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2013

BILLET D'ÉTAT

WEDNESDAY 30th JANUARY 2013

[a]Accompanying Ordnance entitled " Income Tax (Guernsey) (Approval of Agreement with Malta) Ordinance, 2013

Statutory Instruments laid before the States

CONTINUED OVERLEAF

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APPENDICES

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 **30th JANUARY, 2013,** at 9.30am, to consider the items contained in this Billet d'État which have been submitted for debate.

R. J. COLLAS
Bailiff and Presiding Officer

The Royal Court House
Guernsey
21 December 2012

TREASURY & RESOURCES DEPARTMENT

DOUBLE TAXATION ARRANGEMENT
WITH THE GOVERNMENT OF MALTA

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

24 October 2012

Dear Sir

1. Executive Summary

This Report proposes that the States declare, by Resolution, that a Double Taxation Arrangement ("DTA") entered into with the Government of Malta, on 12 March 2012, should have effect, with the consequence that the Arrangement shall also have effect in relation to income tax, notwithstanding anything contained in the Income Tax (Guernsey) Law, 1975, as amended ("the Income Tax Law").

2. Report

2.1. The principal purpose of a DTA is for two governments to agree procedures for the prevention of double taxation – that is, taxation under the laws of both territories in respect of the same income.

2.2. Prior to 2008, Guernsey had only two DTAs – one with the United Kingdom (which came into force in 1952) and one with Jersey (which came into force in 1955). Since 2008, several DTAs, albeit restricted in nature, have been signed with other countries, such as Australia, Ireland and New Zealand.

2.3. Since 2001, Guernsey has been negotiating with a number of countries in relation to Tax Information Exchange Agreements ("TIEAs"). Part of the negotiation process is to discuss, with the country concerned, ways of preventing certain types of double taxation and related issues.

2.4. During the course of discussions with Malta, the preference was expressed for a full DTA rather than a TIEA, albeit one that contained an exchange of information article to the equivalent standard of Article 26 of the OECD's Model Tax Convention on Income and on Capital. A DTA that contains such an article is recognised as meeting international standards on exchange of information for tax purposes and is thus equivalent to a TIEA.

2.5. There are thousands of DTAs in existence, on a global basis. It is almost inevitable, therefore, that some countries and organisations would group together in order to try and agree a common template for use in negotiations. The two most commonly used templates are the OECD Model Tax Convention on Income and on Capital, and the United Nations Model Double Taxation Convention Between Developed and Developing Countries.

2.6. The main purpose of the OECD Model is to provide a means of settling, on a uniform basis, the most common problems that arise in the field of international juridical double taxation. The Council of the OECD recommends OECD Member Countries, when concluding or revising bilateral conventions, to conform to the Model (as interpreted by the comprehensive commentaries attached to the Model) whilst having regard to the (significant number of) reservations which OECD Members have lodged in respect of the Model (such reservations reflecting OECD Member Countries' specific preferences, taking into account their domestic tax provisions, their stance on addressing the issue of double taxation, in particular situations, etc). The influence of the OECD Model Tax Convention has extended far beyond OECD Member Countries. As a consequence, a number of non-OECD jurisdictions have set out their position in relation to particular parts of the OECD Model (so that, in effect, the OECD Model reflects the reservations and observations of both OECD Members and some other jurisdictions which wish for their positions on the Model to be, officially, recorded). When the latest version of the OECD Model was published, in July 2010, 31 non-OECD Member Countries included their positions on the Model.

2.7. The United Nations Model Double Taxation Convention, whilst similar to the OECD Model, in many respects, addresses issues of particular interest when a developed country negotiates an agreement with a developing country, where the desirability of promoting inflows of foreign investmentincreased international trade and the transfer of technology, have to be balanced against the protection of taxpayers against double taxation and the protection of the tax bases of the bilateral treaty partners.

2.8. Broadly, the OECD Model Convention, which was, essentially, formulated for treaties between developed economies, tends towards the general concept of taxation according to the place of residence of a taxpayer, whereas the UN Model gives more weight to the principle of taxation on the basis of source of the income concerned.

2.9. It would be expected, therefore, that if Guernsey was to commence discussions in relation to a DTA with an OECD Member State, that State's Model DTA would bear significant similarities to the OECD Model Tax Convention (albeit reflecting its reservations and observations on the OECD Model). By contrast, if Guernsey was to commence negotiations with a non-OECD Member, and depending on that particular jurisdiction's preference that country's Model may follow:

- the OECD Model Convention,
- the UN Model Convention,
- a mixture of the OECD and UN Model Conventions, or
- possibly some other Model. (For example, there is a COMESA Double Taxation Model, agreed early in 2012, by the Common Market for Eastern and Southern Africa. There are a number of other such regional Models in existence.)

2.10. The first discussions with Malta, in relation to a DTA, took place in February 2011. By that time, Malta had negotiated DTAs with the Isle of Man and Jersey, which were signed on 23 October 2009 and 25 January 2010 respectively. As a consequence, and because Guernsey had not negotiated any comprehensive DTAs since the 1950s (see 2.2. above) and as the interests of Guernsey's finance sector, in connection with a DTA with Malta, were likely to be very similar to the finance sectors in the Isle of Man and Jersey, the decision was taken to base the discussions with Malta on the texts of the, already negotiated and signed, DTAs with the Isle of Man and Jersey (and those Agreements, in turn, followed relatively closely the OECD Model Convention – notwithstanding that Malta is neither an OECD Member nor a territory that has chosen to overtly declare its position on the OECD Model – see 2.6. above).

2.11. On 12 March 2012, Guernsey signed an Agreement with Malta entitled "Agreement between the States of Guernsey and the Government of Malta for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income".

A copy of the Agreement with Malta is appended to this Report.

2.12. Particular points of note, in relation to the Agreement, are:

(i) Article 7 ("Business Profits") follows the text concluded by Malta in the Agreements with the Isle of Man and Jersey. In July 2010 (i.e. after Malta had negotiated Agreements with the Isle of Man and Jersey but before negotiations with Guernsey had commenced) Article 7 of the OECD Model Tax Convention was updated. By the time of the commencement of the negotiations with Guernsey, however, Malta had not adopted the updated OECD Model text. The decision was taken, therefore, to use the text agreed with the Isle of Man and Jersey (albeit that Guernsey's preference is now to negotiate on the basis of the July 2010 revised OECD Model text).

(ii) As is the case in the Agreements that Malta has negotiated with the Isle of Man and Jersey, Articles 10 ("Dividends"), 11 ("Interest") and 12 ("Royalties") prescribe that the general principle is that those sources of income are taxed in the place of residence of the recipient. This accords with Guernsey's domestic tax regime under which dividends, interest and royalties, paid to a non-resident of Guernsey, do not suffer deduction of Guernsey tax.

(iii) Article 17 ("Pensions") prescribes that such sources of income are taxable only in the Party in which the pensions arise (a source basis) rather than in the territory in which the pensioner resides. This preserves those provisions of Guernsey's tax legislation which result in a non-resident of Guernsey being taxed on a pension arising in Guernsey. However, the reciprocal result is that if a resident of Malta was to take up residence in Guernsey, Guernsey would not tax any pension that that individual receives from Malta (as Malta would have sole taxing rights under the provisions of Article 17). However it is not considered that this will have a material effect on Guernsey's revenues.

2.13. Section 172(1) of the Income Tax Law provides:

"If the States by Resolution declare that arrangements specified in the Resolution have been made with the government of any other territory with a view to affording relief from double taxation in relation to income tax and any tax of a similar character imposed by the laws of that territory, and that it is expedient that those arrangements should have effect, the arrangements shall have effect in relation to income tax notwithstanding anything in any enactment."

2.14. As indicated above, Article 24 of the Agreement with Malta provides for the obtaining and exchanging of information in relation to tax made between the States of Guernsey and the Government of Malta. In order for that to be effective, the States must specify the Agreement by way of an Ordinance pursuant to section 75C of the Income Tax Law. The Department has sought the permission of the Presiding Officer for the States Report and the Ordinance that is required for this purpose to appear in the same Billet d'Etat. The Department is grateful to the Presiding Officer for his permission in this regard.

3. Principles of Good Governance

In preparing this Report, the Department has been mindful of the States Resolution to adopt the six core principles of good governance defined by the UK

Independent Commission on Good Governance in Public Services (Billet IV of 2011).

4. Resource Implications

5.1. Whilst the Agreement with the Government of Malta sets out measures for the avoidance of double taxation, as those obligations extend to both parties to the Agreement, and taking into account the extent of the trading and other financial relationships between Guernsey and Malta, it is not anticipated that the Agreement will give rise to any significant loss of, or increase to, the revenues of the States.

5.2. Whilst the provisions of the Agreement relating to the prevention of fiscal evasion do place obligations on the Parties to obtain and exchange information, in accordance with Article 24 of the Agreement, once again, taking into account the extent of the financial relationships between Guernsey and Malta, the resource implication for Guernsey in complying with those obligations is not expected to be significant and can be managed within the existing resources available to the Director of Income Tax.

5. Recommendation

The Treasury & Resources Department recommends:

1. that the States ratify the Agreement made with Malta, as appended to this Report, as required by section 172(1) of the Income Tax Law;

2. that the States approve the draft Ordinance entitled “Income Tax (Guernsey) (Approval of Agreement with Malta) Ordinance 2013” as an Ordinance of the States.

Yours faithfully
G A St Pier
Minister

J Kuttelwascher (Deputy Minister)
M Dorey
T Spruce
G Collins

AGREEMENT BETWEEN

THE STATES OF GUERNSEY

AND

THE GOVERNMENT OF MALTA

FOR THE AVOIDANCE OF DOUBLE TAXATION
AND THE PREVENTION OF FISCAL EVASION
WITH RESPECT TO TAXES ON INCOME

The States of Guernsey and the Government of Malta, desiring to conclude an Agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, have agreed as follows:

Article 1

PERSONS COVERED

This Agreement shall apply to persons who are residents of one or both of the Parties.

Article 2

TAXES COVERED

1. This Agreement shall apply to taxes on income imposed on behalf of a Party, irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of movable or immovable property and taxes on the total amounts of wages or salaries paid by enterprises.

3. The existing taxes to which the Agreement shall apply are in particular:

(a) in the case of Guernsey:
income tax;
(hereinafter referred to as “Guernsey tax”);

(b) in the case of Malta:
the income tax;
(hereinafter referred to as "Malta tax").

4. The Agreement shall apply also to any identical or substantially similar taxes that are imposed after the date of signature of the Agreement in addition to, or in place of, the existing taxes. The competent authorities of the Parties shall notify each other of any significant changes that have been made in their taxation laws which may affect matters covered by the Agreement.

Article 3

GENERAL DEFINITIONS

1. For the purposes of this Agreement, unless the context otherwise requires:

(a) the term “Guernsey”, means the States of Guernsey and, when used in a geographical sense, means Guernsey, Alderney and Herm, including the territorial sea adjacent to those islands, in accordance with international law;

(b) the term "Malta" means the Republic of Malta and, when used in a geographical sense, means the Island of Malta, the Island of Gozo and the other islands of the Maltese archipelago including the territorial waters thereof, as well as any area of the sea-bed, its sub-soil and the superjacent water column adjacent to the territorial waters, wherein Malta exercises sovereign rights, jurisdiction, or control in accordance with international law and its national law, including its legislation relating to the exploration of the continental shelf and exploitation of its natural resources;

(c) the term “collective investment scheme” means any pooled investment vehicle, irrespective of legal form;

(d) the term "company" means any body corporate or any entity that is treated as a body corporate for tax purposes;

(e) the term "competent authority" means:

(i) in the case of Guernsey, the Director of Income Tax or his delegate;

(ii) in the case of Malta, the Minister responsible for finance or his authorised representative;

(f) the terms "enterprise of a Party" and "enterprise of the other Party" mean respectively an enterprise carried on by a resident of a Party and an enterprise carried on by a resident of the other Party;

(g) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Party, except when the ship or aircraft is operated solely between places in the other Party;

(h) the term "national", in relation to a Party, means:

(i) in the case of Guernsey, any individual who is a resident of Guernsey and possesses British citizenship, any legal person created or organised under the laws of Guernsey and any organisation without legal personality treated for the purposes of Guernsey tax as a legal person created or organised under the laws of Guernsey;

(ii) in the case of Malta:

(a) any individual possessing the nationality of Malta;

(b) any legal person, partnership or association deriving its status as such from the laws in force in Malta;

(i) the terms "a Party" and "the other Party" mean Guernsey or Malta, as the context requires;

(j) the term "person" includes an individual, a collective investment scheme, a company and any other body of persons.

2. As regards the application of the Agreement at any time by a Party, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the laws of that Party for the purposes of the taxes to which the Agreement applies, any meaning under the applicable tax laws of that Party prevailing over a meaning given to the term under other laws of that Party.

Article 4

RESIDENT

1. For the purposes of this Agreement, the term "resident of a Party" means any person who, under the laws of that Party, is liable to tax therein by reason of his

domicile, residence, place of management or any other criterion of a similar nature, and also includes that Party and any political subdivision or local authority thereof, any pension fund or pension scheme recognised by that Party and a person other than an individual which is incorporated or constituted under the laws of a Party.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Parties, then his status shall be determined as follows:

(a) he shall be deemed to be a resident only of the Party in which he has a permanent home available to him; if he has a permanent home available to him in both Parties, he shall be deemed to be a resident only of the Party with which his personal and economic relations are closer (centre of vital interests);

(b) if the Party in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either Party, he shall be deemed to be a resident only of the Party in which he has an habitual abode;

(c) if he has an habitual abode in both Parties or in neither of them, he shall be deemed to be a resident only of the Party of which he is a national;

(d) if he is a national of both Parties or of neither of them, the competent authorities of the Parties shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Parties, then it shall be deemed to be a resident only of the Party in which its place of effective management is situated.

Article 5

PERMANENT ESTABLISHMENT

1. For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

(a) a place of management;
(b) a branch;
(c) an office;
(d) a factory;
(e) a workshop; and
(f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. A building site or construction or installation project constitutes a permanent establishment only if it lasts more than twelve months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

(a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;

(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

(e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 6 applies - is acting on behalf of an enterprise and has, and habitually exercises, in a Party an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that Party in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in a Party merely because it carries on business in that Party through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

7. The fact that a company which is a resident of a Party controls or is controlled by a company which is a resident of the other Party, or which carries on business in that other Party (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Article 6

INCOME FROM IMMOVABLE PROPERTY

1. Income derived by a resident of a Party from immovable property (including income from agriculture or forestry) situated in the other Party may be taxed in that other Party.

2. The term "immovable property" shall have the meaning which it has under the law of the Party in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise.

Article 7

BUSINESS PROFITS

1. The profits of an enterprise of a Party shall be taxable only in that Party unless the enterprise carries on business in the other Party through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other Party but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Party carries on business in the other Party through a permanent establishment situated therein, there shall in each Party be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the Party in which the permanent establishment is situated or elsewhere.

4. Insofar as it has been customary in a Party to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that Party from determining the profits to be taxed by such an apportionment as may be customary; the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles contained in this Article.

5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other Articles of the Agreement, then the provisions of those Articles shall not be affected by the provisions of this Article.

Article 8

SHIPPING AND AIR TRANSPORT

1. Profits of an enterprise of a Party from the operation of ships or aircraft in international traffic shall be taxable only in that Party.

2. For the purposes of this Article, profits derived from the operation in international traffic of ships and aircraft include profits;

(a) derived from the rental of ships or aircraft if such ships or aircraft are operated in international traffic; and

(b) derived from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods and merchandise,

where such rental profits or profits from such use, maintenance or rental, as the case may be, are incidental to the profits described in paragraph 1.

3. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

Article 9

ASSOCIATED ENTERPRISES

1. Where

(a) an enterprise of a Party participates directly or indirectly in the management, control or capital of an enterprise of the other Party; or

(b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Party and an enterprise of the other Party,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Party includes in the profits of an enterprise of that Party - and taxes accordingly - profits on which an enterprise of the other Party has been charged to tax in that other Party and the profits so included are profits which would have accrued to the enterprise of the first-mentioned Party if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other Party shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Agreement and the competent authorities of the Parties shall if necessary consult each other.

Article 10

DIVIDENDS

1. Dividends paid by a company which is a resident of a Party to a resident of the other Party shall be taxable only in that other Party.

2. Paragraph 1 shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares, or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the Party of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Party, carries on business in the other Party of which the company paying the dividends is a resident, through a permanent establishment situated therein and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

5. Where a company which is a resident of a Party derives profits or income from the other Party, that other Party may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other Party or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment situated in that other Party, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other Party.

Article 11

INTEREST

1. Interest arising in a Party and paid to a resident of the other Party shall be taxable only in that other Party.

2. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to

such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Party, carries on business in the other Party in which the interest arises, through a permanent establishment situated therein and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

4. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Party, due regard being had to the other provisions of this Agreement.

5. Interest shall be deemed to arise in a Party when the payer is a resident of that Party. Where, however, the person paying the interest, whether he is a resident of a Party or not, has in a Party a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the Party in which the permanent establishment is situated.

Article 12

ROYALTIES

1. Royalties arising in a Party and paid to a resident of the other Party shall be taxable only in that other Party.

2. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties, being a resident of a Party, carries on business in the other Party in which the royalties arise, through a permanent establishment situated therein and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

4. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Party, due regard being had to the other provisions of this Agreement.

5. Royalties shall be deemed to arise in a Party when the payer is a resident of that Party. Where, however, the person paying the royalties, whether he is a resident of a Party or not, has in a Party a permanent establishment in connection with which the liabilities to pay the royalties was incurred, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the Party in which the permanent establishment is situated.

Article 13

CAPITAL GAINS

1. Gains derived by a resident of a Party from the alienation of immovable property referred to in Article 6 and situated in the other Party may be taxed in that other Party.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Party has in the other Party including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) may be taxed in that other Party.

3. Gains derived by an enterprise of a Party from the alienation of ships or aircraft operated in international traffic, or from movable property pertaining to the operation of such ships or aircraft, shall be taxable only in that Party.

4. Gains derived by a resident of a Party from the alienation of shares deriving more than 50 per cent of their value directly or indirectly from immovable property situated in the other Party may be taxed in that other Party.

5. Gains from the alienation of any property, other than that referred to in paragraphs 1, 2, 3 and 4, shall be taxable only in the Party of which the alienator is a resident.

Article 14

INCOME FROM EMPLOYMENT

1. Subject to the provisions of Articles 15, 17 and 18, salaries, wages and other similar remuneration, derived by a resident of a Party in respect of an employment shall be taxable only in that Party unless the employment is exercised in the other Party. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other Party.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Party in respect of an employment exercised in the other Party shall be taxable only in the first-mentioned Party if:

(a) the recipient is present in the other Party for a period or periods not exceeding in the aggregate 183 days in any twelve-month period commencing or ending in the fiscal year concerned; and

(b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other Party; and

(c) the remuneration is not borne by a permanent establishment which the employer has in the other Party.

3. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a Party may be taxed in that Party.

Article 15

DIRECTORS' FEES

Directors' fees and other similar payments derived by a resident of a Party in his capacity as a member of the board of directors of a company which is a resident of the other Party may be taxed in that other Party.

Article 16

ARTISTES AND SPORTSMEN

1. Notwithstanding the provisions of Articles 7 and 14, income derived by a resident of a Party as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Party, may be taxed in that other Party.

2. Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income may, notwithstanding the provisions of Articles 7 and 14, be taxed in the Party in which the activities of the entertainer or sportsman are exercised.

Article 17

PENSIONS

Pensions and other similar remuneration (including lump sum payments) arising in a Party and paid to a resident of the other Party in consideration of past employment or self-employment and social security pensions shall be taxable only in the first-mentioned Party.

Article 18

GOVERNMENT SERVICE

1. (a) Salaries, wages and other similar remuneration, paid by a Party or a political subdivision or a statutory body or a local authority thereof to an individual in respect of services rendered to that Party or subdivision, body or authority shall be taxable only in that Party.

(b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Party if the services are rendered in that Party and the individual is a resident of that Party who:

(i) is a national of that Party; or

(ii) did not become a resident of that Party solely for the purpose of rendering the services.

2. The provisions of Articles 14, 15, 16 and 17 shall apply to salaries, wages, pensions, and other similar remuneration in respect of services rendered in connection with a business carried on by a Party or a political subdivision or a statutory body or a local authority thereof.

Article 19

STUDENTS

Payments which a student or business apprentice who is or was immediately before visiting a Party a resident of the other Party and who is present in the first-mentioned Party solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that Party, provided that such payments arise from sources outside that Party.

Article 20

OTHER INCOME

1. Items of income of a resident of a Party, wherever arising, not dealt with in the foregoing Articles of this Agreement shall be taxable only in that Party.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property as defined in paragraph 2 of Article 6, if the recipient of such income, being a resident of a Party, carries on business in the other Party through a permanent establishment situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment. In such case, the provisions of Article 7 shall apply.

Article 21

ELIMINATION OF DOUBLE TAXATION

1. In the case of Guernsey, double taxation shall be avoided as follows:

Subject to the provisions of the laws of Guernsey regarding the allowance as a credit against Guernsey tax of tax payable in a territory outside Guernsey (which shall not affect the general principle hereof):

(a) subject to the provisions of sub-paragraph (c), where a resident of Guernsey derives income which, in accordance with the provisions of the Agreement, may be taxed in Malta, Guernsey shall allow as a deduction from the tax payable in respect of that income, an amount equal to the income tax paid in Malta;

(b) such deduction shall not, however, exceed that part of the income tax, as computed before deduction is given, which is attributable to the income which may be taxed in Malta;

(c) where a resident of Guernsey derives income which, in accordance with the provisions of the Agreement shall be taxable only in Malta, Guernsey may include this income in calculating the amount of tax on the remaining income of such resident.

2. In the case of Malta, double taxation shall be eliminated as follows:

Subject to the provisions of the law of Malta regarding the allowance of a credit against Malta tax in respect of foreign tax, where, in accordance with the provisions of this Agreement, there is included in a Malta assessment income from sources within Guernsey, the Guernsey tax on such income shall be allowed as a credit against the relative Malta tax payable thereon.

Article 22

NON-DISCRIMINATION

1. Nationals of a Party shall not be subjected in the other Party to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other Party in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall, notwithstanding the provisions of Article 1, also apply to persons who are not residents of one or both of the Parties.

2. The taxation on a permanent establishment which an enterprise of a Party has in the other Party shall not be less favourably levied in that other Party than the taxation levied on enterprises of that other Party carrying on the same activities. This provision shall not be construed as obliging a Party to grant to residents of the other Party any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Except where the provisions of paragraph 1 of Article 9, paragraph 4 of Article 11, or paragraph 4 of Article 12 apply, interest, royalties and other disbursements paid by an enterprise of a Party to a resident of the other Party shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned Party.

4. Enterprises of a Party, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Party, shall not be subjected in the first-mentioned Party to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected

requirements to which other similar enterprises of the first-mentioned Party are or may be subjected.

5. The provisions of this Article shall, notwithstanding the provisions of Article 2, apply to taxes of every kind and description.

Article 23

MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the Parties result or will result for him in taxation not in accordance with the provisions of this Agreement, he may, irrespective of the remedies provided by the domestic law of those Parties, present his case to the competent authority of the Party of which he is a resident or, if his case comes under paragraph 1 of Article 22, to that of the Party of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of the Agreement.

2. The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Party, with a view to the avoidance of taxation which is not in accordance with the Agreement. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Parties.

3. The competent authorities of the Parties shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Agreement. They may also consult together for the elimination of double taxation in cases not provided for in the Agreement.

4. The competent authorities of the Parties may communicate with each other directly, including through a joint commission consisting of themselves or their representatives, for the purpose of reaching an agreement in the sense of the preceding paragraphs.

Article 24

EXCHANGE OF INFORMATION

1. The competent authorities of the Parties shall exchange such information as is foreseeably relevant for carrying out the provisions of this Agreement or to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Parties, insofar as the taxation thereunder is not contrary to the Agreement. The exchange of information is not restricted by Articles 1 and 2.

2. Any information received under paragraph 1 by a Party shall be treated as secret in the same manner as information obtained under the domestic laws of that Party and shall be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, the determination of appeals in relation to the taxes referred to in paragraph 1, or the oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

3. In no case shall the provisions of paragraphs 1 and 2 be construed so as to impose on a Party the obligation:

(a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Party;

(b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Party;

(c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (*ordre public*).

4. If information is requested by a Party in accordance with this Article, the other Party shall use its information gathering measures to obtain the requested information, even though that other Party may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitations be construed to permit a Party to

decline to supply information solely because it has no domestic interest in such information.

5. In no case shall the provisions of paragraph 3 be construed to permit a Party to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

Article 25

MEMBERS OF DIPLOMATIC MISSIONS AND CONSULAR POSTS

Nothing in this Agreement shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

Article 26

ENTRY INTO FORCE

1. The Parties shall notify each other in writing that the legal requirements for the entry into force of this Agreement have been complied with.

2. The Agreement shall enter into force thirty days after the date of the later of the notifications referred to in paragraph 1 and its provisions shall have effect in respect of taxes on income derived during any taxable period or accounting period, as the case may be, beginning on or after the first day of January immediately following the date on which the Agreement enters into force.

Article 27

TERMINATION

This Agreement shall remain in force until terminated by a Party. Either Party may terminate the Agreement by giving written notice of termination at least six months before the end of any calendar year beginning after the expiration of a period of five years from the date of its entry into force. In such event, the Agreement shall cease to have effect in respect of taxes on income derived during any taxable period or accounting period, as the case may be, beginning on or after the first day of January immediately following the date on which the notice of termination is given.

IN WITNESS WHEREOF the undersigned, being duly authorised thereto have signed this Agreement.

DONE at London this twelfth day of March, 2012 in duplicate in the English language.

For the
States of Guernsey

For the Government of
Malta

(NB The Policy Council has no comment to make on this Report.)

The States are asked to decide:-

I**.-**Whether, after consideration of the Report dated 28th October, 2012, of the Treasury and Resources Department, they are of the opinion:

1. To ratify the Agreement made with Malta, as appended to this Report, as required by section 172(1) of the Income Tax Law.

2. To approve the draft Ordinance entitled "Income Tax (Guernsey) (Approval of Agreement with Malta) Ordinance 2013" and to direct that the same shall have effect as an Ordinance of the States.

THE CIVIL CONTINGENCIES LAW, 2012 (COMMENCEMENT) (BAILIWICK OF GUERNSEY) ORDINANCE, 2013

The States are asked to decide:-

II.- Whether they are of the opinion to approve the draft Ordinance entitled “The Civil Contingencies Law, 2012 (Commencement) (Bailiwick of Guernsey) Ordinance 2013”, and to direct that the same shall have effect as an Ordinance of the States.

THE CIVIL CONTINGENCIES AUTHORITY (FORM OF OATH AND AFFIRMATION) (BAILIWICK OF GUERNSEY) ORDINANCE, 2013

The States are asked to decide:-

III.- Whether they are of the opinion to approve the draft Ordinance entitled “TheCivil Contingencies Authority (Form of Oath and Affirmation) (Bailiwick of Guernsey) Ordinance, 2013”, and to direct that the same shall have effect as an Ordinance of the States.

THE MERCHANT SHIPPING (BAILIWICK OF GUERNSEY) LAW, 2002 (COMMENCEMENT) ORDINANCE, 2013

The States are asked to decide:-

IV.- Whether they are of the opinion to approve the draft Ordinance entitled “The Merchant Shipping (Bailiwick of Guernsey) Law, 2002 (Commencement) Ordinance, 2013”, and to direct that the same shall have effect as an Ordinance of the States.

HOME DEPARTMENT

ELECTION OF MEMBER

The States are asked:-

V.- To electone sitting Member of the States as a member of the Home Department to complete the unexpired portion of the term of office of Alderney Representative Boyd Nigel Kelly, who is not eligible for re-election, namely to serve until May 2016, in accordance with Rule 7 of the Constitution and Operation of States Departments and Committees.

LEGISLATION SELECT COMMITTEE

NEW MEMBER

The States are asked:-

VI. To elect a sitting member of the States as a member of the States Legislation Committee to complete the unexpired portion of the term of office of Alderney Representative Boyd Nigel Kelly, who is not eligible for re-election, namely to serve until May 2016, in accordance with Rule 7 of the Constitution and Operation of States Departments and Committees.

ELIZABETH COLLEGE BOARD OF DIRECTORS

NEW MEMBER

The States are asked:-

VII.- To elect a member of the Elizabeth College Board of Directors to fill the vacancy which will arise on 5th January, 2013 by reason of the expiration of the term of office of Mr Richard Conder, who is not eligible for re-election.

[N.B Each year the States elect a Member of the Elizabeth College Board of Directors, who does not need to be a sitting Member of the States, to serve a six year term. The College Statutes include a provision at Statute 13 that any person having served in the office of Director shall not be qualified for re-appointment until after the expiration of twelve months from the time of his going out of office.]

POLICY COUNCIL

FINANCIAL TRANSFORMATION PROGRAMME

1. Executive Summary

1.1. This report constitutes the Annual Report from the Policy Council on progress with the delivery of the States Financial Transformation Programme (FTP). The last Report was part of the States Strategic Plan 2011-2016 considered in October 2011. There has been over a year since the last report due to the States Strategic Plan debate having been postponed to March 2013.

1.2. The FTP which was initiated in 2009 and aims to reduce the baseline net expenditure of the States by at least £31m per annum by the end of 2014 which is key to enabling the States to achieve a balanced and sustainable budget position. The reduction in net expenditure is being achieved through a combination of efficiency savings, operating income generation and changes to the level of service provision where appropriate[1].

1.3. The Policy Council is seeking a fresh commitment from the current States of Deliberation to the principles of the programme and support for its successful delivery over the next two years while at the same time continuing to provide and indeed develop key public services and the policies that drive them.

1.4. The Report covers:

- A reminder of the circumstances that gave rise to the original proposals, which have not changed;
- The evolution of the programme since that time;
- The governance of the programme both in the past and in the future;
- An update to the States on the progress to date in delivering the FTP;
- Policy Council plans for delivery of the remainder of the programme by December 2014;
- The challenges, fears concerns and opportunities surrounding the current plans to meet or exceed the £31million target; and
- Clarification of the contractual arrangements with Capita Consulting Limited.

[1] Throughout this Report ‘savings’ is used to describe the reductions to net expenditure achieved even though these might, in some instances, have been achieved by increases in operating income.

1.5. The Policy Council acknowledges that, as with any major change programme, the successful delivery of the remainder of the programme will be challenging for all States Departments. However, as noted by Professor Geoffrey Wood in his Annual Independent Fiscal Policy Review, November 2012: '*Failure to achieve the full savings of the FTP is the key risk to deficit reduction. There are signs of slippage, so a realistic appraisal of success must be made no later than early 2013. There is a risk that the strategy will need to be revised and alternative measures considered. These are unlikely to be more palatable than the current strategy and so the States should strive to secure the success of that current approach*.'

1.6. This Report seeks to demonstrate to the Assembly that the work being led by the Policy Council will result in a robust and realistic appraisal of the chances of success in the final two years of the programme. Members of the Council are unanimously committed to delivering this success as the sponsoring body and Ministers are committed as individuals to champion savings within their Departments. Furthermore the Policy Council is quite clear that **any alternative measures must still achieve the same goal of deficit reduction and are highly unlikely to be any more palatable than the current plans. In short, spending less involves making difficult decisions.**

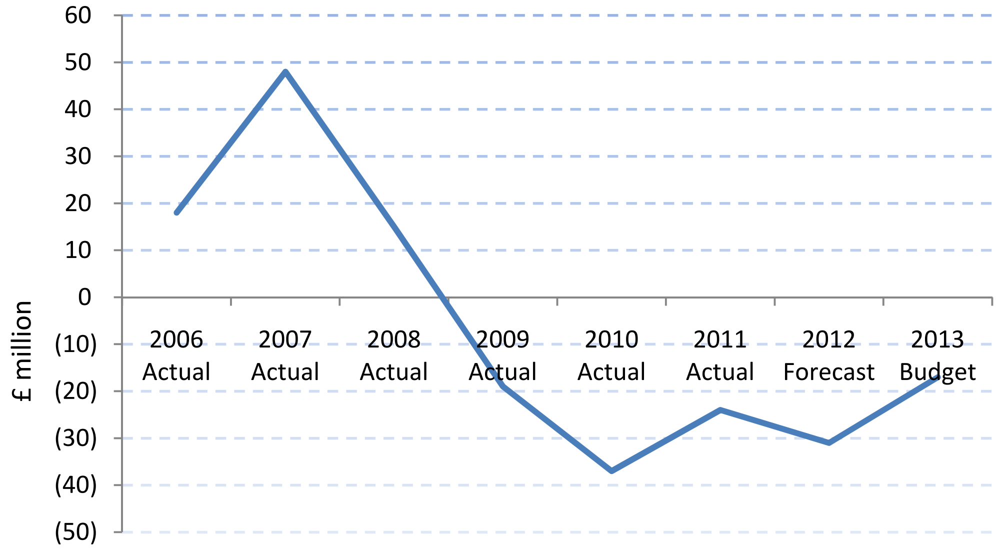
1.7. Failure to deliver the FTP financial targets would necessitate additional draw down from the depleting Contingency Reserve – Tax Strategy which is forecast to have a balance of £79m at the end of 2012. In addition, it would still leave the States with a structural deficit. If deficit reduction is not tackled then the only other way of closing the deficit is through increases in taxation at a time when the economy is fragile and growth is low.

2. History

2.1. In 2006, the States resolved to implement the Economic & Taxation Strategy which saw the basic rate of income tax on company profits change from 20% to 0% ('Zero – 10') in order to meet international standards and obligations and to remain competitive with other jurisdictions. As a consequence of these changes the States effectively forfeited circa £100m per annum in previously collected tax from companies in Guernsey, rather than the alternative approach which could have seen revenues impacted much more severely by loss of business and employment in the economy.

2.2. A consequence of the States decision was to run a budget deficit funded by the use of up to half of the Contingency Reserve (named Contingency Reserve – Tax Strategy which initially had a balance of £102m) while trying to return to a balanced budget through increases in existing indirect taxes, increased Social Security contributions, maintenance of strong economic growth and continued expenditure restraint during the first phase of the strategy.

2.3. These changes, introduced in 2008, saw the States move into a deficit position which still persists as depicted in the chart below:



2.4. The primary purpose of the Economic and Taxation Strategy was to secure continued economic success for Guernsey. However, it was recognised that a key part of the overall package would be the need to critically review the level of public sector expenditure. The general public's views on States expenditure were very strongly expressed in the consultations on the Strategy and the need to control public sector expenditure was the item which was commented upon by the largest number of responses, with 97% wishing to see restraint and there is no evidence to suggest that this is any different today.

2.5. In the 2008 Budget Report, the Treasury and Resources Department announced its intention to undertake a Fundamental Spending Review (FSR) as part of its commitment to ensuring that public sector expenditure is better controlled and waste and inefficiency reduced. In embarking on this process, the Department believed that if the Review was undertaken effectively and implemented by all Departments as a 'corporate' tool, it would result in more efficient and effective departmental spending plans that focused on the States' priorities.

2.6. The Department's view was that the Fundamental Spending Review should embrace the following:

- Are there services currently being provided by States Departments which could be reduced or ceased altogether? (ie cutting services);

- Are there services currently being provided by the States that would be better provided by the private sector? (ie outsourcing);

- Are there services currently being provided by States Departments which could be provided (by them) more efficiently? (ie pure efficiency);

- Have Departments prioritised their services appropriately and are these broadly aligned to the Government Business Plan and Departments' operational plans? (ie are we providing the right services);

- What essential services should Departments be providing that they are currently unable to as a result of insufficient funding?;

- Can existing funds be reallocated to (current or new) priority areas?; and

- Are Departments' base budgets set at the right limits? (ie regardless of historic budgeting, what is the right budget to deliver the services as provided?)

2.7. In summary, the stated objectives for the Review then became:

i. *''Departments' spending plans provide for the most efficient and effective delivery of essential services;*

ii. *Departments' services (including corporate services and initiatives) are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan; and*

iii. *Departments are only engaged in delivering essential services and those services that cannot or should not be provided by the private sector.'*

2.8. The Treasury and Resources Department also acknowledged the importance of involving Departments in developing the most appropriate framework within which the Review would be undertaken. In order to deliver the best outcomes it was vital that the Review was appropriate to Guernsey's needs and not perceived as an initiative which was being 'forced' upon Departments; instead it was the intention that the Review should be embraced as a necessary corporate measure.

2.9. Therefore, after a competitive tender process, the Department appointed Sector Projects to work closely with all Departments and Committees to develop a framework which was tailored to the States of Guernsey's requirements in advance of undertaking any detailed review. This framework was finalised and delivered in July 2008 and covered a set of principles and a methodology for the reviews. In addition, it also added a fourth objective to those identified by the Treasury and Resources Department which was '*to embed the mindset and approach of the spending reviews into a cyclical process for the States with a view to ensuring a future legacy*'. This framework was then used as a specification in tendering for the delivery of the reviews which resulted in the appointment of Tribal Helm (Tribal) in November 2008.

2.10. Following on from an initial discovery phase of work, Tribal presented an initial report in February 2009 which identified a total of 298 potential savings opportunities. These were a combination of opportunities identified by Tribal and those put forward by Departments, cross cutting and Department specific.

2.11. The report concluded that the Phase 1 investigations ‘‘*had revealed an organisation with financial, structural and cultural characteristics that have contributed to less than efficient delivery of service*’. The report went on to say that ‘*with strong governance and accountability structures ending at departmental level we see the emergence of a number of independent, semi autonomous operational silos. These silos are then able to pursue departmental priorities often at the expense of the benefit of the States as a whole*’.

2.12. Tribal commented that the large number of opportunities identified was a reflection of the starting point and the immense challenge faced. It proposed that all 298 opportunities should be developed as part of Phase 2 with the costs, benefits, risks and delivery options being more fully explored in order to deliver an outline business case for each opportunity.

2.13. The Treasury and Resources Department accepted the findings in the Phase 1 report and asked Tribal to continue to the next phase (Phase 2) during which each opportunity was developed into a Summary Opportunity Report (SOR) which effectively formed the outline business case.

3. The Tribal Phase 2 Report

3.1. The Tribal FSR Report (July 2009) made three wide ranging recommendations:

Establish a States Transformation Programme

3.2. ‘We recommend that, in order to realise the significant benefits identified by the FSR, the States of Guernsey establishes an integrated Transformation Programme, a fundamental part of which is a Financial Change Programme delivering the recommendations in this report.

3.3. *A Financial Change Programme within an integrated Transformation Programme will enable the organisation to be properly structured and balanced to enable efficiency to be both established and maintained and ensure that changes are embedded. It will also identify and exploit emerging synergies and ensure continued congruence with the overall objectives of the FSR.’*

3.4. Tribal recognised that the structure and expertise to establish the full Transformation Programme did not exist at that time but that the Finance Change Programme should be initiated in the meantime to deliver the potential financial benefits identified through the FSR process.

3.5. It was felt that an integrated Transformation Programme would create:

- A culture of cost consciousness and shared responsibility for delivery;

- A change in behaviours towards a mentality of putting the best interests of the States and the Island first, as opposed to departmental interests, and the concept of always implementing best practice where appropriate. Inherent in delivering this is stronger leadership across the public sector and an acceptance of personal accountability and responsibility;

- Developing the performance of the public sector through rewarding good performance and managing poor performance;

- Competence through facilitating the right skills to do the job that needs to be done;

- Clear lines and boundaries of accountability and an acceptance of accountability;

- Effective management systems i.e. those that provide the required level of business control, ensure outputs are optimised and lessons learnt for future improvements; and

- Continual improvements of processes or efficiency which involves focussing on output (ie the services delivered) rather than input (the cost or resources required to deliver the service) and embedding a continual drive for improvement.

Articulate and communicate a vision for the States

3.6. Tribal's recommendation said: '*We recommend that the States define, document and communicate its vision and purpose. This will describe what the organisation wants to achieve, its aims and purpose and the values it will adhere to when delivering those aims.*'

3.7. The aim of this recommendation was to develop a vision and purpose for the States by way of its aims and objectives which would provide a 'golden thread' enabling a clear line of sight from the States Strategic Plan to departmental operational plans and through to personal objectives.

3.8. Key to delivery of this recommendation was the development of a medium term business plan which was included as one of seven workstreams proposed within the Financial Transformation Programme.

Embed a sustainable way of working

3.9. This recommendation outlined the requirement for more effective and clearer governance across the States which would not only enable the delivery of the next phase of the FSR (ie the FTP) but would also lay the key foundations for embedding the change in the organisation.

3.10. It also recognised that the States was not in a position to deliver on these three recommendations in the short term and therefore proposed that a financial change programme be established immediately to take forward the opportunities identified as part of the FSR process.

3.11. In October 2009, the States of Deliberation debated a States Report from the Treasury and Resources Department (Billet D'Etat XXV 2009) which reported back on the findings of the Fundamental Spending Reviews and proposed the establishment of a Financial Transformation Programme as a means of delivering recurring revenue savings of at least £31m per annum by the end of a five year programme as per the recommendations made by Tribal in their Phase 2 Report.

3.12. That Report made it clear that it was imperative that the States commit wholeheartedly to the implementation of Tribal's recommendations and specifically to:

- A States wide 5 year programme and the introduction of year on year efficiency targets for all Departments;

- Reinvestment in order to realise further efficiencies;

- Re-aligning departmental budgets, to reflect the refreshed States Strategic Plan and the outputs of the FSR Phase 2;

- Pursuing SORs to detailed business case stage which will include the examination of the appropriateness of those essential services that may be delivered by the private sector;

- A Financial Change Programme charged with managing and coordinating the SORs identified by the FSR Phase 2 as part of a wider, integrated Transformation Programme; and

- Introducing a Departmental performance management framework so that departments' results are baselined, measured and then used to develop value for money indicators against which delivery can be measured.

3.13. The Treasury and Resources Department emphasised to States Members at the time that '***unless they are prepared to embrace and support the implementation of Tribal's findings and recommendations, and accept that this will, without doubt, involve very difficult political decisions in the months and years ahead, then the anticipated benefits and financial savings that have been identified, will not be realised.'***

3.14. Further, the Department went on to outline a set of principles which it believed the States should endorse in accepting the proposals:

- *‘Reinforce their commitment to the delivery of savings through the FSR in order to ensure that public sector expenditure is controlled and waste and inefficiency reduced;*

- *Accept that difficult political decisions lie ahead in advance of the realisation of the benefits;*

- *Acknowledge the need for a fundamental shift towards more corporate working which will facilitate the delivery of the majority of the potential savings identified by the FSR;*

- *Accept that investment is vital in key areas to unlock the savings potential and provide a platform for sustainable delivery of savings;*

- *Accept the necessary diversion of staff resources away from routine work in order to deliver change;*

- *Acknowledge the risk that not all of the proposals will deliver the anticipated change or savings;*

- *Recognise the need to prioritise and resource long term corporate initiatives over short term Departmental issues’; and*

- *Agree to commit to delivering this vision and underpinning decisions through the ratification of this Report.*

3.15. The States approved the FSR States Report in 2009 and made the following resolutions:

i. To endorse and support the principal findings and recommendations proposed by Tribal Consulting Limited in its Fundamental Spending Review: Phase 2 report which is attached to that Report.

ii. That the States principles for the Financial Transformation Programme, on a long-term and sustainable basis, will be as articulated in section 6 of that Report.

iii. To direct the Policy Council to establish a States Financial Transformation Programme and adopt the proposed governance structure as set out in section 8 of that Report.

iv. To direct the Policy Council to submit annual Reports to the States on the progress being made together with other relevant information in connection with the delivery of efficiency savings identified by Tribal Consulting Limited.

v. To note that those efficiency opportunities involving major costs or policy considerations will be referred to the States, by the appropriate Department or the Policy Council, for a decision.

vi. To direct the Treasury and Resources Department to rename the *Restructuring and Reorganisation Fund* as the *Fundamental Spending Review Fund* with a sum of £10million to be transferred from the General Revenue cash pool to be used solely in connection with the delivery of opportunities in connection with Phase 3 of the Fundamental Spending Review, as set out in section 11 of that Report.

vii. To endorse the decision of the Treasury and Resources Department to retain the services of Tribal Consulting Ltd, on a risk and reward basis, to assist with the delivery of the outputs from the Fundamental Spending Review, as set out in section 8 of that Report.

3.16. Despite having endorsed the principles in paragraph 3.14, behaviour in the first three years of the programme has often fallen short of these principles and has, at times, hindered the efforts being made across the service to deliver the programme as instructed by the States.

3.17. The Policy Council has reviewed these principles which it considers remain valid today and believes that the new Assembly should re-commit to them and add the new principles detailed below:

- Acknowledge that a large and complex programme such as the FTP is constantly evolving such that opportunities originally identified may no longer be feasible while new opportunities may arise;

- Recognise that the FTP is part of a transformational journey for the States and plans for delivery should be incorporated into Departmental transformation programmes; and

- Recognise that changing the way the States thinks and acts is a continuous process that will not end with the completion of the FTP.

4. Financial Transformation Programme

4.1. In November 2009, the Policy Council established the Financial Transformation Programme based on the resolutions above. The vision for the programme has been articulated and adopted as:

4.2. 'An environment where islanders can be confident that the right public services are efficiently and effectively delivered and represent value for money'.

4.3. Further, the mission was established as

4.4. 'to ensure the right services for the community of Guernsey are efficiently delivered; by changing the way the organisation thinks and acts we will release a recurring reduction in general revenue spend of at least £31million by the end of 2014.'

4.5. In delivering this mission, the programme has four key objectives:

4.6 The core objective of the programme, and its primary measure of success, is that ***baseline expenditure*** isreduced by at least £31m per year. This will be achieved primarily by controlling and reducing costs. However, consideration will also be given to the appropriateness of recovering the costs of some services, either in part or in full.

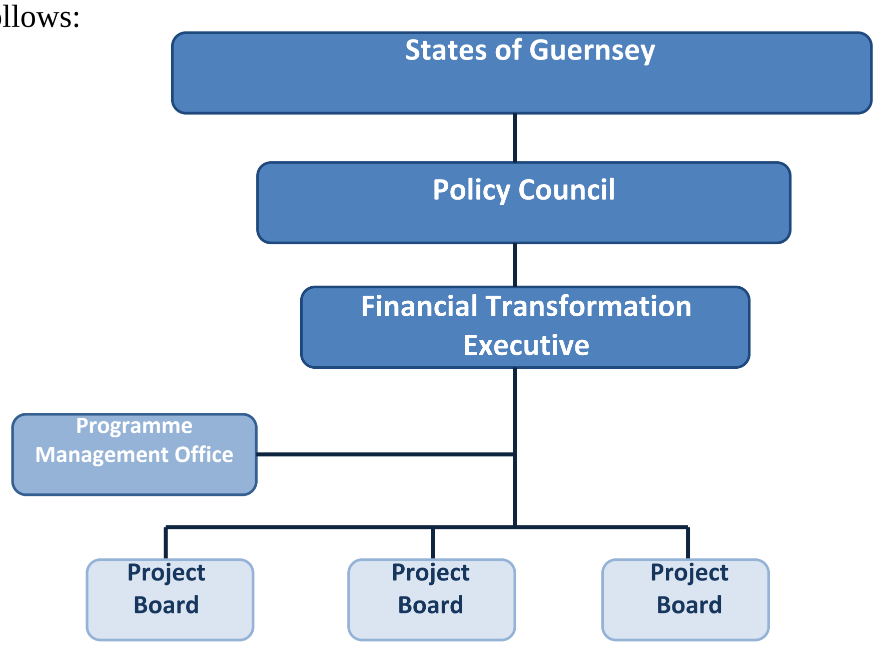
4.7 The programme also aims to ensure that services are appropriate for the needs of our customers, but that ***service standards*** are always affordable and developed through a holistic approach to business planning.

4.8 The need for the Public Sector to continuously demonstrate and improve Value for Money is central to the programme. It is essential that we are able to establish a ***Value for Money Baseline*** for all services, customer facing and 'back office' and deliver a framework for its ongoing measurement and improvement.

4.9 With increasing demand, rising customer expectations and limited financial resources, effective business and financial planning is critical to the successful delivery of public services. The programme will seek to establish an integrated service planning framework and embed ***a cyclical approach to business and financial planning and performance reviews.***

5. Programme Governance

5.1. The 2009 States Report outlined the governance for the programme as follows:



5.2 Under this model, the States delegated responsibility for the delivery of the programme to the Policy Council on the understanding that they would be asked to deliberate on key decisions in the programme such as material capital items, policy changes and politically sensitive issues.

5.3 The Policy Council was charged with providing the political ownership and oversight of the programme but, in turn, delegated responsibility for the operational delivery to the Financial Transformation Executive (FTE).

5.4. The FTE, made up of five senior Civil Servants, was charged with:

- Directing and overseeing the delivery of the Financial Transformation Programme;
- Providing executive sponsorship and leadership across the public sector;
- Ensuring that the Financial Transformation Programme is delivered to plan, budget and that benefits are realised;
- Approving business cases for progress or referring to Policy Council/States for political decision where appropriate; and
- Liaising with Project Boards on progress of projects and programmes.

5.5. This governance structure remains in force today with the duties of the FTE now being discharged by the Chief Executive's Executive Leadership Team (ELT). However, key leadership roles within the programme and the governance structures reporting into the ELT have evolved over the life of the programme and following feedback from Departmental Chief Officers to ensure they support delivery of a programme in a Guernsey context.

6. Original Approach

6.1. The programme was initially organised into seven work-streams around key themes. These were:

i. Value for Money and Efficiency;

ii. Property Rationalisation and Asset Management;

iii. Financial Management;

iv. Information and Communication Technology;

v. Human Resources;

vi. Procurement; and

vii. Grants and Subsidies.

6.2. There were 107 individual phase 2 SORs identified during the FSR and each one was allocated to one of these work-streams and a central civil servant lead appointed. The role of the work-stream lead was to drive forward the teams who would deliver the projects and initiatives within that work-stream. The work-streams were charged with progressing the opportunities allocated to them and with identifying new opportunities to deliver the overall savings targets.

6.3. These leads then worked closely with Capita colleagues and Departmental staff to deliver the benefits with budgets being adjusted once savings had been identified and projects delivered and signed off. The first two years of the programme were delivered using this approach.

6.4. This approach employed at the beginning of the programme proved problematic for several reasons. First of all, progress was slow because the importance of Departmental involvement had been underestimated and not all Departments were ready for the major change that was required to deliver the FTP. There was a lack of ownership and Departments felt that it was being imposed on them from the centre. Chief Officers felt that the original structure did not empower them to deliver the efficiencies within their Departments and were not always signed up to the projects identified and being developed as being those that represented the best opportunity for available savings within their Department. Finally, the approach created a perverse incentive to delay delivery in order to postpone any budget reductions.

6.5. A programme review was undertaken in the spring of 2011 which captured the perceived problems with programme delivery from the centre of the programme and Departments. This ultimately led to the delivery structure being revised in consultation with Department Chief Officers who felt strongly that they wanted to take more ownership of projects within their

6.6. Departments, have more flexibility to deliver projects which were relevant and necessary as time moved on and be given clear targets for delivery.

6.7. At the same time the ELT recommended that Departmental targets be introduced (in line with the original Tribal recommendations as outlined in paragraph 3.12) as part of the 2012 Budget. These targets were set in line with the Department’s overall target share of the FTP financial benefits and removed from budgets at the beginning of the 2012 in the first instance. These targets were recommended by the Treasury and Resources Department as part of the 2012 Budget and agreed by the States.

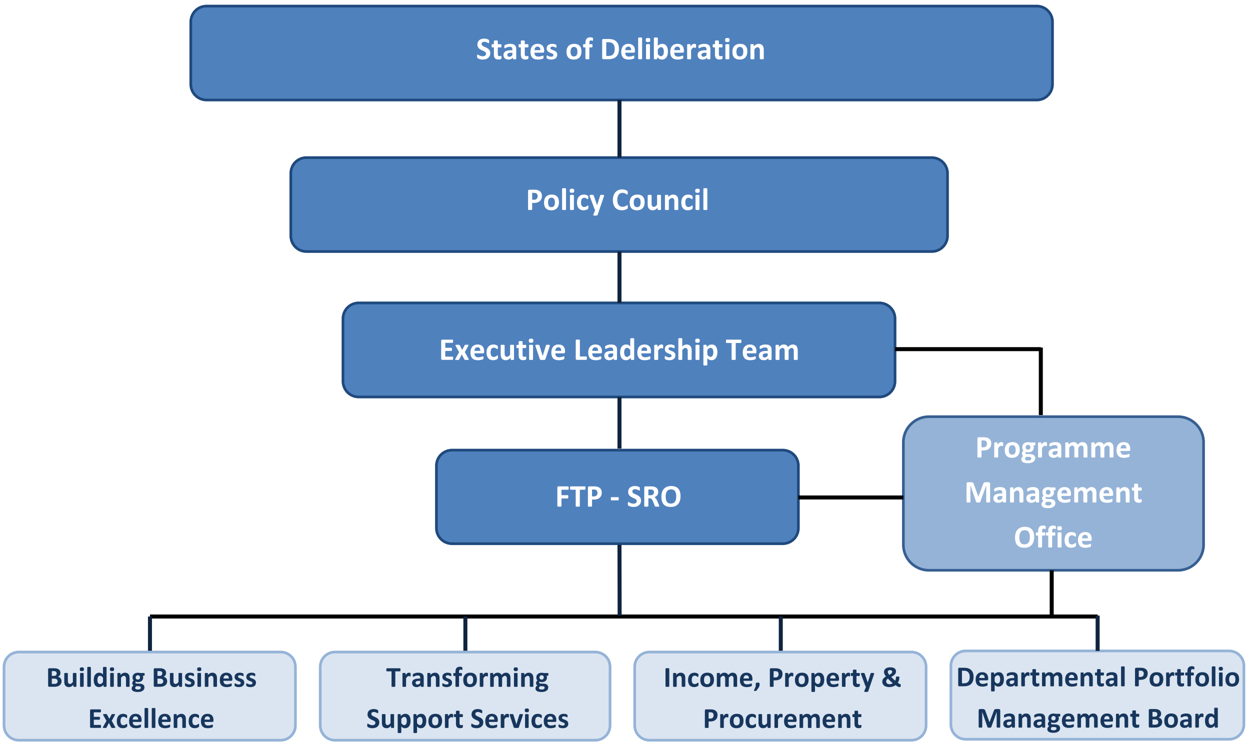
6.8. Further targets have now been set by the Policy Council and for 2013 and 2014 to deliver the remainder of the programme benefits. The 2013 targets have been included as part of the 2013 Budget Report. Departments have been asked to submit and deliver sustainable projects yielding recurring savings to contribute towards the FTP target.

6.9. Importantly, these targets act as a means of reducing the drawdown from the Contingency Reserve – Tax Strategy by requiring Departments to deliver net expenditure within their reduced budget in year even if this means making one off savings while FTP projects are being developed or implemented. This ensures that programme momentum is maintained.

7. R**evised Approach**

7.1. The current programme governance structure has developed to address the issues outlined above. In particular, focus for delivery has shifted away from the 107 opportunities originally identified in the FSR in order to address the concerns of Chief Officers. However, progress against the 107 is still monitored and all projects and savings delivered to date relate to one of those opportunities. Appendix A details the savings to date by original SOR.

The revised structure places responsibility for delivery of the sub programmes with Senior Responsible Owners who are made up of Chief and very senior Officers from across the organisation and facilitates decisions being made and ownership taken at the most appropriate level with matters only being escalated to the ELT and Policy Council by exception.



7.2 The FTP now consists of three sub programmes and a Departmental Portfolio Management Board who are charged with the overall delivery of both financial and non financial benefits.

7.3 By 2014, the Building Business Excellence programme's objective is that business and financial planning within the public sector is conducted in accordance with a single, integrated framework which is recognised as best practice. This programme consists of a suite of enabling projects that will not in themselves release any cashable benefits but will assist the States in delivering sustainable changes and therefore benefits in the future. An example of a key project currently underway is the business and financial planning framework which seeks to put in place a Government Service Plan as the means of delivering the States Strategic Plan which is completely integrated with the budget setting process.

7.4 The Transforming Support Services programme is developing and implementing an integrated and consistent approach to the provision of support services across the public sector in Guernsey. This approach will optimise the release of support services that meet the needs of the organisation and are fit for purpose. The SAP/STSC project which is expected to go live before this Report is considered is the first project to be completed within this programme.

7.5 The Income Procurement and Property programme aims to ensure that fees and charges are appropriate, in line with policy and recovering the costs of service provision, enable cost reductions through improved commissioning and procurement and the rationalisation of land and property holdings.

7.6 The Income Project is delivering on 2 key work-streams. The first is the baselining of all fees and charges currently administered by departments for services they provide. The second work-stream is developing a consistent set of policies and guidelines for the application of fees and charges by all Departments from 2013 and beyond that will ensure they are fair and equitable.

7.7 The Procurement Project is currently working across a number of common categories of spend to review existing and future contract arrangements. The key areas of spend currently under review include IT, Fleet Management and Maintenance, Travel Management and Grounds Maintenance.

7.8 The Property Project is working towards the development of a States wide Strategic Asset Management Plan. The Plan will create a long term vision for the States property requirements as well as indicating areas where quick wins can achieve savings. The Plan is being developed from a combination of a Strategic Audit of the existing asset base and a separate work-stream looking at modern ways of working and how the space occupied by Departments can be reduced.

7.9 The Departmental Portfolio Management Board provides oversight and coordination for the successful delivery of the portfolio of Departmentally sponsored projects by monitoring progress against portfolio targets, ensuring resources are deployed effectively and to maximise the chances of success and that Departments are working together effectively to maximise savings where cross Departmental opportunities exist.

7.10. The States Treasurer sponsors the programme on a day to day basis supported by a central team and reports regularly on progress to the ELT and the Policy Council. The Policy Council has appointed the Treasury and Resources Minister as their FTP Champion who works closely with the States Treasurer and the rest of the ELT to ensure the programme remains on track.

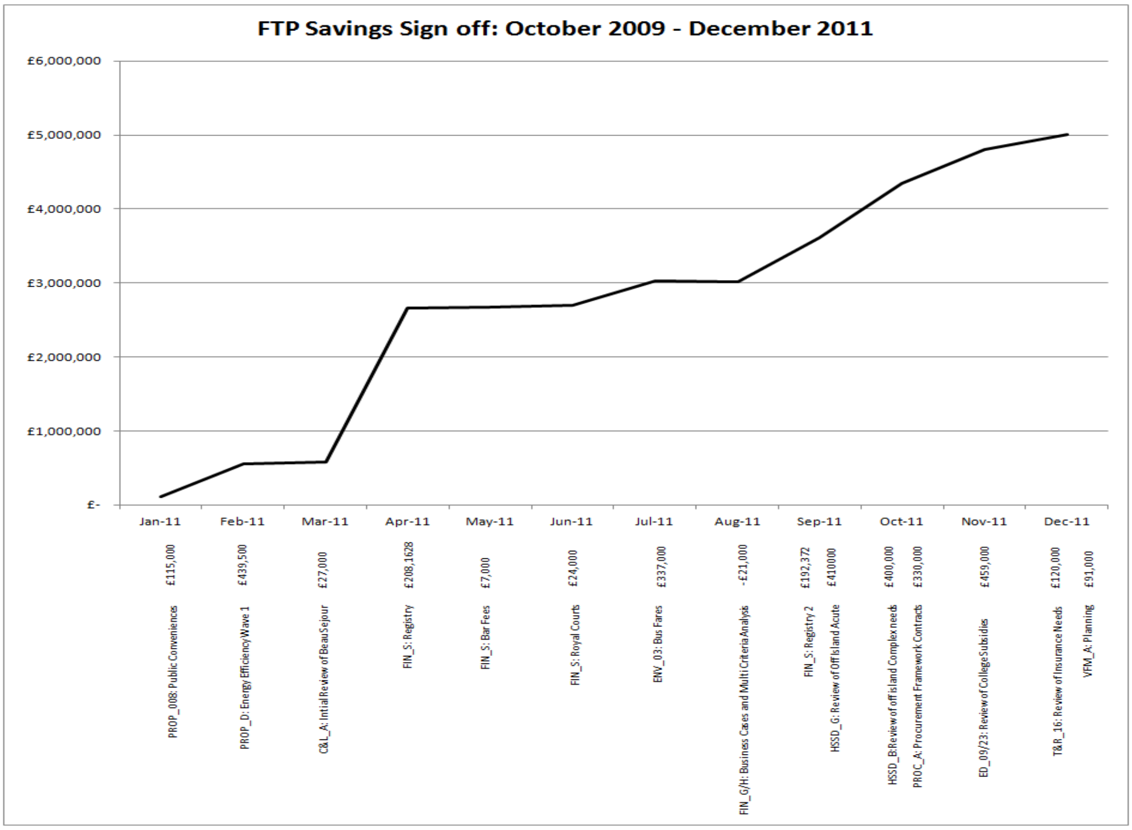
7.11. The Policy Council currently receives quarterly reports which summarise the status of the programme, delivery in the last period, the risk and issues facing the programme teams and any decisions required by the Council.

8. Performance to Date

Cashable Benefits

8.1. The FTP has continued to deliver significant savings in 2012. By the end of 2011, a total of £5m recurring savings had been secured. By the end of November 2012, this total had increased to £10.8m or over one third of the overall target which compares to £10.85m by the end of year 3 as forecast in the original Tribal FSR Phase 2 Report. However, this compares unfavourably to the forecast included in the last Annual Report of £18.5m. This is due to the issues with delivery encountered as described in paragraphs 6.4 and 6.5 and the time taken to transition to the new delivery structure.

8.2 The chart that follows maps the savings delivered by FTP projects up to the end of 2011:



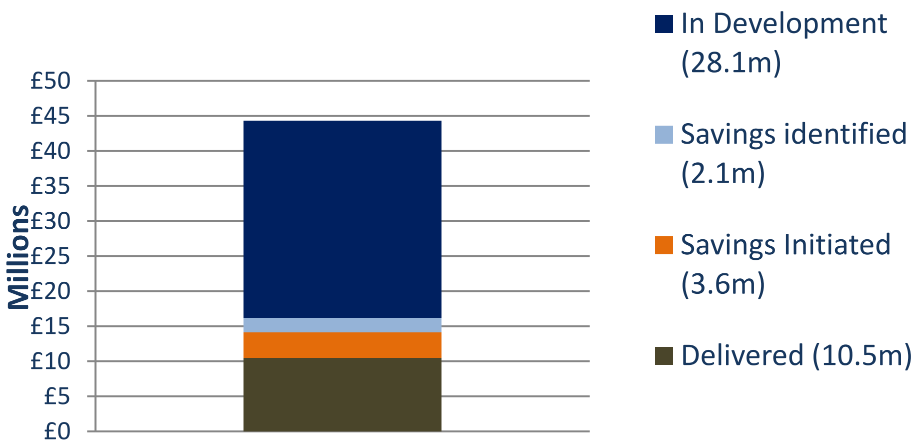
8.3. In 2012, a total of £5.8m of benefits have been signed off in the programme. These consist of some large projects for example the strategic review of air route subsidies which led to some subsidies being ceased and savings of £500k; and further benefits from the revised insurance package which totalled £165k.

8.4. Cross cutting projects have also delivered some substantial savings in the year with £290k being realised through procurement initiatives and just under £270k being generated through improved income generation and cost recovery.

8.5. The remainder of this year's savings are made up of numerous smaller initiatives identified by Departments as part of their proposals to meet the 2012 efficiency targets. These were largely budget adjustments which have resulted in inefficiencies being shaved out of budgets and has resulted in a more robust baseline budget moving forward. For example, the Housing Department identified an opportunity to reduce its legal costs budget, while the Border Agency and the Police made significant savings to their supplies and services budgets. In addition, some 20 posts have been deleted as a result of the measures taken in 2012.

8.6. By the end of 2012, it is expected that the programme will have made further recurring savings which will take the total FTP banked savings to £11.2m. In addition, the SAP/STSC project is currently on track to go live in January 2013 which, by transferring the delivery of certain transactional services from Departments to a shared services centre, 'the Hub', is likely to add a further £1.5m to this total.

8.7. Over the last five months the programme has been working to put together a portfolio of projects to deliver the remainder of the FTP target over 2013 and 2014. In outlining proposals for delivery of their targets, Departments were asked to outline projects which would enable them to exceed their target by 25% in recognition of the fact that some of the projects will not be delivered while others will deliver below expectations. The chart below reflects the proposals submitted and being developed along with those already in delivery and 'banked':



Non-Cashable Benefits

8.8. Whilst cashable savings and baseline budget reductions remain the primary objective of the FTP, the programme is also on track to deliver the softer benefits associated with the programme's other objectives, through specific projects, namely:

- Ensuring service standards are appropriate;
- Establishing a value for money baseline, and;
- Embedding a cycle of business planning and performance review.

8.9. Other softer benefits associated with the programmes delivery include:

- Numerous examples of cross departmental working which serve to break down barriers to future closer working as well as delivering programme savings;
- Chief and other senior Officers taking on corporate roles in delivering FTP programmes and projects which are much broader than their Departmental based day jobs;
- The development of the first truly States wide programme and project management framework, including the associated infrastructure and governance arrangements;
- The development of training materials and the roll out of bespoke programme and project management training for those involved or likely to be involved in the FTP;
- Myth-busting and demonstrating the art of the possible; there are several examples of successfully delivering projects most had said would never be approved and/or achieved such as the reduction in college subsidies and the Hub.

8.10. The October 2009 States Report recognised that the organisation was not capable of initiating a States Transformation Programme at that point. The work of these enabling projects and the cultural changes that the FTP is promoting means that the organisation is now far better equipped to deal with the challenges associated with a States Transformation programme.

9. The Partnership with Capita

9.3. As shown in paragraph 3.15, one of the States' resolutions in 2009 was '*to endorse the decision of the Treasury and Resources Department to retain the* *services of Tribal Consulting Ltd*[2]*, on a risk and reward basis, to assist with the delivery of the outputs from the Fundamental Spending Review*'. This was done on the recognition that although Departments were able to suggest areas where changes might be made, the States simply did not then, nor do they now, have sufficient resources, experience and importantly the right culture to implement such changes in the timescale required without external support.

9.4. Accordingly the Capita contract sought to develop a framework to facilitate the partnership delivery of the FTP over the period to the end of 2014 at the same time as transferring skills to the States.

9.5. It is recognised that many Members are unclear about the contractual arrangements that determine when and how Capita is rewarded for their efforts in assisting us in securing savings. The following summary sets out to explain the circumstances in which the FTP was introduced and to clarify contractual arrangements.

9.6. Although many States Members will be more familiar with contractual arrangements where there is a direct link between the days or hours worked on a project by the consultant and the reward they achieve – a project of this scale and of this nature called for a different approach built around a contract that focused on risk and reward. This offers better value for money and lower risk to the States.

9.7. Within this package - which needs to be regarded as a whole - there will be occasions where the contractor:

- Works with the States to successfully deliver specific projects that produce anticipated recurring savings for which they take a reward;

- Devotes their resources to substantial 'enabling projects' which assist the organisation in operating more effectively but which of themselves do not have any direct measurable financial benefit and for which the contractor receives no direct reward for their input to these projects;

- Supports staff within Departments in the delivery of the FTP through providing specific project management expertise which the States does not have in such areas as Health and Education where they bring experience of delivering similar projects at central and local government level. It is through this part of the programme that Guernsey staff have been able to develop their experience and build the skills necessary to transform the way in which the States delivers public services;

- Delivers projects for which a sound business case has been developed and agreed but where for political or other reasons a decision is made not to proceed. In these circumstances the contractor is entitled to be compensated for the number of man days devoted to the project;

[2] Tribal Consulting Limited has since been taken over by Capita Consulting Limited (Capita) and the agreed contract has accordingly been transferred into the new company's name.

- Carries the cost on projects for which a business case is agreed and significant input is made by the contractors but which, in the event, deliver below the level of anticipated savings and where, in some instances, the reward gained by the contractor is significantly less than the cost of days expended.

9.8. Capita are rewarded at a rate of 6.5% of one full year's savings for those recurring benefits identified and delivered through the FTP. This reward is only applied to savings that are actually banked eg. a project yielding the States £100,000 worth of benefit will mean that Capita receives £6,500 and the States £93,500 in the first year and then the States £100,000 per annum (and Capita no further payment) thereafter. Savings may take a period of years to reach their full value as with the College Grants project. In this case, Capita are paid still paid 6.5% of one full year's savings.

9.9. If savings made exceed £31m within the programme period, Capita is entitled to 5% of one year's full savings on any amounts in excess of £31m.

9.10. Capita also receive in accordance with the contract a total of payment of £1.8m over the five year period for establishing and running the Programme Management Office.

9.11. There was a step change in the way in which the programme operated in 2011 in that the States recognised the need to motivate Departments to increase the pace of financial transformation by approving Departmental targets. As part of this process it is recognised, and agreed, that Departments may identify recurring and repeatable savings which may not have been identified at the outset of the programme and which may not have involved significant or indeed any work on the part of the contractors but would nevertheless count towards the FTP. As such the contractor would still be entitled to 6.5% of the first year's savings.

9.12. Overall, if the FTP delivers £31m by the end of 2014, Capita will have been paid a total of £3.8m, £2.0m as a reward fee and £1.8m for supporting that delivery through the PMO. The States will benefit from £31m per annum on an ongoing basis.

10. **FTP Fund**

10.3. In recognition of the need to invest to save on a programme such as the FTP, it was decided in 2009 to establish a fund through transferring £10m from the general revenue cash pool which would be used to:

- Meet the costs of revenue and capital projects approved by the States of Deliberation and/or the Financial Transformation Executive;

- Receive all cash releasing savings generated through the FTP;

- Return the £10million 'pump priming' funding to the General Revenue cash pool over the five year programme period;

- Transfer funds to General Revenue annually following the States Strategic Plan debate to fund the prioritised service developments; and

- Close the revenue deficit.

10.4. This fund has been used to fund the revenue costs of the programme including the payments to Capita, the funding of the States own Programme team and one off project costs. In addition, funding for the SAP/STSC project has been taken from this source. In addition, the previous Assembly resolved to use the savings generated through the FTP to fund service developments. The total cost of these service developments to date has been £7.6m and many of them are ongoing costs. This compares to the total net benefit of the FTP over the first three years (having deducted delivery costs and capital expenditure) of £3.1m. Therefore, although the FTP has generated ongoing reductions in net revenue expenditure of £10.2m[3], the total cost to the States has so far been £4.4m. The Policy Council believes that FTP savings should in future be used to reduce the deficit rather than as a source of funding for new services.

10.5. The table below shows the main FTP transactions and the anticipated memorandum balance as at 31 December 2012:

	2012 Projection £'000s	**2012 YTD £'000s**	**2011 Actual £'000s**
Net Revenue Benefits - transfer from General Revenue	10,209	10,178	3,942
States Strategic Plan Projects - transfer to General Revenue	(4,678)	(4,678)	(2,890)
Programme Delivery Costs			
Administration	(380)	(312)	(270)
Programme Management Office and Executive Support	(440)	(361)	(441)
Expenses	(230)	(156)	(113)
	(1,050)	(829)	(824)
Project Delivery Costs			
Revenue Expenditure	(180)	(130)	(228)
Reward Fee	(407)	(405)	(313)
	(587)	(535)	(541)
Restructuring and Reorganisation Fund Projects	-	-	(17)

[3] This differs from the figures in paragraph 8.6 due to the timing of some savings. Projects may have been signed off with a total value which is more than that actually delivered to date.

Net revenue income/(expenditure) for the year	**3,894**	**4,136**	**(330)**
Capital expenditure for the year	**(4,635)**	**(3,560)**	**(1,400)**
Balance at 1 January	7,931	7,931	9,661
Transfer from General Revenue	-	-	-
Net revenue income/(expenditure) for the year	3,894	4,136	(330)
Capital expenditure for the year	(4,635)	(3,560)	(1,400)
Balance at 31 December	**7,190**	**8,507**	**7,931**

10.6. The Treasury and Resources Department has authorised that the costs associated with running the Programme Management Office, expenses of consultants, internal programme management and administration costs and Capita's reward fees are charged to the Fund. Further, they have delegated authority to the ELT or the Policy Council to approve revenue costs and capital expenditure of up to £100,000 per project associated with the delivery stage of projects.

11. Next Steps

11.3. The FTP target for 2013 is £10.6m with a further £10.8m required in 2014. Even once the portfolio is agreed and baselined, this represents a significant challenge with over £20m required over a two year period compared to the £11.2m delivered in the first three years. However, delivery is vital if we are to achieve the overall £31m target and deliver on the four programme objectives laid out in paragraphs 2.7 – 2.9.

11.4. Some Members have called for the FTP to be extended beyond the original five year timeframe. The Policy Council does not support any changes to the programme period for several reasons:

i. The Fiscal Framework calls for measures to reduce deficits to be agreed within three years of identification and for deficits to be removed within five years. Although measures to eliminate the deficit have been agreed (economic growth, expenditure restraint and increases in indirect taxation), recent economic conditions have slowed progress such that the deficit will persist into year seven. Expenditure restraint is entirely within the control of the States and early delivery of the FTP could contribute heavily to eliminating the deficit during 2014.

ii. The Policy Council remains convinced that a target of a reduction in baseline expenditure of some 9% over five years is reasonable;

iii. Momentum in the programme is likely to be lost if the period is extended;

iv. There may be some projects identified within the portfolio that are not able to deliver their savings until beyond 2014 and there is no reason why these projects should not be commenced. However, the Policy Council remains convinced that there are sufficient other projects within the overall portfolio that can deliver within the agreed timeframes; and

v. It is inevitable that there will continue to be requirements for savings beyond the end of 2014 in order to guarantee the sustainability of services and give scope for any new services to be introduced. Extending the programme beyond 2014 would require additional targets to be added to the current £31m.

11.5. The Policy Council has agreed to adjust the timing of the benefits required and therefore the targets for the Health and Social Services and Education Departments in 2013 and 2014. This was to ensure that appropriate and realistic targets which were capable of delivery were agreed which recognised the longer term transformation programmes being developed by both Departments and the need for those to be completely integrated with plans for delivery of FTP benefits. The Policy Council notes Professor Woods' concerns in his annual Fiscal Policy Review report that this represents slippage in the programme and imperils delivery. However, the Council believes that this actually increases the chances of success by embedding the short term requirements to save money firmly within the sustainable long term plans of the Departments.

11.6. The portfolio of projects that makes up the FTP has been re-shaped at the request of Departments and in order to maximise the value that they add to the programme. Whilst the re-shaped portfolio can still be mapped to the principles contained within the original 107 projects, it now represents the ''voice of the organisation'' and removes the feeling of ''being done to'' that was associated with the original 107 projects.

11.7. The outline projects submitted by departments in October 2012 are now undergoing a rigorous five-step process to **understand**, **categorise** and **prioritise** all of the projects to ensure that they are **compatible** with the objectives of the programme and **deliverable**. This then enables a balanced portfolio in terms of benefit types (income generation or efficiency), time, coverage of strategic objectives, impact across the business, risk v return and available resources to be finalised which will then be agreed by the Policy Council in January and provide a confirmed baseline from which to move forward.

11.8. It is important to note that mechanisms will then be introduced to manage the portfolio, facilitate monitoring of progress and ensure that those projects identified are taken to their natural conclusion.

11.9. The Policy Council will be receiving, on a quarterly basis, a list of all projects commencing that a combination of the Departments and the ELT recommend should be included within the FTP regardless of whether they were in any original list of 107 projects. The Policy Council will sign these projects off on behalf of the States. The quarterly report also gives the Council an update on the status of the programme and escalates any risks and issues that require their attention.

11.10. There are likely to remain some projects which cannot be approved within a Department, by the ELT or indeed the Policy Council. Examples to date have included the reduction in grants and subsidies to the Colleges, SAP/STSC and the WAN project. The Policy Council and/or individual Departments will continue to refer any such projects to the States for a decision.

Beyond the FTP

11.11. Huge progress has been made within the public sector since the launch of the FTP in 2009. A total of £10m of recurring savings have been delivered but, equally importantly, cultural changes have occurred which put the organisation in a much better position now to deliver the remaining savings over the next two years.

11.12. The three recommendations made by Tribal in their 2009 report were to:

- Establish a States Transformation Programme;
- Articulate and communicate a vision for the States; and
- Embed a sustainable way of working

11.13. Progress has been made in delivering against all three of these recommendations, both through and outside the FTP, but there remains a way to go and they are still as vital now as they were in 2009.

11.14. Transformation will not and must not end with the completion of the FTP nor will the requirement to continuously strive for value for money and further efficiency in public services. The economy has changed in recent years and the forecast for the short to medium term now recognises an environment of much lower growth. This will see continued need for restraint and pressure on the public purse. Further, current services will remain under scrutiny and pressure to be delivered more cost effectively in order to fund new policy initiatives.

11.15. The period from 2015 will present an opportunity to build on some of the FTP enabling projects, such as the value for money framework and the business and financial planning approach (including zero based budgeting), which should yield further savings in the future.

11.16. In order to successfully manage the continuing transformation requirements in the public sector it will be vital to learn from the experience of delivering the FTP

12. **Conclusions**

12.3. The FTP remains as vital today as it was when originally initiated as the deficit in General Revenue persists and the public sector remains unable to uniformly and consistently **prove** value for money in the delivery of services.

12.4. The structure for delivery of the objectives has evolved over the last three years in order to create the best possible environment for success but remains fundamentally consistent with the original report.

12.5. A total of £10.5m of recurring revenue savings have been delivered to date (which is in line with the original forecasts in the Tribal FSR Report) and outline plans have been submitted for delivery of the remainder.

13. **Recommendations**

13.3. The Policy Council recommends the States to:

i. Note the progress made towards delivering the Financial Transformation Programme targets and objectives.

ii. Endorse the Policy Council's approach to the delivery of the remaining programme benefits by the end of 2014.

iii. Commit to the Financial Transformation Programme principles as laid out in paragraph 3.14 and 3.17 of this report.

iv. Endorse the revised governance structure and note that further adjustments may be required to ensure successful delivery.

v. Recognise the need to continue the public sector's transformational journey beyond 2014.

Yours faithfully

Peter A. Harwood
Chief Minister

26th November 2012

J P Le Tocq, Deputy Chief Minister

Deputy G A St Pier	Deputy A H Langlois	Deputy R W Sillars
Deputy R Domaille	Deputy K A Stewart	Deputy P A Luxon
Deputy D B Jones	Deputy A H Adam	Deputy M G O'Hara

FTP savings to date by Origional Summary Opportunity Report **Appendix A**

No.	FTP SOR Ref.	Project	Sign off Month	Value	Cumulative Value
1	Prop_008	Public Conveniences	Jan-11	**£ 115,000**	£ 115,000
2	Prop_D	Energy Efficiency Wave 1	Feb-11	**£ 439,500**	£ 554,500
3	C&L_A	Review of Beau Sejour	Mar-11	**£ 27,000**	£ 581,500
4	Fin_S	Registry	Apr-11	**£ 2,081,628**	£ 2,663,128
5	Fin_S	Bar Fees	May-11	**£ 7,000**	£ 2,670,128
6	Fin_S	Royal Courts	Jun-11	**£ 24,000**	£ 2,694,128
7	Env_003	Bus Fares	Jul-11	**£ 337,000**	£ 3,031,128
8	Fin G	Business Cases and MCA	Aug-11	**-£ 21,000**	£ 3,010,128
9	Fin_S	Registry 2	Sep-11	**£ 192,372**	£ 3,202,500
10	HSSD_G	Review of Off Island Acute	Sep-11	**£ 410,000**	£ 3,612,500
11	HSSD_B	Review of Off Island Complex Needs	Oct-11	**£ 400,000**	£ 4,012,500
12	Proc_A	Procurement Framework Contracts	Oct-11	**£ 330,000**	£ 4,342,500
13	Ed_09/23	Review of College Subsidies	Nov-11	**£ 1,112,000**	£ 5,454,500
14	T&R_016	Review of Insurance Needs	Dec-11	**£ 120,000**	£ 5,574,500
15	VFM_A	Planning	Dec-11	**£ 91,000**	£ 5,665,500
16	C&E_D	Review of Air Subsidy	Feb-12	**£ 500,000**	£ 6,165,500
17	T&R_016	Review of Insurance Needs 2	Mar-12	**£ 165,000**	£ 6,330,500
18	**Departmental Savings**		**Apr-12**	**£2,905,890**	£ 9,236,390
	VFM_A			**£1,869,890**	
		C & E		£152,500	
		C & L		£11,400	
		Education		£235,000	
		Environment		£8,700	
		Home		£620,000	
		Housing		£38,000	
		HSSD		£627,290	
		PC		£35,000	
		PSD		£132,000	
		Law Officers		£10,000	
	Fin_S			**£267,000**	
		C & L		£11,000	
		Env		£20,000	
		HSSD		£200,000	
		T & R		£6,000	
		Law Officer		£30,000	
	C&L_A	**C & L**		**£30,000**	
	ITU_023	**C & L**		**£4,000**	
	Proc_A			**£290,000**	
		HSSD		£40,000	
		PSD		£145,000	
		T & R		£65,000	
	Prop_D	**HSSD**		**£55,000**	
	HSSD_G	**HSSD**		**£90,000**	
	Ed_08	**Ed**		**£300,000**	
19	**Departmental Savings 2**		**May-12**	**£118,000**	£ 9,354,390
	VFM_A			£118,000	
		Environment		£66,000	
		Housing		£22,000	
		PSD		£30,000	
20	**Departmental Savings**		**Jun-12**	**£683,000**	£ 10,037,390
	VFM_A	**Education**		£600,000	
		Environment		£33,000	

FTP savings to date by Origional Summary Opportunity Report **Appendix A**

No.	FTP SOR Ref.	Project	Sign off Month	Value	Cumulative Value
	Fin_S	**HSSD**		£50,000	
21	Env_003	Bus Contract	Jun-12	**£273,000**	£ 10,310,390
22	VFM_A	Policy Council	Aug-12	**£30,000**	£ 10,340,390
23	**HSSD Savings**	**HSSD**	**Aug-12**	**£322,916**	£ 10,663,306
	Proc_A			£115,000	
	VFM_A			£207,916	
24	Fin S	Environment	Oct-12	**£118,500**	£ 10,781,806
25	Proc_A	Education	Oct-12	**£8,400**	£ 10,790,206
26	ITU_016			**£54,000**	£ 10,844,206
		C & E	Oct-12	£3,300	
		C & L		£400	
		Education		£1,200	
		HSSD		£4,900	
		T & R		£34,700	
		Law Officers and Royal courts		£9,500	

FTP total (30th Oct 2012) £ 10,844,206

Vacant post or Decrease a budget= VFM_A
Increase charge= Fin_S

(N.B The Treasury and Resources Department has commented as follows:

The achievement of at least £31m annually recurring revenue benefits by the end of 2014 is a vital contributor in returning the States to a sustainable balanced budget which was noted by Professor Geoffrey Wood in his recent Annual Independent Fiscal Policy Review. The States have previously resolved that a combination of economic growth, increases in current indirect taxes and expenditure restraint should be used to eliminate the current deficit.

If the Financial Transformation Programme benefits are not delivered then the States will need to identify other measures to achieve the same effect. As stated in the Report, any alternative measures are unlikely to be any more palatable than the current plans. With continued below trend economic growth impacting on tax receipts and risks being on the downside, increases in taxation are the only realistic alternative.

The Contingency Reserve – Tax Strategy is forecast to have a balance of £66m remaining by the end of 2013 following the withdrawal of almost £86m since 2009 to support the deficit. The Treasury and Resources Department wishes to see the structural deficit eliminated and end reliance on the depleting Reserve and as such strongly supports the Policy Council in its efforts to ensure the successful delivery of the Financial Transformation Programme.

To date, a total of £9m has been spent on funding service developments through the States Strategic Plan and Departmental budgets increased by an ongoing value of £5m. This has directly increased the drawdown from the Contingency Reserve and the Treasury and Resources Department agrees with the Policy Council that all future FTP savings should be used to reduce the net expenditure of the States and help deliver a balanced budget.

The States are asked to decide:-

VIII.- Whether, after consideration of the Report dated 26th November, 2012, of the Policy Council, they are of the opinion:-

1. To note the progress made towards delivering the Financial Transformation Programme targets and objectives.

2. To endorse the Policy Council's approach to the delivery of the remaining programme benefits by the end of 2014.

2. To commit to the Financial Transformation Programme principles as laid out in paragraph 3.14 and 3.17 of this report.

3. To endorse the revised governance structure and note that further adjustments may be required to ensure successful delivery.

4. To recognise the need to continue the public sector's transformational journey beyond 2014.

POLICY COUNCIL

2020 VISION: PROGRESS REPORT AND NEXT STEPS

EXECUTIVE SUMMARY

1. In light of the recent discussions within Policy Council and with States Members, the Policy Council is keen to offer its support to the attached "2020 Vision: Progress Report and Next Steps".

2. Although in itself the report does not contain any States propositions, it clearly reinforces the need for change and for a more co-ordinated approach to strategic planning. A number of more detail documents will be presented by the Health and Social Services Department (HSSD) to the States in due course which will support the delivery of the 2020 Vision and have specific propositions for the States to debate.

3. The Policy Council is keen to endorse this approach and, although this document has been primarily led by HSSD, wishes to emphasise that this is not just a matter for HSSD. This is a matter for all States Departments to engage with and indeed for the wider community as a whole. The propositions contained within this report are for the States to reaffirm its commitment to this vision.

INTRODUCTION

4. In May 2011 (Billet d'État VIII), the States unanimously approved the HSSD's States Report entitled "Future 2020 Vision of the Health and Social Services System". The purpose of the report was to set out a framework for the future development of the health and social care system in Guernsey and Alderney. The third sentence of that report stated "*It will require all States Departments to work together*".

5. The report was put forward by HSSD, but it was clear from the States resolution associated with the report that the States agreed to "*direct all States Departments to contribute, where relevant, to each area of the plan.....*". The Policy Council holds the view that this represents a major contribution to future social policy.

THE 2020 VISION FRAMEWORK

6. The framework sets out the vision for the future of the health and social care system and was designed to meet the social policy objectives of the States Strategic Plan. The 2020 vision framework sets out HSSD's responsibility, on behalf of the States, for **enabling** people to live healthy, independent lives, by::

    1. **Promoting** good health and wellbeing across the community.
    2. **Improving** outcomes for people who use health and social care services.
    3. **Protecting** people through high-quality, well-regulated services.

7. The framework went to great lengths to stress that worldwide evidence has established that many of the reasons people require long term health interventions or social care support were not just genetic, but as a direct consequence of factors such as:

   - Poor housing;
   - Poor educational attainment;
   - Poor employment opportunities;
   - Disjointed welfare systems.

8. The framework also pointed out that these factors did not just impact on the health and social care system, but were also factors that have a significant impact on the criminal justice system, the requirement for social housing and the demands on the welfare system. These factors will also impact heavily on the ability for people to be and remain economically active, and therefore they also have a direct impact on balancing the fiscal position. In other words those factors are as equally important when consider the raising of finance by the States (as that is by and large from economically active individuals or the businesses within which they work) as it is when considering the expenditure of the States, part of which is to meet the needs of those who are not or cannot be economically active (in either the short, medium or long term).

THE POLICY COUNCIL'S PERSPECTIVE

9. The Policy Council has recently reviewed the progress of this report through a document produced by HSSD entitled "2020 Vision: Progress Report and Next Steps" which is attached for members' information. There are many other such workstreams in the process of development at the present time. The Education Department is developing its future vision. The Home Department has made significant progress on the Criminal Justice Strategy. The Social Security Department is reviewing many aspects of the welfare system. However, in order to ensure that these strategies and policies are complementary, co-ordinated and that the interdependencies between them are properly recognised and understood, the Policy Council needs to assure the States of Deliberation that this is indeed happening.

10. There is no doubt that the States is going through a significant period of transition and that there are major challenges ahead of us. These challenges will not and cannot be met unless we face them together and understand the implications of one part of States activity on another, or on the wider community.

11. The development of the 2020 Vision has, in the eyes of the Policy Council, seen a new approach to developing coherent strategy which recognises its interdependencies.

12. The Policy Council is clear and content that the 2020 Vision is aligned with the current direction of the States Strategic Plan and is complementary to it. The Policy Council urges all members to revisit the original "Future 2020 Vision of the Health and Social Services System" contained in Billet d'État VIII, May 2011.

RECOMMENDATIONS

13. This brief report from the Policy Council is being submitted to the States to emphasise the commitment required from States Departments to the 2020 Vision and the workstreams that are being designed to support its delivery. The Policy Council also recommends the States of Deliberation to agree:

    1. that, in developing and implementing all strategic proposals, due account is taken of the impact on, and interdependencies with other States Departments and the wider community;

    2. to reconfirm the original resolutions of the States of Deliberation with regard to the "Future 2020 Vision of the health and social services system", which were:

        i) To direct the HSSD to pursue the plans outlined in that Report to ensure the future health and social care needs of the population of Guernsey and Alderney are met with a financially sustainable model.

        ii) To direct all States Departments to contribute, where relevant, to each area of the plan which makes up this framework and for the Health and Social Services Department to establish a suitable governance framework with which States Departments can engage.

        iii) To direct the Health and Social Services Department to consult the public, professionals and other interested parties on the main objectives and the key elements of the framework (noting that each element will also have its own engagement and consultation plan, due to the size and complexity of the whole system).

Yours faithfully

Peter A. Harwood
Chief Minister

26th November 2012

J P Le Tocq, Deputy Chief Minister

Deputy G A St Pier	Deputy A H Langlois	Deputy R W Sillars
Deputy R Domaille	Deputy K A Stewart	Deputy P A Luxon
Deputy D B Jones	Deputy A H Adam	Deputy M G O'Hara

Appendix

HEALTH AND SOCIAL SERVICES DEPARTMENT
2020 VISION: PROGRESS REPORT AND NEXT STEPS

EXECUTIVE SUMMARY

1. By 2020, the groundwork will be laid to enable all islanders to **lead healthy, independent lives.**

2. This is the vision of the States. It is one of the objectives of the States' Strategic Plan, and it was unanimously confirmed, in May 2011, when the States debated the "2020 Vision" of the Health and Social Services Department (HSSD)[1].

3. At that time, all Departments committed to working together with HSSD to create an inclusive and healthy community which supports islanders' physical, social and emotional wellbeing.

4. This report is an update on the progress that HSSD and its partners have made since 2011, and outlines the next steps that need to be taken in order to develop an effective and fair health and social care system for the Bailiwick.

5. It explains the major economic, demographic and structural challenges which Guernsey faces over the next decades – including rising medical and technological costs; an ageing population; and the effects of clinical specialisation on the island's ability to provide services; as well as the disjointed nature of the existing health and social care system.

6. This report provides the context for a series of major changes which HSSD will seek to make from 2013 onwards, concerning the structure of healthcare services and of social care services, health improvement and protection programmes, regulation of care providers and professionals, and the way that major decisions about developments and disinvestments are prioritised.

7. The States will be asked to debate proposals relating to each of these areas over the coming months, and the decisions which it makes will have major consequences for the health and wellbeing of islanders, and the effectiveness and

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[1] See p463 in Billet d'État VIII (Volume 1), May 2011 (available online at http://www.gov.gg/CHttpHandler.ashx?id=3939&p=0)

sustainability of the Bailiwick's health and social care system, for decades to come.

INTRODUCTION

8. HSSD's role is to **enable** people to live healthy, independent lives. In debating the first 2020 Vision, the States agreed that there should be three core elements to HSSD's work:

- **Promoting** good health and wellbeing across the community.
- **Improving** outcomes for people who use health and social care services.
- **Protecting** people through high-quality, well-regulated services.

9. HSSD has begun to work towards achieving the vision, within the wider framework of the States' Strategic Plan and priorities. In the coming years, however, the Department faces major challenges – financial, clinical and structural – and rare, short windows of opportunity to make fundamental changes to health and social care in the Bailiwick of Guernsey.

10. Islanders are living longer than ever, but may still spend a number of years in poor health, with conditions such as dementia, cancer, poor mental wellbeing, heart disease or physical frailty. Under existing States' policy[2], the working age population is due to get much smaller, meaning that tax-funded services will have less income to draw on, and it will become harder to recruit health and social care staff at all levels.

11. Most doctors and nurses, and many other health professionals, are now trained in narrower, more specialised fields, which will make it harder for Guernsey to provide the wide range of health services on island. The health and social care system has no overall regulation, and its patchwork funding structure means that helpful and healthy behaviours are not rewarded, and sometimes the reverse may even happen.

12. If islanders are to receive good quality and sustainable health and social care over the next three decades and beyond, the States needs to face these challenges now. However, doing so will require a lot of determined forward-planning by HSSD and by its partners, and a willingness to confront difficult issues face-on and seek to understand them in depth.

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[2] Following a debate on Guernsey's Strategic Population and Migration Policy (Billet d'État IV, February 2007 – available online at http://www.gov.gg/CHttpHandler.ashx?id=3825&p=0) it was resolved to maintain Guernsey's population at its 2007 level of just under 62,000. This is referred to herein as the "constant population model", and all figures in this report are based on it.

13. In order to be successful, HSSD needs to engage with all parts of the health and social care system – that is, every organisation which funds or provides social or health care in the Bailiwick; including voluntary, public and private sector organisations.

14. This includes partners such as the Medical Specialist Group (MSG), the Guernsey Physiotherapy Group (GPG); off-island providers of acute and long-term care; Primary Care GPs and other private providers of health or social care – from dentists to physiotherapists to psychologists. It also includes HSSD's own services and staff, as well as other States Departments – especially Social Security, which funds large parts of the health and social care system, such as primary care prescribing, the health benefit grant, off-island travel and the contracts with the Medical Specialist Group and Guernsey Physiotherapy Group.

15. This report is an update on the work that has been done since the first States Report on the 2020 Vision in May 2011, and the next steps that need to be taken, in order to meet the challenges of the next few decades and to achieve a better quality of life for all islanders.

Definitions

16. The following terms are key concepts in health and social care, which will be used frequently in this report.

Wellbeing[3]

17. Wellbeing is about how people feel (emotions such as anxiety or happiness) and how they function (their sense of connection or competence, for example).

18. Wellbeing is more than just day-to-day happiness. It also includes things such as how satisfied people are with their lives as a whole, how people compare themselves to others, and whether people have a sense of control or of purpose in life. People with higher wellbeing – positive emotions and good day-to-day functioning – can be said to be flourishing.

Health

19. The World Health Organisation[4] defines health as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity."

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[3] Paraphrase of the definition given on p6 of "Measuring Well-being: A guide for practitioners" by the New Economic Foundation (nef). This guide is a helpful introduction to the concept of wellbeing, and can be found online at: http://www.neweconomics.org/sites/neweconomics.org/files/Measuring_well-being_handbook_FINAL.pdf

[4] Preamble to the Constitution of the World Health Organization as adopted by the International Health Conference, New York, 19-22 June, 1946

20. That is, being healthy is not just about being ‘not ill’ or ‘not in pain’. It is about being positively well, both physically and mentally; and having personal resources (such as physical fitness, immunity, or emotional resilience) to deal with potential causes of ill-health.

Public health

21. Public health is about preventing disease, prolonging life and promoting health, through the actions and informed choices of whole communities, public, private and voluntary organisations, and individuals.

22. Public health involves “enabling people to increase control over, and to improve, their health. It moves beyond a focus on individual behaviour towards a wide range of social and environmental interventions”[5] which are based on research, assessment, and prioritisation. Effective public health is the business of all government and community organisations, rather than just being one of the functions of a health system.

Environmental health

23. The World Health Organisation[6] defines environmental health as “address[ing] all the physical, chemical, and biological factors external to a person, and all the related factors impacting behaviours. It encompasses the assessment and control of those environmental factors that can potentially affect health. It is targeted towards preventing disease and creating health-supportive environments.”

Primary care

24. Primary care is the first point of contact between individuals and the health system. It brings health services as close as possible to where people live and work, and is, in many cases, the first element of a continuing healthcare process[7].

25. Primary care services – generally speaking, services to which people can refer themselves – include GPs, dentists, opticians, pharmacies, some physiotherapists, and some forms of mental health counselling, as well as Accident & Emergency.

26. Primary care also includes outreach services, such as health visitors, which go out to people rather than waiting for people to come to them.

Secondary care

27. Secondary care tends to mean healthcare provided by medical specialists and other professionals who do not have first contact with patients. In Guernsey, this

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[5] From the World Health Organisation definition of health promotion: http://www.who.int/topics/health_promotion/en/
[6] See http://www.who.int/topics/environmental_health/en/
[7] World Health Organisation, Alma Ata Declaration on Primary Health Care, September 1978, http://www.paho.org/English/DD/PIN/alma-ata_declaration.htm

includes specialist consultants, hospital-based services – from intensive care, to surgery, to pre-discharge rehabilitation services – most mental health services, and most therapists (physio, occupational, speech and language). It also includes most off-island acute services.

Social care

28. Social care includes protection, care, support, welfare and advocacy services, intended to promote and secure the wellbeing of children, adults, families and communities. It involves person-centred care planning, based on established best practice and individual assessments of need.

29. Social care is about helping people live their lives comfortably, particularly people who require a certain degree of extra practical and physical help. This practical support is provided to help individuals maintain their independence, fulfil their potential, and lead fuller and more enjoyable lives.[8]

Wider determinants of health and wellbeing

30. The wider determinants of health and wellbeing are the elements of a person's world that make it possible (or difficult) for them to have good health and wellbeing: such as their support network; their education; their access to housing and financial security; the kind of environment they live and work in; or their community or peer group's attitude to health.

31. **Health inequalities** refer to differences in overall health status, or in the distribution of these determinants of health, between different population groups.

32. The following diagram[9] illustrates how many aspects of a person's life, which at first do not appear to relate directly to their health or wellbeing, can actually have a major impact:

[8] Paraphrase of the definition of Social Care given by the National Institute for Social Work: see http://nisw.org.uk/socialcare/

[9] The Health and Wellbeing Map (after Barton and Grant, 2006)

33. The better the context in which islanders are living, the more effective will be any attempts to improve their health and wellbeing. This means that, although most of these wider determinants are outside HSSD's remit, there is a real incentive for HSSD and other Departments and organisations to work jointly on issues that affect the whole community, in order to improve islanders' health, wellbeing and quality of life.

34. Those in our community who cannot or do not get the benefit of the wider determinants of health and well-being tend to need or access a disproportionately higher level of public services (health, social care, the criminal justice system, social housing and the welfare system) than those who do benefit from those wider determinants.

WHY CHANGE?

35. The States of Guernsey is committed to a vision of healthy, independent lives for all islanders. On one level, change is needed because we believe that not all islanders are as healthy as they could be[10], many have less choice and control over

[10] Research commissioned by HSSD from Peter West, Associate Economist at the King's Fund ("Modelling the Impact of Prevention on Health Spending in Guernsey"), indicated that a full take-up of preventive healthcare measures could reduce the costs of providing healthcare by at least 3% per annum.

their own lives than they would wish[11], and evidence has suggested that outcomes for islanders who use health and social care services could be improved in many areas[12].

36. But why set the target for 2020? And why not simply initiate a programme of continuous improvement, rather than explore the more radical options discussed in this report?

Financial pressures

37. It is especially important to have a sustainable health and social care system in place by 2020, because the twenty years that follow are expected to place a level of demand on services which is higher than has ever been seen before. Without careful planning in advance, services will be unable to cope with this demand, and many people will suffer unnecessarily as a result.

38. The island's older population is growing steadily. In 2040, as many as 1 in 3 islanders (31%) will be over pensionable age[13], despite that age increasing from 65 to 67 by 2032. The oldest section of the population, aged 85 and above, could grow from around 2,225 in 2020 to a peak of as many as 6,828 in 2060 – more than 11% of the island's population[14].

39. Because the incidence of ill-health and disability is, in most cases, closely linked with age, an ageing population will result in a rise in health and social care needs. Recent local research has shown that 1 in 3 people over retirement age have a health condition which affects their day-to-day life[15].

40. At the same time, Guernsey has set a limit on the size of its population. The only way to enforce this is to prevent migration into the island. Since migrants are

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This implies that, at the moment, people are becoming ill in situations which could be avoided by more widespread and effective preventive healthcare.

[11] In a survey of older islanders conducted in 2010, respondents' top priorities were to remain in their own home and to retain control over their own lives. This research will be summarised in the forthcoming Supported Living and Ageing Well Strategy (expected April 2013).

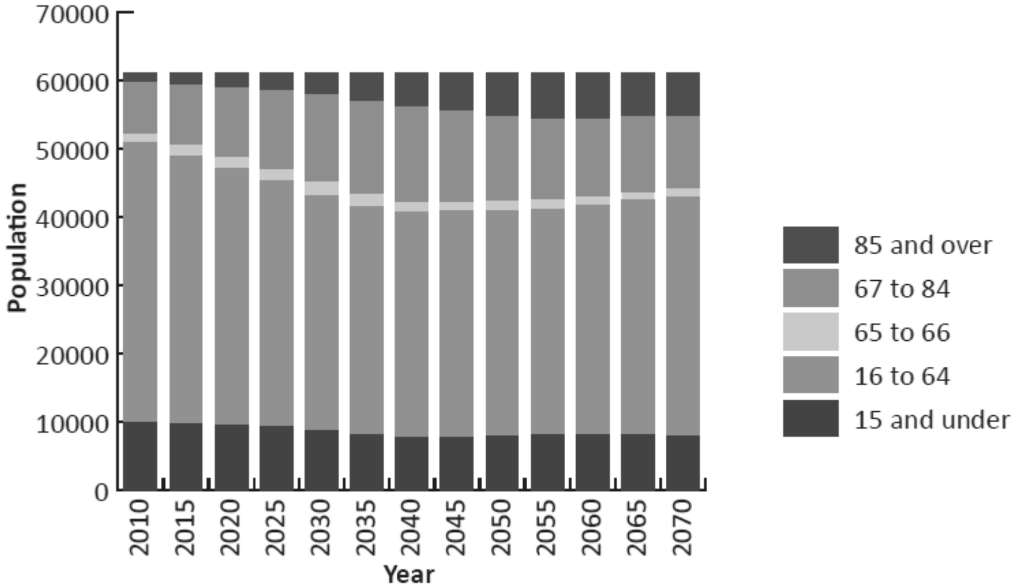
[12] See, for example, Sector's 2011 report on "Value for Money Review of Secondary Healthcare in Guernsey" (available online at http://www.gov.gg/CHttpHandler.ashx?id=5149&p=0), which made 19 recommendations for improving the structure, delivery and overall value-for-money of secondary healthcare.

[13] See Fig 3.2.2 in the States Economist's 2012 report on "Potential long term implications of demographic and population change on the demand for and costs of public services" (available online at http://www.gov.gg/CHttpHandler.ashx?id=28444&p=0). This percentage is based on the constant population model.

[14] See "Guernsey Annual Population Bulletin: 31 March 2011", page 8 (available online at http://www.gov.gg/CHttpHandler.ashx?id=66455&p=0). These figures are based on the constant population model.

[15] 2012 Health, Wellbeing and Social Inclusion Survey (Stage 1 of the research programme for the Disability and Inclusion Strategy and related work). Unpublished at the time of writing.

generally working age people, this means that, as the number of older people increases, there will be fewer and fewer working age people to support them. This is illustrated by the following diagram[16].



41. This means that the "dependency ratio" will almost double. That is, currently, there are 100 working age people, paying tax and social insurance contributions, for every 48 people who are under 18 or over retirement age. By 2040, despite the increase in retirement age from 65 to 67, there will be 78 people under 18 or over retirement age, for every 100 people of working age, and the vast majority of this change will be due to the older population.[17]

42. Thus the demand for health and social care services will increase, while the funding base will shrink. To compound this, new medical treatments and technologies are expected to continue to increase in price at double the rate of inflation[18] (although the value for money of new investments in health services is expected to diminish[19]), which will increase the cost of providing services in the first place.

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[16] See "Guernsey Annual Population Bulletin: 31 March 2011", page 8, Figure 7.2.1 (available online at http://www.gov.gg/CHttpHandler.ashx?id=66455&p=0). These figures are based on the constant population model.
[17] See Section 3.5, p11, in the States Economist's 2012 report on "Potential long term implications of demographic and population change on the demand for and costs of public services" (available online at http://www.gov.gg/CHttpHandler.ashx?id=28444&p=0). These ratios are based on the constant population model.
[18] See Pearson, M (2012) "Financial sustainability and affordability of health care systems: Lessons from OECD Countries" (available online at http://www.issa.int/Resources/Conference-Reports/Financial-sustainability-and-affordability-of-health-care-systems), p5 and p7
[19] The value for money of healthcare investments is measured in something called Quality-Adjusted Life Years (QALYs). 1 QALY = one additional year of life, at an acceptable level of health and wellbeing,

43. Similarly, there tends to be a bias towards high-cost, low-value treatments towards the end of life, rather than more effective treatments earlier on. For example, in the UK, it is not uncommon for the NHS to spend £40,000 adding 3 months to the life of a terminally ill person – equal to the total cost of an individual's NHS-provided care over a lifetime, for the majority of people.[20]

44. Research commissioned by HSSD in 2011[21] identified a possible 4% saving in health care costs (with further possible savings to primary care and prescribing costs) by increasing preventive health care measures. Despite this, the overall cost to the States of providing health and social care services to an ageing and more dependent population is still projected to increase from £157m in 2010 to £376m in 2040[22], if the current funding arrangements and range of services provided remain as they are in 2012.

45. As part of the balance between fiscal, economic and social policy, the States will, in due course, need to consider the question of how much revenue it is prepared to raise, and of what services it considers itself obliged to provide to the island. This will lead to decisions about how best to deploy public money in providing public services, which may in turn alter the current funding arrangements for health and social care services, and the role of individuals in funding their own care. This is as much a fiscal and economic issue as it is a matter of social policy, and it is something which the States will have to address in every area of its future strategic planning. For the time being, however, this leaves the question of the full, long-term, public costs of health and social care only partially answered.

46. Until a fuller answer to this question is available, the focus of the 2020 Vision work will be on the structural organisational and funding issues apparent in the system and the infrastructure that supports the system. This work is fundamental to ensure the future demand is managed as far as possible and the future need to deliver services is met irrespective of how those services are paid for.

Workforce pressures

47. In the UK, clinical practice and medical education has been moving towards increased sub-specialisation. This means that newly-qualified consultants tend to have a narrower area of practice and clinical experience. There is also a trend

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being added to a person's prognosis. Although new technologies and treatments continue to add QALYs to people's lives, the amount of health gained per unit of cost is decreasing (see Pearson, above).

[20] Personal communication – Dr Daphne Austin, Public Health physician (October 2012)

[21] West, P (2012) "Modelling the Impact of Prevention on Health Spending in Guernsey."

[22] See Chapter 6, pp 19-26, in the States Economist's 2012 report on "Potential long term implications of demographic and population change on the demand for and costs of public services" (available online at http://www.gov.gg/CHttpHandler.ashx?id=28444&p=0). These figures include the Guernsey Health Service Fund and the Long Term Care Insurance Fund, and are based on the constant population model.

towards centralising particular services in specialised hospitals which serve larger populations.

48. These changes will make it hard for Guernsey to continue to recruit the number of high-quality consultants with fairly generalist skills which it currently does. If Guernsey's service model does not change, then, in ten or twenty years' time, the island should be prepared to draw on a higher number of consultants to deal with the same spectrum of conditions and diagnoses as at present.

49. The prospect of increasing clinical specialisation means that HSSD and its partners will have to look at new models for recruiting and employing consultants and doctors generally, broadening the skills of other clinical professions, new ways of getting expertise on island, and possibly alternative ways of delivering health and social care services in various settings.

50. In addition, any restriction on Guernsey's population size is likely to affect the entire health and social care workforce. One third of HSSD employees are recruited from off-island, although this proportion increases for nurses – over half (54%) of registered nurses are non-local. Every single one of HSSD's employed consultants is from off-island. In a small sample of care homes, one reported a workforce that is 60% non-local, and two more depend on recruiting around a third of their staff from overseas.

51. As well as having a direct impact on recruitment, population restrictions will limit the overall amount of so-called unskilled labour available to employ[23]. This means that there will be greater competition for these workers between sectors such as retail, hospitality, and care, which is likely to drive the price of labour up. This workforce, which keeps health and social care services running smoothly – including cleaners, domestic staff, incinerator workers, drivers and messengers – may become costlier or more difficult to employ over the next twenty years.

52. These challenges – particularly the impact of sub-specialisation on the viability of the health and social care system – are likely to be faced by many small, isolated places across the world in the coming decades. Guernsey may have something to gain by forming connections with other small jurisdictions in order to share ideas and good practice for the future of health and social care.

Structural issues

53. In economic terms, the problem is one of increasing need (an ageing and more dependent population) and shrinking supply (a more expensive workforce and

[23] The States' Economist is currently doing some work to establish exactly what impact this will have.

costlier new treatments and technologies) over the majority of this century[24]. However, there is another side to the current situation which explains why continuous improvement alone would not be enough to achieve the 2020 Vision.

54. Although this report has referred to the "health and social care system" – meaning the whole range of health and social care services which are provided to islanders – this is not, in fact, anything like a coherent system.

55. Some essential services – such as GPs – are almost entirely independent of the State, although they may access certain publicly-funded services, such as diagnostics. It is often misunderstood that legally the health benefit grant for visiting a primary care doctor or nurse is a benefit grant to the patient, and not to the GP Practice and therefore have no conditions or quality standards attached.

56. Some other essential services are provided by the voluntary sector and funded by a States' grant which may or may not have conditions or quality standards attached. The inconsistency in this approach needs to be reviewed.

57. The role of HSSD itself is complicated and ambiguous: it makes policy, it regulates some services (although its own are often exempt from inspection), it sets governance standards and provides quality assurance, and it directly delivers a wide range of services, often in partnership with other organisations. Social Security funds essential parts of the system – including the contract with MSG and GPG, and individual subsidies for GP and nurse consultations and long-term care placements – but its role in creating and implementing health and social care policy is unclear.

58. Health and social care funding is as complex as the system itself. For example, individuals pay a high fee for every GP visit (£52.35 per visit)[25]. Once they have been referred to a specialist consultant, the service is free at the point of delivery. This means that people whose conditions could easily be managed in primary care, but who would struggle to pay for it, often continue to see their specialist instead. This is a poor use of specialists' time, which has a knock-on effect for the wider community, and it clearly shows how the bigger purpose – meeting islanders' needs in an appropriate and effective way – is undermined by the current funding structure.

[24] The size of the retirement-age population grows dramatically from 2020 to 2040, and decreases very slowly from 2040 onwards. "Guernsey Annual Population Bulletin: 31 March 2011", page 8, Figure 7.2.1 (available online at http://www.gov.gg/CHttpHandler.ashx?id=66455&p=0).

[25] Social Security pays a £12 grant for every patient seen by a GP, and £6 for each nurse consultation. These grants are payable to the GP practices on behalf of the patient, but there are no service or quality conditions attached. The value of the benefit to islanders, and its impact on other aspects of the system (such as the cost of health insurance), should be examined in more detail.

59. In the same way, the lack of legal or contractual relations between different parts of the system – such as primary care and secondary care, or service providers and policy-makers – means that organisations are free to follow their own objectives, and there are few structural incentives for working together towards shared goals and quality standards.

60. On the other hand, one area where Guernsey is already in a good position, and can continue to build on this, is the fact that health and social care services are already integrated in one Department. This provides for closer interfaces and communication between the services, and more effective care pathways, than if healthcare and social care were totally independent of each other.

61. However, a truly effective health and social care system cannot be created through a process of gradual change. Islanders will want confidence that appropriate standards are bring set and met across all health and social care services; that services work together to meet people's needs; and that the services they receive are appropriate, timely and cost-effective.

62. To achieve this, considerable work will need to be done to make sure that services are linked together financially and contractually, within appropriate governance, monitoring, regulatory and policy frameworks.

Windows of opportunity

63. In 2002, HSSD and Social Security made fifteen-year contracts with MSG and GPG commencing 1 January 2003, to provide secondary healthcare services to the island. In December 2017, these contracts will reach their expiry date.

64. HSSD also has a contract with the Primary Care Company Ltd to provide 24/7 Accident and Emergency services and 24 hour hospital medical cover. This contract expires in 2018.

65. Whether the MSG and GPG contracts are renewed or whether they are replaced, there is a general consensus that the current arrangements need to be radically reviewed and that any new arrangement will need to last at least 20-25 years, in order to ensure that the service provider has the stability it needs to recruit effectively and maintain good quality services. Once this new arrangement has been agreed, Guernsey will be locked into one form of health service provision for more than two decades.

66. There are so many interdependencies between the MSG, the GPG and all other parts of the health and social care system that by reviewing the working of one, you cannot but review the whole system and how it functions.

67. The next five years are a rare and fleeting opportunity to undertake this review which needs to cover all health services in the islands, and to put in place a system that is sustainable, fit for the future, and able to support islanders' health and wellbeing in the most effective and appropriate ways.

68. Changes to the island's population, to the way that health care professionals are trained across the UK, and to the costs of new health technologies and medication, are beyond the control of HSSD. However, these changes will have a direct impact on the cost of providing services, on the type of services required, and on the affordability of the system.

69. This means that HSSD will inevitably have to make decisions about developing or discontinuing the funding or provision of certain services at some point in time, whether now or in the next ten years.

70. There is a once-in-a-generation opportunity to look at the whole structure of the health and social care system, before the MSG/GPG contracts expire in 2017 and are replaced for the next 20-25 years. The States, through HSSD and its partners, could use this opportunity to work together to develop an integrated, well-regulated health and social care system, which meets the needs of an ageing population in a cost-effective and sustainable way.

71. If the States chooses to act now on these challenges and opportunities, it has the chance to develop a high-quality core health and social care system which really benefits islanders; which improves their quality of life and independence; and which will go some way towards coping with the significant impact of future demographic and financial pressures.

HOW DO WE MAKE THE RIGHT CHANGES?

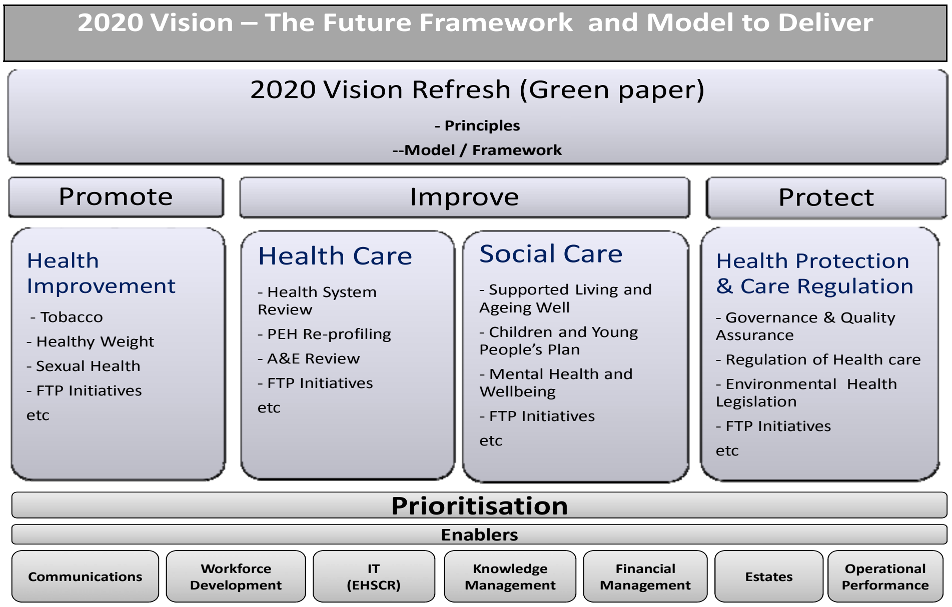
72. The 2020 Vision outlines the scope of HSSD's responsibilities to the island. In 2011, the States agreed that HSSD should be responsible, on its behalf, for **enabling** people to live healthy, independent lives, by:

- **Promoting** good health and wellbeing across the community.
- **Improving** outcomes for people who use health and social care services.
- **Protecting** people through high-quality, well-regulated services.

73. Each of these three pillars is supported by a programme of work, illustrated in the diagram below. The "Improving" pillar has been split into two programmes, 'health care' and 'social care', to break the work into two areas of manageable scope. However, HSSD greatly values the integrated health and social care system

it currently provides, and this division will not lead to a separation of healthcare and social care in practice.

74. This major strategic work will only be possible in the right context and with the right skills and experience to assess and deliver the changes needed. To be most effective, it depends on solid research, strategic needs assessment and health impact assessment; the right IT and estates infrastructure for delivery; good workforce planning and development; financial prudence and good governance. These and other enablers must be in place in order to create the environment that HSSD will need to achieve its vision successfully.



Principles

75. The three pillars of HSSD's work do not stand apart from each other. They are unified by a set of principles, which also reflect the ethical principles that have guided HSSD's clinical commissioning decisions since at least 2011[26]. These principles are set out here, for the first time, after initial discussions with some of the Department's staff and partners.

76. Developing principles requires an ongoing dialogue – these should not be fixed and inflexible, but should reflect the best evidence and good practice standards available at any time. HSSD would welcome the chance to consider its principles with people both inside and outside the organisation, and will make sure that it creates opportunities, in 2013, for these conversations to happen.

[26] HSSD (2011) "Ethical Framework for Health and Social Care Prioritisation for the States of Guernsey" (available online at http://www.gov.gg/CHttpHandler.ashx?id=5421&p=0).

77. In summary, the principles of the 2020 Vision are:

Maintain good health and wellbeing

A. Focus on quality as well as length of life

B. Act early to avoid crisis or deterioration

C. Encourage positive, healthy behaviours

D. Address identified needs, not arbitrary divisions

Act wisely

E. Make decisions based on evidence

F. Engage with people, professionals and providers

G. Be financially prudent

H. Ensure good governance and assurance at all times

Be fair and equitable

I. Challenge social and health inequalities

J. Respect dignity and choice

A) Focus on quality as well as length of life

78. Seek to add “life to years” – that is, to make interventions which are known to improve people’s health and wellbeing.

79. Health and wellbeing are important for their own sake, but the idea of **opportunity cost** helps to explain why this principle is vital. If, due to health improvement and early interventions, more people live more of their lives in good health, then they will need less health or social care in the long term. The money that would have been spent meeting their demands for care can be invested somewhere else, to meet a more pressing need. If the original health improvement activity or early intervention had not been funded, that reinvestment opportunity would not have become available.

80. This principle also means taking a holistic view of a person’s needs, balancing social, emotional and physical consequences, and not automatically prioritising health needs over general wellbeing.

B) Act early to prevent crisis or deterioration

81. This can be applied on a number of levels: Population health should be protected by screening and immunisation, monitoring and surveillance programmes. Individual health crises should be avoided by taking steps to detect or diagnose health risks as early as possible, perhaps using targeted approaches to direct resources, and evidence-based risk assessment to ensure the most appropriate interventions. Individuals and families who are in social need should be supported, and people who are at risk of abuse should be protected.

82. People should have access to support as early as possible, at a time when they are most receptive to it. People who are at particular risk, or have a particularly high level of need (for example, older people with dementia who are also at increased risk of falls or pneumonia) should be identified and offered targeted support.

C) Encourage positive, healthy behaviours

83. Positive, healthy behaviours can be encouraged by public education. Targeted lifestyle support can also help to facilitate healthier behaviours among people with specific needs.

84. In addition, the way the health and social care system is structured and funded can create incentives for both individuals and service providers to adopt behaviours that support and maintain health and wellbeing.

85. This is, therefore, not just about "encouraging personal responsibility", which is one of the States' objectives, but also about encouraging different service providers to work well together – for example, sharing experiences and not passing on costs unnecessarily – to get the best outcomes for the people who use their services.

D) Address identified needs, not arbitrary divisions

86. Some services depend totally on the diagnosis, injury or impairment that a person has. Others – for example, bathing and dressing, or financial or emotional support – may be needed for any one of a host of reasons. In these cases, eligibility criteria and assessments for services should be based on a person's actual need, using single 'shared assessments' across service providers, rather than being divided up by age-group or by condition.

87. Similarly, services which are meant for the whole population – such as primary care and acute services – should not exclude, or fail to meet the needs of, people with particular conditions. This may mean that generalist staff need to have training in, or be supported by staff with specialist skills in, mental health conditions or learning disability.

E) Make ethical decisions based on evidence

88. Three kinds of evidence, in particular, are important:

- Evidence about the **local** need for a specific action.
- Evidence about whether the action can deliver the outcomes required.
- Evidence about the ongoing effectiveness of existing or new services.

89. Without such evidence, it will not be possible to conduct effective strategic needs assessments or health impact assessments, which, together, identify the areas of greatest need and the most effective ways of meeting that need.

F) Engage with service users, carers, the public, professionals and providers

90. Good decisions can only be effective if they have the buy-in of those who have to deliver them in practice. There is a lot to be learned from professionals, who have expert subject knowledge; people who work on the front-line of health and social care, who see where people's needs are going unmet; and people themselves – service users, family and friends, the general public – who can explain what their actual experiences have been, and what they would prefer. There is a lot of scope for wider involvement in co-creating new health and social care solutions for our islands.

91. The idea of "engagement" is key. People need to be engaged meaningfully on questions which are relevant to them, bearing in mind that they will have different types of expertise – sometimes technical or professional, sometimes lived experience – to offer.

G) Be financially prudent

92. This means thinking about value-for-money, cost-effectiveness and opportunity costs. It means being aware that health and social care services are needs-led, and developing funding structures which can cope with somewhat unpredictable patterns of demand.

93. Financial prudence needs to be a long-term principle, ensuring that HSSD avoids raising expectations by starting unsustainable services in richer times, which will have to be cut in times of greater difficulty. Effective prioritisation, linked to the Guernsey Ethical Framework for clinical commissioning decisions, should enable the Department to make wise investment and disinvestment decisions at all times.

H) Ensure good governance and assurance at all times

94. Quality standards should be put in place for every part of the health and social care system. New developments should include a plan for making sure that quality standards are followed, with an emphasis on self-assessment supported by appropriate monitoring and reporting processes.

I) Challenge social and health inequalities

95. This means, for example, being very careful to ensure that financial gateways to services are appropriate; that alternative funding is available to people in need who cannot afford to pay, so that the link between wealth and better health outcomes is balanced out. It may mean the introduction of Fair Access to Care standards.

96. It also means championing the removal of structural disadvantages – such as physical inaccessibility or poor transport infrastructure – which mean that some people who are disabled or in poor health suffer, or are socially excluded, for avoidable reasons. This is an area where HSSD hopes to work in partnership with other States Departments, which have more direct influence over these wider determinants of health, wellbeing and inclusion.

J) Respect dignity and choice

97. This is about making sure that people are not put in situations where choice and control over their lives are taken away – often, this means institutional forms of care, but it could equally mean a community service with an inflexible schedule.

98. It means ensuring that adequate safeguards must be in place (such as a Capacity law) to ensure that people's right to make their own decisions is not taken away arbitrarily, balanced by protections against abuse for people who may be at particular risk.

99. It means always seeking informed consent, and respecting people's choices, including their choice to refuse care.

100. It also means providing person-centred care, which is responsive to human diversity and which does not reflect stereotypes and prejudices; and working together as a system, so that the person in need can be offered an alternative care package, to ensure they have the most seamless and supportive care experience possible.

101. It means that staff at every level within the organisation should act as advocates for the people who use our services, and that anything which puts the safety of patients, service users or the general public at risk should be challenged.

102. It also means being "user-friendly" – whether this involves 'walking the floors', to find out what people who use services actually experience; or producing relevant and easy-to-understand information and making sure people actually get it. It means accepting a responsibility to guess what people's questions might be and reach out to them with answers, rather than expecting people to find their own way around a complex system.

Summary

103. These principles should guide every aspect of HSSD's work, providing a framework for evaluating the way short-term initiatives fit with the Department's longer-term strategic direction. However, these principles will also need to be supported by thorough needs assessment and prioritisation processes in order to make sure the right changes are happening at the right time.

WHAT CHANGES ARE WE MAKING?

104. The original 2020 Vision report set out an ambitious four-year roadmap, outlining many projects against each of the three pillars of the Vision, and giving indicative dates for when progress against each would be reviewed[27].

105. This Progress Report on the whole 2020 Vision demonstrates how the work has begun to be consolidated into the four programmes of Health Improvement, Health Care, Social Care, and Health Protection & Care Regulation. It reflects the need for a fresh approach, which is responsive to the scale of the work and accommodates the fact that resources have been, and continue to be, quite rightly needed for other critical States' priorities, such as the Financial Transformation Programme.

106. HSSD is committed to achieving its FTP targets, alongside its priorities within the four programmes of the 2020 Vision. From the Department's perspective, the FTP is an integral part of achieving the 2020 Vision by ensuring current and future service delivery is as efficient and effective as possible, and provides the taxpayer with excellent value for money. HSSD is also leading on some States-wide pieces of work, including the Disability and Inclusion Strategy and a framework for engagement with the voluntary sector which are also complementary to and consistent with the 2020 Vision.

107. The Department is also working to create the right environment for success – the right infrastructure, the right workforce, the right information and reporting systems, and the right governance.

108. This section explores each of the four 2020 Vision programmes, the Department's States-wide commitments, and the key enablers in more detail. It provides a snapshot of the work that has already begun, and shows what HSSD plans to do next.

Promoting good health and wellbeing across the community

109. Health improvement is all about making sure that people stay healthy and well for as long as possible. It involves a wide range of universal and targeted measures that tackle lifestyle risks (such as smoking, alcohol or drug misuse, or weight problems) and focus on the wider determinants of health and wellbeing.

110. Health improvement is important from a funding point of view, because it reduces the long-term demand for health, social care and support services; but it is

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[27] More information about 2020 Vision is in the process of being made available on www.gov.gg. This will include an updated roadmap, showing the Department's progress against its 2011 targets.

important most of all because it can have such a significant impact on islanders' quality of life.

Health Improvement Strategic Framework

111. The Health Improvement Strategic Framework will pull together a range of different plans and existing services which relate to health improvement.

112. It will enable these plans and services to be prioritised, against a thorough, island-wide assessment of needs, and it will target them at the groups of people who are most at risk.

113. The Health Improvement Strategic Framework will set the agenda for developing preventive services in the islands. It will allow all providers of health and social care services, and partners across the States of Guernsey and beyond, to gain a common understanding of what health improvement involves, and to integrate it into their way of working. It will ensure that all investments in health improvement and ill-health prevention are based on sound evidence, and that the progress and outcomes of new and existing initiatives are well monitored.

114. In the past, health improvement has focused on infection control and good hygiene, to tackle communicable diseases, which remain important health protection issues. Non-communicable diseases, such as cancer, heart or lung disease, or diabetes, have now also become a key focus of health improvement. The Health Improvement Strategic Framework will provide a structured way of responding to the unhealthy behaviours and lifestyle choices which are closely linked to these diseases.

115. The Framework has been developed in the course of 2012. It will include, among other things, Tobacco Control, Sexual Health, Healthy Weight, Breastfeeding and (jointly with the Home Department) Drug & Alcohol strategies. There are also other crucial links to States Departments, such as the vision for Education; the Skills Strategy; the Transport Strategy; Housing standards; and reform of the Welfare system. The box below gives a short insight into the Tobacco Control strategy, which is now in its second phase.

Tobacco Control

The story of smoking over the past fifty years is perhaps one of the most dramatic examples of health improvement in action. Thanks to widespread education and targeted campaigns, the health risks of smoking have become generally understood.

The first Tobacco Control strategy was developed in 1996, and progress towards totally smoke-free environments continues. In Guernsey, the hospital and the prison became smoke-free in 2011.

Although the increasing prevalence of cancers and lung disease shows that many people are now suffering the effects of first- or second-hand smoke, we can be confident that tobacco control has markedly improved the health outlook for current and future generations. However, without ongoing action to maintain public awareness about the impact of smoking, we are at risk of undoing some of this important progress.

Improving outcomes for people who use healthcare services

116. Health care services treat injuries, impairments or illness. Health care includes primary care ("first point of contact") services, such as GPs, dentists or pharmacists; secondary care services, such as specialist consultants, hospital-based services and rehabilitation; and off-island acute services. It includes everything from intensive care to surgery to writing prescriptions.

117. It is vital to ensure that the whole health system works together to ensure the best outcomes for islanders, and to embed an ethos of early action and preventive measures into the whole system.

Health System Review

118. In Guernsey, the total cost of health services to islanders – through taxes, social insurance contributions and direct payments – is in the region of £200m a year.

119. The health "system" is delivered through a a range of partners and independent providers, including HSSD, MSG and the island's GPs. There is however, no overall governance and direction, and thus no guarantee that the best outcomes are being achieved. The system is not financed in a coherent way, and this can create unhelpful and counterproductive barriers to better outcomes.

120. Moreover, Guernsey's health system faces challenges, over the next two or three decades, which put its survival at risk. An ageing population means more demand for services; while a shrinking working-age population means there are fewer people to finance those services. Clinical sub-specialisation means that it is increasingly hard to recruit the good generalist consultants and nurses who deliver a broad range of services on island.

121. The States has a short window of opportunity to review and perhaps fundamentally re-think the health system. This is provided by the expiry in December 2017 of the contracts for the provision of secondary healthcare services (between MSG, GPG, HSSD and Social Security).

122. The States will be asked in February 2013 to consider a report setting out proposals for a Review of the Health System to be conducted during 2013. This report explains the issues, and the Department's proposals for tackling them, in much more detail.

Improving outcomes for people who use social care services

123. Social care services face many of the same challenges as health care services: including growing demand from an ageing population, financial unsustainability, and a lack of consistent and effective regulatory controls.

Social Care Strategic Programme

124. Work on a number of social care strategies has already been started. During 2013, these will be developed as part of a strategic programme for social care, allowing work to be prioritised and targeted at the groups within the island's population who are most at risk.

125. The Bailiwick needs to start preparing for the fact that the numbers of people over retirement age, and particularly the numbers of people over 85, will increase significantly over the next sixty years. Many of these people will have support needs, which would currently be met in nursing or residential care.

126. There are currently many inconsistencies in the funding of long-term care which, if tackled properly, could produce better outcomes for islanders, enable people to live more independently for longer, and which may result in savings to the States.

127. The funding structures which underpin long-term care have already been discussed, during 2011-12, by a working party drawn from across the States. That review will now need to be completed with some targeted work during 2013-14, as part of the Supported Living and Ageing Well Strategy, and in close alignment with the review of both the health and welfare systems.

128. The Social Policy Group has identified a need for the States to improve the support it offers to families who have repeated contact with multiple areas of the welfare system, including social care services. This important social policy issue needs to be explored and understood in more depth, and it is intended that this should be a priority of the Children and Young People's Plan for 2013 onwards.

129. The Social Care programme will include, among other things, the Children and Young People's Plan, the Supported Living and Ageing Well Strategy and the Mental Health and Wellbeing Strategy. The following boxes give a short insight into the ongoing development of these areas of work.

Children and Young People's Plan

The first Children and Young People's Plan was published in 2011. Since then, HSSD has been working with other Departments to put its recommendations into practice.

By law, the Children and Young People's Plan must be updated at least every three years, and HSSD is working jointly with Education, Home, Social Security and Housing to prepare the next version of the plan. Since the introduction of the Children (Guernsey and Alderney) Law, 2008 and the Islands' Child Protection Committee, there has been much stronger statutory protection of vulnerable children.

From HSSD's point of view, the Children and Young People's Plan can be classed as a "social care" strategy because it primarily affects the development of its social services and the responsibilities of professionals within those services.

Mental Health and Wellbeing Strategy

There is a growing understanding that we have "no health without mental health", and that it is important to maintain and improve the mental wellbeing of the whole population.

Two important new mental health developments will take place in Guernsey in 2013: the start of work on "Phase 6B" – a new Mental Health and Wellbeing Centre to replace the Castel Hospital – and the long-anticipated introduction of a Mental Health Law to replace the Law of 1939. To tie in with these developments, HSSD is producing a Mental Health and Wellbeing Strategy, which will lead to the development of a three-strand approach to mental health:

- **Promote** good mental health and wellbeing across the whole population;
- **Support** people to manage their mental health better;
- **Act** to meet people's needs with appropriate and flexible services.

This will involve social care service developments, but also including mental health and wellbeing in public health campaigns. It will lay the groundwork for tackling stigma and discrimination relating to mental illness, and will help to provide safe, effective and evidence-based services to islanders.

Supported Living and Ageing Well Strategy

HSSD took lead responsibility for the Supported Living and Ageing Well Strategy in late 2011. A political workshop was held with HSSD, Housing, Social Security and Treasury & Resources members, to identify the goals of the strategy. Two fundamental tasks were set:

- Make sure that services (including housing and care) can cope, financially and practically, with the increasing demand that will result from an ageing population.
- Enable people (of any age) who need a high level of care or support to receive that support as close to home as possible.

In conjunction with HSSD and the Guernsey Housing Association, the Housing Department is developing extra-care housing at Maison Maritaine (to be known as La Nouvelle Maraitaine) and Longue Rue House (to be known as Le Grand Courtil), which will be a big step forward in terms of offering people greater independence and choice in their daily lives, while meeting their care needs in a timely and effective way. The completion of the long-term care funding review, mentioned above, will be a vital next step in achieving the aims of the Strategy.

Protecting people through high-quality, well-regulated services

130. Health protection is about making sure that services are safe and effective, and that people's health, wellbeing and safety are not put at risk. It involves protection against preventable injuries and environmental hazards, and protection against abuse. It requires effective monitoring, 'surveillance' programmes identifying health and wellbeing trends across the population, and effective regulation of care services and professionals.

131. Health protection concerns the whole system of health and social care – not just the services provided by HSSD – and there is also a particular link with the work of the Criminal Justice Strategy and the Home Department in general. Effective health protection, including strong governance and monitoring systems, will be a vital part of the transformation from a loose collection of service providers to a coherent health and social care system.

Health Protection Strategic Framework

132. The Health Protection Strategic Framework, like its counterpart in Health Improvement, brings together a range of health protection work; defines clear priorities; and identifies any gaps in Guernsey's network of health protection initiatives. It stresses the need to evaluate the health impact of all new policies and developments.

133. The Framework will also set out the governance, regulatory and assurance structures that need to be in place for islanders to be confident that they are

receiving safe and good quality health and social care. This includes effective governance of services, as described in the box below, but it also includes pathway assurance – to ensure that the right outcomes for patients are achieved, by effective working across all services.

134. HSSD plans to carry out a full review of care regulation in the island: including regulation of all health professionals (for which an Enabling Law was introduced in 2012) and regulation of facilities, activities and services. Peculiarities of the system – such as the fact that HSSD's own services are not subject to regular inspection – will need to be changed, to ensure that the whole health and social care system is subject to appropriate, effective and consistent regulatory controls. This is an area where HSSD intends to work closely with Jersey and the Isle of Man.

135. Given that the Department intends for more care to be delivered in the community, rather than in institutions, there is also a need for effective protection of adults who may be at risk of harm or abuse. HSSD will also need to make work on Protection of Vulnerable Adults (and very closely associated work, such as Legal Capacity and Guardianship) a high priority – which it has already begun to do, through the development of a Vulnerable Adults policy for its own services – and will work collaboratively with the Home Department on the Criminal Justice Strategy, the Domestic Abuse Strategy and other relevant developments.

136. The Health Protection Strategic Framework will include, among other things, Infection Control, Emergency Planning, and Environmental Health Hazards strategies, as well as Care Regulation, Governance & Assurance and Performance Measurement. The box below gives an insight into the development of the Governance and Assurance Framework within HSSD.

Governance and Assurance Framework

HSSD's Governance and Assurance Framework, developed in 2012, covers four key aspects of the health and social care system:

- Clinical and social care
- Finance
- Staff
- Information

The Framework provides for appropriate Quality Standards to be set across every part of the health and social care system, and for every different professional group. It ensures that regular monitoring will take place to see that services are complying with standards, and that suitable action is taken, if not, in order to protect the people using the service.

Meeting wider States' objectives
Disability and Inclusion Strategy

137. The Disability and Inclusion Strategy is part of a portfolio of work within the Social Policy Plan. It aims to ensure that disabled islanders, and the family and friends who support them, have the best quality of life possible, and that obstacles to their social inclusion and participation are removed.

138. HSSD is leading on the Strategy, together with Education, Housing and Social Security. One of the main challenges which disabled islanders face is getting the support they need to live the lives they want. This will require HSSD to develop its services, with a focus on independence and choice. The Supported Living and Ageing Well Strategy will enable much of this to be put into practice.

139. Other challenges faced by disabled islanders – such as prejudice and discrimination, limited access to employment and social opportunities, and poor accessibility – are beyond the specific remit of the health and social care system (although in itself it can provide many of these opportunities and address many of these issues as an organisation). However, HSSD is committed to leading this work because removing disadvantages for disabled people is very much in line with its principles of dignity and respect; and because greater equality will have a positive impact on the health and wellbeing of many disabled people, as well as family members and friends who support or care for them.

Voluntary Sector strategy

140. HSSD's Chief Officer is responsible to the Social Policy Group for the development of a States-wide Voluntary Sector strategy, which aims to improve the way that the States works in partnership with community organisations and charities.

141. Around one third of all Guernsey's charities have a direct link to the health and social care system. An even greater number have a positive influence on the wider determinants of health and wellbeing. For this reason, HSSD sees the strategy as vital to ensuring that it maintains and develops good relationships with voluntary sector organisations and helps to maximise the contribution they can make.

142. HSSD expects to invest more in partnerships with the voluntary sector over the next ten to twenty years, particularly in order to provide outreach and social support across the whole community; but also to continue providing some very central parts of the island's health and social care system.

Creating an environment for success

143. An effective strategy is not just smart words on paper. It is something that staff at every level of the organisation, and HSSD's partners in the health and social care system and across the States, can understand and support in their daily work. It is something that is carefully monitored, to make sure it delivers on its promises and improves outcomes for islanders. It is based on good evidence and professional best practice, and responds to identified need.

144. HSSD has started work on a number of areas that will help its strategies to be as effective as possible. These include:

Prioritisation

145. Prioritisation helps to ensure that the Department's resources are focused where they are most needed, and where they will be most effective. Sound prioritisation of health and social care service planning, and wider social policy development, cannot be achieved without a clear understanding of the needs of the population.

146. Robust and accurate needs assessment requires reliable population data sources: demographic (how many people live here, how old they are, male or female): epidemiological (how many fall ill, how many are ill at any one point in time, what illnesses they develop and die of): and clinical (how many people use this or that clinical service).

147. In addition, HSSD needs to be able to assess the relative effectiveness and value-for-money of different interventions, so that these can be prioritised within and across services.

148. Finally, there is a need to develop an equitable priority-setting process for all service developments and disinvestments which:
    - captures all the information necessary to make effective decisions;
    - structures the decision-making process;
    - enables the Department to deliver agreed priorities;
    - is open and accountable;
    - enables the public to understand why difficult decisions are made;
    - reflects existing budget constraints;
    - creates more flexibility within service planning and funding.

The Financial Transformation Programme (Financial Management)

149. The Financial Transformation Programme (FTP) is a States-wide initiative which focuses on reducing expenditure across all States Departments. HSSD expects to reduce its budget by £10.6m by the end of 2014, through a combination of cost reduction and increased income generation.

150. Compared to health services in other jurisdictions, HSSD has already demonstrated strong financial control. In the UK, the cost of providing health care continues to increase at 3-4% above inflation every year. If HSSD had allowed its expenditure to increase at the same rate since 2009, and had not achieved its FTP and internal savings targets, its expenditure would be £16m higher than it is now. If it achieves its 2013 targets, it will have avoided costs of £23m – nearly a quarter of its £107m annual budget.

151. This challenge requires the Department to look at innovative ways of delivering its core business, as well as creating opportunities to generate income. The full review of the health system, proposed for 2013-14, will be key to identifying safe and sustainable ways of reducing unit costs over the long term.

Communications and Engagement

152. A "stakeholder" is any individual, group or organisation who can affect or be affected by the work of HSSD[28].

153. 2020 Vision has a wide and diverse array of stakeholders. In one form or another, the many initiatives within its four programmes of work have the potential to touch every individual across the Bailiwick of Guernsey.

154. As changes are planned and put into practice, there is a clear need to encourage and enable stakeholders – including the many people who use services provided by the health and social care system, and the many people who deliver those services – to get involved at every level.

155. HSSD is keen to enhance its reputation for openness and honesty with islanders, and is seeking to improve its communications and the way it engages with its partners and the people who use its services. This is especially important as islanders begin to gain a better understanding of the financial, clinical and structural challenges the Bailiwick will face over the coming decades.

156. A structured communications framework will help to ensure that HSSD provides consistent, clear and easily accessible information; that it creates opportunities for debate about the key issues outlined in the 2020 Vision reports; and that partners from all areas of the Bailiwick's health and social care system, the voluntary and business sectors, and the wider community, are able to have input and involvement in the changes that matter most to them.

Workforce Planning and Skills

[28] Adapted from the definition given by the Scrutiny Committee in its discussion document on "Public Engagement in the States of Guernsey" (available online at http://www.gov.gg/CHttpHandler.ashx?id=35840&p=0)

157. Workforce planning plays a significant role in enabling the delivery of HSSD's 2020 Vision and ensuring that there is a flexible and sustainable workforce for the future, for the entire health and social care system. It translates future challenges and the potential impacts of change on the workforce into effective service plans, financial plans and training plans.

158. Managing and developing the workforce as a whole is of the utmost importance in ensuring that staff continue to have the right knowledge, skills and responsibilities to meet the evolving requirements of the health and social care system. It helps to ensure improved productivity, as well as focusing on the long-term sustainability of the workforce. Structured workforce planning is the means by which HSSD will plan the future size, shape and skills of the workforce required for the health and social care system, and evaluate and respond to the possible resourcing implications of proposed service models.

159. HSSD has also begun to be involved in the Skills Strategy, via the Institute of Health and Social Care Studies, and has identified three major areas where the strategy overlaps with the Department's responsibilities. First, HSSD, through the Institute, and other providers, enable many islanders to study and train for health and social care qualifications, adding to the on-island skills pool. Second, the health and social care system is also a major employer, with diverse skills requirements of its own. Third, and finally, employers in all sectors can have a major impact on many of the wider determinants of health and wellbeing, such as employment conditions and financial security[29]. HSSD's role within the Skills Strategy has now begun to develop, and the Department hopes that this report will demonstrate its ongoing commitment to that work.

I.T. (EHSCR)

160. Electronic Patient Record systems enable improved clinical access to information and help to reduce clinical risk. The States agreed, in 2006, to introduce the Electronic Health and Social Care Record (EHSCR) locally[30].

161. Through EHSCR, an integrated Health and Community record system is being introduced – a concept unique to Guernsey and Alderney. The system is used by both HSSD and MSG, in many areas of work, from patient administration to maternity and child health; oncology to mental health; pharmacy to business intelligence.

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[29] See Dame Carol Black's 2008 report on "Working for a Healthier Tomorrow" for a more in-depth study of the links between employment and good health and wellbeing. (available online at http://www.dwp.gov.uk/docs/hwwb-working-for-a-healthier-tomorrow.pdf)
[30] Billet d'État XXI, December 2006.

162. The next stage will be to expand EHSCR into community services and children's social care, and to establish e-prescribing. Including other partners in this system will also be considered.

Knowledge Management

163. HSSD recognises that all its decisions need to be based on a sound evidence base. It already has several vital sources of in-house intelligence – including the Institute of Health and Social Care Studies, which continues to train staff from NVQ to PhD level, and which is building effective research and education links with the University of East Anglia; Public Health analysis; and the Business Intelligence Unit, which is in the process of building more effective data collection and reporting mechanisms.

164. In addition, HSSD has commissioned or led on some vital pieces of bespoke research. These include the 2012 Health, Wellbeing and Social Inclusion Survey (commissioned by the Policy Council), followed by more in-depth Disability and Carers' Surveys, which, for the first time, will give a full picture of the number of disabled people (of all ages) living in Guernsey and Alderney, the types and severity of their impairments and health conditions, and the major challenges they face to taking part in island life.

165. HSSD is also preparing to undertake its sixth Guernsey Healthy Lifestyle Survey, which will bring the Department up to 25 years of consistent information on the health and wellbeing of the general population.

166. HSSD continues to be involved in developing a number of other pieces of research, including the regular Guernsey Young People's Survey, led by the Education Department; all of which it will use to make sure its strategies are based on as much relevant evidence as possible.

Estates

167. HSSD has begun to look at ways that it can provide more services from fewer sites, as well as delivering more care in the community. This cuts down on overheads and maintenance costs, and it gives the Department a chance to upgrade its buildings and make sure that they are fit to provide modern health and social care.

168. Due to the presence of asbestos, HSSD will have to make big changes to parts of the Princess Elizabeth Hospital (PEH), and it is taking this as an opportunity to significantly change the hospital layout and the way that care is delivered.

169. “Phase 6B” – the new Mental Health and Wellbeing Centre that will replace the Castel Hospital – is another opportunity for the Department to provide better care from a more supportive environment on the main PEH site.

Operational Performance

170. Having published its first Operational Plan in 2012, HSSD is now developing a performance measurement framework for health and social care services across the Bailiwick of Guernsey. Its primary aim, at present, is to measure the outcomes that HSSD is achieving for its service users, and how it is meeting the expectations of its stakeholders.

171. The framework will introduce more forward-looking key performance indicators (KPIs) which align with the principles of the Department’s 2020 Vision and the States Strategic Plan. It will enable more effective decision-making, corporate governance, assurance, business intelligence, and ongoing operational planning.

172. Performance measurement is closely linked to Governance and Assurance, as well as to States-wide work on building Business Excellence and improving value for money. The new framework is intended to promote organisation-wide learning and growth, to identify areas for improvement, and to demonstrate where effective changes have been made.

173. The first phase of the framework will involve around 30 KPIs focused on overall service user, staff, financial and regulatory outcomes. In due course, it will be developed to include service-specific indicators, to be used at various levels of management, and may also extend to the wider health and social care system, under the auspices of the Health System Review.

NEXT STEPS

174. HSSD has now set up an effective portfolio structure, which enables it to coordinate and prioritise all its work within four programmes, underpinning the three pillars of:

- **Promoting** good health and wellbeing across the community.
- **Improving** outcomes for people who use health and social care services.
- **Protecting** people through high-quality, well-regulated services.

175. This portfolio structure encompasses governance, quality assurance, monitoring and controls. It aims to ensure that the Department has a clear and shared strategic vision and effective coordination, communication and leadership of change.

176. This report demonstrates how great a role other Departments have to play in creating a community that supports health, wellbeing and independence. HSSD

will be seeking to establish closer cross-departmental working on specific projects, and over its whole portfolio, over the course of the next year.

177. It will be important for the Department to conduct a thorough needs assessment, in order to prioritise and target its work at the areas of greatest need.

178. The Department will also continue to respond to identified demographic, financial and political imperatives. In light of these, it is developing work on a range of strategies and it will report back progress to the States and the wider public on the following areas, at least, during 2013:

Quarter 1	• 2020 Vision Progress Report and Next Steps • Health System Review • Mental Health and Wellbeing Strategy • Mental Health and Wellbeing Centre – "Phase 6B"
Quarter 2	• Disability and Inclusion Strategy • Supported Living and Ageing Well Strategy and Long-term Care Funding
Quarter 3 or 4	• Health Improvement Strategic Framework • Health Protection and Care Regulation Strategic Framework • Children and Young People's Plan

179. Over the course of the next few months, the States will see proposals from HSSD mapping out the changes which are needed in each of the key areas within the 2020 Vision framework.

180. Some of these will be large-scale changes, like the Health System Review, which will require additional resources for a short and intensive period of work. Other changes will be implemented more gradually through changes to internal structures and practices.

181. HSSD will undertake to report back to the States in a further 18 months, to demonstrate the overall impact of its major reviews, and to show what progress has been made towards improving the health, wellbeing and independence of all islanders.

CONCLUSION

182. HSSD is responsible, on behalf of the States, for **enabling** people to live healthy, independent lives, by:

i. **Promoting** good health and wellbeing across the community.

ii. **Improving** outcomes for people who use health and social care services.
iii. **Protecting** people through high-quality, well-regulated services.

183. These three pillars are united by a common framework of principles and supported by four programmes of work: Promotion; Improving Health Care; Improving Social Care; and Protection. Work under each of these programmes has begun, and this report provides a full update on key developments.

184. There is a clear need for HSSD and the States as a whole to respond to demographic, financial and structural issues that hinder the effectiveness and threaten the viability of the health and social care system. Many changes have already begun, and significant progress is being made.

185. The Department will now need to focus, in particular, on a full review of the health system, taking advantage of a brief window of opportunity to do so; on resolving the question of long-term care funding; and on improving the regulation of care across the system.

186. In addition, HSSD will continue to work hard to achieve its FTP savings targets, and to develop effective prioritisation processes which will enable it to make the right investment and disinvestment decisions in all circumstances.

187. Recognising that changes to the population, in particular, will have an impact over 30-50 years, HSSD is seeking to take a long-term perspective on the development of health and social care services – aiming to create a system which provides the best outcomes for people today, but also to secure the health and wellbeing of future generations of islanders.

HSSD November, 2012

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

The States are asked to decide:-

IX.- Whether, after consideration of the Report dated 26th November, 2012, of the Policy Council, they are of the opinion:

1. To agree that, in developing and implementing all strategic proposals, due account is taken of the impact on, and interdependencies with other States Departments and the wider community.

2. To reconfirm the original resolutions of the States of Deliberation with regard to the "Future 2020 Vision of the health and social services system", which were:

   (i) To direct the HSSD to pursue the plans outlined in that Report to ensure the future health and social care needs of the population of Guernsey and Alderney are met with a financially sustainable model;

   (ii) To direct all States Departments to contribute, where relevant, to each area of the plan which makes up this framework and for the Health and Social Services Department to establish a suitable governance framework with which States Departments can engage;

   (iii) To direct the Health and Social Services Department to consult the public, professionals and other interested parties on the main objectives and the key elements of the framework (noting that each element will also have its own engagement and consultation plan, due to the size and complexity of the whole system).

POLICY COUNCIL

APPOINTMENT OF CHAIRMAN AND ORDINARY MEMBER OF THE GUERNSEY FINANCIAL SERVICES COMMISSION

Executive Summary

This report proposes the re-election of Mrs Sally-Ann Farnon (known as Suzie) as an ordinary member of the Commission for three years and the re-election of Dr Cees Schrauwers as Chairman of the Guernsey Financial Services Commission for one year.

Report

In accordance with the provisions of sub-paragraph 3(1) of Schedule 1 of the Financial Services Commission (Bailiwick of Guernsey) Law 1987, as amended, the current appointment of Mrs Sally-Ann Farnon as an ordinary member of the Commission expires on 1st February, 2013. The Policy Council is pleased to re-nominate Mrs Sally-Ann Farnon as an ordinary member of the Commission for a further 3 years from 2nd February 2013.

Mrs Sally-Ann Farnon was appointed as a Commissioner in February 2006. She was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the Guernsey Audit Commission and the Guernsey Public Accounts Committee. She is also director of a number of private and listed companies.

The Chairman of the Commission must be elected annually by the States, from amongst the ordinary members having been nominated by the Policy Council. The Council is pleased to re-nominate Dr Cees Schrauwers as Chairman of the Commission for a further year from 2nd February, 2013 until 1st February 2014.

Both nominees are highly valued members of the Commission.

Recommendation

The Policy Council recommends the States to:

(a) Re-elect Mrs Sally-Ann Farnon as an ordinary member of the Guernsey Financial services Commission for three years with effect from 2nd February 2013;

(b) Re-elect Dr Cees Schrauwers as Chairman of the Guernsey Financial Services Commission for one year with effect from 2nd February 2013.

Peter A. Harwood
Chief Minister

26th November 2012

J P Le Tocq, Deputy Chief Minister

Deputy G A St Pier	Deputy A H Langlois	Deputy R W Sillars
Deputy R Domaille	Deputy K A Stewart	Deputy P A Luxon
Deputy D B Jones	Deputy A H Adam	Deputy M G O'Hara

The States are asked to decide:-

X.- Whether, after consideration of the Report dated 26th November, 2012, of the Policy Council, they are of the opinion:-

1. To re-elect Mrs Sally-Ann Farnon as an ordinary member of the Guernsey Financial services Commission for three years with effect from 2nd February 2013.

2. To re-elect Dr Cees Schrauwers as Chairman of the Guernsey Financial Services Commission for one year with effect from 2nd February 2013.

COMMERCE AND EMPLOYMENT DEPARTMENT

LIMITED LIABILITY PARTNERSHIPS – SUPPLEMENTARY STATES REPORT

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

13 November 2012

Dear Sir

1. **Executive Summary**

1.1. In April 2009 the States of Guernsey approved a Report from the Commerce and Employment Department ("the Department") entitled, "Limited Liability Partnerships"[1] which recommended the introduction of legislation to enable the formation of limited liability partnerships ("LLPs") in Guernsey. For ease of reference, a copy of that States Report is appended to this supplementary States Report.

1.2. The Department has worked closely with the Law Officers to produce the relevant legislation and conducted a detailed public consultation on that draft law. During the drafting and consultation a number of matters were identified which required the preparation of this supplementary States Report.

1.3. The key proposals outlined in this supplementary Report are:

- Removing the ability for LLPs to elect to have separate legal personality and instead requiring all LLPs to have separate legal personality (see section 2 below),
- Removing the obligation for the partnership agreement to be filed with the Company Registry and instead requiring it to be held at the registered office of the LLP and available to the resident agent of the LLP (see section 3 below),

[1] Article IX of Billet d'Etat No. XI of 2009

- Permitting LLPs to contract out of unfair prejudice and statutory derivative claims (see section 4 below),
- Inserting enabling powers to permit the States to introduce further innovations by Ordinance in the future (see section 5 below).

2. **Separate Legal Personality**

2.1. At paragraph 5.2 of the original Report it was proposed that a Guernsey LLP would have the option to "elect" to have separate legal personality. Under this proposal it was envisaged that ordinarily an LLP would not have separate legal personality but could choose that option at the time of formation.

2.2. However during preparation of the draft law it became apparent that achieving such flexibility was difficult and created a potential conflict between the primary objective of the LLP Law, which was to permit members to have limited liability for the acts and omissions of other members.

2.3. As set out in paragraph 5.3 of the original States Report the primary policy objective behind the introduction of LLP legislation is to permit members of an LLP to have limited liability for the acts and omissions of other members. Each member would remain liable for his or her own acts or omissions but not for those of other members. By making the LLP a separate legal person the liability of the LLP and the liability of each member could be easily defined and separated from the liability of the other members. Achieving that objective with an unincorporated LLP proved to be complex and uncertain and likely to make Guernsey LLPs unattractive for international business.

2.4. Given the complexity and uncertainty the Department is now recommending that all LLPs should have separate legal personality. If a person wished to take legal action against an LLP they would have a claim against the LLP as the legal entity as well as against any member which had breached their duty to that person.

3. **Partnership Agreement**

3.1. In paragraph 5.1 of the States Report it was proposed that the partnership agreement for an LLP would need to be filed with the Company Registrar at the date of formation, with amendments being filed thereafter. Historically the filing of constitutional documents such as the articles of incorporation of a company have been required to ensure that when third parties transact with a legal entity they can be satisfied that the legal entity is acting within its powers. However the Department is proposing that an LLP should have unlimited capacity and therefore, when dealing with an LLP, third parties can be confident that the LLP is acting within its legal powers. This means there is no public protection argument for placing partnership agreements on the public record.

3.2. In addition an LLP differs from a company in that it is an arrangement between individuals, all of whom have a right to participate in the management of the LLP. In a company there is a distinction between the management and ownership. Those who own the company, the shareholders, do not have a right to participate in the day to day management of the company. As a result it is important that shareholders have access to the articles of incorporation to enable them to protect their rights. Placing the articles on the public record is an inexpensive means of making sure shareholders have ready access to enable them to protect their interests.

3.3. In an LLP all members may participate in the management of the company and therefore will have access to the partnership agreement. Given the difference between companies and LLPs the Department does not consider that corporate governance justifies requiring partnership agreements to be filed with the Registrar.

3.4. Guernsey does not currently require the partnership agreement to be filed for Limited Partnerships or indeed general partnerships. The Department considers that LLPs should be treated the same as other partnerships entities. The partnership agreement will need to be kept at the registered office of the LLP and will be available to the relevant authorities to ensure that Guernsey can meet its international obligations with respect to law enforcement, regulation and tax co-operation.

3.5. This will also reduce the administrative burden on LLPs by reducing the need to file information with the Company Registrar. This minimises compliance and administration costs.

4. **Unfair Prejudice and Derivative Actions**

4.1. During the consultation process on the draft Law a number of respondents suggested that the draft Law should address a number of complications which have arisen in practice with UK LLPs. Those complications concern common law claims for unfair prejudice and derivative actions. Both causes of action developed out of company law in England and Wales. Since the introduction of LLPs in the UK both actions have been brought with respect to LLPs. This has resulted in a degree of uncertainty with respect to UK LLPs and the feedback from industry has suggested that Guernsey's law should clarify how those causes of action apply with respect to a Guernsey LLP. By ensuring legal certainty Guernsey LLPs will be attractive to international business.

Unfair Prejudice

4.2. In company law unfair prejudice arises when a minority of shareholders bring a claim against the directors of a company on the basis that the company is being run in a manner which is prejudicial to the interests of those shareholders. In such a claim a court can make a variety of orders with respect to the management of the company to ensure that the minority shareholders interests are respected.

Derivative Action

4.3. A derivative action arises where the company may have a legal claim against a third party. The directors may decide not to pursue that claim as they do not believe it to be in the best interests of the company. The shareholders may seek an order from the Court that requires the company bring that claim against the third party if the shareholders can satisfy the court that doing so is in the best interests of the company. The rights of the shareholders are derived from the legal rights of the company, hence the term "derivative action". A derivative action may be part of an unfair prejudice claim.

4.4. Both of these causes of action exist in Guernsey with respect to companies, although the unfair prejudice claim has been codified in the *Companies (Guernsey) Law, 2008*. Upon the introduction of LLPs the claims would be available against LLPs in much the same manner.

The Proposal

4.5. During the consultation it was recommended that the LLP Law should make it clear that the members of an LLP can agree to exclude claims for unfair prejudice and derivative actions. In an LLP all the members of the LLP will have a right to participate in the management of the company. LLPs are also private arrangements between individuals who are carrying on business in common. Given that an LLP will ordinarily be used by professionals such as lawyers, accountants etc, then it should be permissible for all of the members of an LLP to agree that unfair prejudice and derivative actions should not apply to their particular LLP.

4.6. The Department is recommending that to ensure both flexibility and legal certainty that the LLP Law confirms that both the unfair prejudice and derivative actions will apply to LLPs. The usual position will be that both remedies will be available against an LLP. However, the members of an LLP may exclude both causes of action from applying to their particular LLP. This can be done through unanimous agreement or by including such exclusion in the members' agreement of the LLP.

5. **Future Innovations**

5.1. During the consultation process a number of further innovations were suggested including:

- The power to allow names of LLPs to be in a language other than English,

- The power to convert other legal entities into LLPs and for LLPs to convert into other legal entities,

- The power for LLPs to amalgamate with each other.

5.2. Introducing the LLP law is a priority of the Department. Further drafting and consultation would add a significant amount of time to the finalisation of the draft Law. The Department is recommending that the Law contain powers to introduce the above innovations by Ordinance. Once the Law is in force and has been operating for a period of time the Department will consult on the introduction of these further innovations and report back to the States with its recommendations

6. **Consultation**

6.1. Following the approval of the States Report in April 2009 the Department has worked closely with the Law Officers to prepare an initial draft of the legislation. Once that draft was finalised the Department went through the following consultation process:

- In late 2011 the Department provided the draft to a working party of local experts for feedback on the initial draft. The working party comments were received in early 2012.

- In March 2012 the Department launched a public consultation on the draft law which ran until the end of April 2012.

6.2. The Department received detailed comments on a range of aspects of the Law, the majority of which have been incorporated into the draft legislation. Much of the content of this supplementary States Report is a direct result of feedback received during the consultation.

6.3. The Guernsey Financial Services Commission has also been consulted and their feedback has been incorporated into the draft legislation. The Law Officers have been consulted and raise no issues with the proposals in this supplementary States Report.

7. **Legislation and Resources**

7.1. Draft LLP legislation has been prepared to implement the States resolution in April 2009. The matters contained in this supplementary States Report will not require significant drafting resources and the bulk of legislative drafting has been concluded.

7.2. The additional matters outlined in this supplementary States Report will not have any impact on the resources of the States. The introduction of LLPs will result in an additional revenue stream for the Guernsey Registry.

7.3. The Department considers that it has complied with the six principles of good governance in the preparation of this States Report.

8. **Recommendation**

8.1. The Department recommends that the States:

1. Approves the proposals set out in this States Report,

2. Directs the preparation of such legislation as may be necessary to give effect to those proposals

Yours faithfully

K A Stewart
Minister

A H Brouard
Deputy Minister

D de G de Lisle
M P J Hadley
L B Queripel
States Members

APPENDIX ONE

COMMERCE AND EMPLOYMENT DEPARTMENT

LIMITED LIABILITY PARTNERSHIPS

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

11th March 2009

Dear Sir

1. Executive Summary

1.1. As part of the ongoing review of Guernsey's commercial laws, the Commerce and Employment Department proposes the introduction of *Limited Liability Partnerships* ("LLPs"). In Guernsey, an LLP will be a new form of business structure that combines features from a traditional partnership with the limited liability available to shareholders in a company. LLPs have been introduced in several other jurisdictions and, while relatively new, are now widely used.

1.2. The Department expects that LLPs primarily will be attractive to professional persons. However they may also be suitable for other purposes such as joint ventures. It is not intended that the availability of an LLP be restricted to any particular profession or trade; they will be available as an alternative business structure to suit particular needs. However, if an LLP carries on a regulated activity it will need to be licensed by the Guernsey Financial Services Commission ("the Commission").

2. Background

2.1. At present there are four main structures available to those wishing to conduct business in Guernsey: a company, a conventional partnership, a limited partnership, or a sole trader. The LLP will add to this range and increase choice for Guernsey entrepreneurs. They have already been introduced in a number of jurisdictions including the United Kingdom and Jersey. The Department has reviewed the legislation from comparative jurisdictions and has the advantage of being able to learn from those other regimes. The Guernsey LLP will offer the flexibility of a partnership with the advantages of some limited liability for the members of the partnership.

2.2. An LLP is a different structure to the limited partnership that was first introduced in Guernsey in 1995, but it is not proposed that they will replace them. The key differences in the two structures are outlined below.

2.3. Experience from other jurisdictions has shown that LLPs will be most attractive to professional persons, although once introduced they may be attractive to a wider range of businesses. For example, in the UK approximately 16,000 LLPs have been incorporated since the relevant Act was introduced in 2000.

2.4. Other jurisdictions that have introduced LLPs (or equivalent structures thereto) include: Canada, China, Greece, Japan, Poland, Romania, Singapore, and the USA[2].

3. Advantages and disadvantages of a conventional partnership

3.1. A 'conventional' partnership is defined as two or more persons carrying on a business with a view to a profit. Much of Guernsey's partnership law was consolidated and restated in the Partnership (Guernsey) Law, 1995. Such partnerships are free to organise their internal management however the partners agree. It is usual practice (although not obligatory) for the partners to enter into a written partnership agreement that sets out its internal rules of the partnership. The formalities and costs involved in setting up a conventional partnership are relatively low. This flexibility is one of the significant advantages of partnerships, as it allows partners to retain a high degree of control over the business.

3.2. These partnerships have lower compliance costs than other business structures; much less so than companies. The applicable law is less prescriptive than for a company. It is also the only structure available to some professions, who may be prohibited by their respective professional rules from forming companies or otherwise limiting personal liability.

3.3. A key feature is that conventional partnerships, unlike companies, do not have limited liability or separate legal personality; partnership is simply the way in which individual partners may choose to carry on business together. Each partner is personally responsible for the debts and liabilities incurred by each and every other partner in the course of partnership business. Furthermore the liability of the partners for the debts of the partnership is unlimited. This results in individual partners having a relatively high exposure to personal liability. The lack of limited liability means that all of a partner’s personal assets may be available to satisfy any liability of the partnership, regardless of whether that partner was responsible for, or even knew of, the debt. Historically, partnerships have managed this risk through the use of indemnity insurance.

[2] In the USA the laws concerning LLPs are with the States i.e. not Federal. As at the time of writing over 40 States had introduced legislation to introduce LLPs. LLPs have existed in the US in one form or another since approximately 1990.

3.4. Modern partnerships take a variety of forms from two individuals running a small business to large global organisations with several hundred partners; this is particularly the case for the legal and accounting professions. In such an organisation, it is possible that many partners may not know each other yet those partners are still jointly and severally liable for the acts and omissions of each other. Arthur Anderson, a worldwide accountancy firm, did not survive the acts or omissions of its US partners in connection with the Enron scandal.

3.5. In recent years there has been concern about the potential for large claims brought against partnerships arising out of professional negligence (although negligence is not the only potential risk). An example is litigation against auditors arising out of corporate insolvency. Accounting firms that provide audit services are often sued by the liquidators of failed companies, on behalf of the creditors and shareholders. Claims arising out of an audit will undoubtedly affect other parts of the accountancy practice; parts which have no involvement in the auditing division. The tax division may have no knowledge or control over the particular audit that is the subject of the litigation, yet those partners remain personally liable if the audit division is negligent in conducting the audit. This uncertainty and the difficulties in risk management has led to the result that professional indemnity insurance has generally become more expensive, and in some cases prohibitively so. Furthermore, some accountancy practices establish separate companies to handle those advisory functions that may properly be separated from core accountancy functions.

3.6. The cost of professional indemnity insurance is considerable, and is inevitably passed on to the consumers in the form of higher prices.

4. The difference between an LLP and a Limited Partnership ("LP")

4.1. An LLP is distinctly different from an LP and it is not expected that LLPs will replace them. The UK has had LP legislation in place since 1907. Since the introduction of LLPs in 2000, there does not appear to have been any significant reduction in the number of UK LPs. Data from Companies House shows that the number of LPs registered in the United Kingdom increased by an average of 1000 per year since 2002.

4.2. In an LP, the general partners are responsible for the day to day management and operation of the partnership, and remain jointly and severally liable for all of its liabilities. The limited partners enjoy limited liability, provided that they play no part in the management of the LP. The limited partners are thus 'passive' investors. This structure is particularly suited to collective investment funds where investors can invest as limited partners and enjoy a degree of limited liability, while the fund's manager acts as general partner and makes the various investment decisions and remains liable for those decisions.

4.3. In an LLP all the partners are entitled to participate in the management of the LLP. Each partner remains personally liable for his own actions. LLPs are more likely to be used for professional activities rather than as investment vehicles. The LLP does not provide the same level of protection to an investor as the LP. Accordingly the Department does not consider that the introduction of LLPs will have any significant effect on the number of LPs in Guernsey.

5. Features of an LLP

5.1. The Guernsey LLP will have the following key features:

- Members of the LLP will not have liability for the negligent acts of other members unless they were party or privy to them although they will remain liable for their own negligence (for further discussion of this point see paragraphs 5.3 and 5.4),

- Unless the members of the partnership elect for the LLP to have a limited life, then the LLP will exist in perpetuity with changes to its members not affecting its legal existence,

- The LLP will be able to elect to have separate legal personality if the members so choose. That choice can be made at formation or alternatively the LLP may elect to adopt separate legal personality at any time, subject to appropriate protection for creditors following such an election,

- Formation of an LLP will be straightforward and will be conducted through the Company Registry,

- An LLP will need to have a registered office in Guernsey at which it must keep its constituting documents, annual validations, accounting and financial records etc,

- An LLP will have internal flexibility with the members being free to agree on how the LLP is to be managed e.g. the members will be able to appoint a secretary to the LLP who can conduct filings with the Registry and otherwise provide administration services to the LLP,

- There will be no restriction on the content of the LLP agreement, however it will need to be written and filed with the Registrar,

- Following incorporation the ongoing reporting requirements will be relatively low. There will be no obligation for an LLP to produce audited accounts, although the members may choose to have the accounts audited if they so wish. The LLP will be required to keep proper accounts and those accounts will need to comply with generally accepted accounting standards, and a regime similar to that in the *Companies (Guernsey) Law*, *2008* will be adopted. In addition the LLP must be under a legal duty to keep the assets of the LLP separate from the assets of its members,

- The LLP will have to file an annual validation and will also have to notify the Registrar of changes to its membership, amendments to its constitutive documents, there will be a filing fee associated with such transactions,

- An LLP can have an unlimited number of members, and the members can be natural persons or other bodies corporate,

- All members of an LLP will be agents of the LLP and capable of binding the LLP, subject to any restrictions and conditions included in the publicly available constitutive documents,

- The LLP Law will make provision for the migration of LLPs to and from Guernsey. (The migration regime can be adopted from the 2008 Company Law regime).

5.2. A Guernsey LLP will be able to adopt separate legal personality. Regardless of whether it has separate legal personality, the LLP will exist in perpetuity unless dissolved or wound up. A change in the members, through death, retirement, or resignation will not affect the existence of an LLP.

5.3. Members of an LLP will have limited liability for the acts or omissions of other members. A creditor will be able to pursue the assets of the LLP but not the personal assets of each and every member. However, individual members will be personally liable for their own actions. For example where a member of an LLP is negligent then that partner will remain personally liable for that negligence. This would allow a creditor to pursue the personal assets of the negligent partner in the event that the assets of the LLP were insufficient to satisfy any judgement. The personal assets of the innocent members of the LLP would be protected. However, if a partner is party or privy to an act or omission that gives rise to personal liability, he will be co-extensively liable with the defaulting member.

5.4. In addition to the limitation of liability of members set out above, the Law should specify the following qualifications on the liability of members of an LLP:

- in the absence of a contrary agreement, members of an LLP should not be personally liable in respect of an LLP's breach of contract,

- A member of an LLP will not be personally liable for the fraud of an LLP unless that member was a party to the fraud or otherwise knowingly involved in that fraud.

5.5. This provides a degree of protection to consumers and should allow professionals to use the LLP structure. Whether any particular profession is permitted to practice through an LLP structure will depend on that profession's own rules and is a decision of the governing body of that particular profession.

6. Formation of an LLP

6.1. An LLP will only come into existence once it has been registered by the Company Registrar, following receipt of an appropriate application and the payment of such fee as is prescribed by the Registrar. At a minimum the application must:

- Identify the names and addresses of the original partners (of which there must be at least two),
- Specify the nature of the activities to be conducted by the LLP (which need not be carrying on business with a view to a profit, but must be a lawful activity),
- Provide a name for the LLP. (The provisions on names for LLPs should mirror those contained in the *Companies (Guernsey) Law, 2008*),
- Provide a written copy of the partnership agreement. The LLP will be required to have a written partnership agreement at all times,
- Identify the LLPs registered office which must be situated in Guernsey.

6.2. To ensure that the administrative costs of an LLP are kept to a minimum only a small number of matters will need to be filed with the Registrar on an ongoing basis, (all of which shall be available for inspection on the Register of LLPs):

- Any change to the identity of the members or the LLP,
- The members of an LLP will need to provide an address for service, changes of which must be notified to the Registrar,
- The members of an LLP will need to provide a residential address to the Registrar, however much as is the case of directors under the *Companies (Guernsey) Law, 2008* such information will not be publicly available,
- The LLP will need to notify the Registrar of any changes to its partnership agreement, such changes should only be permitted by a resolution of 75% of the members (or such other percentage as set out in the partnership agreement),
- The LLP will need to file an annual validation with the Registry each year.

6.3. An application to form an LLP will be made to the Company Registrar. Only corporate service providers will be able to form LLPs (using the online service currently offered by the Registry.)

6.4. The Registrar will be given the power to levy fees for incorporating or registering LLPs. He will also be entitled to charge on-going fees for carrying out any of his functions under the Law. The Registrar shall prescribe the fees by regulation after consulting with the Commerce and Employment Department. The level of fees should be set to produce revenue for the Registry and ultimately the States.

6.5. The Department and the Company Registrar intend to conduct public consultation on the level of fees prior to the Law coming into force.

6.6. The Law should enable to creation of an electronic registry for LLPs. This may require some further development of the IT system in the Company Registry and the Registrar shall liaise with the Commerce and Employment Department regarding the on-going development costs.

7. Ongoing feature of the Guernsey LLP

7.1. The Law will also set out the requirements for a valid LLP agreement and contain a number of minimum provisions concerning the internal management of the LLP. The minimum requirements would set out the following:

- That a member of an LLP may resign in writing at any time,
- That once resigned the member may realise his capital at that time,
- That all members have the right to share in the management of the LLP,
- That on the death or insolvency of a member of an LLP their capital is realised and vested in whomsoever is administering that member's estate.

7.2. Those provisions will operate where the LLP agreement does not provide for certain matters. The members of the LLP could choose to implement alternative arrangements in their written agreement.

7.3. The Law should give the Commerce and Employment Department the discretion to prescribe a standard partnership agreement in due course. This power should only be exercised if there is sufficient industry demand. Unlike the position under the *Companies (Guernsey) Law, 2008* the Department will need to examine the uses to which LLPs are being put before being able to determine whether or not it is appropriate or practicable to prescribe a standard LLP agreement.

7.4. On incorporation the members of an LLP will be those individuals whose names are on the incorporation document. Thereafter the LLP agreement may prescribe how another person may become a member of the LLP.

7.5. The partnership agreement may make such provision for management and administration of the LLP as agreed between the members. In the event of a dispute between the members, the Royal Court shall have jurisdiction to interpret and enforce the LLP agreement as if it were a contract between each of the members and between the members and the LLP.

7.6 All LLPs will be required to identify to the public that they are an LLP by including the term "Limited Liability Partnership" or "LLP" on all correspondence and at the registered office of the LLP.

8. Other Aspects of the LLP Law

8.1. LLPs should be able to indemnify its members out of the assets of the LLP. The indemnity may be included in the LLP agreement. LLPs shall be permitted to purchase insurance for its members.

8.2. The Law should also ensure that there is a clear distinction between the members of the LLP and those employed by the LLP. The Law must be clear that employees of the LLP are not to be considered members. The members of an LLP will only be those members registered with the Registry.

8.3. The Law should provide a mechanism for disqualifying individuals from being members of an LLP. The disqualification provision should be similar to those which apply to directors under the *Companies (Guernsey) Law, 2008*.

9. Transfer of Partnerships into LLP's

9.1. Existing conventional Guernsey partnerships would be able become an LLP if they so chose, subject to any restrictions imposed by professional bodies. It would be necessary to apply to the Registrar in the same manner as set out above. Where the application was made by a professional partnership, such as lawyers, accountants, or medical practitioners, the application would need to be accompanied by evidence that the appropriate professional body responsible for admitting members to that profession had consented to members of that profession practising through an LLP. That consent could be granted on a general or specific basis and be subject to conditions if the appropriate professional body saw fit.

9.2. Prior to making an application it would be necessary for the partnership to give public notice of the partnership's intention to convert to an LLP and give any interested person an opportunity to make representations to the Registrar on the application. The Law will specify how such notices are to be given.

9.3. The Law will require transitional arrangements for those ordinary partnerships that decide to become LLPs. A converted LLP will not provide retrospective limited liability. For all creditors of the partnership where the liability was incurred prior to incorporation of the LLP, the partners will remain jointly and severally liable. This will prevent LLPs from being formed to defraud creditors.

9.4. The Law should also allow for a company to convert to an LLP and vice versa provided that creditor's rights are not affected. Again the model used in the *Companies (Guernsey) Law, 2008* can be adapted.

10. Insolvency and Winding Up

10.1. In the UK insolvency of an LLP is governed by the general insolvency law with a range of modifications through regulations issued by the government. This system is complicated and inappropriate for Guernsey. The Law should instead have a stand alone insolvency regime for LLPs similar to that in the *Companies (Guernsey) Law, 2008*.

11. Consultation

11.1. The Department released a public consultation document in 2008 to which it has had numerous responses, uniformly supportive of the introduction of LLPs. Many of the suggestions made by industry have been incorporated into this Report. The Guernsey Bar and the Guernsey Society of Chartered and Certified Accountants have also been consulted.

11.2. The Law Officers have been consulted and raise no objections to the introduction of an LLP Law along the proposed lines.

12. Legislation

12.1. A Projet de Loi will be required to introduce LLPs into Guernsey.

13. Recommendation

13.1. The Department recommends the States resolve:

(a) to approve the introduction of LLPs in Guernsey as outlined in this Report; and

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

Yours faithfully

C S McNulty Bauer
Minister

(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:-

XI.- Whether, after consideration of the Report dated 11th March, 2009, of the Commerce and Employment Department, they are of the opinion:-

1. To approve the introduction of Limited Liability Partnerships in Guernsey as outlined in that Report.

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

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

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

The States are asked to decide:-

XI.- Whether, after consideration of the Report dated 13th November, 2012 of the Commerce and Employment Department, they are of the opinion:-

1. To approve the proposals set out in that States Report.

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

HOME DEPARTMENT

POLICE COMPLAINTS COMMISSION – APPOINTMENT OF MEMBER

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1FH

3 October 2012

Dear Sir

1. Executive Summary

1.1 The purpose of this report is to propose the appointment of Miss Alison Quinn on a four year term as an ordinary member of the Police Complaints Commission to fill the vacancy which has arisen following the resignation of Mr. Gavin St Pier.

2. Background

2.1 The Police Complaints Commission is established under the Police Complaints (Guernsey) Law, 2008 to provide independent oversight into the investigation of complaints made against the Police. The Commission consists of a Chairman and five ordinary members who are appointed by the States of Deliberation upon the recommendation of the Home Department.

2.2 Upon his successful election as a People's Deputy in April's election for the district of St Sampson's, Gavin St Pier resigned from the Police Complaints Commission leaving a vacancy within the Commission.

2.3 Following Mr St Pier's resignation, the Home Department launched a recruitment drive to attract applicants. Whilst no formal qualifications are required for the role, the Department sought to attract individuals who were fair, objective and non-judgemental with the ability to read and understand complex matters.

2.4 The Department received a number of applications and was pleased and impressed at the outstanding calibre of individuals who wished to be considered as ordinary members. Indeed, the obvious quality, experience and enthusiasm of all the candidates made the interviewing process particularly difficult.

2.5 Following the interview process, the Home Department is pleased to nominate Miss Alison Quinn to serve as an ordinary member of the Police Complaints Commission for four years commencing 1st February 2013.

2.6 Miss Quinn has a diverse background, with experience as a community services volunteer and an assistant psychologist for the Guernsey Learning Disability Services and gaining a Masters in Learning Disability. Miss Quinn has also worked within the finance sector in London and is a qualified accountant. The Department feels that Miss Quinn has the necessary experience and qualities to play a positive role in the Commission and will further complement group dynamics, resulting in a strong and effective team.

Recommendation

The Home Department recommends the States:

1. Approve the appointment of Miss Alison Quinn as an ordinary member of the Police Complaints Commission for a period of four years with the option to be reappointed as defined in the legislation.

Yours faithfully

J P Le Tocq
Minister

F W Quin
Deputy Minister

M Le Clerc
A M Wilkie
B N Kelly
A L Ozanne

(NB As there are no resource implications identified in the report, the Treasury and Resources Department has no comments to make.)

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

The States are asked to decide:-

XII- Whether, after consideration of the Report dated 3rd October, 2012, of the Home Department, they are of the opinion to appoint Miss Alison Quin as an ordinary member of the Police Complaints Commission for a period of four years with the option to be reappointed as defined in the legislation.

HOME DEPARTMENT

SPEED LIMITS FOR EMERGENCY SERVICES VEHICLES ETC

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

15th October, 2012

1 Executive Summary

1.1 This States Report proposes that:

(a) emergency service or law enforcement agency drivers and their trainers should be permitted to exceed the speed limit whilst undergoing driver training in Guernsey,

(b) drivers of motor vehicles for emergency services or law enforcement agencies including the Guernsey Police, the Guernsey Fire and Rescue Service, and the Guernsey Ambulance and Rescue Service should be permitted to drive in excess of the speed limit in an emergency or for law enforcement purposes,

(c) the restriction placed upon larger motor vehicles not to drive at a speed in excess of 25 mph and the requirement that this restriction is marked on the side of such vehicles in characters not less than two inches in height should only apply to motor vehicles with a maximum authorised mass exceeding 3,500 kilogrammes, rather than the unladen weight of two tons (2031kg) which currently includes some larger saloon cars, and

(d) the requirement that at a race or speed trial there must be an interval between the finish of one vehicle's run and the start of the next vehicle's run should be removed.

2 Speed limits for emergency service and law enforcement agency vehicles

2.1 As part of their service to our island community, members of the emergency services and law enforcement agencies are occasionally required to drive their vehicles at speeds in excess of the speed limit. To ensure the safety of other drivers, they may only do so in defined circumstances.

2.2 In accordance with section 7 of the Road Traffic (Speed Limits and Trials) Ordinance, 1987 ("the Ordinance"), the driver of a vehicle may only exceed the speed limit:

(a) for police purposes: in an emergency, or in pursuit of the driver or rider of any vehicle which is suspected of exceeding any speed limit, or
(b) for fire brigade or ambulance purposes: if the person in charge of the vehicle causes its warning apparatus to be sounded.

2.3 The current position therefore has significant drawbacks for the efficient operation of the emergency services and law enforcement agencies in Guernsey as, unlike in all other United Kingdom and Crown Dependency jurisdictions, there is no express provision to allow drivers of their vehicles to exceed the speed limit as part of their training; and fire brigade and ambulance drivers must always sound their vehicle's warning apparatus when exceeding the speed limit.

2.4 It should be underlined that nothing in this States Report seeks to remove or diminish the responsibility of members of the emergency services or law enforcement agencies to drive carefully at all times and they will continue to be held accountable should they drive dangerously or without due care and attention.

2.5 The primary objective of this legislative provision is to further reduce any current risk to Guernsey road users by ensuring that emergency / law enforcement officers are qualified and remain qualified and accredited to respond to urgent calls for assistance. In this regard it is proposed by all relevant service chief officers that any emergency service / law enforcement driver training in excess of the Island’s speed limits, which is to be authorised by them, will be undertaken in compliance with UK national best practice.

2.6 It is proposed that the Ordinance is amended to allow emergency service and law enforcement agency drivers to exceed the speed limit while training in Guernsey. Although this amendment would affect all emergency services and law enforcement agencies, it is easiest to identify the difficulties experienced at the moment by reference to the Guernsey Police.

2.7 At present, in order for a police driver to drive a police vehicle in excess of the speed limit on operational duties, that driver must take a driving course in the UK and must be tested annually to ensure driving standards are maintained. There is no intention to undertake any intensive initial training on-Island. However, as it is not currently possible for re-accreditation testing to take place in Guernsey, it can be difficult to properly assess a driver’s continuing ability to respond swiftly and safely given the unique local context. Road conditions on the island are not the same as those on the mainland and therefore reliance on re-accreditation training in the UK is not considered to be the safest method or the most cost effective means of training. A high level of professionalism is rightly expected from emergency service or law enforcement agency drivers but it is not possible to maintain a suitable and ongoing re-accreditation regime to support them under the current circumstances.

2.8 A second drawback is evident in respect of the training of police officers to use VASCAR speed detection equipment. This training requires police officers to judge and react to moving vehicles but this is inevitably limited in a local simulation as vehicles can only be driven at a maximum speed of 35 mph.

2.9 Unfortunately it is not possible to be entirely risk averse when providing an emergency response; however training and regular re-qualification by an accredited driving instructor is vital to mitigate the risks to our community. It is intended that most forms of specialist driver training will still be undertaken in the UK; the provision of annual re-qualification checks to be conducted locally is essential in order to ensure that driving standards on Guernsey's unique road systems are maintained. Safety of the public is paramount.

2.10 It is therefore suggested that a driver should be permitted to exceed the speed limit when driving a vehicle for training purposes if:

(a) that vehicle is being driven for and on behalf of –

(i) the Guernsey Fire and Rescue Service,

(ii) the Guernsey Airport Fire and Rescue Service,

(iii) the Guernsey Police,

(iv) the Guernsey Border Agency, or

(v) the Guernsey Ambulance and Rescue Service, and

(b) that vehicle is being driven as part of an activity which is designated as "training" by the Chief Officer of the relevant emergency service or law enforcement agency.

2.11 Currently the driver of an ambulance responding to an emergency in the early hours of the morning must use the vehicle's siren before the vehicle can be driven faster than the 25mph speed limit outside the Ambulance Station in the Rohais. It is arguable that this adds little to the safety of other road users whilst no doubt causing extreme annoyance to local residents at such an anti-social time. This restriction also applies to the Fire and Rescue Service, and the Airport Fire and Rescue Service.

2.12 Therefore, it is suggested that drivers from any of the emergency services or law enforcement agencies listed above should be permitted to exceed the speed limit "in response to an emergency or for law enforcement purposes", without the requirement that warning apparatus is sounded. It is considered sensible that sirens should be used at the discretion of the driver, taking into account the prevailing conditions and any relevant emergency service or law enforcement agency policy.

2.13 These amendments would therefore bring Guernsey legislation into line with that in the UK and the other Crown Dependencies, improve the training of emergency service or law enforcement agency drivers to ensure safe driving when responding swiftly to urgent calls and reduce the environmental impact caused by the overuse of sirens.

3 <u>Vehicle weight and speed limits</u>

3.1 Under the same Ordinance, a motor vehicle exceeding two tons unladen weight is restricted to 25mph (section 3(1)(b)) and must have the unladen weight and speed limit marked on the side of the vehicle (section 5). In effect, this means that a range of large saloon cars and 4x4 vehicles are in law restricted to a maximum speed of 25 mph and must have this restriction marked on the side in characters not less than two inches in height.

3.2 As the intention of section 3(1)(b) was primarily to prevent commercial and goods vehicles travelling at dangerous speeds, sensible policing of this provision has not led to enforcement action being taken against the owners of saloon cars and 4x4 vehicles. The improved standard of vehicle design and construction means that road safety is unlikely to be an issue for these latter vehicles and it is proposed that this long standing anomaly should be removed.

3.3 It is suggested that section 3(1)(b) should be amended so that “a motor vehicle with a maximum authorised mass exceeding 3,500 kilogrammes” is subject to the speed restriction and marking requirements found in the Ordinance. This weight is in alignment with the current driving licence categories i.e. the common category B licence permits the driving of vehicles up to 3,500 kilogrammes. Articulated vehicles and omnibuses will still be restricted to 25mph irrespective of weight as well as other larger vehicles.

3.4 As a consequential amendment, it is also proposed that, as the maximum authorised mass of a vehicle rather than its unladen weight will now become the relevant factor in deciding if section 3(1) applies to a vehicle, the requirement in section 5 to the marking of such a vehicle should also refer to its maximum authorised mass.

4 <u>Speed trials</u>

4.1 The Department has also received a request from the Guernsey Kart and Motor Club LBG and the Guernsey Motor Cycle and Car Club that the current wording of the provisions regarding speed trials found in this Ordinance should be amended. Section 4 prohibits the promotion of or participation in a race or speed trial on the public highway except where (i) there is an interval of time between the finish of one vehicle's run and the start of the next vehicle's run, and (ii) it takes place on a date, place and time approved by the Department and under such conditions as the Department thinks fit.

4.2 As cameras on the course now allow the timekeeper who starts vehicles to watch the previous vehicle's run and decide whether it is safe to start the next vehicle, which arrangement has been approved by the Motor Sport Association (the motor sport governing body for the UK) and the Auto-Cycle Union (the Governing Body for motorcycle sport throughout Britain), the safety of participants and spectators no longer requires that there should be an interval between the run of one vehicle and that of the next.

4.3 It is therefore proposed that the Ordinance should be amended to remove the requirement of an interval but, as the Department retains the power to set out conditions to ensure the safety of those involved or watching, it could still insist that any speed trial or timed trial conforms with the relevant safety requirements set down by the Motor Sport Association or the Auto-Cycle Union.

5 Resources

5.1 It is not anticipated that these proposals will result in any additional expenditure by the States.

5.2 A consequence on not accepting the proposals which comply with existing best practice in other jurisdictions would be an additional cost for emergency services to undertake their driving re-qualification off-island, necessary to mitigate the risks to local road users by maintaining driving standards.

6 Consultation

6.1 The Law Officers support the legislative amendments proposed in this States Report. The agencies listed in paragraph 2.10, the Guernsey Kart and Motor Club LBG and the Guernsey Motor Cycle and Car Club have also been consulted and are in agreement with the proposals.

7 Principles of Good Governance

7.1 The proposals made in this States Report are in accordance with the Principles of Good Governance as outlined in Billet D'Etat IV 2011, particularly Principle 5 "developing the capacity and capability of the governing body to be effective."

8 Recommendation

8.1 The Department recommends the States be asked to direct the preparation of legislation in accordance with the foregoing, to:

(a) allow drivers of the agencies listed in paragraph 2.10 and their trainers to exceed the speed limit while training in Guernsey,

(b) allow drivers of the agencies listed in paragraph 2.10 to drive motor vehicles in excess of the speed limit in an emergency or for law enforcement purposes,

(c) impose the requirement that a motor vehicle cannot be driven at a speed exceeding 25 mph and that this restriction must be marked on the side of a vehicle on motor vehicles with a maximum authorised mass exceeding

3,500 kilogrammes rather than motor vehicles which exceed two tons unladen weight, and

(d) remove the requirement that at a speed trial or race there must be an interval between the finish of one vehicle's run and the start of the next vehicle's run.

Yours faithfully

J P Le Tocq
Minister

F W Quin, Deputy Minister
M K Le Clerc
A M Wilkie
B N Kelly

(NB As there are no resource implications identified in this report, the Treasury and Resources Department has no comments to make.)

(NB The Policy has no comments to make on the Report.)

The States are asked to decide:-

XIII**.-** Whether, after consideration of the Report dated 15th October, 2012, of the Home Department, they are of the opinion:

1. To direct the preparation of such legislation as may be necessary in accordance with that Report, to :

   (a) allow drivers of the agencies listed in paragraph 2.10 and their trainers to exceed the speed limit while training in Guernsey,

   (b) allow drivers of the agencies listed in paragraph 2.10 to drive motor vehicles in excess of the speed limit in an emergency or for law enforcement purposes,

   (c) impose the requirement that a motor vehicle cannot be driven at a speed exceeding 25 mph and that this restriction must be marked on the side of a vehicle on motor vehicles with a maximum authorised mass exceeding 3,500 kilogrammes rather than motor vehicles which exceed two tons unladen weight, and

   (d) remove the requirement that at a speed trial or race there must be an interval between the finish of one vehicle's run and the start of the next vehicle's run.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE SEA FISH LICENSING (LICENCE FEES) (GUERNSEY) REGULATIONS, 2012

In pursuance of Section 5(3)(c) of the Sea Fish Licensing (Guernsey) Ordinance, 2003, the Sea Fish Licensing (Licence Fees) (Guernsey) Regulations, 2012, made by the Commerce and Employment Department on 16th October 2012, are laid before the States.

EXPLANATORY NOTE

These regulations prescribe, for the purposes of section 5 of the Sea Fish Licensing (Guernsey) Ordinance, 2003, the fee payable in Guernsey in respect of a licence authorising fishing for sea fish within the Bailiwick fishery limits. The fee is not payable where the licence applied for authorises fishing only within the territorial seas adjacent to Guernsey, Alderney and/or Sark. This regulation came into operation on 16th October 2012.

THE HEALTH SERVICE (BENEFIT) (LIMITED LIST) (PHARMACEUTICAL BENEFIT) (AMENDMENT) (No.4) REGULATIONS, 2012

In pursuance of Section 35 of The Health Service (Benefit) (Guernsey) Law, 1990, The Health Service (Benefit) (Limited List) (Pharmaceutical Benefit) (Amendment) (No.4) Regulations, 2012 made by the Social Security Department on 13th November 2012, are laid before the States.

EXPLANATORY NOTE

These Regulations add to the limited list of drugs and medicines available as pharmaceutical benefit which may be ordered to be supplied by medical prescriptions issued by medical practitioners. These Regulations came into operation on 13th November 2012.

THE HEALTH SERVICE (PAYMENT OF AUTHORISED SUPPLIERS) (AMENDMENT NO.2) REGULATIONS, 2012

In pursuance of Section 35 of The Health Service (Benefit) (Guernsey) Law, 1990, The Health Service (Payment of Authorised Suppliers) (Amendment No.2) Regulations, 2012 made by the Social Security Department on 27 November 2012, are laid before the States.

EXPLANATORY NOTE

These Regulations revoke Regulation 4A of The Health Service (Payment of Authorised Suppliers) Regulations, 2003 which provide for fees payable in respect of medicines use reviews carried out by authorised suppliers who are pharmacists not employed by medical practices or the Health and Social Services Department. These Regulations came into operation on 27 November 2012.

THE MILK (RETAIL PRICES) (GUERNSEY) ORDER, 2012

In pursuance of Section 8 (1) of the Milk (Control) (Guernsey) Ordinance, 1958, The Milk (Retail Prices) (Guernsey) Order, 2012, made by the Commerce and Employment Department on 4th September 2012, is laid before the States.

EXPLANATORY NOTE

This Order changes the retail price to be charged for milk sold in litres and half litres from 7th October 2012. This Regulation came into operation on 7th October 2012.

THE ASH TREES (CONTROL OF IMPORTATION) ORDER, 2012

In pursuance of Section 14 of the Import and Export (Plant Health) Ordinance, 1982, The Ash Trees (Control of Importation) Order, 2012, made by the Commerce and Employment Department on 30th October 2012, is laid before the States.

EXPLANATORY NOTE

This Order prohibits the importation into Guernsey, Herm and Jethou of ash trees as a precautionary measure to protect local trees from the fungus *Chalara fraxinea*. The fungus has recently been identified in the United Kingdom. It causes dieback and has the potential to kill many ash trees should it become established in the Islands. This order came into operation on 30th October 2012.

APPENDIX 1

POLICY COUNCIL

STATES OF GUERNSEY PUBLIC SERVANTS' PENSION SCHEME:
2013 PENSIONS INCREASE

In accordance with the States of Guernsey (Public Servants) (Pensions and Other Benefits) (Amendment No 2) Rules, 1997, approved by the States on 29 October 1997 (Article X of Billet d'Etat No XIX of 1997), the Policy Council, after consultation within the Pensions Consultative Committee, has resolved that pensions in payment and preserved pensions and other benefits not yet in payment be increased with effect from 1 January 2013 as follows:

(a)	awarded prior to 1 January 2012	by **3.2%**
(b)	awarded in the period from 1 January 2012 to 31 December 2012	by $^{1}/_{365}{}^{th}$ **of 3.2% for each day of entitlement**

(i.e. in line with the change in the Retail Price Index for the twelve months ending on 30 June 2012).

Deputy Peter A Harwood
Chief Minister

27 November 2012

J P Le Tocq
Deputy Chief Minister

Deputy G A St Pier
Deputy D B Jones
Deputy R W Sillars
Deputy P A Luxon
Deputy A H Langlois

Deputy K A Stewart
Deputy A H Adam
Deputy M G O'Hara
Deputy R Domaille abstained due to a declared interest

APPENDIX 2

TREASURY & RESOURCES DEPARTMENT

GUERNSEY ELECTRICITY LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

4th December 2012

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 2012.

The company made a profit on ordinary activities before taxation of £5,058,000 (2011: £1,801,000) mainly due to increases in tariffs and a reduction in the cost of sales. However, the declaration of a dividend in 2012 (£1million under the current agreed arrangements) has been deferred due to the exceptional circumstances arising from the failure of the Guernsey to Jersey electricity interconnector (2011: dividend of £484,000).

I should be grateful if you would include this matter as an Appendix to the January 2013 Billet d'Etat.

Yours faithfully

Gavin St Pier
Minister

Guernsey Electricity Limited

Report and financial statements

31 March 2012

Guernsey Electricity Limited

Contents

Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	Advocate IH Beattie	(non-executive Chairman) – from 19 July 2011
	AM Bates	(managing)
	IJ Limond	(finance)
	SJ Morris	(engineering) – retired 1 July 2011
	RW Beebe	(operations) – from 10 October 2011
	S-A David	(corporate strategy) – from 10 October 2011
	D Farrimond	(non-executive)
	MJ Mann	(non-executive)
	RP Lawrence	(non-executive) – from 29 September 2011
	IA Hardman	(non-executive) – from 29 September 2011
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 PO Box 20 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 2012. 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 29.

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 2012, turnover from electricity sales amounted to £48,257,000 (2011: £46,292,000) which represents an increase of 4.24% (2011: 11.19%). Tariffs to our customers increased by 6.5% on 1 April 2011 and 2.5% on 1 October 2011 (1 April 2010: 8.5% increase).

The profit for the year before the dividend paid amounted to £4,026,000 (2011: £1,467,000). The retained profit, after the dividend paid in the year, of £3,542,000 (2011: £1,467,000) has been transferred to reserves.

It should be noted that a significant actuarial loss this year from the accounting for pensions, calculated with assumptions based on financial market conditions at the balance sheet date, has been debited to reserves.

Dividend

During the year, a dividend of £484,000 was paid (2011: £Nil paid), being £0.0044 per share (2011: £Nil per share paid). At the company's forthcoming Annual General Meeting due consideration will be given to a proposed dividend of £1,000,000 (2011: £484,000 proposed), being £0.0092 per share (2011: £0.0044 per share proposed).

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 by the Office of Utility Regulation (OUR) in March 2011 covered 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. During 2011, the price control was considered in the context of the unrecovered non-controllable costs incurred during the previous four year price control, which are largely those relating to wholesale oil and import costs. This resulted in a decision by the OUR for a further increase in tariffs of 2.5% from 1 October 2011. This decision also allowed for another 2.5% increase in tariffs from 1 April 2012, which is to be maintained for a four year period in order to recover these uncontrollable costs. Further income will be needed to fund the capital investment requirements of the company. In addition, the company is faced with an initial cash outflow estimated at £10,000,000 payable over the coming months to cover the cost of a repair to the cable link between Guernsey and Jersey following a cable fault on 29 April 2012. (See note 27)

Customers

The number of customers as at 31 March 2012 is 29,458 (2011: 29,280).

Guernsey Electricity Limited

Directors' report - continued

Units
Importation through the cable link between Guernsey, Jersey and the European grid provided 82% (2011: 78%) of the island needs in the year ended 31 March 2012 and 18% (2011: 22%) was generated on the island, as shown by the units analysis below:

	2012	2011
Units imported MWh	**312,703**	308,600
Units generated MWh	**68,056**	84,633
Total units imported/generated MWh	**380,759**	393,233

Average price
The average price per kWh sold in the year ended 31 March 2012 was 13.57 pence (2011: 12.33 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 62.19 minutes due to generation activity (2011: Nil minutes) and 22.14 minutes were lost per customer in respect of distribution (2011: 10.00 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 Auditor
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 auditor is 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 auditor is aware of that information.

Auditor
A resolution for the appointment of auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors

IH Beattie

Iain Limond

IJ Limond
Directors
14 June 2012

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 Treasury & Resources Department. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

The company is controlled through the Board of Directors, which currently comprises five non-executive and four 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 monthly.

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 Treasury & Resources Department. 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 Treasury & Resources Department) 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 Treasury & Resources Department as nominees on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Treasury & Resources Department on the policies it wishes to be pursued in fulfilling this role. Each year, the company submits its forward plan to the Treasury & Resources Department. 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.

Guernsey Electricity Limited

Corporate governance - continued

Financial reporting

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

Internal control

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

Risk management

The Board of Directors has overall responsibility for identifying, evaluating and managing major business risks facing the company. A risk register is in place and this is administered by the Corporate Strategy Director, 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, a leading entity in providing such services. The Corporate Strategy Director, in association with RSM Tenon, reports on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

Guernsey Electricity Limited

Statement of directors' responsibilities

The directors are responsible for preparing 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 financial statements of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2012 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 and Financial Statements 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 2012 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards; 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

15 June 2012

Guernsey Electricity Limited

Profit and loss account
for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Turnover	*2*	**51,887**	50,380
Cost of sales		**(35,870)**	(36,994)
Gross profit		**16,017**	13,386
Net operating expenses		**(11,349)**	(11,365)
Operating profit	*3*	**4,668**	2,021
Loss on disposal of assets		**(27)**	(239)
Profit on ordinary activities before interest, other finance cost and other income		**4,641**	1,782
Interest receivable	*4*	**521**	355
Interest payable	*4*	**(1)**	(1)
Other finance cost		**(103)**	(335)
Profit on ordinary activities before taxation		**5,058**	1,801
Taxation	*5*	**(1,032)**	(334)
Profit for the financial year after taxation		**4,026**	1,467

All activities derive from continuing operations.

The notes on pages 12 to 29 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses
for the year ended 31 March 2012

	Note	**2012 £'000**	2011 £'000
Profit for the financial year		**4,026**	1,467
Actuarial (loss)/gain recognised in the pension scheme	*24*	**(7,218)**	5,198
Movement on deferred tax relating to pension deficit	*14*	**1,394**	(1,001)
Total recognised (loss)/gain for the year		**(1,798)**	5,664

The notes on pages 12 to 29 form an integral part of these financial statements.

Guernsey Electricity Limited

Balance sheet
at 31 March 2012

	Note	2012 £'000	2011 £'000
Tangible fixed assets	*7*	**93,527**	93,182
Investment	*8*	**-**	1
Current assets			
Stocks and work in progress	*9*	**7,830**	5,998
Debtors and prepayments	*10*	**10,762**	10,275
Balances with States Treasury	*11*	**16,829**	13,779
Cash at bank and in hand		**253**	433
		35,674	30,485
Creditors: amounts falling due within one year	*12*	**(8,629)**	(8,320)
Net current assets		**27,045**	22,165
Total assets less current liabilities		**120,572**	115,348
Creditors: amounts falling due after more than one year	*13*	**(3,874)**	(3,672)
Provision for liabilities and charges	*14*	**(1,222)**	(98)
Net pension deficit	*24*	**(13,256)**	(7,076)
Net assets including pension deficit		**102,220**	104,502
Share capital	*15*	**109,209**	109,209
Reserves	*19*	**(6,989)**	(4,707)
Shareholders' funds	*20*	**102,220**	104,502

The financial statements on pages 8 to 29 were approved by the Board of Directors on 14 June 2012.

Signed on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors

The notes on pages 12 to 29 form an integral part of these financial statements.

Guernsey Electricity Limited

Cash flow statement
for the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	*16*	**8,600**	6,566
Returns on investments and servicing of finance			
Interest received		**521**	367
Interest paid		**(1)**	(1)
Net cash inflow from returns on investments and servicing of finance		**520**	366
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(6,226)**	(5,439)
Proceeds/(costs) of disposal of tangible fixed assets		**114**	(20)
Customers' contributions towards capital expenditure		**346**	431
Net cash outflow from capital expenditure and financial investment		**(5,766)**	(5,028)
Equity dividends paid	*6*	**(484)**	-
Net cash inflow before use of liquid resources and financing		**2,870**	1,904
Management of liquid resources			
Net cash movements with States Treasury		**3,050**	2,414
Decrease in cash	*17 & 18*	**(180)**	(510)
Net cash inflow		**2,870**	1,904

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 29 form an integral part of these financial statements.

Guernsey Electricity Limited

Notes to the financial statements
Year ended 31 March 2012

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 Companies (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

Sales of electricity

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

Hire purchase

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

Interest

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

Deferred income

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

Tangible fixed assets and depreciation

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

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

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.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

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 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 and on major infrastructure projects, including the new on-island generator 2D. 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.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

2. Turnover

	2012	2011
	£'000	£'000
Sales of electricity	**48,257**	46,292
Other sales	**3,630**	4,088
	51,887	50,380

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.

3. Operating Profit

Operating profit is after charging/(crediting):

	2012	2011
	£'000	£'000
Depreciation (note 7)	**5,521**	5,340
Rentals under operating leases	**12**	12
Auditors' remuneration - statutory audit	**36**	33
Bad debts	**31**	57
Emoluments		
- non-executive directors	**41**	40
- executive directors		
- basic remuneration	**349**	346
- other benefits (including pension costs under FRS17)	**136**	163
Regulatory costs - external (excluding non-audit services)	**360**	423
- internal	**133**	178
Other operating income	**(609)**	(620)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

4. Interest

	2012	2011
	£'000	£'000
Interest receivable:		
Deposits with banks and States Treasury	**380**	215
Hire purchase	**141**	140
	521	355
Interest payable:		
Bank overdraft	**-**	-
Security deposits	**1**	1
	1	1

5. 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.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

5. 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 19.3209% (2011: 19.2619%) 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 2012.

The deferred tax charge in the profit and loss account for the year is:

	2012	2011
	£'000	£'000
Timing differences on capital allowances and depreciation	**71**	69
Short term timing differences (pension)	**(92)**	12
Short term timing differences (other)	**(26)**	(37)
Movement on unrelieved trading losses	**1,079**	290
	1,032	334

6. Dividend

	2012	2011
	£'000	£'000
Paid in the year, £0.0044 per share (2011: £Nil per share paid)	**484**	-
Proposed dividend of £0.0092 per share (2011: £0.0044 per share proposed)	**1,000**	484

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

7. Tangible fixed assets

	1 April 2011 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2012 £'000**
Cost				
Land and buildings	30,048	499	51	**30,496**
Cable link	28,856	92	-	**28,948**
Plant and machinery:				
Generation	34,970	2,454	29	**37,395**
Distribution	11,165	698	52	**11,811**
Distribution network	27,969	1,717	220	**29,466**
Motor vehicles, furniture and equipment, minor plant	4,838	546	374	**5,010**
	137,846	6,006	726	**143,126**

	1 April 2011 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2012 £'000**
Depreciation				
Land and buildings	7,622	902	34	**8,490**
Cable link	11,327	1,266	-	**12,593**
Plant and machinery:				
Generation	14,197	1,408	21	**15,584**
Distribution	2,065	324	28	**2,361**
Distribution network	6,818	1,041	155	**7,704**
Motor vehicles, furniture and equipment, minor plant	2,635	580	348	**2,867**
	44,664	5,521	586	**49,599**
Net book value	93,182			**93,527**

Included above are assets in the course of construction of £3,924,000 (2011: £4,896,000), which are not depreciated.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

8. Investment

In 2004, 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 was a minority interest and the holding was less than 5%. The benefits of this investment were spread over more than one year with a total impairment of £249,000 being charged to the profit and loss account over the period 2004 to 2008, leaving a carrying net book value of £1,000. In 2012, the company sold its shares to the majority shareholder, receiving cash proceeds of £114,000 representing £2.05 per share. The profit on disposal of £113,000 has been credited to the profit and loss account.

9. Stocks and work in progress

	2012		2011	
	£'000	**£'000**	£'000	£'000
Fuel stocks		**5,330**		3,377
Purchased goods for resale	**317**		351	
Provision	**(5)**	**312**	(7)	344
Other stocks	**3,526**		3,405	
Provision	**(1,469)**	**2,057**	(1,331)	2,074
Work in progress		**131**		203
		7,830		5,998

10. Debtors and prepayments

	2012	2011
	£'000	£'000
Estimated value of unbilled units	**6,535**	5,458
Customer accounts outstanding	**3,173**	3,973
Other debtors	**683**	450
Prepayments	**371**	394
	10,762	10,275

Included in "Customer accounts outstanding" is an amount of £309,000 (2011: £327,000) due after more than one year.

11. Balances with States Treasury

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

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

12. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	2,778	3,328
Customer payments received in advance	4,646	3,829
Employee taxes and Social Security	157	161
Deferred income	137	127
Accruals and other creditors	911	875
	8,629	8,320

The company has a £750,000 overdraft facility with Barclays Bank Plc (2011: £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 18 August 2012. The States of Guernsey, by way of resolution at its meeting on 15 December 2011, authorised the Treasury & Resources Department to make an overdraft facility of £5m available to the company for a four year period from 1 January 2012 with interest payable at the States Treasury rate.

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

	2012 £'000	2011 £'000
Deferred income	3,874	3,672

14. Provision for liabilities and charges

	2012 £'000	2011 £'000
Deferred taxation:		
Balance at 1 April	(1,591)	(2,926)
Profit and loss account charge	1,032	334
Statement of total recognised gains and losses	(1,394)	1,001
Balance at 31 March	(1,953)	(1,591)
Which comprises:		
Capital allowances in excess of depreciation	7,659	7,588
Short-term timing differences (other)	(138)	(112)
Unrelieved trading loss for tax purposes	(6,299)	(7,378)
Provision for liabilities and charges	1,222	98
Deferred tax asset on pension deficit (note 24)	(3,175)	(1,689)

15. Share capital

	2012 £'000	2011 £'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 2012

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

	2012 £'000	2011 £'000
Operating profit	**4,668**	2,021
Depreciation charge	**5,521**	5,340
Pension service cost	**1,579**	1,697
Employer's pension cash contributions	**(1,234)**	(1,678)
Deferred income	**(137)**	(127)
Increase in stocks and work in progress	**(1,832)**	(307)
Increase in debtors and prepayments	**(487)**	(1,558)
Increase in creditors	**522**	1,178
	8,600	6,566

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

	2012 £'000	2011 £'000
Decrease in cash in the year	**(180)**	(510)
Cash used to increase liquid resources	**3,050**	2,414
Change in net funds	**2,870**	1,904
Net funds at 1 April	**14,212**	12,308
Net funds at 31 March	**17,082**	14,212

18. Analysis of changes in net funds

	At 1 April 2011 £'000	Cash flows £'000	At 31 March 2012 £'000
Cash			
Cash at bank and in hand	433	(180)	**253**
	433	(180)	**253**
Balances with States Treasury	13,779	3,050	**16,829**
	14,212	2,870	**17,082**

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2012

19. Reserves

	2012 £'000	2011 £'000
Balance at 1 April brought forward	**(4,707)**	(10,371)
Profit for the financial year	**4,026**	1,467
Dividend	**(484)**	-
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(5,824)**	4,197
Balance at 31 March carried forward	**(6,989)**	(4,707)

20. Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Shareholders' funds at 1 April brought forward	**104,502**	98,838
Profit for the financial year	**4,026**	1,467
Dividend	**(484)**	-
Actuarial (loss)/gain recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(5,824)**	4,197
Shareholders' funds at 31 March	**102,220**	104,502

21. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £14,521,000 as at 31 March 2012 (2011: £2,859,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Cable link commitments
For the import of power from the European Grid, the company has a contract with Electricite de France ("EdF"). The existing contract is due to expire on 31 December 2012. A new electricity import contract with EdF was signed on 15 June 2011 and is effective for a 10 year period commencing from 1 January 2013. Under the contract, there is a take or pay commitment whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited ("CIEG") and Jersey Electricity plc, for a block of power over the term of the contract. The price at which the take or pay block is charged increases annually over the period of the contract and for calendar year 2013 this equates to a total commitment of €7.9m for Guernsey Electricity Limited.

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

	2012 £'000	2011 £'000
Land and Buildings		
Lease which expires:		
Within one year	**-**	-
Within two to five years	**12**	12

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

22 Financial Instruments
(a) Import Financial Hedge

Our import contract with EdF is denominated in Euros. The company has entered into forward and 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:

											2012	2011
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000 Total	€'000
Forward contracts to purchase Euro	385	812	2,226	2,100	420	160	170	2,380	1,988	2,415	**13,056**	10,440
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Contracted Prices	325	706	1,952	1,865	366	133	141	2,070	1,719	2,082	**11,359**	9,197
Closing Value at 31 March	**321**	**677**	**1,855**	**1,750**	**350**	**133**	**142**	**1,984**	**1,657**	**2,013**	**10,882**	9,228
Unrecognised and unrealised (loss)/gain	(4)	(29)	(97)	(115)	(16)	0	1	(86)	(62)	(69)	**(477)**	31

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

22. Financial instruments - continued

(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 2012/13 of 12,000 metric tonnes. This is priced at £390.00 per tonne for 9,000 metric tonnes and £400.00 per tonne for the remaining 3,000 metric tonnes. The market price from Esso for heavy fuel oil as at 30 March 2012 was £478.78.

(c) 2D Project Hedge

The main contract for the new medium speed diesel engine, 2D, is also denominated in Euros. The company has entered into forward and 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**
Forward contracts to purchase Euro	870	9,168	**10,038**
	£'000	£'000	**£'000**
Contracted prices	733	7,815	**8,548**
Closing value at 31 March	725	7,642	**8,367**
Unrecognised and unrealised loss	(8)	(173)	**(181)**

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**
Forward contracts to purchase Euro	870	11,460	**12,330**
Forward exchange rate	1.18708	1.1731	

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

23. Contingent liability

In connection with the matter reported in last years' financial statements, the company has carried out further investigations and discussions with specialists on the effects of some of our operations at the power station site. The main outcome of this is that during the next financial year anti-vibration engine support mountings will be constructed and fitted to the slow speed engine contained in D-station. The results of this will be monitored during the year and investigations will be initiated on alternative technical solutions should this first step be insufficient. Any further cost of resolving this matter is dependent on the outcome of the actions planned for next financial year. There is still significant risk surrounding the potential cost of resolving the matter but it is estimated to be in the range £0 to £440,000. The Board is seeking to achieve resolution at minimal cost.

24. 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 2010 recommended the decrease of employer's contribution from 17.3% to 14.6% from 1 April 2012 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2012 to 31 March 2013 are estimated at £1,061,000.

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. No additional sum has been contributed this year (2011: £400,000).

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

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

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

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

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

24. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2012 £'000	2011 £'000
Fair value of Fund assets	**43,184**	42,756
Present value of funded obligations	**(59,615)**	(51,521)
Deficit in scheme	**(16,431)**	(8,765)
Related deferred tax asset	**3,175**	1,689
Net pension liability	**(13,256)**	(7,076)

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

	2012 £'000	2011 £'000
Current service cost	**1,579**	1,697
Interest on obligation	**2,796**	2,781
Expected return on Fund assets	**(2,693)**	(2,445)
Expense recognised in the profit and loss	**1,682**	2,033
Actual return on Fund assets	**(73)**	(4,304)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

24. Pension Scheme - continued

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

	2012	2011
	£'000	£'000
Opening defined benefit obligation	51,521	51,168
Service cost	1,579	1,697
Interest cost	2,796	2,781
Contributions by members	470	481
Actuarial losses/(gains)	4,598	(3,338)
Benefits paid	(1,349)	(1,268)
Closing defined benefit obligation	59,615	51,521

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

	2012	2011
	£'000	£'000
Opening fair value of Fund assets	42,756	37,560
Expected return	2,693	2,445
Actuarial (losses)/gains	(2,620)	1,860
Contributions by employer	1,234	1,678
Contributions by members	470	481
Benefits paid	(1,349)	(1,268)
Closing fair value of Fund assets	43,184	42,756

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

	2012 £'000	2011 £'000
Total actuarial (losses)/gains	(7,218)	5,198
Total (loss)/gain recognised in STRGL	(7,218)	5,198
Cumulative amount of loss recognised in STRGL	(20,175)	(12,957)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

24. Pension Scheme - continued

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

	2012	2011
	%	%
Equities	**67**	63
Gilts	**4**	4
Corporate bonds	**15**	14
Property	**6**	6
Other assets	**8**	13

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

	31 March 2012	31 March 2011
	% p.a.	% p.a.
Discount rate	**4.5**	5.5
Expected return on Fund assets at 31 March (for following year)	**5.8**	6.3
Rate of increase in pensionable salaries	**4.05**	4.7
Rate of increase in deferred pensions	**3.3**	3.7
Rate of increase in pensions in payment	**3.3**	3.7

Mortality Assumptions

The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements. The assumptions are that a member aged 65 will live, on average, until age 87, if they are male, and until age 90, if female. For a member currently aged 45, the assumptions are that, if they attain age 65, they will live on average until age 89, if they are male, and until age 92, 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.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2012

24. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**59,615**	51,521	51,168	35,273	33,355
Fund assets	**43,184**	42,756	37,560	28,610	35,868
(Deficit)/surplus	**(16,431)**	(8,765)	(13,608)	(6,663)	2,513
Experience (losses)/gains on Fund assets	**(2,620)**	1,860	6,068	(10,805)	(2,515)
Experience gains on Fund liabilities	**932**	504	1,208	426	659
Change in assumptions underlying the Present value of Fund liabilities	**(5,530)**	2,835	(14,464)	355	6,927
Total Experience (losses)/gains on Fund liabilities	**(4,598)**	3,338	(13,256)	780	7,586

The Fund assets for the year ended 31 March 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 worsened, due to lower than expected investment returns and the effect of the economic assumptions derived from the market. A key factor in the worsening balance sheet position was a loss of about £2.6m as a result of the actual investment return being lower than expected. On the other hand, the balance sheet improved by around £0.9m due to favourable experience items.

An important financial factor underlying the change in assumptions item was the change in relationship between the corporate bond discount rate and the market derived assumption for future inflation. The discount rate decreased by 1%, while the inflation assumption decreased by 0.4%. The effect of the change in assumptions was to increase the value placed on liabilities by about £5.5m.

The net position was an increase of around £7.7m in the deficit determined under FRS17 (before deferred taxation).

25. Statement of control

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

26. 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.

27. Post Balance Sheet Event

On 29 April 2012, a fault arose on the power cable between Guernsey and Jersey. The company switched to on-island generation which assets are an essential requirement of our current security of supply arrangements. However, testing to date indicates that the cable will need a repair. The overall time to effect a repair is estimated at twelve weeks. On-island generation is more expensive than import over this period and in addition to the repair cost, the company is faced with additional costs of generation. The outlay over the coming months for both repair and on-island generation is estimated at a total of £10m. The repair and the on-island generation are subject to claims on two separate insurance policies.

APPENDIX 3

TREASURY & RESOURCES DEPARTMENT

GUERNSEY POST LIMITED - SUBMISSION OF ANNUAL ACCOUNTS

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

4th December 2012

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 2012.

The company made a profit on ordinary activities before taxation of £357,000 which is a significant improvement on 2011 when a loss of £897,000 was incurred. As a consequence a dividend of £89,250 has been paid to the States (2011: £Nil).

The Treasury and Resources Department has been impressed with how Guernsey Post Ltd (GPL) has responded to the serious challenges with which it has been confronted over the past eighteen months or so. GPL's Board of Directors is to be congratulated on the company's response to those challenges and its strong performance over the period. The fact that GPL is anticipating a further profit for the financial year ending 31 March 2013 speaks volumes for the Board of Directors, its management, trade unions and workforce.

Furthermore, and as set out in the 2013 Budget Report, the company intends to return £5million to the shareholder in the form of a buyback of shares.

I should be grateful if you would include this matter as an Appendix to the January 2013 Billet d'Etat.

Yours faithfully

Gavin St Pier
Minister

Guernsey Post Limited

Annual report and financial statements

for the year ended 31 March 2012

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) Andrew Duquemin (Non-Executive) Stuart Le Maitre (Non-Executive) Simon Milsted (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 Board has continued to focus on the implementation of a business transformation plan in order to offset the financial impact of sustained volume decline. Whilst digital substitution continues to revolutionise the communications industry, the impact on our core business has been further compounded by the complete abolition of Low Value Consignment Relief (LVCR). Despite this challenging environment, I am pleased to report that we have made excellent progress over the last twelve months, a fact which is evident from our improved financial performance, which puts the Company in the best possible position to work towards the goal of a sustainable postal service in the long term.

At the outset I would like to thank our customers for their continued support over the last twelve months and our staff who have been extremely professional and flexible during a period of intense uncertainty.

Company Performance

We are pleased to report an operating profit of £31k for the financial year. Whilst this might appear to be a modest performance, it is appropriate to compare it with the operating loss of £918k in the previous year. Without accounting charges for providing for our pension scheme liabilities and one-off restructuring costs for voluntary redundancies, we have seen an improvement of £1.3m in our underlying profitability during this accounting period. However, significant challenges lie ahead, with the loss of LVCR wiping an anticipated £16m off next year's revenue, leaving future profitability uncertain.

I am also pleased that the significant changes implemented across the business have not been at the expense of the quality and price of our services. In both cases our standards have remained high and in keeping with customer expectation.

Pension

Following commercialisation in 2001, the States agreed to allow Guernsey Post to remain in the Public Servants' Pension Scheme (PSPS). The economic circumstances facing the Company since that time have changed beyond all recognition, which means that the volatility, rising cost, open-ended liability and lack of control over the current pension arrangements neither meet our requirements nor represent acceptable risks to the Company.

Poor investment returns, high inflation, low interest rates and rising longevity are causing the cost, volatility and liability of the pension scheme to increase, but as a member of the PSPS it is practically impossible for Guernsey Post to control these factors, for example, by changing the investment strategy, modifying the ratio of employer and employee contributions, or revising the benefit structure of Guernsey Post's section of the scheme. We are determined to take action to manage this risk and during the last year, we have been working with an independent actuary on the implications of our membership of the PSPS, as well as the Company's alternative options for pension provision. We have had detailed discussions with staff representatives as well as making representations to the Pensions Review Group constituted by the States of Guernsey to review the current public sector arrangements and to make recommendations for the future.

Guernsey Post Limited

Chairman's Statement – continued

The financial liability to which Guernsey Post is exposed by the pension scheme is a matter of great concern to the Board. The scheme deficit, as measured under FRS17, has ballooned from £7.8m to £12.2m as a result of worse than expected investment returns and falling interest rates. The accounting cost of providing these benefits under FRS17 stands at nearly £2m per annum. The pension scheme is putting huge and sustained pressure on the profitability of the Company.

The last actuarial valuation of the PSPS however, carried out as at 31st December 2010, indicated that there was a surplus in Guernsey Post's section of the pension scheme. This was based on what we believe were some optimistic assumptions which have had the effect of suppressing the current measurement of the employer's cost of providing the benefits due under the PSPS. Although the recommendation to GPL, flowing from the actuarial review, was to contribute at a rate of 11.4% of earnings, my Board took the decision to continue contributing at a rate of 15% of earnings. Given the uncertainties inherent in the scheme, there is no way of knowing if this will be sufficient to cover our liabilities. It does however reflect the maximum amount we believe the Company can afford to contribute towards our share of meeting those liabilities.

Regulation

Guernsey Post has been regulated by the Office of Utility Regulation (OUR) since 2001. The OUR was established by the States of Guernsey under the Regulation of Utilities (Bailiwick of Guernsey) Law 2001 with the intention of ensuring that consumer interests were protected. Over the ensuing years, there have been disagreements between our respective organisations, particularly in relation to the liberalisation of the postal market and the future sustainability of the Universal Service Obligation. I am pleased to report that we have recently fostered a positive relationship with the Director General of the OUR and his team, supported by the relatively smooth price control process which over the last two years has seen our submission accepted without alteration. It is important to ensure, however, that this positive relationship should not in any way limit debate on the appropriateness of future regulation, considering the very real challenges facing the business.

Since commercialisation, the environment in which we operate has changed beyond all recognition and Guernsey Post is now under significant market pressure in the form of declining core mail volumes and the abolition of LVCR. We accept that a degree of scrutiny is required for any business in a monopoly position, but we also believe that a level of confidence in our actions could be achieved without the current regulatory framework and more significantly, without the financial burden of an annual licence fee that currently stands at £180k.

Capital structure

As I indicated in my report last year, the Board has undertaken a rigorous evaluation of the Company's capital structure in the context of our future funding requirements, the deployment of our reserves and the objectives of our Shareholder. We have concluded that the Company has more capital than it needs and have decided that the re-purchase and subsequent cancellation of five million £1 shares is the most appropriate way to return this surplus money to our Shareholder. This transaction is expected to take place towards the end of 2012 because The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that it is conditional on express authorisation by resolution of the States of Guernsey, which Treasury & Resources expects to seek in October 2012.

Guernsey Post Limited

Chairman's Statement – continued

The Board

Simon Milsted and Stuart Le Maitre joined the Board during the last financial year, as I indicated in my report twelve months ago. They bring with them significant commercial, financial and regulatory skills and experience. We have continued to ensure that strong corporate governance is at the forefront of everything we do and our reporting and risk management processes demand high standards of compliance.

The Board has a robust and effective strategic plan in place, which will ensure a sustainable future for the business.

Finally, in 2011 the Company achieved the Silver standard of the Investors in People award and we have set ourselves the challenge of progressing to the Gold standard in the future. This award recognises a clear focus on training and development, improves working relationships with our trades unions and demonstrates the determination of our staff to ensure business success. It is our intention to build upon this achievement over the coming year as once again we work hard to adapt the business in line with customer requirements and market conditions.

D R Jehan
Chairman
July 2012

Guernsey Post Limited

Chief Executive's Report

The results detailed within this report are extremely encouraging and also reflect a resolute determination within the business to ensure the Bailiwick of Guernsey has an efficient, customer focused and sustainable postal service. At the conclusion of the last financial year we have delivered a significant improvement in our financial results, our quality of our service performance has remained high, and our prices are amongst the most competitive in Europe.

As promised in my report last year, we have taken every opportunity to find efficiencies and reduce our cost base in order to deal with the significant risks and structural changes in the postal market. Most notably these challenges include the loss of Low Value Consignment Relief and the continued global decline in traditional mail volumes. Over the course of the last financial year we have achieved a significant headcount reduction, amounting to 16 full time equivalents; all of which has been achieved through a combination of natural wastage and voluntary redundancy. In addition, we have applied rigorous controls to our operating expenditure in order to ensure that our financial performance continues to improve.

Low Value Consignment Relief (LVCR)

The last year was dominated with speculation regarding the future of LVCR, concluding with its abolition at the end of March 2012. The full impact on our revenues will be realised in the coming year given that the majority of our top 10 customers have announced their intention to leave the Bailiwick for other jurisdictions including Switzerland, Holland, USA and the UK. It will be interesting to see if the UK Government fulfil their promise to treat other jurisdictions in the same way as the Channel Islands, otherwise the concept of a level playing field will be nothing more than an aspiration and a significant proportion of the anticipated additional tax revenues will not materialise.

As a consequence of the removal of LVCR, we have budgeted for our own bulk mail revenues to decline by over 50% in the coming year, a reduction of just over £16m. However, whilst the scale and immediacy of this revenue decline is significant, we are extremely pleased to have been able to retain a number of significant bulk mail businesses that will continue to operate a sustainable and successful business model from Guernsey. The timing and achievement of our transformation plan has been critical in allowing us to improve our prices, an aspect which has been pivotal to our customers' decision making process.

New Business

Whilst reducing our cost base and identifying efficiencies has been a considerable focus for the Board, we have also been successful in the achievement of our commercial objectives and specifically in winning new business. In addition to the achievement of customer retention, we have even been able to attract and retain a number of new businesses to Guernsey, despite the loss of LVCR. Furthermore, we have won back customers from our competitors and not lost any the other way.

Guernsey is very much at the forefront of greetings card production and similar products that uniquely combine technology with traditional post. It is also extremely encouraging that the communications revolution, which in many respects has bought significant challenge to our business, is also now providing opportunities for revenue growth, product development and new opportunities.

Our international bulk mail volumes have also gone from strength to strength, resulting in a 150% increase over the last twelve months. To complement and support this growth we have developed

Guernsey Post Limited

Chief Executive's Report – continued

new routes and pricing structures with European postal administrations such as La Poste and Deutsche Post, giving our customers the choice of services that they require.

Despite the much publicised economic challenges our foreign exchange business Batif has performed extremely well and continues to complement our traditional retail offer. Revenues from foreign exchange grew in the last year by 1%.

Universal Service Obligation (USO)

In September 2011, the States of Guernsey acknowledged the significant challenges facing the business and approved a revision to our USO reducing the requirement for Guernsey Post to deliver from six days a week to five days a week. In March 2012 the change was implemented along with the latest phase of our voluntary redundancy plan. Throughout this period we have received significant customer support and feedback, for which we are extremely grateful. As a direct result of the customer feedback we also announced our intention to commence packet and parcel deliveries on Saturdays.

The increased frequency of packet and parcel deliveries is entirely consistent with our strategy and I am pleased to report that in addition to another year of double digit volume growth in this area of the business, we have also been successful in winning new volumes. In 2012, and in conjunction with Jersey Post, we have successfully tendered for additional delivery businesses within the Channel Islands resulting in a forecast 15% increase in the packet and parcel volumes delivered within the Bailiwick by Guernsey Post. Online shopping continues to grow at an exceptional rate and Packet and Parcel deliveries are very much the future for the business.

Stakeholders

We have continued to develop our relationship with the respective Consumer Bodies including Postwatch Guernsey and the Alderney Partnership Board. In both cases we have developed a strong relationship based on complete transparency of our business performance. Both groups have brought much to the table in championing consumer interests.

Finally, I must emphasise the effort, loyalty and commitment of our employees, which have been nothing short of outstanding over the last twelve months. In conjunction with our Trade Unions our employees have made pivotal contributions to the business, both in terms of recognising the need for change and, more importantly, delivering that change when it really mattered.

Our Board, Employees and Trade Unions are resolute in our goal to create a sustainable future, and although we begin the new financial year with a continuing degree of uncertainty, we do so expecting to end the year with a profit.

B Smillie
Chief Executive
July 2012

Guernsey Post Limited

Finance Director's Statement

Profit and loss account

Despite an expectation last year that difficult trading conditions would lead to a loss in 2011/12, our strong management of the business enables me to report an excellent financial result this year as we return to an operating profit. This profit of £31k compares very favourably with a reported operating loss of £918k in the previous year. It represents an improvement of nearly £1m, of which we are all very proud, and which has been achieved against a very difficult and uncertain backdrop. Our profit for the financial year has shown a similar improvement, increasing to £0.5m from a loss of £0.6m last year, thanks to higher interest receivable flowing from more active management of our surplus cash.

The financial outlook remains uncertain, however. The year has been dominated by the UK's review of Low Value Consignment Relief (LVCR), which has resulted in its abolition and will impact severely on our business going forward.

Our operating performance was even better on an underlying basis. Removing the impact of volatile FRS17 pension costs and exceptional restructuring costs in 2011/12, we made an operating surplus of £1.6m, which compares with a profit of £0.3m in 2010/11, a positive swing of £1.3m.

Indeed, on an underlying basis this has been our best financial performance since 2002. We have had an excellent year and are right to recognise our achievements, but our celebrations are tempered by the future financial outlook, which is very fragile due to the loss of LVCR and falling postal volumes.

In 2011/12 our income increased by nearly 15% to just over £50.5m. We enjoyed triple digit growth in our International Bulk Mail volumes and double digit growth in our UK Bulk Mail volumes, which was made possible by freezing or lowering prices and focusing resolutely on customer service. Indeed, this approach enabled us to acquire several major new customers during the year.

Our premium next-day time-guaranteed service continued to grow strongly as customers demand the security and immediacy of these products. Our revenue from mail originating in the UK and the Rest of the World increased thanks to an ongoing change in the mail profile from letters to packets, which more than offset a decline in volume. The only disappointing performance during the past year was from our Philatelic business, which suffered from the economic downturn as customers curbed their discretionary spending.

Expenditure increased by a lower percentage than income, rising by 12.5% to £50.5m. Although Royal Mail charges and FRS17 pension costs maintained their inexorable rise, ongoing staff costs fell by nearly £0.5m as average staff numbers fell from 269 to 253 full-time equivalents. Indeed, the drive for greater efficiency through the reduction of our payroll has been a notable achievement during the year, and the current number of full-time equivalents stands at 226.

We also succeeded in reducing non-staff overheads, which fell by over £0.6m thanks to lower legal costs following the settlement of the dispute with the OUR in 2010/11 and strict control of discretionary expenditure. Conversely, the high costs associated with external regulation are largely beyond the control of management and continue to challenge the business.

Our gross margin dropped by 4.5% in 2011/12 as we either reduced or froze our UK and International Bulk Mail rates, along with our headline public and business tariffs, whilst Royal Mail charges to us rose by over 10%. This investment in price was rewarded by an absolute gross profit increase of over £0.2m as volumes grew.

Guernsey Post Limited

Finance Director's Statement – continued

Although our overall staff expenditure was flat in 2011/12 as the scale of payroll savings was offset by the non-recurring cost of making those economies through voluntary redundancies and a delay in achieving them, the higher gross margin and lower non-staff overheads combined to restore us to a creditable operating profit.

Balance sheet

Our shareholders' funds decreased by £2.4m from £20.9m to £18.5m. This was more than accounted for by the increase in the net FRS17 pension deficit, which increased by £3.6m after allowing for the associated tax credit, from £6.2m to £9.8m. This deterioration of the pension deficit is mainly the result of two factors. Actual scheme investment returns have been worse than expected, and with two-thirds of the scheme assets invested in equities, the poor performance of stock markets has contributed to the deficit. Regrettably, all matters are outside the Company's immediate control.

More significantly, the actuarial discount rate used to compute the scheme liabilities has fallen substantially, leading to an increase in this liability. The discount rate is based on a long-term high-quality corporate bond index, of which the return has been compressed by a combination of quantitative easing, the flight to quality and widespread anxiety in the market widely reported elsewhere.

Although in real terms our actual cash obligation to pay into the States' governed pension scheme will not be determined in the short term by the outcome of the FRS17 valuation, the Board is very aware of the impact that the scheme has on the Company's profitability and financial position.

The Board is also mindful of the long-term implications of the Company's current pension arrangements as a member of the States of Guernsey public sector pension scheme because the liability is effectively open-ended and costs are likely to rise significantly over time. Moreover, we have no control over the cost and structure of the scheme, and therefore the Board continues to consider the options it has to address this position, including a submission to the Pensions Review Group established by the States of Guernsey.

In spite of the pension deficit, our strong management of the Company's financial affairs enables the Company to benefit from a strong Balance sheet, with over £15m of working capital, including more than £16m of cash, and substantial tangible assets. This gives us great confidence about our ability to withstand the loss of LVCR, finance future business reorganisation and to ensure that we have a sustainable future. Indeed, the Board has undertaken a review of the Company's capital structure, in the light of its medium-term prospects, and concluded that we should repurchase £5m of share capital from our Shareholder.

Cash flow statement

The Company generated over £1.6m of cash during the year, increasing its cash reserves to over £16m. Operating cash flow was very strong at just under £1.4m as the Company made significant profits before major non-cash items such as depreciation, amortisation and FRS17 adjustments. There was very little capital expenditure incurred during the year and no dividend payment arose from the previous financial year when we made a loss.

Outlook

The loss of LVCR is a devastating blow for the Company, given that we are highly dependent upon bulk mail as a major profit stream, which in turn was strongly dependent on LVCR. We expect the majority of our bulk mail customers to leave for jurisdictions with more favourable tax and cost

Guernsey Post Limited

Finance Director's Statement – continued

structures, and for those customers who do remain to exert major downward pressure on our prices. This will inevitably weaken our profitability. The imperative for us is to retain as many customers as possible by offering an optimum mix of competitive prices and excellent service.

In the short term, we are still expecting to make a modest operating profit in 2012/13 thanks to the early actions we have already taken in anticipation of the impact of the loss of LVCR from the Island. We will save nearly £2m of payroll costs in 2012/13 versus 2011/12, we will continue to focus on lowering overheads and we will invest in business development opportunities such as the packet market as internet shopping grows. Regrettably, we have had to increase public tariffs but our prices are still among the lowest in Europe and this will recover only a small proportion of the profits we have lost from the removal of LVCR.

The future will see the same combination of cost reduction, price increases and business development initiatives as we strive to manage the ongoing structural challenges of volume decline, a changing mail profile, the growth of use of the internet, workforce productivity, pension scheme reform, a more commercial Royal Mail and the cost implications of the current regulatory environment.

R Hemans
Finance Director
July 2012

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 eight Channel Island 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 seven 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 twenty one 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 over 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 fastest growing and most well respected independent firm of advisers in the South West,

Guernsey Post Limited

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, a London-based investment bank and a London-listed hedge fund company. He is also a Fellow of the Chartered Institute for Securities & Investment and holds the advanced diploma in Corporate Finance.

Guernsey Post Limited

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 2012, 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 our Shareholder and those which can be delegated to Committees of the Board or senior management.

There were ten board meetings held during 2011/12. 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 18 and 19, 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.

Guernsey Post Limited

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.

Andrew Duquemin is the senior independent director and is available to talk to our Shareholder if it has 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. 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.

During the year Simon Milsted and Stuart Le Maitre joined the Board, 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.

Guernsey Post Limited

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	Remuneration Committee
Dudley Jehan	10/10			
Boley Smillie	10/10			
Richard Hemans	10/10	1/1		
Steve Hannon	9/10		4/4	4/4
Andrew Duquemin	8/10	1/1		
Simon Milsted	6/8	1/1		
Stuart Le Maitre	6/8		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 undergoes an annual evaluation of its performance. The last assessment was in March 2011 and the next assessment is scheduled to take place during the year ending March 2013. The evaluation consists of a confidential questionnaire, which is independently assessed, and a report that is then submitted to the Board, followed by an open discussion facilitated by the Chairman.

Guernsey Post Limited

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 2012 AGM, Steve Hannon is being recommended by the Board and will be proposed for re-election.

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 Treasury & Resources.

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.

Internal control and risk management

During 2011/12 the Executive Team again 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 receives 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

Guernsey Post Limited

Corporate Governance Report – continued

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.

In 2011 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, who is a qualified accountant, 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. Simon Milsted is 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 once 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 our 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 our Shareholder for approval every year.

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

The date of the AGM is agreed with our 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. Our Shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

Guernsey Post Limited

Corporate Governance Report – continued

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).

Stuart Le Maitre is the Chairman of the Nominations Committee, supported by Steve Hannon. 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 2011/12 and all members of the Committee were present.

Stuart Le Maitre is also the Chairman of the Remuneration Committee, supported by Steve Hannon. 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 2011/12 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by Simon Milsted, the Chief Executive, Finance Director and HR Director. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post retirement benefit arrangements including the control and funding of such arrangements. Given the complexity of the pension issues facing the Company, whilst the Committee did not meet formally in 2011/12, it did update monthly the full Board 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.

Guernsey Post Limited

Directors' report

The directors present their annual report together with the financial statements for the year ended 31 March 2012.

Principal activities

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

Significant events

On 9 November 2011, HM Treasury announced that from 1 April 2012, Low Value Consignment Relief (LVCR) would no longer apply to goods sent to the UK from the Channel Islands. This decision was subsequently upheld in the UK High Courts following a joint legal challenge from the States of Guernsey and Jersey. Consequently, the majority of Guernsey Post's bulk mail customers have decided to relocate their operations away from Guernsey. The loss of these customers will have a material impact on Guernsey Post Limited's profitability, but the Board of Guernsey Post Limited has taken significant actions to ensure that the company continues to make profits, through a combination of cost reductions, tariff changes and new business opportunities.

Results

The results for the year are shown in the profit and loss account on page 23.

Dividend

The directors recommend a dividend of 0.004p per ordinary share for the financial year (2011: 0p per ordinary share).

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
R J Hemans
S Hannon
A Duquemin
S Le Maitre (appointed 27 May 2011)
S Milsted (appointed 27 May 2011)

No director has an interest either beneficially or non-beneficially in any shares of the Company (2011: no interest beneficially or non-beneficially).

Guernsey Post Limited

Directors' report - continued

In accordance with the Articles of Association S Hannon is due to retire by rotation and being eligible offers himself for re-election at the forthcoming 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

KPMG

20 New Street
St. Peter Port
Guernsey
GY1 4AN

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

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2012 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 directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, 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 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 2012 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards 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 Accountants

16 July 2014

Guernsey Post Limited

Profit and loss account *For the year ended 31 March 2012*	Notes	**31 March 2012 £'000**	31 March 2011 £'000
Income		**50,548**	44,003
Expenditure		**(50,517)**	(44,921)
Operating profit/(loss)	2	**31**	(918)
Other income			
Interest receivable	3	**396**	182
Rents receivable		**65**	70
Profit/(loss) on ordinary activities before net return on pension scheme		**492**	(666)
Net return on pension scheme		**(135)**	(231)
Profit/(loss) on ordinary activities before taxation		**357**	(897)
Taxation credit	4	**134**	289
Profit/(loss) for the financial year		**491**	(608)

Statement of total recognised gains and losses *For the year ended 31 March 2012*		**31 March 2012 £'000**	31 March 2011 £'000
Profit/(loss) for the financial year		**491**	(608)
Actuarial (loss)/ gain recognised in the pension scheme	17	**(3,582)**	2,402
Movement on deferred tax attributable to actuarial loss/(gain)	12	**716**	(480)
Unrealised gain on revaluation of investment properties	14	**-**	25
Total recognised gains and losses relating to the year		**(2,375)**	1,339

All activities derive from continuing operations.

The notes on pages 27 to 46 form an integral part of these financial statements.

Guernsey Post Limited

Balance sheet
At 31 March 2012

	Note	31 March 2012 £'000	31 March 2011 £'000
Fixed assets			
Intangible assets	6	**323**	377
Tangible assets	7	**11,768**	12,385
Investment properties	8	**900**	900
Investment in subsidiaries	9	**-**	-
		12,991	13,662
Current assets			
Stock		**220**	219
Debtors	10	**5,996**	6,396
Cash at bank and in hand	16	**16,171**	14,563
		22,387	21,178
Creditors: Amounts falling due within one year	11	**(7,169)**	(7,770)
Net current assets		**15,217**	13,408
Total assets less current liabilities		**28,209**	27,070
Provisions for liabilities and charges	12	**101**	70
Net assets excluding pension liability		**28,310**	27,140
Net pension liability	17	**(9,780)**	(6,235)
Net assets including pension liability		**18,530**	20,905
Capital and reserves			
Share capital	13	**22,386**	22,386
Profit and loss account	14	**(3,841)**	(1,466)
Revaluation reserve	14	**(15)**	(15)
Shareholders' funds	15	**18,530**	20,905

The financial statements were approved by the board of directors and authorised for issue on 11 July 2012. They were signed on its behalf by:

B Smillie
Chief Executive

D R Jehan
Chairman

The notes on pages 27 to 46 form an integral part of these financial statements.

Guernsey Post Limited

Cash flow statement

For the year ended 31 March 2012

	Notes		March 2012 £'000		March 2011 £'000
Net cash inflow from operating activities	16		**1,378**		1,076
Returns on investments and servicing of finance					
Interest received		**396**		182	
Rent received		**65**		70	
Net cash inflow from returns on investments and servicing of finance			**461**		252
Taxation			**(34)**		(173)
Capital expenditure					
Purchase of fixed assets		**(197)**		(204)	
Sale of fixed assets		**-**		6	
Net cash outflow from capital expenditure			**(197)**		(198)
Dividend paid			**-**		(273)
Acquisitions and disposals					
Deferred consideration on purchase of subsidiary undertaking			**-**		(80)
Increase in cash	16		**1,608**		604

The notes on pages 27 to 46 form an integral part of these financial statements.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the 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.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

1. Significant accounting policies - continued

Dividends

Dividends are accounted for when they are paid.

Stock

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

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

Intangible assets - goodwill

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

Tangible fixed assets

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

	Estimated life in years	**Depreciation % per annum**
Freehold land	N/A	Nil
Freehold buildings	30 – 50	2 – 3.3
Plant and equipment	15	6.67
Leasehold Improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 – 13	7.7 – 33.3
Transport	5	20

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

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.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

2. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	31 March 2012 £'000	31 March 2011 £'000 (restated)
Staff costs	**11,458**	11,949
Auditor's remuneration		
Audit Fees	**30**	39
Other services	**10**	26
Amortisation of goodwill	**54**	54
Directors' remuneration	**388**	509
Restructuring costs	**848**	213
Loss/(profit) on disposal of fixed assets	**2**	(3)
Depreciation of tangible fixed assets	**812**	824

The restructuring costs relate to the voluntary redundancy programme and the ongoing reorganisation of the sorting office resulting from the abolition of LVCR and the general decline in mail volumes.

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

	31 March 2012	31 March 2011
Operational staff including postmen and women, post office counter staff and philatelic production staff	**194**	201
All other staff	**59**	68
Total	**253**	269

3. Interest receivable

	31 March 2012 £'000	31 March 2011 £'000
States Treasury	**394**	182
Other	**2**	-
	396	182

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

4. Taxation

	Note	31 March 2012 £'000	31 March 2011 £'000
Current year tax		**82**	12
Prior year tax		**(15)**	(114)
Deferred tax credit for the year	12	**(201)**	(187)
		(134)	(289)

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 2012 £'000	31 March 2011 £'000
Profit/(loss) on ordinary activities before taxation	**357**	(897)
Tax at 20%	**71**	(179)
Effects of adjusting items:		
Timing differences	**30**	14
Sundry adjustment to prior years' tax	**(15)**	30
Disallowed expenses	**14**	11
Rate differences on current tax	**(203)**	(147)
Adjustment for pension costs	**170**	169
Current tax charge/(credit)	**67**	(102)
Deferred tax - pension deficit	**(170)**	(170)
Deferred tax - timing differences	**(31)**	(17)
Profit and loss taxation credit	**(134)**	(289)

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

5. Dividends on equity shares

Amounts recognised as distributions to equity holders in the period:

	31 March 2012 £'000	31 March 2011 £'000
Final dividend for the year ended 31 March 2011 of 0p (31 March 2010 1.22p)	**-**	273

The board is proposing a final dividend of 0.004p per ordinary share for the year ended 31 March 2012.

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.

Guernsey Post Limited

Year ended 31 March 2012

Notes to the financial statements - continued

6 Intangible assets - Goodwill

Cost	£'000
At 1 April 2011	543
Write back of deferred consideration	-
At 31 March 2012	543
Amortisation	
At 1 April 2011	166
Charge for the year	54
At 31 March 2012	220
Net book value	
At 31 March 2011	377
At 31 March 2012	323

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 2012
Notes to the financial statements - continued

7. Tangible fixed assets

	1 April 2011 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2012 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,597	1	-	**8,598**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	377	17	-	**394**
Furniture and fittings	249	40	-	**289**
Office equipment	1,476	102	(8)	**1,570**
Postal machinery	2,383	37	-	**2,420**
Transport	994	-	(4)	**990**
	19,243	197	(12)	**19,428**

	1 April 2011 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2012 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,421	176	-	**1,597**
Plant and equipment	1,258	255	-	**1,513**
Leasehold improvements	138	50	-	**188**
Furniture and fittings	124	24	-	**148**
Office equipment	1,215	122	(6)	**1,331**
Postal machinery	1,974	94	-	**2,068**
Transport	728	91	(4)	**815**
	6,858	812	(10)	**7,660**
Net book value	12,385			**11,768**

Freehold land with a value of £2,505,000 (2011: £2,505,000) is not depreciated.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

8. Investment properties

	Market Value 31 March 2012 £'000	Market Value 31 March 2011 £'000
At 1 April 2011	**900**	875
Revaluation	**-**	25
At 31 March 2012	**900**	900

Investment properties, which are all freehold, were valued on an open market existing use basis at 31 March 2011 by Swoffers Ltd. This year the directors are of the opinion that it is unlikely there has been any material change in the valuation of the property. A full external valuation will be carried out at year end 31 March 2013. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2012 £'000	31 March 2011 £'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 (2011: 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 2012
Notes to the financial statements - continued

10. Debtors

	31 March 2012 £'000	31 March 2011 £'000
Trade debtors	**5,650**	5,678
Less: Provision for bad debt	**(45)**	(79)
Other debtors	**27**	41
Prepayments and accrued income	**224**	583
Taxation recoverable	**140**	173
	5,996	6,396

11. Creditors

	31 March 2012 £'000	31 March 2011 £'000
Amounts falling due within one year		
Trade creditors	**5,026**	5,262
Other creditors	**1,760**	1,747
Accruals and deferred income	**383**	761
	7,169	7,770

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

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 2011	(70)	-	**(70)**	(1,559)	**(1,629)**
Charged to statement of total recognised gains and losses	-	-	-	(716)	**(716)**
Write back of deferred consideration	-	-	-	-	-
Payment of deferred consideration	-	-	-	-	-
Credit to profit and loss account	(31)	-	**(31)**	(170)	**(201)**
At 31 March 2012	(101)	-	**(101)**	(2,445)	**(2,546)**

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 £2.445m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

13. Share capital

	31 March 2012 £'000	31 March 2011 £'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.

On 25th June 2012, the Board approved the re-purchase and subsequent cancellation of £5m of its share capital. This transaction is expected to take place towards the end of 2012 because The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that it is conditional on express authorisation by resolution of the States of Guernsey, which Treasury & Resources expects to seek in October 2012.

14. Reserves

Profit and Loss Account	31 March 2012 £'000	31 March 2011 £'000
Opening reserves at 1 April 2011	**(1,466)**	(2,507)
Retained profit/(loss) for the year	**491**	(608)
Actuarial (loss)/profit for the year, net of movement in deferred tax	**(2,866)**	1,922
Dividend paid	**-**	(273)
As at 31 March 2012	**(3,841)**	(1,466)

Revaluation Reserve	31 March 2012 £'000	31 March 2011 £'000
Opening reserves at 1 April 2011	**(15)**	(40)
Unrealised gain on revaluation of investment properties	**-**	25
As at 31 March 2012	**(15)**	(15)

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

15. Reconciliation of movement in shareholders' funds

	31 March 2012 £'000	31 March 2011 £'000
Profit/(loss) for the financial year	**491**	(608)
Actuarial (loss)/ gain recognised in the pension scheme	**(3,582)**	2,402
Movement on deferred tax attributable to actuarial loss/(gain)	**716**	(480)
Unrealised gain on revaluation of investment properties	**-**	25
Dividend paid on equity shares	**-**	(273)
Net (reduction in)/addition to shareholders' funds	**(2,375)**	1,066
Opening shareholders' funds	**20,905**	**19,839**
Closing shareholders' funds	**18,530**	**20,905**

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

	31 March 2012 £'000	31 March 2011 £'000
Operating profit/(loss)	**31**	(918)
Depreciation charges	**812**	824
Amortisation	**54**	54
Net pension scheme service costs	**714**	615
(Increase)/decrease in stock	**(1)**	46
Decrease/(increase) in debtors	**367**	(284)
Loss/(profit) on disposal of fixed assets	**2**	(3)
(Decrease)/increase in creditors	**(601)**	742
Net cash inflow from operating activities	**1,378**	1,076

Reconciliation of net cash inflow to movement in net funds

	31 March 2012 £'000	31 March 2011 £'000
Increase in cash balances	**1,608**	604
Net funds at 1 April 2011	**14,563**	13,959
Net funds at 31 March 2012	**16,171**	14,563

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

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 2012 by Mrs D Simon, Fellow of the Institute of Actuaries.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

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 2012	31 March 2011
	£'000	£'000
Fair value of Fund Assets	**29,882**	29,101
Present value of funded obligations	**(42,107)**	(36,895)
Deficit in the scheme	**(12,225)**	(7,794)
Related deferred tax asset	**2,445**	1,559
Net pension liability	**(9,780)**	(6,235)
Amounts in the Balance Sheet		
Assets	**-**	-
Liabilities	**(9,780)**	(6,235)
Net pension liability	**(9,780)**	(6,235)

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

	31 March 2012	31 March 2011
	£'000	£'000
Current service cost	**1,805**	1,792
Interest on obligation	**2,013**	1,882
Expected return on Fund assets	**(1,878)**	(1,651)
Expense recognised in the Profit and Loss	**1,940**	2,023
Actual return on Fund assets	**(62)**	2,903

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

17. Pension Fund (cont'd)

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

	31 March 2012 £'000	31 March 2011 £'000
Opening defined benefit obligation	**36,895**	34,476
Service cost	**1,805**	1,792
Interest cost	**2,013**	1,882
Contributions by members	**467**	509
Actuarial Losses /(Gains)	**1,641**	(1,149)
Benefits paid	**(714)**	(615)
Closing defined benefit obligation	**42,107**	36,895

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

17. Pension Fund (cont'd)

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

	31 March 2012	31 March 2011
	£'000	£'000
Opening fair value of Fund assets	**29,101**	25,126
Expected return	**1,878**	1,651
Actuarial (Losses)/Gains	**(1,940)**	1,252
Contributions by employer	**1,090**	1,178
Contributions by members	**467**	509
Benefits paid	**(714)**	(615)
Closing fair value of Fund assets	**29,882**	29,101

Analysis of amounts recognised in statement of total recognised gains and losses	**31 March 2012**	31 March 2011
	£'000	£'000
Total Actuarial (Losses)/Gains	**(3,582)**	2,402
Total (Losses)/Gains in statement of total recognised gains and losses	**(3,582)**	2,402
Cumulative amount of losses recognised in statement of total recognised gains and losses	**(7,555)**	(3,973)

Guernsey Post expects to contribute £929,875 to the Fund from 1 April 2012 to 31 March 2013.

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

	31 March 2012	31 March 2011
	%	%
Equities	**67**	63
Gilts	**4**	4
Corporate Bonds	**15**	14
Other Assets	**6**	13
Property	**8**	6

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

17. Pension Fund (cont'd)

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

	31 March 2012	31 March 2011
	% pa	% pa
Discount rate	**4.7**	5.5
Expected return on Fund assets at 31 March (for following year)	**5.9**	6.4
Rate of increase in pensionable salaries	**4.35**	5.05
Rate of increase in deferred pensions	**3.6**	3.8
Rate of increase in pensions in payment	**3.6**	3.8

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 87 if they are male and until age 90 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

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

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

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

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

17. Pension Fund (cont'd)

Amounts for the current and previous periods are as follows:

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000	31 March 2008 £'000
Defined benefit obligation	42,107	36,895	34,476	25,115	19,490
Fund Assets	29,882	29,101	25,126	18,615	23,285
(Deficit)/surplus	(12,225)	(7,793)	(9,350)	(6,500)	3,795
Experience (Losses)/Gains on Fund assets	(1,940)	1,252	4,126	(7,027)	(1,712)
Experience Gains / (Losses) on Fund liabilities	1,913	312	1,335	(658)	831

18. Financial Commitments

Capital commitments are as follows:

	31 March 2012 £'000	31 March 2011 £'000
Fixtures & fittings	97	34
Postal Equipment	-	16
	97	50

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

	31 March 2012 Land and buildings	31 March 2011 Land and buildings
Expiry date	£'000	£'000
- within 1 year	-	10
- between two and five years	-	-
- after five years	81	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.

Guernsey Post Limited

Year ended 31 March 2012
Notes to the financial statements - continued

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 previous year, transacted on an arm's length basis. The charges incurred by the Company payable to PLCWW during the year ended 31 March 2012 were £nil (2011: £3,361). The balance outstanding at 31 March 2012 was £nil (2011: £nil).

Dame Mary Perkins, who was a Non-Executive Director during the prior 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 2012 was £144,401 (2011: £166,825).

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 2012 amount to 1.3% of total turnover (2011: 1.1%). The total value of purchases for the year amounted to 1% of total expenses (2011: 1.3%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2012 the balance held was £14,253,218 (2011: £13,425,747).

APPENDIX 4

Elizabeth College

REPORT FOR THE ACADEMIC YEAR 2011/12

Elizabeth College Report for the Academic Year 2011/12

In presenting this report for the academic year 2011/12, it gives me great pleasure to highlight not only the academic successes of Elizabeth College but also a continued increase in pupil numbers. College pupils continue to enjoy, and achieve some measure of success in, a wide range of sporting and extra-curricular activities which, together with a high level of academic achievement, ensures a well-rounded educational experience. That Elizabeth College can provide such an experience is testament to the dedication and professionalism of its staff.

G J Hartley
Principal

Pupil Numbers

I am delighted to report that numbers continue to rise to new 'record' levels, with an average 4% increase per annum over the last four years. Despite a relatively low intake in Year 7 (76) in comparison with recent years, we have retained our four year average of 24% of market share as there are fewer boys on the island in this year. Another small cohort of island boys and a relatively small entry from ECJS should create a modest intake at Year 7 next year, though Upper School numbers are likely to increase further with the 'replacement' of a notably small Upper 6^{th}.

As regards pupil movement in the Upper School:

- 9 boys joined since last September in years above Year 7: 5 from high schools, 4 from UK
- 17 boys left: 3 boys left after Year 8 (UK schools), 10 after Year 11 (various), 4 after Lower 6^{th}

Although pupil numbers at the Junior School have been relatively stable in recent years, numbers rose this year due to a relatively high number of children joining both Acorn House and Beechwood from families who have recently relocated to the island.

Upper School	**2008/9**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Year 7	77	87	77	88	76
Year 8	83	77	87	80	89
Year 9	61	84	78	82	79
Year 10	75	63	83	78	81
Year 11	54	73	64	83	77
Lower 6th	61	51	69	58	74
Upper 6th	57	58	51	57	55

Total	**468**	**493**	**509**	**526**	**531**

ECJS	**246**	**248**	**250**	**238**	**248**
EC Total	**714**	**741**	**759**	**764**	**779**

Examination Results (see subject specific results in Appendix I)

GCSE

GCSE (%)	A*	A* – A	A* - B	A* - C	5 A* - C (E/M)
2012	23	55	82	95	95
2011	21	55	82	94	94
2010	29	63	85	95	100
2009	27	59	85	96	100

This was a very good set of results overall given the relative weakness of the year cohort (this year and the previous year being the weakest in the College) and the fact that the proportion of high grades were reduced nationally this year. Early analysis indicates that the overall 'value-added' performance (measured relative to ability) is an improvement on the previous two years. There were some typically strong performances at the top end, with eight boys achieving 8 A* grades or more. Perhaps most impressively, six boys achieved higher than expected (Yellis) grades in 10 of their subjects, with most pupils exceeding Yellis grades in at least 3 subjects.

The 95% 5 A*- C figure was the result of four D grades in English. With our English Language results down on previous years and notably inferior to English Literature results, it does look as though we were negatively affected by the well-publicised AQA grade boundary changes. Indeed, there is much evidence in other subjects to suggest that grade boundaries have been raised to prevent grade inflation this year.

A Level

A level (%)	A*	A* – A	A* - B	A* - C
2012	18	50	80	96
2011	11	42	68	89
2010	11	38	64	87
2009	n/a	15	52	82

These were a superb set of results, breaking all previous A level % records. 50% at A*-A comfortably placed the College as the highest performing school in the Channel Islands and amongst the top half of all HMC Independent schools across the UK. The previous highest A*-A% was 44% in 2007.

The notable increase in % of A* grades, a target from last year, was very pleasing, particularly given the decreased % of such grades awarded nationally this year. The fact that only five grades in the whole cohort fell below 'C grade' level is also a remarkable achievement, given the broad range of academic ability in the Sixth Form.

Jack Heywood and Chris Galpin both achieved 4 straight A* grades and Rob Woodhard achieved 3 straight A* grades. A further six students achieved 2 A* grades and an A. The Senior Prefect, Jack Heywood, won the Scholar of the Year Prize at Prizegiving.

Leavers' Destinations (see full list in Appendix II)

82% of leavers have gone straight to university this year with 11% following after a gap year next year and 7% going straight into employment.

All leavers who applied secured places at university this year, with 90% gaining a place on their first choice course. Durham University proved the most popular university destination for the third year running (4 students) with Cambridge (3), Exeter (3) and Southampton (3) in equal second place. The most popular courses taken were Geography (7), Medicine (4) and Biology (3).

Those who received offers from Cambridge and Oxford Universities this year were –

William Carter	Modern Languages, Oxford
Chris Galpin	Engineering, Cambridge
Adam Goddard	Law, Cambridge
Jack Heywood	Natural Sciences, Cambridge
Henry Wallis	Physics, Oxford (subsequently decided to read Natural Sciences at Durham)

Staff

Upper School appointments from September 2012:

Dr Alistair Bargery (Physics, NQT) graduated with an MSc in Geophysics and Geology from the University of Liverpool before taking a doctorate in Planetary Geophysics at Lancaster University and a PGCE at Bangor University. His other areas of interest include rugby, fencing, sailing and outdoor activities.

Alun Brown (English) joins us from Wanganui Collegiate School in New Zealand where he was a housemaster, coached rugby and was Master in Charge of Rowing. He previously taught at Windsor Boys School and Monmouth School for Boys, where he ran a CCF Army Section of 120 cadets.

Miss Katie Conroy (Mathematics) joins us from Park House English School, Qatar, having previously taught Mathematics at Forest School, London. She originally graduated in Mathematics and Computation from Oxford University. She is a keen sportswoman who has played representative football and rugby.

Andrew Debney (Head of Mathematics) was previously Director of Curriculum at Brighton College, having held Head of Mathematics positions at Brighton and Reed's School, Surrey. Andy has degrees in both Computing and Mathematics. He will also take up the 'Timetabler' role.

Julian Krishna (Physics) has recently moved to Guernsey with his partner who works for HSSD. He has taught Science and Physics at a number of schools (and was Head of Physics for a time) in the UK, having graduated from the University of Sheffield with a degree in Physics and Astronomy.

Mrs Sharka Lee (Art) is covering maternity leave for the next two terms. Sharka graduated as a qualified teacher of Art from Masaryk University in the Czech Republic and subsequently taught in a variety of locations around the world.

Duncan Loweth (Mathematics) joins us from St Sampson's High School as the Second in Faculty. Duncan read Natural Sciences at St John's College, Cambridge and is currently undertaking a Masters in Education degree with the Open University.

Mrs Liz Adams (Art), Brian Allen (DT) and Stuart Morris (Geography), having recently retired, have all temporarily returned to the College to fill deployment gaps. Their experience will be much appreciated!

Staff who left in July 2012:

Mrs Carrie Gribbins (Mathematics)
Andy Hale (Head of Mathematics Faculty)
Miss Linda Reddall (English, one year post)
Chris Telfer (Physics)
Dr Chris Van Vlymen (Biology)

Sporting and Extra-Curricular Highlights

- Public School boys' champions in fencing for the 5th year in a row
- 4th nationally in the Bisley Cadet shooting competition and winner of Cottesloe Cup for 'best small school' in UK (less than 600 pupils)
- 4th nationally in the British Schools medley relay swimming (6th in freestyle)
- Victories vs. Victoria College, Jersey at senior level in football, hockey, cricket, sailing, fencing, squash
- Hockey 1st XI reached West of England finals (top 8 schools)
- Two hockey players selected for the England U16 squad
- Football 1st XI were the highest placed Guernsey school in the Channel Islands league
- Over 180 boys in the Combined Cadet Force (CCF) who provided guards of honour for island ceremonial parades throughout the year
- Royal Navy sailing team came 3rd in the RN National Regatta
- 12 pupils gained the Gold Duke of Edinburgh Award last year
- Drama productions: Cabaret (Michaelmas term) and Coriolanus (Lent term)

- Two major music concerts and annual choir trip to St Malo
- 38th Elizabeth College Summer Orchestral Course held in August involving 225 pupils from Guernsey and UK schools
- Winners of junior and senior sections of the Guernsey Youth Speaks competition
- Winners of the Collas Crill Moot competition

Key Initiatives in 2012

The launch of the **450th Anniversary Foundation Appeal** which will raise funds for a number of essential capital projects across the school. The flagship project is the Upper School's first refectory, the construction of which has already started and which should be finished by May next year. It is hoped that funds will be raised for the other Appeal projects, which include much-needed new classrooms at the Upper and Junior Schools (given our rising pupil numbers), a new Performing Arts suite at the Upper School, the renovation of the 'tennis court' area in front of the College and refurbishment of the all-weather pitch at Memorial Field.

The introduction of the **Elizabeth College Sixth Form Diploma** which aims to embrace all that our Sixth Form students achieve including academic qualifications, enrichment activities and extra-curricular involvement. Diplomas will be awarded at pass, merit and distinction level.

The instigation of **Faculty Appraisals** as a key process in on-going academic self-review. All faculties will have been formally appraised by the end of this academic year.

The launch of a programme of termly **Principal's Lectures** for Sixth Form students which aim to stimulate, inspire and provoke reflection amongst our Sixth Form students and staff. John Hoskison and Stephen Haines have already given talks.

The setting up of **Friday's Footprint**, a web-based initiative from the English Department to promote various forms of creative writing amongst all school pupils on the island. Submitted pieces of writing are selected for publication on the website and prizes are awarded for the best entries.

An **overhaul of our ICT provision** which has involved the introduction of a new school information system, 'iSAMs.' We have also changed the manner in which ICT is managed by staff, introduced a 'guest network' allowing pupils to bring their own ICT devices into school and ensured wireless coverage throughout the College.

The publication of **'History of Elizabeth College' by Bruce Parker**. Available from the College reception and all good booksellers now (including the Press Shop).

Appendix I

Year 11 GCSE Results 2012: Subject Grades
(Grades achieved by number of pupils)

Subject	Entries	A*	A	B	C	D	E
Ancient History	7	0	4	2	1	0	0
Art	24	8	7	8	1	0	0
Biology	41	12	19	9	1	0	0
Business Studies	15	0	2	7	4	2	0
Chemistry	41	12	15	9	5	0	0
Citizenship	83	0	9	31	28	13	2
Classics	7	0	1	1	5	0	0
DT Graphics	8	0	3	3	1	0	1
DT Materials	26	5	9	8	3	0	1
Drama	6	0	2	4	0	0	0
English	27	0	0	6	17	4	0
English Language	56	7	23	23	3	0	0
English Literature	56	18	27	11	0	0	0
French	61	4	6	16	16	19	0
Geography	43	12	8	15	5	2	1
German	8	0	3	2	2	0	1
Greek	1	1	0	0	0	0	0
History	27	4	11	9	2	1	0
ICT	15	2	1	6	2	3	1
Latin	6	4	2	0	0	0	0
Latin Literature	6	5	0	1	0	0	0
Maths	83	28	29	15	11	0	0
Psychology	1	0	1	0	0	0	0
Statistics	26	12	13	1	0	0	0
Music	4	1	1	2	0	0	0
Physics	41	16	16	8	1	0	0
Religious Studies	83	8	15	35	15	7	3
Science (Core)	42	4	14	21	3	0	0
Science (Additional)	41	1	10	16	14	0	0
Spanish	18	3	2	5	5	3	0
Sports/PE	17	6	10	1	0	0	0
Totals	**920**	**165**	**268**	**276**	**145**	**56**	**10**

Upper 6th (Yr 13) A2 Results 2012: Subject Grades
(Grades achieved by numbers of pupils)

Subject	Entries	A*	A	B	C	D	E	U
Ancient History	4	0	1	1	2	0	0	0
Art	4	1	2	0	0	1	0	0
Biology	20	5	5	5	3	2	0	0
Business Studies	7	0	3	2	2	0	0	0
Chemistry	13	2	7	3	1	0	0	0
Drama/Theatre Studies	2	0	0	1	1	0	0	0
Design & Technology /Graphics	1	0	0	0	0	1	0	0
Design & Technology /Materials	2	0	0	1	0	1	0	0
Dutch	1	0	1	0	0	0	0	0
Economics	8	2	2	3	1	0	0	0
English Literature	8	3	2	2	1	0	0	0
French	6	0	4	1	1	0	0	0
Geography	16	0	8	6	2	0	0	0
German	1	0	1	0	0	0	0	0
History	6	0	4	2	0	0	0	0
Mathematics	29	7	10	6	4	1	1	0
Further Maths	4	2	1	1	0	0	0	0
Music	1	0	0	1	0	0	0	0
Sports Studies /Science/PE	5	0	1	2	2	0	0	0
Photography	3	1	0	2	0	0	0	0
Physics	17	5	3	8	1	0	0	0
Portuguese	1	0	0	0	1	0	0	0
Psychology	5	0	0	1	4	0	0	0
Religious Studies	4	1	0	1	2	0	0	0
Spanish	2	1	0	1	0	0	0	0
Totals	**170**	**31**	**54**	**50**	**28**	**6**	**1**	**0**
		18%	32%	29%	16%	4%	1%	0%
			50%	79%	96%	99%	100%	100%

Appendix II

ELIZABETH COLLEGE LEAVERS' DESTINATIONS 2012

Name	**University Course** *(unless indicated otherwise)*
Allen, Edward	Geography (Science) at the University of Exeter
Bailey, Richard	Geography (Science) at the University of Exeter
Belton, Luke	Geology at Durham University
Betley, Maximilian	Architecture at the University of Bath (after gap year)
Bisson, Luke	Geography at Loughborough University
Bougourd, Joshua	*Applying to university in 2012 (gap year)*
Carter, William	Modern Foreign Languages at the St Anne's College, University of Oxford
Chan, James	Biology at Durham University
Christopher, Barnaby	Music at Kingston University
Couture, Charlie	Boat Building at Boat Building Academy, Lyme Regis
Craig, Martin	*Applying to university in 2012 (gap year)*
Crame, Thomas	Biology at the University of Manchester
Cuddihee, Benjamin	Geography at Lancaster University
Curran, Jack	Economics at University College, London
Damarell, Isaac	*Trainee Accountant at BDO*
David, Matthew	Ancient History at the University of Reading
Eker, Nathaniel	*Marketing Graduate at Specsavers*
Ferbrache, Ryan	Pharmacy at the University of Portsmouth
Firth, James	Natural Sciences at Durham University
Fox, Matthew	*Applying to university in 2012 (gap year)*
Galpin, Christopher	Engineering at King's College, Cambridge (after gap year)
Goddard, Adam	Law at St John's College, University of Cambridge
Golland, Jake	Geography at Plymouth University
Gould, William	Architecture at the University of Portsmouth
Hall, Robert	Psychology at the University of Edinburgh
Hanna, Patrick	Medicine at University College, London
Harrisson, Lucas	*Helicopter Pilot Training*
Helmot, Jean-Luc	*Officer Training with Trinity House (Merchant Navy)*
Heywood, Jack	Natural Sciences at Pembroke College, University of Cambridge
Holbrook-Sanderson, Charles	Sport Coaching and Development at the Southampton Solent University
Holmes, Mattias	*Applying to university in 2012 (gap year)*
Hudson, Matthew	Sport and Exercise Science at the University of Bath (after gap year)
Inderwick, Benjamin	*Applying to university in 2012 (gap year)*
Kerins, Nicholas	*Applying to university in 2012 (gap year)*
Lacey, Alex	Photography and Art, London College of Communications
Marson, Oliver	Politics and International Relations at the University of Reading

Maubec, Theodore	Civil Engineering at the University of Exeter
Milner, Luke	Archaeology and Geography at the University of Southampton
Moyles, Daniel	Modern History and Politics at the University of Southampton
Ogier, Joe	Psychology at Plymouth University
Paluch, Anthony	Medicine at St Bart's, Queen Mary University of London
Payne, Jean-Pierre	Business Management with year abroad at Kingston University
Pentland, Matthew	Civil Engineering at Brunel University
Reilly, James	Medicine at Bristol University
Richardson, Joel	Medicine at King's College, London
Rito, Rafael	International Business and Spanish at the University of Chester
Robilliard, Nicholas	Physiotherapy at the University of the West of England, Bristol
Rosamond, Jordan	Management and Information Technology at the University of Lancaster
Sharman, Erik	Modern Foreign Languages at Durham University
Stephens, Harry	Primary Education at the University of Brighton
Tapp, Oliver	Physics and Astronomy at the University of Southampton
Van Den Bossche, Rafael	Physics with Nuclear Astrophysics at the University of Surrey
Waldron, Nicholas	Geography at the University of Sussex
Watson, Alexander	Maritime Law at the University of Southampton
Woodhard, Robert	Economics at the University of Warwick