believes that more is achievable especially in the area of joint working on investment management.
- 5.4 However, ultimate responsibility of investments rests with the States as a whole and there should be greater information provided in the States accounts on investment performance and investment strategies being followed.

6 RECOMMENDATIONS

- 6.1 The Committee recommends the States to note this report and its appended report.

Yours faithfully

L R Gallienne
Chairman

APPENDIX ONE

INVESTMENT RETURNS			
	Year ended 31 December 2007 £'000	Year ended 31 December 2008 £'000	Year ended 31 December 2009 £'000
Superannuation Fund (T&R)	51,980	(176,651)	117,168
<i>Interest, dividends and commission</i>	20,370	21,907	17,266
<i>Realised and unrealised profit/(loss) on revaluation of investments</i>	34,610	(195,570)	103,199
<i>Investment management and other fees</i>	(3,000)	(2,988)	(3,297)
Contingency Reserve Fund(T&R)	11,337	(6,406)	30,005
<i>Interest, dividends and commission</i>			
<i>Main fund</i>	12,367	8,131	2,505
<i>Tax strategy</i>	-	-	2,680
<i>Realised and unrealised profit/(loss) on investments and foreign exchange contracts</i>			
<i>Main fund</i>	(1,504)	(13,633)	12,530
<i>Tax strategy</i>	-	-	13,406
<i>Investment management fees</i>			
<i>Main fund</i>	(474)	(904)	(539)
<i>Tax strategy</i>	-	-	(577)
General Revenue Cash Pool (T&R)	1,728	4,895	640
<i>Interest received</i>	15,666	16,514	4,209
<i>Net amount to third parties</i>	(13,983)	(12,441)	(3,593)
<i>Unrealised profit on revaluation of investments</i>	45	822	24
Common Investment Fund (SSD)	40,051	(114,656)	114,531
<i>Interest, dividends and commission</i>	18,265	17,403	12,538
<i>Realised and unrealised profit/(loss) on revaluation of investments</i>	22,775	(131,010)	102,772
<i>Investment management and other fees</i>	(989)	(1,052)	(779)

APPENDIX TWO

Social Security Department

Common Investment Fund - Performance (Gross of Fees)

	% CIF return p.a.	% Benchmark return p.a.	% RPI GSY Average Annual Change	% RPI UK Average Annual Change
1-Year	12.43%	9.39%	2.4%	4.6%
3-Year	3.96%	1.12%	2.1%	2.7%
5-Year	6.09%	4.28%	3.0%	3.1%
7-Year	8.66%	7.42%	3.4%	3.0%

CIF Valuation	£
2003 base year	353,934,639
2004	403,247,160
2005	494,623,422
2006	581,788,496
2007	631,464,470
2008	517,743,183
2009	641,931,639
2010	721,911,160

The Social Security Department (SSD) compares its investment performance against a 'benchmark' of equivalent peer group asset classes. The SSD fund objective is to exceed this benchmark with reduced risk.

Treasury and Resources Department
Superannuation Fund Performance (net of fees)

	% Fund return p.a.	% Benchmark return p.a.	% RPI UK Average Annual Change
1 - Year	12.69	8.94	4.6
3 - Year	1.92	6.79	2.7
5 - Year	4.08	7.43	3.1
7 - Year	6.66	7.29	3.0

Notes:

The objectives and guidelines for the Superannuation Fund were changed in January 2009 resulting in the revised benchmark of RPI +4% being set and maintained to date.

Year end Fund value	£
2004	656,671,276
2005	782,803,285
2006	846,883,829
2007	896,438,327
2008	714,361,856
2009	828,553,906
2010	932,000,000*

* Balance subject to audit of the States Accounts

Contingency Fund Performance (net of fees)

	% Fund return p.a.	% Benchmark return p.a.	% RPI UK Average Annual Change
1 - Year	9.39	7.52	4.6
3 - Year	6.68	5.64	2.7
5 - Year	5.29	6.32	3.1
6 - Year	5.35	6.15	3.1

Notes:

The objectives and guidelines for the Contingency Fund were changed in November 2007 resulting in the revised benchmark of RPI +3% being set and maintained to date.

Year end Fund value	£
2005	205,686,072
2006	204,164,431
2007	229,552,906
2008	223,146,700
2009	245,151,811
2010	258,000,000*

* Balance subject to the 2010 withdrawal for the States Fiscal and Economic Strategy being £10 million

APPENDIX THREE

PricewaterhouseCoopers Report

Review into the investments of the States of Guernsey

November 2009

This report has been prepared for and only for the States of Guernsey in accordance with the terms of our engagement letter dated 29 May 2009 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

As part of the terms of reference of our engagement, the Public Accounts Committee (PAC) instructed PricewaterhouseCoopers(PwC) to discuss and report our initial draft findings directly and only with them. A draft of the findings was presented to the PAC and following this meeting, the PAC released the draft report to the Social Security Department (SSD) and the Treasury & Resources Department (T&R). PwC held subsequent meetings with key staff at the departments to correct any factual inaccuracies in the draft report, before issuing the final version.

The matters referred to in this report came to our attention during our work from interviews we held with current staff and materials that were provided to us. There can be no guarantee that all material relevant to the matter under consideration was made available to us nor that we have spoken to all people who might have an interest in this project. We have reported most faithfully on those matters presented to us during the course of our work.

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Executive summary

Introduction

- 1 At 31 December 2008, the States of Guernsey (the States) had investments amounting to approximately £1.7bn. Two departments are responsible for managing these investments.
- 2 The Treasury & Resources Department (T&R) manages three investment pools, (i) the Superannuation Fund, (ii) the Contingency Reserve Fund and (iii) the General Revenue Cash Pool. At 31 December 2008 the value of these funds was approximately £714m, £223m and £275m respectively.
- 3 The Social Security Department (SSD) manages one investment pool known as the Common Investment Fund. The Common Investment Fund consists of the assets held for the social insurance, health service and long term care insurance funds. At 31 December 2008 the value of the Common Investment Fund was approximately £518m.

Scope of our report

- 4 The Public Accounts Committee wished to ascertain whether the States is investing funds safely whilst maximising returns for appropriate levels of risk.

In our tender document we explained that PricewaterhouseCoopers CI LLP is not licensed to provide financial advice and could not comment on levels of return. To address the objective of ensuring funds were invested safely, we proposed to review the governance arrangements, business process activities and the significant controls associated with the management of the States investments. Our report should be considered in this context.

- 5 We assessed control activities relating to the management of investments under the following headings:
 - the overall governance of investment activities;
 - organisational structure;
 - investment restrictions and compliance;
 - management of risk;
 - performance monitoring and reports;
 - the process for the appointment of external providers;
 - custodian function;
 - outsourcing activities; and
 - financial records, presentation and disclosure.
- 6 In the context of this report investments are considered to be financial instruments, such as cash deposits, bonds and equities, managed as part of the above investment pools. It does not include cash on call used by the States for day to day income and expenditure. Nor do investments include non-financial assets, such as properties and fixed assets.
- 7 We have not been made aware of any investments managed by departments other than T&R and SSD.
- 8 The detailed scope of this review (as detailed in our engagement contract dated 29 May 2009) is included in Appendix A to this report.

Limitation of scope

- 9 This report does not in any way propose or imply the future investment strategy that the States of Guernsey should adopt. Nothing in this report should be construed as advice to proceed or not to proceed with any specific course of investment action.
- 10 In addition, we have not considered the appropriateness of asset allocations or benchmarks used as part of the States investment strategy.

Key Findings

- 11 One of our initial thoughts at the commencement of this review was that the operation of investment functions by both T&R and SSD probably resulted in some duplication of activities within the States. The simplistic assumption was that the management of all States investment funds could be centralised in order to maximise value for money.
- 12 We assumed savings could be achieved through centralising the administrative resources and establishing a common governance structure. However at the conclusion of our work and based on the limited level of resources currently utilised across the two departments, we believe that merging the investment function is unlikely to result in any significant saving in revenue expenditure for the States.
- 13 Despite the limited direct financial benefits, we believe that there are other benefits for the States in consolidating the investment function. Centralising the relevant expertise, systems and processes should improve the overall effectiveness of the governance over investments, potentially strengthening the control environment and the management of risk. In the longer term, efficiency savings may also be achieved.
- 14 The centralisation of the investment

function could be achieved while at the same time ensuring that the investments remain segregated, separately identifiable and accounted for, within the existing fund structures to reflect the legal nature and purpose for which the funds were set up. Therefore the risk that SSD assets are mixed with other States assets could be managed.

- 15 Comparing the investment experience of the members of the T&R and SSD boards on a stand-a-alone basis shows that T&R arguably may have more relevant experience than SSD and there are differences in the way the two boards operate in relation to investments. However we have not identified any direct evidence that either approach is more efficient or effective than the other nor that investment performance has been impacted as a result.
- 16 The following factors are relevant:
 - T&R appointed new investment consultants taking responsibility for the Contingency Reserve in mid 2007 and the Superannuation Fund in late 2008. In conjunction with these appointments new investment styles have been introduced resulting in the restructuring of these funds. This process is due to be completed during 2009. In addition, SSD have now appointed new investment consultants and it is expected that this will also lead to changes in investment approach. It is too early to assess the relative benefits of these new appointments or of the changes in investment approach;
 - Although SSD has less board level investment experience (and is currently operating without a Head of Finance), we are pleased to note that SSD has sought guidance from T&R's staff and investment adviser (see para 130) and that there is informal cooperation between the departments; and
 - The differing level of board member experience and consequently, the strength of the governance

- arrangements, predominantly arises due to the political nature of the appointments to the boards. Thus whilst the T&R board currently has a greater level of investment experience, this could change during the next term of government.
- 17 Centralisation would therefore also reduce the risk that either board lacked the necessary investment experience and ought to allow department members to spend more time on social, revenue and expenditure matters.
- 18 We have recommended as a minimum that the departments should continue to cooperate, to share experience and to align investment operating and control procedures and this should be formalised. This could be done by establishing a cross-department investment sub-committee with appropriate expertise. However we believe the States should go further and consider establishing a centralised investment function, as discussed above.
- 19 In making this recommendation, we are not criticising the way the investments are currently managed in either department. We are making the recommendation as we believe that asset management is a function to be centrally run and controlled rather than a function of individual departments.
- 20 We also believe that many other activities of the States could be delivered more efficiently and effectively were they structured by function instead of the silo nature of the current departments. HR, IT and finance are other examples of services that could benefit from such overhaul. We understand that other ongoing reviews are looking at such matters and this is outside the scope of this report.
- 21 We would point out however, that the current legislative and political structure of the States would make it challenging to change activities so that they were structured by function. Nevertheless we believe steps need to be taken to allow this to happen if the economies and efficiencies that the States has committed to are to be achieved.
- 22 Set out below is a summary of our other findings under the headings we were asked to examine.
- Overall governance (page 18)**
- 23 As stated above the level of investment experience within the T&R board is currently greater than that of the SSD board and there are differences in the way the two boards operate in relation to investments.
- 24 T&R have established an Investment Sub-Committee, an Investment Working Group and has more formally defined the roles, responsibilities and control activities within the department. SSD deals with investment matters at their routine board meetings, supported by the Chief Officer. SSD hold additional meetings on investment matters as the need arises.
- 25 T&R also retains the services of an independent investment adviser (see para 130).
- 26 Although the arrangements are different we found no evidence to suggest any one arrangement was more efficient or effective than the other.
- Organisational arrangements (page 22)**
- 27 T&R employs one full time investment officer, whilst at SSD, the day to day investment administration is one of the responsibilities of the Manager of Finance & General Services.
- 28 Both departments employ (i) investment consultants, to assist in the determination of investment strategy and the monitoring of performance (see para 132), (ii) investment managers, to invest the allocated assets (see para 135) and (iii) custodians, who are responsible for the safekeeping of the investments (see para 138). These are

all outsourced functions (see para 46).

- 29 As previously mentioned, T&R also retains the services of an independent investment adviser.

Investment restrictions and compliance (page 24)

- 30 A resolution of the States sets out the list of permitted categories of investments. The list is widely drawn to cover most categories of investment and in only a few instances does it place limits on the amount that can be invested in each category. Specific investment strategies are a matter for the individual departments in conjunction with their advisers.
- 31 As a result of T&R appointing new investment consultants, the Contingency Reserve and the Superannuation Fund have new investment strategies. The restructuring of the latter is currently ongoing. SSD have appointed new investment consultants and it is expected this will result in changes in investment strategy.
- 32 T&R's investment consultant routinely reports on investment manager compliance with mandates. In addition, T&R uses a system provided by the custodian to perform their own monitoring. SSD currently rely on the investment managers to report compliance with their own mandates.

Management of risk (page 27)

- 33 Investment positions have been taken in a wide range of:
- financial instruments;
 - government, financial and other institutions;
 - countries and geographic regions; and
 - currencies.

The States is therefore exposed to a wide range of investment risk, including economic, counterparty, liquidity,

geographical and currency risks. This diversification of risk is consistent with good principles of investment management.

- 34 Overall responsibility for the management of risk lies with the department boards, however both departments rely to varying degrees on their investment consultants in order to obtain an understanding of and to report on investment risk.
- 35 Consequently the monitoring of investment risk is performed on a fund by fund basis. There is no mechanism in place to evaluate investment risk on a States wide basis (see para 168).

Performance reporting (page 28)

- 36 T&R rely on their investment consultants to monitor and report on investment performance. SSD take this information directly from their custodian.
- 37 We note that whilst the value of some of the funds fell considerably during 2008 as a result of falls in global stock markets, there were no 'shock' losses in respect of deposits or investments held in organisations which went into administration or liquidation. Minor unexpected losses were however experienced with regard to stock lending (see para 41).

Appointment of external providers (page 29)

- 38 Both departments have recently appointed new investment consultants. T&R has also appointed new investment managers. In each of these cases, both departments undertook a formal tendering, evaluation and appointment process. However although due diligence was also performed in respect of the candidates, it is unclear what the States wide minimum standards of due diligence should be and whether they were consistently applied.
- 39 T&R have for some time used the services of their investment adviser to

provide additional guidance and expertise as part of the appointment process. SSD also consulted with T&R and contracted with the investment adviser used by T&R, during the recent appointment of their new investment consultant.

Custodian function (page 30)

- 40 Although the States has a main independent custodian which is used by both departments, certain T&R investment managers use their own custodian function. There is an increased risk to the States where the custodian function is not independent of the investment manager and we would expect the departments to perform enhanced and ongoing due diligence controls in these instances. It was not clear that this is being done.
- 41 Both T&R and SSD entered into stock lending arrangements with their main custodian, Northern Trust. Although the initial stock lending was sound with adequate collateral received in exchange, the agreement allowed the custodian to invest this collateral at their discretion, within certain guidelines, to provide enhanced gains. This discretion increased the investment risk for the States.
- 42 Subsequently as a result of the collapse of certain financial institutions in 2008, a deficit arose on the collateral pool. Both T&R and SSD have therefore incurred unrealised losses as a result of the investment decisions taken by the custodian of approximately £900k and £270k, respectively. However despite these potential losses both T&R and SSD have earned a significant amount of income from the securities lending programme over the time they have been involved which is well in excess of the potential unrealised losses noted above.
- 43 These losses are relatively small and may never be realised, if the departments continue to participate in the stock lending arrangement until all

of the investments in the collateral pool mature. Although both department boards assessed and approved the stock lending activities, it appears that neither board was fully aware of the risks associated with allowing Northern Trust to invest the collateral pool at its discretion.

- 44 Many commercial organisations had similar experiences last year and have since modified their stock lending programmes.
- 45 Both T&R and SSD have now capped their exposure at the level of their loan balances outstanding at 18 September 2008 being approximately \$234m and US\$60m respectively.

Outsourcing activities (page 33)

- 46 Both departments employ (i) investment consultants, (ii) investment managers and (iii) custodians, this means that the bulk of investment activities are outsourced to third parties.
- 47 As mentioned above due diligence procedures are undertaken during the initial appointment of these service providers and an annual SAS 70 report (see para 215) is obtained in respect of the main custodian. It is not however clear whether the review of these reports is adequate or what ongoing due diligence is performed in respect of other external service providers.

Financial records, presentation and disclosure (page 34)

- 48 The States 2008 financial statements are a considerable improvement on prior years. They are much more transparent and easier to interpret, however there are still some minor anomalies with regard to how investment returns are reported.
- 49 The financial statements for SSD are prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as such the reporting on investment returns is clear and transparent.

- 50 T&R have not historically performed any long term cash flow forecasting for the General Revenue Cash Pool. Investments have therefore just been kept as liquid assets.
- 51 There may be an opportunity to increase the investment yield on this fund if some of the cash was invested longer term or in different financial instruments. Going forward it however appears that the surplus funds in the General Revenue Cash Pool will be depleted and thus this opportunity may be limited (see para 58).

Other Matters (page 36)

- 52 We understand that although the States has traditionally had a policy of maintaining a funded Superannuation Fund with the assets held in a separate investment pool, there is currently no legal segregation of these funds from other States assets.
- 53 The maintenance of an investment fund to support a public sector scheme is a relatively unusual position, in many jurisdictions public sector pensions are paid out of current tax collections and little, if any, investment fund is maintained.
- 54 However in the private sector these assets would normally be legally separated and held in trust for members. It would also be considered good practice for non-executive trustees to be employed to look after the best interests of members.
- 55 This would arguably introduce more independence to the way the scheme is run. However, such an arrangement could give the States less flexibility in how the scheme is funded and this may not be in the best interest of the States and thus the population of Guernsey as a whole. We therefore see no added value in legally segregating these assets.
- 56 The States receives deposits from the States trading entities and some third

parties who have a historic association with the States. The objective of doing this is to enable parties to maximise the level of return they receive and to minimise the risk of having to manage the placing of those deposits directly with other institutions.

- 57 The written terms however under which these deposits are accepted are vague. Thus neither the States nor the depositors may be maximising the potential return on these deposits.
- 58 Subsequent to our appointment, the States has voted against external borrowing to fund the capital expenditure programme. Capital expenditure will therefore be financed from general revenue and by utilising existing capital reserves. This will result in the reduction of the General Revenue Cash Pool.

Acknowledgement

- 59 PwC would like to thank the ministers and members of staff at T&R and SSD who provided requested documentation and answers promptly and courteously. We also appreciated their continued availability throughout the course of this review.

Recommendations

- 60 The following recommendations have been identified during our review and include recommendations for good practice management of investments.

States wide recommendations	
1.	The list of permitted investments should be reviewed and revised to better define the type of financial instrument or investment vehicle and the associated risk, for example, although investments in hedge funds are subject to an overall limit of 10%, there are no restrictions on derivative instruments or stock lending. In addition, it is recommended that the list of permitted investments and limits is reviewed and updated on a regular basis.
2.	A mechanism should be established to monitor exposure to investment risk on a States wide basis.
3.	The States should consider establishing a cross department investment sub-committee with responsibility for the management of investments, reporting to both department boards. We envisage that this sub-committee could comprise of representatives of the existing department boards or other States members who have relevant investment experience and supplemented by independent expertise, such as the investment adviser.
4.	The States should define the permitted investments of the General Revenue Cash Pool, or at least approve the investment guidelines currently in operation.
5.	Consideration should be given to ensuring that all investment custodians are independent of investment managers. However where this is not the case, enhanced ongoing due diligence procedures should be performed by the departments.

Department policy level recommendations	
6.	The level of investment experience should be evaluated after any change in department board or election and appropriate action taken to ensure governance arrangements continue to be appropriate. This could include changes in the organisational structure and the amount of independent investment advice that is required.
7.	The departments should continue to cooperate, to share experience and to align investment operating and control procedures. They should also consider opportunities where aspects of the administration and management of investments can be centralised to achieve efficiency gains.
8.	Department boards should be fully aware of the underlying risks of stock lending and collateral pools should only be invested on terms that are consistent with the departments existing investment guidelines and risk appetite.
9.	T&R should continue to perform long-term cash flow forecasting for the General Revenue Cash Pool and should review the current investment strategy if it is identified that there is a lesser requirement for liquidity.
10.	The liquidity needs of the States trading entities and third party depositors should be factored into the cash flow forecasting for the General Revenue Cash Pool and reflected in its investment strategy.

Control procedure recommendations
<p>11. Both departments should ensure that they receive SAS70 or equivalent reports from all outsourced investment managers and custodians. These reports should then be reviewed by an appropriate individual within each investment team and any issues identified and conclusions reached reported to the board.</p> <p>In the event that no SAS70 or equivalent is available, the boards should make a formal assessment of the organisation at least annually.</p>
<p>12. SSD should consider using the custodian's compliance system to enhance their monitoring of their investment managers mandates.</p>
<p>13. Both departments should request and evaluate Global Investment Performance Standards reports from their investment managers.</p>
<p>14. States wide minimum standards of due diligence should be set out for the assessment of service organisations providing outsourced investment services.</p>
<p>15. Where relevant the departments should monitor performance fees paid on gains not yet realised where those gains are subsequently reversed. This will enable a proper assessment of the performance of that investment manager.</p>
<p>16. Where common service providers are used, the departments should review agreement terms to ensure they are consistent and that they provide the best overall value for money for the States.</p>
<p>17. T&R should ensure that agreements are in place with all parties from which deposits are accepted which reflect the full terms of the arrangement.</p>
<p>18. The financial statements of the States should disclose (not applicable to SSD):</p> <p>(i) Investment management expenses separately from interest income to provide consistency between the General Revenue, Contingency Reserve and Superannuation Fund; and</p> <p>(ii) Internal reallocations of interest received separately from interest payable to third parties.</p>

Background to investments

- 61 At 31 December 2008, the States had investments amounting to approximately £1.7bn. Two departments are responsible for managing these investments.
- 62 T&R manages three funds, the Superannuation Fund, the Contingency Reserve Fund and the General Revenue Cash Pool.
- 63 SSD manages one investment pool known as the Common Investment Fund.
- 64 A summary of the value of investments held in each of these funds is set out in Figure 1.
- 69 The restructuring will involve the removal of underperforming investment managers, the appointment of new investment managers and the review of all existing mandates. The fund currently employs 7 investment managers.

Superannuation Fund

- 65 The Superannuation Fund exists to pay the pensions of the employees of the States of Guernsey. It is a defined benefit scheme funded by contributions from both the employer and employee.
- 66 Historically, the investment strategy of this fund was based on the maturity profile of the liabilities that it funded, ie investments were long-term with a high proportion invested in equities. The fund was therefore impacted significantly by the fall in global stock markets during 2008.
- 67 As a result the value of the fund fell from £896m at 31 December 2007 to £714m at 31 December 2008. This is net of movements consisting of contributions of £31m added to the fund and £36m paid out in benefits during 2008.
- 68 Following the appointment of new investment consultants, International Asset Monitor Limited (IAM) in November 2008, the investment

- 70 At 30 June 2009, the unaudited value of investments held in the Superannuation Fund was approximately £713m.

Contingency Reserve

- 71 The Contingency Reserve was established in 1986 to provide protection against major emergencies including significant economic downturns, with an original target of a balance equal to 50% of annual revenue expenditure.
- 72 In June 2006, the States resolved that up to half of the reserve (capital and interest) could be used to fund public sector expenditure during the first stage of the implementation of the Economic and Taxation Strategy. During the first quarter of 2009, £8m was withdrawn for this purpose.

	(¹) 31 Dec 2007	(¹) 31 Dec 2008	(²) 30 Jun 2009
	£'000	£'000	£'000
General Revenue Cash Pool (T&R), consisting of:			
States Funds	180,918	205,298	206,100
Trading entities and third party deposits	104,115	69,510	61,121
	<u>285,033</u>	<u>274,808</u>	<u>267,221</u>
Contingency Reserve Fund (T&R)	229,553	223,147	218,790
Superannuation Fund (T&R)	896,438	714,362	713,031
Common Investment Fund (SSD)	631,464	517,743	532,107
Total funds under management	<u>2,042,488</u>	<u>1,730,060</u>	<u>1,731,149</u>

Source:

- (1) Audited financial statements
- (2) Custodian valuation report and management information

Figure 1 - Value of investments held by the States

73 Following a tender process, IAM were appointed as investment consultants to the fund in May 2007. IAM introduced their risk based approach (see para 68) and subsequently restructured the fund appointing two new investment managers and revising existing mandates. The fund currently employs four investment managers.

74 The investment approach for the Contingency Reserve has historically been more cautious than the Superannuation Fund. By the nature of the Reserve funds are invested shorter term to ensure liquidity.

75 The value of investments fell from £229m at 31 December 2007 to £223m at 31 December 2008. There was no transfer of funds to or from the Contingency Reserve in 2008.

76 At 30 June 2009, the unaudited value of investments held in the Contingency

Reserve was approximately £219m.

General Revenue Cash Pool

77 The General Revenue Cash Pool contains all other reserves of the States. It includes:

- the capital reserve fund and various specific capital accounts such as the Corporate Housing Programme;
- unspent balances of the States departments and committees, which remain under their control and available to fund other revenue expenditure; and
- deposits received from the trading entities, such as Guernsey Electricity Limited and Guernsey Post Limited, plus third party organisations.

	31 Dec 2007	31 Dec 2008
	£'000	£'000
Social Insurance Fund	563,963	462,448
Health Service Fund	43,601	35,724
Long-term Care Insurance Fund	23,900	19,571
Common Investment Fund	631,464	517,743

Source: Audited financial statements

Figure 2 –Common Investment Fund analysis

- 78 The General Revenue Cash Pool is invested in short term liquid investments, such as deposits, treasury bills and government bonds. As a result investment returns consist almost entirely of interest received and there is very minimal exposure to capital gains or losses.
- 79 The majority of investments are managed by one asset manager, although a small amount is held with a second manager.
- 80 The total value of the General Revenue Cash Pool fell from £285m at 31 December 2007 to £275m at 31 December 2008. This movement however just represents the net cash withdrawals from the fund during that period.
- 81 At 30 June 2009 the unaudited value of investments held in the General Revenue Cash Pool was approximately £267m.
- 82 The SSD manages the Common Investment Fund which pools together investments held for the Social Insurance Fund, the Health Service Fund and the Long Term Care Insurance Fund. A summary of the split of this fund is set out in Figure 2.
- 83 The Social Insurance Fund provides a broad coverage against contingencies that may interrupt or end wage earning capacity, eg sickness, unemployment, work-injury and old age.
- 84 The Health Service Fund provides the pharmaceutical service through which residents receive prescription drugs for a nominal charge or free of charge for old age pensioners. The fund also pays for the specialist health insurance scheme which covers treatment by the Medical Specialist Group. In addition the fund pays for medical consultation grants which subsidise the cost of a consultation with a doctor or nurse.
- 85 The Long-term Care Insurance Fund provides financial assistance with the cost of residential and nursing homes.
- 86 The investment strategy for the Common Investment Fund has been to maximise total returns in respect of both capital growth and income without taking undue risks. The Common Investment Fund portfolio was therefore invested longer term and was exposed to the global fall in equity stock markets during 2008.
- 87 As a result the value of the fund fell from £631m at 31 December 2007 to £518m at 31 December 2008. This movement represents the realised and unrealised gains and losses on the portfolios and any investment income

that has been reinvested. No contributions or withdrawals have been made to the fund during 2008. All expenditure is currently funded through current receipts from employers, employees and individuals.

- 88 Following a tendering process, a new investment consultant, P-Solve Asset Solutions (P-Solve), a division of PSigma Investments Limited, has been appointed and changes to the investment approach and investment managers are expected to be introduced. The fund currently employs four investment managers.
- 89 At 30 June 2009 the unaudited value of investments held in the Common Investment Fund was approximately £532m.

Investment returns

	Year ended 31 Dec 2007	Year ended 31 Dec 2008
	£'000	£'000
General Revenue Cash Pool (T&R)		
Interest receivable	15,666	16,514
Net amount to third parties (see para 94)	(13,983)	(12,441)
	<u>1,683</u>	<u>4,073</u>
Unrealised profit on revaluation of investments	45	822
	<u>1,728</u>	<u>4,895</u>
Contingency Reserve Fund (T&R)		
Interest, dividends and commission	12,367	8,131
Realised and unrealised profit/(loss) on investments and foreign exchange contracts	(1,504)	(13,633)
Investment management fees	(474)	(904)
	<u>11,337</u>	<u>(6,406)</u>
Superannuation Fund (T&R)		
Interest, dividends and commission	20,370	21,907
Realised and unrealised profit/(loss) on revaluation of investments	34,610	(195,570)
Investment management and other fees	(3,000)	(2,988)
	<u>51,980</u>	<u>(176,651)</u>
Common Investment Fund (SSD)		
Interest, dividends and commission	18,265	17,403
Realised and unrealised profit/(loss) on revaluation of investments	22,775	(131,010)
Investment management and other fees	(989)	(1,052)
	<u>40,051</u>	<u>(114,656)</u>

Source: Audited financial statements

Figure 3 – Investment income

	31 Dec 2007	31 Dec 2008	Change
FTSE 100 (UK equities)	6,456.9	4,434.2	- 31.3%
S&P 500 (US equities)	1,468.4	903.3	- 38.5%
MSCI World Index (global equities)	1,401.9	929.1	- 33.7%

Source: Published indices

Figure 4 – Common investment indices

90 The returns on each of the investment funds, as set out in the audited financial statements, is summarised in Figure 3.

91 High level analysis of these returns is however not very meaningful. Those funds that were invested for both capital growth and income have been seriously impacted by the global fall in equity stock markets during 2008 and early 2009. Whilst those invested mainly to generate income have to a greater extent maintained their level of returns.

92 The Departments monitor and assess the performance of each individual investment manager against relevant benchmarks and despite the overall fall in the value of investments, investment managers may still have outperformed their relevant benchmark.

This monitoring process is set out in more detail in the Performance reporting section of this report on page 28.

Whilst the value of both the Superannuation Fund and the Common Investment Fund fell considerably during 2008, there were no ‘shock’ losses in respect of deposits or investments held in organisations which went into administration or liquidation during the credit crunch.

93 The appropriateness of asset allocations and benchmarks used as part of the States investment strategy is outside the scope of this report, however for information purposes only a list of common investment indices has been included in Figure 4. This compares with the approximate capital

losses on the States funds for the year ended 31 December 2008 of:

General Revenue Cash Pool	0%
Contingency Reserve	- 6%
Superannuation Fund	- 24%
Common Investment Fund	- 23%

Note, the above loss ratios have been calculated on the average opening and closing balances ignoring the impact of cash flow movements during the period.

94 In the General Revenue Cash Pool, the ‘Net amount to third parties’ (see fig 3) represents interest payable to the trading entities, such as Guernsey Electricity and Guernsey Post, and third parties who have deposited funds with the States. It however also includes interest allocated to other States reserves, such as the Capital Reserve and Corporate Housing Programme (see para 224).

Overall governance

95 Governance is the basis on which the activities of the department are directed and controlled. It is also concerned with accountability and responsibility. The ultimate responsibility for the governance of investments lies with the members of the T&R and SSD boards.

Treasury & Resources Department

96 As illustrated in Figure 5a, T&R have established an Investment Sub-Committee (ISC) consisting of three members of the T&R board.

97 At the start of the current term of the T&R board, three members of the T&R board, including the minister, were selected to form the ISC. Members were subsequently asked to assess themselves using an 'Investment Knowledge Assessment Checklist' to ascertain their level of knowledge and understanding of investment matters.

98 The following also attend the meetings of the ISC:

- T&R Chief accountant;
- T&R Assistant chief accountant;
- T&R Senior investments officer;
- T&R Investments officer;
- Investment adviser (see para 102); and
- Investment consultants.

99 The ISC meets at least every 2 months to discuss investment activities, in accordance with the following mandate:

- To monitor the performance of the investment managers through regular briefings from the managers, analysis of performance data and dialogue with the investment consultants and investment

adviser;

- To manage the process of periodic tendering for investment managers, investment consultants and related services; to act as a tender panel for such processes and to make recommendations to the T&R board on appointments;
- To recommend to the board of T&R any changes required in the mandates of the investment managers;
- To analyse and prioritise the ongoing diversification of the asset mix of the Superannuation Fund;
- To review the standing investment policies and recommend to the board for update as necessary;
- To develop closer working arrangements with the SSD on their investments and explore ways of more effective use of resources;
- To consider the results of the tri-annual actuarial review of the Superannuation Fund and determine whether any investment policy revisions are necessary as a result;
- To consider any requests by departments or committees to borrow temporarily by way of overdraft from the banks, States Treasury or in any other manner and recommend to the board for approval; and
- To consider any requests by departments or committees to make loans or grants to registered charitable bodies and similar organisations and terms upon which these may be granted and recommend to the board for approval.

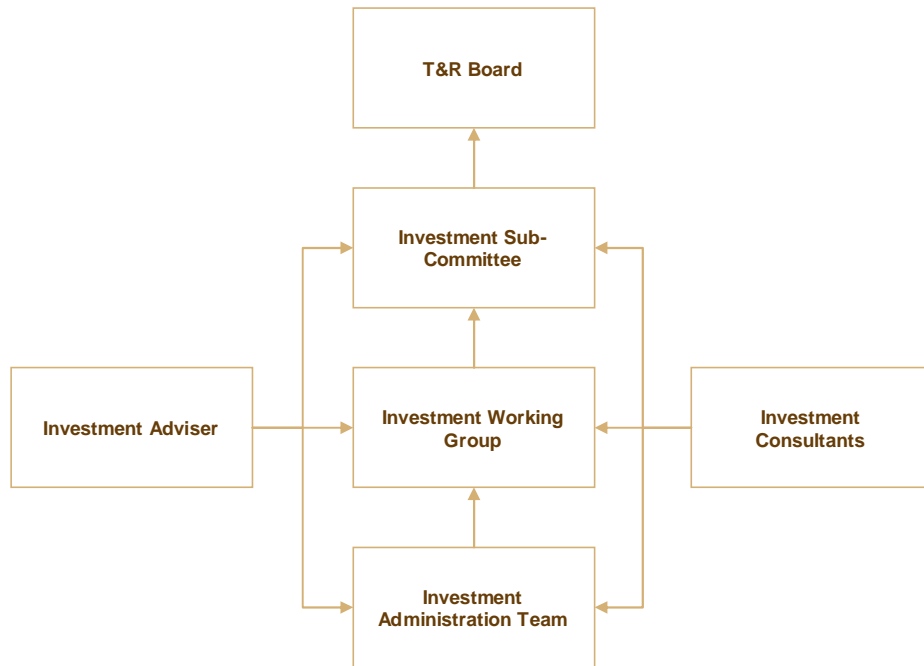


Figure 5a – T&R investment governance and organisational structure

100 The ISC inherited the investment managers who were employed to invest monies under certain criteria from the previously appointed T&R board. The investment managers work and performance is subject to regular monitoring by the ISC.

101 The minutes of the ISC meetings are tabled at full T&R boards, along with any specific matters such as the appointment or removal of an investment manager, which requires full board approval.

102 Since 2002 T&R have employed an investment adviser on an annual contract and fixed fee basis. The investment adviser has 25 years of relevant investment experience as a trustee and chair of investment sub-committees of major UK corporate pension schemes.

103 The investment adviser supports the ISC and IWG in an advisory role. He brings outside knowledge and experience to help the groups in carrying out their duties.

104 T&R's investment consultants also

attend the meetings of the ISC to present their report and to raise matters requiring ISC consideration.

105 An Investment Working Group (IWG) then deals with the day to day management activities and implements the decisions of the ISC. This group comprises those personnel listed in para 98.

106 The investment administration team consists of the officer and staff members employed by T&R and also represented at the IWG.

Social Security Department

107 As illustrated in Figure 5b, SSD operates a more concise governance structure, whereby the full board of the SSD deal with investment matters.

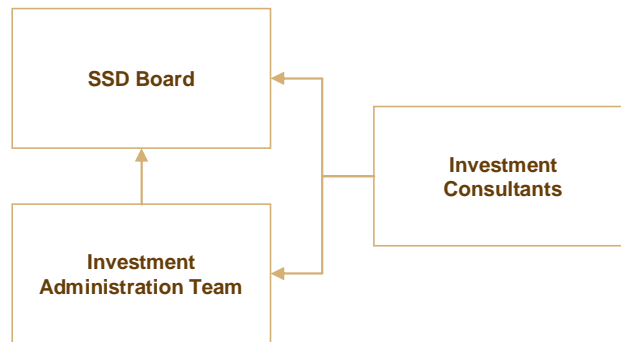


Figure 5b – SSD investment governance and organisational structure

108 All decisions concerning the Common Investment Fund are made during the board's fortnightly meetings and extra meetings are called as deemed necessary to deal with investment matters. Decisions are made after consideration has been given to any documentation provided in advance of meetings, or presentations made by the investment consultant at any of the fortnightly meetings.

109 The SSD Chief Officer attends the SSD board meetings and appraises the members on investment matters. Previously the Deputy Chief Officer had significant responsibility for investment matters, however following his departure in April 2008 the position of Head of Finance is currently vacant. The department is actively recruiting a replacement.

110 SSD's investment consultants also attend the full board meetings every six months to present their report along with the fund managers and they raise matters requiring board consideration. They also meet with the SSD Chief Officer on a quarterly basis to discuss performance. SSD have appointed new investment consultants.

111 Based on discussions with the department minister, SSD members are more reliant on information provided to them by, and the experience of, the Investment Administration team, currently consisting of the SSD Chief Officer and Manager of Finance &

General Services, and their investment consultants.

112 There is ongoing cooperation between T&R and SSD:

- On invitation the T&R Chief Accountant and/or Investments Officer attend the SSD board meetings when investment reviews are performed, approximately twice per year; and
- The T&R investment adviser was also contracted by SSD in the appointment of the new investment consultants. This is however not an ongoing role and it is expected the services of the T&R investment adviser will only be used for specific requirements.

Recommendation 3: The States should consider establishing a cross department investment sub-committee with responsibility for the management of investments, reporting to both department boards. . We envisage that this sub-committee could comprise of representatives of the existing department boards, other States members who have relevant investment experience and supplemented by independent expertise, such as the investment adviser.

General

113 The differing level of board member experience and consequently, the strength of the governance arrangements, predominantly arises

due to the political nature of the appointments to the boards. Thus whilst the T&R board currently has a greater level of investment experience, this could change during the next term of government.

Recommendation 6: The level of investment experience should be evaluated after any change in department board or election and appropriate action taken to ensure governance arrangements continue to be appropriate. This could include changes in the organisational structure and the amount of independent investment advice that is required.

- 114 The SSD board review quarterly valuations provided to them by the appointed custodians, however T&R's ISC focuses on the monthly performance reports produced by their investment consultants. Both departments also consider presentations and other relevant investment reports provided to them by their respective investment consultants.
- 115 The Management of risk section of this report (see page 27) describes in more detail how each department sets mandates and limits for Investment Managers.
- 116 An important aspect of governance is to also ensure the investment mandates set with investment managers are adhered to. This is discussed in more detail in the Investment restrictions and compliance section of the report (see page 24).
- 117 We have observed that T&R's investment consultants, IAM have been very proactive in reviewing, challenging and monitoring investment strategies since their appointment in November 2008. This is as a result of the revisions to the investment strategy requested by T&R (see para 68 and 69). IAM also monitor and comment on the performance of the appointed Investment Managers so that the ISC are in a position to assess compliance

and value for money.

- 118 In 2008 the members of SSD were also active in reviewing and challenging the investment strategy of their existing investment managers and appointed two additional investment managers as a result.
- 119 As SSD have just appointed a new investment consultant, it is not possible to comment in this report on whether they will provide similar advice over investment strategy, risk management and performance assessment to the members of the board as currently received by T&R. We have been informed that there is every expectation that they will.

Organisational arrangements

T&R Administration

120 Organisation and administration of the funds held by T&R is the responsibility of the Investment Working Group (IWG) and a small in house administration team.

121 The IWG comprises of the chief accountant, assistant chief accountant, senior investments officer, the investment adviser and representatives from the investment consultant. The administration team is comprised of the two investment officers.

122 The role of the IWG is to handle day to day issues in the administration and management of the investments in funds including:

- Implementing decisions of the T&R board and ISC;
- Drafting of detailed investment guidelines;
- Drawing up of Investment Management Agreement terms in conjunction with T&R's legal advisers;
- Negotiating investment manager's fees;
- Instructing investment managers on implementing decisions;
- Liaising with investment managers including matters of detailed compliance and interpretation of investment guidelines;
- Short listing prospective new investment managers; and
- Monitoring market developments and proposing action if required.

123 Responsibility for the management of

T&R's investments falls mainly to the ISC but ultimately to the full T&R board.

Details of the ISC are set out in Governance section of this report.

124 The ISC make their decisions on how to manage the investments based on information provided by the IWG and from advice given to them from their investment consultants.

SSD Administration

125 The organisation and administration of SSD investments follows a more concise structure than T&R. Responsibility for the management of investments lies with the full SSD board.

126 SSD have not formed an investment sub-committee or formal working group. The in house administration team currently consists of the SSD Chief Officer and Manager of Finance & General Services.

127 The SSD is currently operating without a Head of Finance, whose role includes responsibility for investment matters (see 126).

128 SSD employed independent consultants to carry out a review of their operations in order to identify the needs and roles within the department. This concluded that a Head of Finance whose role included providing investment expertise was required by the department.

129 We understand that applications have now been received for this role and a short listing and interview process is being carried out on those applicants.

Investment adviser

130 T&R employ an investment adviser to provide independent advice to the ISC (see para 102). He also regularly assists the IWG and investment administration team.

131 SSD have recently contracted the services of this investment adviser to assist with the process of appointing new investment consultants. The investment adviser does not however have a formal ongoing role with the SSD but the SSD Chief Officer does have regular contact with him to exchange information. This is an informal arrangement.

Investment consultants

132 T&R have appointed International Asset Monitor (IAM) as their investment consultants. IAM's remit is set out in a service agreement and includes responsibility for:

- Analytical support in determining investment objectives;
- Risk/return trade offs;
- Structuring of suitable mandates to achieve the objectives of each fund;
- Advice on the selection of investment managers;
- Monitoring the effectiveness of the structure of mandates and investment manager performance;
- Advising on manager termination; and
- Periodically reviewing the complete cycle of analysis, structure and manager appointments.

133 The SSD have recently undertaken the process of appointing new investment consultants. P-Solve have successfully tendered for this position and agreements have recently been finalised.

134 Based on information provided, it

appears that IAM are very proactive in providing investment advice to T&R and adding value where possible. We have been informed that the role that P-Solve is to undertake is expected to be similar to IAM.

Investment Managers

135 Investment managers are appointed by both departments in consultation with their investment consultants.

136 The investment managers are responsible for investing the assets allocated to them in accordance with the mandates for each portfolio so as to deliver target returns within an agreed level of risk.

137 T&R currently employ a total of 12 investment managers and SSD employs 2 plus a passive manager.

Custodians

138 Custodians are in place and are charged with the responsibility for the safe keeping of the investments, settling all transactions, account reporting, reconciliation of investment manager assets values, capital and income flows, as well as added value services such as stock lending and compliance monitoring.

139 The custodian also sweeps all uninvested cash into money market deposits overnight.

140 Northern Trust is the global custodian for SSD and most of T&R's investments, although certain T&R investment managers require the use of their own custodian (see page 30).

Recommendation 7: The departments should continue to cooperate, to share experience and to align investment operating and control procedures. They should also consider opportunities where aspects of the administration and management of investments can be centralised to achieve efficiency gains.

Investment restrictions and compliance

Investment strategy and restrictions

- 141 The permitted investments of the Superannuation Fund and the Common Investment Fund were last approved by resolution of the States set out in Billet D'Etat XVII dated 25 October 2006.
- 142 In respect of the Contingency Reserve the permitted investments were last revised as part of the 2008 States budget report. T&R set the investment guidelines of the General Revenue Cash Pool at their discretion.

Recommendation 4: The States should define the permitted investments of the General Revenue Cash Pool, or at least approve the investment guidelines currently in operation.

- 143 The list of permitted investments is widely drawn to cover most categories of investment and in only a few instances does it place limits on the amount that can be invested in each category. It can be argued that it does not indicate any actual investment strategy. The investment strategy is therefore a matter for the individual departments in conjunction with their advisers.
- 144 States approval would be required to make any changes to this list.

Recommendation 1: The list of permitted investments should be reviewed and revised to better define the type of financial instrument or investment vehicle and the associated risk, for example, although investments in hedge funds are subject to an overall limit of 10%, there are no restrictions on derivative instruments or stock lending.

In addition, it is recommended that the list of permitted investments and limits is reviewed and updated on a regular basis.

Fund objectives

- 145 The strategies can be, and are, modified on a fund by fund basis to fit the objectives and risk profile of each fund. These are set out below:
- 146 **Superannuation Fund** - The fund now follows a risk based approach (see paras 68 and 165) which has an overall objective of matching or exceeding the benchmark of UK RPI +4%.

Investment guidelines include limits of 70% on equities, bonds and cash, 30% on cash, 40% on corporate bonds, 20% on property and private equity and 10% on alternatives.

- 147 **Contingency Reserve Fund** – The current mandate for the overall return of the Contingency reserve fund is to achieve returns of UK RPI + 3%.

Investment guidelines include limits of 35% on equities, 95% on bonds and cash, 25% on short term assets and 25% on alternatives.

- 148 **General Revenue Cash Pool** - The current benchmark for the overall return of the General Revenue Cash Pool is to achieve returns in line with or in excess of 3 month sterling London Interbank Bid rate (LIBID).

Investment guidelines permit investment in deposits, government securities and treasury bills of varying maturity. All investments must meet pre-defined Standard & Poors and Moody credit ratings. No more than 10% of the assets under management

are allocated to any one investment and investments cannot be made into off balance sheet instruments, derivatives, investments subject to withholding taxes or foreign exchange.

- 149 **Common Investment Fund** – The current mandate for the fund requires “Maximum total return in terms of capital growth and income over the long-term without taking undue risks”.

At present the investment strategy for the Common Investment Fund is not further defined, however more specific mandates are in place with individual investment managers. It is anticipated that a new investment strategy will be set following the appointment of SSD’s new investment consultant.

Investment manager guidelines

- 150 Further investment restrictions are prescribed to each investment manager employed, by either T&R or SSD, within the written investment agreements.
- 151 The investment consultants for T&R are actively involved in determining the portfolio allocations and detailed mandates of the individual investment managers. We have been informed that it is expected that the investment consultants for SSD will take a similar role.
- 152 The investment management agreements contain detailed investment guidelines which state the maximum percentage (plus in some instances, the minimum) of funds allocated that each manager is able to invest into in any given investment category.
- 153 These criteria will have been determined by the members of each department based on the overall investment objectives in place for each fund.
- 154 The relevant board of each department has the flexibility to change any of the mandates, at any time so long as any changes made are in accordance with

the list of permitted investments.

Compliance

- 155 T&R rely on a combination of both the investment consultants and investment managers to report any breaches. This is done on a monthly basis on the presentation of the investment consultants report to the ISC.
- 156 Additionally, as an added service, Northern Trust provides a compliance system which is configured with the agreed mandate for each investment manager. This system provides daily email summaries of the fund portfolios which are monitored by the T&R investment team. It also generates an exception report when a breach occurs.
- 157 The T&R administration team also regularly access this compliance system to check the status of the portfolios. When notification is received of actual breaches or when limits are approached, the T&R team contact the relevant investment manager to determine what action is to be taken.
- 158 In respect of the Contingency Reserve fund and Superannuation funds, IAM also closely monitor the compliance of each investment manager in accordance with the agreed investment objectives and guidelines. This is reported in their monthly investment performance reports provided to T&R.
- 159 SSD rely on their investment managers to report any breaches. They also review the investment valuation reports received from the investment managers for unreported breaches. Currently SSD do not utilise the compliance system offered by Northern Trust.

Recommendation 12: SSD should consider using the custodian’s compliance system to enhance their monitoring of their investment managers mandates.

- 160 In respect of both departments, very few actual breaches occur on an annual basis and those breaches tend to be as a result of market acquisitions and mergers.
- 161 This is an example where it could be efficient for T&R to provide this monitoring function on behalf of SSD.

Management of risk

162 Investment positions have been taken in a wide range of:

- financial instruments;
- government, financial and other institutions;
- countries and geographic regions; and
- currencies.

The States is therefore exposed to a wide range of investment risk, including economic, counterparty, liquidity, geographical and currency risks.

163 Overall responsibility for the management of risk lies with the department boards, however both departments rely to varying degrees on their investment consultants in order to obtain an understanding of and to report on investment risk.

164 All of the investment funds have investment strategies with limits in place at the fund level and/or with the individual investment managers. The purpose of these limits is, in part, to restrict the Fund's exposure to particular risks, for example, restricting the amount that can be invested in a single institution. These strategies and limits have been summarised in the Investment restrictions and compliance section of this report (see page 24).

165 In addition, the Superannuation Fund has recently switched investment strategies to a risk based approach (see para 68). The ISC's approval of the risk based approach to managing the portfolio was made in August 2008 and is a departure from the previous liability based approach. The risk based approach operates on a value at risk of 5/10%, whereby there is a 5% chance of incurring total losses of 10%

of the net asset value of the portfolio per annum.

166 The changes required to specific mandates are being phased in during 2009. IAM and T&R will continue to monitor the strategy to determine its ongoing suitability for meeting the long term objectives of the fund.

167 There is currently no formal risk model in place for the Common Investment Fund managed by SSD. However we have been informed that it is expected that a risk model for the Common Investment Fund will be implemented following the appointment of P-Solve as investment consultants.

168 Currently risk exposure is only monitored on a fund by fund basis. There is no mechanism in place to look at risk exposures States wide. There is therefore a risk that although each investment manager or fund is operating within their mandate, excessive exposure may arise to a particular counterparty or market when all investment positions are aggregated.

Recommendation 2: A mechanism should be established to monitor exposure to investment risk on a States wide basis.

Performance reporting

- 169 Performance of each of T&R's investment managers is monitored by their investment consultant, IAM. SSD currently rely on investment performance reports received from their custodian, Northern Trust.
- 170 Monthly performance reports are presented to T&R by IAM highlighting the performance of the funds in comparison to the economic environment in which they are operating, the individual investment managers' performance against established benchmarks and the total funds performance against the long term objectives of each of the funds.
- 171 Neither department has obtained Global Investment Performance Standards (GIPS) reports from their investment managers. GIPS reports set out the historic investment performance track record of the investment manager in accordance with standardised principles for the calculation of that performance and are independently attested.
- 172 GIPS standards are based on the fundamental principles of full disclosure and fair presentation of investment performance results. The benefit of GIPS reports are that they allow the comparison and evaluation of investment managers.
- 173 Historically it appears that the former investment consultants of SSD only formally presented to the board on a semi-annual basis. We have been informed that it is expected that with the employment of P-Solve there will be more frequent presentations and that the process will follow a similar structure to that currently being employed by T&R with IAM.
- 174 Both T&R and SSD require each investment manager to attend and present on their performance at least annually.
- 175 Northern Trust, as custodian, also prepares quarterly valuation reports for each department. The custodian valuations are reconciled to those of the investment manager.
- 176 Included in the report from Northern Trust, is the performance of each investment manager against established benchmarks giving comprehensive narrative as to the meeting or shortfall of any one given manager against the long term objective of each fund under management.
- 177 Both departments also have access to Northern Trusts reports system which provides a library of report resources which can be accessed for monitoring of investment performance.

Recommendation 13: Both departments should request and evaluate Global Investment Performance Standards reports from their investment managers.

Appointment of external providers

178 The process adopted for the appointment of external providers is similar across the two departments.

portfolios with only three investment managers having performance related fees.

179 External appointments follow a three stage procedure:

- Firstly, invitations to tender are sent to prospective applicants to tender for the relevant position being offered;
- Once all responses have been received, a delegation from the relevant department, made up of department members and external advisers, draw up a shortlist of up to four prospective candidates who are then invited to present to the board; and
- The members of each board are then required to select the successful candidate with input from the external advisers.

180 Prior to finalising any appointment, due diligence is undertaken and appropriate contractual terms are agreed by each party ensuring they are acceptable to the States legal teams.

181 Although it was agreed that the States standard procurement procedures did not apply for these appointments, it is unclear what the minimum standards of due diligence should be and whether they were consistently applied.

Recommendation 14: States wide minimum standards of due diligence should be set out for the assessment of service organisations providing outsourced investment services.

182 The remuneration of investment managers is agreed on an individual basis and is predominantly based on the underlying Net Asset Value of the

Recommendation 15: Where relevant the departments should monitor performance fees paid on gains not yet realised where those gains are subsequently reversed. This will enable a proper assessment of the performance of that investment manager.

183 T&R have used the services of their investment consultant to negotiate fees for investment managers and in some instances they have also been successful in negotiating lower fees for existing investment managers. SSD were also successful in negotiating lower fees on the appointment of their new investment managers .

184 Following a review of the performance of their investment managers, T&R decided to remove one of the investment managers in December 2008.

185 Both T&R and SSD have recently appointed Investment consultants and a review of board minutes evidences that the appointment process, as discussed above, has been adopted.

186 In addition formal tendering processes were followed for the appointment of Northern Trust as custodian for both departments. However, certain investment managers employed by T&R provide their own custodian services for assets under their management (see para 188) and therefore an independent tendering process was not followed in these instances as this had been included in the appointment process of the investment manager.

Custodian function

- 187 The custodian is responsible for the safe keeping of the Funds assets. They are also responsible for settling all transactions, reporting, reconciling with investment managers as well as added value services such as securities lending, compliance and monitoring.
- 188 SSD employ Northern Trust as their sole global custodian. T&R also use Northern Trust as custodian for the majority of their assets. Additional custodian services are provided by two of the T&R investment managers who require the use of their own custodians. At 31 December 2008, the value of investments held with these custodians amounted to approximately £120m (10% of T&R funds).
- 189 Northern Trust work closely with the investment managers performing reconciliations between those valuations provided by the individual investment managers and their own records. Any reconciling items are resolved prior to the production of monthly custodian reports.
- 190 The investment adviser, through his experience with other investment boards, provides T&R with an insight into fee levels charged by the custodian. The investment consultant also provides their experience.
- 191 SSD have historically relied on the expertise of their investment consultant to monitor custodian fees and will continue to do so once the new investment consultant is in place.
- 192 Northern Trust also monitors the adherence of each investment manager with the parameters that they have been set as their mandate for investing on behalf of each relevant department
- and breaches are reported.
- 193 As described above, Northern Trust is not the custodian for all T&R investments, as certain investment managers use their own custody functions.
- 194 Where custody services are not provided by a custodian wholly independent of the investment manager, we would expect to see the department performing enhanced ongoing due diligence to understand and ensure adequate controls are operated by the custodian. This is particularly topical in the current climate after the recent media attention given to the Madoff scandal, one of the failings of which was that independent custodians were not used.
- 195 Although SAS 70 reports (see para 215) are obtained for Northern Trust, there was no evidence that similar reports had been obtained for the other custodians or that any other ongoing due diligence is performed.

Recommendation 5: Consideration should be given to ensuring that all investment custodians are independent of investment managers. However where this is not the case, enhanced ongoing due diligence procedures should be performed by the departments.

196 Although both departments use the same main custodian, they have separately negotiated contracts and the basis of fees varies. The T&R fees are primarily transaction based whilst SSD pays fees primarily on a fixed basis.

197 In respect of the level of activity during 2008 it would appear that the fixed fee basis was less expensive than the

transactional basis, when compared to the total value of investments held in each fund.

Recommendation 16: Where common service providers are used, the departments should review agreement terms to ensure they are consistent and that they provide the best overall value for money for the States.

Stock Lending

- 198 Both T&R and SSD use stock lending services provided by Northern Trust.
- 199 The custodians loan stock held on behalf of their clients in return for collateral in excess of the market value of the lent stock at the time of lending.
- 200 For stock lending arrangements with Northern Trust the collateral received is then pooled with the collateral of other clients and Northern Trust in turn invest this at their discretion with the aim of providing enhanced returns. At this stage, clients of Northern Trust have no control over where or what the pooled collateral is invested in.
- 201 During 2008 Northern Trust identified a collateral deficiency as a result of having invested the collateral pool into Lehman Brothers, Washington Mutual Bonds and other bonds that were performing below par.
- 202 T&R's total unrealised loss experienced as a result of this was approximately £900k whilst SSD have reported unrealised losses of approximately £270k.
- 203 The losses in the collateral pool are, in part, unrealised and Northern Trust have advised that in the event they are held to maturity, there should be sufficient assets recovered to cover the current deficit.
- 204 Part of this collateral pool is however not due to mature for 2 to 3 years. Thus if both departments exit the stock lending arrangement early, they may crystallise losses.
- 205 As such the departments have taken the decision to remain in the collateral pool in an attempt to minimise any losses.
- 206 It is anticipated that even if the losses noted above were to be realised, on an overall basis both departments would still be in a net profit position on stock lending activities since the arrangement was originally entered into.
- 207 Similar stock lending arrangements have caught out many boards right across the investment industry and this highlights the complexity of such arrangements. Many in the industry were unaware that collateral was pooled, reinvested and that the performance risks over the pool remained with the investors providing the original stock lending.
- 208 Other investment boards have reacted to similar experiences by stopping stock lending or at least, imposing greater restrictions on the custodian and how they invest the collateral.
- 209 Both departments have now taken steps to understand and evaluate the underlying risks. We have however been informed that Northern Trust currently does not offer any facility for clients to vary the conditions of the stock lending arrangement and as exiting the stock lending arrangements would crystallise existing losses, the boards of both T&R and SSD have resolved to continue to participate in the stock lending arrangement.
- 210 Both T&R and SSD have however capped their gross exposure at the level of their loan balances outstanding at 18 September 2008 being approximately £234m and US\$60m respectively.
- 211 The main issues were:
- Although both SSD and T&R were aware that stock lending arrangements

had been entered into it is not clear that they were fully aware of the risks associated with allowing Northern Trust to invest the collateral pool at its discretion; and

- There was no transparency with regard to how the collateral pool was invested. It is unlikely that the States own investment managers, in accordance with their mandates, would have invested into some of the stocks that the collateral pool invested into.

Recommendation 8: Department boards should be fully aware of the underlying risks of stock lending and collateral pools should only be invested on terms that are consistent with the Departments existing investment guidelines and risk appetite.

Outsourcing activities

212 We consider the following to be the main outsourced functions used by both SSD and T&R:

- Investment management;
- Investment custody; and
- Investment consultancy.

213 Where significant activities are outsourced by departments, it is important that adequate due diligence is performed when the service provider is appointed and is updated on an ongoing basis.

214 The States main custodian, Northern Trust prepares regular SAS 70 reports (see para 215) over their control environment which are regularly received by each department, but from our investigation it does not appear that they are fully reviewed.

215 Statement on Auditing Standards No. 70, Service Organisations (SAS 70) defines the professional standards used by an auditor to assess the internal controls of a service organisation. The report will include disclosure of the service organisations control activities and processes and the results of the audit testing on whether the controls were operating effectively during the period.

216 The role of investment consultants includes compiling investment performance statistics and reporting compliance with investment guidelines. The activities of the investment consultant are monitored by the members of both T&R and SSD.

217 T&R review monthly performance reports provided by IAM who are

answerable to any deviations from the funds objectives during their attendance at the monthly ISC meetings.

218 SSD historically held semi-annual meetings with the investment consultant to monitor their performance. Going forward with the appointment of their new investment consultant we have been informed that it is expected that monitoring will be carried out on a more regular basis.

Recommendation 11: Both departments should ensure that they receive SAS70 or equivalent reports from all outsourced investment managers and custodians. These reports should then be reviewed by an appropriate individual within each investment team and any issues identified and conclusions reached reported to the board.

In the event that no SAS70 or equivalent is available, the boards should make a formal assessment of the organisation at least annually.

Financial records, presentation and disclosure

219 Both T&R and SSD maintain control accounts only for investments in their general ledger systems. These control accounts reflect the total capital balance held with the investment managers, transfers in and out and adjustments for the revaluation of investments.

Details of investments held per the financial statements are set out in Figure 1.

220 Investment returns are recorded in the general ledger on a receipts basis, with accruals for income earned but not yet received calculated for each accounting period.

Details of investment returns per the financial statements are set out in Figure 3.

221 The departments rely on the investment portfolios provided by the custodian and reconciled to the investment manager reports, as primary investment records.

222 Consolidated financial statements of the States are published annually, these include all departments and reserves set up by the States with the exception of SSD, who prepare their own financial statements (see para 227).

223 The financial statements of the States, apart from SSD, are not currently prepared in accordance with generally accepted accounting principles (GAAP). The latest set of financial statements for the year ended 31 December 2008 have however been enhanced and they for example, now include a balance sheet albeit that it does not contain any fixed assets as it is the States accounting policy to write off capital expenditure in the year that it is

incurred. They also show much more clearly the amount of investment funds held, the earnings received and the allocation between reserves.

The 2008 financial statements are a considerable improvement on prior years, being more transparent and easier to interpret.

224 However, there are still a number of ambiguities in the presentation of the investment returns. In the general revenue account:

- Interest income is shown net of investment management fees and bank charges (31 Dec 2008: £312k), whereas in the Contingency Reserve and the Superannuation Fund these charges are shown separately and are thus more transparent; and
- Net amounts to third parties, includes allocations of interest received to internal reserves, such as the capital reserve (31 Dec 2008: £3,126k) and the corporate housing programme (31 Dec 2008: £528k), as well as the actual payment of interest to third parties.

225 It is T&R's objective that financial statements of the States will in due course be prepared in accordance with International Financial Reporting Standards (IFRS). However this will not necessarily resolve these ambiguities as the precise treatment of these items under IFRS is still open to some interpretation.

226 Under IFRS, the States will be required to disclose a statement of risks associated with these financial assets with detailed financial analysis of the risks, including liquidity, currency and interest rate risk.

Recommendation 18: The financial statements of the States should disclose (not applicable to SSD):

(i) Investment management expenses separately from interest income to provide consistency between the General Revenue, Contingency Reserve and Superannuation Fund; and

(ii) Internal reallocations of interest received separately from interest payable to third parties.

227 SSD produce separate annual financial statements in accordance with the Social Insurance (Guernsey) Law, 1978 and UK generally accepted accounting practices (GAAP). Financial statements of the Long Term Care Insurance Fund and the Guernsey Health insurance Fund have also been prepared in accordance with the Health Service (Benefit) (Guernsey) Law, 1990 and the Long-term Care Insurance (Guernsey) Law, 2002. Due to the simpler nature of these financial statements, it is straightforward to ascertain the reported investment returns.

Cash flow forecasting

228 T&R have not historically performed any long term cash flow forecasting for the General Revenue Cash Pool. There has always just been an underlying assumption that as a cash pool the investments should just be invested in liquid assets.

229 However the balance on the pool in recent years has consistently been quite high, this is partly due to funds deposited by the trading boards but there also appears to be an element of surplus above and beyond the States actual requirements and amounts put aside for capital projects which are not immediately required.

230 There may be an opportunity to increase the investment yield on this cash pool if the investment manager was more aware of the timing of future cash flow requirements, thus allowing

longer term investment where appropriate.

231 As a result of the States debate on the funding of future capital projects, T&R have prepared long-term cash flow forecasts. However given the States resolution not to externally borrow, the balance of the General Revenue Cash Pool will be depleted over time, thus the opportunity to maximise investment returns will decrease.

Recommendation 9: T&R should continue to perform long-term cash flow forecasting for the General Revenue Cash Pool and should review the current investment strategy if it is identified that there is a lesser requirement for liquidity.

232 In contrast, it was known that the Contingency Reserve fund would be drawn down by up to 50% as a result of the current taxation strategy and this was specifically taken into account when IAM advised how the investment strategy should be implemented.

233 With respect to the Superannuation and Common Investment Fund, the balances at this time remain fairly stable thus investment managers do not need to allow for significant cash flow movements.

Other matters

Superannuation fund

- 234 The Superannuation Fund in respect of Public Servants was established by The States of Guernsey (Pensions and Other Benefits) Rules, 1972, and has been subsequently modified by various resolutions of the States.
- 235 Providing a pension is therefore a contractual agreement between the States and its employees and as a defined benefit (final salary) scheme, the States has a contractual obligation to pay ongoing pensions and future liabilities.
- 236 The maintenance of an investment fund to support a public sector scheme is a relatively unusual position. In the United Kingdom, and in many other jurisdictions, public sector pensions are paid out of current tax collections and little, if any, investment fund is maintained.
- 237 Although the States has traditionally had a policy of maintaining a funded Superannuation Fund with the assets held in a separate investment pool, there is currently no legal segregation of these funds from other States assets.
- 238 In the private sector these assets would normally be legally separated and held in trust for members. To do this for the Superannuation Fund new legislation and trust deeds would need to be prepared and implemented. It would also be considered good practice for non-executive trustees to be employed to look after the best interests of members.
- 239 This would arguably introduce more independence to the way the scheme is run. However, such an arrangement could give the States less flexibility in

how the scheme is funded. This may not be in the best interest of the States and thus the population of Guernsey as a whole. We therefore see no added value in legally segregating these assets.

Deposits received

- 240 The States receives deposits from the States trading entities, associated entities and a small number of charities and other organisations with a historic association with the States. At 31 December 2008 these funds amounted to £70m.
- 241 The objective of doing this is to enable those parties to maximise the level of return they receive by having access to wholesale market rates and to minimise the risk of having to manage the placing of those deposits directly with other institutions.
- 242 The funds are incorporated within the General Revenue Cash Pool and thus invested in short term liquid investments such as deposits and treasury bonds.
- 243 We were provided with an example agreement explaining the main terms under which the deposits were accepted, including acceptance that the depositor shares any risk of loss within the pool.
- 244 However agreements for some of the longstanding arrangements for example with Guernsey Electricity Limited and Guernsey Post Limited, were not available for review.

Recommendation 17: T&R should ensure that agreements are in place with all parties from which deposits are accepted which reflect the full terms of the arrangement.

245 We were informed that all deposits are received on the basis that the depositor has instant access to those funds, although this was not clear from the example agreement that we were provided.

246 This reflects the General Revenue Cash Pool investment strategy to maintain a high level of liquidity. However as some of the deposits received have been held long-term, it may have been more in the depositors best interest if they had had the option to invest their funds in deposits with a longer maturity. In certain circumstances depositors might even benefit from exposure to another asset class to improve returns.

247 We have been informed that in connection with a wider review and cash flow forecasting for the General Revenue Cash Pool (see para 231), T&R is considering offering alternative risk and liquidity options to depositors and vary its investment strategy accordingly.

Recommendation 10: The liquidity needs of the States trading entities and third party depositors should be factored into the cash flow forecasting for the General Revenue Cash Pool and reflected in its investment strategy.

Note - The States is exempt from the provisions of The Banking Supervision (Bailiwick of Guernsey) Law 1994 regarding the acceptance of deposits from third parties.

Alternative investment

248 The States currently invests in a wide range of financial instruments, including:

- Certificates of deposit;

- Government and corporate bonds;
- Equities and equity investment funds;
- Alternative investment funds;
- Property funds;
- Hedge funds; and
- Derivative financial instruments, such as futures and swaps.

249 Geographically, these investments are distributed across the United Kingdom, Europe, United States and the rest of the world. They are also held in most major currencies.

250 It is feasible that the Superannuation or Common Investment Funds could be invested into local property and infrastructure projects, for example, the Guernsey Airport or Waste to Energy Plant if there was a viable income stream arising. Both departments have considered this in the past, however both were concerned that the performance of such investments would be tied to the local economy. As the income for both departments, ie tax and social security contributions, is already directly linked to the performance of the local economy, they felt that this type of investment would result in too great an exposure. We have no comment about whether this decision is appropriate.

251 This view is also shared by T&R's investment consultants, IAM, who have been following a strategy of diversifying investments, such that the performance of the funds is not directly linked to the principal economies on which Guernsey is otherwise dependent.

252 It should also be noted that subsequent to our appointment, the States has voted against external borrowing to fund the capital expenditure programme. Capital expenditure will therefore be financed from general revenue and by utilising existing capital reserves. This will result in the reduction of the General Revenue Cash Pool.

Appendix A - scope

The Public Accounts Committee wishes to ascertain whether the States is investing funds safely and securely while maximizing returns for appropriate levels of risk.

In our tender document we explained that PricewaterhouseCoopers CI LLP is not licensed to provide financial advice and could not comment on levels of return. To address the objective of ensuring funds were invested safely, we proposed to review the governance arrangements, business process activities and the the significant controls in place associated with the management of the States investments. Our report should be considered in this context.

Scope

Scope of the assignment includes:

- consideration of the overall governance of investment activities;
- the process for the appointment of external providers;
- custodial arrangements;
- financial records, presentation and disclosure;
- performance monitoring and reporting;
- risk evaluation;
- outsourcing arrangements;
- investment restrictions and compliance, and
- organisational arrangements.

The contractor will ask a series of questions and the approach will be refined during the planning phase and flexed during the assignment to react to specific circumstances and findings.

The assignment will cover the overall efficient, effectiveness and economy (i.e. Value for money) of how the States manages its investment activities.

Consideration will be given to how the States investment funds have historically been used together with alternative methods of investment and thus the potential for raising capital and will comment where appropriate.

Approach

The approach will consist of:

- Interviewing key personnel involved in the overall governance of investment activities, this will include the Chief Officers and/or Deputy Chief Officers of the Treasury & Resources and the Social Security Departments and others where relevant;
- Interviewing key personnel within those Departments responsible for the day to day

administration of investment activities;

- Reviewing relevant legislation, rules and guidelines concerning investments;
- Reviewing relevant internal documentation, including organisational structure, procedure manuals, financial statements, management account, other internal reports, minutes of investment committee meetings, minutes of Department boards; and
- Reviewing relevant third party documentation, such as investment consultants reports.

Limitation of scope

The assignment will not in any way propose or imply the future investment strategy that the states of Guernsey should adopt. Nothing in the deliverables or advice should be constructed as advice to proceed or not to proceed with any specific course of investment action. On this basis, the contractor does not consider that the proposed services amount to the regulated activity of investment business.

Communication

The contractor is committed to a “no surprises” approach. This requires regular communication of issues. This assignment is a continuous process, with ongoing two-way dialogue.

During the assignment liaison will be on a daily basis with the Principal Public Accounts Officer and formal reporting will be made to the Chairman and other members of the Public accounts Committee.

The contractor may first discuss the relevant circumstances with the appropriate Department Officers as they are identified. This will be done to ensure the initial draft report is factually accurate, however, in accordance with the Committee’s guidelines, the initial draft report will be presented first to the Public Accounts Committee before being circulated to the relevant Departments.

The contractor will attend such hearings and meetings as reasonably requested, and have budgeted for no more than 3 formal meetings. The Contractor’s policy is to issue the report but not to discuss detail with the media, discussing reports directly with client and leaving public comment to the Public Accounts Committee or the relevant Departments.

Appendix B - glossary

IAM	International Asset Monitor Limited. The investment consultants employed by T&R in respect of the Superannuation Fund and Contingency Reserve.
IFRS	International Financial Reporting Standards issued by the International Accounting Standards Board.
ISC	Investment Sub-Committee, operated by T&R.
IWG	Investment Working Group, operated by T&R.
GAAP	Generally accepted accounting principles.
GIPS	Global Investment Performance Standards. A set of standards which provide guidance to investment firms on how to calculate and report investment performance.
LIBID	London Interbank Bid rate, an international rate that banks lend to other banks.
P-Solve	P-Solve Asset Solutions, a division of PSigma Investments Limited. The investment consultants recently selected by SSD.
RPI	Retail Price Index, a general purpose measure of domestic inflation.
SAS 70	Statement on Auditing Standards No. 70, Service Organisations, an auditing statement issued by the Auditing Standards Board of the American Institute of Certified Public Accountants.
SSD	The Social Security Department of the States of Guernsey.
States	The States of Guernsey.
T&R	The Treasury & Resources Department of the States of Guernsey.

Notes

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The States are asked to decide:-

IX.- Whether, after consideration of the Report dated 28th February, 2011, of the Public Accounts Committee, they are of the opinion:-

To note that Report and the appended PricewaterhouseCoopers report.

ORDINANCES LAID BEFORE THE STATES

THE TUNISIA (FREEZING OF FUNDS) (GUERNSEY) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Tunisia (Freezing of Funds) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on the 21st February, 2011, is laid before the States.

THE LIBYA (RESTRICTIVE MEASURES) (GUERNSEY) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Libya (Restrictive Measures) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on the 4th March, 2011, is laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE HEALTH SERVICE (BENEFIT) (LIMITED LIST) (PHARMACEUTICAL BENEFIT) (AMENDMENT) REGULATIONS, 2011

In pursuance of Section 35 of the Health Service (Benefit) (Guernsey) Law, 1990, the Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) (Amendment) Regulations, 2011, made by the Social Security Department on 4th February, 2011, 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. These Regulations came into operation on 4th February, 2011.

THE INCOME TAX (PENSIONS) (AMENDMENTS AND MISCELLANEOUS PROVISIONS) REGULATIONS, 2011

In pursuance of Section 203 of the Income Tax (Guernsey) Law, 1975, as amended, the Income Tax (Pensions) (Amendments and Miscellaneous Provisions) Regulations, 2011, made by the Treasury and Resources Department on 8th February, 2011, are laid before the States.

EXPLANATORY NOTE

These Regulations amend the Income Tax (Guernsey) (Limit of Retirement and Other Benefits) Regulations, 1977, the Income Tax (Guernsey) (Retirement Annuity Schemes

and Retirement Annuity Trust Schemes) Regulations, 1984, the Income Tax (Guernsey) (Employees Tax Instalment Scheme) Regulations, 2007 and the Income Tax (Pensions) (Contribution Limits and Tax-free Lump Sums) Regulations, 2010 in order to implement the States resolution of the 24th November, 2010 (on article IX of Billet XXIII, Volume 1) directing the preparation of legislation to amend Guernsey's legislation relating to the taxation of pension contributions and benefits in the manner set out in the report of the Treasury and Resources Department dated the 24th August, 2010. They also impose conditions upon tax relief for employer contributions to pension schemes for the purposes of section 2 (1) (a) of the Income Tax (Exemption of Benefits) Ordinance, 1995, as amended. These Regulations came into operation on 27th April 2011.

**IN THE STATES OF THE ISLAND OF GUERNSEY
ON THE 27th DAY OF APRIL, 2011**

**The States resolved as follows concerning Billet d'État No VI
dated 18th March 2011**

PROJET DE LOI

entitled

THE INCOME TAX (PENSION AMENDMENTS) (GUERNSEY) LAW, 2011

- I.-
1. To approve the Projet de Loi entitled “The Income Tax (Pension Amendments) (Guernsey) Law, 2011” and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.
 2. Considering it expedient in the public interest so to do, to declare, pursuant to section 1 of the Taxes & Duties (Provisional Effect) (Guernsey) Law, 1992, that the said Projet de Loi shall have effect on and from 27th April, 2011 and in respect of any year of charge after 2010, as if it were a Law sanctioned by Her Majesty in Council and registered on the records of the Island of Guernsey.

PROJET DE LOI

entitled

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

II.- To approve, subject to the insertion of the date 30 March, 2011 in the preamble, the Projet de Loi entitled “The Terrorist Asset-Freezing (Bailiwick of Guernsey) Law, 2011” and to authorise the Bailiff to present a most humble petition to Her Majesty in Council praying for Her Royal Sanction thereto.

**THE INCOME TAX (EXEMPTION OF BENEFITS)
(AMENDMENT) ORDINANCE, 2011**

III.- To approve the draft Ordinance entitled “The Income Tax (Exemption of Benefits) (Amendment) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

**THE EVIDENCE IN CIVIL PROCEEDINGS (GUERNSEY AND ALDERNEY)
LAW, 2009 (COMMENCEMENT) ORDINANCE, 2011**

IV.- To approve the draft Ordinance entitled “The Evidence in Civil Proceedings (Guernsey and Alderney) Law, 2009 (Commencement) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

**THE LIVE-LINK EVIDENCE IN CIVIL PROCEEDINGS
(GUERNSEY AND ALDERNEY) ORDINANCE, 2011**

V.- To approve the draft Ordinance entitled “The Live-Link Evidence in Civil Proceedings (Guernsey and Alderney) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

TREASURY AND RESOURCES DEPARTMENT

**APPOINTMENT OF NON-EXECUTIVE DIRECTORS
GUERNSEY POST LIMITED**

VI.- After consideration of a Report dated 31st January, 2011, of the Treasury and Resources Department:-

In accordance with section 3 (1) of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, to appoint

1. Simon Milsted as a non-executive director of Guernsey Post Limited.
2. Stuart Le Maitre as a non-executive director of Guernsey Post Limited.

HOUSING DEPARTMENT

**HOUSING (CONTROL OF OCCUPATION) (GUERNSEY) LAW, 1994
REQUEST FOR FURTHER EXTENSION**

VII.- After consideration of the Report dated 20th January, 2011, of the Housing Department:-

1. To agree to the preparation of an Ordinance to enable the Housing (Control of Occupation) (Guernsey) Laws, 1994 to 2008, to remain in force until 31 December 2013.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

HEALTH AND SOCIAL SERVICES DEPARTMENT

THE CHILD PROTECTION (GUERNSEY) LAW, 1972 – DEFINITION OF REGULATED CARE

VIII.- After consideration of the Report dated 28th February, 2011, of the Health and Social Services Department:-

1. That the Child Protection (Guernsey) Law 1972 shall be amended to provide that the requirement for registration of premises known as care centres where children are received to be looked after shall apply only where this involves any child who is under five years old.
2. To direct the preparation of such legislation as may be necessary to give effect to their above decision.

PUBLIC ACCOUNTS COMMITTEE

REVIEW INTO THE INVESTMENTS OF THE STATES OF GUERNSEY

IX.- After consideration of the Report dated 28th February, 2011, of the Public Accounts Committee:-

To note that Report and the appended PricewaterhouseCoopers report.

ORDINANCES LAID BEFORE THE STATES

THE TUNISIA (FREEZING OF FUNDS) (GUERNSEY) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Tunisia (Freezing of Funds) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on the 21st February, 2011, was laid before the States.

THE LIBYA (RESTRICTIVE MEASURES) (GUERNSEY) ORDINANCE, 2011

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, the Libya (Restrictive Measures) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on the 4th March, 2011, was laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE HEALTH SERVICE (BENEFIT) (LIMITED LIST) (PHARMACEUTICAL BENEFIT) (AMENDMENT) REGULATIONS, 2011

In pursuance of Section 35 of the Health Service (Benefit) (Guernsey) Law, 1990, the Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) (Amendment) Regulations, 2011, made by the Social Security Department on 4th February, 2011, were laid before the States.

THE INCOME TAX (PENSIONS) (AMENDMENTS AND MISCELLANEOUS PROVISIONS) REGULATIONS, 2011

In pursuance of Section 203 of the Income Tax (Guernsey) Law, 1975, as amended, the Income Tax (Pensions) (Amendments and Miscellaneous Provisions) Regulations, 2011, made by the Treasury and Resources Department on 8th February, 2011, were laid before the States.

**D J ROBILLIARD
HER MAJESTY'S DEPUTY GREFFIER**