BILLET D'ÉTAT

XVII
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 **26th OCTOBER, 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
16 September 2011

PROJET DE LOI

Entitled

THE REFORM (GUERNSEY) (AMENDMENT) LAW, 2011

The States are asked to decide:-

I .- Whether they are of the opinion to approve the Projet de Loi entitled “The Reform (Guernsey) (Amendment) 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 ELECTIONS ORDINANCE, 2011

The States are asked to decide:-

II. - Whether they are of the opinion to approve the draft Ordinance entitled “The Elections Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

THE ELECTORAL ROLL ORDINANCE, 2011

The States are asked to decide:-

III. - Whether they are of the opinion to approve the draft Ordinance entitled “The Electoral Roll Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

THE REFORM (GUERNSEY) (AMENDMENT) ORDINANCE, 2011

The States are asked to decide:-

IV. - Whether they are of the opinion to approve the draft Ordinance entitled “The Reform (Guernsey) (Amendment) Ordinance, 2011” and to direct that the same shall have effect as an Ordinance of the States.

THE HOUSING (CONTROL OF OCCUPATION) (EXTENSION) ORDINANCE, 2011

The States are asked to decide:-

V. - Whether they are of the opinion to approve the draft Ordinance entitled "The Housing (Control Of Occupation) (Extension) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE DATA PROTECTION (BAILIWICK OF GUERNSEY (AMENDMENT) ORDINANCE, 2011

The States are asked to decide:-

VI. - Whether they are of the opinion to approve the draft Ordinance entitled "The Data Protection (Bailiwick Of Guernsey) (Amendment) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

TREASURY & RESOURCES DEPARTMENT

Developing SAP & Shared Services

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

10th August, 2011

Dear Sir

1. **Executive Summary**

This report sets out proposals, in accordance with the States Financial Transformation programme, for the development of the States' existing core business system, SAP, and the establishment of a new 'Shared Services' administration model.

1.1. The proposals in this report include centralisation of some administrative staff into a Shared Transactional Service Centre (STSC) and a corresponding extension of the States' principal business system so that it covers not only finance and procurement but also human resources. Furthermore, the development of the States' corporate asset management system, as defined in the 2009 Capital Prioritisation report at an estimated cost then of £600,000, is recommended as part of this project in order to ensure maximum benefits are delivered in all areas.

1.2. While the capital cost of £7.9m for this project appears high, this must be set alongside the very significant benefits that will be achieved following implementation. In particular it will deliver substantial cost savings of £1.7m per annum while driving huge improvements in business practices across the States. Benefits include: -

- A reduction of approximately 50 administrative posts.
- The avoidance of duplication of effort across departments.
- A corresponding reduction in management overheads.
- Improved access to better quality information.
- Improved ability to drive volume-based discounts from suppliers.
- Increased automation of processes.
- A reduction in the number of IT systems with all the maintenance and licensing costs that go with them.

It will also enable a number of additional projects to progress that will help the Financial Transformation Programme (FTP) to realise its £31m per year revenue savings target. Specifically, 16 additional FTP projects are dependent on delivery of this project to realise their full potential savings of £9.5m per year. These dependent projects cover the areas of: -

Finance	*Review of external charging for services.*
Human resources	*Development of the HR function, recruitment, retention and performance management of staff.*
Procurement	*Reviewing States spending patterns, rationalising the number of suppliers and volume of invoices, and exploitation of framework contracts aimed at delivering volume-based discounts.*
Property	*Rationalisation of office accommodation and increases in energy efficiency.*
Assets	*Fleet and equipment management.*

Benefits delivered by these dependent projects are in addition to those listed in this report.

1.3 **It should be particularly borne in mind that the predicted efficiency savings of £1.7m per year, realisable from 2013, will mean that the entire capital outlay will be repaid within a five year period. Clearly, any earlier opportunities that arise for making savings, for example by not replacing posts that become vacant during implementation, will be taken advantage of.**

1.4 This project will also bring Guernsey into line with best practice in both public and private sector administration while at the same time, as part of the FTP, providing the best possible opportunity to deliver this type and scale of change in the most cost effective manner.

2. Background

2.1. The proposals contained in this report will deliver major improvements in the manner in which the entire public service operates its ‘back office’ services by centralising and streamlining them, thereby releasing considerable and ongoing efficiency savings.

It is well known that the States is a hugely complex organisation and, in the context of Guernsey, also a very large one. This complexity is not surprising given the history of the States and the manner in which it has developed. The Machinery of Government changes implemented in 2004 significantly reduced the number of former committees but it is clear that this has not always resulted in the most efficient business practices. Almost every department has developed its own ways in which to manage its finances, recruit and manage staff and purchase goods and services. Having ten or more variations of the States' 200+ key business processes[1] is obviously inherently inefficient and represents a major opportunity to achieve greater value for money for the taxpayer.

This inefficiency is most clearly identifiable in the widespread duplication of effort required to deliver the States internal back-office services; Finance, Procurement, Human Resources and Asset Management.

Back Office Function	What it does
Finance	Receives income, pays suppliers and staff, manages bank accounts and investments, plans future income and expenditure, accounts for costs, income and assets and reports timely and accurately across all of the above.
Procurement	Provides purchasing and supply advice and support to all States departments. Also establishes and manages corporate contracts with key suppliers, and aims to ensure that good value for money is received for States spending across the organisation.
Human Resources	Manages the appointment and induction of new staff into the organisation, their personal and professional development throughout their life in the public service, their conditions and work patterns, and their departure from service.
Asset Management	Manages and maintains physical assets such as land, property, vehicles and equipment to a standard and quality necessary to support the efficient and effective provision of public services.

Inefficiencies in these back office functions, and the cash benefits available from their removal, have already been well documented in the Tribal Consulting Phase 2 report for the States' Fundamental Spending Review, debated in October 2009[2], which focussed heavily on the duplication of effort across departments.

2.2 That duplication is perhaps understandable given that the previous review of the machinery of government focussed entirely on the political structures rather than

[1] See Appendix 1 for a description of business processes and several examples
[2] Billet d'Etat XXV

on how government's administrative services were organised and delivered. Consequently, over the intervening years, this evident duplication has not been removed resulting in wasted resources, principally in terms of staff time but also in terms of the number of supporting IT systems.

Tribal's principal recommendation regarding these inefficiencies was to consolidate, or centralise, these services in order to **make them as standardised and efficient as possible**, using the minimum number of staff and systems to deliver the services required by front line service departments.

2.3 Consolidation or centralisation of a company's back-office services is not a new concept. The term 'Shared Services' was coined in the 1980's to describe the central delivery of administrative services in organisations that are widely distributed, either by location or by internal divisions.

In the intervening years, use of shared services models to deliver these functions has become common, with benefits stemming from economies of scale, improved standardised business processes, and integration of all back-office functions to ensure efficient internal service delivery.

The consolidation of these corporate functions also results in a reduced burden of administration for front-line service departments which increases their ability to focus on external service delivery.

2.4 The benefits seen in both private sector and UK public sector projects will also be seen in Guernsey; these include: -

- A reduction in administrative staff.
- Avoidance of duplication of effort across departments.
- A corresponding reduction in management overheads and pension costs.
- Improved access to better quality information.
- Improved ability to drive volume-based discounts from suppliers.
- Increased automation of processes.
- A reduction in the number of IT systems with all the maintenance and licensing costs that go with them.

2.5 The widespread use of shared service models to deliver back-office functions within the UK public sector can be traced back to two key government reports; the 2004 Comprehensive Spending Review and Sir Peter Gershon's 2004 report on UK Public Sector Efficiency. These reports highlighted inefficiencies in departmental back-office activities across national and local government, and made strong recommendations to drive internal efficiency through consolidation of these services and investment in associated systems.

By 2005 these messages had been developed into the "Government Transformation Strategy - Enabled by Technology". In its headline report it states *"Within public services we have to use technology to join up and share* *services rather than duplicate them. It is also self-evident that we will only be able to deliver the full benefits to customers that these new systems offer through using technology to integrate the process of government at the centre."*[3] The report goes on to list shared services as one of its three key strategies; *"Government* ***must move to a shared services culture*** *– in the front office, in the back office, in information and infrastructure – and release efficiencies by standardisation, simplification and sharing."*[4]

These messages were again reiterated in the UK's 2007 Comprehensive Spending Review which reinforced the view that further cashable benefits were available through increased consolidation of back-office services, and again in the 2009 Operational Efficiency Programme review which used private sector experts to make recommendations for further significant improvements.

By the end of 2010 almost all UK government departments had introduced shared services models for the provision of, at least, back-office functions. At a local level the majority of County Councils have implemented, or are in the process of implementing, shared service centres, as have many District Councils.

2.6 In the local context, the States' own Fundamental Spending Review (2009) also focussed heavily on removing duplication of effort in the delivery of back-office functions, with Tribal Consulting dedicating much of both their Phase 1 & Phase 2 reports to the subject. The introduction to the FSR Phase 2 report defines the *"Introduction of standardised systems and processes"*[5] as one of the six key principles underpinning the FTP, all of which were accepted by the States.

To ensure the principle of removing duplication was adhered to Tribal Consulting recommended the single largest investment within the FTP portfolio be made in order to develop the States' SAP solution.

2.7 Delivery of the projects listed within this report will also help address criticisms made by the Welsh Audit Office (WAO) report, principally the States' ability to make informed decisions based on timely, accurate data. The WAO noted that *"decision making within the States is often…..not supported by an adequate evidential base"*.

Access to high quality, credible information is critical in developing any proposal laid before the States, and delivery of this project will give policy groups, departmental boards and staff significantly improved access to robust data. Not only will the tools available be enhanced but the quality of underlying data will be greatly improved through a combination of data cleansing during implementation and better control of future data entry.

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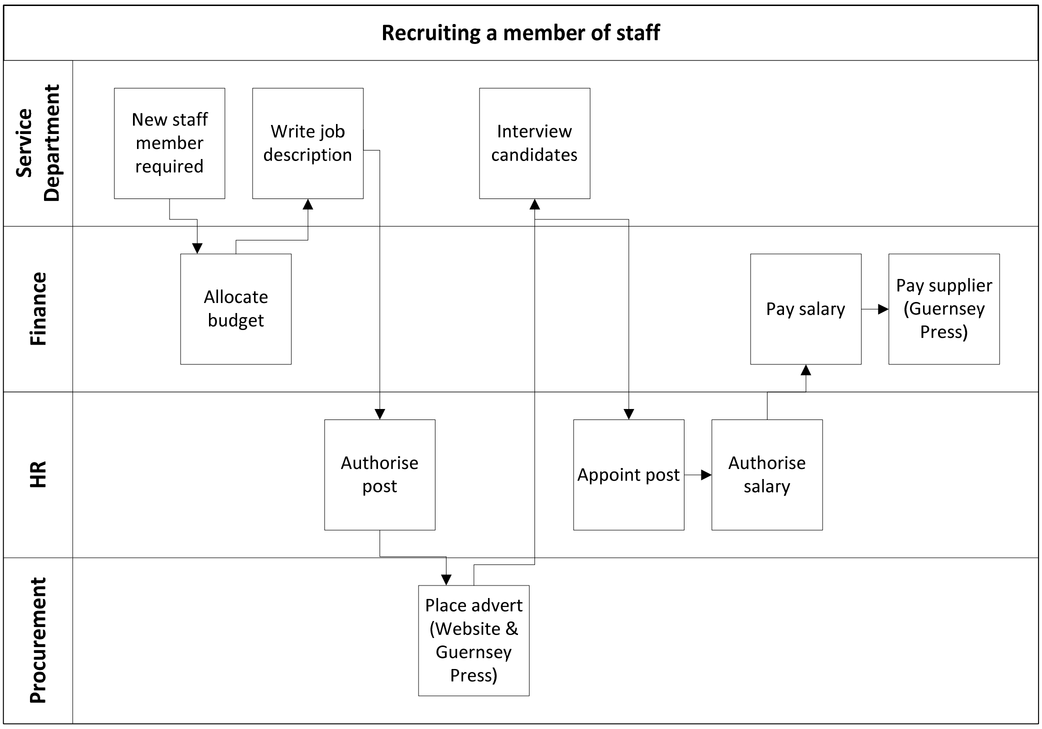
[3] Transformational Government – Enabled by Technology, 2005
[4] Transformational Government – Enabled by Technology, 2005
[5] Unbeatable services, efficiently delivered. Tribal Consulting. 2009. p.6.

2.8 In all the cases listed above there is a clear understanding that **developing and consolidating back office services requires a substantial investment in the underlying technology**. Failure to do so will result in the States bringing together inefficient processes and numerous discrete systems that will yield few benefits and lead to high levels of user dissatisfaction. Such dissatisfaction would inevitably pave the way for a return to devolved activities as departments seek service levels comparable to those they had prior to centralisation.

In the case of the States the principal investment in technology required is for our core line-of-business system, SAP.

2.9 SAP is an 'Enterprise Resource Management' system. It helps large organisations such as the States manage all the resources at their disposal, including staff, money, property and other assets. The benefit of combining these activities into the one business system is that the processes can be closely linked, ensuring that each end-to-end process is integrated to make it as efficient as possible.

An example of an integrated process can be seen below where the process for hiring a new member of staff is mapped out.



Most of the steps shown in the diagram above are currently undertaken manually and connected only by a paper-trail. The sequence of events, and the steps themselves, are frequently different for each department. This leads to: -

- Potential for costly errors at each stage of the recruitment process.
- Greater requirement for staff resources to manage the process.

- Duplication of effort (often in more than one area of the organisation).
- Lack of overall process control e.g. budget approval.
- Lack of standardisation and consequently increased costs.

This example has been simplified for inclusion in this report but, even at this high level, it is easy to see how this lack of standardisation results in significant additional costs. Standardisation of business processes, where possible, is essential if the States are to demonstrate their commitment to running an efficient public service that offers good value for money.

2.10 In 2001 the States invested in the original implementation of the core SAP finance and procurement modules, an investment that has paid dividends for over a decade and which now underpins all general revenue finances. Additional elements have been 'bolted-on' over the years, notably in the form of payroll for all departments and plant maintenance for the Health and Social Services Department, but the complete, integrated system required to bring together the example above did not form part of the original suite of modules that were to be implemented. Further, allowing use of the system to be optional rather than mandatory led to the system being used in different ways across the States or not at all in certain areas.

2.11 This project will build upon this original foundation and extend its reach across all departments, ensuring that, where appropriate, common processes are used and the minimum effort is expended on corporate administration.

3. **Benefits**

3.1. The benefits of implementing a shared services model in a public sector environment have been well documented over the last decade. The above mentioned reports are supplemented by many further reports, strategies, policies and plans, all targeted at delivering more efficient services to internal and external customers through the use of consolidated services and improved supporting technology.

The UK government set departmental targets in 2007 of a 20% reduction in revenue spend solely from the implementation of shared services in the finance and HR functions[6]. This target was considered conservative, especially given that private sector benchmarks are usually greater than 30% of back-office costs, but was set at a time when there was a much wider efficiency programme already in place.

3.2 In the context of the States of Guernsey the key benefits are as follows:-

- Avoidance of duplication of effort across departments, resulting in a more efficient use of existing resources.

[6] Improving Corporate Functions using shared services. National Audit Office, 2007. p.7.

- Reduction in headcount relating to administration, and a corresponding reduction in management overheads, resulting in lower resource costs.
- Greatly improved access to better quality information for all stakeholders.
- Increase in corporate, collaborative purchasing driving volume-based savings.
- Improved, standardised work processes leading to faster, more accurate transactions.
- Integration of work processes across functions resulting in a lower resource requirement for common transactions.
- Increase in automation of processes resulting in lower resource costs.
- A reduction in our reliance on our Support partners leading to lower ongoing revenue spend.
- A significant reduction in the number of IT systems with benefits stemming from both reduced management overhead and lower maintenance costs.

3.3 Further long-term benefits include: -

- The potential to use the shared service function to handle front-line enquiries.
- The headcount reduction enhances potential benefits relating to the rationalisation of the States' estate accommodation.

4. **Objectives**

4.1. Strategic Objectives

This project delivers against one of the principal requirements of the 2010 States Strategic Plan (SSP); the delivery of co-ordinated and cost-effective public services. It represents the single greatest opportunity to deliver a leap forward in terms of the operational efficiency within the public service without significant impact on front line services.

It is further closely aligned to two of the SSP's Fiscal and Economic Objectives:

a) Spending within the constraints of the fiscal framework

The project contributes towards this objective by allowing the States to develop a much clearer picture on past, present and future spend while allowing unprecedented access to this information through the use of improved reporting tools.

b) Real term freeze on aggregate States revenue expenditure

With the cost of providing true front-line services continuing to escalate it is more important than ever to cut costs on back-office administration. This project will provide the States with improved financial controls that will ensure that both less money is spent overall through better procurement, and less resource is required to administer these back-office functions.

4.2. Financial Objectives

This project aims to deliver against the following financial objectives:-

- Net general revenue reduction of at least £1.7m per year from 2013.
- Return on capital investment by the end of 2017.
- Delivery of the project objectives within a total budget of £9.4m.

It will achieve these objectives through a reduction in the number of administrative staff, a reduction in the number of IT systems, and a high volume of smaller efficiencies in the areas of procurement, debt management, and recruitment.

The reduction of administrative staff is expected to take place through natural turnover, redeployment and, where appropriate, voluntary redundancy. Only in circumstances where all other avenues have been exhausted will compulsory redundancy be considered.

The project's ability to deliver against its financial objectives will be reviewed at regular points throughout the life of the project. Specifically, the Treasury and Resources Department will conduct a gateway review at the end of the design phase to decide whether or not to proceed with the full implementation. This review will be undertaken against a refined set of project financials developed throughout the design phase. This natural break will be reflected in the contract with the preferred bidder and is designed to avoid the project progressing purely due to 'momentum'. On the assumption the decision is made to proceed with the project but variances are identified in respect of the original business case, then the Treasury and Resources Department will refer the matter to the Policy Council.

5. **Alignment of project objectives with Good Governance principles**

5.1. The activities contained in this report are closely aligned with several of the Good Governance principles presented by Public Accounts Committee (PAC), and adopted by the States, in March 2011[7]: -

5.1.1 Core Principle 2 – *Good governance means performing effectively in clearly defined functions and roles*

In the March 2011 Billet on Good Governance, the PAC encourage the States to recognise "*the accountability of each Chief Officer for the cost effective provision of services....to ensure best use of resources*", and continue on to recommend that there be increased "*accountability for leadership and delivery*

[7] Billet D'Etat IV March 2011 & Resolutions, p.241

of co-ordinated and cost effective services". It is the view of the Treasury and Resources Department that this project represents one of the organisation's greatest opportunities to clearly demonstrate commitment to this principle. Development of the STSC and cross-departmental use of SAP will dramatically improve both the cost of provision of public service and the co-ordination and transparency between departments.

5.1.2 Core Principle 4 – *Good governance means taking informed, transparent decisions and managing risk*

In the same report, the PAC cites "*Having and using good quality information, advice and support*" as a supporting principle to Core Principle 4. As has been demonstrated elsewhere in this report, implementation of a truly cross-departmental, cross-functional system will provide hugely improved access through simple, intuitive tools to better quality information for all stakeholders. The information provided will be used to underpin critical operational decisions for many years to come and it is essential that this data is robust, credible and readily available.

5.1.3 Core Principle 5 – *Good governance means developing the capacity and capability of the governing body to be effective*

Section 4.5.9 of the PAC's report goes on to list specific examples of internal control issues and recommends development of rules and directives capable of ensuring departmental compliance with common standards. This project builds upon these recommendations, and the underlying principle of control, by using a rigorous cross-departmental system to control compliance with these corporate rules. Behaviours that, to date, have been voluntary will become mandatory as the system stops users from opting out of, for example, corporate purchasing arrangements, internal financial controls or standard recruitment processes.

6. **Scope**

6.1. The scope of the proposals listed in this report falls into three categories:-

- Functional scope – what the solution will do.
- Departmental scope – who the solution will serve.
- Project plan – who will deliver the solution and when.

6.2. Functional scope

Shared Services

Delivery of the shared services model within the States is proposed via development of the STSC. This will bring together the corporate back office administrative activities of all departments. By consolidating transactional activity into a single place the States can expect to realise the following benefits:-

- Lower costs through economies of scale leading to fewer staff required to complete the same task.
- Increased speed of transactions through streamlined and standardised process, the faster implementation of new processes due to the single organisational structure.
- Improved departmental 'customer experience' due to improved quality and a consistent service being provided by the STSC.
- Better information governance through strong internal process controls and States-wide application of policies, processes and procedures.

The STSC will realise these benefits by delivering the transactional activity as a single unit within the States of Guernsey. The Treasury and Resources Department will enter into Service Level Agreements with all States departments to ensure that the necessary service levels are achieved to support the smooth delivery of front line services.

6.3. During development of the project's business case, and this States Report, an options appraisal was undertaken to evaluate the best method of delivering the services the STSC will provide. In total, seven options were evaluated by the Project Team including private and public sector partnerships, in-sourced models and joint ventures. Each model was scored against a series of objective criteria:-

- Net cash benefit to the States.
- States' ability to deliver the model described.
- States' control over the performance of the STSC.
- Funding model required.
- Scalability and sustainability of the model defined.
- Potential for improvement over current service provision.

The result of this evaluation saw two options emerging as clear leaders: -

1) In-house STSC retaining existing administrative staff, and
2) Fully outsourced STSC requiring a transfer of staff.

The total scores were very evenly matched but the in-house model ranked highest due to the net benefits that would be delivered and the amount of strategic and operational control the States would retain.

SAP System

The revised SAP solution will provide the States with an improved toolset that spans all major corporate functions:-

1) Finance & Procurement

Existing SAP finance functionality will be built upon to create a comprehensive toolset that will allow the finance function to manage the States finances with greater accuracy, transparency and control than ever before. A centralised approach will be provided to all transactional activities such as Accounts Receivable, Accounts Payable, Administration & Banking, Invoice Management, Requisitioning and Payroll, all through the STSC.

Outside of the transactional services provided by the STSC, the finance function will also benefit from improved budget management, project finance management and asset accounting tools. These will enable the States to manage its short, mid and long-term financial positions with a much greater degree of accuracy and certainty than previously possible.

2) Human Resources

SAP is a key enabler to deliver the standardisation and simplification of HR processes. The move to a shared transaction services centre for HR, supported by an HR system, is a key element of the HR functional improvement plan. Good quality HR support to the business must be underpinned by efficient and effective HR systems.

Over time the States of Guernsey have developed numerous variations of the same processes, sometimes due to different agreements with different staff groups but also because of the historical independence of department HR teams. SAP HR and the STSC will go a long way to reducing this non-value-added duplication of effort.

The use of automated processes and 'Self Service' software by employees will reduce the number of inputs required in HR business processes by staff, line managers and the HR function. Instead of paper-based leave requests, expense claims and timesheets, staff will have access to an online system that will dramatically reduce the time required to manage these tasks and the potential for error.

The coupling of these improved business processes with the introduction of a STSC will enable an enhanced, high quality HR administration service to be delivered by fewer staff.

3) Asset Management

A strategic approach to Asset and Real Estate management through the introduction of SAP Real Estate Management, integrated with the planned financial and procurement functionality, will deliver a significant improvement in the ability of the States to enhance the management of its significant property and asset portfolio.

Not only will it provide a single database of information (e.g. value, location and age) on property and asset holdings, but it will also allow us to optimise how we manage our commercial estate, such as acquisition and disposal, lease administration, rent escalations and renewals.

The extension of SAP Plant Maintenance functionality will allow for the linking of property / asset maintenance requirements and costs to asset usage and utilisation, thus allowing the States to understand the real costs of providing a given service.

Finally, the automated scheduling of maintenance activities such as repairs and servicing, including the allocation of costs to individual assets, will enable informed decisions to be made on recurrent and non-recurrent budget requirements, future refurbishment or replacement and where appropriate future rent/service charge levels for external users of States property.

4) Management Information

In addition to the function-specific scope listed above, the project will introduce new tools to provide States Members, policy groups, managers, and staff with greatly improved management information relating to all back-office services. For the first time there will be the flexibility to define and create reports internally, to report across functions, and to provide key staff with regular, automated reports that will allow them to manage their departments with greater confidence and clarity than ever before.

This reporting capability will include the ability to see: -

- Exactly what is being, will be, or has been, spent across all departments.
- What it was spent on, with which supplier and when.
- How much the States owes, or is owed, at any point.
- How many staff are employed, currently working, currently sick or in training.
- Staff costs, both current and future, including non-salary costs.
- Asset management costs, both capital and revenue.
- A combination of any of the above to allow all parties to understand the true cost of running an existing service or developing a new one.

5) IT

The SAP/STSC project will be delivered alongside another FTP project, the *Corporate IT Service Model*, which takes a similar approach to delivering centralised IT services as the SAP & Shared Services project but without using SAP as its underlying system. Many of the ICT services are transactional in nature and, as such, there is a strong likelihood that those services will be delivered out of the Shared Services offices. These will typically include provision of a centralised IT helpdesk and procurement of IT specific products & services.

6.4. Departmental scope

The services and tools described in this report are to be rolled-out across all departments, committees and States trading boards (i.e. Guernsey Water, States Works, Guernsey Harbours, Guernsey Airport, Guernsey Dairy). For full details of departmental scope see Appendix 2. During the design (Blueprinting) stage, departments, committees and trading boards will be consulted.

It is the recommendation of the Treasury and Resources Department that the departments and committees listed in Appendix 2 be required to use both the STSC and all applicable SAP tools in order to ensure maximum benefits are delivered and unnecessary process variation is removed.

In the 'Trading Boards', such as the Guernsey Dairy and States Works, it is recommended that a review is undertaken by the project team, in consultation with them, during the design phase to establish which tools and services might be appropriate for those trading activities.

6.5. Project plan

Delivery of any large scale centrally-coordinated change within an organisation as diverse as the States of Guernsey will always be a huge challenge, and the Treasury and Resources Department does not underestimate the importance of ensuring the right resources, governance and project methodology are in place in order to deliver a successful project.

6.6. *Resources*

Implementation of both the shared services centre and the functional upgrades to SAP requires a high degree of input from specialist service providers. In November 2010 the project team started a competitive procurement process that has resulted in the nomination of Logica PLC as preferred supplier for both of the above activities.

This three-stage process started with a panel of 12 potential suppliers being asked to present recommendations to the States based upon an agreed set of high-level requirements. These requirements and the suppliers' recommendations were refined over the following six months during nearly 200 hours of dialogue workshops. The final stage saw the two remaining bidders submit bids against a single specification with the results evaluated by a broad panel of internal subject matter experts. The entire process was supported throughout by both internal legal experts and an experienced Tribal procurement specialist. This best-practice approach has resulted in both a refined project budget based upon a well-defined specification and a robust contract that will result in a project that delivers its benefits with the minimum of financial or reputational risk to the States.

Logica is one of SAP's largest public sector partners and has a long track-record of successful delivery of similar projects. Numerous references have been called on to help the project team understand how Logica's approach to implementing SAP has changed since the States' previous implementation a decade ago, and how successful those changes have been. Logica's responsibilities include: -

- Project management
- Design of the Shared Services environment
- Design, development and implementation of the revised SAP system
- Data migration, Testing, End-user and Trainer training
- Change management

In each area of responsibility the project team have worked hard to ensure that Logica commits an appropriate level of resource to ensure the project delivers a high-quality solution that will serve the States for at least another decade. To that end, Logica have committed over 6,800 man days of consultant and developer effort to ensure the project delivers on promise.

Although Logica will be taking the lead in terms of managing the design, implementation and delivery of the technical aspects, there will be a major resource requirement for the States to meet if the project is going to be successful. The scale of that input has been bought into sharp relief by Logica who have estimated that over 6,000 man days of States' effort will be required in order to ensure that all 'client responsibilities' are executed effectively. To meet this requirement, all departments will be required to provide resources to the project and this may, in some cases, impact upon a department's day to day operational priorities. Some Departments are already pro-actively taking steps to accommodate these needs, and it is recognised that it may be necessary in some areas for Departments to re-organise priorities to ensure successful delivery of this project. This is, however, unavoidable if this project is to be delivered successfully and the wider interests of the States are to be put before and above other departmental priorities.

6.7. *Housing Licences*

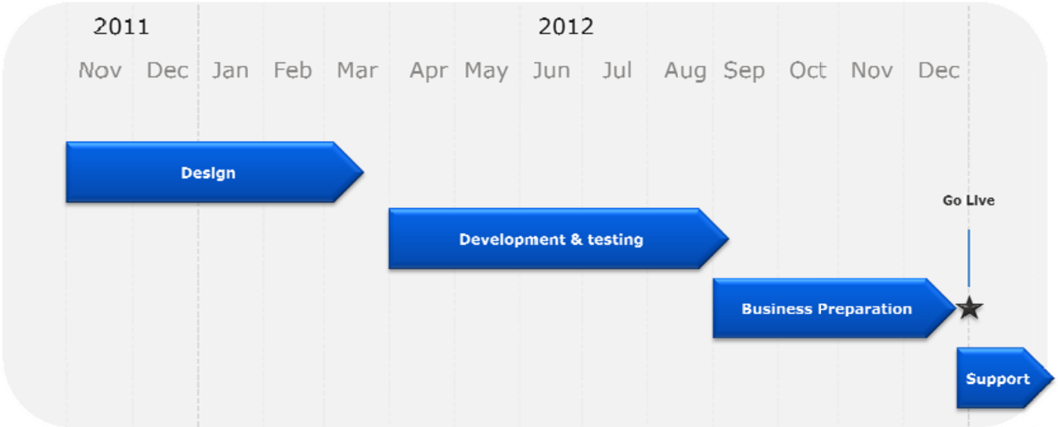
The Logica resources mentioned above are principally UK-based and, as such, will require short-term, temporary housing licences in order to work in Guernsey. At peak, it is expected that up to 31 Logica business analysts, project managers, developers and training staff may be on-island for between 6 and 12 months.

Further, the project team anticipate appointing additional suppliers and independent contractors as necessary, principally for short-term activities, that may potentially require up to 8 further short-term licences.

The Housing Department has been consulted in the preparation of this report and is working with the project team to ensure the project has the minimum possible impact on housing stock.

6.8. *Schedule for delivery*

This project is currently planned to deliver through the following phases but this plan will need to be reviewed as part of the design process:-



Outline project schedule

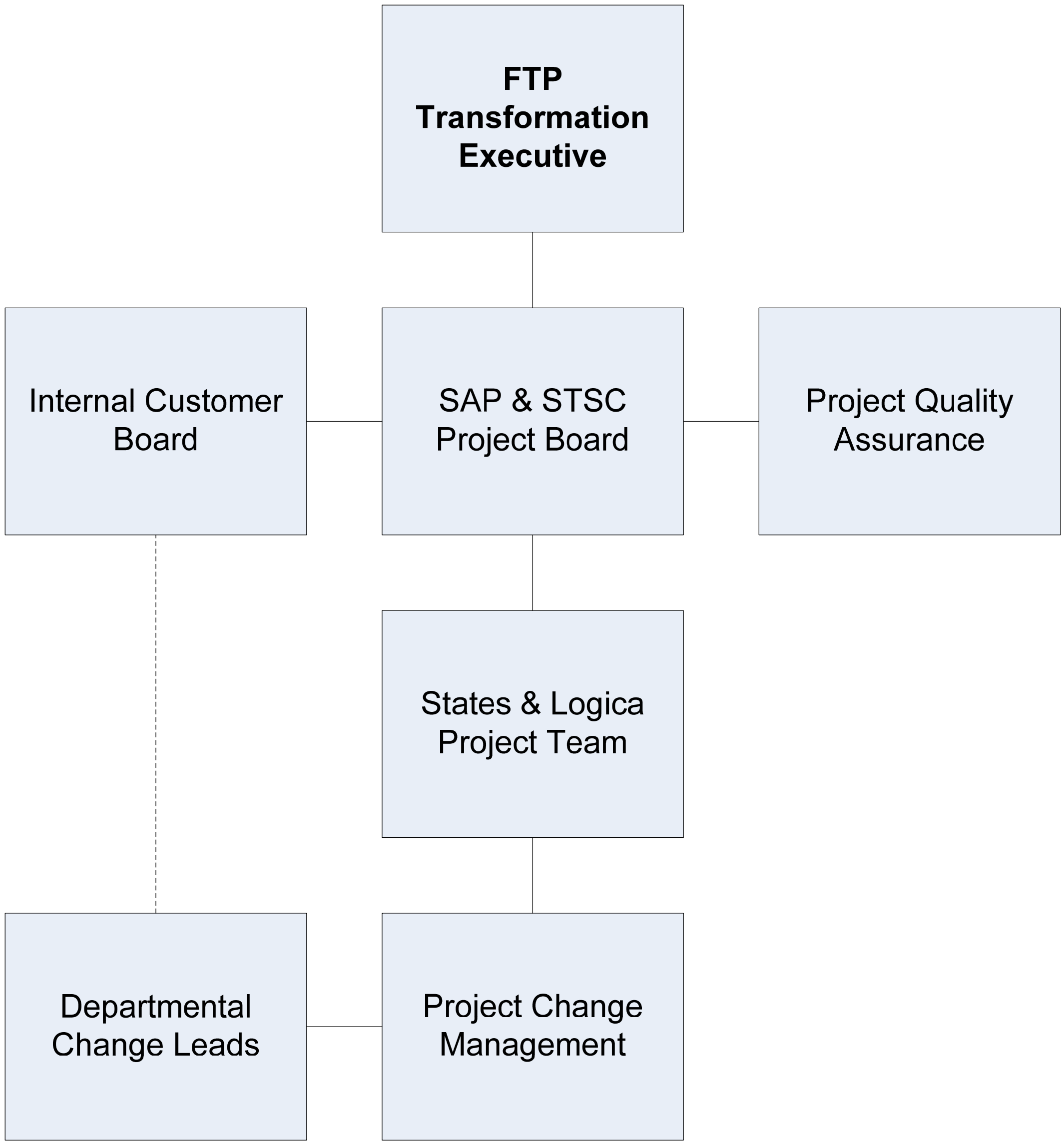
6.9. *Governance*

The developments mentioned in this report are a combination of three key FTP projects: -

- STSC: Shared Services.
- SAP_A: Development of SAP.
- ITU013: Corporate ICT Service Model.

Overall governance of these projects will, as with any FTP activity, be owned by the Policy Council and the Transformation Executive.

In addition, the Treasury and Resource Department recognises that this is a large project with broad impact across the States and has therefore developed a project governance model which ensures significant departmental representation at all levels throughout the life of the project.



SAP & STSC Governance Model

As this project forms part of the FTP, the most senior governance forum for operational issues will be the Transformation Executive.

Direction of the project will be delivered by a Project Board consisting of a political sponsor, senior officers from the States and a senior representative from Logica.

The day-to-day management of the project will be handled by a joint team of States and Logica resources including: -

- Project Managers for both the States and Logica.
- The Director of ICT.

- The FTP Programme Manager.
- A Change Manager.
- An IT Project Manager.
- Functional Leads for each of the back-office services.
- Project Management Office services.

6.10. *The corporate approach to change*

The project team recognises the importance of working with departments on the softer aspects of governance, managing decision-making at a detailed level to ensure the solution genuinely works for all departments. The team have therefore been working with all departments over the past months in order to establish the project's 'Change Network'. This internally-resourced network is responsible for ensuring that all departments' interests are represented at every stage of the project, from project board decisions to detailed business process definition.

All departments have now identified senior lead resources to represent their interests and to ensure smooth transition to the new operating model. In each case these resources will utilise teams of functional experts from within their departments to ensure the solution delivered will be capable of supporting that department in the future.

7. Budget

The cost of implementing the activities contained within this report, and the benefits delivered, are outlined below.

One-off capital expenditure

Type of Expenditure	**Cost (£Ms)**
Software implementation including expenses *All costs to Logica including expenses for all planned on-island time.*	3.70
Software licences *Initial cost of SAP and 3rd party software*	0.80
States IT Interfaces *34 new interfaces are required with other States IT systems*	1.00
IT hardware *Additional IT hardware required to run the revised SAP solution and provide the required infrastructure for the STSC*	0.63

Project team costs & logistics *Project team salaries and project office logistics costs*	0.66
3rd party quality assurance *Use of external expertise to ensure the system delivered by Logica is of sufficient quality.*	0.25
Contingency (excluding licences and staff)	*0.86*
Total	**7.90**

Of the costs listed above, £0.84m relates to the implementation of the Corporate Asset Management system using the relevant SAP modules and shared project resource. This cost can be broken down into:

Software implementation, incl. expenses	£500k
Software licences	£60k
Project team & logistics	£54k
Interfaces	£107k
IT Hardware	£115k
Total	**£836k**

These costs are listed separately as the funds required to develop the Corporate Asset Management system were prioritised during the States' 2009 Capital Prioritisation process albeit that the estimate of cost at that time was £600k.

Additional one-off revenue expenditure

In addition to the capital costs listed it is estimated that approximately £1.5m may be required to cover redundancies.

The calculation of redundancy costs across a broad range of staff requires a number of assumptions to be made in order to arrive at a credible figure. The assumptions used to arrive at the above figure related to the range of possible redundancies and the cost of redundancy per head. This resulted in a total range of £0.5m to £2.5m, the mean average of which is £1.5m. Every effort will be made to ensure redundancies are kept to a minimum. In this connection it must be remembered that in recent years natural turnover in the Civil Service has been of the order of 200 posts per annum. This gives significant opportunities for redeploying staff.

Ongoing revenue expenditure

On top of the above mentioned costs are a number of ongoing revenue costs to be deducted from the gross revenue benefits. These are as follows:

STSC (including a new post of Manager), SAP Support and IT staff	£250k
SAP and 3rd party licence maintenance	£150k
Total	**£400k**

Revenue savings

The benefits figures mentioned elsewhere in this report have been calculated using a methodology developed by the States and Tribal Consulting over the past year. Data gathered from all departments was analysed to anonymously identify the total number of staff who are primarily involved in a given back-office service. This information was then compared to both private and public-sector benchmarks in order to understand what an organisation of the scale of the States *should* require to deliver its administrative services. The results of this analysis were then weighted to allow for the breadth of activities undertaken by the States as well as scenarios where staff are shared between front and back office responsibilities. The figures generated by this analysis have been further refined to take into account the organisation's ability to deliver change.

In order to understand the value of each post the project team analysed the salary grades of all administrative jobs and applied an average across all values.

The conclusions reached by the project team were that the organisation could operate service levels in line, or above, current levels with a reduction of approximately 30% - 50% of its core administrative staff. The business case was based on a mean average which the project team and Transformation Executive are confident can be achieved.

The benefits are therefore:-

Percentage reduction in administrative posts	Volume of posts	Gross benefits (£Ms)
30%	c.36	1.4
40%	**c.48**	**1.9***
50%	c.60	2.4

*NB. Mean average payroll savings of £1.9m plus a reduction in 3rd party SAP support costs of £200,000 less (new) ongoing revenue expenditure at £400,000 (see previous page) = £1.7m p.a.

In addition to the benefits listed above there are other, smaller cashable and non-cashable benefits. These include: -

- The decommissioning of up to 54 IT systems through replacement by SAP.
- A reduction in postage costs through less outbound invoices.
- A reduction in turnaround time for public enquiries relating to invoices.
- A more reliable, faster, easier system for all staff to use.
- Environmental benefits through less paper-based processes.
- Reduction in recruitment-related costs.

Cost / Benefit fluctuation

The figures used to define cashable benefits have been developed in conjunction with the Policy Council HR Unit on an anonymous basis. The salaries used to derive benefits and the potential cost of redundancy have been based upon gradings and common roles rather than identification of specific individuals. Both the benefits and redundancy costs are therefore subject to some fluctuation depending on the final design of the STSC and the choices made by impacted staff.

8. Key Strategic Risks

A complete risk register is available through the SAP Project Office, but the key strategic risks below are currently considered the most significant.

8.1 Business change and the potential for impact on front line services

The Treasury and Resources Department recognises that implementation of the STSC and SAP will inevitably result in short-term, but nevertheless significant, disruption for many departments and, in turn, the potential for disruption to front-line services. This risk will be mitigated through the provision of robust change management support from the project team and development of a network of business change managers within the departments, senior staff with the authority and resources to ensure change happens with the least impact possible.

8.2 Political acceptability of redundancies

The activities contained within this report represent a significant change in the way the public service operates, at least on an administrative level. It is recognised that, although the operating model outlined is a well established one elsewhere, the volume of posts that will be lost may be the focus of debate rather than the suitability of a shared service model for the States. The project team view the manner in which many of posts will be removed, for example through natural turnover and early retirement, as the principal mitigation to this effect.

9. Conclusions

9.1. In conclusion, development of the STSC, the SAP business management system, and the Corporate Asset Management system, all in parallel, will allow the States to transform the way in which it provides back office services to departments and committees, take advantage of significant revenue savings and provide all stakeholder groups with greatly improved management information.

9.2. Undertaking this now as part of the FTP will generate the maximum cashable benefits and take advantage of the momentum developed through 18 months of FTP activities.

9.3. Successful delivery of this project will demonstrate to taxpayers that the efficient running of its operations is an obligation the States take seriously and, further, that the States are willing to take difficult financial and political decisions in order to make good on the commitments made in the Fundamental Spending Review debate in October 2009.

10. **Recommendations**

10.1 Accordingly, the Treasury and Resources Department recommends the States to:-

a) Agree that both the Shared Transactional Service Centre and the upgraded SAP business system should be implemented through the Financial Transformation programme.

b) Agree that the Treasury and Resources Department should, in accordance with its mandate, be the principal owner of the STSC and the underlying SAP platform.

c) Direct all departments and committees to use both the STSC and underpinning SAP business system for the provision of finance, HR, IT, and procurement support.

d) Direct all departments and committees to allocate sufficient resources during both the design and implementation phases to ensure the project is delivered successfully.

e) Confirm acceptance of the tender from Logica PLC, in the sum of £3.7m, to implement the revised SAP solution and provide support services for a period of five years.

f) Approve a capital vote of £7.1m to fund development of the STSC and core SAP functionality, to be charged to the Fundamental Spending Review Fund.

g) Approve a capital vote of £0.84m to fund development of the corporate Asset Management system, to be charged to the capital reserve.

h) Approve the additional one-off revenue expenditure costs associated with any redundancies, estimated to be £1.5m, to be charged to the Fundamental Spending Review Fund.

i) Delegate authority to the Policy Council to approve any revisions to the business case which will be reviewed at the end of the project's design phase.

Yours faithfully

Deputy C N K Parkinson,
Minister

Deputy J Honeybill, Deputy Minister
Deputy R Domaille
Deputy A Langlois
Deputy S Langlois

SAP & Shared Services - Appendix 1

Glossary

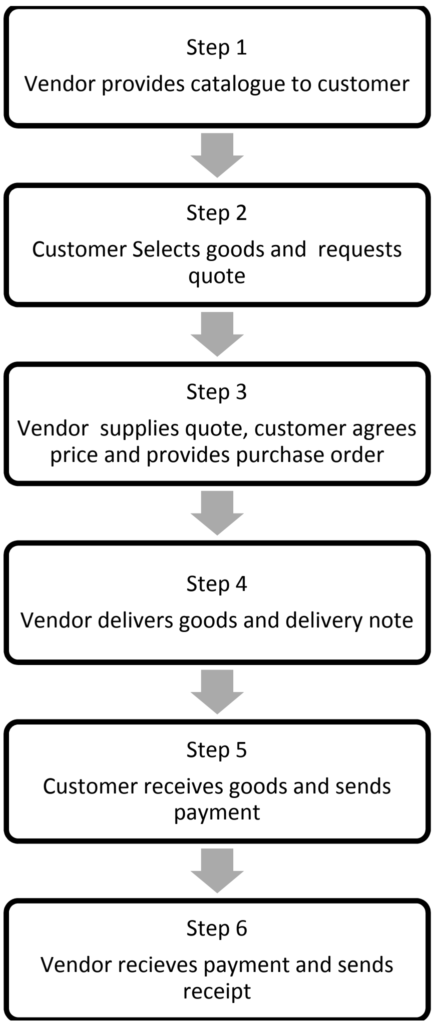
SAP	Stands for 'Systems, Applications and Products in Data Processing' and is a computerised system designed to improve efficiencies in finance, human resource management and operational processes.
Shared Services	A system whereby a business can improve efficiency and reduce costs by using just one part of the organisation to provide a specific service using common processes with a dedicated resource.
Asset Management	A process whereby items to be of value are monitored and maintained in order to extract maximum benefit from them.
Accounts Receivable	Management of monies owed **to** the States of Guernsey from either individuals or suppliers.
Accounts Payable	Management of monies owed **by** the States of Guernsey to either individuals or suppliers.
Employee / Manager Self Service	A system which allows managers and employees access to business information which reduces the need for the involvement of a third party in numerous work flows.
Plant Maintenance	A system of monitoring and maintaining equipment or premises to ensure continual operation and maximise efficiency.
Real Estate Management	The processes, manpower and systems required to fully manage the entire life cycle of a property to ensure maximum benefit to the owner.
Operational Procurement	Procurement is the process of acquiring goods, works and services from third parties and in house providers.
STSC	"Shared Transactional Services Centre"
FTP	"Financial Transformation Programme"

Business Process

A business process is a collection of tasks or activities that when combined deliver a product or service to a customer. The sole purpose of such a process is to improve the efficiency of the business, this requires the process to be as straightforward as possible in order to avoid any extra steps which could lead to duplication of effort or might cause the process to take longer than it should.

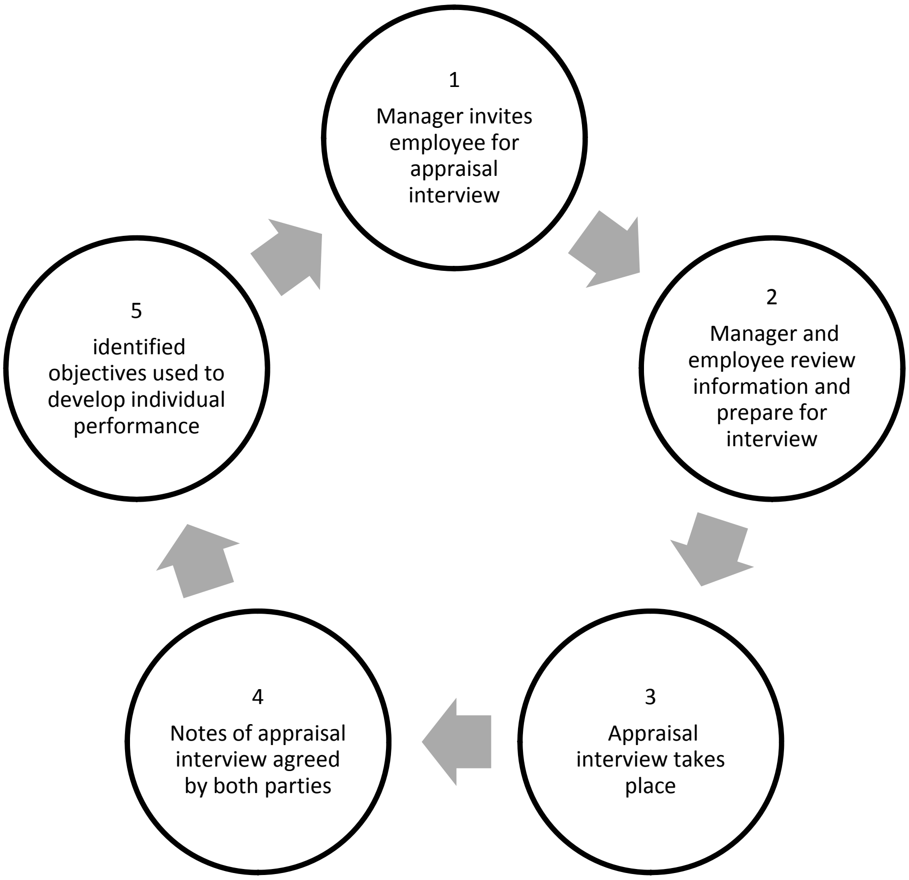
It is important to note that effective business processes are important to both internal and external customers if the business is to succeed.

Example 1 – Purchasing Transaction



A business process can also be cyclical as in example 2 below.

Example 2 – Staff Appraisal Interview



SAP & Shared Services - Appendix 2
Departmental Scope

For clarity, this includes:-

- Policy Council
    1. Core services
    2. Legal Aid
    3. Policy Council Human Resources Unit
    4. Policy & Research Unit
    5. External Affairs
    6. Island Archives

- Courts & Law Officers
    1. Courts
    2. Law Officers
    3. HE Lieutenant Governor

- Treasury & Resources Department
    1. States of Alderney
    2. Client Services
    3. States Property Services
    4. Treasury
    5. Corporate IT Unit
    6. Central Procurement Service
    7. Income Tax
    8. Cadastre / Land Registry

- Commerce & Employment Department
    1. Central Services
    2. Guernsey Dairy
    3. Guernsey Registry

- Culture & Leisure Department
    1. Central Services
    2. Beau Sejour Leisure Centre

- Education Department
    1. Central Services
    2. Schools & libraries
    3. College of Further Education

- Environment Department
    1. Environmental Services
    2. Traffic & Transport
    3. Planning Services

4. Central Services

- Home Department
    1. Central Services
    2. Fire & Rescue Service
    3. Guernsey Border Agency
    4. Police
    5. Prison Service
    6. Probation Service

- Housing Department
    1. Central Services
    2. Corporate Housing Programme
    3. Residential homes

- Health & Social Services Department
    1. Corporate Services
    2. Health & Social Care Services
    3. HR
    4. Public Health Services
    5. Finance & Performance

- Public Services Department
    1. Central Services
    2. Airports
    3. Harbours
    4. States Works Department
    5. Guernsey Water

- Social Security Department
    1. Central Services
    2. Social Security Funds

- Public Accounts Committee, Public Sector Remuneration Committee, States Assembly & Constitution Committee, Scrutiny Committee

(NB The Policy Council, by a majority, supports these proposals.)

The States are asked to decide:-

VII.- Whether, after consideration of the Report dated 10th August, 2011, of the Treasury and Resources Department, they are of the opinion:-

1. To agree that both the Shared Transactional Service Centre and the upgraded SAP business system should be implemented through the Financial Transformation programme.

2. To agree that the Treasury and Resources Department should, in accordance with its mandate, be the principal owner of the STSC and the underlying SAP platform.

3. To direct all departments and committees to use both the STSC and underpinning SAP business system for the provision of finance, HR, IT, and procurement support.

4. To direct all departments and committees to allocate sufficient resources during both the design and implementation phases to ensure the project is delivered successfully.

5. To confirm acceptance of the tender from Logica PLC, in the sum of £3.7m, to implement the revised SAP solution and provide support services for a period of five years.

6. To approve a capital vote of £7.1m to fund development of the STSC and core SAP functionality, to be charged to the Fundamental Spending Review Fund.

7. To approve a capital vote of £0.84m to fund development of the corporate Asset Management system, to be charged to the capital reserve.

8. To approve the additional one-off revenue expenditure costs associated with any redundancies, estimated to be £1.5m, to be charged to the Fundamental Spending Review Fund.

9. To delegate authority to the Policy Council to approve any revisions to the business case, which will be reviewed at the end of the project's design phase.

COMMERCE AND EMPLOYMENT DEPARTMENT

THE UNIVERSAL POSTAL SERVICE AND OBLIGATION

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

10th August 2011

Dear Sir

1. Executive Summary

1.1 The basic principle of a universal postal service is that everyone – meaning every residential and business address – receives a defined level of service and pays the same price for it, whatever the distance and difficulties there may be in collection or delivery. Thus the extra expense of serving more difficult addresses is balanced by the lower cost of serving easier addresses and this is achieved at what is considered to be an acceptable cost.

1.2 Market and other trends both within and external to Guernsey over recent years have resulted in an increase in the costs of providing the current Universal Service Obligation (USO) and those trends are likely to continue prompting the need for Guernsey to assess the appropriateness and affordability of its own USO.

1.3 In March 2011 the Commerce and Employment Department, with the support of Guernsey Post Limited (Guernsey Post) and the Director General of Utility Regulation (the OUR), undertook a consultation process on the possible revision of the extent of the Universal Postal Service which Guernsey Post is obliged to provide under a direction from the States of Guernsey which is reflected in the terms of its licence from the OUR.

1.4 This States Report presents a commentary on the responses to the consultation process and recommends that the USO should be reduced from the present 6 days a week collection and delivery to 5 days a week. It is not recommending any other changes to the USO at this time.

1.5 For the avoidance of doubt this States Report deals with the <u>extent</u> of the USO. A separate States Report has been submitted by the Department discussing, within the context of a general review of Utility Regulation, how the provision of the USO might be funded.

2. The Strategic and Corporate Governance Context

2.1 Two of the main macroeconomic and fiscal objectives in the Fiscal and Economic Plan are a "*Diversified, broadly balanced economy*" and "*Well regulated, competitive domestic markets*". The 2011 Commerce and Employment Department Business Plan set out the work streams for the year to contribute to the achievement of States' objectives and under the heading of Communications and Connectivity referred to a review of the USO on postal services.

2.2 The mandate of the Commerce and Employment Department includes "*The strategic approach to, and the regulation of utilities*". Under the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 the States may, on the recommendation of the Commerce and Employment Department made after consultation with the Director General, give to the Director General directions specifying, amongst other things, the scope of any USO.

2.3 By way of explanation, under The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 the Treasury and Resources Department undertakes on behalf of the States the role of shareholder of Guernsey Post Limited. Whilst the shareholder role does not encompass directions to the Director General the Minister of the Treasury and Resources Department was advised of, and supported the need for, a review of the USO on postal services.

2.4 The Commerce and Employment Department considers that it has conducted its review of the USO on postal services in accordance with the core principles of Good Governance particularly in respect of focusing on purpose, performing effectively in clearly defined functions and roles and full engagement with stakeholders. The Department believes that this report also demonstrates compliance with the core principles of enabling the States to take informed, transparent decisions and thereby managing risk.

3. Introduction

3.1 The basic principle of a universal postal service is that everyone – meaning every residential and business address – receives a defined level of service and pays the same price for it, whatever the distance and difficulties there may be in collection or delivery. Thus the extra expense of serving more difficult addresses is balanced by the lower cost of serving easier addresses and this is achieved at what is considered to be an acceptable cost.

3.2 The Universal Service for Guernsey is set by the States and Guernsey Post is obliged to provide it under the terms of its licence from the OUR. The Universal Service Obligation (shown in full in Appendix 1) has three major elements:

- One collection per day from access points (principally post offices and post boxes) on six days each week;
- One delivery per day of letter mail to the home or premises of every natural or legal person in the Bailiwick on six days each week including all working days;
- An adequate density of access points and contact points (post offices and post boxes) to take account of the needs of users.

3.3 Guernsey Post has the exclusive right (a monopoly) to provide services within a "Reserved Area" of the market, to ensure that it can generate sufficient revenue to fund a universal postal service.

3.4 Market and other trends both within and external to Guernsey over recent years have resulted in an increase in the unit costs of providing the current USO and those trends are likely to continue.

3.5 Through the sale of stamps Guernsey Post's revenue is proportionate to the volume of mail posted in the island. However the cost of basic collection and delivery services are the same whatever the traffic: delivering two letters to a house costs no more than delivering one letter, and collecting 50 letters from a post box costs little more than collecting one letter. The existence of such fixed costs makes postal services vulnerable to a decline in traffic.

3.6 Key factors have been:

- Changes to the commercial relationship with Royal Mail which have resulted in increased cost being borne by Guernsey Post.
- A decline in volumes in core postal services due to changing social, technological and economic circumstances that is common to most postal operations around the world.
- A rebalancing of the charges that Guernsey Post makes for bulk mail fulfilment activities in order to keep this important economic exporting sector competitive, such that each market, core and fulfilment, covers its direct costs and makes a contribution to GPL's overheads.

3.7 As the cost of providing the USO is borne by all customers receiving services within the reserved area it is appropriate to review whether or not the current defined level of Universal Postal Service, and the cost to customers of providing it, is proportionate to today's social, technological and economic circumstances.

3.8 Three broad options for revising the USO regime were discussed in the consultation paper:

- **Maintaining the current scope of the USO** whilst seeking to increase income and/or reduce costs - it is taken as a given that Guernsey Post will achieve the cost efficiencies that it has proposed to the OUR and that appropriate opportunities to increase income and/or the contribution to overheads of core postal activities will be pursued.

- **Maintaining the current scope of the USO** but introducing alternative funding arrangements - including reverting to the cross subsidisation of core postal services by bulk mail services and the introduction of a grant from taxpayer revenues.
- **Reducing the current scope and hence costs of the USO** – the Department's consultation sought the views of the community on a possible reduction in the frequency of collections and deliveries and/or a reduction in access points to the postal system.

4. Responses to the Consultation Process

4.1 Responses to the consultation process are set out in some detail in Appendix 2, but in summary there was a general view that:

- the consultation paper accurately reflected the realities of the postal market;
- the USO should be self funded and not rely on a grant subsidy from general revenue or a cross subsidy from other activities, e.g. bulk mail activities, other than making a fair contribution to overheads;
- roughly 60% of respondents to the questionnaire agreed that the frequency of collections and deliveries could be reduced from six days a week but two thirds of these wanted it reduced to five days a week, not to three;
- perhaps because there was little support for three days a week collections and deliveries only 27% of respondents supported businesses being able to pay a premium for an increased frequency, the remaining 73% either didn't support this option, didn't know or did not answer;
- a slight majority of the 62% of respondents to the questionnaire who expressed a view were against reducing the number of postal access points (including post offices) and this was re-enforced in the free form comments;
- a large majority of the 71% of respondents who expressed a view were in favour of the States continuing to determine the extent of the USO.

4.2 The Guernsey Post response made a number of comments about the nature of the USO, the size of the Reserved Area and the possible implications of increased competition in postal services that are relevant to the general Review of Utility Regulation.

4.3 Guernsey Post has confirmed that a reduction to collection and deliveries of five days per week, thereby also reducing the requirement to sort and transport mail to and from the island to five days per week, would produce estimated savings of £0.5m pa which would help to moderate any future stamp price increases. Savings on the operation of the two St Peter Port Post Offices (ie Envoy House and Smith Street) have already been identified but Guernsey Post does not believe that savings from the closure of the 11 smaller and lower-cost agency branches would be worth the inconvenience to users.

5. Conclusions

5.1 Based on the responses to the consultation process and further discussion with Guernsey Post and the OUR the Commerce and Employment Department believes that, in current and predicted future circumstances, a reduction in the USO for collections and deliveries from six to five working days per week is justified by the benefits to customers in terms of reducing costs and moderating future increases in charges.

5.2 The current Directions refer to deliveries "*on six days each week including all working days*" and there was some comment in the consultation responses on which days deliveries should be made if the frequency was reduced.

5.3 Guernsey Post has advised that the breakdown of mail volumes spread over the days of a typical week are approximately:

Monday	11%
Tuesday	17%
Wednesday	20%
Thursday	19%
Friday	19%
Saturday	14%

5.4 It could be argued that if the frequency of collections and deliveries is to be reduced by one day then the least detriment to service would be achieved if there were no deliveries on the day of least postal volumes i.e. on Mondays. Guernsey Post has advised however that the number of "successful deliveries" reduces significantly on a Saturday to the extent that it is almost identical to that of a Monday.

5.5 The most significant factor in determining on which days collections and deliveries should be retained is the effect on items posted at or near weekends as set out below.

Collection and Delivery Monday to Friday

Posted on Friday	Collected, sorted and dispatched on Friday Delivered in UK Saturday (if Royal Mail continues 6 day USO) Delivered locally on Monday
Posted on Saturday or Sunday	Collected sorted and dispatched Monday Delivered in UK Tuesday Delivered locally Monday

Collection and Delivery Tuesday to Saturday

Posted on Saturday	Collected, sorted and dispatched on Saturday Delivered in UK Monday (if Royal Mail continues 6 day USO) Delivered locally on Tuesday
Posted on Sunday or Monday	Collected, sorted and dispatched on Tuesday Delivered in UK Wednesday Delivered locally on Tuesday

5.6 Both Guernsey Post and the Commerce and Employment Department believe that to maximise the savings that can be achieved and because of the potential impact of the two day delay in mail posted on a Monday being delivered in the UK, the option of Monday to Friday collection and deliveries is vastly preferable to the Tuesday to Saturday option. Even if Saturday sorting is discontinued, access to the PO boxes on a Saturday can be maintained to continue to allow ad hoc users to collect mail at their convenience.

5.7 If, as seems likely, Royal Mail reduces to deliveries of five days a week, then it is almost certain that, in line with many other European jurisdictions, Saturday deliveries will be discontinued in which circumstances the case for the local Monday to Friday services would be even stronger.

5.8 The Commerce and Employment Department therefore believes that the States Directions should continue to require deliveries on "*all working days*" with a clarification that this excludes weekends. This is consistent with the definition of the USO in most Western European jurisdictions.

5.9 The Commerce and Employment Department is making no recommendations for other amendments to the States Directions so that the current requirements on access points remain unchanged and the States remains responsible for making any further detailed changes to the USO.

6. Consultations

6.1 Under Section 3 (1) of the Regulation of Utilities (Bailiwick of Guernsey) Law 2001 as amended, the Commerce and Employment Department is required to consult the Policy and Finance Committee of the States of Alderney and the General Purposes and Advisory Committee of the Chief Pleas of Sark in relation to any recommendation as to States' Directions on the scope of any universal service obligation. The Department is also required to bring forward any recommendations after consultation with the Director General of Utility Regulation.

6.2 The Policy and Finance Committee of the States of Alderney was provided with a copy of the original consultation document and a draft copy of this States Report and has advised that it has no comment to make.

6.3 The General Purposes and Advisory Committee of the Chief Pleas of Sark was provided with a copy of the original consultation document and a draft copy of this States Report and has commented as follows:

"The General Purposes and Advisory Committee of Sark Chief Pleas has considered the proposals put forward. We agree that it would be logical to drop the Saturday service. However, as far as Sark is concerned, at present a letter has to be posted in time for the first boat to Guernsey on a Friday morning to reach London for delivery on the following Monday morning. We would not want this situation to change for the worse and it will

require sufficient capacity in Guernsey on a Friday evening to ensure that the existing level of service is maintained.

We have since received assurances from Guernsey Post that, barring exceptional technical issues or weather delays, any mail despatched from Sark to Guernsey on Friday morning will be processed in time for conveyance to the UK that evening. On the basis of that assurance we support the proposals."

6.4 The Director General of Utility Regulation has been provided with a draft of this States Report and he has commented as follows:

"The OUR supports the proposal to amend the USO as proposed by Commerce & Employment. The volume of letter mail for delivery is falling and in order to ensure a sustainable high quality postal service that reasonably meets the needs of postal customers, it is appropriate that a change to the specification of the USO be amended to reflect this changed environment.

The OUR notes the comments of some respondents on which day should be dropped should the States determine that a change to a five day USO is required.

We would support the proposal that the Saturday delivery should not be mandated by the States. The move to a five day week USO is becoming increasingly common. Given the two main postal operators Guernsey Post trades with (Royal Mail and Jersey Post) either have or are considering similar changes, it seems appropriate, in the interests of costs savings, that the USO in Guernsey is aligned as closely as possible with both Jersey and the UK".

6.5 Whilst not required to do so under the Law the Commerce and Employment Department has provided Guernsey Post with a draft of this States Report and it has commented as follows:

"Guernsey Post Limited has consistently commented that the USO is a matter for the people and the States of Guernsey to decide. Islanders need to decide what USO they want and how much they are prepared to pay for it. Guernsey Post will do everything it can to provide the USO that people want in the most cost-effective way. Having said that Guernsey Post considers that the Consultation Document set out in a clear manner the market conditions it now faces and would not dispute the conclusions reached by the Commerce and Employment Department and set out in the States Report."

6.6 There are no general revenue expenditure implications arising from the Department's recommendations.

7. Recommendations

7.1 The Commerce and Employment Department recommends the States to give a direction to the Director General of Utility Regulation in accordance with section

3(1) (c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 as amended:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on five working days, Monday to Friday, each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on five working days, Monday to Friday;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users, "access point" shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Yours faithfully

C S McNulty Bauer
Minister

M Lainé,
Deputy Minister

R Matthews
R Sillars
M Storey
States Members

P Mills
Non States Member

Appendix 1 – The current Universal Service Obligation

In September 2001, the States issued Directions to the Director General of Utility Regulation (the "DG") that required the DG to issue the licence to provide universal services to Guernsey Post Limited ("GPL"). At the same time the States set out the minimum level of universal postal service that GPL is obliged to provide – the Universal Service Obligation ("USO"):

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on six days each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
- *Collections shall be for all postal items up to a weight of 20Kg*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users, "access point" shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

Appendix 2 – Summary of Responses to Consultation Process

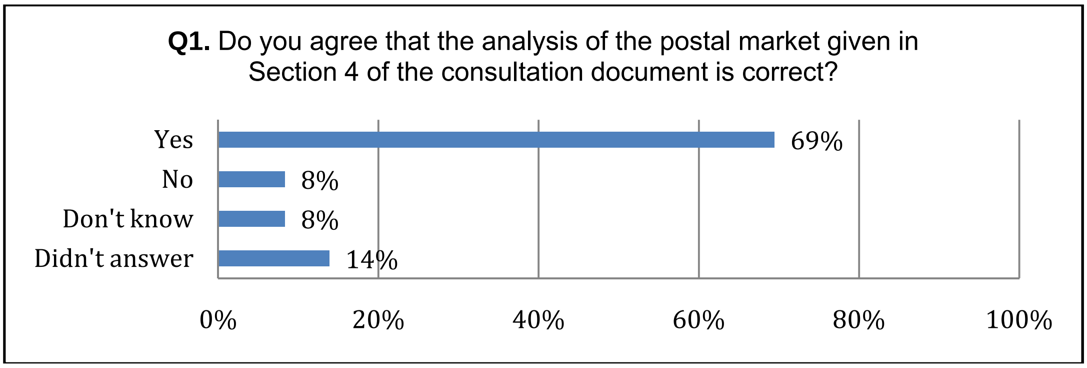
1. A total of 38 responses to the USO consultation questionnaire were received. 36 of these were answers to the survey questionnaire, and 2 were letters which did not directly answer the survey questionnaire but contained more general information and comments.

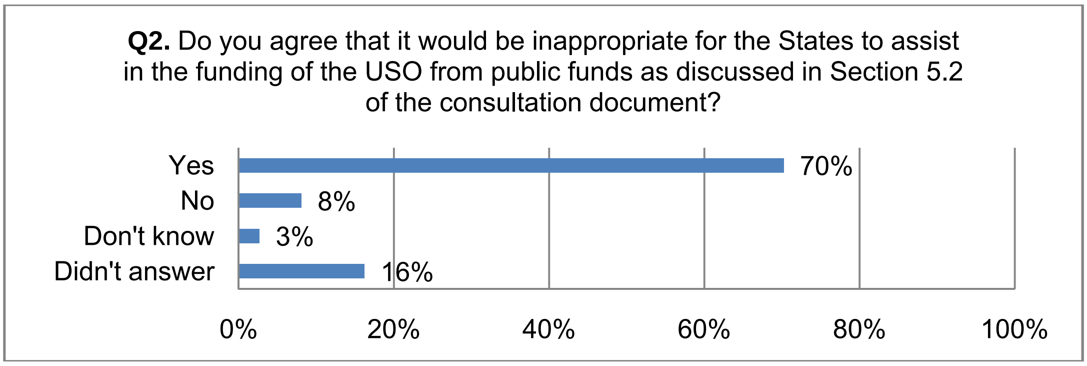
2. The 36 responses to the survey questionnaire were received from:

   - 4 local employer organisations (the Guernsey Chamber of Commerce, CGI, IoD Guernsey Branch and the Guernsey Bulk Mailers Organisation).
   - 2 local firms (The Sigma Group and International Law Systems Ltd).
   - 2 postal and communications organisations (Postwatch Guernsey and Communication Workers Union).
   - A number of individuals, including two Deputies and the Chief Executive of the States of Alderney.

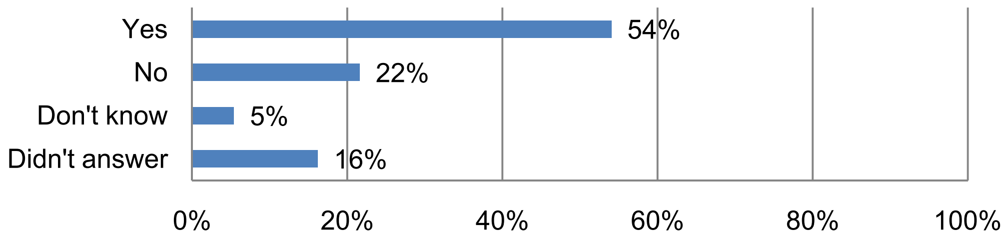
3. One of the 2 letters which did not directly answer the survey questionnaire was from Guernsey Post, which gave additional information on the USO and on the potential implications of changing the current arrangements. The other comment was from a poet without access to ‘technology’ who did not want postal services to be ‘a thing of the past’.

Responses to the survey questionnaire

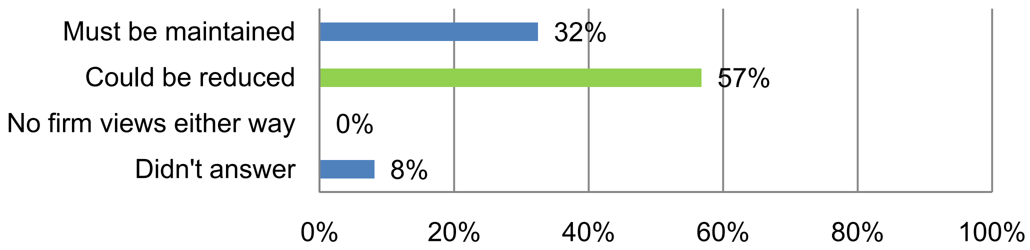




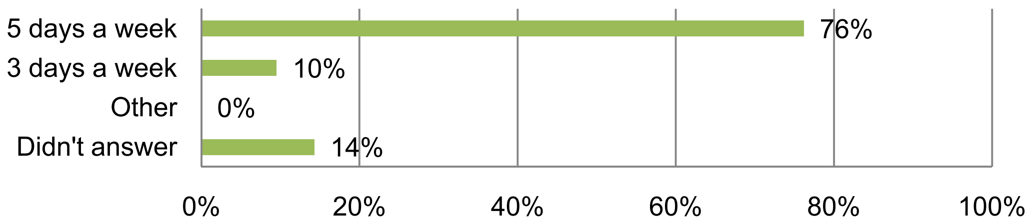
Q3. Do you agree with the analysis in Section 5.2 of the consultation document of why cross subsidisation from other postal services, such as bulk mail, to fund the USO is not viable?

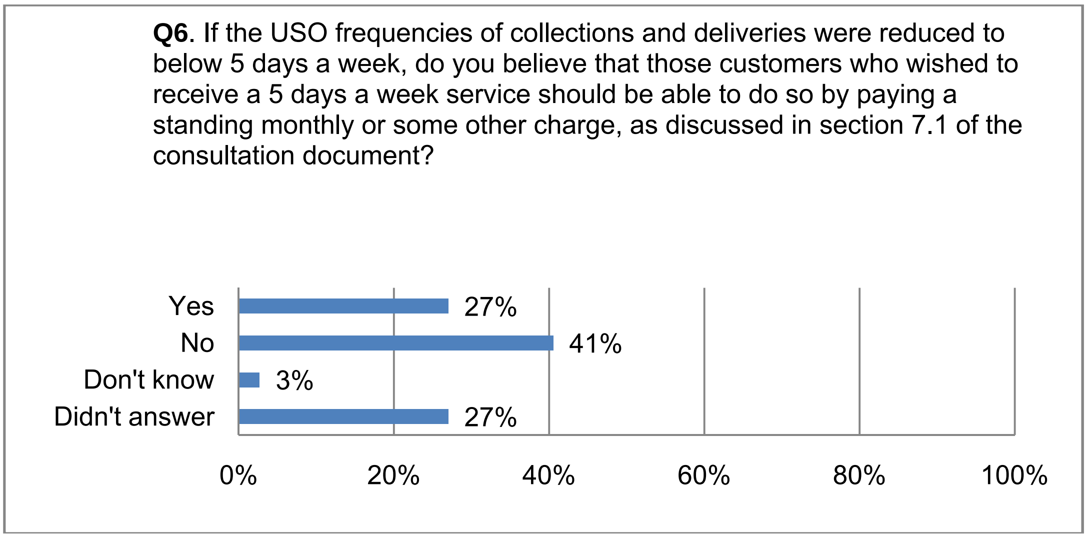


Q4. Bearing in mind the changing social, technological and economic circumstances discussed in Section 4 of the consultation document and the possible cost implications discussed in Sections 5.1 and 5.3, do you believe that the current 6 days a week frequency of collections and deliveries currently required under the USO:



Q5. ONLY ANSWER THIS QUESTION IF YOUR ANSWER TO QUESTION 4 WAS THAT YOU BELIEVED FREQUENCIES COULD BE REDUCED. Do you believe that the frequency of collections and/or deliveries should be reduced to a minimum of:





Recurring free-form comments

4. **Post Offices (6 comments)** – The need for two post offices in Town was called into question by one respondent, and another two respondents suggested that the Smith Street Post Office was expensive to operate and could be closed to achieve savings. One respondent suggested that Envoy House is too large now and should be rented or sold, and that smaller premises should be sought instead. Two respondents believed that the smaller "traditional" post offices should remain open as they provide valuable social benefits to their local communities, although one respondent believed that they could be made more efficient. One respondent added that printing labels online or installing automatic "kiosks" could complement traditional post offices but should not replace them.

5. **Staffing and pay (4 comments)** – It was suggested that staffing and employee contracts should be reviewed. One respondent suggested that the consultation document did not give any figures on the staffing structure of the current postal service nor the cost of this, and therefore failed to give an opportunity to call these levels into question. Moreover, one respondent believed that overtime payments should be reduced. Another respondent suggested paying staff the same amount regardless of whether they finished their shift early should be reviewed. Finally, one respondent recommended that postal rounds should be enlarged to reduce the number of rounds and to reduce employee numbers.

6. **Post-boxes (4 comments)** – Three respondents believed that there is scope to reduce the number of post-boxes on the Island by removing those that are not easily accessible, and by ensuring that post-boxes are (re)located where islanders regularly visit - shops, schools, recreation centres - and where it is easier to stop a vehicle without inconvenience or risk to road users. However one respondent believed that reducing the number of post-boxes would only cause inconvenience in return for minimal savings, especially in the country parishes.

7. **Deliveries (4 comments)** – One respondent suggested that if the USO is reduced to 5 day deliveries, then Saturday deliveries should remain for addresses other than private post boxes. Another respondent advised that the number of deliveries could be reduced to 3 per week, provided that they occur every other day (Mon-Wed-Fri, or Tue-Thu-Sat). Two respondents questioned why, if a customer is able to purchase a higher service than that provided under a reduced USO, the fixed costs would not be increased unacceptably by providing an additional service for a few users.

Guernsey Post Limited Comments

8. **Scope of consultation** – It suggested that further consultation would be required to help the States of Guernsey to define the USO, as it believed that the USO went beyond the frequency of collection and deliveries or the number and density of access points in the network. The calculation of the cost of providing the USO was a complex project that needs to be undertaken by an independent third party.

9. **Option 1: Maintaining the current scope of the USO whilst seeking to increase income and/or reduce costs** – It referred to cost savings of £3m over the next three years agreed with the OUR, but this would need to be part of a broader package of measures to protect the USO. Although there is limited scope to increase prices, diversification should not be ruled out.

10. **Option 2: Maintaining the current scope of the USO but introduce alternative funding arrangements –** It believed that bulk mail should continue to make a contribution to the shared costs of running the Bailiwick postal service, and that the best way to achieve this is the retention of the reserved area at £1.35, excluding packets. It believed that further erosion of the reserved area would create too much uncertainty about the future of the USO unless an alternative funding mechanism can be found. It did not believe that a taxpayer subsidy would be appropriate. Licence fees for competitors outside of the reserved area could be used to fund the USO, but this was seen as a last resort option.

11. **Option 3: Reducing the current scope and costs of the USO –** It suggested that a reduction to five deliveries per week would produce estimated savings of £0.5m. This would help to offset the effects of the projected decline in bulk mail prices due to competitive pressures, and would mean that future stamp price increases would be moderated. The highest post office operating costs are incurred by the two directly owned branches in St Peter Port, and the 2011/12 price control review which has been submitted to the OUR identified potential efficiency savings of up to £100,000. The savings from the closure of the smaller and lower-cost agency branches would not be worth the inconvenience to users – only £15,000 savings per branch, of which there are 11 in total. It has no plans to reduce the two daily collections from most post boxes.

12. **Conclusions –** Guernsey Post considered that the USO is and should remain a matter for the people and States of Guernsey to decide. The States should continue

1. to consider any changes to the USO because of its importance to Guernsey's economy and society. The OUR should have the protection of the USO as its primary objective, like Postcomm in the UK, otherwise it cannot maintain a fair balance between providing the level of service that the States determines and the ways and means of paying for the service – including quality of service targets and pricing.

Other notable comments

2. **Alderney –** The States of Alderney would wish to see the postal service on Alderney remain as it is today.

3. **Sark–**Consideration should be given to the particular needs of Sark which has only one but excellent post office.

(NB The Treasury and Resources Department supports these proposals.)

(NB The Policy Council supports these proposals.)

The States are asked to decide:-

VIII.- Whether, after consideration of the Report dated 10th August, 2011, of the Commerce and Employment Department, they are of the opinion:-

1. To give a direction to the Director General of Utility Regulation in accordance with section 3(1) (c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 as amended, as follows:

   The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

   - *One collection from access points on five working days, Monday to Friday, each week;*
   - *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on five working days, Monday to Friday;*
   - *Collections shall be for all postal items up to a weight of 20Kg;*
   - *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg;*
   - *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users, "access point" shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

ENVIRONMENT DEPARTMENT

PARKING ON THE SALERIE BATTERY

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

3rd August 2011

Dear Sir

1 Background

1.1 The emplacement located on the north east side of the Salerie Car Park in St Peter Port, known as the Salerie Battery, as shown by the solid line on the outline projection in Appendix One ("**the Salerie Battery**") is an area of States owned land managed by the Environment Department.

1.2 The Salerie Battery has traditionally been used by boat owners with moorings in the adjacent harbour as a place for managing catches and over-wintering boats but, in recent years, there has been a tendency for the area to be used for unauthorised long stay parking and dumping of unwanted vehicles. Following representations by the Constables of St Peter Port, the Department has put forward proposals to control and regularise parking in the area.

1.3 Parking on certain areas of States land ("**controlled land**") is controlled by the Vehicular Traffic (Control of Parking on Certain States Land) Ordinance, 1988, as amended (the "**1988 Ordinance**"). The current definition of "controlled land" includes "*any part of land at the South Quay and North Quay, being part of the land reclaimed under the North Beach Reclamation Scheme (including the Salerie), St Peter Port*". The Salerie Battery is not reclaimed land under the North Beach Reclamation Scheme and it therefore does not currently come under the ambit of the 1988 Ordinance.

1.4 The Environment Department has been approached by the Constables of St Peter Port who would like the Department to introduce scheduled parking in the vicinity of the Salerie Battery. However, the Environment Department is currently unable to do so as it cannot use its powers under the 1988 Ordinance in relation to the Salerie Battery.

1.5 In order to regularise the situation, the Department made contact with the Law

Officers and were recommended to request States approval for the amendment of the 1988 Ordinance.

2 Proposals for Regularising Parking in the Salerie Battery

2.1 The Department has consulted with the Constables of St Peter Port with proposals aimed at preserving some of the privileges that have traditionally assisted boat owners in the area such as unloading facilities, the ability to over-winter boats and use the area to manage catches, whilst providing ten hour and two hour parking in the vicinity.

2.2 In order for the Department to introduce regulated parking in the Salerie Battery, the 1988 Ordinance will need to be amended so as to incorporate the Salerie Battery into the definition of "controlled land".

2.3 The Department would also like to make a number of minor technical amendments to further clarify the effect of the 1988 Ordinance in relation to the definition of loading / unloading bays.

3 Recommendations

3.1 The Department recommends the States to:

(a) approve the amendment of the Vehicular Traffic (Control of Parking on Certain States Land) Ordinance, 1988, so as to incorporate the Salerie Battery within the definition of "controlled land", and

(b) direct the preparation of such legislation necessary to give effect to the foregoing.

I should be grateful if you would lay this matter before the States with appropriate propositions.

Yours faithfully

Deputy Peter Sirett
Minister, Environment Department

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

PRIORITISING LEGISLATION

1. THE NEED FOR LEGISLATION

To include the Salerie Battery in the definition of "controlled land" in the Vehicular Traffic (Control of Parking on Certain States Land) Ordinance, 1988.

2. FUNDING IMPLICATIONS

The Environment Department does not believe that the proposed change would result in a request for additional resources within the Department.

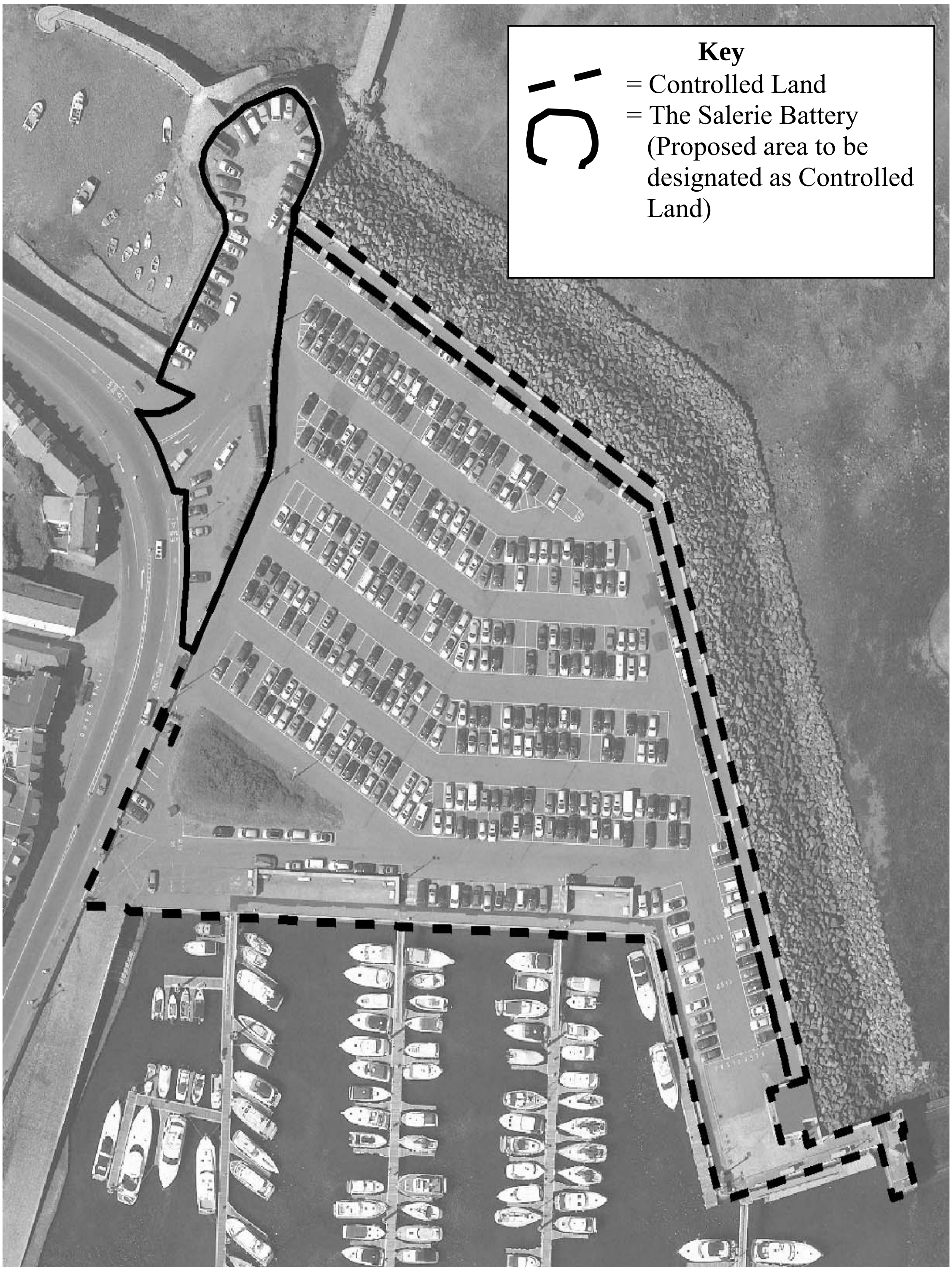
3. RISKS/BENEFITS ASSOCIATED WITH ENACTMENT/NON-ENACTMENT

The amendment is required in order to enable the Department to regulate parking in the Salerie Battery.

4. ESTIMATED DRAFTING TIME

A short amendment Ordinance is required and the advice is that this is straightforward.

Parking on the Salerie Battery **Appendix One**



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

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

The States are asked to decide:-

IX.- Whether, after consideration of the Report dated 3rd August, 2011, of the Environment Department, they are of the opinion:-

1. To approve the amendment of the Vehicular Traffic (Control of Parking on Certain States Land) Ordinance, 1988, so as to incorporate the Salerie Battery within the definition of "controlled land".

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

SOCIAL SECURITY DEPARTMENT

REVIEW OF ATTENDANCE AND INVALID CARE ALLOWANCES

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

8th August 2011

Dear Sir

EXECUTIVE SUMMARY

1. The Review of Attendance Allowance ('AA') and Invalid Care Allowance ('ICA') is one part of a wider movement across the States to improve support to Islanders with disabilities in a variety of ways.

2. AA and ICA are General Revenue-funded, non-contributory benefits which form a valuable part of the support and assistance available to people with severe disabilities and those who provide them with considerable personal care.

3. Many of the changes proposed in this report are simple, humane adjustments to AA and ICA which aim to mitigate the costs of living with a severe disability. These include free prescriptions for AA claimants; improved earning potential and adjustment payments for ICA claimants; and improved awareness of and access to benefits for people with disabilities.

4. Within the Social Security Department, the AA and ICA Review has taken place at the same time as Phase 1 of the Review and Reform of Supplementary Benefit, another General Revenue-funded benefit. That Review will, among other things, strengthen the support provided to Islanders with low financial resources, including those with disabilities.

5. States-wide, the Older People's Strategy, the Disability Strategy and the Supported Housing Strategy are working to identify the needs of vulnerable Islanders and to meet those needs in a modern and effective way: through the development and delivery of better care packages; through providing a wider range of community-based services; or through the removal of barriers to personal independence by, for example, reviewing transport options for people with disabilities.

6. AA has only ever been paid to Islanders with severe disabilities, who require a great deal of personal care and assistance. At present, 0.7% of islanders receive AA, whereas 5% of the UK population receive Disability Living Allowance, and another 3% receive attendance allowance. At a time when cuts are provoking widespread concern about the future of disability benefits in the UK, this report proposes improvements to the assessment procedure which will ensure that all severely disabled Islanders can access AA support.

7. The target group for AA, people with severe disabilities, will not change. However, the proposed, improved assessment process will ensure that all members of this target group are able to access the benefit. It will act as an effective gateway to the benefit, ensuring it reaches those for whom it is intended.

8. ICA is a benefit paid to the carer of a person receiving AA, if that carer is a family member or friend providing voluntary, personal care for at least 35 hours a week. The benefit was intended to promote care in the community by offering a financial incentive to volunteer carers. However, ICA recipients have been subject to a low weekly earnings limit which has precluded them from working to improve their financial circumstances or those of the person they care for.

9. This report proposes the removal of that earnings limit to allow working-age carers to remain in the workforce wherever possible. It also aims to alleviate unnecessary hardship faced by carers, by continuing to pay ICA for eight weeks after the death of an AA claimant and four weeks if the AA claimant moves into permanent care.

10. Changes may also be made to the assessment process for ICA. Care-giving is a demanding role, and paying ICA to people of all ages means that older partners, in particular, may feel an obligation to provide care beyond that which their strength allows, being reluctant to call on formal care services for assistance.

11. There is no intention to make AA and ICA means-tested benefits. The Social Security Department recognises that a severe disability can involve costs far beyond those which any household could reasonably expect to budget for. However, given the current financial climate, which means benefits must be targeted at the most vulnerable across all demographics, it is proposed that a household income limit should remain in place at present.

12. The total costs to General Revenue of the changes proposed in this report could be around £89,500 per annum. A full breakdown of costs and savings can be found in Paragraph 84. It is important to note that around £70,000 of the cost is due to ensuring that people who are already entitled to the benefit in theory are able to access it in practice. In addition, there may be a cost of around £32,000 to the Guernsey Health Service Fund in respect of free prescriptions.

13. As the costs to General Revenue are under £100,000 and are formula-led, it is not necessary for the proposals to be subject to the procedures for a new service bid. Furthermore, some of the recommendations of the Report require legislative changes. This means that it is unlikely that those recommendations can take effect until the second half of 2012. Consequently, it is estimated that the additional costs in 2012 will be approximately £50,000 rather than the £89,500 full year costs.

REPORT

14. The Attendance and Invalid Care Allowances (Guernsey) Law was originally enacted, in March 1984, because a significant number of people, mostly women, were dropping out of work to care for a family member, relative or friend with a disability. As they stopped working, they stopped paying contributions, and their pensions were smaller as a result. ICA provided contribution credits, which meant that the carer's contribution record and pension were not reduced, and offered some financial support to carers, to encourage care in the community.

15. In 2008, a consultation on AA and ICA took place, to investigate the adequacy of the current benefits. This involved sending questionnaires to AA and ICA recipients, interviewing some claimants, and surveying healthcare professionals to find out their understanding and opinions of the benefits. The outcomes of the consultation informed this report, and are included in detail as Appendix 1 to the report.

16. In early 2010, a further consultation with stakeholders, including disability campaign groups, NGOs and healthcare professionals, invited feedback on the possibility of introducing lower levels of disability benefit. This suggestion received a positive response, and the Department is committed to looking at the research and recommendations of the Disability Strategy, in due course, to consider whether such a benefit should be introduced. However, any such new benefit falls outside the scope of this Review at present.

17. The proposed changes to AA and ICA in this Report meet the Social Policy Plan objectives of "fostering an inclusive and caring society which supports communities, families and individuals", "assisting people to help themselves and become independent where possible", "meeting welfare needs and reducing poverty", "safeguarding vulnerable people" and "encouraging all who need, or are able, to work to find employment."

18. The Fiscal and Economic Plan objectives of "a skilled and flexible labour market" and "continuing full employment" should also be met.

Attendance Allowance

19. AA is also a weekly benefit. It is payable to someone who is "so severely disabled mentally or physically" that he needs help dealing with his "bodily

functions", or he needs to be supervised to prevent "substantial danger to himself or others." Bodily functions include washing and dressing, but not domestic tasks such as shopping or cleaning. The help can be required or given at any time, by day or night. Unless a person is terminally ill, his AA payment is usually reviewed from time to time. However, if his condition is not likely to improve, he may get AA for life, without any reviews.

20. Although the person claiming AA has to show that he needs another person to care for him, he can still receive AA if he is not getting the care he needs. In general, AA cannot be paid unless the person has been severely disabled for at least three months already. If a person is terminally ill, he can receive AA straight away.

21. The rate of AA is £89.81 per week in 2011. This is tax-free. It is not included as income for supplementary benefit calculations. There were 488 AA claims at the end of December 2010 and 60% of these had an ICA claim linked to them.

22. There is no earnings limit on AA, but the overall household income must be lower than £83,000 (in 2011). AA cannot be paid to long-term hospital in-patients, residents of States-funded care homes or those in receipt of Long-Term Care Benefit. People getting respite care in hospital can still claim AA for up to 28 days.

Invalid Care Allowance

23. ICA is a weekly benefit payable to the voluntary carer of a person with a severe disability who is in receipt of AA. In 2011, the rate of ICA is £72.59 per week. This is tax free, but is counted as income for supplementary benefit calculations, except for a £30 disregard. 292 ICA claims were in payment at the end of December 2010, following an awareness-raising campaign in 2009-10.

24. An ICA claimant must be 18 or over and will not be entitled to receive ICA if he is already receiving an income-replacement benefit, such as Sickness or Unemployment Benefit. Nobody can receive more than one ICA benefit, even if they provide care for more than one person, and every ICA claim must be linked to an AA claim. There can only ever be one linked ICA benefit for each AA benefit, so if a severely disabled person has more than one carer, only one will be able to receive ICA.

25. In order to receive ICA, a carer must provide at least 35 hours of care a week. He cannot earn more than the lower earnings limit (£117 per week in 2011) and he cannot have an overall household income of more than £83,000 per year (in 2011).

STRENGTHENING ATTENDANCE ALLOWANCE

26. According to the 2008 consultation, claimants use AA for a wide range of purposes, and the flexibility to spend the benefit in whatever way is most appropriate to the individual is welcome. Figure 1, below, shows the range of uses to which claimants have put their AA benefit. Many respondents used part of their benefit in several different categories. Respondents also said that they used AA to pay for a range of other items, including home help, gardening, winter fuel, special childcare, play scheme and toys, dentist visits, eye care, clothes and disposable underwear.

27. Dividing AA into "care" and "mobility" payments would not provide any new benefit to claimants, and would instead restrict this freedom of choice.

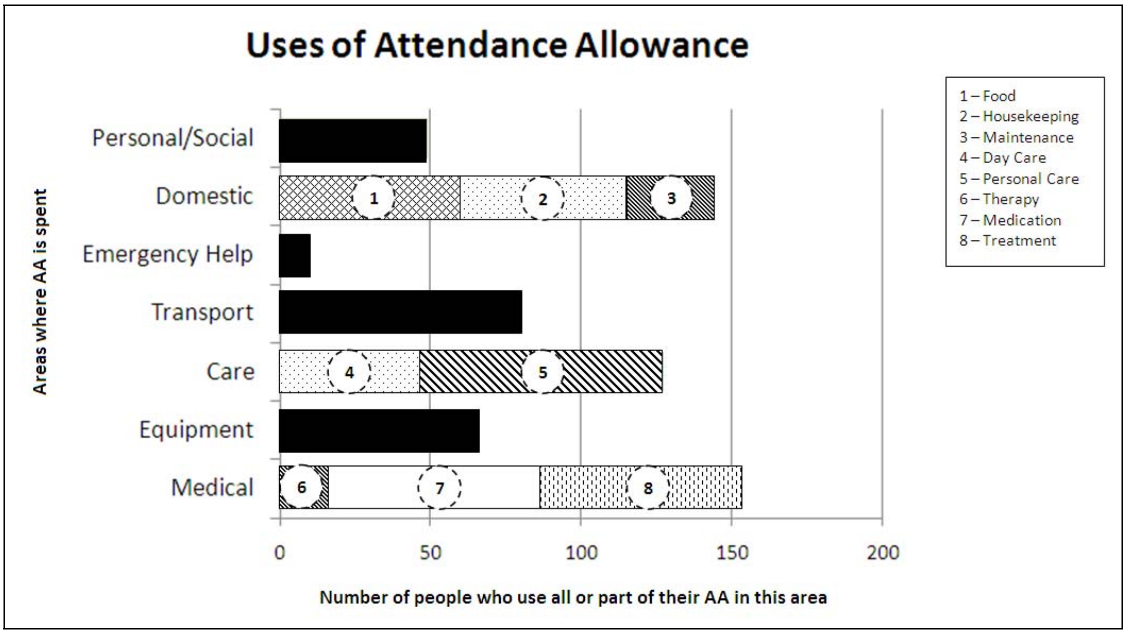


Figure 1.

28. In addition, a benefit designed to pay for care only would have a number of unintended consequences. By undertaking to pay for an individual's care, the Department would be under a moral obligation to ensure that care was available, of suitable quality, and that the individual had sufficient resources to buy all the care he needed.

29. Providing and monitoring the quality and extent of care are among the statutory functions of a care provider, such as the Health and Social Services Department ('HSSD'), and require a certain level of expertise. If the Social Security Department attempted to act as a second care provider, without the necessary resources or expertise, it would be detrimental to the work of HSSD and, above all, to the health of the individuals concerned.

30. Rather than creating a care-focused benefit, the Department believes that AA should remain a fully flexible benefit for those living with severe disabilities, giving them the freedom to spend it in their own particular areas of need.

Assessment Process

31. The assessment process for AA is very thorough and personal, with the aim of ensuring that AA is awarded appropriately. Nonetheless, some people with severe disabilities still struggle, at present, to show that they meet the eligibility criteria. In 2008, healthcare professionals noted that "clients with mental health problems including dementia have difficulty meeting the criteria" and that "people with BI [bipolar disorder] often have motivation problems or memory problems. The form for AA does not measure such things."

32. This report does not propose a fundamental change to the eligibility criteria for AA. Rather, the assessment process should be redesigned, in conjunction with healthcare professionals and representatives of target groups (including the Disability Forum and Disability Alliance[1]) in order to devise a more inclusive assessment which does not disadvantage certain groups of people with disabilities.

33. It is hoped that the involvement of third parties, including Occupational Therapists, GPs and Social Workers, in redesigning the process will lead to a better shared understanding, both of the benefit and of the needs of this very vulnerable population, and better ongoing cooperation towards common goals. It is hoped that closer cooperation and communication here will lead to effective assessments for all AA claimants.

34. A more robust assessment process, and ongoing dialogue with professionals and stakeholders, will give the Department confidence that AA is being awarded properly in all cases.

Prescriptions

35. In the 2008 consultation, medical staff raised concerns that AA claimants, who often have a large number of prescriptions, have to pay prescription charges, unless they are exempt by reason of being a supplementary benefit claimant or old age pensioner. Given that this is one area where the extra costs of living with a disability could easily be mitigated, this report proposes to remove prescription charges for all AA claimants.

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[1] The Guernsey Disability Alliance comprises representatives from over 30 local disability charities, plus individual disabled people. The Disability Forum, which was set up by HSSD as part of the Corporate Anti-Poverty Programme, comprises representatives of disability charities, healthcare professionals, service users and States Departments. Its purpose is "to promote holistic services for disabled islanders through effective partnership working between all relevant local agencies."

Costs

36. If prescription charges were removed, the Social Security Department's Guernsey Health Services Fund would forego a small part of the revenue it currently receives from prescription charges (that is, £3 per prescription in 2011). Assuming an AA claimant has three times more prescriptions than the average Islander[2], this could amount to a total cost of £31,700 per annum to the Guernsey Health Service Fund.

37. An improved assessment process could result in a small number of additional mental illness-related AA claims, in particular. If the total number of AA claims grew by 2%, this would result in additional benefit expenditure of £45,600 per annum. If two thirds of these new AA claims had linked ICA claims (as per the current ratio), this would add a further £24,200 per annum to General Revenue expenditure.

STRENGTHENING INVALID CARE ALLOWANCE

38. When ICA was introduced in 1984, only people of working age could receive the benefit. This was changed in 1986, as many States members felt that older carers should also be entitled to recognition, in the form of a benefit, for the care-giving work they were doing. In the UK, Carer's Allowance remains payable to people of working age only.

39. ICA is paid to carers who provide care in the community, reducing the pressure on State-provided care. ICA carers are, at present, restricted to an earnings limit of £117 per week on top of their benefit.

Assessment

40. All carers over the age of 65, surveyed in 2008, reported receiving some help with the care they were giving: from occasional help from family members to regular support by community or private care services. This implied that older carers, while still willing to provide care, were not always able to meet the needs of the person they cared for without additional support. Notwithstanding this, many carers over retirement age still provide very good, personal care to a family member, relative or friend.

41. At worst, payment of ICA to older carers places them under a perceived obligation to provide more care than they may be able to. The 2008 consultation also found that some older carers tend to save income, including ICA, for the next generation. In those situations, the benefit is of no practical use to either the carer or the person receiving care.

[2] Some AA claimants will have significantly more and some significantly less than this. The Department's Prescribing Adviser considers than an average figure of 60 prescriptions per annum for an AA claimant is a reasonable assumption.

42. Many older carers are capable of providing excellent care, as are many carers of working age. On the other hand, some carers of all ages struggle to provide the care their loved ones need. A simple age-based cut-off for ICA is therefore inadequate. This report proposes several measures to ensure that carers are supported, both financially and personally, in their care-giving.

43. In the first instance, the ICA claim form should require carers to provide more detail on the amount and type of care provided day-to-day. At present, the fact of caring for an AA claimant is normally sufficient to qualify an individual for ICA.

44. Secondly, the care provided by an ICA recipient should be reviewed when that person reaches 65 and every few years thereafter. The age at which the first review takes place could be earlier, and the length between reviews could vary, depending on the Department's knowledge of the individual claimant.

45. The primary aim of these reviews must be to ensure that the AA claimant is receiving the intensive, high-quality personal care he requires, and that the ICA carer is supported, both as a care-giver and when he can no longer provide the same level of care.

46. These reviews would undoubtedly show that some ICA carers were no longer providing the 35 hours of personal care which qualify them to receive the benefit. This may happen for several reasons: the carer may be receiving a considerable amount of assistance from others, including family members or community nurses; or the carer himself may now be in need of support, and unable to do the demanding care work he used to do.

47. If the review shows that the carer is receiving a lot of help from other sources, it might be appropriate to stop paying ICA. However, if the review shows that the carer is in need of support and assistance, which he is not currently receiving, then the focus must be on making sure the carer is supported and that the AA claimant continues to receive the high quality care he needs.

48. In such cases, the review process should highlight particular care and support needs, and social services or healthcare professionals should be informed, where applicable. Even if the review process sometimes results in the removal of a benefit, the final outcome must always improve or maintain, but not diminish, the overall support for carers and those they care for.

Carers of Children

49. Children receiving AA are a particularly vulnerable group as they are, in general, wholly dependent on their parents or primary carers to make decisions about their healthcare and wellbeing. Where the Department is paying ICA to the carer of a child, it is part of its duty of care to ensure, as far as possible, that the child's health and care needs are being met.

50. In some cases, when AA is paid on behalf of a child, the Department has had concerns that the child was not being seen by healthcare professionals, or attending the relevant services, with enough frequency to enable the child's condition to be managed.

51. If the Department has particular concerns about a case, it should, as ever, contact the relevant professionals – who may include medical specialists, educational psychologists, general practitioners or social workers – for more information.

52. If, upon consultation, the concerns appeared well-founded, this would give reason to believe that the primary carer was failing to provide the care needed by the child. It might therefore be reasonable to specify a certain minimum level of professional attention the child should receive – for example, seeing a GP every month – and expect the carer to carry this out.

53. The Department considers that it is reasonable to require a claimant of a health- or care-related benefit to receive medical advice which it believes will be beneficial to that individual's wellbeing. However, it is important to underline that the welfare of the AA claimant is paramount at all times, and payment of AA itself would not be made conditional in any circumstances.

54. This report recommends that the Department should have the power to make entitlement to ICA subject to such conditions as it deems reasonable in order to ensure that any person, in respect of whom an associated AA is payable, receives appropriate professional attention.

Earnings Limit

55. The current earnings limit of £117 per week (in 2011) does not provide an incentive for ICA carers to remain in work and seek to improve their financial circumstances or those of the person they care for. With ICA of £72.59 a week added to maximum earnings of £117, an ICA claimant of working age would have an income of no more than £9,858 a year.

56. In many cases, care needs are so unpredictable that carers cannot work regular hours and expect a constant level of pay. For example, a mother caring for her disabled child could work a few hours a day, during term-time, provided the child was sufficiently well to attend school.

57. ICA, while relatively low, is constant. Most claimants are likely to prefer a reliable income which guarantees they can continue to provide care, than to risk a higher income which would jeopardise their care-giving capacity if it were suddenly to fall away altogether. Studies of low-income groups show that these

people are generally risk-averse and want stability[3], which is provided by a benefit but not by sporadic or insecure employment.

58. A thorough assessment process which requires claimants to demonstrate how they are providing at least 35 hours of care should mean that AA claimants would not be likely to suffer if the earnings limit were removed. For many carers, care-giving demands are so high or unpredictable that work would be an impossibility in any case.

59. This report proposes to remove the earnings limit for ICA, thus providing claimants with a guaranteed minimum income without the disincentive to return to work. This would have the additional advantage of allowing claimants to experience the social benefits and temporary respite from caring that a workplace can provide.

Students

60. The original legislation was drawn up at a time when there was very limited provision of post-18 education on-island. As a result, full-time students are currently unable to claim ICA. Provided that 35 hours of personal care are given, this report proposes that carers over 18 in full-time on-island education should be able to claim ICA.

Adjustment Payments

61. An ICA claim is always linked to an AA claim, and ends abruptly when the AA claim does – whether due to the AA claimant's death, a move into permanent care, or other changed circumstances.

62. The sudden withdrawal of financial support at a time when a carer is having to adjust to often devastating changes is unhelpful. This report proposes that ICA should continue to be paid for eight weeks following the death of the AA claimant, and four weeks if the AA claimant moves into permanent care.

Costs

63. Based on 2010 statistics, adjustment payments of ICA could result in an extra cost of around £16,000 per annum.

64. Removing the earnings limit and extending ICA to students could lead to a number of new claims from those who are currently excluded by these restrictions. The increase could not exceed the total number of AA claims, and is likely to be much lower. A 5% increase in the total number of ICA claims would lead to new expenditure of around £55,000 per annum.

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[3] See, for example, Action for Children's report on "Benefiting from Work", September 2010.

65. However, lifting the earnings limit for those already claiming ICA could lead to higher earnings, higher income tax receipts and a reduction in SPB payments to some claimants. This could mitigate the cost to General Revenue. For example, if each of the 41 ICA claimants currently receiving SPB were to improve their earnings by only £10 a week, there would be a saving of over £21,300 per annum to General Revenue.

66. On the other hand, reviews of the care provided by ICA claimants over 65, and a more thorough initial claim procedure for ICA, may result in a reduction in the total number of overall ICA claims. A 5% reduction in the number of ICA claimants over 65 would reduce total ICA expenditure by over £30,000 per annum.

FINANCIAL CIRCUMSTANCES

67. Currently, a household income limit of £83,000 (in 2011) applies to both AA and ICA. This is effectively an affluence test, which excludes only the wealthiest households[4].

68. AA is a benefit to help with the cost of living for people with severe disabilities, recognising that a severe disability can result in expenses which are unpredictable and difficult to budget for, even on relatively high household incomes. Additional support for people with disabilities and their carers on the very lowest incomes already exists in the form of supplementary benefit.

69. Some socially acceptable decisions, such as taking out a mortgage or sending a child to university, result in a high level of debt which could be well managed within an individual's usual earning capacity, but which would not disappear if a disability or caring requirements meant a sudden reduction in his earning capacity or new demands on his finances.

70. The Department would consider it unjust to reduce the income limit to a point where it excluded people with normative social expectations, who would no longer be able to manage their outgoings if the amount they could earn dropped off suddenly, or high disability-related costs were added to their budget.

71. While it would be irresponsible, at the present time, to allow indiscriminate access to a benefit intended to support the most vulnerable, a high income limit is necessary, given the expensive and unpredictable nature of many severe disabilities. There is therefore no proposal to change the household income limit for AA and ICA.

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[4] Appendix 2 compares the income limit to the distribution of household incomes in Guernsey, demonstrating that the limit does in fact occur at the point where incomes can no longer be considered "normal".

ACCESS AND AWARENESS

Accessibility

72. It is considered best practice to produce all printed and online material according to a basic accessibility standard, which includes clear, properly spaced and reasonably sized text that can be read easily by people with a wide range of access requirements.

73. At present, the Department's materials do not conform to any such standard. While the Disability Strategy may propose States-wide accessibility guidelines, this is still some way in the future. It is, however, only fair to make information about disability-related benefits, at least, as accessible as possible.

74. The Department therefore intends to introduce a basic accessibility standard for all material on disability-related benefits, including AA and ICA, and make alternative formats available wherever possible. This will include leaflets available in large print and audio. The Department will be guided by the Disability Strategy Officer and the Guernsey Disability Alliance in terms of best practice.

Awareness-Raising

75. The 2008 consultation showed that significant numbers of healthcare professionals, as well as the general public, were unaware of AA and ICA. Since 2008, an awareness-raising campaign has led to an increase of around 17% in AA and ICA claims in the first year, and 11% in the second year (compared to a 0.3% increase from 2007-2008).

76. Having raised awareness of the benefits, the Department intends to maintain that level of knowledge among the general public and healthcare professionals, with in-house training offered to new healthcare workers. A single Guide to Disability-Related Benefits will also be produced, in order to provide people with a single source of information on disability-related benefits.

Terminology

77. The benefit names can currently be misleading and, in the case of ICA, offensive. This report therefore proposes renaming AA "Severe Disability Benefit" and ICA "Carer's Allowance". Similarly, the word "invalid", which is considered offensive by many people with disabilities, should be removed from the AA and ICA Law.

78. While other offensive terms, such as "handicapped", exist within the older Supplementary Benefit Law, these will be removed as part of Phase 1 of the Supplementary Benefit Review.

Costs

79. The cost of funding the awareness-raising campaign and meeting the increased demand for AA and ICA have already been budgeted for. It is unlikely that any additional annual costs would be incurred by continuing this work.

DISABILITY BENEFITS

80. A consultation with stakeholders in 2010 asked for "consideration [to] be given to AA being paid at two or three levels" which are set "according to need". At lower levels, AA would in effect be a Disability Benefit, perhaps comparable to the UK's Disability Living Allowance (DLA).

81. The principal purpose of General Revenue-funded benefits is to alleviate poverty. In order to justify the introduction of a Disability Benefit, it must therefore be shown that disability itself is a factor in making people poorer. This was demonstrated in the 2002 Survey of Guernsey Living Standards, and may also be a finding of the Disability Strategy which is currently ongoing.

82. It will also be necessary to understand what kind of benefit is of most use to people with disabilities. This will require research into the profiles of islanders with disabilities, and a clearer understanding of the extra costs of living with a disability. Again, the Disability Strategy is expected to provide considerable information on the situations and the needs of people with disabilities in Guernsey.

83. In effect, a Disability Benefit would have a very different function from AA and would need to be justified on the basis of much wider and more in-depth research. As such, the Social Security Department is committed to looking at the research done by the Disability Strategy, and any recommendations arising from that Strategy, as and when it is released, but does not consider it appropriate to introduce lower levels of AA, or another Disability Benefit, at the present time.

OVERALL COSTS

84. The estimated additional annual costs resulting from these proposed changes can be broken down as follows:

Costs to General Revenue		(£ per annum)
Better assessment of AA	AA:	£45,600
	ICA:	£24,200
Adjustment payments		£16,000
Removal of earnings limit		£55,000
Reviews of ICA carers over 65		(£30,000)
Saving to SPB due to removal of earnings limit		(£21,300)
Total		**£89,500**

Costs to Guernsey Health Service Fund	(£ per annum)
Prescriptions	£31,700
Total	**£31,700**

85. It is important to note that the costs related to a more effective assessment of AA, which constitute the largest potential expense, do not relate to a new development. They would only arise if people who are, by definition, eligible for AA are excluded in practice by an unhelpful assessment process.

86. In accordance with the requirements of Rule 15(2) of the Rules of Procedure (which relates to a proposition which may have the effect of increasing revenue expenditure), the Department indicates that the estimated £89,500 of net additional revenue expenditure could be funded in the same way that formula-led increases within the supplementary benefit system as a whole are funded. There would therefore be no effect on the Fiscal and Economic Policy Plan.

87. Some of the recommendations of the Report require legislative changes. This means that it is unlikely that those recommendations can take effect until the second half of 2012. Consequently, it is estimated that the additional costs in 2012 will be approximately £50,000 rather than the £89,500 full year costs.

CONSULTATION

88. Details of the 2008 consultation with claimants and healthcare professionals can be found in Appendix 1. In the course of the following Review, the Department has consulted with representatives of HSSD, medical specialists and the Disability and Equality Strategies Officer as well as members of key interest groups, such as the Disability Alliance, and the States' Disability Champion.

89. Ongoing consultation with the Disability Strategy, Older People's Strategy and other relevant developments, on the way disability-related benefits fit into wider developments, will continue to take place.

90. In addition, the Social Security Department will work with healthcare professionals, support workers and representatives of target groups to develop more effective AA and ICA assessment and review processes.

CONCLUSION

91. The AA and ICA Review has not led to the creation of a new benefit, but has indicated several key changes that should be made to the existing benefit, in order to best meet the needs of Islanders with severe disabilities and their carers.

92. These changes include the removal of the earnings limit for ICA carers, allowing them to become or remain integrated in the workforce while supporting the vital work they do as carers in the community. The introduction of a more thorough initial assessment, as well as regular reviews of the care provided by older ICA recipients, and additional protections for children receiving AA, will ensure both

that people with severe disabilities receive all the care they need, and that carers are well supported in the work they do.

93. While the eligibility criteria for AA will not change, the assessment process will be redesigned, in conjunction with relevant third parties, to ensure that all people who should receive the benefit are able to do so. The 2008 consultation showed that AA is used to meet the costs of living with a disability in a variety of ways, and the Department believes that claimants should retain this freedom of choice in the way they use their benefit.

94. Small changes to both benefits, which could nevertheless have a significant impact, have been proposed: in particular, adjustment payments for ICA claimants when major changes mean that they are no longer involved in care-giving; and the removal of prescription charges for all AA claimants.

95. The projected costs of these proposals result, largely, from ensuring that the benefits can be received by those who are already entitled to them. The Department considers, however, that the household income limit should remain in place, so that Islanders who are easily able to meet the costs of disability without financial assistance do not become entitled to benefit.

96. The Department will be active in providing information that meets formalised, consistent accessibility standards, and educating both the public and professionals about disability-related benefits.

97. AA and ICA are targeted at a very vulnerable group of severely disabled individuals and their carers. In targeting this group, the benefits are an effective and vital part of the support and assistance available to Islanders with disabilities, in the form of both benefits and services. To avoid duplication and enhance provision of support, the Social Security Department will remain in ongoing dialogue with other States Departments and stakeholders concerned with developing the provision of disability and care support in Guernsey, to ensure that it continues to identify and meet the needs of Islanders in the most effective way possible.

RECOMMENDATIONS

98. The Department recommends the States :

1. to resolve that the Attendance and Invalid Care Allowances (Guernsey) Law, 1984 and the Health Service (Benefit) Ordinance, 1990 are amended in order to:

   i. exempt all individuals entitled to Attendance Allowance from prescription charges ;

(paragraph 35)

ii. give the Department the power to make entitlement to ICA subject to such conditions as it deems reasonable in order to ensure that any person, in respect of whom an associated Attendance Allowance is payable, receives appropriate professional attention;

(paragraph 49–54)

iii. remove the earnings limit for Invalid Care Allowance;

(paragraph 55–59)

iv. permit carers in full-time education on-island, over the age of 18, to receive Invalid Care Allowance ;

(paragraph 60)

v. allow payment of Invalid Care Allowance for 8 weeks following the death of the linked Attendance Allowance recipient and 4 weeks if the Attendance Allowance recipient moves into permanent care ;

(paragraph 61–62)

vi. rename Attendance Allowance "Severe Disability Benefit" and Invalid Care Allowance "Carer's Allowance" ;

(paragraph 77–78)

2. to direct the preparation of such legislation as is necessary to give effect to the foregoing; and

3. to direct the Treasury and Resources Department to take account of the additional estimated expenditure by the Social Security Department of £50,000 on the Formula Led heading of Attendance and Invalid Care Allowances when recommending, as part of the 2012 Budget Report, Cash Limits for Departments and Committees.

Yours faithfully

M H Dorey, Minister
A H Brouard, Deputy Minister
S J Ogier
A R Le Lièvre
M W Collins

APPENDIX 1: 2008 CONSULTATION ON AA AND ICA

Background to the Report

In 2008, the Social Security Department began a review of AA and ICA. The results of the initial consultation are described in more detail below.

How is Attendance Allowance used?

AA is meant to help with the extra costs of living with a severe disability. It does not have to be spent on something specific, such as care.

The 2008 survey asked people how they spent their AA benefit. Figure 1, below, shows the main uses of AA.

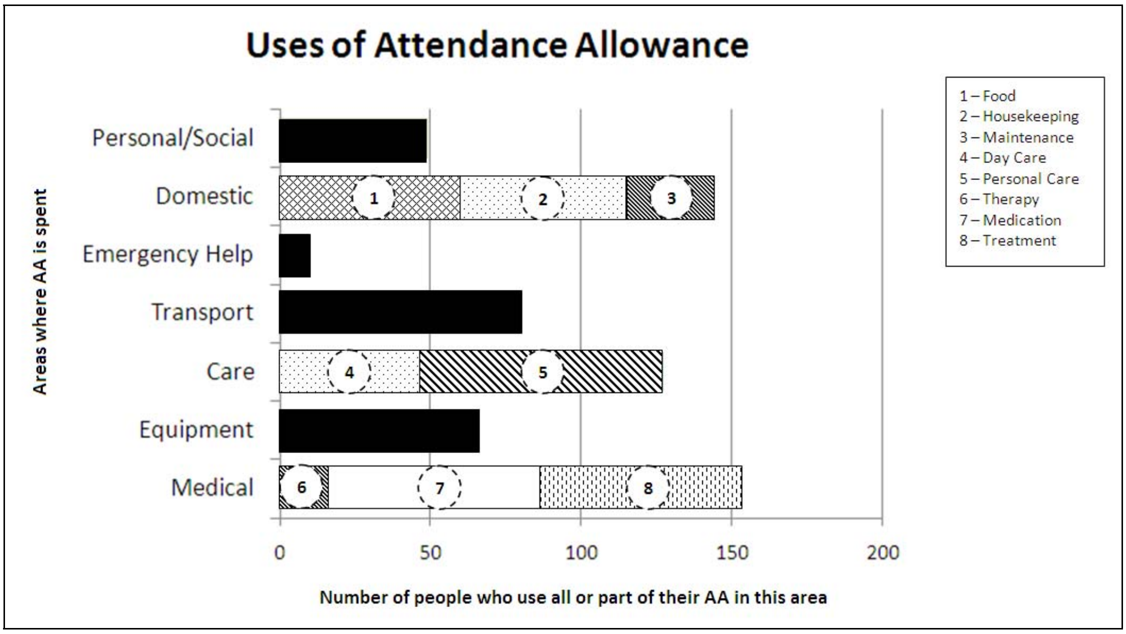


Figure 1

Large numbers of people spent all or part of their AA benefit on medical purposes, domestic purposes and care.

AA was most often used to pay for personal care (80 people), transport (80), medication (71), medical treatment (66) and equipment (66). Most respondents spent their AA on more than one of these options.

One respondent said: “The Attendance Allowance has enabled me to be cared for in my own home and not occupying a hospital bed.”

Another said that without AA “I would find it difficult to pay my medical bills and medication.” One person used AA to pay for transport “to collect medical supplies from St Johns and the pharmacy and weekly visits to PEH.”

People also said that they used AA to pay for home help, gardening, winter fuel, special childcare, play scheme, toys, dentist visits, eye care, clothes and disposable underwear.

What do recipients think of Attendance Allowance?

In 2008, 376 surveys were sent to AA recipients. 105 of these were sent to appointees[5]. Altogether, 176 were returned (47%).

The objectives of the AA survey were to establish:
- Whether there was enough information about AA ;
- How easy it was to claim for AA ;
- How AA was used.

Information about AA:
- 30% of AA recipients said they had found out about the benefit from their doctor. 23% had found out from their social worker, 17% from their nurse and another 17% from a family member.
- The most useful information was provided by Social Security Department ('SSD') staff, according to 45% of AA claimants.

Ease of Claiming:
- Nearly one third of people (30%) said they found the claims process straightforward. But 25% found it a little difficult, and 28% thought it was complicated.
- The Social Security Department, healthcare professionals and support workers all gave some help with making claims.

Use of AA:
- AA was used for a wide range of purposes, which can be seen in Figure 1, above.
- Some people thought that AA should be higher, because of the high cost of living in the Islands.
- One person said: "Perhaps a look at cost of living in Alderney as to Guernsey. Electricity average per quarter is £460 plus oil. But thank you so much, it helps."
- Other people thought that AA should be a variable amount, depending on the individual's circumstances and changing care needs.

What do healthcare professionals think of Attendance Allowance?

In 2008, 199 questionnaires were sent to healthcare professionals (including doctors, nurses and carers) and support workers (volunteers who work with people with disabilities), asking them about AA and ICA. 87 of these were returned (44%).

[5] An "appointee" is someone who has been given authority by a person claiming AA to act on his behalf.

The objectives of the questionnaire were to establish:
- Whether there was enough information about the benefits ;
- Whether the professionals understood the purpose of AA and ICA ;
- Whether the benefits met their clients' needs.

Information about AA:
- 94% of respondents were aware of AA. 47% had experience of AA and 71% had recommended it to their clients.

Understanding of AA:
- Professionals were asked to explain what AA was. Only 13 responses showed a clear understanding of AA. 36 replies showed no understanding, while 29 showed some.
- A number of explanations confused AA and ICA.
- Some respondents understood that AA could be used to meet the extra costs of daily living for people with severe disabilities. Others thought that the purpose of AA was to 'buy' formal or informal care.

Effectiveness of AA:
- 44% of respondents thought that AA met their clients' needs.
- A lot of responses said that the criteria for AA meant people with some kinds of severe disabilities were excluded or disadvantaged.
- One said: "Clients with mental health problems including dementia have difficulty meeting the criteria."
- Another said: "People with BI [bipolar disorder] often have motivation problems or memory problems. The form for AA does not measure such things."
- Many people thought that AA was too low, compared to the high cost of living in the Islands, and the extra costs of living with a disability.
- Respondents thought that AA was too low to "meet private agency costs" for care. Therefore, people who needed to use AA to pay for care had little choice about their care arrangements.

How is Invalid Care Allowance used?

ICA provides some financial support and a contribution credit. When it was introduced, it was hoped that ICA would encourage more Islanders to provide informal care in the community, and reduce the number of people going into institutional care.

In 2008, the review of AA and ICA showed that many carers were in a difficult position. ICA allowed them to stay at home caring for a family member, relative or friend. However, the earnings limit was so low that many carers could not see the point in working, because it would not improve their financial situation. But ICA alone is not enough to live on.

One carer said: “I don’t think this money should stop if someone can earn some money. Having a disabled child, I cannot work enough to earn money that my family needs.”

In the 2008 review, many people thought that ICA was supposed to pay for the cost of care. One person said that it would only buy 5.43 professional care hours a week.

The 2008 review raised the question of whether ICA should be paid to the carer, as an income-replacement benefit, and, if so, whether people over working age (65) should still be allowed to receive it.

Some people thought that it would be better to get rid of ICA altogether, and include a specific “cost of care” component, or “care account”, in AA. One person said that: “AA was to pay for someone to attend to the needs of an individual ... there is an inbuilt care component by definition.”

What do recipients think of Invalid Care Allowance?

In 2008, 107 surveys were issued to ICA claimants under 65. 45 surveys were returned (42%).

The objectives of the ICA survey were to establish:
- If there was enough information about ICA;
- How easy it was to make a claim for ICA ;
- How the carer’s responsibilities affected their employment options ;
- Whether carers would like alternative care and/or employment opportunities.

One in five ICA claimants over the age of 65 were invited to be interviewed. 12 claimants (57%) responded. The interview did not have the survey’s focus on work, but it looked at the difficulties that carers faced in providing care.

Information about ICA:
- The ICA survey revealed that the majority of claimants found out about ICA from their doctor (23%), relatives (21%) or SSD (21%).
- The most useful information was given by SSD staff, according to 40% of ICA claimants. SSD leaflets were also useful for 32% of respondents.
- However, the interviews with ICA claimants showed that there was not much information about ICA. One carer said she only found out about ICA because of a throw-away comment by her GP.

Ease of Claiming:
- 52% of ICA claimants found that it was either ‘a little difficult’ or ‘complicated’ to make a claim, and required some help.

Caring and Employment:
40% of carers said that they had been working before they started claiming ICA. Only 20% continued to work afterwards. 15% reduced their hours in order to be eligible for ICA.

- 48% of carers said that they wanted to work in addition to providing care, but only 33% said that they would return to work if the earnings limit was removed. Some comments showed that it was almost impossible to provide care and work at the same time.
  - One carer said: “I am unable to work in case I get a call to pick my relative up from the centre.”
  - Another carer said: “I can’t work as caring is a 24 hour job, so tired when I’m not getting sleep. I would like to work mornings but I need home care so I could do this.”
- 24% of carers said they wanted to use their ICA benefit to pay for a professional carer.

Difficulties with Providing Care:

- Carers over 65, as well as many younger carers, said they had major difficulties due to lifestyle changes and strained finances.
- Difficulties included problems with transport, physical and emotional strain, cost of care, home adaptations, availability of respite care and access to specialist equipment.
- Elderly people who cared for a partner struggled with changes to the structure of their household. These carers often had no one to depend on for practical support, including driving, household maintenance or cooking, as well as emotional support.
- All the carers over the age of 65, who were consulted by SSD, said they had some help with their caring responsibilities:
  - Many could ask relatives to help in emergency situations – although relatives were said to be very busy with their own families ;
  - Community Nurses assisted six of the carers ;
  - Eight respondents had access to Day Care and seven had access to occasional or regular respite care ;
  - All three respondents caring for adult children with learning disabilities were supported by the Learning Disability Service ;
  - One carer paid for a private carer from the UK, so he could sleep at night and look after his wife during the day ;
  - Two carers used a “sitting” service and one could use a voluntary car service once a fortnight ;
  - Support was also provided by MENCAP, the Gateway Club and Headway.

What do healthcare professionals think of Invalid Care Allowance?

In 2008, 199 questionnaires were sent to healthcare professionals (including doctors, nurses and carers) and support workers (volunteers who work with people with disabilities), asking them about AA and ICA. 87 of these were returned (44%).

The objectives of the questionnaires were to establish:
- Whether there was enough information about the benefits ;
- Whether the professionals understood the purpose of AA and ICA ;
- Whether the benefits met their clients' needs.

Information about ICA:
- Only 60% of healthcare professionals were aware of ICA at the time of the survey. Only 23% had recommended it to their clients.

Understanding of ICA:
- Professionals were asked to explain what ICA was. 24 of the explanations showed a clear understanding of ICA, and another 3 showed some understanding. Some respondents had not heard of ICA at all.
- Some comments suggested that ICA should be payable to people over retirement age "as long as care continues" or in order to "provide the care that they can no longer provide."

Effectiveness of ICA:
- Only 15% of professionals thought that ICA met their clients' needs. A few people thought that the benefit should be paid to AA claimants, rather than to the carer. Some thought the earnings limit should be removed.
- One professional said: "Costs are the same whatever your earnings. If someone has good earning power it makes sense to allow them to work part time. As long as it doesn't impact on hours available to care."
- Some professionals were concerned that older claimants, in particular, felt "unworthy" of the benefit or considered it as "charity" rather than an entitlement.

APPENDIX 2: INCOME LIMITS FOR AA AND ICA

An Affluence Test
Data from the 2005-6 Household Expenditure Survey ('HES') shows that the income limit does function as an affluence test:

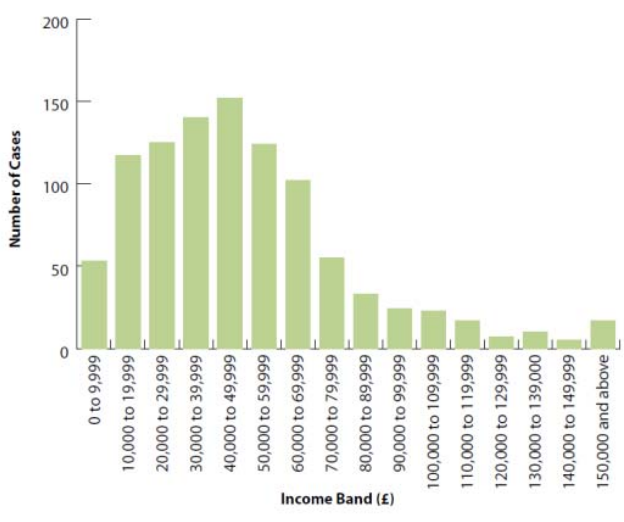
- Looking at the distribution of household incomes (Figure 3.2 from the HES, below), there is a bulge on the graph between £10,000 and £69,999. Each of the income bands in this bulge include at least 10% of the island's population. Over 75% of islanders are included in this part of the graph.

- The graph flattens out suddenly from £70,000 onwards. None of the income bands above £70,000 include more than 5.5% of the population, and most only include around 2%. Only 19% of islanders are included in this part of the graph.

- At the time of the HES, the income limit on AA and ICA was £66,000 (2005) and £69,000 (2006). This marks the upper end of the bulge, or the upper limit of what could be considered a 'normal' household income for Islanders.

If the distribution of incomes is more or less the same in 2011 as in 2005-6, then it is fairly safe to assume that the household income limit for AA and ICA still marks the boundary between the higher end of 'normal' household income and the lower end of 'exceptional' household income.

Figure 3.2
Total Household Income by Income Bands



Guernsey Household Expenditure Survey: 2005/6

ANNEX 1 – LEGISLATION

1. THE NEED FOR LEGISLATION

Attendance and Invalid Care Allowances and exemption from liability to pay prescription charges are statutory allowances or benefits and the changes proposed in the States Report can only properly be given effect by legislation. Amendment of the "Attendance and Invalid Care Allowances (Guernsey) Law, 1984" and subordinate Regulations will be required to reflect the recommended changes to Attendance and Invalid Care Allowances, and amendment of the "Health Service (Benefit) Ordinance, 1990" will be necessary to exempt those entitled to Attendance Allowance from prescription charges.

2. FUNDING IMPLICATIONS

The recommended changes to Attendance and Invalid Care Allowances are expected to lead to an increase in claim numbers for both benefits. Full costs are set out in Paragraph 84 of the States Report, above. As the formula-led costs are below the £100,000 threshold for New Service Bids, the Department will implement the recommendations as soon as the necessary legislative changes have taken effect, which is expected to be in the second half of 2012.

3. RISKS/BENEFITS ASSOCIATED WITH ENACTMENT/NON-ENACTMENT

The Review of Attendance and Invalid Care Allowances took place due to concerns that the benefits did not fully meet the needs of claimants. The legislative changes are required to improve the usefulness of the benefit and ensure that those who are entitled to receive Attendance or Invalid Care Allowance are able to do so.

4. ESTIMATED DRAFTING TIME

The amendments which are necessary to implement the changes proposed in the States Report are not major. In terms of pure drafting time, preparation of the amending legislation should take no longer than one day.

ANNEX 2 – GOVERNANCE[6]

1. FOCUSING ON THE ORGANISATION'S PURPOSE AND ON OUTCOMES FOR CITIZENS AND USERS.

AA and ICA are benefits for those with high care needs and their carers. This Review therefore aligns with the Department's purpose of "providing support ... through a comprehensive range of ... health and care funding." The Review is intended to ensure that benefits are received by, and meet the needs of, those who are entitled to them. As such, it should guarantee the ongoing judicious use of the Department's resources, to the benefit of both citizens in general and users in particular.

2. PERFORMING EFFECTIVELY IN CLEARLY DEFINED FUNCTIONS.

The Report proposes to revise the Department's assessment process for both AA and ICA. This will provide the Administrator, who is responsible for determining entitlement to the allowances, and staff authorised by the Administrator to act on his behalf, with clearer guidelines and more confidence in the process.

3. PROMOTING GOOD VALUES FOR THE WHOLE ORGANISATION AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH BEHAVIOUR.

It was deemed necessary to review AA and ICA, in order to make sure these benefits continued to meet the needs of those entitled to receive them, in a changing society. It shows good practice in ensuring that the Department's work remains relevant and that redundant provisions are changed or removed.

4. TAKING INFORMED, TRANSPARENT DECISIONS AND MANAGING RISK.

The Review has involved wide-ranging consultation at the research and reporting stages. The Report has been based on as wide and as relevant a base of knowledge and experience as possible.

5. DEVELOPING THE CAPACITY AND CAPABILITY OF THE GOVERNING BODY TO BE EFFECTIVE.

Nothing to report.

6. ENGAGING STAKEHOLDERS AND MAKING ACCOUNTABILITY REAL.

The Department has consulted throughout with stakeholders, including benefit recipients, service user groups, healthcare professionals, and its own staff. Consultations have been interactive; any notes of consultations with external groups have been agreed with all participants; and the outcomes of consultations have been taken into account at every stage of the Review.

[6] Following the States' adoption of the Six Principles of Good Governance, it was decided that all States Reports from September 2011 onwards should set out their compliance with these principles.

(NB The Treasury and Resources Department welcomes the proposals to improve support to Islanders with disabilities in a variety of ways. However, it wishes to reiterate the point made in its comment to the Social Security Department's September 2011 States Report entitled "Benefit and Contribution Rates for 2012" in that any increases in Social Security Department Formula Led expenditure will require real term reductions elsewhere in States revenue expenditure in 2012 in order to remain within the Fiscal and Economic Policy Plan target of no real growth in aggregate revenue expenditure.)

(NB The Policy Council supports these proposals.)

The States are asked to decide:-

X.- Whether, after consideration of the Report dated 8th August, 2011, of the Social Security Department, they are of the opinion:-

1. To resolve that the Attendance and Invalid Care Allowances (Guernsey) Law, 1984 and the Health Service (Benefit) Ordinance, 1990 are amended in order to:

   i. exempt all individuals entitled to Attendance Allowance from prescription charges ;

   (paragraph 35)

   ii. give the Department the power to make entitlement to ICA subject to such conditions as it deems reasonable in order to ensure that any person, in respect of whom an associated Attendance Allowance is payable, receives appropriate professional attention;

   (paragraph 49–54)

   iii. remove the earnings limit for Invalid Care Allowance;

   (paragraph 55–59)

   iv. permit carers in full-time education on-island, over the age of 18, to receive Invalid Care Allowance ;

   (paragraph 60)

   v. allow payment of Invalid Care Allowance for 8 weeks following the death of the linked Attendance Allowance recipient and 4 weeks if the Attendance Allowance recipient moves into permanent care ;

   (paragraph 61–62)

   vi. rename Attendance Allowance "Severe Disability Benefit" and Invalid Care Allowance "Carer's Allowance".

   (paragraph 77–78)

2. To direct the preparation of such legislation as is necessary to give effect to give

effect to their above decision.

3. To direct the Treasury and Resources Department to take account of the additional estimated expenditure by the Social Security Department of £50,000 on the Formula Led heading of Attendance and Invalid Care Allowances when recommending, as part of the 2012 Budget Report, Cash Limits for Departments and Committees.

ORDINANCE LAID BEFORE THE STATES

THE AFGHANISTAN (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 Afghanistan (Restrictive Measures) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on 22nd August 2011, are laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE SOCIAL INSURANCE (BENEFITS) (AMENDMENT) REGULATIONS, 2011

In pursuance of Section 117 of The Social Insurance (Guernsey) Law, 1978, The Social Insurance (Benefits) (Amendment) Regulations, 2011, made by the Social Security Department on 8 August 2011, are laid before the States.

EXPLANATORY NOTE

Section 24(3) of the Social Insurance (Guernsey) Law, 1978 provides for the circumstances in which a person who has exhausted his right to unemployment benefit requalifies for that benefit. One of those circumstances is that where he has been in employment since the last day upon which he was entitled to unemployment benefit he has, in each week of employment, derived such earnings as may be prescribed by regulations of the Social Security Department.

These Regulations, by way of substitution of regulation 40, prescribe, for the purposes of section 24(3) of the Law, such earnings as are equal to or greater than 40 times the Young Persons' Minimum Wage Rate as prescribed under section 3(1) of the Minimum Wage (Guernsey) Law, 2009. They also provide that any earnings derived from training schemes funded by the States of Guernsey shall be disregarded. These Regulations came into operation on 8 August 2011.

THE ELECTORAL ROLL (AVAILABILITY) (AMENDMENT) RULES, 2011

In pursuance of Article 78 of The Reform (Guernsey) Law, 1948, as amended, The Electoral Roll (Availability) (Amendment) Rules, 2011, made by The States Assembly and Constitution Committee on 8 August 2011, are laid before the States.

EXPLANATORY NOTE

These Rules amend the charge levied by the Registrar-General of Electors for the supply of copies of the Electoral Roll etc. to election candidates and reflect changes in the titles of “President of the States” to “Presiding Officer” and “States Customs and Immigration Department” to “Guernsey Border Agency”.

These Rules come into force on the 1^{st} day of September, 2011.

APPENDIX 1

TREASURY & RESOURCES DEPARTMENT

GUERNSEY ELECTRICITY LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

2nd August 2011

Dear Sir

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

I therefore submit the Report and Financial Statements of that company for the year ended 31 March 2011.

The company made a profit on ordinary activities before taxation of £1,801,000 (2010: loss of £626,000) and a dividend of £484,000 will be paid to the States (2010: NIL). As explained in the Director's Report, the improvement is mainly the result of increases in tariffs to customers and the volume of electricity sales.

I should be grateful if you would include this matter as an Appendix to the October 2011 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Guernsey Electricity Limited

Report and financial statements

31 March 2011

Contents

Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	KA Gregson	(non-executive Chairman) - passed away 16 March 2011
	I Watson	(managing) - retired 13 August 2010
	AM Bates	(managing) - from 13 August 2010
	IJ Limond	(finance)
	SJ Morris	(engineering)
	Advocate IH Beattie	(non-executive Deputy Chairman) – Acting since 16 March 2011
	D Farrimond	(non-executive)
	MJ Mann	(non-executive)

Secretary: SB Pattimore

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

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

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

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

Company number: 38692

Guernsey Electricity Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2011. These comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and notes to the financial statements set out on pages 12 to 28.

Incorporation

Guernsey Electricity Limited was incorporated on 24 August 2001.

Principal activities

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

Financial performance

During the year ended 31 March 2011, turnover from electricity sales amounted to £46,292,000 (2010: £41,633,000) which represents an increase of 11.19% (2010: 18.57%). Tariffs to our customers increased by 8.50% during the year (2010: 17% increase). Our financial performance also reflects excellent control of costs in a very difficult energy market, and generally higher contribution from all parts of the business.

The profit for the year amounted to £1,467,000 (2010: £19,000 loss). The retained profit in the year of £1,467,000 (2010: £19,000 retained loss) has been transferred to reserves.

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

Dividend

No dividend was paid during the year (2010: £Nil).

Future prospects

The global energy market is continuing to give major concerns to governments, customers and companies operating in the energy industry. As directors of Guernsey Electricity Limited we share these concerns. The volatile costs in the global market are a severe risk which the company faces and manages on a daily basis. Although the directors are making efforts to minimise the impact on customers it was somewhat inevitable that charges to customers would have to increase. The price control decision determined by the Office of Utility Regulation (OUR) in February 2007 covered the four years from 1 April 2007 to 31 March 2011. Within that decision, tariff changes were provided for on 1 April. These changes reflect changes in non-controllable costs which are largely those relating to wholesale oil and import costs. Tariffs increased by 8.5% from 1 April 2010. A further price control decision by the OUR in March 2011 covers a one year period from 1 April 2011 to 31 March 2012. This resulted in the decision to increase tariffs by 6.5% from 1 April 2011. Further income will be needed to fund the capital investment requirements of the company. Our business activities are all making a positive contribution to the services we provide.

Customers

The number of customers as at 31 March 2011 is 29,280 (2010: 29,099).

Directors' report - continued

Units
Importation through the cable link between Guernsey, Jersey and the European grid provided 78% (2010: 61%) of the island needs in the year ended 31 March 2011 and 22% (2010: 39%) was generated on the island, as shown by the units analysis below:

	2011	2010
Units imported MWh	**308,600**	239,332
Units generated MWh	**84,633**	152,243
Total units imported/generated MWh	**393,233**	391,575

Average price
The average price per kWh sold in the year ended 31 March 2011 was 12.33 pence (2010: 11.49 pence).

Reliability
The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost no minutes due to generation activity (2010: Nil minutes). However, 10.00 minutes were lost per customer in respect of distribution (2010: 22.60 minutes).

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

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

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

For and on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors
2 JUNE 2011

Guernsey Electricity Limited

Corporate governance

Guernsey Electricity's Corporate Governance arrangements are based on the proportionate and relevant application of good practice principles in corporate governance and predominantly those contained within the UK Corporate Governance Code published in June 2010.

Directors

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

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

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

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

In addition senior management team meetings are held each fortnight.

Directors' remuneration

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

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 as amended provided for the States of Guernsey Advisory & Finance Committee (now Department of Treasury & Resources) to undertake on behalf of the States the role of shareholder. In accordance therewith the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Department of Treasury & Resources as nominees on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Department of Treasury & Resources on the policies it wishes to be pursued in fulfilling this role. Each year the company submits its forward plan to the Department of Treasury & Resources. In addition, the company has signed a memorandum of understanding with the States' shareholder representative concerning the manner in which the company and its shareholder's representatives will interact in respect of stewardship and corporate governance matters generally.

Corporate governance - continued

Financial reporting

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

Internal control

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

Risk management

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

Compliance

All business units have well established compliance procedures.

IT systems

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

Internal audit

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

Statement of directors' responsibilities

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

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

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

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

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

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

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

We have audited the Company financial statements (the "financial statements") of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report & Accounts 2010/11 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

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

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountant

2 June 2011

Guernsey Electricity Limited

Profit and loss account
for the year ended 31 March 2011

	Note	**2011 £'000**	2010 £'000
Turnover	*2*	**50,380**	45,503
Cost of sales		**(36,994)**	(35,556)
Gross profit		**13,386**	9,947
Net operating expenses		**(11,365)**	(10,199)
Operating profit/(loss)	*4*	**2,021**	(252)
Loss on disposal of assets		**(239)**	(297)
Profit/(loss) on ordinary activities before interest, other finance cost and other income		**1,782**	(549)
Interest receivable	*5*	**355**	316
Interest payable	*5*	**(1)**	(2)
Other finance cost		**(335)**	(391)
Profit/(loss) on ordinary activities before taxation		**1,801**	(626)
Taxation	*6*	**(334)**	607
Profit/(loss) for the financial year		**1,467**	(19)

All activities derive from continuing operations.

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses
for the year ended 31 March 2011

	Note	**2011 £'000**	2010 £'000
Profit/(loss) for the financial year		**1,467**	(19)
Actuarial gain/(loss) recognised in the pension scheme	*25*	**5,198**	(7,188)
Movement on deferred tax relating to pension deficit	*15*	**(1,001)**	1,427
Total recognised gain/(loss) for the year		**5,664**	(5,780)

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Balance sheet
at 31 March 2011

	Note	2011 £'000	2010 £'000
Tangible fixed assets	8	93,182	93,332
Investment	9	1	1
Current assets			
Stocks and work in progress	10	5,998	5,691
Debtors and prepayments	11	10,275	8,728
Balances with States Treasury	12	13,779	11,365
Cash at bank and in hand		433	943
		30,485	26,727
Creditors: amounts falling due within one year	13	(8,320)	(7,233)
Net current assets		22,165	19,494
Total assets less current liabilities		115,348	112,827
Creditors: amounts falling due after more than one year	14	(3,672)	(3,307)
Provision for liabilities and charges	15	(98)	224
Net pension deficit	25	(7,076)	(10,906)
Net assets including pension deficit		104,502	98,838
Share capital	16	109,209	109,209
Reserves	20	(4,707)	(10,371)
Shareholders' funds	21	104,502	98,838

The financial statements on pages 8 to 28 were approved by the Board of Directors on 2 June 2011.

Signed on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors

The notes on pages 12 to 28 form an integral part of these financial statements.

Guernsey Electricity Limited

Cash flow statement
for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	*17*	**6,566**	2,189
Returns on investments and servicing of finance			
Interest received		**367**	306
Interest paid		**(1)**	(2)
Net cash inflow from returns on investments and servicing of finance		**366**	304
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(5,439)**	(5,509)
(Costs)/proceeds of disposal of tangible fixed assets		**(20)**	15
Customers' contributions towards capital expenditure		**431**	402
Net cash outflow from capital expenditure and financial investment		**(5,028)**	(5,092)
Net cash inflow/(outflow) before use of liquid resources and financing		**1,904**	(2,599)
Management of liquid resources			
Net cash movements with States Treasury		**2,414**	(2,353)
Decrease in cash	*18 & 19*	**(510)**	(246)
Net cash inflow/(outflow)		**1,904**	(2,599)

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 12 to 28 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2011

1. Principal accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention, they give a true and fair view, have been prepared in accordance with UK GAAP and are in compliance with the Companies (Guernsey) Law, 2008.

Transfer of undertaking

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Company (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

Hire purchase

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

Interest

Interest receivable and payable are accounted for on an accruals basis.

Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted below.

1. Principal accounting policies - continued

Tangible fixed assets and depreciation - continued

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition or on completion of construction. Any shortfall of depreciation arising on the disposal or write-off of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

		Estimated life in years
Buildings		40
Buildings Equipment		10
Cable Link		25
Plant and machinery	- Generation	25 – 35
	- Distribution	35
	- Street Lights	20
Distribution network comprising:		
Distributors		35
Meters		5 – 15
Cyclocontrol receivers		5
Motor vehicles		5
Furniture and equipment		3 – 10
Minor plant		5 – 10

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of goods held for resale a provision is made based on the time elapsed since the goods were purchased. Provision is made for other stocks relating to strategic plant based upon the remaining useful economic life of the assets to which they relate.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Deferred taxation

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

1. Principal accounting policies - continued

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

Financial instruments

The company enters into forward exchange contracts to mitigate a large percentage of the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. The company does not hold or issue financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil including the movement in the US Dollar which is inherent in the pricing. Gains and losses are recognised in the profit and loss account when realised.

Pension costs

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing current service cost and any past service cost is charged to the profit and loss account together with finance costs/income for the scheme which are charged/credited to the profit and loss account. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with FRS17.

Joint arrangements

The Channel Islands Electricity Grid Limited is a joint arrangement between Jersey Electricity plc and Guernsey Electricity Limited. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9") these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this joint arrangement where the company's entitlements are fully determined by contracts with the other party to the joint arrangement.

Notes to the financial statements - continued

Year ended 31 March 2011

2. Turnover

	2011 £'000	2010 £'000
Sales of electricity	**46,292**	41,633
Other sales	**4,088**	3,870
	50,380	45,503

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, each year an estimate of the unbilled units as at 31 March is determined. One of the significant advantages of the company's new automatic metering system (AMR) is that a very high proportion of customer's meter readings can now be collected at the balance sheet date. With this new and more accurate information, sales of electricity includes a higher value of unbilled units of £1,149,000 more than the traditional method of calculation.

3. Cable link

For the import of power from the European Grid, the company has a contract with Electricité de France ("EdF"). The company retains its commitment to contribute towards the reinforcement of the French network. This liability is being satisfied by a revenue payment of approximately £244,000 per annum over the period of the contract.

4. Operating Profit/(loss)

Operating profit/(loss) is after charging/(crediting):

	2011 £'000	2010 £'000
Depreciation (note 8)	**5,340**	5,076
Rentals under operating leases	**12**	11
Auditors' remuneration - statutory audit	**33**	32
- non-audit services	**-**	4
Bad debts	**57**	33
Emoluments		
- non-executive directors	**40**	42
- executive directors		
- basic remuneration	**346**	326
- other benefits (including pension costs under FRS17)	**163**	103
Regulatory costs - external (excluding non-audit services)	**423**	342
- internal	**178**	206
Other operating income	**(620)**	(583)

Notes to the financial statements - continued
Year ended 31 March 2011

5. Interest

	2011 **£'000**	2010 £'000
Interest receivable:		
Deposits with banks and States Treasury	**215**	180
Hire purchase	**140**	136
	355	316
Interest payable:		
Bank overdraft	-	1
Security deposits	**1**	1
	1	2

6. Taxation

The company's profits or losses from the activities subject to licence from the Office of Utility Regulation will be chargeable to tax at the company higher rate of 20%, as will rental income from Guernsey properties. For all other company activities the company standard rate of 0% is applicable. The tax adjusted profits of the company have been determined so that the appropriate amounts are taxed at the applicable rate.

The basis of assessment to Guernsey tax continues to be on an actual current year basis. The assessable profits for the current year have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years. Consequently, all tax is deferred and there is no tax payable for the current year.

Notes to the financial statements - continued

Year ended 31 March 2011

6. Taxation - continued

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 19.2619% (2010: 19.8531%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2011.

The deferred tax charge/(credit) in the profit and loss account for the year is:

	2011	2010
	£'000	£'000
Timing differences on capital allowances and depreciation	**69**	222
Short term timing differences (pension)	**12**	(430)
Short term timing differences (other)	**(37)**	(22)
Movement on unrelieved trading losses	**290**	(377)
	334	(607)

7. Dividend

	2011	2010
	£'000	£'000
Paid in the year, £Nil per share (2010: £Nil per share)	**-**	-

Notes to the financial statements - continued

Year ended 31 March 2011

8. Tangible fixed assets

	1 April 2010 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2011 £'000**
Cost				
Land and buildings	29,658	390	-	**30,048**
Cable link	28,849	7	-	**28,856**
Plant and machinery:				
Generation	33,762	1,415	207	**34,970**
Distribution	9,961	1,205	1	**11,165**
Distribution network	26,200	1,967	198	**27,969**
Motor vehicles, furniture and equipment, minor plant	4,716	424	302	**4,838**
	133,146	5,408	708	**137,846**

	1 April 2010 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2011 £'000**
Depreciation				
Land and buildings	6,742	880	-	**7,622**
Cable link	10,060	1,267	-	**11,327**
Plant and machinery:				
Generation	12,864	1,361	28	**14,197**
Distribution	1,775	291	1	**2,065**
Distribution network	6,011	966	159	**6,818**
Motor vehicles, furniture and equipment, minor plant	2,362	575	302	**2,635**
	39,814	5,340	490	**44,664**
Net book value	93,332			**93,182**

Included above are assets in the course of construction of £4,896,000 (2010: £2,104,000), which are not depreciated.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2011

9. Investment

The company invested £250,000 in Marine Current Turbines Limited as part of its initiatives to keep abreast of the research and development of alternative energy sources. This investment is a minority interest and the holding is less than 5%. The benefits of this investment are spread over more than one year, and £Nil has been charged to the profit and loss account for impairment (2010: £Nil).

10. Stocks and work in progress

	2011		2010	
	£'000	**£'000**	£'000	£'000
Fuel stocks		**3,377**		3,247
Purchased goods for resale	**351**		344	
Provision	**(7)**	**344**	(6)	338
Other stocks	**3,405**		2,998	
Provision	**(1,331)**	**2,074**	(1,106)	1,892
Work in progress		**203**		214
		5,998		5,691

11. Debtors and prepayments

	2011	2010
	£'000	£'000
Estimated value of unbilled units	**5,458**	4,669
Customer accounts outstanding	**3,973**	3,393
Other debtors	**450**	266
Prepayments	**394**	400
	10,275	8,728

Included in "Customer accounts outstanding" is an amount of £327,000 (2010: £325,000) due after more than one year.

12. Balances with States Treasury

The treasury department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

Notes to the financial statements - continued

Year ended 31 March 2011

13. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	3,328	2,354
Customer payments received in advance	3,829	3,578
Employee taxes and Social Security	161	160
Deferred income	127	112
Accruals and other creditors	875	1,029
	8,320	7,233

The company has a £750,000 overdraft facility with Barclays Bank Plc (2010: £750,000), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. The facility is due for review on 30 August 2011.

14. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Deferred income	3,672	3,307

15. Provision for liabilities and charges

	2011 £'000	2010 £'000
Deferred taxation:		
Balance at 1 April	(2,926)	(892)
Profit and loss account charge	334	(607)
Statement of total recognised gains and losses	1,001	(1,427)
Balance at 31 March	(1,591)	(2,926)
Which comprises:		
Capital allowances in excess of depreciation	7,588	7,519
Short-term timing differences (other)	(112)	(75)
Unrelieved trading loss for tax purposes	(7,378)	(7,668)
Provision for liabilities and charges	98	(224)
Deferred tax asset on pension deficit (note 25)	(1,689)	(2,702)

16. Share capital

	2011 £'000	2010 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	125,000	125,000
Issued and fully paid:		
109,208,844 ordinary shares of £1 each	109,209	109,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2011

17. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	2011 £'000	2010 £'000
Operating profit/(loss)	**2,021**	(252)
Depreciation charge	**5,340**	5,076
Pension service cost	**1,697**	978
Employer's pension cash contributions	**(1,678)**	(1,612)
Deferred income	**(127)**	(112)
Increase in stocks and work in progress	**(307)**	(993)
Increase in debtors and prepayments	**(1,558)**	(1,529)
Increase in creditors	**1,178**	633
	6,566	2,189

18. Reconciliation of net cash flow to movement in net funds

	2011 £'000	2010 £'000
Decrease in cash in the year	**(510)**	(246)
Cash used to increase/(decrease) liquid resources	**2,414**	(2,353)
Change in net funds	**1,904**	(2,599)
Net funds at 1 April	**12,308**	14,907
Net funds at 31 March	**14,212**	12,308

19. Analysis of changes in net funds

	At 1 April 2010 £'000	Cash flows £'000	**At 31 March 2011 £'000**
Cash			
Cash at bank and in hand	943	(510)	**433**
	943	(510)	**433**
Balances with States Treasury	11,365	2,414	**13,779**
	12,308	1,904	**14,212**

Notes to the financial statements - continued
Year ended 31 March 2011

20. Reserves

	2011 **£'000**	2010 £'000
Balance at 1 April brought forward	**(10,371)**	(4,591)
Profit/(loss) for the financial year	**1,467**	(19)
Actuarial gain/(loss) recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**4,197**	(5,761)
Balance at 31 March carried forward	**(4,707)**	(10,371)

21. Reconciliation of movements in shareholders' funds

	2011 **£'000**	2010 £'000
Shareholders' funds at 1 April brought forward	**98,838**	104,618
Profit/(loss) for the financial year	**1,467**	(19)
Actuarial gain/(loss) recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**4,197**	(5,761)
Shareholders' funds at 31 March	**104,502**	98,838

22. Commitments

Capital commitments for which no provision has been made in these financial statements amounted to £2,859,000 as at 31 March 2011 (2010: £4,808,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Operating lease commitments

Commitments to make payments during the next year in respect of an operating lease are as follows:

	2011 **£'000**	2010 £'000
Land and Buildings		
Lease which expires:		
Within one year	-	-
Within two to five years	**12**	12

23. Financial instruments

(a) Import Financial Hedge

Our import contract with EdF is denominated in Euros. The company has entered into participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	€'000	€'000	€'000	€'000	**2011 €'000 Total**	2010 €'000
Forward contracts to purchase Euro	4,616	2,355	2,635	834	**10,440**	9,163
	£'000	£'000	£'000	£'000	**£'000**	£'000
Contracted prices	4,101	2,085	2,271	740	**9,197**	8,406
Closing value at 31 March	4,080	2,082	2,329	737	**9,228**	8,153
Unrecognised and unrealised gain/(loss)	(21)	(3)	58	(3)	**31**	(253)

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	€'000	€'000	€'000	€'000	**2011 €'000**	2010 €'000
Forward contracts to purchase Euro	6,594	3,365	2,635	1,191	**13,785**	13,090
Forward exchange rate	1.1254	1.1300	1.1600	1.1270		1.0900

The sterling/euro rate at 31 March 2011 was 1.1313 (2010: 1.1238).

(b) On-island Generation Financial Hedge

The company has entered into a financial hedge on the commodity price of heavy fuel oil used for its on-island generation. The commitment to this is for an annual volume for financial year 2011/12 of 18,000 metric tonnes. This is priced at £345.50 per tonne for 9,000 metric tonnes and £339.00 per tonne for the remaining 9,000 metric tonnes.

24. Contingent liability

The company has completed a technical assessment of noise and/or ground borne vibration claimed to be caused by some operations within the power station site. A potential engineering solution was fully investigated during the year but regretfully has now concluded that the potential solution will not be effective. The company is now considering its next step to determine alternative solutions to mitigate this risk. There is still significant uncertainty surrounding the potential cost of resolving the matter but it is estimated to be in the range £0 to £371,000. The Board is seeking to achieve resolution at minimum cost.

25. Pension Scheme

Employee benefit obligations for Guernsey Electricity Limited

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme (PSPS). This is a defined benefits pension scheme funded by contributions from both employer and employee to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and therefore the value of the pension fund assets and liabilities attributable to this company. The triennial valuation at 31 December 2007 recommended the increase of employer's contribution from 16.3% to 17.3% from 1 April 2009 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2011 to 31 March 2012 are estimated at £1,303,000. In recognising that further contribution was required to reduce the past service deficit, it was resolved by the Board of Directors to reduce the deficit by lump sums over a period of years. An additional sum of £400,000 has been contributed this year (2010: £400,000).

The triennial actuarial valuation of the PSPS as at 31 December 2010 is still in progress and consequently, the results of this latest valuation were not available at the time of reporting.

Description of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund ("the Fund")

The Fund is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") Retirement Benefits on the following basis:

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

Notes to the financial statements - continued

Year ended 31 March 2011

25. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2011	2010
	£'000	£'000
Fair value of Fund assets	**42,756**	37,560
Present value of funded obligations	**(51,521)**	(51,168)
Deficit in scheme	**(8,765)**	(13,608)
Related deferred tax asset	**1,689**	2,702
Net pension liability	**(7,076)**	(10,906)

The amounts recognised in the profit and loss account are as follows:

	2011	2010
	£'000	£'000
Current service cost	**1,697**	978
Interest on obligation	**2,781**	2,258
Expected return on Fund assets	**(2,445)**	(1,867)
Expense recognised in the profit and loss	**2,033**	1,369
Actual return on Fund assets	**(4,304)**	(7,935)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2011

25. Pension Scheme - continued

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

	2011	2010
	£'000	£'000
Opening defined benefit obligation	**51,168**	35,273
Service cost	**1,697**	978
Interest cost	**2,781**	2,258
Contributions by members	**481**	486
Actuarial (gains)/losses	**(3,338)**	13,256
Benefits paid	**(1,268)**	(1,083)
Closing defined benefit obligation	**51,521**	51,168

Changes in the fair value of Fund assets are as follows:

	2011	2010
	£'000	£'000
Opening fair value of Fund assets	**37,560**	28,610
Expected return	**2,445**	1,867
Actuarial gains	**1,860**	6,068
Contributions by employer	**1,678**	1,612
Contributions by members	**481**	486
Benefits paid	**(1,268)**	(1,083)
Closing fair value of Fund assets	**42,756**	37,560

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):

	2011	2010
	£'000	£'000
Total actuarial gains/(losses)	**5,198**	(7,188)
Total gain/(loss) recognised in STRGL	**5,198**	(7,188)
Cumulative amount of loss recognised in STRGL	**(12,957)**	(18,155)

25. Pension Scheme - continued

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

	2011	2010
	%	%
Equities	**63**	60
Gilts	**4**	12
Corporate bonds	**14**	15
Property	**6**	2
Other assets	**13**	11

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	31 March 2011	31 March 2010
	% p.a.	% p.a.
Discount rate	**5.5**	5.5
Expected return on Fund assets at 31 March (for following year)	**6.3**	6.5
Rate of increase in pensionable salaries	**4.7**	5.15
Rate of increase in deferred pensions	**3.7**	3.9
Rate of increase in pensions in payment	**3.7**	3.9

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 89 if female.

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

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

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

Notes to the financial statements - continued
Year ended 31 March 2011

25. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	**51,521**	51,168	35,273	33,355	38,055
Fund assets	**42,756**	37,560	28,610	35,868	34,715
(Deficit)/surplus	**(8,765)**	(13,608)	(6,663)	2,513	(3,340)
Experience gains/(losses) on Fund assets	**1,860**	6,068	(10,805)	(2,515)	(933)
Experience gains/(losses) on Fund liabilities	**504**	1,208	426	659	(884)
Change in assumptions underlying the present value of Fund liabilities	**2,835**	(14,464)	355	6,927	1,256
Total Experience gains/(losses) on Fund liabilities	**3,338**	(13,256)	780	7,586	372

The Fund assets for the years ended 31 March 2007 and 2008 have not been restated to bid value (i.e. they are mid market value).

The balance sheet position in respect of the Actuarial Account has improved due to the effect of the changes in the economic assumptions derived from the market and the good investment return.

A key impact on the change of assumptions item was the market derived assumption for future inflation. The discount rate remained the same whilst the inflation assumption decreased by 0.2%. In addition, the assumption regarding future salary increases was revised to inflation plus 1%. Overall this produced an increase of 0.45% in the net discount rate for pre retirement liabilities for actives and an increase of 0.2% in the net discount rate for pre retirement liabilities for deferred members and for post retirement liabilities. These changes have decreased the value placed on the liabilities by about £2.8m

In addition, there was a gain of about £1.9m as a result of the actual investment return being higher than expected. Also, contributions paid were more than the cost of accruing benefits which, along with other experience items, resulted in a gain.

The net position was a decrease of around £4.8m in the deficit (before deferred taxation) determined under FRS17.

26. Statement of control

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

27. Related party transactions

There are no disclosable related party transactions in this financial year. Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.

APPENDIX 2

TREASURY & RESOURCES DEPARTMENT

GUERNSEY POST LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

2nd August 2011

Dear Sir

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

I therefore submit the Report and Financial Statements of Guernsey Post Limited for the year ended 31 March 2011.

As explained in the Chairman's statement, due to the global recession and more significantly digital substitution, the company made a loss on ordinary activities before taxation of £897,000 (2010: £235,000 profit). As a consequence no dividend will be paid to the States (2010: £273,109).

I should be grateful if you would include this matter as an Appendix to the October 2011 Billet d'Etat.

Yours faithfully

C N K Parkinson
Minister

Guernsey Post Limited

Annual report and financial statements

for the year ended 31 March 2011

Guernsey Post Limited

Contents

Guernsey Post Limited

Corporate Details

Directors:

Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Richard J Hemans (Finance)
Steve Hannon (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)
Andrew Duquemin (Non-Executive)

Auditor:

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

Actuaries:

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

Registered office:

Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Greffe Registration Number: 38693

Guernsey Post Limited

Chairman's Statement

The mails industry has evolved into an extremely challenging environment for postal operators all over the world. In every jurisdiction postal companies are coming to terms with the effects of a global recession and even more significantly the devastating momentum of digital substitution. In this regard the Bailiwick is certainly no exception. Our core business is under significant pressure, revenues are in decline and bulk mail volumes have fallen for the first time in more than 20 years.

A key challenge for Guernsey Post remains its ability to fund the Universal Service Obligation (USO). We believe the USO is very much aligned to the fabric of our community covering the frequency of deliveries, our network of outlets and the price and range of the postal products that we provide. The Board has rejected the approach taken by many other jurisdictions around the world where it is commonplace to rely on government subsidies and instead is taking steps to create a sustainable future for the business. However, the solution to the USO dilemma is only partly under the Board's control and is reliant on a variety of measures. The liberalisation of the Guernsey postal market has to stop, the scope of the USO has to be aligned with the modern requirements of our customers and we must deliver on our unprecedented cost reduction programme.

The early progress we have made in transforming the business and reducing our cost base is significant, the benefits of which I am pleased to report have been passed directly to customers in the form of improved prices. It is certainly the case that we are making positive moves toward returning to profitability, but there is still a great deal for us to do.

Company Performance

Given the stark and uncompromising challenges it is no surprise but nevertheless disappointing to report that Guernsey Post has made an operating loss of £0.9m during 2010/11 (gain of £0.3m during 2009/10). However, before the impact of the FRS17 pension adjustment and some exceptional non-recurring items including redundancy payments and the legal costs incurred in our efforts to limit the liberalisation of the Guernsey postal market, the underlying financial performance is actually better than the previous year.

The Company has maintained a strong commitment to delivering high quality services and reducing customer complaints whilst at the same time achieving a significant headcount reduction. This in itself is clear evidence that Guernsey Post is becoming a more efficient and effective business.

Company Strategy

During the course of 2010 the Guernsey Post Board endorsed a new strategy, which clearly reflects the significant change and transformation required within the business. Our new strategy has required us to speed up the implementation of our cost reduction programme and sharpen our focus on our customers by developing new mail products that are superior to those provided by our competitors. Our key commercial strategic objectives are now very closely aligned to the core competencies of the business. They are:-

- To defend bulk mail profits in a competitive market.
- To increase our Philatelic profits.

Chairman's Statement – continued

- To make profit from new opportunities that leverage our delivery and collection infrastructure.
- To grow the number of customer transactions processed within our business.
- To be the market leader in Express services within the Bailiwick of Guernsey.

Guernsey Post continues to benefit from the presence of the fulfilment industry, but the pressure on Low Value Consignment Relief (LVCR) has intensified to a new high in the last twelve months. In November 2011 the LVCR will shrink from £18 to £15, which could potentially have a devastating effect on some sectors and businesses on the Island. In our efforts to work with our customers we have significantly reduced prices for international mail in support of their diversification into new markets and we will shortly launch new bulk mail products that will give customers the choices they require at prices that are comparable to any other operator in the Channel Islands.

Finally, the Board will strive to improve the efficiency of the business by conducting a full review of its asset portfolio and capital requirements. Our aim is to ensure that Guernsey Post is sufficiently equipped for the future whilst at the same time delivering maximum value to its shareholder.

The Board

In September 2010, the Guernsey Post Board appointed Boley Smillie as the Company's new Chief Executive. Boley, who had previously held the position of Operations Director, was born and educated in Guernsey and joined Guernsey Post in 1991. We are extremely pleased to have made a local appointment, which underlines our efforts to ensure the most senior roles within the organisation are supported by an effective succession plan.

A number of changes have also taken place among our complement of non-executive directors. Jeff Kitts, having served on our Board as a non executive director since 2005, retired on 28th March 2011, and Dame Mary Perkins resigned from the Board to focus on her extensive commitments to the Specsavers Optical Group. Dame Mary and Jeff have been tremendous assets to the Board and I would like to thank them personally for their professionalism, commitment and for their valuable support.

Two new non-executive directors have been appointed to the Board. Stuart Le Maitre brings 20 years' experience within the civil service, during which time his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs. Stuart also worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation.

Simon Milsted has also joined the Board as a non-executive director. Simon has extensive experience as a chartered accountant originally with Price Waterhouse in London, during which time he engaged in a series of special assignments for the Bank of England. In 1985 he became non-executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, before moving to Guernsey with his wife in 2010.

We have maintained a strong focus on our corporate governance during this financial year. The Board undertook another effectiveness review, which reinforced our belief that as a collective we

Chairman's Statement – continued

are a cohesive unit committed to best practice. Our Audit Committee is now well established within the business, ensuring that Guernsey Post's financial reporting and risk management processes are up to the required high standards. Our Remunerations and Nominations committees have also had an extremely busy year in leading the process to appoint our Chief Executive and our two new non-executive directors.

It is my view that the Board has continued to provide effective leadership, and that there is a clear strategy and business plan in place to achieve our corporate objectives.

The Company and its People

The organisation is working extremely hard to offset the impact of the external threats to our business. The scale and speed of change is unprecedented in terms of our history and is extremely challenging to all those affected. I would like to thank our staff and Trade Unions for the collective determination and resolve with which they are approaching this transition and most importantly their dedication to delivering excellent service. This commitment was recognised earlier in the year when Guernsey Post was placed first in the World Mail Awards for People Management. Despite strong opposition from thirteen international postal companies, Guernsey Post was recognised for its continued commitment to internal change including developing partnerships with its Trade Unions and the successful implementation of learning and development within the organisation.

I am confident that with the continued support of our people we will achieve success that sets Guernsey Post apart in an industry where only those who are able to adapt and reinvent themselves are able to survive.

D R Jehan
Chairman
July 2011

Guernsey Post Limited

Chief Executive's Report

It seems mandatory, particularly in the digital age, that the Chief Executive of a postal administration must paint a bleak picture of life within our industry. In many respects that could easily be justified given the very real experiences of the last twelve months. The global postal market continues to experience volume decline in traditional services, the company was involved in a difficult dispute with the OUR, which then led to a number of our key account customers losing confidence in the business. Royal Mail charges have continued to increase at inflation-busting levels, and an interim valuation of Guernsey Post's pension scheme highlighted a record deficit. Finally, bulk mail exports have declined, and in March 2011 the headline news from the UK budget regarding the future of the Low Value Consignment Relief delivered a blow to the industry, the full effect of which we are yet to experience.

Despite these challenges, the last year for Guernsey Post marks a year of transition and renewed optimism within our business. It also marks a year where we have done more than talk about the need for change; we have actually started to deliver it. It marks a year where we have transformed a number of key relationships with customers, suppliers and stakeholders to the benefit of our organisation. We have also developed a clear strategy; one that has been endorsed by our Board, our shareholder, our Trade Unions and our Employees. Our plan is underpinned by a collective and determined view that will see us through these difficult times.

Business Performance

Whilst it is disappointing to report an operating loss of £0.9m for the trading year (gain of £0.3m during 2009/10), it is significantly better than the forecast full year position of a £1.7m operating loss. The implementation of our plans to offset the decline in core mail volumes and return to profitability are now well under way. Regrettably, this has resulted in job losses at all levels within the organisation, equating to a 20% reduction in our administration and support departments. Further job losses are inevitable and necessary in our operations department, which we are confident will be achieved through our recently launched voluntary redundancy programme. The Board will continue to focus on cost reduction initiatives during the coming year and develop solutions in partnership with our Trade Unions, who equally have recognised the urgent need for transformation.

The financial performance of the Philatelic Bureau has held up well despite year on year underlying declines in the active customer base. Revenue in the financial year exceeded £1m, 20% ahead of forecast. Our foreign exchange business, Batif, also continues to perform well despite a difficult economic climate.

We have maintained a strong focus on quality of service during the last twelve months and once again met all of our targets.

In January 2011, we developed a range of new international bulk mail products, which is proving extremely successful and has seen us win business from competitors and increase our market share.

The Guernsey Postal Market

In October 2010 we reached an agreement with the OUR, bringing a conclusion to the liberalisation dispute which, during the previous twelve months, had consumed so much time and energy from the business. This agreement formally opened up the packet market, but critically maintained the reserved area for large letters below a value of £1.35.

Chief Executive's Report – continued

In the coming months the States of Guernsey will engage in an important debate regarding the future of regulation, alongside the scope of our USO. We strongly believe that the States of Guernsey should make the primary objective of the OUR, to protect the USO given that it forms such an integral element of our society. In return, the Guernsey Post Board is committed to a strategy that combats declining core volumes by reducing costs, wherever we can, and securing new business closely aligned to our core competencies.

Our Customers

It was important to make a commitment to our customers that extended beyond the usual promise of future savings minimising future price increases. As such, during our most recent price application, we fed the benefit of our savings initiatives immediately through to price.

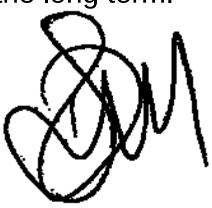
Price rises in the near future are inevitable but only after we have absorbed as much of the impact as is practicably possible by being more efficient ourselves. We are also developing new products with new suppliers that will give our customers choice and mitigate the impact of Royal Mail charge increases.

Looking Forward

The outlook for 2011 is equally challenging, with traditional mail volume declines set to continue, the planned privatisation of Royal Mail will almost certainly result in significant increases in charges and we expect further changes to the LVCR.

The challenges facing Guernsey Post are not unique but it is also true that many postal organisations throughout the world have struggled to keep pace with market and economic changes. The challenge for Guernsey Post is to manage the decline in traditional markets by cutting the cost base, whilst also identifying growth opportunities that exploit the core competencies of the business. It is this combination that will ensure postal services and the USO remain sustainable in the long term.

Boley Smillie
Chief Executive
July 2011



Finance Director’s Statement

Although our underlying financial performance improved, several parts of the business exceeded our expectations and we made good progress against our cost reduction targets, I am disappointed to report that the difficult trading environment caused Guernsey Post to make an operating loss of £0.9m in 2010/11, which compares with an operating profit of £0.3m in 2009/10. The impacts of FRS17 pension adjustments, investment in lower bulk and business prices, higher Royal Mail charges, a fragile UK economy, the part liberalisation of the Bailiwick postal market and some dubious regulatory decisions all combined to weaken our overall financial performance.

Profit and loss account

Turnover fell by 3.1% to £44m. Bulk mail volumes declined by 10% because several of our key customers suffered poor trading as a result of technological change and an uncertain UK consumer, whilst the part-liberalisation of the Bailiwick postal market allowed some important customers to switch their mail to a new entrant that operates with a more favourable cost structure.

We are endeavouring to remain competitive and innovative for our customers and during the year we invested heavily in lower international bulk mail prices and the introduction of a discount for business customers, but this also contributed to the decrease in turnover. In response to regulatory and market demands, we introduced a downstream access product that has not yet reached the critical mass necessary to fill our minimum capacity and is therefore only marginally profitable.

We did not experience the decline in mail originating from the UK and the Rest of the World that we were expecting, which remained flat year on year as the growth in packets ordered online compensated for the decline in letter volumes. There was also strong demand for our premium time-guaranteed, next-day delivery service from several of our customers who recognised the importance of the reliability, security and traceability it provides to their customers.

Expenditure dropped by 0.5% to just under £45m. Royal Mail charges for the delivery of international mail rose significantly. FRS17 pension costs increased from £0.1m to £0.6m. Although this is an accounting adjustment, it does reflect the higher cost of providing the benefits of the scheme. The OUR’s decision to classify international packets as large letters in the 2010/11 tariff cost us £0.5m because there has been a huge dislocation between the price we charge customers and the rate Royal Mail charges Guernsey Post.

Our voluntary redundancy programme and natural attrition led to a reduction in the number of employees in our head office at the end of the year compared with the start of the year, resulting in significant payroll savings. We undertook this action to address the decline in bulk mail, as well as adopting a cost control initiative that resulted in savings of more than £0.25m. Unfortunately, a lot of these savings were absorbed by the expenditure associated with the OUR legal appeal and the cost of the redundancies.

The good news is that although we made an operating loss, after adjusting for the impact of FRS17, redundancies and other non-recurring items our underlying performance in 2010/11 was better than 2009/10. This is mainly the result of the strong performances from southbound mail and Royal Mail Special Delivery, along with the economies we have made in our payroll and non-payroll expenditure.

Finance Director's Statement – continued

Balance sheet

Shareholders' funds increased from £19.8m to £20.9m as the FRS17 pension deficit decreased from £9.4m to £7.8m. This was a consequence of the recovery in asset markets during 2010 and a small rise in inflation, which led to a higher discount rate and therefore a lower deficit. The Board recognises the uncertainty created by the pension deficit and we are working with our unions, employees and other stakeholders to manage the risk it presents and to provide some certainty on its future funding requirements.

We still have a very strong Balance Sheet, with nearly £15m of cash in the bank. The Board believes that the Company has surplus cash and is actively considering how to improve the efficiency of the Company's capital structure. This analysis is expected to be completed in the next few months and further details will be announced at the appropriate time.

Cash flow statement

In addition to our cost saving initiatives, we have also focused on improved management of our working capital. We increased our cash balances by over £0.6m during the year as the Company benefited from robust operating cash flow and a light capital expenditure programme following large capital outlays in 2009/10. We managed our working capital well during the year and did not suffer any changes to our credit terms from Royal Mail, as we did in 2009/10.

Outlook

The outlook for the Company is challenging and we are budgeting to make a loss in the 2011/12 financial year. We have made contingencies to overcome the loss of several customers or a significant proportion of their mail volumes as a result of the UK Government's decision to reduce the LVCR threshold to £15, but we could lose more if the limit changes further. A number of our key customers are either the subject of corporate activity or suffering a major downturn in trade.

We are going to sustain a material increase in our Royal Mail charges in 2011/12 because the UK postal regulator has allowed Royal Mail to increase its prices to business customers by more than 15%. We have negotiated hard to mitigate any increase and are looking at alternatives such as DSA, but the balance of power is one-sided and we have asked the OUR to re-open the current price control in the expectation that we will be able to recover any justifiable Royal Mail increase from customers.

Our price control for 2011/12 is predicated on the achievement of significant savings in postal operations. This is a major challenge that will lead to large redundancy costs, but the necessary changes to our sorting office should be implemented in June of this year. The Board is also considering the pension scheme and how to make it more affordable and sustainable for the benefit of our current and past employees.

Finance Director's Statement – continued

Our response to these challenges is to seek new customers that meet the requirements of the UK and Bailiwick governments, to focus on the growth that the internet is bringing to the postal service and to continue our cost reduction and management programme. Whilst waiting for the mists surrounding LVCR and Royal Mail to clear, we are concentrating on our core business, the provision of a high-quality, excellent value postal service.

Richard Hemans
Finance Director
July 2011

Environment and CSR

The company's environmental policy is firmly established in all that we do at Guernsey Post as we strive to improve the impact of our operations on the local and global environment.

Our waste management programme has progressed well and we continue to evaluate and improve our energy consumption.

Future projects include performing detailed energy surveys that will recommend how we can replace ageing lighting, heating and air conditioning systems with more efficient environmentally friendly technology.

Waste Management
We have maintained a strong focus on our waste management strategy during the last year, not least of which is our aim too further reduce the volume of waste sent to landfill. A continuously expanding range of materials are now recycled from our Postal Headquarters including everything from plastic packaging to printer cartridges to cooking and engine oil.

70% of the materials used by the company were recycled during the last year, an excellent achievement, but still we strive for further improvement.

Building Facilities
An energy survey conducted at Envoy House last year gave us a valuable insight into how the buildings resources could be used more efficiently; reducing energy consumption, lessening the impact on the environment and saving money at the same time.

By reprogramming our boiler and air-conditioning systems, we achieved a 30% reduction in our energy consumption which has equated to an ongoing saving of approximately £40,000 per annum.

A second survey planned for later this year will appraise the benefits of installing new cost efficient energy management technology. This will include the use of solar energy, ground/air source heat pumps and LED lighting. We aim to reduce our energy consumption by a further 25% after the implementation of these initiatives.

EcoCooling project
The installation of six EcoCooling units resulted in an environmentally friendly and cost effective solution to the high temperatures often experienced during the spring/summer months in the mail sorting hall at Envoy House.

The EcoCooling Units, which utilise cutting edge technology, are the first of their kind on the island, and use the natural free process of evaporative heat exchange to cool the surrounding air.

The new units' have helped to create a healthier, more comfortable working environment for employees and they cost 90% less to run than conventional air conditioning.

Wild Garden
We have not forgotten our external surroundings and this is evident in our flourishing Wild Garden at the front of Envoy House which provides a haven for insects and wild flowers.

Environment and CSR - continued

Corporate Social Responsibility (CSR)

Guernsey Post continues to take seriously its responsibility to support the communities we serve.

As part of our day to day involvement with the community our postal workers are often complimented on their contribution to the wellbeing of the communities they serve. These are often small unreported acts of assistance but sometimes are more prominent and occasionally life saving.

On a formal basis we channel our support for the community through our “Supporting Together” initiative.

This initiative gives support to community projects or events that our staff are already involved with – the Company gives an extra boost by supplying financial assistance (most commonly on a matched fund raising basis) or by giving time for employees to achieve their charitable/community goals.

Support this year has been given to a number of very worthy local and international causes – these include:

- The Priaulx Premature Baby Foundation
- The Tumaini Fund
- The MS Society
- The GFA – kits for Africa
- The Race for Life
- The Pakistan floods disaster fund
- Movember – The Prostate Charity Fund
- Rotary Club – Purple Pinkie Day
- The Western Community Centre – Internet support group
- The Sark Theatre Group
- The Guernsey Majorettes
- The Guernsey Marathon

This year the events supported involved over 200 of our colleagues for these charity, social and sporting causes.

With an ageing working population we are also proud to have been internationally recognised for our initiatives to provide working opportunities for older workers.

Guernsey Post was awarded the 2010 International Innovative Employer award by AARP who are a global society who campaign and facilitate rights for older workers.

The Company was the smallest ever to receive the award – following big names like BMW, British Telecom and other international winners from Europe right across to Asia. We are also the first postal authority to receive the award and the first Channel Islands company to win it.

Guernsey Post Limited

Board Profile

Dudley Jehan, Chairman

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

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

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of non-executive directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Board. He joined the Board of Guernsey Post in 2003 and has served as Chairman for the last six years.

Boley Smilie, Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent nineteen years have seen him gain a wide range of experience in different roles, rising through the ranks of the Company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in company direction from the Institute of Directors.

Richard Hemans, Finance Director

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

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

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

Guernsey Post Limited

Board Profile - continued

Steve Hannon

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

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

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

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

Stuart Le Maitre

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, he was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company. He has recently taken up the position of Chief Executive of the Medical Specialist Group in Guernsey and holds other local board positions.

Simon Milsted

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England. Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to Price Waterhouse's Bristol office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fasted growing and most well respected independent firm of advisers in the South West,

Board Profile - continued

bringing a high level of specialist and consulting advice to the owner-managed business community across the region.

In 1995, Simon invested in and became non executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, which became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non-executive treasurer of a leading South West public school.

In 2010, Simon and his wife moved to Guernsey to open a new and exciting chapter in their lives, during which he will continue his active engagement with the business community both as a principal and in an advisory capacity.

Andrew Duquemin

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

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

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

Corporate Governance Report

Compliance

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

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2011, and the achievements are summarised in this report.

The Board

Directors

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

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

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

There were ten board meetings held during 2010/11. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

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

Chairman and Chief Executive

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

Corporate Governance Report – continued

Dudley Jehan spends, on average, 1 day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Gordon Steele resigned as Chief Executive on 26 July 2010 and was replaced by Boley Smillie in an interim capacity on the same date. Boley's appointment as the permanent Chief Executive was approved by the Board on 27 September 2010.

Following the retirement of Jeffrey Kitts on 28 March 2011, Andrew Duquemin is the senior independent director and is available to talk to shareholders if they have any issues or concerns.

Board balance and independence

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

There are currently five non-executive directors and two executive directors on the Board, which is under review with the objective of increasing the number of executive directors.

Appointments to the Board

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

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

Apart from the resignation of Gordon Steele as Chief Executive, Dame Mary Perkins resigned and Jeffrey Kitts retired from the Board during the year. They have been replaced by Simon Milsted and Stuart Le Maitre, following a rigorous and transparent nominations process.

Information and professional development

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

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance. In the year ending 31 March 2012, the Board will receive its biannual update on the latest developments in corporate governance and a refresher of the key principles.

Corporate Governance Report – continued

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

Attendance at Board and Board Committee meetings

Attendance during the year for all board and board committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)					
	Board	Audit Committee	Nominations Committee	Pension Committee	Remuneration Committee
Dudley Jehan	10/10				
Boley Smillie	6/6		2/2	1/1	2/2
Richard Hemans	10/10	2/2	4/4	1/1	4/4
Steve Hannon	9/10		4/4		4/4
Andrew Duquemin	8/10	2/2		1/1	
Gordon Steele	2/3	1/1	2/2		2/2
Dame Mary Perkins	4/9	1/2			
Jeff Kitts	8/10		4/4		4/4

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 6/8 represents attendance at 6 out of a possible 8 meetings. Where a director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

Performance evaluation

The Board underwent an evaluation of its performance in March 2011 using a questionnaire and board discussion. The evaluation was very positive, confirming that the Board is satisfied with the information it receives, its ability to make decisions and the control it has over Company affairs. The Board also recognised the need to undertake thorough appraisals of past decisions that have had a material financial or reputational impact so that it can learn from them.

Corporate Governance Report – continued

Election and re-election of directors

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

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

At the 2011 AGM, Dudley Jehan, the Chairman, is being recommended by the Board and will be proposed for re-election. Dudley will remain in post until the Board has identified, developed and appointed his successor.

Furthermore, Simon Milsted and Stuart Le Maitre are being recommended by the Board and will be proposed for election. Simon is a Chartered Accountant who worked for one of the Big Four accountancy firms before demonstrating his entrepreneurial qualities by setting up his own independent firm of Chartered Accountants, specialising in providing advice to local, owner-managed companies. He then invested in and became non executive chairman of a business process outsourcing specialist in the business travel sector that became the European leader in its field. Stuart brings significant experience of the public and private sectors, start-up and established businesses, industrial relations and regulation, having worked in the UK and Guernsey civil services for twenty five years before becoming the Chief Operating Officer of a telecoms start-up in the Bailiwick and more recently the island's leading private healthcare provider.

Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by the States of Guernsey.

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

Accountability and audit

Financial reporting

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

Corporate Governance Report – continued

Internal control and risk management

During 2010/11 the Executive Team undertook a comprehensive review of the risks facing the business, ensuring that there are robust controls and actions in place to manage them. The Board approved the approach and will receive biannual updates on progress. The risk management process is the responsibility of the Finance Director.

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

The Audit Committee and the Board approved the removal of the role of Head of Internal Audit, which has allowed the post holder to assume a more operational role focused on regulatory and compliance matters. The Board now obtains its assurance on the effectiveness of the system of internal control from other sources, including regular updates on risk management and internal control, health and safety, AML and CFT compliance, the external audit, monthly management information and representations from the Executive Team.

Audit Committee and Auditor

The Audit Committee was re-constituted in December 2008. The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor. The Committee members comprise independent non-executive directors. Andrew Duquemin was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Dame Mary Perkins has been replaced by Simon Milsted as the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

The Committee approved the removal of the role of Head of Internal Audit as noted above. The Audit Committee will consider annually the need for an internal audit function.

The Committee meets twice a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

Shareholder relations

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

The Chairman and senior independent director are available to meet with the shareholder should there be unresolved matters that the shareholder believes should be brought to its attention. The non-executive directors meet with the shareholder at the AGM, as well as the Executive Team.

Corporate Governance Report – continued

The date of the AGM is agreed with the shareholder and ten days' working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. The shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

Committees of the Board and main terms of reference

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

Jeff Kitts was the Chairman of the Nominations Committee until his retirement on 28 March 2011. He has been replaced by Stuart Le Maitre. Steve Hannon is the other non-executive director who serves on the Nominations Committee. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met four times in 2010/11 and all members of the Committee were present.

Jeff Kitts was the Chairman of the Remuneration Committee until his retirement on 28 March 2011. He has been replaced by Stuart Le Maitre. Steve Hannon is the other non-executive director who serves on the Remuneration Committee. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met four times in 2010/11 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by the Chief Executive, Finance Director and HR Director. Simon Milsted joined the Committee in June 2011. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. The Committee met once formally in 2010/11, and all members of the Committee were present, but it also updated the Board on a monthly basis on the development of strategic options to reorganise the pension scheme given the likely increase in its cost and the uncertainty it creates for the Company.

Directors' report

The directors present their annual report together with the financial statements for the year ended 31 March 2011.

Principal activities

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

Significant events

In February 2010, the Company launched an appeal in the Royal Court against the Office of Utility Regulation's decision to reduce the reserved area, which governs the value of mail over which Guernsey Post holds a monopoly, from £1.35 to £1, and to exclude all packets. In September 2010, the Company reached an out of court settlement with the OUR, which means that the reserved area will remain at £1.35 excluding packets. The Board is confident that this lower reserved area will enable the Company to finance its Universal Service Obligation in the short term.

In March 2011, the UK Chancellor of the Exchequer announced that the threshold for Low Value Consignment Relief (LVCR) would fall from £18 to £15 from November 2011 and that the UK Government would be exploring options with the European Commission to prevent the exploitation of the relief for a purpose it was not intended for. The Board is monitoring these developments very closely because further reductions in the threshold of LVCR or the derogation of certain industries from the Relief could have significant adverse consequences for the fulfilment industry in Guernsey, from which Guernsey Post generates most of its profits.

Results

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

Dividend

The directors do not recommend a dividend for the financial year (2010: 1.22p per ordinary share). The total value of the dividend for 2010 was £273,109.

Fixed assets

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

Directors

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan
B Smillie (appointed 26 April 2010)
R J Hemans
S Hannon
S Le Maitre (appointed 27 May 2011)
S Milsted (appointed 27 May 2011)
A Duquemin
G R Steele (resigned 26 July 2010)
Dame M Perkins (resigned 28 February 2011)
J Kitts (retired 28 March 2011)

Directors' report - continued

No director has an interest either beneficially or non-beneficially in any shares of the Company (2010: no interest beneficially or non-beneficially).

In accordance with the Articles of Association D R Jehan is due to retire by rotation and being eligible offers himself for re-election at the forthcoming AGM. Simon Milsted and Stuart Le Maitre were appointed as directors following the year end and will be offering themselves for election at the AGM.

Statement of directors' responsibilities

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

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

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

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

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

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

Disclosure of information to auditors

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

Auditors

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

B Smillie	D R Jehan
Chief Executive	Chairman

20 New Street
St. Peter Port
Guernsey
GY1 4AN

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

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

Respective responsibilities of the Directors and the Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

KPMG

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

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

KPMG Channel Islands Limited

KPMG Channel Islands Limited
Chartered Accountants

15 July 2011

Profit and loss account

For the year ended 31 March 2011

	Notes	31 March 2011 £'000	31 March 2010 £'000
Income		**44,003**	45,392
Expenditure		**(44,921)**	(45,132)
Operating (loss)/profit	2	**(918)**	260
Other income			
Interest receivable	3	**182**	207
Rents receivable		**70**	58
(Loss)/profit on ordinary activities before net return on pension scheme		**(666)**	525
Net return on pension scheme		**(231)**	(290)
(Loss)/profit on ordinary activities before taxation		**(897)**	235
Taxation credit/(charge)	4	**289**	(73)
(Loss)/profit for the financial year		**(608)**	162

Statement of total recognised gains and losses

For the year ended 31 March 2011

		31 March 2011 £'000	31 March 2010 £'000
(Loss)/profit for the financial year		**(608)**	162
Actuarial gain/(loss) recognised in the pension scheme	17	**2,402**	(2,481)
Dividend paid	5	**(273)**	(614)
Movement on deferred tax attributable to actuarial (gain)/loss	12	**(480)**	496
Unrealised gain on revaluation of investment properties	14	**25**	-
Total recognised gains and losses relating to the year		**1,066**	(2,437)

All activities derive from continuing operations.

The notes on pages 29 to 48 form an integral part of these financial statements.

Guernsey Post Limited

Balance sheet

At 31 March 2011

	Note	**31 March 2011 £'000**	31 March 2010 £'000
Fixed assets			
Intangible assets	6	**377**	451
Tangible assets	7	**12,385**	13,008
Investment properties	8	**900**	875
Investment in subsidiaries	9	**-**	-
		13,662	14,334
Current assets			
Stock		**219**	265
Debtors	10	**6,396**	5,939
Cash at bank and in hand	16	**14,563**	13,959
		21,178	20,163
Creditors: Amounts falling due within one year	11	**(7,770)**	(7,130)
Net current assets		**13,408**	13,033
Total assets less current liabilities		**27,070**	27,367
Provisions for liabilities and charges	12	**70**	(47)
Net assets excluding pension liability		**27,140**	27,320
Net pension liability	17	**(6,235)**	(7,481)
Net assets including pension liability		**20,905**	19,839
Capital and reserves			
Share capital	13	**22,386**	22,386
Profit and loss account	14	**(1,466)**	(2,507)
Revaluation reserve	14	**(15)**	(40)
Shareholders' funds	15	**20,905**	19,839

The financial statements were approved by the board of directors and authorised for issue on 13 July 2011. They were signed on its behalf by:

B Smillie
Chief Executive

D R Jehan
Chairman

The notes on pages 29 to 48 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 March 2011

	Notes		**31 March 2011 £'000**		31 March 2010 £'000
Net cash inflow/(outflow) from operating activities	16		**1,076**		(4,829)
Returns on investments and servicing of finance					
Interest received		**182**		207	
Rent received		**70**		58	
Net cash inflow from returns on investments and servicing of finance			**252**		265
Taxation			**(173)**		(219)
Capital expenditure					
Purchase of fixed assets		**(204)**		(974)	
Sale of fixed assets		**6**		10	
Net cash outflow from capital expenditure			**(198)**		(964)
Dividend paid			**(273)**		(614)
Acquisitions and disposals					
Deferred consideration on purchase of subsidiary undertaking			**(80)**		(100)
Increase/(decrease) in cash	16		**604**		(6,461)

The notes on pages 29 to 48 form an integral part of these financial statements.

1. Statement of accounting policies

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

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

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

Expenses

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

Deferred Taxation

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

Pension costs

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

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

1. Significant accounting policies - continued

Dividends

Dividends are accounted for when they are paid.

Stock

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

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

Intangible assets - goodwill

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

Tangible fixed assets

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

	Estimated life in years	**Depreciation % per annum**
Freehold land	N/A	Nil
Freehold buildings	30 – 50	2 – 3.3
Plant and equipment	15	6.67
Leasehold Improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 – 13	7.7 – 33.3
Transport	5	20

1. Significant accounting policies - continued

Investment Properties

Investment properties are revalued annually. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

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

Foreign currency

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

2. Operating (loss)/profit

Operating (loss)/profit is stated after (crediting)/charging:

	31 March 2011 £'000	31 March 2010 £'000
Staff costs	**11,676**	12,065
Auditor's remuneration		
Audit Fees	**39**	35
Other services	**26**	3
Amortisation of goodwill	**54**	56
Directors' remuneration	**509**	406
Research and development of 'Savings Bank'	**-**	861
(Profit)/loss on disposal of fixed assets	**(3)**	5
Depreciation of tangible fixed assets	**824**	817

In 2009/10, Guernsey Post spent £861,000 on the research and development of a domestic Savings Bank. Following re-direction from The Guernsey Financial Services Commission in late 2009, the board took the decision to suspend all activity on the project and decided to write off the entire investment.

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

	31 March 2011	31 March 2010
Operational staff including postmen and women, post office counter staff and philatelic production staff	**201**	204
All other staff	**68**	69
Total	**269**	273

3. Interest receivable

	31 March 2011 £'000	31 March 2010 £'000
States Treasury	**182**	**207**

4. Taxation

	Note	**31 March 2011 £'000**	31 March 2010 £'000
Current year tax		**12**	182
Prior year tax		**(114)**	(41)
Deferred tax credit for the year	12	**(187)**	(68)
		(289)	73

Guernsey Post Limited as a Guernsey Utility Company regulated by the Office of Utility Regulation is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

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

	31 March 2011 £'000	31 March 2010 £'000
(Loss)/profit on ordinary activities before taxation	**(897)**	235
Tax at 20%	**(179)**	47
Effects of adjusting items:		
Timing differences	**14**	(10)
Sundry adjustment to prior years' tax	**30**	(41)
Disallowed expenses	**11**	188
Rate differences on current tax	**(147)**	(113)
Adjustment for pension costs	**169**	70
Current tax (credit)/ charge	**(102)**	141
Deferred tax - pension deficit	**(170)**	(73)
Deferred tax - timing differences	**(17)**	5
Profit and loss taxation (credit)/charge	**(289)**	73

5. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	31 March 2011 £'000	31 March 2010 £'000
Final dividend for the year ended 31 March 2010 of 1.22p (31 March 2009 2.74p)	**273**	614

The board is not proposing a final dividend for the year ended 31 March 2011.

On the 12 July 2011, a written resolution was passed by the shareholders of the Company to revise the Memorandum and Articles of Association of the Company to reflect the new provisions of the Companies (Guernsey) Law, 2008 which permit dividends to be paid out of any reserve of the Company, subject to a solvency test.

As part of this resolution the shareholders approved, and on the 13 July 2011 the directors of the Company approved, under the revised Memorandum and Articles of Association, previous dividends totalling £887,000 paid to the Shareholders for the years ended 31 March 2009 and 31 March 2010.

Whilst the payment of these dividends had satisfied the requirements of the solvency test under the Companies (Guernsey) Law, 2008 it had not satisfied all the requirements contained within the Company's previous Memorandum and Articles of Association (dated 24 August 2001), which had been drafted with regard to The Companies (Guernsey) Laws, 1994 to 1996.

6 Intangible assets - Goodwill

Cost	£'000
At 1 April 2010	563
Write back of deferred consideration	(20)
At 31 March 2011	543
Amortisation	
At 1 April 2010	112
Charge for the year	54
At 31 March 2011	166
Net book value	
At 31 March 2010	451
At 31 March 2011	377

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

The sale and purchase agreement specified that the deferred cash consideration was payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment was subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide in full for the second instalment of £100,000. On 27 September 2010 the Board approved both the payment of £80,000 in respect of the second instalment and the write back of £20,000 against goodwill and deferred consideration.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

Guernsey Post Limited

Year ended 31 March 2011

Notes to the financial statements - continued

7. Tangible fixed assets

	1 April 2010 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2011 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,583	14	-	**8,597**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	358	19	-	**377**
Furniture and fittings	229	20	-	**249**
Office equipment	1,452	54	(30)	**1,476**
Postal machinery	2,347	36	-	**2,383**
Transport	965	61	(32)	**994**
	19,101	204	(62)	**19,243**

	1 April 2010 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2011 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,245	176	-	**1,421**
Plant and equipment	1,003	255	-	**1,258**
Leasehold improvements	90	48	-	**138**
Furniture and fittings	104	20	-	**124**
Office equipment	1,133	109	(27)	**1,215**
Postal machinery	1,878	96	-	**1,974**
Transport	640	120	(32)	**728**
	6,093	824	(59)	**6,858**
Net book value	13,008			**12,385**

Freehold land with a value of £2,505,000 (2010: £2,505,000) is not depreciated.

8. Investment properties

	Market Value 31 March 2011 £'000	Market Value 31 March 2010 £'000
At 1 April 2010	**875**	875
Revaluation	**25**	-
At 31 March 2011	**900**	875

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2011 by Swoffers Ltd. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2011 £'000	31 March 2010 £'000
Independent Delivery Solutions Limited	**-**	-
BATIF Bureau de Change Limited	**-**	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2010: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

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

Guernsey Post Limited

Year ended 31 March 2011
Notes to the financial statements - continued

10. Debtors

	31 March 2011 £'000	31 March 2010 £'000
Trade debtors	**5,678**	5,514
Less: Provision for bad debt	**(79)**	(86)
Other debtors	**41**	62
Prepayments and accrued income	**583**	449
Taxation recoverable	**173**	-
	6,396	5,939

11. Creditors

	31 March 2011 £'000	31 March 2010 £'000
Amounts falling due within one year		
Trade creditors	**5,262**	5,052
Other creditors	**1,747**	1,578
Accruals and deferred income	**761**	398
Taxation payable	**-**	102
	7,770	7,130

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances	Deferred consideration (note 6)	Sub Total	Deferred taxation - Pension deficit / surplus	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2010	(53)	100	**47**	(1,869)	**(1,822)**
Charged to statement of total recognised gains and losses	-	-	**-**	480	**480**
Write back of deferred consideration	-	(20)	**(20)**	-	**(20)**
Payment of deferred consideration	-	(80)	**(80)**	-	**(80)**
Credit to profit and loss account	(17)	-	**(17)**	(170)	**(187)**
At 31 March 2011	(70)	-	**(70)**	(1,559)	**(1,629)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by the Office of Utility Regulation, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £1.559m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

13. Share capital

	31 March 2011 £'000	31 March 2010 £'000
Authorised		
40,000,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
22,386,000 ordinary shares of £1 each	**22,386**	22,386

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

14. Reserves

Profit and Loss Account	31 March 2011 £'000	31 March 2010 £'000
Opening reserves at 1 April 2010	**(2,507)**	(70)
Retained (loss)/ profit for the year	**(608)**	162
Actuarial profit /(loss) for the year, net of movement in deferred tax	**1,922**	(1,985)
Dividend paid	**(273)**	(614)
As at 31 March 2011	**(1,466)**	(2,507)

Revaluation Reserve	31 March 2011 £'000	31 March 2010 £'000
Opening reserves at 1 April 2010	**(40)**	(40)
Unrealised gain on revaluation of investment properties	**25**	-
As at 31 March 2011	**(15)**	(40)

Guernsey Post Limited

Year ended 31 March 2011
Notes to the financial statements - continued

15. Reconciliation of movement in shareholders' funds

	31 March 2011 £'000	31 March 2010 £'000
(Loss)/profit for the financial year	**(608)**	162
Actuarial gain/(loss) recognised in the pension scheme	**2,402**	(2,481)
Movement on deferred tax attributable to actuarial (gain)/loss	**(480)**	496
Unrealised gain on revaluation of investment properties	**25**	-
Dividend paid on equity shares	**(273)**	(614)
Net addition to/(reduction) in shareholders' funds	**1,066**	(2,437)
Opening shareholders' funds	**19,839**	**22,276**
Closing shareholders' funds	**20,905**	**19,839**

16. Reconciliation of operating (loss)/profit to net cash inflow/(outflow) from operating activities

	31 March 2011 £'000	31 March 2010 £'000
Operating (loss)/profit	**(918)**	260
Depreciation charges	**824**	817
Amortisation	**54**	56
Net pension scheme service costs	**615**	79
Decrease/(increase) in stock	**46**	(64)
Increase in debtors	**(284)**	(942)
(Profit)/loss on disposal of fixed assets	**(3)**	5
Increase/(decrease) in creditors	**742**	(5,040)
Net cash inflow/(outflow) from operating activities	**1,076**	(4,829)

Reconciliation of net cash inflow to movement in net funds

	31 March 2011 £'000	31 March 2010 £'000
Increase/(decrease) in cash balances	**604**	(6,461)
Net funds at 1 April 2010	**13,959**	20,420
Net funds at 31 March 2011	**14,563**	13,959

17. Pension Fund

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

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2011 by Mrs D Simon, Fellow of the Institute of Actuaries.

17. Pension Fund (cont'd)

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

The amounts recognised in the Balance Sheet are as follows:

	31 March 2011	31 March 2010
	£'000	£'000
Fair value of Fund Assets	**29,101**	25,126
Present value of funded obligations	**(36,895)**	(34,476)
Deficit in the scheme	**(7,794)**	(9,350)
Related deferred tax asset	**1,559**	1,869
Net pension liability	**(6,235)**	(7,481)
Amounts in the Balance Sheet		
Assets	**-**	-
Liabilities	**(6,235)**	(7,481)
Net pension liability	**(6,235)**	(7,481)

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

	31 March 2011	31 March 2010
	£'000	£'000
Current service cost	**1,792**	1,148
Interest on obligation	**1,882**	1,515
Expected return on Fund assets	**(1,651)**	(1,225)
Expense recognised in the Profit and Loss	**2,023**	1,438
Actual return on Fund assets	**2,903**	5,351

17. Pension Fund (cont'd)

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

	31 March 2011 £'000	31 March 2010 £'000
Opening defined benefit obligation	**34,476**	25,115
Service cost	**1,792**	1,148
Interest cost	**1,882**	1,514
Contributions by members	**509**	466
Actuarial Losses	**(1,150)**	6,607
Benefits paid	**(615)**	(374)
Closing defined benefit obligation	**36,894**	34,476

17. Pension Fund (cont'd)

Changes in the fair value of Fund assets are as follows:

	31 March 2011	31 March 2010
	£'000	£'000
Opening fair value of Fund assets	**25,126**	18,615
Expected return	**1,651**	1,225
Actuarial Gains	**1,252**	4,126
Contributions by employer	**1,178**	1,069
Contributions by members	**509**	465
Benefits paid	**(615)**	(374)
Closing fair value of Fund assets	**29,101**	25,126

Analysis of amounts recognised in statement of total recognised gains and losses	**31 March 2011**	31 March 2010
	£'000	£'000
Total Actuarial Gains/(losses)	**2,402**	(2,481)
Total Gains/(losses) in statement of total recognised gains and losses	**2,402**	(2,481)
Cumulative amount of losses recognised in statement of total recognised gains and losses	**(3,793)**	(6,375)

Guernsey Post expects to contribute £1,149,278 to the Fund from 1 April 2011 to 31 March 2012.

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

	31 March 2011	31 March 2010
	%	%
Equities	**63**	60
Gilts	**4**	12
Corporate Bonds	**14**	15
Other Assets	**13**	11
Property	**6**	2

17. Pension Fund (cont'd)

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

	31 March 2011	31 March 2010
	% pa	% pa
Discount rate	**5.5**	5.5
Expected return on Fund assets at 31 March (for following year)	**6.4**	6.5
Rate of increase in pensionable salaries	**5.05**	5.15
Rate of increase in deferred pensions	**3.8**	3.9
Rate of increase in pensions in payment	**3.8**	3.9

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 86 if they are male and until age 88 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 89 if female.

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

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

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

17. Pension Fund (cont'd)

Amounts for the current and previous periods are as follows:

	31 March 2011 £'000	**31 March 2010 £'000**	**31 March 2009 £'000**	**31 March 2008 £'000**	**31 March 2007 £'000**
Defined benefit obligation	36,895	34,476	25,115	19,490	22,882
Fund Assets	29,101	25,126	18,615	23,285	22,213
(Deficit)/surplus	(7,793)	(9,350)	(6,500)	3,795	(669)
Experience Gains / (Losses) on Fund assets	1,252	4,126	(7,027)	(1,712)	(571)
Experience Gains / (Losses) on Fund liabilities	312	1,335	(658)	831	1,530

The Fund assets for the year ended 31 March 2007 have not been restated to bid value (i.e. they are mid market value).

18. Financial Commitments

Capital commitments are as follows:

	31 March 2011 £'000	31 March 2010 £'000
Freehold buildings	**-**	10
Leasehold improvements	**-**	19
Fixtures & fittings	**34**	-
Postal Equipment	**16**	-
	50	29

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

	31 March 2011 Land and buildings	31 March 2010 Land and buildings
Expiry date	**£'000**	£'000
- within 1 year	**10**	10
- between two and five years	**-**	-
- after five years	**71**	71
	81	81

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

19. Statement of control

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

20. Related party transactions

S Hannon, a Non-Executive Director, is also a director of Postal & Logistics Consulting Worldwide Limited (PLCWW). Guernsey Post received consultancy and management services from PLCWW during the year, transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2011 were £3,361 (2010: £82,750). The balance outstanding at 31 March 2011 was £nil (2010: £nil).

Dame Mary Perkins, who was a Non-Executive Director during the year, is also a director of Specsavers Optical Group Limited (SOGL). Guernsey Post received income from SOGL during the year for postal services, transacted on an arm's length basis. The income received by the Company from SOGL during the year ended 31 March 2011 was £166,825 (2010: £160,730). The balance outstanding at 31 March 2011 was £24,778 (2010: £16,072).

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2011 amount to 1.1% of total turnover (2010: 1.2%). The total value of purchases for the year amounted to 1.3% of total expenses (2010: 1.2%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2011 the balance held was £13,425,747 (2010: £12,842,783).

IN THE STATES OF THE ISLAND OF GUERNSEY
ON THE 26TH DAY OF OCTOBER, 2011

The States resolved as follows concerning Billet d'État No XVII dated 16th September 2011

THE REFORM (GUERNSEY) (AMENDMENT) LAW, 2011

I.- To approve the Projet de Loi entitled "The Reform (Guernsey) (Amendment) 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 ELECTIONS ORDINANCE, 2011

II.- To approve the draft Ordinance entitled "The Elections Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE ELECTORAL ROLL ORDINANCE, 2011

III.- To approve the draft Ordinance entitled "The Electoral Roll Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE REFORM (GUERNSEY) (AMENDMENT) ORDINANCE, 2011

IV.- To approve the draft Ordinance entitled "The Reform (Guernsey) (Amendment) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE HOUSING (CONTROL OF OCCUPATION) (EXTENSION) ORDINANCE, 2011

V.- To approve the draft Ordinance entitled "The Housing (Control Of Occupation) (Extension) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

THE DATA PROTECTION (BAILIWICK OF GUERNSEY (AMENDMENT) ORDINANCE, 2011

VI.- To approve the draft Ordinance entitled "The Data Protection (Bailiwick Of Guernsey) (Amendment) Ordinance, 2011" and to direct that the same shall have effect as an Ordinance of the States.

TREASURY AND RESOURCES DEPARTMENT

DEVELOPING SAP & SHARED SERVICES

VII.- After consideration of the Report dated 10th August, 2011, of the Treasury and Resources Department:-

1. To agree that both the Shared Transactional Service Centre and the upgraded SAP business system should be implemented through the Financial Transformation programme.

2. To agree that the Treasury and Resources Department should, in accordance with its mandate, be the principal owner of the STSC and the underlying SAP platform.

3. To direct all departments and committees to use both the STSC and underpinning SAP business system for the provision of finance, HR, IT, and procurement support.

4. To direct all departments and committees to allocate sufficient resources during both the design and implementation phases to ensure the project is delivered successfully.

5. To confirm acceptance of the tender from Logica PLC, in the sum of £3.7m, to implement the revised SAP solution and provide support services for a period of five years.

6. To approve a capital vote of £7.1m to fund development of the STSC and core SAP functionality, to be charged to the Fundamental Spending Review Fund.

7. To approve a capital vote of £0.84m to fund development of the corporate Asset Management system, to be charged to the capital reserve.

8. To approve the additional one-off revenue expenditure costs associated with any redundancies, estimated to be £1.5m, to be charged to the Fundamental Spending Review Fund.

9. To delegate authority to the Policy Council to approve any revisions to the business case, which will be reviewed at the end of the project's design phase.

COMMERCE AND EMPLOYMENT DEPARTMENT

THE UNIVERSAL POSTAL SERVICE AND OBLIGATION

VIII.- After consideration of the Report dated 10th August, 2011, of the Commerce and Employment Department:-

1. To give a direction to the Director General of Utility Regulation in accordance with section 3(1) (c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 as amended, as follows:

The following universal postal service shall be provided by at least one licensee throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:

- *One collection from access points on five working days, Monday to Friday, each week;*
- *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on five working days, Monday to Friday;*
- *Collections shall be for all postal items up to a weight of 20Kg;*
- *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20kg;*
- *Services for registered and insured mail.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users, "access point" shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

ENVIRONMENT DEPARTMENT

PARKING ON THE SALERIE BATTERY

IX.- After consideration of the Report dated 3rd August, 2011, of the Environment Department:-

1. To approve the amendment of the Vehicular Traffic (Control of Parking on Certain States Land) Ordinance, 1988, so as to incorporate the Salerie Battery within the definition of "controlled land".

   1.A To direct the Environment Department, once the Salarie Battery is designated as "controlled land", to make provision within the Northern section of that area for the parking of motor cycles and pedal cycles, whilst at the same time retaining the facility to over-winter small vessels and to manage catches landed from boats."

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

SOCIAL SECURITY DEPARTMENT

REVIEW OF ATTENDANCE AND INVALID CARE ALLOWANCES

X.- After consideration of the Report dated 8th August, 2011, of the Social Security Department:-

1. To resolve that the Attendance and Invalid Care Allowances (Guernsey) Law, 1984 and the Health Service (Benefit) Ordinance, 1990 are amended in order to:

   i. exempt all individuals entitled to Attendance Allowance from prescription charges;

   ii. give the Department the power to make entitlement to ICA subject to such conditions as it deems reasonable in order to ensure that any person, in respect of whom an associated Attendance Allowance is payable, receives appropriate professional attention;

   iii. remove the earnings limit for Invalid Care Allowance;

   iv. permit carers in full-time education on-island, over the age of 18, to receive Invalid Care Allowance;

   v. allow payment of Invalid Care Allowance for 8 weeks following the death of the linked Attendance Allowance recipient and 4 weeks if the Attendance Allowance recipient moves into permanent care;

   vi. rename Attendance Allowance "Severe Disability Benefit" and Invalid Care Allowance "Carer's Allowance".

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

3. To direct the Treasury and Resources Department to take account of the additional estimated expenditure by the Social Security Department of £50,000 on the Formula Led heading of Attendance and Invalid Care Allowances when recommending, as part of the 2012 Budget Report, Cash Limits for Departments and Committees.

ORDINANCE LAID BEFORE THE STATES

THE AFGHANISTAN (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 Afghanistan (Restrictive Measures) (Guernsey) Ordinance, 2011, made by the Legislation Select Committee on 22nd August 2011, was laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE SOCIAL INSURANCE (BENEFITS) (AMENDMENT) REGULATIONS, 2011

In pursuance of Section 117 of The Social Insurance (Guernsey) Law, 1978, The Social Insurance (Benefits) (Amendment) Regulations, 2011, made by the Social Security Department on 8 August 2011, were laid before the States.

THE ELECTORAL ROLL (AVAILABILITY) (AMENDMENT) RULES, 2011

In pursuance of Article 78 of The Reform (Guernsey) Law, 1948, as amended, The Electoral Roll (Availability) (Amendment) Rules, 2011, made by The States Assembly and Constitution Committee on 8 August 2011, were laid before the States.

S M D ROSS
HER MAJESTY'S DEPUTY GREFFIER