

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY DAIRY ACCOUNTS 2020

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the Guernsey Dairy Accounts for the year ending 31 December 2020.

The above Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

States of Guernsey
States' Trading Supervisory Board
Guernsey Dairy

Report and Financial Statements

For the year ended 31 December 2020

States' Trading Supervisory Board Guernsey Dairy

STATES' TRADING SUPERVISORY BOARD MEMBERS, PRINCIPAL OFFICERS AND PROFESSIONAL ADVISERS 3

CHAIRMAN'S REPORT 5

MANAGING DIRECTOR'S REPORT 8

CORPORATE GOVERNANCE13

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE STATES OF GUERNSEY – STATES' TRADING SUPERVISORY BOARD - GUERNSEY DAIRY15

STATEMENT OF COMPREHENSIVE INCOME19

STATEMENT OF FINANCIAL POSITION.....20

STATEMENT OF CHANGES IN EQUITY21

STATEMENT OF CASH FLOWS22

NOTES TO THE FINANCIAL STATEMENTS.....23

States' Trading Supervisory Board Guernsey Dairy

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers

States' Trading Supervisory Board Members

Deputy P. Roffey	President	elected 21 October 2020
Deputy C. Parkinson		elected 21 October 2020
Deputy N. Moakes		elected 21 October 2020
Mr S. Falla MBE		
Mr J. Hollis		
Deputy P. Ferbrache	President	term ended 15 October 2020
Deputy J. Smithies		term ended 15 October 2020
Deputy J. Kuttelwascher		deceased 23 January 2020
Deputy P. Roffey	elected 26 February 2020	term ended 15 October 2020

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and up to two members who shall be members of the States and up to two members who shall not be members of the States. If and when the STSB is inquorate and an urgent decision is required, the States' Rules of Procedure allow for the insufficiency of members to be replaced by members of the States chosen, in the first instance, from members of the Policy & Resources Committee.

Principal Officers to the States' Trading Supervisory Board

- Mr S. Elliott, Managing Director, States Trading Group
- Mr S. Gardiner, Finance Business Partner, States Trading Group
- Mr A. Ford, Head of Shareholder Executive, States Trading Group
- Mr R. Evans, Deputy Managing Director, States Trading Group resigned 1 November 2020

Dairy Management Board Members

Mr S. Falla MBE	Chairman	
Deputy P. Roffey		appointed 21 October 2020
Mr D. Cowley	GFA representative	appointed 1 January 2021
Mr A. Tabel	non-voting adviser	
Mrs C. Edwards	non-voting adviser	
Mr S. Langlois	non-voting adviser	
Mrs S. Macknight	non-voting adviser	
Deputy J. Kuttelwascher		deceased 23 January 2020
Mr R. Evans	non-voting STSB representative	resigned 1 November 2020
Mr R. Nash	non-voting adviser	retired 30 June 2020
Mr R. Waters	GFA representative	term ended 31 December 2020

States' Trading Supervisory Board Guernsey Dairy

States' Trading Supervisory Board Members, Principal Officers and Professional Advisers – continued

The constitution of Guernsey Dairy Management Board ("DMB") is laid out in Billet d'État XIII dated 5 April 2007 and amended in Billet d'État XX dated 15 August 2014.

Further information on the role of the DMB is provided in the Corporate Governance section.

Principal Officers to Guernsey Dairy Management Board

Mr A. Tabel, Managing Director, Guernsey Dairy

Mrs C. Edwards, Senior Finance Manager, Guernsey Dairy

Mr R. Evans, Deputy Managing Director, States Trading Group resigned 1 November 2020

Mr R. Nash, Director of Environment Services retired 30 June 2020

In these Financial Statements any reference to "President" refers to the President of the STSB and any reference to "Chairman" refers to the Chairman of the DMB.

Legal Advisers

Law Officers of the Crown

St James Chambers

St James Street

St Peter Port

GY1 2PA

Independent Auditor

Grant Thornton Limited

PO Box 313

Lefebvre House

Lefebvre Street

St Peter Port

GY1 3TF

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report

Overview

2020 has been a challenging year for the Dairy as it faced the disruption posed by the Covid-19 pandemic, the continued reduction of milk demand as well as ongoing difficulties arising from ageing plant and equipment.

The Covid-19 lockdown necessitated some changes to ways of working to meet public health guidelines, which affected the ability to produce some products. Despite this there was no disruption to the supply of fresh liquid milk to the island throughout this period.

Milk volumes in 2020 continued to decline although there were some encouraging signs of a reduction in the rate of decline seen towards the end of the year. This may be related to the increased number of people on the island as a result of the lack of overseas travel due to restrictions in place during the pandemic.

In 2020 the States of Deliberation approved funding for the design stage of the Future Guernsey Dairy Project. The aim is to present the Outline Business Case to the States for approval to proceed to the next stage by June 2022.

In the interim, the Dairy continued its essential capital programme which contributed to the Office of Environmental Health and Pollution Regulation (OEHPR) reinstating its three-star rating in November 2020.

Business performance

Supplying milk to the island's population is Guernsey Dairy's primary responsibility and purpose. Liquid milk sales account for 76.4% of product turnover. Milk volumes sold in 2020 continued to decline and this appears to be a wider trend related partially to changing consumer preferences. Butter, cheese, cream and ice-cream are all produced from the cream and milk left over from the processing of milk. Butter represents the most important by product and is the best commercial use of this cream. This situation continued throughout 2020 however there was an overall 0.6% reduction in butter revenues.

The price that Guernsey Dairy pays to farms for milk was held level in 2020, other than where a 2% increase in producer price was applied for those that achieved RSPCA accreditation in the year.

Guernsey Dairy continues to manage its cost base and in 2020 continued to work on a programme of efficiencies to identify and realise cost reduction opportunities.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report – continued

A key area of work throughout 2020 has been on maintaining the ageing plant and equipment at Guernsey Dairy. To produce a range of milks and milk products, the Dairy operates an extensive amount of highly specialised complex plant and equipment. A high proportion of this is approaching or exceeds the end of its useful service life. As a result, there has been considerable reactive maintenance and some essential capital spend in 2020 to ensure continuity of production.

The "Future Guernsey Dairy Project" design stage is now underway. In the interim, a prioritised capital plan is in place to replace essential ageing equipment with new equipment that could be used either in the existing Dairy or in a new facility, to be financed via a short-term overdraft facility agreed by the Policy & Resources Committee.

Our community

The dairy industry provides a sustainable-farmed countryside and thereby protects the environment and biodiversity of the island, so facilitating a healthy community. Through providing a financially viable Guernsey Dairy and dairy farming business, the dairy industry protects and promotes our unique identity and rich heritage, ensuring our island is strong and sustainable.

Guernsey Dairy works closely with the Guernsey Farmers' Association ("GFA") to maintain and improve the quality of raw milk. We have elected to adopt the highest standard of animal welfare with the RSPCA Farm Assured Scheme. Twelve of the thirteen farms had achieved accreditation by the end of April 2021.

A contribution to the local economy is made by purchasing fresh Guernsey milk, each litre purchased helps to preserve the Guernsey countryside, its traditional farming heritage and protect the iconic Guernsey cattle breed.

Our team

Guernsey Dairy has a committed team of production and support staff. This year has been particularly challenging due to the Covid-19 impacts as well as the ongoing challenges of old plant and equipment maintenance.

Despite these challenges the team ensured the continuity of supply of fresh liquid milk.

I would like to thank the dedicated staff and employees for all their hard work, and commitment throughout the year.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report – continued

Our business strategy and future

In 2020 Guernsey Dairy published its revised business plan. Some of the key areas the Dairy is working on are as follows:

- arrest the decline of local liquid milk sales whilst seeking new sales opportunities,
- reduce the amount of liquid milk received from farmers whilst recognising the sustainability of farm businesses, and
- remodel the operations at Guernsey Dairy to become more efficient and in doing so continue to support a viable dairy industry in Guernsey.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report

STSB presents its report and the audited financial statements for Guernsey Dairy for the year ended 31 December 2020. These comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 24.

Principal activities

Guernsey Dairy operates to:

- Support a viable dairy industry in Guernsey by purchasing all locally produced milk, and
- Satisfy the total consumer demand for fresh liquid milk in Guernsey at an acceptable price to the consumer.

The principal reason for the Guernsey Dairy is to act as an enabler to Guernsey's dairy industry and, in doing so, support the conservation of our unique rural environment, enhance biodiversity and uphold the genetic integrity of the Guernsey breed. The processing of milk at the States of Guernsey owned Guernsey Dairy and the sale of liquid milk and milk-products is the financial mechanism that facilitates the continuation of the dairy farming industry designed to maintain Guernsey's traditional countryside.

Our customers

Guernsey Dairy's immediate customers are Trade Account holders who purchase milk and other dairy products from Guernsey Dairy and deliver them to shops, the catering food sector or to doorsteps. Guernsey Dairy acts as a wholesaler, it does not set the retail price of milk, which allows retail outlets to adjust the prices they charge to their customers to meet market demand.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

Financial performance

	Actual 2020 £'000	Budget 2020 £'000	Actual 2019 £'000
Revenue	8,561	8,991	8,628
(Deficit)/surplus for the financial year	(194)	15	(388)
Capital expenditure	560	852	1,141

Guernsey Dairy made a deficit in 2020 of £194k, which was a £194k improvement on 2019's deficit of £388k. Excluding one-off costs and benefits the deficit was £262k (2019: £218k deficit).

Guernsey Dairy's fixed asset base of £3,303k has been reviewed for impairment. No impairment loss was reflected following a review of the fixed assets register (2019: £1k impairment loss).

Reserves have decreased by £194k from £3,817k to £3,623k, due to the in-year deficit.

Operational performance

The following report highlights the reasons for some of the key variances in the financial statements and provides a summary of the year.

Overall revenues were £67k (0.8%) lower than 2019.

- Liquid milk revenues were 0.7% below the previous year. The gate price for liquid milk increased by 2.25p (2.0%) in January 2020. Milk sales by volume decreased by 3.1% compared to 2019.
- Butter sales were below 2019 with a 0.6% decrease in sales revenues. Butter exports to the UK showed strong growth on the previous year with a 23.1% increase however exports to The Netherlands were 17.4% below 2019.
- Butter prices were benchmarked against other like-for-like products and gate prices were amended during the year to reflect market conditions, demand and availability.
- Cheese and Ice cream sales were both impacted by Covid-19. In the case of ice cream, the Dairy was unable to make enough to satisfy normal demand during the first lockdown and as a result sales were 17.8% below 2019. Cheese sales saw an increase in demand due to a switch from supermarket to online grocery buying and sales were up by 36.8% compared to 2019. The Dairy was able to meet demand from cheese made before the Covid-19 pandemic.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

Cost of sales was £93k (1.4% lower than 2019).

- The total cost of raw milk purchases reduced by 2.5% in 2020.
- The price paid to farmers increased by 1.24p per litre (2.0%) for those farms which achieved RSPCA accreditation.
- The volume of milk intake at Guernsey Dairy decreased by 3.4% (278,302 litres) on the same period in 2019. Guernsey Dairy and farmers are working together to ensure the ideal production of liquid milk for the islands' needs with as little over or under production as possible.
- Packaging expenses saw a £79k (15.5%) year on year increase partially due to price increases.

Administration expenses:

Total Administration expenses were £195k lower than 2019. Some key contributors to this were:

- the previous year's costs relating to the ongoing dairy improvement project (£69k) were charged to the centrally funded capital project, resulting in a credit in 2020; and
- repairs and maintenance were £134k lower than the previous year due to essential planned maintenance during the lockdown period being lower due to travel restrictions.

Contributions to the States of Guernsey

The Guernsey Dairy made no financial contributions to the States of Guernsey in 2020. (2019: £1,000k land transaction).

Statement of responsibilities for the preparation of financial statements

The STSB is required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs for Guernsey Dairy and of the surplus or deficit of Guernsey Dairy for that period. In preparing those financial statements, the STSB is required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so, and
- state whether applicable accounting standards have been followed.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

The STSB is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time Guernsey Dairy's financial position. The STSB is also responsible for identifying and installing internal controls, including financial controls, which are adequate for its own purposes and to safeguard the assets of Guernsey Dairy and the States of Guernsey in its care, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of financial controls

The STSB is responsible for the economic, efficient and effective operations and management of Guernsey Dairy and has a duty to ensure that they fulfil their obligations.

Guernsey Dairy's internal financial controls and monitoring procedures include:

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and DMB, to ensure that all board members are informed of Guernsey Dairy financial affairs,
- Customer invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch in order to ensure accuracy,
- Regular review of debtors to ensure that any delinquent debtors are identified at an early stage and dealt with appropriately,
- The control of materials and stores purchases are managed using Guernsey Dairy's stores database programme with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, which maintains detailed audit trails,
- Staff resource expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill,
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Group, which is constituted from the principal officers of the Guernsey Dairy,
- Regular review of milk and milk product prices, and
- Consideration of all audit reports by the STSB.

The STSB strives to ensure that all staff with financial responsibility in Guernsey Dairy have the appropriate integrity, skills and motivation to professionally discharge their duties. Guernsey Dairy's internal controls and accounting policies have been and are subject to

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

continuous review and improvement. In addition, the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

The financial statements have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next 12 months (including the assessment of the impact of Covid-19), prepared by management, and deem that Guernsey Dairy, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Dairy is a going concern for at least 12 months from the approval of the financial statements.

Auditors

Grant Thornton Limited have expressed their willingness to continue in office as auditors.

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance

The purpose of the DMB is to support the delivery of the STSB's mandate, ensuring the efficient and effective management, operation and maintenance of Guernsey Dairy.

The DMB is accountable to the STSB and operates by challenging established practices and assumptions and seeking to support the business in establishing clear strategic direction, business planning and operational delivery in support of the outcomes of the Policy & Resource Plan, the Medium Term Financial Plan, the Public Service Reform Agenda, Service Guernsey and other strategic reviews and organisational drivers.

The DMB membership is primarily defined in Billet d'État XIII 5th April 2007 and amended in Billet d'État XX 15 August 2014.

At its meeting of 4 May 2017, the STSB agreed to establish 'company' boards for the trading assets including Guernsey Dairy. The DMB has therefore been supplemented with the addition of either a Senior Executive of an Incorporated Company or one or more Senior Officers of the States of Guernsey, the Managing Director and the Financial Manager.

All members other than the Managing Director and the Financial Manager are appointed by the STSB.

The quorum is the Chairman, the Political Member of STSB and the Senior Executive of an Incorporated Company or one or more Senior Officers of the States of Guernsey.

The DMB does not hold a fiduciary responsibility.

The DMB will take into account the States of Guernsey's political direction with regard to the operation of Guernsey Dairy, as directed from time to time by the STSB. It must ensure that DMB operations and operational policies align with the wider strategy and policy framework of the States of Guernsey and/or the STSB. The DMB may generate policy for endorsement by the STSB and onward to the States of Guernsey as required.

The STSB specifically confers the following responsibilities and delegated authority to the DMB to:

- Approve capital and revenue annual budgets in line with the long-term budgets approved by the STSB,
- Approve annual business plans in line with long-term strategy and planning approved by or directed by the STSB,
- Approve and issue annual reports, and
- Guide and steer Guernsey Dairy.

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance - continued

In carrying out these responsibilities the DMB is bound and enabled by States of Guernsey rules for financial and resource management and the rules, directives policies and procedures of the States of Guernsey, such as, but not limited to: Finance; Procurement; Property; Human Resources; Data Protection; Health and Safety Management; Risk and Issue Management; Managing Matters of Litigation; and Relevant legislation. The DMB has the authority delegated by the STSB to direct the Guernsey Dairy Managing Director in the day-to-day operation of Guernsey Dairy in line with approved budget and business plans.

The DMB acts as a political sub-committee of the STSB.

In the event that due process has not been followed, the DMB must render itself unable to make a decision until such time process has been followed.

States' Trading Supervisory Board

Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy

Opinion

We have audited the financial statements of the States of Guernsey – States' Trading Supervisory Board ("STSB") – Guernsey Dairy for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("United Kingdom Generally Accepted Accounting Practice").

In our opinion, the financial statements:

- give a true and fair view of the state of Guernsey Dairy's affairs as at 31 December 2020 and of its deficit for the year then ended; and
- are in accordance with United Kingdom Generally Accepted Accounting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of Guernsey Dairy in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

States' Trading Supervisory Board

Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy - continued

Other information

The STSB is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the STSB for the financial statements

As explained more fully in the Statement of responsibilities for the preparation of financial statements in the Managing Director's Report, the STSB is responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the STSB determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the STSB is responsible for assessing Guernsey Dairy's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the STSB either intend to liquidate Guernsey Dairy or to cease operations, or have no realistic alternative but to do so.

States' Trading Supervisory Board

Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy - continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Guernsey Dairy's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Guernsey Dairy's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Guernsey Dairy to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

States' Trading Supervisory Board Guernsey Dairy

Independent Auditor's Report to the Members of The States of Guernsey – States' Trading Supervisory Board - Guernsey Dairy - continued

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Use of our report

This report is made solely to the members of the STSB. Our audit work has been undertaken so that we might state to the members of STSB 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 Guernsey Dairy and the members of STSB as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited

Chartered Accountants
St Peter Port
Guernsey

20 May 2021

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	2 & 4		
Liquid milk		6,528	6,575
Dairy products		2,017	2,039
Sundry income		16	14
		8,561	8,628
Expenses	2 & 5		
Production costs		(6,418)	(6,511)
Administration expenses		(2,044)	(2,239)
		(8,462)	(8,750)
Operating surplus/(deficit) before depreciation and loss on impairment of fixed assets		99	(122)
Depreciation	9	(263)	(302)
Loss on impairment and sale of fixed assets		-	(1)
Operating deficit for the year		(164)	(425)
Investment (loss)/return and net interest receivable	7	(4)	64
Interest payable	7	(26)	(27)
Deficit for the financial year		(194)	(388)

All material activities derive from continuing operations.

There are no recognised gains or losses or other movements in reserves for the current or preceding financial years, other than as stated in the Statement of Comprehensive Income.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as at 31 December 2020

	Notes	2020 £'000	2019 £'000
Non-current assets			
Tangible fixed assets	9	3,303	2,899
Assets under construction	10	10	116
		3,313	3,015
Current assets			
Inventories	11	610	778
Debtors and prepayments	12	893	1,027
Cash at bank and in hand		106	222
Balances with States Treasury		530	493
		2,139	2,520
Creditors: amounts falling due within one year	13	(1,128)	(1,000)
Net current assets		1,011	1,520
Creditors: amounts falling due after more than one year	14	(701)	(718)
Total net assets		3,623	3,817
Reserves	16	3,623	3,817

Signed on behalf of the States of Guernsey - States' Trading Supervisory Board

Deputy P. Roffey 20 May 2021
President

Signed on behalf of the States Trading Group

Mr S. Elliott 20 May 2021
Managing Director

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Balance at 1 January		3,817	4,205
Deficit for the financial year		<u>(194)</u>	<u>(388)</u>
Balance at 31 December	16	<u>3,623</u>	<u>3,817</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Net cash flows from operating activities	17	<u>528</u>	<u>(474)</u>
Cash flows from investing activities			
Proceeds from sale of fixed assets		-	4
Purchase of fixed assets	10	<u>(560)</u>	<u>(1,141)</u>
Net cash flows used in investing activities		<u>(560)</u>	<u>(1,137)</u>
Cash flows from financing activities			
Loans taken out in year		-	750
Capital repaid		(17)	(16)
Interest paid		(26)	(27)
Investment (loss)/return and interest received	7	<u>(4)</u>	<u>64</u>
Net cash flows from financing activities		<u>(47)</u>	<u>771</u>
Net decrease in cash and cash equivalents		(79)	(840)
Cash and cash equivalents at the beginning of the year		<u>715</u>	<u>1,555</u>
Cash and cash equivalents at the end of the year		<u>636</u>	<u>715</u>
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		106	222
Balances with States Treasury		<u>530</u>	<u>493</u>
Cash and cash equivalents		<u>636</u>	<u>715</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements

1. General information

Guernsey Dairy is an unincorporated business, the management, operation and maintenance of which is the responsibility of the States of Guernsey - STSB. The nature of Guernsey Dairy's operations and principal activities are set out in the General Manager's Report.

Guernsey Dairy's principal place of business is Bailiff's Cross, St Andrew, Guernsey, GY6 8RJ.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Accounting convention

The financial statements are prepared in accordance with the stated accounting policies and under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Functional and presentational currency

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of Guernsey Dairy and have been rounded to the nearest thousand.

Going concern

The financial statements have been prepared on the going concern basis of accounting. The STSB and Principal Officers have reviewed the cash flows and projected income and expenses over the next 12 months (including the assessment of the impact of Covid-19), prepared by management, and deem that Guernsey Dairy, as an essential part of the island's infrastructure and part of the States of Guernsey, has access to adequate financial resources to meet its obligations as they fall due. The STSB therefore believes that Guernsey Dairy is a going concern for at least 12 months from the approval of the financial statements.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Tangible fixed assets

i) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, net of depreciation and any provision for impairment. Property, plant and equipment are depreciated over their expected useful life.

Depreciation

Depreciation is calculated at the following annual rates so as to write off the cost of tangible fixed assets over their anticipated expected useful lives using the straight-line method. Depreciation commences from the beginning of the month of acquisition of an asset or, in the case of constructed assets, the asset being brought into a condition to be used as intended.

	Estimated life in years	Depreciation % per annum
Land	-	-
Buildings	10 - 50	2% - 10%
Plant and machinery	5 - 20	5% - 20%
Motor vehicles	5 - 20	5% - 20%
Information technology	3 - 5	20% - 33.3%

Impairment of assets (excluding inventories)

Assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate proportion of processing expenses and are calculated using the FIFO (first-in, first-out) method. Provisions are made for obsolete and slow-moving items where appropriate.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Basic financial instruments

i) Trade debtors

Trade debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a general provision for all amounts exceeding 90 days.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of Guernsey Dairy. Whilst Guernsey Dairy operates two bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States Treasury at the year-end is treated as cash and cash equivalents on Guernsey Dairy's Statement of Financial Position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States Treasury could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

iii) Trade creditors

Trade creditors are recognised initially at original invoiced amount plus attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost.

iv) Loans from the States of Guernsey

Loans from the States of Guernsey are initially recognised at cost. These loans are subsequently measured at amortised cost.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

v) Derecognition of basic financial instruments

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the business transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the business, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in a contract is discharged, cancelled or expires.

Revenue and expenses

Revenue is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Revenue from the sale of goods is recognised when the customer collects the goods. Expenses are accounted for on an accruals basis.

Pension costs

Pension costs are treated as described in note 20.

Investment return and interest receivable/payable

Investment return on balances held with the States of Guernsey and interest receivable/payable is accounted for on an accruals basis.

Leases

i) As lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

ii) As lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of Guernsey Dairy's accounting policies, which are described in note 2, the Board members are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the critical judgement, apart from those involving estimations (which are dealt with separately below), that the STSB have made in the process of applying Guernsey Dairy's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

i) Depreciation rates

Guernsey Dairy's building and equipment assets have no definite life, so management makes an assumption based on previous experience of the usage of the assets. The rates used for each type of asset that makes up the Building and equipment assets have been disclosed in note 2.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

4. Revenue

A geographical analysis of Guernsey Dairy's revenue is set out below:

	2020	2019
	£'000	£'000
Bailiwick of Guernsey	8,025	8,158
UK	451	366
The Netherlands	85	104
	<u>8,561</u>	<u>8,628</u>

An analysis of Guernsey Dairy's revenue by class of business is set out below:

	2020	2019
	£'000	£'000
Milk	6,515	6,553
Organic milk	13	22
Butter	1,442	1,450
Cheese	132	97
Cream	290	306
Ice-cream	153	186
Other income	16	14
	<u>8,561</u>	<u>8,628</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

5. Expenses

	2020	2019
	£'000	£'000
Cost of sales		
Production wages	899	924
Milk	4,665	4,799
Milk - working loss	143	131
Dairy product ingredients	43	60
Packaging materials	588	509
Freight	80	88
	<u>6,418</u>	<u>6,511</u>
Administration expenses		
Advertising and promotion	31	33
Cleaning materials	62	72
Fuel, light, power, water, rates	273	305
General administration costs	32	50
Laboratory materials and equipment	211	128
Motor vehicles	24	43
Professional fees	378	422
Provision for bad debts	8	-
Repairs, maintenance and insurance	310	444
Salaries	677	671
Other expenses	38	71
	<u>2,044</u>	<u>2,239</u>

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at their meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750k in total. £40k remains unpaid at 31 December 2020 (2019: £40k).

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

6. Staff numbers and costs

The average monthly number of full-time employees (including senior management) was:

	2020	2019
Production staff	29	29
Administration staff	7	7
	<u>36</u>	<u>36</u>

Their aggregate remuneration comprised:

	Note	2020	2019
		£'000	£'000
Wages and salaries		1,342	1,358
Social security costs		86	85
Pension costs	20	148	152
		<u>1,576</u>	<u>1,595</u>

Pension costs include only those items within cost of sales and administration expenses.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

7. Interest

	2020	2019
	£'000	£'000
Interest receivable		
Investment (loss)/return	(4)	63
Interest receivable and similar income	-	1
	<u>(4)</u>	<u>64</u>
 Interest payable		
Interest payable on loans	<u>(26)</u>	<u>(27)</u>
	<u>(26)</u>	<u>(27)</u>

8. Deficit for the financial year

Deficit for the financial year is stated after charging:

	Note	2020	2019
		£'000	£'000
Auditor's remuneration		14	10
Depreciation of tangible fixed assets	9	263	302
Loss or gain on impairment or sale of tangible assets		-	1
		<u>277</u>	<u>313</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2020 £'000	Additions £'000	Write offs/ Disposals £'000	31 December 2020 £'000
Cost				
Land	1,000	-	-	1,000
Buildings	1,577	24	-	1,601
Plant & equipment	3,646	622	(7)	4,261
Motor vehicles	264	20	-	284
Information technology	31	-	-	31
	<u>6,518</u>	<u>666</u>	<u>(7)</u>	<u>7,177</u>
	1 January 2020 £'000	Charge for the year £'000	Disposals £'000	31 December 2020 £'000
Depreciation				
Buildings	957	40	-	997
Plant & equipment	2,376	220	(8)	2,588
Motor vehicles	256	2	-	258
Information technology	30	1	-	31
	<u>3,619</u>	<u>263</u>	<u>(8)</u>	<u>3,874</u>
Net Book Value	<u><u>2,899</u></u>			<u><u>3,303</u></u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

10. Assets Under Construction

	1 January £'000	Expense in the year £'000	Transfer to Tangible Fixed Assets £'000	31 December £'000
2020 Total	116	560	(666)	10
2019 Total	17	1,141	(1,042)	116

Assets under construction completed in 2020 and transferred to fixed assets includes a new Butter Packer (£370k), Fat Analyser Machine (£128k) and Ice Bank (£83k).

Assets under construction as at 31 December 2020 relates to Cream Platform Floor (£10k).

11. Inventories

	2020 £'000	2019 £'000
Milk and dairy products	204	297
Packaging materials	306	381
Other inventories	100	100
	610	778

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2020	2019
	£'000	£'000
Trade debtors	758	811
Accrued income	117	207
Other debtors and prepayments	18	9
	893	1,027

13. Creditors: amounts falling due within one year

	Note	2020	2019
		£'000	£'000
Trade creditors		545	558
Accruals & Deferred Income		566	426
Loan from States of Guernsey	15	17	16
		1,128	1,000

Included as part of Accruals is £40k of unpaid Ex-gratia payments (2019: £40k). See Note 5.

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

	Note	2020	2019
		£'000	£'000
Loan from States of Guernsey	15	701	718
		701	718

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

15. Loan from States of Guernsey

	2020 £'000	2019 £'000
Balance at 1 January	734	-
Loan drawdown on 1 January	-	750
Capital repaid	<u>(16)</u>	<u>(16)</u>
Balance at 31 December	<u>718</u>	<u>734</u>

A loan of £750k was taken out from the States of Guernsey Bond on 1 January 2019 which is due for repayment on 31 December 2046. The interest rate on the loan is fixed at 3.625% over the life of the loan.

The loan from the States of Guernsey is repayable on a quarterly basis over a period of 28 years at an annual interest rate of 3.625%.

	2020 £'000	2019 £'000
Within one year	17	16
Between one to two years	18	17
Between two to five years	57	55
More than five years	<u>626</u>	<u>646</u>
	<u>718</u>	<u>734</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

16. Reserves

	2020	2019
	£'000	£'000
Balance at 1 January	3,817	4,205
Deficit for the financial year	<u>(194)</u>	<u>(388)</u>
Balance at 31 December	<u>3,623</u>	<u>3,817</u>

All reserves are distributable.

17. Reconciliation of operating deficit to net cash flows from operating activities

	2020	2019
	£'000	£'000
Operating deficit for the year	(164)	(425)
Depreciation charges	263	302
Loss on impairment or sale of tangible assets	-	1
Decrease/(increase) in inventories	168	(71)
Decrease/(increase) in debtors	134	(252)
Increase/(decrease) in creditors due within one year	<u>127</u>	<u>(29)</u>
Net cash flows from operating activities	<u>528</u>	<u>(474)</u>

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

18. Financial commitments and contingent liabilities

Commitments to make payments in respect of operating leases are as follows:

	2020	2019
	£'000	£'000
Within one year	-	57
Between one to five years	-	43
	<u>-</u>	<u>100</u>

Guernsey Dairy has no contingent liabilities as at 31 December 2020 (2019: £Nil).

19. Financial instruments

Guernsey Dairy's financial instruments may be analysed as follows:

	Note	2020	2019
		£'000	£'000
Financial assets at amortised cost			
Cash and cash equivalents		636	715
Debtors	12	758	811
Financial liabilities at amortised cost			
Creditors: amounts falling due within one year	13	(562)	(574)
Creditors: amounts falling due within more than one year	14	(701)	(718)

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

20. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (£92,236 as at 31 December 2020) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

Although the scheme is a multi-employer plan, it is not possible to identify Guernsey Dairy's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of Guernsey Dairy are considered to be ultimately employees of the States of Guernsey.

Consequently, Guernsey Dairy has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Statement of Comprehensive Income. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of periodic valuations.

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £148k (2019: £152k).

Further details relating to the funding of the Superannuation Scheme are included within the States of Guernsey Accounts 2020.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

21. Statement of control

Guernsey Dairy is wholly owned and ultimately controlled by the States of Guernsey. Responsibility for the operations of Guernsey Dairy has been delegated to the members of the STSB appointed by the States of Guernsey.

22. Related party transactions

The STSB is of the opinion that there have been no related party transactions in the current or preceding financial years other than as described in these financial statements. One member of Guernsey Dairy Management Board is a milk supplier contracted at "arm's length" on the same terms as other milk suppliers.

The total compensation of key management personnel in 2020 (including salaries and other benefits) was £287k (2019: £281k).

Related party transactions between Guernsey Dairy and other entities controlled by the States of Guernsey have not been disclosed in accordance with the exemptions available within FRS102 Section 33 "Related Party Disclosures".

STSB member Mr S. Falla MBE has declared certain related party transactions under FRS102 section 33. The aggregate of all of these transactions is not of a material nature to either party and all were conducted at arms-length in the normal course of business. Where any conflict of interest may exist, Mr Falla MBE, as under normal rules, would excuse himself from any STSB or other meetings and has not participated in any discussions or voting regarding awarding any contracts leading to these transactions.

Notes 1 to 24 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

23. Subsequent events

Covid-19

On 23 January 2021 Guernsey entered into a second full lockdown due to the Covid-19 pandemic. This lasted until Monday 22 March 2021 when the island entered stage 3 of lockdown with a return to a normal level of activity within the Bailiwick, with social, recreation and business activity able to take place.

Guernsey Dairy's operation continued during this period however its ability to produce the full range of products was impacted by resource constraints due to cell working which was implemented in line with public health advice and in order to preserve liquid milk supplies to the island and minimise any risk to staff and customers. As a result, production processes were rationalised with the main focus on providing the Island with fresh liquid milk. In addition to this sales demand for certain products temporarily fell due to the reduction in supply to the catering trade with the temporary closure of cafes and other foodservice outlets.

Guernsey Dairy has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2020 have not been adjusted to reflect their impact.

Management know of no other events subsequent to the end of the reporting period that would materially affect the financial statements.

24. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 18 relating to 2020 which would affect these financial statements (2019: None).

Notes 1 to 24 form an integral part of these financial statements.