XIII
2022

BILLET D'ÉTAT

WEDNESDAY, 7th SEPTEMBER, 2022

ITEMS DEFERRED FROM THE MEETING ON 13th JULY, 2022

1. Policy & Resources Committee - The Guernsey Financial Services Commission 2021 Annual Report and Accounts, P.2022/54
2. States' Trading Supervisory Board - Guernsey Electricity Limited - Annual Report and Accounts, P.2022/55
3. Committee *for* Home Affairs - Justice Framework - Domestic Abuse & Sexual Violence, P.2022/60

LEGISLATIVE BUSINESS

Legislation laid before the States

The Plant Health (Preserved Phytosanitary Conditions Regulation (Amendment) (Guernsey) (No.2) Regulations, 2022
The Parochial Elections (St Peter Port) (No.3) Regulations, 2022

OTHER BUSINESS

4. States' Trading Supervisory Board - Future Waste Charges, P.2022/63
5. Policy & Resources Committee - Schedule for Future States' Business, P.2022/64

BILLET D'ÉTAT

TO
THE MEMBERS OF THE STATES
OF THE ISLAND OF GUERNSEY

I hereby give notice that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE,** on **WEDNESDAY** the **7th SEPTEMBER, 2022** at **9.30 a.m.**, to consider the items listed in this Billet d'État which have been submitted for debate.

J. E. Roland
Deputy Bailiff and Deputy Presiding Officer

The Royal Court House
Guernsey

18th July, 2022

P.2022/54

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

POLICY & RESOURCES COMMITTEE

THE GUERNSEY FINANCIAL SERVICES COMMISSION:
2021 ANNUAL REPORT AND ACCOUNTS

The States are asked to decide: -

Whether, after consideration of the Policy Letter entitled The Guernsey Financial Services Commission: 2021 Annual Report and Accounts, dated 1st June, 2022, they are of the opinion:-

1. To note the annual report and accounts of the Guernsey Financial Services Commission for the year ended 31st December, 2021.

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

POLICY & RESOURCES COMMITTEE

THE GUERNSEY FINANCIAL SERVICES COMMISSION:
2021 ANNUAL REPORT AND ACCOUNTS

The Presiding Officer
States of Guernsey
Royal Court
St Peter Port

1st June, 2022

Dear Sir

1. Executive Summary

1.1 The 2021 annual report and accounts of the Guernsey Financial Services Commission are hereby presented to the States in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended.

2. Recommendation

2.1 The States are asked to decide whether they are of the opinion :-

To note the annual report and accounts of the Guernsey Financial Services Commission for the year ended 31st December, 2021.

3. Compliance with Rule 4

3.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

3.2 In accordance with Rule 4(1): a) the proposition contributes to the States' objectives and policy plans by complying with the relevant legislation; b) in preparing the proposition consultation has been undertaken with the Guernsey Financial Services Commission c) the proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications; d) there are no financial implications to the States of carrying the proposal into effect.

3.3 In accordance with Rule 4(2): a) the proposition relates to the duties and powers of the Policy & Resources Committee in regard to its powers under the Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended; b) the proposition has the unanimous support of the Policy & Resources Committee.

Yours faithfully

P T R Ferbrache
President

H J Soulsby
Vice-President

M A J Helyar
J P Le Tocq
D J Mahoney

2021

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2021

"Confidence in the Bailiwick: securing good regulatory outcomes with integrity, proportionality and professional excellence"

Guernsey Financial Services Commission

Appendices

This report, including the financial statements as required by section 18 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law), is made in pursuance of section 6 of the Commission Law to the States Policy and Resources Committee and submitted for consideration by the States of Guernsey.

Note: Throughout this report the Guernsey Financial Services Commission is referred to as "the Commission". The Chairman and other members are referred to collectively as "the Commissioners"

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CHAIRMAN'S STATEMENT

In drafting my first statement for the Annual Report, I have had the benefit of six months as a Commissioner and some four days as 'on-island' Chairman from the 31st December 2021. This time has given me some appreciation of the duties of the Commission – looking after the interests of the Bailiwick through its financial stability work, its protection of on and off island consumers and working effectively to combat financial crime.

As is clear from my brief CV (on page 58), I have worked in Guernsey since 2005 in the finance sector regulated by the Commission, with further direct responsibility for operations in Jersey regulated by the Jersey Financial Services Commission, Gibraltar regulated by the Gibraltar Financial Services Commission and Bermuda regulated by the Bermuda Monetary Authority. Prior to this, I worked in the City of London whose financial services sector is regulated by the FCA, previously the FSA. In short, I am very clear as to what the financial services industry likes to see in a financial services regulator and more importantly, what it considers makes a good one. In this respect I would like to start by thanking my enormously experienced predecessor, Drs Cees Schrauwers, who has bequeathed an organisation that is in good shape, one that has been well-managed and fully supported by an excellent team. Having said this, we work in a fast-changing world where politics, international relationships, corporate and client demand, product development and the people in the global and local finance industry are constantly moving. Standing still, and any resting on laurels are not options.

Newly involved as 'poacher-turned-gamekeeper', I have been afforded the brief privilege of asking the simple question of many of the Commission's stakeholders "what do you want from the Commission?". Those stakeholders included regulated companies, regulated individuals, representatives of Guernsey Plc, users of regulated products and services, finance industry representatives both inside and outside Guernsey and other regulators. While there has been a myriad of individual responses, they break down into three primary headings:

1. It must be easy to deal with;
2. It must be cost-appropriate; and
3. It must be competent.

Briefly, the 'easy to deal with' is very clear. The Commission must be approachable, speak a language that is understood by users, radiate an 'open for business' attitude and be fair and appropriately clear. In a perfect world, it should be seen by all stakeholders to be of benefit to the Bailiwick's finance industry as well as the citizens and customers whose interests it is established to serve.

The cost-appropriate requirement is obviously by jurisdictional comparison particularly measured by users, many of whom are large corporates and clients who operate either internationally or globally. Intertwined with this is a comparison of quality.

The final point regarding competence is wide ranging as it covers many of the specific functions of the Commission as appropriate to each of the stakeholders. It does also necessarily define the bar required with respect to the level of expertise and knowledge of all Commission staff. Finally and arguably most importantly, it should serve the Bailiwick in the manner and at the level the Bailiwick requires if it is to continue to prosper as an internationally respected financial services centre.

My second question for stakeholders has been and will remain throughout my time as Chairman of the Commission, "how are we measuring up?" To date it is clear to me, though I acknowledge this is in full recognition of the minute amount of time I have been involved, that the Commission is delivering to a good standard. There are no current significant issues but it is recognised, and acknowledged, that we can always do better and we are working on that. I plan to follow up on this in due time as we continue to fulfil our mandate. In the interim, some of the more important priorities are around the continuing preparations for the visit to Guernsey by MONEYVAL in early 2024.

Julian Winser
Chairman

HIGHLIGHTS

Authorisations and Innovation

550 Dealt with over 550 applications (up 8.5% on 2020)

Assessed over 9,000 Online Personal Questionnaires, Appointments and Resignations

Authorised Guernsey's first cryptocurrency fund

Completed a pilot scheme for the pre-authorisation of captive insurance cells

Supervision

238 Number of Risk Mitigation Programme actions set

270 Number of Risk Mitigation Programme actions completed by firms

Interviewed 38 individuals under our MLRO and MLCO exit interview programme since 2020

Discussed suspicious activity reporting practices with 242 senior industry representatives at our workshops in November, alongside the Financial Intelligence Service

Assessed compliance by Guernsey Green Funds and found that they appear to be being invested properly in appropriate assets

Carried out 31 Full Risk Assessment visits and 115 further engagements with firms

Highlights *(continued)*

Policy

Held 3 open meetings as well as over 50 individual conversations to discuss the planned Credit and Finance legislation

Implemented revisions to our banking regulations to meet Basel III international standards

De-regulated by revoking the Non-Guernsey Scheme regime rules

3 New routes created to establish a private investment fund introducing greater flexibility while ensuring appropriate levels of investor protection

Rolled out new suite of regulatory laws plus the new Enforcement Law and Procedures on 1 November 2021

Technology

Developed three prototype SupTech Augmented Intelligence tools to support our supervisory processes

Developed and delivered new firm document management system

58 Forms delivered for new replacement portals for Personal Questionnaires and for Online Submissions with a single sign-on Authentication Server as part of a move away from an unsupported web technology platform

DIRECTOR GENERAL'S STATEMENT

Economic Risk and the Bailiwick's Economy

Despite ongoing Covid restrictions, the Bailiwick's financial services economy appears to have had a positive year. In terms of authorisations, we have seen a growth in the number of new funds and insurance entities authorised relative to 2020 and 2019. Add to this the States of Guernsey's positive budgetary forecast for 2021 and the small cost to the States of Covid support relative to the support costs for many other jurisdictions, and the economic outlook appeared broadly benign at the end of 2021.

That said, the inflationary risk we warned of in our 2020 annual report appears to have come to pass to some degree both locally and internationally. What remains to be seen is how global central banks react to the new wave of price increases and whether high inflationary expectations start to embed themselves in the minds of populations to the extent that a stagflation outcome becomes more likely. There is also some concern amongst well informed commentators that fiscal dominance (the risk that central banks raising interest rates may cause a sovereign debt crisis) may inhibit central banks' ability to raise rates quickly enough. Thus, alongside inflation, the potential for renewed Euro area sovereign debt problems if central banks react robustly to inflationary pressures is a key economic factor that industry may like to consider over the course of the next twelve months.

I wrote in my January draft of this report, a paragraph on how a conflict between Russia and Ukraine would magnify inflationary risks. Sadly that scenario has come to pass in the most terrible way and firms will wish to think through the implications of the raw material shortages and elevated food prices which are the likely result of the economic blockade of Russia and the low probability of Ukraine having a harvest this year. Other geo-political scenarios involving events in Asia could also lead to significant supply issues affecting the global economy severely.

Closer to home, the Commission will continue to work with the States to ensure that the Bailiwick is well equipped to withstand economic shocks. We will continue to support the States in its efforts to integrate the Bailiwick fully into new post-Brexit trading arrangements. We will also continue to focus on the need for financial services businesses to position "mind and management" in the Bailiwick rather than relying on off-island hubs for activity, given the need for businesses to be supervisable and for mind and management to remain within the Bailiwick.

We noted last year that environmentally friendly finance would become more economically important. At COP26 in November, the process towards making all financial services environmentally friendly took another leap forward. The Commission, through its active membership of the Network for Greening the Financial System and the Sustainable Insurance Forum will continue to participate fully in global moves to enhance the sustainability of financial services. All firms, following our environmental amendments to the Code of Corporate Governance in 2021, need to consider how to adapt their business models as a matter of urgency as international standards on environmental sustainability are quite likely to be promulgated over the course of 2022.

Commission Activity and Achievements in 2021

A key achievement, despite increasing staff losses and the impact of Covid restrictions, was the delivery of our annual targets for firm inspections. This is the unglamorous and largely unsung part of regulation whereby we give a significant number of firms a health check each year, often followed by risk mitigation programme actions, designed to help improve a firm's health. Whilst we are only resourced to look at the larger firms on a regular basis, we often uncover significant issues whose remediation helps make those firms more resilient in the future. One supervisory review we were particularly pleased to complete was on the "greenness" of the Guernsey Green Funds we had authorised. Although our thematic review showed that there was room for improvement on some administrative matters, our overall conclusion - that Guernsey Green Funds were investing in environmentally appropriate areas - was heartening. This should provide reassurance that Guernsey Green Funds are making a positive environmental contribution, with no indications of greenwashing.

Another area on which we focused supervisory attention was Guernsey-based overseas retail insurers. These have consumed a great deal of supervisory time over the past two years as supervisors have worked hard with overseas counterparts to protect retail policyholders. We intend to reset expectations for this insurance sub-sector going forward to reduce the likelihood of further serious failings occurring.

We were pleased with the large number of applications successfully processed by our Authorisations team during 2021 although it is fair to say the weight of applications has, at times, pushed our staff to their limit. We have responded by increasing the number of senior officers allocated to authorisations work whilst continuing with, and confirming, the pre-authorisation scheme for captive insurance cells. This was introduced in late 2020 and industry has found this scheme user-friendly. In the longer term, it would be good to have the resources to invest in automating considerable parts of the authorisations process. We will be working with an external consultant in 2022 to work out how we might improve our processes to ensure that the Bailiwick further enhances its reputation as a jurisdiction which is happy to approve good quality business within decent timescales.

On the policy front, a number of workstreams have advanced considerably as discussed further on in this annual report. A key one which reached fruition in 2021 was the vast Revision of Laws project which came into effect on 1st November. This and its immediate precursor, the Consolidation of Laws project, have occupied huge amounts of Commission and Law Officer effort for over nine years. Now we finally have the new laws in place, we are much better able to demonstrate that the Bailiwick complies appropriately with relevant international standards, a key aspect of Bailiwick firms' ability to operate with a global client base.

Another key policy milestone was the renewal of the Private Investment Fund (PIF) rules. Here we worked with experts in the legal sphere to develop two new pathways towards running a regulated investment fund, explicitly opening up the proven PIF regime to family office investment vehicles and newer fund managers thereby enhancing the regulated product range available to investment managers whilst, we hope, minimising unnecessary administrative burdens and maintaining protections for retail investors.

On the Enforcement front, we brought two major cases with a strong anti-money laundering aspect to successful conclusions. A smaller case relating to someone failing to provide full, frank and unambiguous information to the Commission was also concluded. A number of serious cases, several with a strong anti-money laundering aspect, continue to be progressed through our investigatory and legal processes. As at the end of the year the number of cases under investigation had increased to 14, relative to the 12 under investigation at the end of the prior year. It is worth noting that we have not in any way lowered the threshold for a matter being referred by supervisors for investigation by the Enforcement Division. It is difficult for us to progress this number of cases simultaneously with the number of investigatory and legal staff we are able to afford but we have, thanks to the passage of the Revision of Laws, been able to review our internal processes with a view to being able to deliver justice more swiftly. That said, it is inevitable that when faced with well-resourced opponents determined to explore every legal avenue, some cases are always going to take a considerable time to reach fruition. We have continued to develop our working relationship with Law Enforcement and hope that its ability to progress some cases we have referred to it using criminal, rather than administrative powers, will be helpful to the Bailiwick's overall objective of being a "no go zone" for financial crime.

Internally, we completed our technology-focused first three-year business plan with the renewal of our internal electronic filing system and our financial returns system, hopefully future proofing them for some years to come. Whilst not necessarily eye-catching, the level of technological effort we require to keep functional and up-to-date as a small regulator is considerable. Many of the systems we require are simply not available "off the shelf" although we continue to endeavour to use untailored systems where possible to reduce the ongoing systems maintenance burden.

Less positively, our staff wastage rate this year has been considerably higher than we would wish to see, although it was no higher than that we have seen in some prior years. Having done some root cause analysis, we have seen some staff wastage as a result of the buoyancy of the financial services sector with whom we compete for talent. We have also seen some staff poached with salary offers with which we cannot afford to compete and some staff relocating to the UK in the wake of Covid to be within easier reach of their family and friends. The cost of travel to the UK is also raised by junior staff in exit interviews as a reason for leaving as too much of their salary is consumed by travel to see their families. I am sure some will say that we should react by recruiting fewer people from the UK and rely more on local residents. We are very positive about recruiting locally and always try to do so but the reality is that the skills we require are in short supply within the Bailiwick and we cannot afford to pay the salaries it would take to recruit enough staff solely from within the Bailiwick.

We reacted to the wastage rates by giving a reasonable pay rise to all officers for the first time in eight years. We think we will need to continue to increase salaries by inflation going forwards given the buoyant job market. We also conducted a fulsome anonymous staff survey to understand how our people viewed us as an employer. This provided us with positive feedback on many aspects of our employment proposition, but it also highlighted one or two areas where our terms and conditions are perhaps tougher than industry norms. We will consider how to most appropriately react to this feedback in the first part of 2022, recognising the high toll that losing good staff too quickly has on organisational effectiveness and efficiency. We have already implemented a programme to support housing for graduates without easy access to local accommodation in the current slightly frenetic rental market. This is not something we particularly wished to do but we expect to have to continue to provide this sort of support for our junior staff for so long as the current demand for modest rental flats remains at an elevated level.

Looking to the Future

The Bailiwick is due to be inspected by the Financial Action Task Force's regional body MONEYVAL (part of the Council of Europe) in 2023/24. Unsurprisingly, preparing for this visit is at the centre of our new three-year business plan which is due to run until mid-2024. In 2021, we continued to enhance the financial crime regulatory returns which we started to upgrade in 2020. These improvements should provide us with a more valuable flow of data by the time the MONEYVAL inspection team arrive, helping us to demonstrate that we understand and seek to effectively mitigate the money laundering and terrorist financing risks to which the Bailiwick is exposed. We are also undertaking an extensive internal review of procedures with external assistance to check that what we are doing is aligned with the latest Financial Action Task Force standards. Following this work, we may undertake a consultation in 2022 on whether we need to reform the rules relating to exemptions in relation to certain aspects of our regulatory framework. Despite the high demand for skilled labour discussed above, we were successful in 2021 in recruiting new officers into our recently enlarged Financial Crime Division. Thanks to this success, we hope (Covid restrictions permitting) to be able to undertake 60, rather than 45, onsite visits with a financial crime focus in 2022, thereby helping to demonstrate sufficient supervisory visits to MONEYVAL inspectors.

The economic costs to the Bailiwick of being grey-listed by the Financial Action Task Force after a MONEYVAL inspection would be high. The Commission is not, alone, responsible for the outcome of the MONEYVAL inspection as industry, various other public sector bodies and the States of Guernsey are also involved, with the Bailiwick as a whole needing to demonstrate competence across eleven Immediate Outcomes. We are, however, determined to play our part in helping the Bailiwick achieve a positive outcome against the markedly higher standards to which MONEYVAL will work, relative to those it used during the 2015/16 inspection.

On the policy front, we will: -

- Digest the results of our December 2021 consultation on Professional Indemnity Insurance. Here our review of the current regime at the request of industry has highlighted areas where it is perhaps administratively burdensome and other areas where the current rules actually do not work well enough in terms of giving customers of firms adequate protection. The package on which we are consulting is designed to create a more balanced regime which should make it easier for firms to buy cover whilst also increasing the utility of the cover bought for customers.
- Continue to work with the Law Officers and the States on the Credit and Finance Law. Since the States of Deliberation agreed a Policy Letter in Q1 2021, we have worked alongside the Law Officers to draft the black letter law which will allow the Bailiwick to regulate consumer credit, FinTech and Virtual Asset Service Providers in an appropriate internationally compliant fashion. If the States approves the black letter law in the first half of 2022, we intend to consult extensively with industry about how to most efficaciously implement different aspects of this complex piece of legislation which needs to be embedded prior to our 2023/24 MONEYVAL inspection.
- Continue to support the States and Law Officers as they take forward legislation to implement international standards with regard to insurance policyholder prioritisation and bank resolution.

Internationally, we will continue to support the States as it works to fully integrate the Bailiwick into the new architecture of international trade agreements which are being created in the wake of Brexit. Allied to this is the issue of regulatory deference or equivalence which is often important in the context of services focused trade deals relevant to financial services. Here we will continue to work to make sure that the Bailiwick's businesses are recognised as being regulated to internationally expected standards and can, in consequence, continue to be used for the international clients on which the Bailiwick's international financial centre depends. It is difficult to overemphasise the importance of the success of this work for the long-term economic prosperity of the Bailiwick. Being fully integrated into the enhanced systems for services trade being created by the UK after Brexit will allow us to continue to add value to the global economy.

We will also continue to play an active role in international regulatory bodies such as IOSCO, IAIS, FATF, GIICS, GIFCS, GFIN, SIF and the NGFS. In these bodies we work to try to ensure that the international standards which are developed are sensible and open rather than overly bureaucratic and hostile to free trade. We are not always successful given our minute size and scale relative to the main players, but we endeavour to make an intelligent contribution to help ensure that global finance can prosper in an innovative and sound fashion.

Internally, we will continue to work with partners on the development and application of Augmented Intelligence (AI) SupTech (Supervisory Technology) solutions to previously intractable regulatory problems. During 2021 we advanced to the stage of having a number of operational prototypes which aim to solve several capacity constraints that we and other regulators have always experienced with regard to proactive small firm supervision. Our challenge over the next two years, alongside developing further AI solutions, is taking the prototypes into full scale operation within our supervisory teams. We will also take forward data work to improve our data gathering and usage to make sure we at least stay with the peloton of international regulatory expectations with regard to gathering good quality data from firms in an efficient manner and then making productive use of it.

On the environmental front, having purchased two electric bikes in late 2021 to help staff travel to meetings in a more environmentally sustainable manner, we will continue to take forward our sustainability programme with the intent of planting more than 50,000 trees at our Angus site in the first half of 2022 to start us on a journey towards full offsetting of our greenhouse gas emissions. Conscious that sustainability is about more than greenhouse gas emissions, we are undertaking the most ecologically sensitive planting that is compatible with being a commercial forest. We also intend to undertake further work in conjunction with counterparts in Guernsey Finance on more financial services focused environmental initiatives to complement our green insurance capital and Guernsey Green Fund regimes.

Some Thanks

Our long-serving Commission Secretary Dale Holmes retired from full time work in Q3 2021. I would like to thank him for his invaluable counsel and service to the Bailiwick over many years. 2021 was also a year in which both the Vice Chairman and Chairman of the Commission retired - albeit Bob Moore retired at the beginning of the year and Cees Schrauwers at the very end. Leading the Commission is something of a partnership between the executive directors and the non-executive Commissioners. Particularly important is the partnership between the Chairman and the Director General. Bob and Cees are very different individuals but the scrutiny and advice which they were able to offer the Senior Officers over a number of years have been noteworthy and it feels appropriate to record my thanks to them both for their tireless work helping the Commission navigate numerous shoals and shallows during their time in office.

William Mason
Director General

AUTHORISATIONS AND INNOVATION

Authorisations

We were pleased to be appointed as Co-Directors of the Authorisations and Innovation Division in the final quarter of 2021 following in the footsteps of Emma Bailey. It is our intention to continue, and refine, the risk-based approach to reviewing applications that is currently in place.

The Bailiwick was faced with a second lockdown early in 2021 but, positively, this had little effect on the volume of applications received by the Commission as firms were, by then, adept at working from home. Similarly, the Authorisations and Innovation Division remained open for business throughout the lockdown with staff quickly adapting once again.

Business remains at pre-pandemic levels as the graph at Figure 15 (on page 67) shows. The final quarter of 2021 was especially strong, with October and November outperforming the corresponding months in 2020. Early December 2021 was also busy, although this tailed off a little towards the end of the month.

A risk-based approach to our assessment of application submissions results in most applications achieving straight-through review by the Division without reference to supervisors. Authorisation Review Panels (ARPs), continued to be used where required; in 2021, eight applications were referred to an ARP with most cases continuing to approval once the necessary risk mitigations were in place.

During the last three years, 2019, 2020 and 2021, 97% of applications have proceeded to the approval stage, demonstrating our commitment to allowing suitable quality businesses to proceed. Applications which did not receive approval were either withdrawn by the applicant, in some cases at our invitation, or lapsed. The quality of applications continues to be the key to turnaround times and applications which are otherwise straightforward can be held up if key information is missing or not clearly explained. It should be borne in mind that whilst firms will know their client and its business plan very well, this needs to be clearly communicated in the application submission. The Commission cannot make assumptions when there are gaps in information and therefore we may have to revert with questions that, to the applicant, appear obvious.

We have previously reported on the post facto review process for fast-track applications. Having refined this process in 2021, we are now focussed on increasing the number of post facto reviews completed during 2022. Post facto reviews are concerned with the due diligence and assessment performed by the administrator in order for it to be able to sign the declarations required for a fast-track application. We have already begun to increase our activity in this area for 2022 which is important as 24% of applications received are fast-track.

The Online Personal Questionnaire Portal (PQ Portal) continued to be busy with a total of 9,381 submissions made during 2021, an increase on the number in 2020. All Online Personal Questionnaires (OPQs), Online Appointments (OAs) and Online Resignations (ORs) are reviewed by the Authorisations and Innovation Division. We conduct due diligence, discuss with supervisory colleagues as appropriate and then process on the portal. We do experience some basic errors in the submission of OPQs and OAs which result in around 11% being returned for correction or clarification. We therefore encourage all licensees to engage with clients to ensure that they give due attention to these submissions to avoid such delays impacting on their applications. Careful review of PQ Portal submissions remains fundamental to the work of the Commission in ensuring that only suitable individuals are approved for supervised roles.

We encourage Licensee Main Users (LMU) to regularly check that appointments relating to client entities are up-to-date and that all OAs and ORs have been followed up and are complete on the portal. The Commission spends a significant amount of time dealing with queries and tidying up records that have not been correctly submitted or concluded on the portal. We also frequently receive OPQs where there is no obvious reason for submission. Please ensure that when OPQs are submitted, the reason for submission is correctly identified, in particular if it relates to an application, and ensure that relevant OAs are submitted at the same time so that it is clear why the OPQ has been submitted. We will not action an OPQ if we cannot determine the reason for its submission.

During the year we have made some internal changes to the operation of the Online Services Helpdesk to free up staff to deal with other matters. We have expanded the FAQ section of the portal to include more of the common queries that we receive and this has resulted in a reduction in the number of email queries from 9,541 in 2020 to 6,506 in 2021. The Commission is moving towards two factor authentication (2FA) for portal access and further information on this can be found in the Operations section of this report.

Innovation

The Commission continues to encourage innovation and is willing to work with potential applicants to understand how the regulatory framework may apply to their financial services businesses.

The Commission has taken a measured approach to crypto and cannabis funds following applications received during 2021, approving funds in each category over the course of the year. When considering applications for funds investing in virtual assets, crypto technologies or cannabis, the Commission considers each application on its merits and looks to ensure that key controls around custody, liquidity, valuation of assets and investor information are appropriate. We would also expect the promoter or sponsor to have a demonstratable and proven track record in the relevant asset class. Such applications are not usually appropriate for the fast-track regimes and will most likely require referral to an ARP.

Amendments to the Private Investment Fund (PIF) rules were made during April 2021 thus expanding the fast-track application regime. New application forms were rolled out for the three PIF routes and we have seen all three routes used, although with the vast majority being Route 1.

Last year, we reported on the commencement of a pilot scheme for the pre-authorisation of insurance cells within a protected cell company (PCC). Following evaluation of the scheme, which received positive feedback from industry, the Commission has made the scheme permanent. The scheme allows licensed insurance managers to form captive insurance cells quickly, within a licensed PCC, providing the cells fall within the parameters of the scheme. 18 cells were formed during the pilot scheme period by five PCCs. The Commission will continue to monitor the scheme and has introduced consequences for breaches of the scheme parameters and taken the opportunity to remind licensees that relevant OPQs must be submitted at the time of application.

To further assist with incorporation of insurance entities and to allow this process to run in parallel to the licence application, we have introduced an automatic approval to use the relevant insurance cognate expressions, in accordance with the relevant regulatory laws, following submission of an application. A note on the final page of the application form now provides this confirmation, so that insurance managers do not need to wait for a specific approval. This does not apply to PCCs for which there is a separate requirement for the Commission to approve incorporation under the Companies Law.

The Commission continues to participate in the Global Financial Innovation Network (GFIN) and was reconfirmed as a member of the GFIN Coordination Group in September 2021. We also remain involved in the cross-border testing programme, which is currently being reviewed and refined.

Caroline Bradley & Alison Gavey
Co-Directors

BANKING

Supervision

Compared to 2020, the global and local economic outturn was far more benign in 2021. Significant output growth is officially estimated to have taken place globally and in the UK; and the same is likely to be the case in the Bailiwick. UK fiscal and monetary policy remained highly accommodative. UK wage growth in 2021 was positive with the unemployment level remaining low. In the Bailiwick, the residential housing market saw a significant rise in prices over the first three recorded quarters of 2021, albeit after several years of low growth. Nevertheless, the future for the global and local economy remains uncertain due to the outbreak of the Omicron variant – and possible future variants. In addition, with accelerating UK inflation, 2022 UK real wage growth is under significant pressure. The task of both eventually tightening UK fiscal and monetary policy without prompting major dislocation in either the real economy or financial markets will be a difficult one which has clear relevance for the Bailiwick.

In a continuing environment of exceptionally low interest rates, the creation of shareholder value by banks is difficult. Nevertheless, global bank profitability is likely to have been buoyed in 2021 by accommodative monetary policies, real economy growth, high transaction volumes and by a low default rate. Guernsey banks should be no exception to this trend in 2021, albeit, given their collective low historic default rate, they are unlikely to have benefited to the same extent.

Between September 2020 and September 2021, third-party deposits rose from £37bn to £41bn. Such a variation is within the band of normal annual fluctuation, not least due to the currency composition of liabilities.

Two banks left the jurisdiction during 2021 with the number of banks in Guernsey in September 2021 standing at twenty.

In line with other banking regulators, the Commission submitted bank subsidiaries to a series of asset and liquidity stress tests during 2021. As elsewhere in the world and following a tougher regulatory approach following the Global Financial Crisis of 2008, these tests concluded that subsidiaries had an appropriate level of capital and liquidity. Potentially, it is possible to see risk in the local residential housing market but even here recent price growth could simply be playing catch-up. The key standard risks of Guernsey banks remain therefore broadly operational. A major challenge is around cyber security and the Commission issued cross-sectoral rules on this topic in 2021. Other operational risks are around cross-border outsourcing, the mitigation of financial crime and documentation risk due to the extensive use of collateralised lending amongst private banks.

Policy

The Bailiwick is committed to the implementation of international regulatory standards in a proportionate manner. Accordingly, in 2021, the Commission put in place a new policy on Large Exposures as set out by the Basel Committee. Principally, this policy requires banks to disperse inter-bank lending more widely. The Commission intends to issue a final Consultative Paper that will implement the residual parts of the post-2008 Basel capital rules but this will be dependent on the timing of implementation by the G7.

The States of Deliberation is expected to consider in due course, the establishment of a bank resolution regime and work is already underway in preparation for this. The Commission has been involved in this work which is necessary if Guernsey is to be viewed as complying with Basel Committee Standards.

Risk Outlook

The following are likely to be key risks for 2022:-

- cyber-attacks;
- failing to maintain compliance with changing international regulations against money laundering and terrorist financing;
- greenwashing and the consequent alienation of clients; and
- inadequate investment in compliance either for people or systems.

Jeremy Quick
Director

FIDUCIARY AND PENSION

Supervision

During 2021, we undertook 20 onsite visits to Fiduciary and Pension licensees. Thematic reviews continued to complement focused Full Risk Assessments. We explored the initial impact of Covid upon the liquidity, credit and capital risks of Investment and Fiduciary licensees, broadly concluding that the sectors remained resilient.

We have commenced a thematic review of "Pension Transfers", exploring licensees' compliance with "The Pension Scheme and Gratuity Scheme Rules and Guidance, 2021", with a specific focus on the timeliness, ease and cost of pension transfers.

We have been disappointed at the accuracy of data received by the Commission from licensees. Errors are found in regular reporting and in response to thematic reviews. Some errors appear to be a consequence of 'fat fingers' (for example extra zeros or miscalculation of currency exchange) whilst other errors persist annually making validation checks at the Commission difficult. Accuracy of data is going to be an ongoing area of focus for the Commission; put simply, if the data provided to us is incorrect, what else is wrong?

A total of 125 Fiduciary and Pension Risk Mitigation Programme (RMP) actions were created during the year. Financial Crime risk (38%), Governance risk (29%) and Operational risk (21%) account for the largest number of RMPs. As in previous years, the Commission has observed ongoing Mergers and Acquisition across many sectors, including the Fiduciary Sector. The Commission remains concerned that, on occasion, more effort appears to be spent on completing a deal/transaction, with less effort and resource being devoted to integrating separate businesses or maintaining investment in important areas like compliance. Such an approach only leads to short-term savings and is regularly leading to longer term costs. Fiduciary licensees are inherently long-term businesses with long-term assets and relationships, thus any short-term view from a prospective purchaser will be misaligned.

Policy

During the year, the Commission consulted on and revised the fiduciary policy framework to reflect the changes brought in with the commencement of the revised Fiduciaries Law on 1 November 2021.

At the end of 2021, a consultation paper was issued making proposals for amendment to the regulatory requirements for licensed Fiduciaries to hold Professional Indemnity Insurance, and following a review of consultation responses, the Commission intends to amend the relevant rules in 2022.

Following our amendment of the Finance Sector Code of Corporate Governance in 2021, boards of licensed fiduciaries, as part of their internal risk management process, should now consider the impact of climate change on their business strategy and risk profile and, where appropriate, make timely climate change related disclosures.

Fiduciary and Pension *(continued)*

Risk Outlook

The local Fiduciary sector has continued to adapt successfully to address the uncertainty around the impact of the global pandemic. Measures such as increased use of outsourcing and embedding of remote working have been a feature of this adaptation but licensees must ensure that adequate governance and management control is maintained.

In adopting outsourcing arrangements, particular regard must be given to due diligence conducted on prospective providers, ongoing oversight and adequate contingency planning for the cessation of an arrangement. Neither must outsourcing or remote working lead to a situation where a Guernsey licensee becomes an empty shell that lacks substance. For example, technology may facilitate the relocation of local director positions outside the Bailiwick, but the Commission requires substantial mind and management to remain in the Bailiwick.

2021 also saw an increase in interest in the use of alternative asset classes such as cannabis and crypto assets and it is expected that this theme will continue in the coming year. As is the case for any asset class, we would expect licensees to have the requisite knowledge and expertise to evaluate the risks around any new line of business and prudently carry out their regulatory responsibilities.

Gillian Browning
Director

Supervision

As was the case with insurance supervisors across the world, 2021 saw the Commission and licensees remain alert to the impact of Covid on the local insurance sector. Given the nature of the local industry, the focus of attention for the Commission was on the conduct and prudential implications of Covid on business interruption, medical and travel insurers. Nonetheless, as the world adjusted to the pandemic over both 2020 and 2021, and in the wake of a ruling by the UK Supreme Court on business interruption (albeit not conclusive), residual concerns around these lines of business have lessened.

As to the more general and continuing impact of Covid on the Bailiwick's insurance market, the Commission's main concern is around the cyber security risks resulting from working from home and the business challenges of cross-border outsourcing, given that the impact of Covid on global jurisdictions can be different at any one time. In 2021, the Commission issued cross-sectoral rules on cyber security risk with the expectation that all insurers and insurance managers will conduct a gap analysis against their own policies and practices.

2021 also saw a continuing hardening of the global general insurance market. This has resulted in additional business in the Bailiwick's captive market, not least around Professional Indemnity Insurance (PII). Premiums on the latter market have increased materially which has made this line of business more attractive to captives; although care should be taken that this risk is not under-priced by the latter. The global Insurance Linked Securities market however, is still being held back by the recent experience of a succession of claims and Guernsey is no exception to this, as reflected in the statistical return at the back of this annual report. In the future, possible increased interest rates will affect spread risk, although, unless interest rate increases are significant, the impact on life insurers is likely to be marginal. Global regulators have continued to focus on a possible increase in default risk in the search for yield and on the impact of Augmented Intelligence on the insurance market. Nevertheless, neither of these factors has emerged materially in the Bailiwick.

The impact of climate change on the global insurance market is still being assessed. For example, many larger insurers now include climate change scenarios in their economic planning while catastrophe reinsurers are reconfiguring their models with climate change in mind. In the Bailiwick, as set out in the Green Operations section of the report, the Commission in 2021 amended the Finance Sector Code of Corporate Governance to ask Boards to consider the impact of climate change on their strategy and risk profile and, where they judge it appropriate, to make climate change related disclosures. Further, the Guernsey International Insurance Association issued in 2021, a self-certification framework in connection with the UN Principles for Sustainable Insurance.

Following the Commission taking enforcement action against a general retail insurer in 2020, the Commission continues to pay particular attention to Bailiwick (re)insurers (and their insurance managers) who underwrite policies for ordinary people around the world, including in the UK. While many retail insurers continue to write business appropriately, there have been, in recent years, some examples of poor practice. These examples include inadequate due diligence around the use of reinsurers, poor regulatory reporting and business being written outside the risk appetite set out in the business plan. In addition, there has been an occasional failure by General Representatives (usually insurance managers) to report issues to the Commission. Accordingly, the Commission is now of the view that the regulatory regime for retail insurers needs to be strengthened. We plan to issue a consultation paper in 2022. For the sake of completeness, the paper will also include residual action points arising from the 2019 International Association of Insurance Supervisors' review of the Commission's observance of international Insurance Core Principles.

In 2021, the Commission began to undertake routine internal peer analysis as part of the PRISM process. For insurance, this work centred on market risk and on Own Risk and Solvency Assessments (ORSA) and Own Solvency Capital Assessments (OSCA), using samples across all types of Bailiwick insurers.

On market risk, the Commission expects an insurer to have a policy agreed at board level that is sufficiently detailed and which the board periodically monitors for compliance. Our review found some excellent examples of this. Nevertheless, in some cases, such policies either did not exist, were unduly vague or were rarely monitored. This may, in part, reflect the fact that many insurers have a conservative approach to market risk. For example, general insurers and captives might simply deposit funds in local banks. Another reason is that insurers sometimes fill in a market risk template provided by an insurance manager without thinking through their approach – that is a tick-box mentality. Nevertheless, the presence of an effective market risk policy – which need not be unduly complex - ensures that a board understands and controls market risk even if that risk is limited.

Insurance *(continued)*

ORSAs and OSCAs enable insurance boards to assess for themselves the main risks in their business and allocate appropriate capital to those risks. Our assessment witnessed some good examples of this with boards using this mechanism to limit risk and maximise returns, though this was mainly limited to larger firms. Elsewhere, we saw several examples where boards had not linked their assessments to their risk registers, where the assessments were purely quantitative and where poor documentation meant that it was impossible to understand how an assessment of a particular risk had been made. In several cases, board minutes indicated minimal consideration of a ORSA or OSCA, suggesting that the analysis was not owned by the board.

In 2021, the Commission also conducted an external thematic study of the use of reinsurance by Bailiwick insurers. This was undertaken both because of local concerns about the use of unrated reinsurers and because of a global regulatory focus on reinsurance. This review revealed many examples of good practice; for example, most firms have specific policies and procedures for managing reinsurance. Nevertheless, there were some cases of contracts being either unduly brief and/or remaining unsigned. There was also an occasional tendency to undertake little due diligence on a reinsurer on the sole basis that it had come recommended by a regulated broker. The Commission has issued a public feedback paper highlighting these and other points.

The Commission continued its engagement with the International Association of Insurance Supervisors and the Sustainable Insurance Forum in 2021. It also, for the first time, participated in a college of insurance manager supervisors under the aegis of the Group of International Insurance Centre Supervisors (GIICS). This is part of a wider programme to ensure appropriate regulation of multi-jurisdictional insurance managers.

Policy

In 2021, the Commission issued a consultation paper on the use of Professional Indemnity Insurance by insurance intermediaries.

Risk Outlook

Specific to 2022, risks include: -

- under-pricing PII;
- ignoring climate change/greenwashing;
- failure to manage cross-border outsourcing not least in the wake of Covid; and
- treating a general insurer with the same risk appetite as a captive.

Jeremy Quick
Director

Supervision

During 2021, we undertook 16 onsite visits to Investment licensees. Thematic reviews continued to complement focused Full Risk Assessments. We explored the initial impact of Covid upon the liquidity, credit and capital risks of Investment and Fiduciary licensees, broadly concluding that the sectors remained resilient.

We undertook an external thematic review of Guernsey Green Funds, concluding that whilst the level of oversight demonstrated by some of the Designated Administrators during the review did not always meet the expectations of the Commission, the Funds themselves appeared to be being invested properly in appropriate assets and thus provide mitigation against the risk of 'greenwashing'.

We have been disappointed at the accuracy of data received by the Commission from licensees. Errors are found in regular reporting and in response to thematic reviews. Some errors appear to be a consequence of 'fat fingers' (for example, extra zeros or miscalculation of currency exchange), whilst other errors persist annually making validation checks at the Commission difficult. Accuracy of data is going to be an ongoing area of focus for the Commission; put simply we question if the data provided to us is incorrect, what else is?

A total of 85 Investment Risk Mitigation Programme (RMP) actions were created during the year. Financial Crime risk (37%), Governance risk (20%) and Operational risk (29%) account for the largest number of RMPs. As in previous years, the Commission has sadly seen repeat instances where (non-listed) Fund Directors take their fees, but when something goes wrong, they have been found wanting. The Commission reminds all Directors of the importance of ensuring respective responsibilities of all service providers to a fund are clear and properly documented, and that their oversight includes receiving evidence rather than simply relying on assurances from, for example, a dominant manager.

Policy

As was the case for other sectors a large proportion of Investment policy resource was taken up this year with review, consultation and amendment of relevant rules, guidance and other policy papers, to facilitate the successful revision to the supervisory laws which was completed at the end of the year. Nevertheless, other policy initiatives that had been commenced in the previous year, were also brought to completion in the period; one streamlining the regulatory landscape through deregulation and the other broadening options for fund registration. First, the Non-Guernsey Scheme Rules were revoked removing an unnecessary application process while maintaining appropriate regulation over licensed Investment firms. Second, the Private Investment Fund regime was amended to allow more investor categories to take advantage of this appropriately regulated fund structure.

At the end of the year, proposals to amend the regulatory requirements for Professional Indemnity Insurance were consulted upon and this process will continue into 2022.

Investment *(continued)*

Risk Outlook

The local Investment sector has continued to successfully adapt to address the uncertainty around the impact of the global pandemic. Measures such as increased use of outsourcing and embedding of remote working have been a feature of this adaptation but licensees must ensure that adequate governance and management control is maintained.

In adopting outsourcing arrangements, particular regard must be given to due diligence conducted on prospective providers, ongoing oversight and adequate contingency planning for the cessation of an arrangement. Neither must outsourcing or remote working lead to a situation where a Guernsey licensee becomes an empty shell that lacks substance. For example, technology may facilitate the relocation of local Director positions outside the Bailiwick but, the Commission, not to mention evolving international standards, requires substantial mind and management to remain in the Bailiwick.

2021 also saw an increase in interest in the use of alternative asset classes such as cannabis and crypto assets and it is expected that this theme will continue in the coming year. As is the case for any asset class, we would expect licensees to have the requisite knowledge and expertise to evaluate the risks around any new line of business and prudently carry out their regulatory responsibilities.

Gillian Browning
Director

Supervision

2020 was a busy time for many Bailiwick licensees serving the retail public. The reason for this was the need to help customers deal with concerns around health and travel insurance and, for small businesses, around business interruption in the wake of Covid. These concerns became less urgent in 2021 as the world adjusted to Covid, and especially after a ruling by the UK's Supreme Court on business interruption mitigated some concerns. In addition, both the public and local banks were better prepared for the second lockdown in the first quarter of 2021, having already experienced a lockdown in 2020. Therefore, conduct work connected to Covid somewhat lessened for the Commission in 2021 compared to 2020.

With people spending more time at home in the developed world and average real wages – at least in the UK – still rising, retail savings accumulated in 2021. Due to interest rates remaining exceptionally low, some of these savings bolstered mortgage borrowing. Accordingly, residential house prices in 2021 rose significantly in both the UK and the Bailiwick. Whilst lenders make home finance loans on affordability criteria and carry out stress tests, borrowers still need to consider their own long-term ability to service mortgage debt, were interest rates to increase significantly.

Another response to additional savings has been the retail purchase of more speculative assets such as crypto technologies and Non-Fungible Tokens. The Commission has already cautioned retail investors around investments in these items, due to limited regulation and volatility.

Policy

The main focus of the Commission in 2021 in the area of conduct was preparation for the likelihood of the States of Deliberation passing a law to mitigate conduct risk for local retail lending. This intention was set out in a States' Policy Letter in December 2020 and represents a major initiative in the realm of local consumer finance. The Policy Letter is the basis for the creation of a regulatory regime in the Bailiwick to cover all forms of retail lending and brokerage. Whilst conduct risk is already overseen by the Commission for relevant Bailiwick banks, the new regime will require formal licensing not just for banks, but also for those providing home finance loans into the retail housing sector, all those making retail loans and all those who broker home and credit loans, including for vehicles.

In addition, the States' intention is to replace the Non-Regulated Financial Services Businesses Law so that, under the new credit legislation, discussed above, residual financial services businesses will be regulated by, rather than simply registered with, the Commission. The States also intend to legislate to require the licensing by the Commission of Virtual Asset Service Providers (VASPs) in the Bailiwick; that is, in more general terms, services relating to crypto technologies and exchanges and Non-Fungible Tokens.

In light of the above, during 2021, the Commission undertook significant work with potential licensees to prepare for the issuance in due course of a Consultation Paper to include prospective rules. This work included bilateral meetings, breakfast meetings for specific sectors, an industry survey and bilateral discussions with other regulators to understand their experiences with this type of regulation. In 2022, the Commission intends to continue with this work, subject to the progression of the new legislation by the States.

In recent years, there has been a systemic increase in the cost of Professional Indemnity Insurance (PII), not least for insurance intermediaries. Arguably, this increase is an adjustment from previous under-pricing, Nevertheless, in 2021, the Commission reviewed its policy on PII for several types of licensees including insurance intermediaries. The Commission issued a Consultation Paper in 2021 and the results will be taken forward in 2022.

Risk Outlook

The following are relevant for 2022:-

- preparation for the proposed new credit regime;
- early negotiation with brokers for routine PII coverage;
- caution over retail investment in speculative assets and Non-Fungible Tokens; and
- increasingly successful Authorised Push Payment fraud.

Jeremy Quick
Director

Supervision

A jurisdiction with a business profile which is a higher risk for money laundering must manage that risk effectively. Guernsey is an international finance centre with an inherently higher risk offering private banking, asset and wealth management services to an international client base. The Bailiwick will be assessed by MONEYVAL in two years' time on its ability to manage that higher risk effectively; this will include the industry.

Analysing the risk migration programmes (RMPs) we impose helps us to assess how firms may fare in front of assessors who – fast forward two years – will be scrutinising these programmes to examine the main supervisory findings.

Only a very few firms – two in 2021 – are referred to the Enforcement Division each year for further investigation with a view to sanctioning because our assessment of their controls reveals that they are too weak for the significant money laundering and terrorist financing risks they run. RMPs are also imposed on these firms requiring deficiencies to be remediated and for that work to be assessed and reported on to us by an independent inspector. Those firms' deficiencies include material weaknesses in certain monitoring controls. Such weaknesses were also observed, albeit with less severity, at a number of fiduciaries and fund administrators. Weaknesses were also identified in firms' periodic review process and the adverse media screening of customers and beneficial owners.

Some firms had backlogs in periodic reviews and risk assessments of their existing business relationships and/or delays in addressing the action points arising from those reviews that had been undertaken. We also saw cases of some reviews being poorly executed with assessments being copied across word for word from the preceding version which ignored relevant changes or developments in key risk factors such as the customer or beneficial owner's status, transaction activity and new funding which could materially impact the risk attributed to the relationship.

In respect of adverse media screening, there have been occasions where checks on open-source media have revealed longstanding, publicly available adverse information about a customer or beneficial owner which should have come to the firm's attention sooner, particularly where that information then led to the filing of a suspicious activity report with the Financial Intelligence Services ("FIS"). One of the firms informed us that the relationship would have been outside its risk appetite and would not have been taken on if it had identified the existence of that information in a more timely manner.

Firms must have effective monitoring arrangements covering both the suitability and robustness of its systems as well as having sufficient staff to run them. Neither a firm or the Bailiwick can afford for there to be systemically weak controls over the activities of customers or beneficial owners if financial crime is to be deterred and seen to be deterred by assessors.

Preliminary indications from our 2021 thematic review on sanction screening systems are, however, positive. This review covering 15 banks, two fund administrators, two fiduciaries and an insurer, found strong controls for identifying persons designated under a targeted financial sanction. Those banks which are responsible for handling the vast majority of financial transactions by volume in and out of the Bailiwick had very strong screening systems.

In July, we published a report on our 2020 thematic which looked at the reporting of suspicion. We had met a large number of well qualified, sufficiently senior and independent Money Laundering Reporting Officers ("MLRO"). We found generally good policies and procedures on reporting, but we also found Board oversight in this area lacking at some firms – perhaps because it is a highly specialised area under the remit of a few key expert personnel. Nevertheless, Boards are responsible for ensuring there are effective procedures for timely and good quality reporting of suspicious activity and for setting clear expectations on the fulfilment of reporting officers' duties. In return, Boards should be receiving sufficient, good quality management information on reporting to be satisfied that those processes are effective.

We were pleased to discuss these themes with 250 industry representatives who attended our workshops in November alongside the FIS. We also drew on what we had learnt from our MLRO exit interview programme, under which we have interviewed 38 individuals who had resigned from MLRO and Money Laundering Compliance Officer positions since 2020. We do not interview all individuals who have resigned from their role, but instead take a risk-based approach to determining with whom we would like to learn more about their experience at a particular firm. These individuals are well-placed to apprise us of the firm's culture and the robustness of its controls for managing and mitigating its financial crime risks.

Financial Crime *(continued)*

Policy

Our policy work in 2021 centred on ensuring that the Commission is well prepared for MONEYVAL's mutual evaluation which will take place in the first quarter of 2024.

It was sobering to have to remove the Cayman Islands in March and then Malta in July from the Appendix C list of equivalent jurisdictions and issue instructions to firms to review, and where required, overhaul their due diligence on relationships connected with these jurisdictions after they were found seriously wanting in their mutual evaluations.

Although our next evaluation has been in mind since the last one in 2014, our preparatory work up to 2021 had largely focussed on external projects to bring the regulatory framework up to current Financial Action Task Force (FATF) standards and on making a significant input into the Bailiwick's National Risk Assessment (NRA). Nevertheless, we considered it was time to ensure that our supervision was in good order - that our supervisory policies and procedures reflected the outcomes from the NRA as well as current practices and processes, and that we had accurate and up-to-date information recording the breadth and depth of the Commission's work on combating money laundering and terrorist financing.

Before embarking on this, we undertook our own analysis of what the Commission does against the relevant FATF standards for supervision. We also took forward workstreams ranging from preparing case studies on our AML/CFT supervision, enforcement and authorisation checks, to reviewing internal processes. We did all of this in order to ensure we are operating on up-to-date policies and procedures in areas such as policing the perimeter which is the work the Commission already undertakes to detect any breaches of licensing or registration requirements.

Notwithstanding this self- assessment, we began a review at the end of the year by an external evaluations expert who is examining our MONEYVAL preparatory work.

Much of our MONEYVAL preparations have focused on internal processes and this will continue to be the case. This work is largely unseen by industry but it has necessitated additional staff resources to enable the Division to increase the number of onsite inspections from 45 to 60 firms a year. In 2022, more firms will be meeting us so we can discuss and review their AML/CFT controls.

Our MONEYVAL preparations have also included the two-phased enhancements to the annual financial crime risk return which were finalised for the 2021 return, completing the collection of data and information that we require to fully apply AML/CFT supervision based upon the money laundering and terrorist financing risks posed by each firm. Those last enhancements included additional reporting on suspicious activity reports and tax disclosure, further information on governance and compliance arrangements, controls for identifying politically exposed persons, adverse media and sanctioned persons, additional information on periodic reviews and revised geographical data in relation to customers.

As well as examining the Commission's activities, the 2024 evaluation will also assess how well firms are applying AML/CFT measures which are commensurate with their money laundering and terrorist financing risks and reporting suspicion. These mutual evaluations now put industry in the spotlight alongside the jurisdiction's AML/CFT authorities. In light of the industry's enhanced role in an evaluation, well-attended presentations were given during the year to the Association of Guernsey Banks and the Guernsey Association of Trustees on the role of industry in a MONEYVAL evaluation.

Risk outlook

It is imperative that firms are vigilant in ensuring that their AML/CFT controls remain up-to-date and effective for combatting the money laundering and terrorist financing risks they face. We could not imagine last year how relevant our sanction screening thematic was to become, given the unprecedented scale of sanctions designations presently being made by the UK on Russian interests. All firms must ensure that not only are their screening systems effective for the timely identification of designated persons but that their beneficial ownership checks and monitoring controls can also withstand attempts from "bad actors "to evade those sanctions. Vigilance on all fronts will also stand the private sector in good stead when their performance is evaluated by MONEYVAL in two years' time.

Fiona Crocker
Director

Cases reported

The disruption that occurred during 2020 due to the global pandemic continued, albeit to a lesser extent, in 2021 and cases moved forwards in a productive manner. The regulatory enforcement world appeared to be affected far more elsewhere than in the Bailiwick as regulatory colleagues continued to work mostly from home. We completed three enforcement cases with some of the most serious findings, in terms of the value of relevant transactions made through this jurisdiction, since the Division's inception eight years ago.

Further to this, appeals have been lodged before the Royal Court in relation to some of the concluded cases. We would envisage that judgments from the Royal Court may be handed down during 2022, and no more commentary can be made at this juncture. Of note, the Commission continued to negotiate split settlements in 2021 and where circumstances allow, that will continue in the future, as it seems to be an appropriate way to deal in a timely manner with those that accept their wrongdoing at an early stage of the process.

By far the largest case that came to fruition in 2021 involved the movement of over $1.4 billion through the jurisdiction within client trust structures for one of our largest licensees, which was a subsidiary of the principal holding company for the Group. The licensee agreed to settle the case with the Commission at an early stage. The Commission found a block transfer of business to the licensee from another jurisdiction without the appropriate skill or consideration being given to financial crime regulations. It was also found, amongst other matters, that there was inadequate risk management and that the licensee was reliant on its Group's policies without considering whether they were appropriate and fit for the Bailiwick's regulatory requirements. The licensee found 97% of client files onboarded from another jurisdiction contained potential breaches.

The licensee had already taken a commercial decision to close down its Guernsey operation and had sought to transfer client assets to Singapore, of which $265 million was identified as being potentially linked to tax evasion in Indonesia. It was also established that there was nearly $1.1 billion where the source of wealth and source of funds were not known. The failings were so serious and systemic that it took the licensee over three years to remediate its client base.

In another case that concluded at the end of 2021, the Commission reached settlement with a licensee regarding AML/CFT failings, amongst other matters. The findings in this case were serious and spanned a significant period, including after 13 November 2017, when The Financial Services Commission (Bailiwick of Guernsey) (Amendment) Law, 2016 ("the Amendment Law") came into force. This law increased the administrative penalties available to the Commission and this was the first time that the new fining powers were used. As a result, no direct comparisons can be made to previous cases with similar failings.

In this particular case it was found that the licensee had failed to monitor and manage the financial crime risks associated with its customers as required by the Bailiwick's AML/CFT regime. This was particularly concerning in the light of the firm's high-risk appetite and its proportion of high-risk clients. The Commission was particularly concerned about one, long-standing client who, should have been identified as a Politically Exposed Person, due to their father being a government Minister for a foreign country. The Commission found that the licensee and directors had failed to ensure that it had adequate policies, procedures and controls in place, resulting in the licensee being vulnerable to being used to facilitate money laundering and terrorist financing. In fairness, the licensee had identified some of the issues before the Commission's visit and steps were already being taken to remedy these issues. The Commission took this remedial work into account in its assessment of the case.

There is one other matter than can be reported on which resulted in a prohibition order against an individual. In this case the individual failed to provide full, frank and unambiguous information relating to the circumstances in which he left his previous employment. The information was material to the Commission's assessment of his fitness and propriety. The Commission will take a firm stance on false or misleading information being provided to it when an individual is seeking a supervised role in a licensed firm, and will seek to prohibit - where necessary and proportionate to do so - in an effort to protect, not only the reputation of the Bailiwick, but potential clients and consumers, where elements of potential dishonesty are identified.

Enforcement *(continued)*

General Process

At the beginning of 2021, the Enforcement Division had twelve active cases and at the end of the year this number had increased to fourteen. These range from some that had been very recently referred by one of the supervisory divisions to some at an advanced legal stage considerably beyond the investigation. We completed three cases during the course of the year and took on five new ones.

Holding face-to-face meetings and interviews with key people who were off-island during the course of the year proved difficult, however, video interviews were possible in some instances. We did not allow these difficulties to stall ongoing investigations. This is important as on-island practitioners, who may find themselves under scrutiny, often have a desire for matters to be concluded as soon as possible, which is understandable.

During 2021, partly in response to an internal audit report which made various recommendations as outlined in the 2020 Annual Report, the Enforcement Division completed an overhaul of its processes. There were previously some fourteen explanatory notes on the Commission's website about enforcement processes. These have now been condensed into one explanatory note, which takes into account the various changes made as a result of the enactment of The Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020 which came into force on 1 November 2021. Henceforth, when matters are referred to Enforcement, they will be dealt with under this law. In addition, some changes were made to the Decision-Making Process, in an effort to shorten it, again taking into account the internal audit recommendations and also our experience gained from some fifty completed investigations. We are already seeing the benefits of these changes. I would reiterate the message provided last year for those that find themselves being referred to enforcement, to use the representation opportunities wisely and focus on addressing the issues at hand.

The other significant change in 2021, was the impact on some enforcement cases which, upon enactment of The Financial Services Commission (Bailiwick of Guernsey) Amendment Law, 2016, were caught by the new discretionary fining powers. This decision was made, having regard to the fact that the above mentioned Law makes no provision for transitional provisions. The Commission believes it is right to apply the current (new) powers, rather than our more circumscribed historic fining powers, in all cases which involve any wrongdoing that occurred after 13th November 2017 – this being the date when the new Law came into force.

Across all investigations, we served eleven statutory notices on individuals and licensees. These statutory notices are focussed requests for information that the Commission may reasonably require for the performance of its functions. The Commission is careful when issuing notices to seek only what it believes is sufficient information to properly investigate matters and to form a basis for a response from a licensee or individual. This is, in essence, the start of the engagement process for those under investigation. We also conducted thirteen interviews during the year – close to the average of pre-Covid years.

We continued to represent the Commission on Committee 4 for the International Organisation of Securities Commissions (IOSCO) in 2021, albeit meetings continued to be held remotely. The Commission continues to act as the assessor of one jurisdiction applying to become a signatory to the Enhanced Memorandum of Understanding. We also continued to be part of an assessment team from the Group of International Finance Centre Supervisors (GIFCS) involved in an assessment of another jurisdiction against the GIFCS standards. These offer valuable insights and experience for our assessors.

Simon Gaudion
Director

SENIOR DECISION MAKERS

This is my first report as the President of the Panel of Senior Decision Makers. I was appointed on 1 January 2021, succeeding Michael Blair QC, and prior to my appointment, I was a member of the Panel (which was established by the Commission in 2014) from its inception.

Save for the change in my own role, the constitution of the Panel remained the same this year as in 2020. At the year end, the Panel was as follows (in alphabetical order):

- Glen Davis QC (England and Wales)
- Russell Finch OBE, former Judge of the Royal Court (Guernsey)
- Catherine Gibaud QC (England and Wales)
- Kirsty Hood QC (Scotland)
- Ben Hubble QC (England and Wales)
- Richard Jones QC (England and Wales)
- Terence Mowschenson QC (England and Wales) and
- Alison Potter (England and Wales).

At the start of the calendar year 2021, there were three cases ongoing before a Senior Decision Maker. Two of those cases concluded in March and the third in April 2021. The total number of cases dealt with by Senior Decision Makers since the inception of the Panel is now 16.

The above cases were the subject of remote oral meetings pursuant to the power conferred by *The Emergency Powers (Coronavirus) (General Provision) (Bailiwick of Guernsey) Regulations*. In March 2021, the States of Guernsey's Policy & Resources Committee confirmed the Commission's ability to hold remote meetings by making this power permanent by means of The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 (Amendment) Ordinance, 2021.

On 7 April 2021, the Royal Court handed down its judgment in *Chick v Guernsey Financial Services Commission* dismissing an application brought by Mr Chick to appeal decisions of the Commission out of time on the basis that there were no exceptional circumstances and because Mr Chick had not done all he could to bring the appeal timeously.

I am pleased that, having been unable to meet in 2020 due to the pandemic, the annual training day for the Senior Decision Makers was able to take place remotely on 23 April 2021.

On 1 November 2021, the new Enforcement Law, the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law 2020, came into effect. It was accompanied by a new Explanatory Note regarding The Investigation and Decision-Making Process Relating to the Use of Enforcement Powers which replaced, with immediate effect, the Guidance Note – Decision-Making Process Relating to the Use of Enforcement Powers dated November 2019. The new Law and Explanatory Note should simplify the task of the Senior Decision Makers and of those who are involved in proceedings before them.

Finally, on behalf of myself and all of the Panel, I wish to thank the former Commission Secretary, Dale Holmes, who retired from that role in May 2021, for his long and distinguished service in supporting the Senior Decision Makers and acting as the point of liaison in cases before them. I am also pleased to congratulate the new Commission Secretary, Alice Joy, who has already ensured a seamless transition.

Leigh-Ann Mulcahy QC
President of the Panel of Senior Decision Makers

RISK AND FINANCIAL STABILITY

Risk

During 2021, the Risk Unit continued to operate a strong 'second line of defence' for the Commission by providing challenge, assurance and further developing our approach to risk-based supervision, alongside being instrumental in successfully delivering several internal projects as part of the Commission's three-year business plan.

One of these projects was to replace the technology behind our Online Submissions and Personal Questionnaire portals as the previous software had become unsupported, while another involved implementing a new document management system across the entire Commission. Both projects have already brought a range of benefits to end-users, such as a single sign-on process and improved user experience for the former and a more structured approach for the saving and retrieval of information for the latter. We also refreshed and updated portions of our internal PRISM guidance to support the change in our risk-based supervisory approach, which was brought in at the start of the year.

From January 2021, we implemented our re-engineered PRISM approach following a review of our experiences gained during the first Covid lockdown in 2020. As part of this, we introduced less frequent face-to-face meetings with larger firms that have what could be considered to be more straightforward business models. Full Risk Assessments are now less frequent and more narrowly focused on governance, business model and strategy, and operational risks. Alongside these changes, we commenced a programme of Internal Sector Reviews (ISRs) that examine key prudential matters such as credit, insurance, and capital risks at similar firms at the same time, which we believed would give better quality insights compared to assessing these risks at individual firms and in isolation. The initial indications from the small number of ISRs carried out in 2021 is that this has been the case. These changes have been supported by adaptations to our PRISM system to ensure that we can continue to capture, record and analyse our findings for further risk analysis and insights in the future. As we move into 2022, the Risk Unit will continue to monitor and assess the efficacy of this adapted supervisory approach.

Despite the impact of Covid and the reintroduction of short-term, lockdown restrictions early in the year, our planned supervisory activities were minimally affected. The Commission carried out 31 Full Risk Assessment visits and over 115 further engagements with firms. Following these, the Risk Unit continued to act as an internal voice of challenge to our supervisors by providing an independent view on the Risk Mitigation Programme (RMP) actions that were being proposed. 238 actions were assigned to firms during the year and this input from Risk helped to ensure that they were consistent, proportionate and risk focused. These actions are created where the weakness identified at a firm for a specific issue result in the probability of the risk crystallising being above the Commission's risk appetite.

During each year, the Risk Unit carries out reviews and assessments of our supervisory approach to ensure it is being applied correctly and consistently across each of our sectors or risk types. In 2021, these reviews looked at several areas including our approach to low impact, reactive supervision and how many documents we request from firms when carrying out Full Risk Assessments. It was reassuring to note that the latter review confirmed that we have not increased our document requests to firms prior to a visit over the course of the last three years. Supervisors continue to ask for documentation during an onsite visit where evidence is needed to support the controls the firm states are in place.

The Commission continued to set RMP actions to mitigate a wide range of risk types with, as in previous years, a significant number targeted at governance, operational, financial crime and conduct risks (Figure 1 overleaf) and while some of these may be discrete in nature, often an interdependency exists between them. Firm directors should continue to ensure they are satisfied that their own systems and controls in each of these risk areas, as well as their effect on each other, are sufficiently robust to mitigate the level of risk that they face, especially if the firm operates a high-risk or innovative business model.

Additionally, we continued to receive and review a range of additional information on the firms we supervise. This information is received from a number of sources such as online returns, firm notifications, social media and the whistleblowing hotline. From these different sources, we dealt with approximately 6,660 alerts and raised over 1,750 triages to record the action the Commission has or, where appropriate, has not taken. These alerts and triages cover a wide range of events from breaches of legislation or rules to reporting errors or the need to follow up an RMP action that had been set.

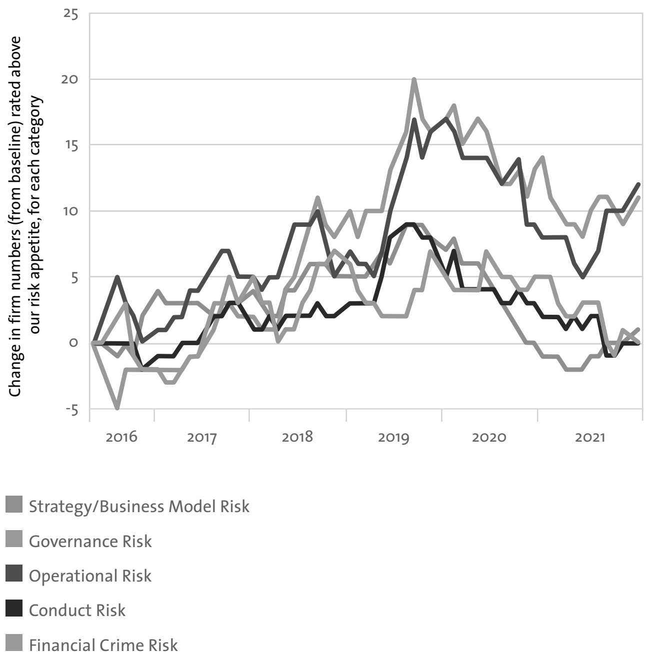
We continue to consider the best ways to process and analyse the information that we receive by using supervisory technology (SupTech) to augment our supervisory approach. Building on the

Risk and Financial Stability *(continued)*

foundations laid last year with the two internally developed prototypes, we have written and put into production another, which utilises Natural Language Processing to aid supervisors with the review of documentation submitted to us by firms. Our intention during 2022, is to continue to enhance, consolidate and add to these applications, thereby developing an 'intelligent' early warning system that integrates with our existing PRISM system.

The Risk Unit will remain as a mainly internal facing function of the Commission, although we will continue to contribute to global fora, such as chairing the Regulatory Reporting Special Unit of the Global Financial Innovation Network, participating in industry events and delivering educational initiatives as appropriate. We will also continue to be responsible for ensuring that PRISM remains effective in mitigating the risks of the firms regulated by the Commission through the operation of Risk Governance Panels, regular management information and specific assurance reviews of our supervisory approach.

Figure 1. **Change in Open RMP Actions**



Financial Stability

Writing this section of the annual report over the last three years has never been easy. Each time there has been a variety of options as to what the impact of the pandemic, in its different stages, might be on financial markets, our industry sectors, our island, and our lives in general over the next year. The one certainty was uncertainty, and so far this year that has not changed. With regards to the biggest questions for the year going forwards, such as the ongoing recovery from the pandemic and the impact of inflation, there is very little that we, in the Bailiwick of Guernsey, can do to affect the key drivers of these.

We are, however, due to our successful navigation of Covid and the fact that a small proportion of our power is derived from gas, less affected than many other countries from some of the more painful aspects of these issues. We remain exposed to several near-term pressures on supply and inflation, many of which have only been exaggerated by the war in Ukraine.

Given the manifest uncertainties in the near-term global macro-economic outlook as acknowledged recently by the ECB President, I thought I might take this opportunity to talk about the sustainability of the financial services sector within the Bailiwick of Guernsey.

The term sustainability is more normally associated with the green agenda, and remains relevant in that arena, but does have a wider connotation. The 1989 Brundtland Commission defined sustainability as 'meeting the needs of the present without compromising the ability of the future generations to meet their own needs'. This definition can therefore be applied across a number of areas within the Bailiwick of Guernsey.

To meet the needs of the present we need to continue to grow the economy of the Bailiwick, and from our perspective this means the growth of financial services. At the start of January 2022, only

Risk and Financial Stability *(continued)*

1% of the work force in the Bailiwick was wholly unemployed[1] and 2.2% registered as unemployed. The finance sector provided 18.3% of the total roles, the largest employment sector on the island, and after construction and wholesale industries, finance has the largest number of employers. People employed within the Finance sector also had the highest four quarter average median earnings at the end of September 2021, 35.9% higher than the overall median. With the cost of living in Guernsey increasing significantly in 2021, at 4.4% RPI in December 2021[2], and only looking to increase in 2022, it suggests a key method for the island to be sustainable is to employ more people in financial services. This means we need to collectively have the policies in place to facilitate growth in the financial services sector, a growth we are already seeing through an increasing number of applications in 2021 to carry out regulated activities within the Bailiwick of Guernsey.

As noted within the Director General's report we have had an ongoing concern about the impact of inflation over the next few years. This has crystalised to a greater degree than we had hoped with the war in Ukraine. Inflationary pressures, previously considered to be short term by some, have now been embedded within the global markets, especially with the impact on oil, gas and wheat prices brought about by the war. Inflation is having an impact across the Bailiwick's economy and society, including of course the financial services sector. Classically inflationary pressures have been addressed through supply side reforms to reduce costs and alleviate barriers to the supply of goods and services, as well as the use of higher interest rates to contain demand and reward saving. As interest rates rise while inflation increases, regulated firms will have to work out how to best recruit, retain and sustain their skilled on-island staff on whom their success and stability depends, in what has become an exceptionally tight employment market for skilled staff. Different business models within financial services will have different reactions to demand, one of which is to increase prices, and consumer facing firms will need to take care to ensure that any price increases do not unfairly disadvantage the vulnerable. That said, we believe the high value financial services offered by many Bailiwick firms are likely to offer them sufficient pricing power to adapt to rising cost pressures so we do not believe, other things being equal, that higher inflation and interest rates should disrupt the core business models of many of our firms. Again, this demonstrates the sustainability of our financial services sector. That said, we do not run a zero failure regime and a few firms with marginal business models may struggle with this changed environment. Where that is the case we will endeavour to ensure that orderly wind-downs or takeovers are effected to minimise consumer harms and knock-on effects on other actors.

For the financial services industry to be sustainable itself we need to look towards products and partners that are sustainable too. We did this with our launch two years ago of the Guernsey Green Fund demonstrating a commitment to meeting the needs of the current, growing individuals' wealth, without damaging the future. As noted elsewhere within the report Green funds now contain £4.4bn of assets demonstrates an area of Guernsey's fund industry which is focused on sustainable growth.

We also need to be sustainable with respect to the type of business and individuals that we interact with in ensuring that we prevent money laundering and terrorist financing within the Bailiwick. If we do not get this right now, we might grow our financial services business currently but it will not be without compromising the ability of financial services in the future to meet ongoing international requirements. This would significantly impact our ability to have a strong and robust financial services sector that is able to support the growth and development of the Bailiwick of Guernsey. This is why we are focusing so closely on preparing for the visit of MONEYVAL in 2024 as this is key to ensuring the sustainability of financial services in the Bailiwick of Guernsey for the next decade.

Katherine Jane
Director

[1] Guernsey Annual Electronic Census Report 2021
[2] Retail Price Index Inflation (RPI and RPIX) - States of Guernsey (gov.gg)

THE COMMISSION'S THREE-YEAR BUSINESS PLAN (2018-2021)

At the start of 2018, following the removal of the States Pension related liabilities from our balance sheet, the resultant improvement in our financial position gave the Commission the capacity to consider longer term development plans. These led to the Commission establishing its first three-year business plan, to run from 2018 to 2021.

2018-2021

During 2021, each of the projects detailed within the Commission's first Three-Year Business Plan ('3YBP'), which commenced in the first half of 2018, was completed. This represented a significant investment by the Commission, not only in terms of money invested (£3.6mn over the three years) but also in terms of our staff's skill, expertise, knowledge and time. These projects did not radically change how we, as a Commission operated, but enabled us as an organisation to focus on developing, improving and updating key parts of our systems over a longer-term horizon than simply one year.

Online Portals

One of the main drivers for the initial creation of the 3YBP was the identification of several updates needed to our online portals and forms, however, this was very quickly superseded by the realisation that a significant section of this system was going to sit on unsupported software. A major success of this 3YBP was a complete re-write of the front end of these portals and all the forms which sat on them, thereby future-proofing the portals in terms of coding and documentation and at the same time improving the functionality for licensees including developing a single user sign on to both systems. The benefits of this new system infrastructure were demonstrated when we were required to update our website and all forms to reflect the changes on commencement of our new suite of supervisory laws on 1st November 2021.

Policy

We used some of the Three-Year Business Plan funding to employ additional temporary staff who supported the development of a wide range of policy areas whilst at the same time creating space to enable our current policy teams to focus on required updates. This has included, but is not limited to, the completion of the revision and update of all our main supervisory laws, including the creation of a specific enforcement law, a wide-ranging update and modernisation of our Fiduciary rules, revised Pension rules, an update to our insurance rules to address gaps identified following an international review and an update to our Private Investment Fund rules including expanding their usefulness for Family Offices. In addition to all these major policy areas, over the course of the last three years, there have been multiple smaller changes that have been supported by resources provided by the 3YBP.

Back-office functions

We implemented a brand new and simplified General Ledger system which allows for more flexibility within our back-office systems and also links into an expenses system that can deal with both invoices and staff expenses. This is supported by a new HR system which enables the Commission to use electronic approvals for a range of policies and procedures and has a self-service functionality that enables our staff to do anything from booking holiday to recording training. Linked to this is a new, more tailored payroll system. Individually, each of these systems has improved our back-office systems and controls and together they have considerably strengthened our operational system and controls whilst at the same time introducing significant efficiencies.

Data Management

The main asset of the Commission is the information, both current and historic, that it holds on licensees which allows it to carry out effective authorisation, supervision and enforcement. Whilst material judgements on firms taken as part our risk- based supervisory approach are recorded on PRISM, there is large amount of additional information that is held in a variety of different systems. The first step in addressing this problem was the creation of a document management system which enables documents and records to be stored in a consistent, logical and transparent manner. Whilst a fair amount of work remains to be completed to reduce the number of systems in which information is stored, the completion of this document management system was a successful start to this journey and links into many other future plans and developments within our IT systems.

Augmented Intelligence

If one of the main assets of the Commission is the information it holds, then the main challenge we face is using this information as efficiently and effectively as possible. A key part of the first 3YBP therefore was exploring, with specialist innovation and technology partners, the use of new technology and innovative methods to develop new tools to support our supervisory processes. This has led to the development of three individual tools known as Compass, Comet and Corpus, which help a supervisor to undertake an initial analysis of significant amounts of data in order to identify key or high-risk areas.

2021-2024

Whilst the first 3YBP demanded much from the Commission, both in terms of financial support and staff resources, it successfully enabled us to address several long-term issues and to move the Commission's systems forwards. On this basis, it was agreed at the start of 2021 to consider what projects might form part of a new 3YBP, enabling us to again re-focus our time and resources on longer term developments. Our previous 3YBP had focused heavily on systems allowing the priorities for the next 3YBP to switch to preparation for future events or system upgrades that we know will be required. Below is a short summary of each of the projects due to be delivered within our 2021-2024 3YBP.

MONEYVAL

This project was started under the first 3YBP by allocating time and resources to commence the planning and preparations for the next MONEYVAL inspection which should take place over 2023/4. It has been over six years since the last visit and global expectations on AML/CFT have moved on significantly since then. We have already made significant progress in updating our Financial Crime Risk Return to gather more specific data and by reviewing our internal policies and documentation to identify any gaps or weaknesses. These steps will continue into the next 3YBP but there will also be an increase in our outreach to industry, a re-examination of the exemptions that are provided within our legislation and a significant increase in the number of onsite visits.

Credit and Finance

As touched on elsewhere within this annual report, we are getting closer to the launch of the first ever consumer credit legislation in the Bailiwick, which will provide important protection to ordinary Guernsey residents as well as a framework for regulating Virtual Asset Service Providers ('VASPs'). To implement this successfully will require a cross-Commission effort in developing policy, rules and guidance following the implementation of the law and also in updating our internal systems, authorisations and Online Portals to reflect the new regulated entities that will fall under this law.

Data

Our first 3YBP developed a data management system and updated our online portals which provided a solid base for the 2021-24 3YBP. In common with any organisation, our IT systems and data storage has developed over time with additional systems being added when required. The Commission is now reflecting on its overall data strategy, including storage, retrieval, and accuracy, to consider the steps that need to be taken to ensure that the Commission receives accurate information in a timely manner which then can be accessed, retrieved, and analysed effectively to ensure we are identifying key risks and taking relevant regulatory actions in a timely manner.

Linked to this approach will be further development of our data management system. As noted above, within the first 3YBP a centralised data management system was created and embedded across the Commission, but this was simply the first step. Within the SharePoint system we are now using, there is a variety of additional tools that can be used to help simplify the data storage process for all our staff. A follow-on project will look at implementing the most useful of these tools.

Augmented Intelligence

Following the success of the project during the first 3YBP, we are now investing in bringing into production the tools we created in the first phase of the project with the aim of rolling them out to all our supervisors, whilst also considering offering them to other regulators. We have also identified a range of other potential tools or systems that would help support our supervisory and authorisation processes. Within this project we will be considering the prioritisation of such tools with a focus on what can support both our supervisors and industry too. As part of this project, we are continuing to work with our IT provider, d-Fine, which assists us in continuing to develop our PRISM supervisory system alongside these innovative tools.

Website

The Commission's website is a key tool which we use to relay messages and information to industry. It can also be the first experience many people have when considering whether to start a financial services business in Guernsey. As part of the 2021-24 3YBP we are going to take the opportunity to garner feedback on our website from a range of stakeholders and then to consider what may need to be updated or amended to improve the experience of people using it.

The Commission's Three-Year Business Plan (2021-2024) *(continued)*

Equivalence Strategy

We continue to support the States of Guernsey with its ongoing work on developing trade agreements, alongside the UK, with several key jurisdictions. This work is key to ensuring the ongoing growth of financial services within the Bailiwick of Guernsey, not only opening new opportunities for businesses to explore, but also protecting our current marketplaces. To ensure we have a clear focus, and resources available, for this work we have created a project to analyse data and information to identify the key jurisdictions which are of importance to the Bailiwick and are also involved in ongoing work to support the assessment of proposed free trade agreements.

Funding

As noted, our last 3YBP was a significant investment of our balance sheet and reserves into developing, improving and future proofing (as much as possible) our internal systems and controls. Whilst we expect the capital expenditure for our next 3YBP to be less, there will be additional operational expenses to provide resources for our MONEYVAL and Credit and Finance projects. Again, we will look to utilise our reserves for these projects, meaning potential deficits for the next three years, with an aim to have a balanced budget (from a cash perspective) at the end of the three-year period.

Katherine Jane
Director

Supervision

In 2021, the Commission, after consultation, having noted industry support, amended the Finance Sector Code of Corporate Governance to include the following – 'The Board should consider the impact of climate change on the firm's business strategy and risk profile and, where appropriate in the judgement of the board, make timely climate change related disclosures.' The Commission's intention was to encourage those firms which were not already advanced in their sustainability thinking, to prepare for a future in which green considerations and green disclosures are likely to become an important part of international standards for financial services firms. For example, starting in 2022, the Financial Conduct Authority (FCA) requires relevant disclosures from asset managers, life insurers and FCA-regulated pension providers at both entity and product level. Licensees are therefore encouraged to consider disclosure sooner rather than later.

In 2021, the Commission undertook a thematic review of the Guernsey Green Fund Regime to gain an enhanced understanding of its existing Guernsey Green Fund population and assess how the latter complies with the 2018 Guernsey Green Fund Rules. In particular, the Commission wished to be able to provide assurance to investors and those thinking of making green investments, that funds enjoying use of the Guernsey Green Fund accreditation were investing in projects which comply with the criteria for green investments set out by the multilateral development banks (that is, to counter greenwashing). Whilst noting that there were some administrative areas where there was room for improvement, the Commission found that Guernsey Green Funds appeared to be being invested properly in appropriate assets.

In its everyday supervision, the Commission continues to ask firms about their approach to climate change. For example, how is climate change factored into business strategy, how the firm's operations might be affected by climate change and how a firm's approach to climate change might be viewed by clients. The Commission also continues to engage internationally through its membership of both the Network for Greening the Financial System (NGFS) and more generally through its membership of various regulatory standard setting bodies where climate change has now become a standing agenda item. As part of COP26 and in co-ordination with the NGFS, the Commission made three pledges for 2021-23. These are around continued engagement with the life insurance industry in connection with its unique green life insurance capital regime, continued development of the Commission's Scottish woodland supported by Scottish Forestry and in relation to sustainable funds. In 2021, the Commission continued to explore how its everyday operations could be made more sustainable.

Policy

The Commission is currently considering how to build on the Guernsey Green Fund Rules in the environmental sphere.

Risk Outlook

Risks relevant to 2022: -

- *greenwashing* - green-minded clients are likely to be unhappy if they find a firm they use not 'walking the talk'. Such greenwashing is also likely to damage the credibility of the jurisdiction;
- *ignoring climate change* - even if a board thinks that climate change is not relevant to the firm's business, it needs to formally consider and document this; and
- *ignoring global regulatory developments* – such as around climate change related disclosures.

Jeremy Quick
Director

Human Resources

2021 was a challenging year for the Commission in terms of recruitment in what we considered to be a tight employment market. We experienced a number of staff deciding to leave the Bailiwick with lockdown and travel restrictions being a key factor in their decision-making. This had an impact on the Commission's staff turnover. Nevertheless, despite ongoing Covid challenges, we have increased the headcount in our Authorisations and Innovation Division, General Counsel Division and Financial Crime Division. Our Graduate Development Programme continues to be successful in developing our own talent and seven Graduate Analysts were inducted into the programme in 2021. The Commission employed 118 permanent staff as at 31 December 2021.

Our approach to training and development is kept under constant review to ensure that all training is delivered in an intelligent, coordinated and cost-effective manner across all areas. 28 staff were studying for one or more professional qualifications in 2021 including an MSc in Applied Economics, the Chartered Financial Analyst Levels I-III, the Investment Management Certificate, the International Compliance Association (ICA) International Diploma in Anti-Money Laundering and the STEP Certificate in International Trust Management. 85 internal training sessions were organised including sessions on governance risk assessment and interview skills, business writing, analysing business models, Microsoft Excel and cyber security. We also launched a new online training module on anti-money laundering in conjunction with the ICA for our new joiners to complete within their first month of employment and as part of our wider training strategy on anti-money laundering and terrorist financing.

Staff attended over 140 external training events in 2021 including courses on trade-based money laundering, management development, building an effective business risk assessment, overviews of the types of trust in Guernsey, data protection training and mental health first aider training.

We continue to support staff wellbeing. We have a new Chaplain who continues to provide a listening ear and support to our staff alongside our mental health first aiders. We enhanced our private medical insurance offering in 2021 by adding Mind Health which is a service that connects staff with various types of online therapies and professional counsellors.

Finally, over 100 staff participated in a staff survey to share their views on our working practices, policies and employment package. The results of the survey were positive and contained a number of suggestions for further improvement which will be considered in early 2022.

Annabel Hitchon
Deputy Director

Financial Information

Several unanticipated factors contributed to a small increase in the Commission's reserves of 3.7% over 2021, compared with the deficits the Commission has run in the previous two years.

One of these factors was, as mentioned elsewhere, a strong increase in the volume of new licence applications, which was a material contributor to the additional £489k in fee income received in 2021 above 2020 income levels. As noted in our feedback paper on the fees consultation undertaken in the second half of the year, this was a key reason for the reduction in the originally higher planned fee increase.

At the start of 2021, we anticipated that there would be more freedom of movement during the year and hence levels of off-island travel, but overall expenditure remained muted in all areas, when compared to that incurred in 2019. Ongoing measures to suppress the spread of Covid variants have continued to reduce travel and consultancy expenditure, which decreased by 13% from 2020. Meanwhile, as projects from the previous three-year business plan were completed, IT expenditure began to reduce in the latter part of 2021. Staff turnover and persistent vacancies over 2021 meant that, whilst salary costs declined by £265k, increased pressure was placed on a reduced number of staff as vacancies remained unfilled.

Finally, legal costs were £568k lower than 2020, while the value of discretionary financial penalties collected was much lower (£39k in 2021 compared with £707k in 2020). This reflects the unpredictable and cyclical nature of enforcement action. As cases referred to enforcement progress, including over the course of 2022, we anticipate that these penalties may increase.

The combined effect of the factors described above, unexpectedly put the Commission in a better financial position at the end of 2021 than the original forecast at the start of the year. We think that a number of these trends will reverse over the course of 2022, as Covid restrictions reduce and the Commission continues to recruit the skilled staff necessary to fulfil its functions. Nevertheless, as delivery of several projects progresses during 2022, including the implementation of the Credit and Finance legislation, as well as rolling out preparations for the anticipated inspection, in 2023/4, of the Bailiwick's financial services by MONEYVAL, we expect to incur significant costs within our operational and supervisory areas.

The Commission continues to prudently manage its funds, to ensure it can withstand unanticipated stress scenarios and is able to continue to deliver on its statutory objectives. Our level of cash, deposits and marketable securities has remained consistent with prior years, standing at £11.6 million.

By comparison, the Commission's operational assets have decreased in value by 23%. This reflects a number of pieces of software reaching the end of their lives, as well as a re-assessment of how frequently systems development and replacement is necessary, based on recent experience from IT projects we have completed. As we continue to develop our own regulatory technology internally while re-evaluating the level of IT infrastructure which it is necessary to retain within the Commission's premises, we anticipate a greater weighting in our balance sheet toward intangible assets in future years.

Whilst we have delivered our first three-year business plan, which implemented several new systems within the finance team, we continue to work on improving the efficiency and effectiveness of our back-office processes. Not only are we looking to utilise system-based controls more fully, but we also continue to consider further ways by which we can streamline our invoicing system.

Katherine Jane
Director

Information Technology

Over the course of 2021, the impact of Covid has continued to challenge the IT team on service delivery and infrastructure provision. This has continued to a lesser extent in the early part of 2022. However, IT staff have continued to manage this seamlessly and the previous improvements to our IT infrastructure, as well as our virtual network, have allowed all staff to continue to work effectively despite the disruption of moving between home and office.

Over the coming years we will need to replace parts of our IT hardware and systems and, as part of this, we are considering the lessons learned from Covid in how we can improve our future resilience. This continues alongside the need to improve the effectiveness of our systems as well as taking account of the development of cloud-based systems which are now the default provision by all global IT organisations. This will involve the Commission utilising a broader range of services from cloud computing providers, where this balances our specific data and cyber security needs, as a regulatory body, while being appropriate to our size and scale.

Projects

The team completed two major IT projects over the course of 2021, which had formed part of the 2018-21 three-year business plan. The move of the Online Submissions Portal and several remaining forms to an upgraded structure was completed in the first half of 2021, finishing a period of intense work by the IT team to improve the effectiveness of those systems.

Implementation of a new document migration system was also completed and went live during the first half of 2021. Given the significant amount of data the Commission holds, this project was not without its challenges and represented a massive effort on the part of IT staff and third-party contractors. This has positioned the Commission well to continue seeking improvements in how it collects, analyses, and stores data which will form part of a key project over the next 2021-24 three-year business plan, mentioned elsewhere in this report.

The IT team also supported other projects during the year, such as the update to our website, online portals and forms following the commencement of our new suite of regulatory laws, the final step of our Revision of Laws project. They also facilitated developments in our Financial Crime Risk Return, which was needed to gather further data from firms in advance of the anticipated 2023/4 MONEYVAL inspection, as well as the issuance of a new form for Overseas Collective Investment Schemes.

We already know some of the projects that will be absorbing IT resource in 2022, such as the development to our systems to facilitate the forthcoming Credit and Finance legislation, alongside further work on our central customer relationship management system. It remains a continuing challenge to ensure our systems are fit for purpose, properly maintained, and updated to meet IT good governance practices and security needs.

Cyber Security

With the impact of Covid increasing the amount of remote working performed by Commission staff, the importance of strong cyber security controls further increased. For the Commission, this meant continuing to improve our cyber resilience, ensuring it was fit-for-purpose in a world where such risks are heightened.

In addition to ongoing staff training and phishing testing, several scenario-based workshops were completed with senior management and operations staff. This included assessing our ability to completely restore systems from backups in the event of a severe ransomware attack, and a cyber attack on a third party that impacted our ability to use finance and HR systems. These have been useful in helping strengthen our technical controls and business continuity plans.

While none of these improvements guarantee complete certainty, we are confident that they have helped to further prepare the Commission to make the right decisions when, not if, a major cyber event occurs. Evidence from past examples externally has demonstrated how a firm reacts to such an event is key in determining their ability to swiftly and effectively recover from it.

During the past 12 months, we have also seen evidence of scammers trying to mimic or impersonate the Commission with our licensees. This has led to us, and the Guernsey Police, issuing notices on our website or in the media highlighting these attempts. Thankfully, it appears that no significant damage has been done via these attempts although it is certain that they will not stop. We have therefore been considering carefully the resilience of our systems.

Operations report *(continued)*

The Commission's Online Portals - the Personal Questionnaire Portal, and Online Submissions Portal - are currently accessed via single sign on by authorised individuals at regulated entities. Whilst this sign on system offers regulated entities the ability to turn on two factor authentication ('2FA') for their staff, only a small portion of firms have done so. 2FA is an additional control to prevent unauthorised access of an account. Considering recent events, the Commission, following communication with industry, intends to turn on this requirement for all regulated entities. This aims to reduce the risk to our licensees that an unauthorised individual may submit inaccurate or incorrect information to the Commission for malicious purposes.

As part of ensuring that we maintain a strong control environment and good cyber hygiene, the Commission is currently "Cyber Essentials" certified. Over the first half of 2022 the Commission will complete a re-assessment against Cyber Essentials, ensuring we continue to meet the standards we expect of industry, where appropriate.

Katherine Jane
Director

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of the Guernsey Financial Services Commission (the "Commission") for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102: 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

In our opinion, the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2021 and of its surplus for the year then ended;
- are in accordance with United Kingdom Accounting Standards including (FRS 102) and
- comply with the requirements of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987.

Basis for opinion

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Commissioners for the financial statements

The Commissioners are responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Commissioners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report *(continued)*

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Use of our report

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

Grant Thornton Limited
Chartered Accountants
St Peter Port, Guernsey

25 May 2022

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FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

Note		2021	2020
		£	£
	Regulatory income		
2.1.	Fee and financial penalty income	14,251,409	14,069,879
		14,251,409	14,069,879
	Operating expenses		
2.2.	Administrative and general expenses	(4,033,630)	(4,401,817)
3.1.	Staff expenses	(9,849,629)	(9,977,342)
		(13,883,259)	(14,379,159)
	Operating surplus/(deficit)	368,150	(309,280)
2.3.	Net finance income	128,620	184,663
	Total comprehensive surplus/(deficit) for the year	496,770	(124,617)

STATEMENT OF CHANGES IN EQUITY

	Retained surplus
	£
At 1 January 2020	13,512,780
Total comprehensive deficit for the year	(124,617)
At 31 December 2020	13,388,163
Total comprehensive surplus for the year	496,770
At 31 December 2021	13,884,933

All operations are considered continuing. There was no other comprehensive income in the current or prior year. The accompanying notes are an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

Note		2021	2020
		£	£
	Non-current assets		
4.1.	Intangible assets	1,753,000	2,416,429
4.2.	Property, plant and equipment	1,067,075	1,248,198
5.1.	Forestry assets	139,421	110,440
5.2.	Non-current financial assets	3,331,554	3,134,842
6.1.	Non-current receivables	28,264	102,209
		6,319,314	7,012,118
	Current assets		
5.2.	Current financial assets	3,700,000	7,065,000
6.1.	Current receivables	1,075,176	610,444
6.2.	Cash and cash equivalents	4,603,669	1,216,137
		9,378,845	8,891,581
	Total assets	15,698,159	15,903,699
	Current liabilities		
6.3.	Current payables	(1,268,669)	(2,173,004)
		(1,268,669)	(2,173,004)
	Non-current liabilities		
6.4.	Provisions	(544,557)	(342,532)
		(544,557)	(342,532)
	Net assets	13,884,933	13,388,163
	Equity		
	Retained surplus	13,884,933	13,388,163
	Total equity	13,884,933	13,388,163

The accompanying notes are an integral part of the Financial Statements.
The audited financial statements on pages 41 to 57 were approved by the Commissioners and signed on their behalf on 25 May 2022 by:

J. P. Winser
Chairman

Baroness Couttie
Vice-Chairman

W. E. D. Mason
Director General

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Note		2021	2020
		£	£
	Cash flows from operating activities		
	Total comprehensive surplus/(deficit) for the year	496,770	(124,617)
	Adjusted for non-cash items:		
4.1.	Amortisation	751,376	690,441
4.2.	Depreciation	285,463	291,345
4.1.	Loss on disposal or write-down of intangible assets	164,773	78,080
4.2.	(Gain)/Loss on disposal or write-down of property, plant and equipment	(5,140)	108
2.3.	Net finance income	(128,620)	(184,663)
	Movements in working capital:		
6.1.	(Increase)/decrease in receivables	(390,787)	61,166
6.3.	Decrease in payables	(904,335)	(380,815)
6.4.	Increase in provisions	202,025	28,476
	Net cash from operating activities	471,525	459,521
	Cash flows from investing activities		
4.2.	Purchase of property, plant and equipment	(104,700)	(143,073)
	Proceeds received on disposal of equipment	5,500	-
4.2.	Software development expenditure	(252,719)	(1,271,048)
5.1.	Purchase of forestry assets	(28,981)	(110,440)
5.2.	Net Sale/(purchase) of financial assets	3,289,010	(1,433,116)
2.3.	Net Finance Income Received	7,897	46,121
	Net cash from investing activities	2,916,007	(2,911,556)
	Increase/(decrease) in cash in the year	3,387,532	(2,452,035)
	Cash and cash equivalents at the start of the year	1,216,137	3,668,172
	Cash and cash equivalents at the end of the year	4,603,669	1,216,137

There were no cash flows from financing activities in the current or prior year.
The accompanying notes are an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. Accounting information

This section explains the basis of preparation for the Commission's Financial Statements and accounting policies that relate to these as a whole.

1.1. General information

The Guernsey Financial Services Commission ("the Commission") is a body corporate established under the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 ("the Commission Law"). The Commission's operations are carried out from its offices at Glategny Court, St Peter Port, Guernsey.

The Commission is a Public Benefit Entity whose primary objective is to regulate the financial services industry in the Bailiwick of Guernsey.

1.2. Statement of compliance

The Financial Statements give a true and fair view, are prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") and comply with the Commission Law.

1.3. Basis of preparation

The Financial Statements have been prepared under the historical cost convention with the exception of the revaluation of investment property and financial assets, which are held at fair value through surplus or deficit. The Commission's principal accounting policies, which have been applied consistently by the Commission year-on-year, are described in the relevant notes below.

1.4. Functional currency

The Commission's functional currency is Pounds Sterling ("£") and is the currency in which the Commission presents the Financial Statements and measures its financial performance, position, and cash flows.

1.5. Going concern

The Financial Statements are prepared on a going concern basis. In concluding that the Commission remains a going concern, with adequate financial resources to continue its operations 12 months following approval of the Financial Statements, the Commissioners have considered the following:

- The Commission's net assets include cash and marketable securities of £11,635,223 (2020: £5,615,979) that are readily realisable within three months in normal market conditions and liabilities of £1,813,226 (2020: £2,515,536).
- The Commission's projected income, expenditure, and cash flows for 2022 and its three-year planning cycle. The Commission's net assets and projected income are, at the time of approval of the Financial Statements, deemed adequate to enable the Commission to continue to fulfil its statutory objectives.
- Scenario analyses have been undertaken on the impact of increases in Commission expenditure and reduction in the Commission's projected income due to a reduction in the volume of new applications or existing licensees. Whilst this would be likely to cause/increase any projected operating deficit, the Commission's strong financial position means we believe it would continue to meet its ongoing financial commitments.

1.6. Use of judgements and estimates

The preparation of the Financial Statements requires the use of judgements, estimates, and assumptions that affect the application of our accounting policies and the reported amounts of assets, liabilities, income, and expenses. Although these estimates are based on the Commission's best available knowledge, uncertainty in assumptions and estimates mean actual results may ultimately differ from those estimates.

Information about the judgements, assumptions, and estimates that are most significant to the Financial Statements are set out in the following notes:

A. Critical accounting judgements
(i) Recognition of Intangible Assets (see note 4.1)
(ii) Classification of Leases (see note 4.3)

B. Key sources of estimation uncertainty
(i) Useful Lives of Intangible Assets (see note 4.1)
(ii) Fair Value of Investment Property (see note 5.1)
(iii) Fair Value of Financial Assets (see note 5.2)
(iv) Bad Debt Allowance for Fee and Penalty Receivables (see note 6.1)
(v) Provision for Lease Obligations (see note 6.4).

2. Performance for the year

This section describes the Commission's regulatory income, other income, operating expenses, and other expense items relevant to the Commission's results for the year-ended 31 December 2021.

2.1. Regulatory income

The Commission's primary sources of income are through the raising of fees for firms carrying out regulated activities under the Commission Law and levying of penalties, which enables the Commission to recover the costs of carrying out its statutory functions.

	2021	2020
	£	£
Fee income		
Annual fee income	12,582,803	12,526,627
Application fee income	1,160,790	756,196
	13,743,593	13,282,823
Penalty income		
Administrative penalty income	125,500	76,750
Discretionary penalty income	466,800	755,750
	592,300	832,500
(Increase)/decrease in bad debt allowance	(60,663)	27,611
Bad debts written-off in the year, net of recoveries	(23,821)	(73,055)
	14,251,409	14,069,879

The following table provides information about the nature of the major sources of regulatory income and their associated income recognition policies:

Type of income	Nature	Recognition
Annual fees	The periodic fee payable by licensees and registrants, as prescribed by regulation and set out on the Commission's website on a sectoral basis.	Income is recognised where an entity is licensed or registered on 1 January of each year. Where an entity is licensed or registered partway through a financial year, a pro-rata annual fee is charged. Any fee income received prior to 1 January is deferred and treated as fees in advance (see note 6.3).
Application fees	A person wishing to be licensed or registered with the Commission to carry out a regulated activity is required to pay a non-refundable fee when submitting the application, as prescribed by regulation. Licensees must also pay a fee when making certain notifications to the Commission, as specified in regulation.	Application fees are recognised on receipt of the relevant fee with the application made to the Commission.
Administrative financial penalty	Where a licensee files an annual return, financial statement, or other relevant document, or pays its annual fee, after the stipulated deadline date, a penalty is levied as prescribed by regulation.	Income is recognised when the penalty can be reliably measured, once the return, financial statement, or relevant document has been submitted to the Commission in an appropriate manner, or the relevant fee has been paid.
Discretionary financial penalty	The Commission may impose financial penalties using its statutory powers under section 39 of the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020, and previously section 11D (1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987. Such decisions are subject to the Commission's published enforcement process and confer a right of appeal to the Royal Court.	Income from financial penalties are recognised when a formal decision has been made by the Commission, following its published enforcement process, a public statement has been placed on its website, and the parties have settled or any statutory appeal process has either been concluded or an appeal has not been lodged with the Royal Court within the statutory timeframe.

The greatest uncertainty from income recognition arises from recoverability of penalties or regulatory fees. This is when the circumstances of a particular debtor give rise to concerns over whether they will be able to settle a penalty or regulatory fee in full. In such circumstances, the Commission will raise a bad debt allowance against amounts receivable from that debtor, which is assessed on a case-by-case basis. This is described further in note 6.1.

2.2. Administrative and general expenses

The following are included within the Commission's operating surplus:

	2021	2020
	£	£
Rent rates and premises costs	1,078,029	1,005,603
Amortisation (see note 4.1)	751,376	690,441
Depreciation (see note 4.2)	285,463	291,345
(Gain)/Loss on disposal or write-down of property, plant and equipment (see note 4.2)	(5,140)	108
Loss on disposal or write-down of intangible assets (see note 4.1)	164,773	78,080
Changes in measurement of provisions (see note 6.4)	202,025	28,476
Legal expenses	398,536	1,125,220
Professional expenses	191,733	172,611
Auditor's remuneration	9,200	9,500
Other expenses	957,635	1,000,433
	4,033,630	4,401,817

Administrative and general expenses are accounted for on an accruals basis in the year to which they relate. A breakdown of expenses by functional area for the current and prior year can be found in the Statistical Data section on page 68.

Gains or losses on disposal or write-down of property, plant and equipment and intangible assets are determined as the difference between the proceeds received or costs incurred on disposal of the assets, if any, and its net carrying value on the date of disposal or write-down.

2.3. Net finance income

	2021	2020
	£	£
Dividend and interest income	60,998	97,530
Bank and Management charges	(52,312)	(50,564)
Net gains/(losses) on financial assets	119,934	137,696
	128,620	184,662

Interest income on fixed income instruments, fixed-term deposits, notice, and call accounts is recognised on an accruals basis using the effective interest rate method. Dividend income is recognised on an accruals basis in the event the Commission owns a security after the ex-dividend date has passed.

Realised gains or losses on the disposal of financial assets held at fair value is determined as the difference between the sale proceeds and the carrying value of the asset at the commencement of the reporting period plus additions in the period. Unrealised changes in fair value on revaluation are taken to surplus or deficit. Refer to note 5.2 for information on the determination of fair value for financial assets.

2.4. Taxation

The Commission is exempt from income tax under the Income Tax (Guernsey) Law, 1975, as amended.

3. People and related parties

This section describes the range of employment and post-employment benefits provided to the Commission's staff and our relationships with other key people.

3.1. Staff costs

The total remuneration for the Commission was £9,849,629 (2020: £9,977,342) comprising:

	2021	2020
	£	£
Wages and salaries	7,638,244	7,703,907
Social insurance, permanent health, and medical insurance costs	871,195	870,715
Pension costs	828,412	806,837
Recruitment and training costs	282,959	326,966
Commissioners' fees	228,819	268,917
	9,849,629	9,977,342

3.2. Post-employment benefits

A. Defined contribution scheme

The Commission recognised £94,039 (2020: £118,454) of expenses relating to the Commission's defined contribution scheme. Employer contributions are calculated at 12% of pensionable salary. Up until 30 June 2014 mandatory employee contributions were at a rate of 5%, after which employee contributions became entirely voluntary. No contributions were outstanding at 31 December 2021 (2020: £nil).

B. Multi-member RATs scheme ("GFSC group pension scheme")

The Commission recognised £533,843 (2020: £500,968) of net expenses for employer contributions to the GFSC Group Pension Scheme. Employer contributions are calculated at 12% of pensionable salary. Employee contributions are entirely voluntary. No contributions were outstanding at 31 December 2021 (2020: £nil).

3.4. Related parties

A. Controlling party

The Commission does not have a controlling party. No party can direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction.

B. Key management personnel

Remuneration paid to key management personnel in 2021, including pension and social insurance, totalled £2,008,788 (2020: £2,017,081). Key management personnel include the Commissioners and the executive directors.

C. Related party transactions

The following amounts were recognised in the year in relation to related parties:

- Commissioner Dorey is a Non-Executive Director of Schroders (C.I.) Limited. The firm provides investment management and deposit administration services for the Commission, for which it received fees during 2021 of £45,815 (2020: £44,364).
- Commissioner Howitt's long-term partner is a senior counsel of Walkers (Guernsey) LLP. The firm provided legal advice to the Commission during 2021, for which it received fees during 2021 of £20,825 (2020: £10,103).
- Members of key management personnel and certain Commission officers were granted an indemnity by the Commission in respect of liability incurred because of their office. The indemnities were in force during the year-ended 31 December 2021 and remain in force. The indemnity was not called on during the current or prior year.

Commissioners Dorey and Howitt are not present at discussions with Commissioners relating to any business involving the firms for which they are a related party.

4. Operating assets and liabilities

This section describes the long-term assets used by the Commission in fulfilling its objectives and related obligations.

4.1. Intangible assets

These are non-physical assets consisting of purchased and internally developed computer software. This software is designed to help the Commission carry out its various statutory functions more efficiently and effectively. These are stated at cost less accumulated amortisation and impairments.

	Computer software
	£
Cost	
At 1 January 2021	6,103,629
Additions	252,719
Disposals and write-offs	(1,275,263)
At 31 December 2021	5,081,085
Accumulated amortisation	
At 1 January 2021	(3,687,200)
Expense for the year	(751,376)
Disposals and write-offs	1,110,491
At 31 December 2021	(3,328,085)
Net carrying value	
At 31 December 2020	2,416,429
At 31 December 2021	1,753,000

The cost of internally developed software, including all directly attributable costs necessary to create, produce, and prepare the software for use is capitalised when it meets the criteria specified by FRS 102.

Once available for use, intangible assets are amortised on a straight-line basis over the shorter of their expected useful life or 7 years. These are assessed based on the technical life of a given piece of software, the period over which ongoing supplier support is available, and the period over which it is anticipated Commission staff will benefit from use of the software all of which are uncertain estimates based on our technical knowledge and judgement.

Intangible assets are assessed for impairment annually, or sooner if events or circumstances indicate potential impairment of the asset's carrying value. The carrying value of an asset is immediately written-down where this is greater than that asset's estimated recoverable amount.

4.2. Property, plant and equipment

These are physical assets that are held by the Commission for administrative or operational purposes. These are stated at cost less accumulated depreciation and impairments.

	Leasehold improvements	Fixtures, fittings and equipment	Computer hardware	Total
	£	£	£	£
Cost				
At 1 January 2021	1,446,221	543,980	896,967	2,887,168
Additions	-	46,117	58,583	104,700
Disposals and write-offs	(520)	(1,870)	(80,973)	(83,363)
At 31 December 2021	1,445,701	588,227	874,577	2,908,505
Accumulated depreciation				
At 1 January 2021	(649,600)	(387,363)	(602,007)	(1,638,970)
Expense for the year	(76,178)	(23,245)	(186,040)	(285,463)
Disposals and write-offs	160	1,870	80,973	83,003
At 31 December 2021	(725,618)	(408,738)	(707,074)	(1,841,430)
Net carrying value				
At 31 December 2020	796,621	156,617	294,960	1,248,198
At 31 December 2021	720,083	179,489	167,503	1,067,075

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Property, plant and equipment is depreciated on a straight-line basis over the expected useful life of the asset, based on the following periods:

- Leasehold Improvements: over the lease term or, if shorter, the improvement's estimated useful life;
- Office Equipment: 4 years;
- Fixtures and Fittings: 10 years or, if shorter, the asset's estimated useful life; and
- Computer Hardware: 3 years.

The residual values and useful lives of property, plant and equipment are reviewed and, if appropriate, adjusted at the end of each reporting period. The carrying value of an asset is immediately written-down where this is greater than that asset's estimated recoverable amount, following an impairment assessment. These are carried out annually, or sooner if events or circumstances indicate potential impairment of the asset's carrying value.

4.3. Operating leases

The Commission is party to several operating leases for premises. This includes its offices at Glategny Court, which are subject to a non-cancellable lease ending in 2034, and two flats each leased for a 2-year term that are sub-let to staff who have relocated to Guernsey.

All of these leases have been classified as operating leases, as the Commission does not consider the risks and rewards incidental to ownership to have transferred to the lessee. Rental payments made on these leases are recognised as expenses as they are incurred.

A summary of the minimum aggregate value of lease payments has been presented below:

	£
Less than 1 Year	723,497
Between 2 and 5 Years	2,755,539
More than 5 Years	5,267,939
	8,746,975

The Commission has obligations under the terms of the lease for its office premises to undertake redecoration and reinstatement works. Provisions have been recognised for those obligations, as detailed in note 6.4.

5. Financial and forestry investments

This section sets out the investments, both financial and physical, that the Commission has made.

5.1. Forestry assets

	Investment property	Biological assets	Total
	£	£	£
At 1 January 2020	-	-	-
Additions	110,440	-	110,440
At 31 December 2020	110,440	-	110,440
Additions	-	28,981	28,981
At 31 December 2021	110,440	28,981	139,421

Investment property represents land acquired by the Commission in June 2020, held to offset the carbon emissions arising from its activities through afforestation. Investment property is measured at fair value, with any changes in fair value being recognised in surplus or deficit.

Biological assets represent preparation work for afforestation of the acquired land undertaken during 2021. These are initially recognised at purchase price and recognised at cost less impairment, where applicable.

Valuations of investment property are performed on a three-year cycle by an independent, expert valuer. We plan to conduct the first such valuation in 2023. In the intervening period, the Commission assesses whether the carrying value of the land approximates its fair value by reference to market evidence of transaction prices for similar properties, consideration of the economic environment relevant for forestry land, and an assessment of the land itself for evidence of physical impairment.

5.2. Financial assets

The Commission invests a portion of its surplus funds in liquidity funds, fixed income securities, and a portfolio of investment funds managed by an external discretionary investment manager. This is to protect the capital value of the Commission's net assets, through a cautious investment strategy that is sustainable where possible, while mitigating against the erosion of the value of cash balances due to inflation.

	Current		Non-current		
	Fixed term deposits	Liquidity funds	Fixed interest securities	Investment funds	Total
	£	£	£	£	£
At 1 January 2020	5,600,001	-	514,549	2,513,635	8,628,185
Net purchases/(disposals)	199,999	1,265,000	(134,199)	6,340	1,337,140
Net change in fair value	-	-	6,035	228,482	234,517
At 31 December 2020	5,800,000	1,265,000	386,385	2,748,457	10,199,842
Net purchases/(disposals)	(5,800,000)	2,435,000	(386,385)	598,392	(3,152,993)
Net change in fair value	-	-	-	(15,295)	(15,295)
At 31 December 2021	-	3,700,000	-	3,331,554	7,031,554

All financial assets comprise basic financial instruments. These are recognised when the Commission becomes party to that instrument's contractual provisions at the relevant transaction price.

Fixed term deposits with a maturity of greater than three months are subsequently measured at amortised cost using the effective interest method. The carrying amount of these assets is considered to approximate their fair value.

All other investments are subsequently measured at each reporting date at fair value, with changes in fair value being recognised in surplus or deficit. The Commission invests either in listed investments or funds that trade daily, where there are quoted market prices available in active markets and where transactions occur at arm's length between appropriately knowledgeable counterparties. The prices used to revalue those instruments are quoted bid prices, which are multiplied by the number of securities of each instrument held by the Commission at the reporting date.

6. Net working capital

This section shows the assets and liabilities that the Commission generates through its day-to-day regulatory activities, including receivables, payables, cash, and provisions.

6.1. Receivables

	2021	2020
	£	£
Amounts falling due within one year		
Fee and penalty receivables	594,698	149,383
Less: Bad debt allowance for fee and penalty receivables	(114,849)	(54,186)
Other receivables	4,653	16,889
Prepayments	590,674	498,358
	1,075,176	610,444
Amounts falling due after more than one year		
Prepayments	28,264	102,209
	28,264	102,209
Total receivables	1,103,440	712,653

Receivables are measured at amortised cost using the effective interest method. The carrying amount of these assets approximates to their fair value.

The Commission assesses all fees and penalties receivable on an ongoing basis for recoverability. A significant proportion represents discretionary financial penalties issued by the Commission following its published enforcement process. These are assessed and, where appropriate, a bad debt allowance is raised in line with internal policies and the likely ability of the individuals or entities involved to settle their debts in part or full.

The debts for which a provision has been raised are reviewed regularly to ensure that all avenues are explored to obtain recovery.

6.2. Cash and cash equivalents

This comprises cash and short-term, fixed-rate bank deposits with a maturity date of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2021	2020
	£	£
Fixed-term deposits and notice accounts	3,204,284	200,518
Cash at bank and in hand	998,145	563,527
Cash held with discretionary manager	401,240	452,092
Total cash and cash equivalents	4,603,669	1,216,137

The Commission had no borrowings as at the year-end (2020: £nil).

6.3. Payables

	2021	2020
	£	£
Amounts falling due within one year		
Payables and accruals	755,514	947,378
Fees received in advance	513,155	1,225,626
Total payables	1,268,669	2,173,004

Payables are measured at amortised cost using the effective interest method. The carrying amount of these liabilities are considered to approximate their fair value.

6.4. Provisions

The provision relates to the expected costs of reinstatement and redecoration obligations as part of the lease for the Commission's premises. The total value of lease obligation provisions was £544,557 (2020: £342,532), comprising:

	Reinstatement provision	Redecoration provision	Total
	£	£	£
At 1 January 2020	293,616	20,440	314,056
Amounts provided/(released) during the year	35,041	(6,565)	28,476
At 31 December 2020	328,657	13,875	342,532
Amounts provided during the year	204,663	(2,638)	202,025
At 31 December 2021	533,320	11,237	544,557

All amounts fall due after more than one year.

The reinstatement provision relates to the expected costs to return the Glategny Court office premises to their original condition on termination of the premises lease. The redecoration provision relates to the expected costs to redecorate the internal surfaces of the Glategny Court office premises every five years, from 2015, for the non-cancellable period of the lease.

These provisions are measured based on the Commission's best estimate of the amount to settle each obligation. The provisions at the reporting date have been determined based on the following guideline values:
- Reinstatement Provision: £700,000; and
- Redecoration Provision: £24,000.

In both cases, the provisions are adjusted annually based on movements in the rate of inflation and are accrued linearly over the non-cancellable lease period.

7. Other notes

This section includes other financial information that is required by accounting standards.

7.1. Contingent liabilities

The Commission is subject to a variety of claims that arise in the ordinary course of fulfilling its statutory functions. These may include litigation or appeals following investigations undertaken by the Commission, as part of the enforcement process published on its website. Provisions are only recognised because of past events where claims give rise to a present legal or constructive obligation, it is probable settlement will be required, and the value of that settlement can be reliably measured. No provisions were recognised for any claims as at 31 December 2021 (2020: £nil).

As described in note 3.4, the Commission provides an indemnity to key management personnel and Commission officers who carry out actions in line with their statutory duties. This indemnity was not called on during the year (2020: £nil).

7.2. Subsequent events

The Financial Statements were approved for issuance by the Commissioners on 29 April 2022. Subsequent events have been evaluated until 28 April 2022.

The following non-adjusting subsequent events have been noted:

- Since 31 December 2021, movements in the quoted prices of the Commission's financial assets resulted in their fair value decreasing by £246,187 as at 28 April 2022.

There have been no adjusting subsequent events to report.

7.3. Change in presentation of the financial statements

In preparing the Commission's Financial Statements this year changes have been made to the presentation of the primary statements and accompanying notes. These are reflected in all periods presented. There were no changes to the Commission's accounting policies, the current and previous years' total comprehensive surplus or deficit, or net assets because of these changes.

These presentation changes are intended to provide better information to Financial Statement users and so that the Financial Statements are more comparable with those of other entities applying FRS 102 and regulatory bodies.

COMMISSIONERS

Drs. Cees Schrauwers
Chairman of the Commission (until 30 December 2021)

Drs. Schrauwers is a Dutch economist with over forty years' experience in financial services. He has served as Managing Director of Aviva International, CGU Insurance and Commercial Union, covering both the general insurance and life sectors. He was instrumental in the implementation of the mergers with General Accident and Norwich Union which resulted in the creation of Aviva plc. Following the mergers he was appointed Managing Director of Aviva International, gaining valuable experience in dealing with regulators across the globe, including North America. Prior to this, he was a Partner with Coopers & Lybrand in charge of its insurance consultancy practice. He has served as Chairman of Drive Assist Holdings Limited, Senior Independent Director of Brit Insurance Holdings Plc. and Brit Syndicates Limited, Non-Executive Director of Canopius Holdings UK Limited and Canopius Managing Agents Limited, Director of Munich Re (UK) Plc and as Senior Independent Director of Record Plc for nine years. He also served as an Independent Director at the Scottish Widows Group and Chairman of EC3 Legal LLP. Drs. Schrauwers was appointed as a Commissioner in 2008 and Chairman in 2012. He was educated at the Vrije Universiteit Amsterdam and the Nautical College Den Helder. He lives with his wife near London.

Bob Moore
Vice-Chairman of the Commission (until 31 January 2021)

Bob Moore was appointed as a Commissioner in February 2012 and Vice-Chairman with effect from 2 February 2017; he stepped down as a Commissioner on 31 January 2021 on completion of his third term in office. He has spent over forty years in the financial services industry in Guernsey and internationally. From 1979 to 1997, he held positions in international banking and international private banking with the Lloyds Bank/Lloyds TSB group in South America, the United States, the United Kingdom and in Luxembourg. These included responsibility for Lloyds' international private banking operations in New York and in Luxembourg. From 1997 to 2011, he was jurisdictional Managing Director with responsibility for the Butterfield Group's operations in Guernsey, including banking, investment management, custody and fiduciary services. In June 2011, he was appointed to the position of Executive Vice-President and Head of Group Trust for the Butterfield Group and retired from that position in March 2020. He has also been a director of a number of other banks and investment funds.

Julian Winser
Chairman of the Commission (from 31 December 2021)

Julian was appointed as a Commissioner in May 2021 and became Chairman in December 2021. Mr Winser served in the military as an officer in the Royal Green Jackets and Army Air Corps. On leaving he spent ten years at Baring Asset Management in operations and investment management and subsequently 23 years at Schroders working in the investment market on behalf of private clients and institutions. Between 2005 and 2020, he was CEO of Schroders' offshore private client business based in Guernsey responsible for the Channel Islands, Gibraltar, Malta and Bermuda, while also being part of the team managing Cazenove Capital worldwide. He has been a Trustee of Youth Clubs UK, President of the Guernsey Chamber of Commerce and Chairman of the Guernsey Youth Commission. Currently, he is Chairman of the Guernsey Friends of DofE, and Chairman of Garenne, a privately owned construction group including RG Falla, AFM, GeoMarine, Granite Le Pelley and Rabeys, with businesses across Guernsey, Jersey and the UK. He is a CEDR trained mediator, and advisor to the Oxford Process, an international conflict resolution organisation.

Simon Howitt
Vice-Chairman (from February 2021)

Advocate Howitt was appointed as a Commissioner in June 2013. He has over thirty years' experience as an advocate and is a consultant at Babbé having previously been a Partner. He served as President of the Guernsey Chamber of Commerce between 2001 and 2003. Advocate Howitt has served on a number of States Committees including as a non-States member of the Legislation Select Committee and its successor, the Legislation Review Panel, since 2004, the share transfer duty working party and the Inheritance Law Review Committee. He was the Deputy Bâtonnier of the Guernsey Bar from 2012 to 2020 and is a current member of the Board of Examiners for the Guernsey Bar Examinations and a member of the Editorial Board of the Jersey and Guernsey Law Review.

Commissioners *(continued)*

Wendy Dorey
Commissioner

Wendy Dorey was appointed as a Commissioner in November 2015. She has spent over twenty years in the financial services industry in the UK, France and Guernsey. She is currently Director of Dorey Financial Modelling, an investment consulting firm, and a Non-Executive Director of Schroders (CI) Limited. She has multi-sector experience across investment, banking and pensions, occupying senior posts in business strategy, governance and marketing and distribution for a number of leading institutions in the City of London. During that period, she was responsible for external risk reporting to the Financial Services Authority and embedding new "Treating Customers Fairly" processes. She was also responsible for the launch and on-going promotion of the Guernsey-domiciled M&G Property Fund to the UK Market. A strong advocate of continuous learning, she assisted the Investment Management Association in developing a new investment management syllabus for Independent Financial Advisors and, in 2018, gained the Institute of Directors Certificate and Diploma in Company Direction. She was admitted as a Chartered Director and Fellow of the IoD in 2019, before becoming Chair of the IoD Guernsey Branch in 2021.

John Aspden
Commissioner

John Aspden is a senior finance professional with significant experience in investment and banking supervision in both the public and private sectors. He was Chief Executive of the Financial Supervision Commission in the Isle of Man from 1998 to 2015, where he was responsible for the regulation and supervision of all banking, securities and funds, trusts and companies, and money transmission activities. Prior to taking up his role at the Financial Supervision Commission in the Isle of Man, Mr Aspden held roles in the private sector including Managing Director of Matheson InvestNet Ltd, at the time Hong Kong's largest independent distributor of, and adviser on, collective investments for retail investors. Mr Aspden has also held the role of Deputy General Manager of the International Bank of Asia Ltd and has worked in banking supervision at the Bank of England and at the Office of the Commissioner of Banking in Hong Kong, now HKMA. Mr Aspden is also Chairman of the Group of International Finance Centre Supervisors and co-chairs the Basel Consultative Group, and was made an MBE for his work in financial services supervision.

Philip Middleton
Commissioner

Philip Middleton is a senior financial services strategist with significant recent experience in advising governments, central banks and financial institutions. Since 2014, he has carried out consulting and advisory work in central banking and financial services as a Director of Rifle House Capital Ltd. He is also Deputy Chairman of the Board of the Official Monetary and Financial Institutions Forum, a leading Central Banking think tank, where he also chairs the Digital Monetary Institute. He has had significant experience in the private sector, holding various roles within KPMG LLP, including Partner and European Head of Financial Services Strategy, and within Ernst & Young LLP, including Partner and Head of Central Banking, EMEIA.

Baroness Couttie
Commissioner

Philippa Couttie has held leadership roles over the past 30 years in the marketing, financial and political spheres. She has founded, built up and sold two businesses, been the Chief Executive of a subsidiary of a publicly quoted company, been a Director of Citigroup and Leader of Westminster City Council. She now sits in the House of Lords where she is a member of the EU Select Committee and the EU Services Select Committee. She is also a Non-Executive Director of Mitie where she chairs their Social Value board sub-committee and is a member of its Audit and Nomination Committees. Baroness Couttie brings skills and experience across a wide range of areas including strategy development and turn around, along with finance and the financial sector as well as understanding UK government thinking and policy development.

SENIOR OFFICERS OF THE COMMISSION

COMMISSIONERS

William Mason
Director General

Caroline Bradley & Alison Gavey
Co-Directors
Authorisations and Innovation Division

Gillian Browning
Director
Investment, Fiduciary and Pension Division

Fiona Crocker
Director
Financial Crime Division

Simon Gaudion
Director
Enforcement Division

Alice Joy
Commission Secretary

Katherine Jane
Director
Risk and Operations

Charisma Lyall
General Counsel

Jeremy Quick
Director
Banking and Insurance Division

Investment

Figure 1. **Net asset values of Guernsey schemes under management at the year-end £bn**

Year	Closed-ended (£bn)	Open-ended (£bn)	Total (£bn)
2012	131	50	181
2013	136	42	178
2014	136	40	176
2015	140	39	179
2016	159	42	201
2017	166	43	209
2018	176	45	221
2019	181	46	227
2020	197	49	246
2021	249	55	304

Closed-ended
Open-ended
Total

Figure 2. **Total number of Guernsey investment funds at the year-end**

Year	Closed-ended	Open-ended	Total Guernsey
2012	618	222	840
2013	626	198	824
2014	636	176	812
2015	641	167	808
2016	650	157	807
2017	658	148	806
2018	665	148	813
2019	675	140	815
2020	693	136	829
2021	717	126	843

Closed-ended
Open-ended
Total Guernsey

Figure 3. **Total number of investment licensees at the year-end**

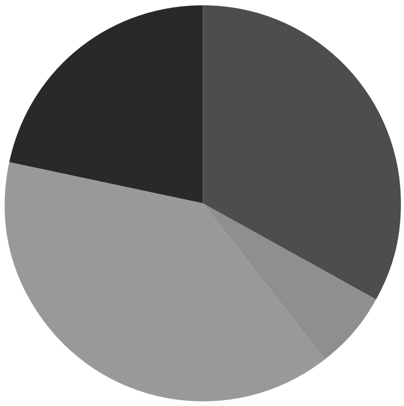
Year	
2012	644
2013	635
2014	622
2015	639
2016	644
2017	640
2018	663
2019	677
2020	686
2021	696

Under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, and subsequently the Protection of Investors (Bailiwick of Guernsey) Law, 2020 investment funds (Figure 2.) are either Registered or Authorised; whereas the firms (Figure 3.) undertaking Controlled Investment Business are Licensed under the same law. There is no meaningful correlation to be drawn between the number of investment funds and the number of licensees in existence.

Figure 4. **Movements within period**

Type	Total as at 31 December 2020	Approved in year	Lost in year	Total as at 31 December 2021
Total of open-ended schemes	136	8	18	126
of which Authorised	117	4	15	106
of which Registered	19	4	3	20
of which Qualifying Investor Funds (QIFs)	21	0	4	17
Total of closed-ended schemes	693	73	49	717
of which Authorised	313	11	35	289
of which Registered	380	62	14	428
of which QIFs	152	11	16	147
Total of licensees	686	69	59	696

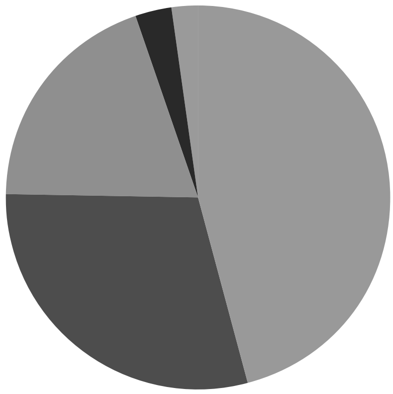
Figure 5. **Ownership of Fiduciary lead licensees as at 30 June 2021***



	2021	2020
International financial group	46	47
Lawyers and accountants	9	9
Privately owned – local	54	57
Privately owned – overseas	30	29

*Based on 139 entities holding a full fiduciary licence as at 30 June 2021.

Figure 6. **Staffing levels of licensees based on total number of staff carrying out regulated fiduciary activities as at 30 June 2021***



	2021	2020
Up to 10 staff	64	69
11 – 25 staff	41	38
26 – 50 staff	27	28
51 – 75 staff	4	6
More than 75 staff	3	1

*Based on the submission of an annual return by 139 licensees as at 30 June 2021.

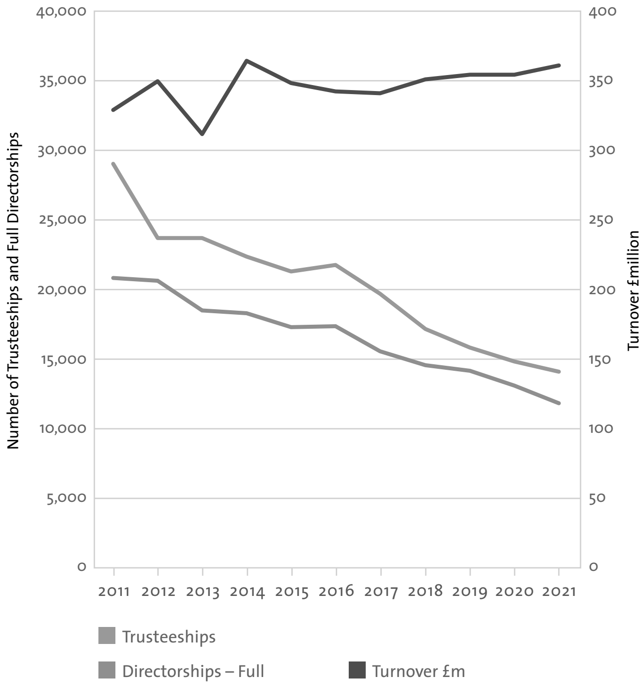
Figure 7. **Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30 June 2021***

Turnover band	Year	Number
Up to £249,999	2017	27
	2018	25
	2019	20
	2020	21
	2021	20
£250,000 to £1,000,000	2017	43
	2018	43
	2019	49
	2020	39
	2021	43
£1,000,000 to £2,000,000	2017	25
	2018	21
	2019	22
	2020	27
	2021	19
£2,000,000 to £4,000,000	2017	25
	2018	27
	2019	26
	2020	24
	2021	25
£4,000,000 or over	2017	27
	2018	28
	2019	31
	2020	30
	2021	32

*Based on licensees that have submitted audited financial statements.
Financial statements may not have fallen due for recently licensed companies.

2017
2018
2019
2020
2021

Figure 8. **Number of Director and Trustee appointments for full fiduciaries at the year-end; aggregate turnover of full fiduciary licensees***



*Please note turnover records aggregate annual chargeable fees. It does not represent assets under trusteeship.

Insurance

Figure 9. **International insurers as at 31 December 2021**

Month	2020	2021
Companies	213	217
PCCs	53	58
PCC Cells	271	294
ICCs	15	16
ICC Cells	52	48

2020 2021

Figure 10. **International insurers – gross assets**

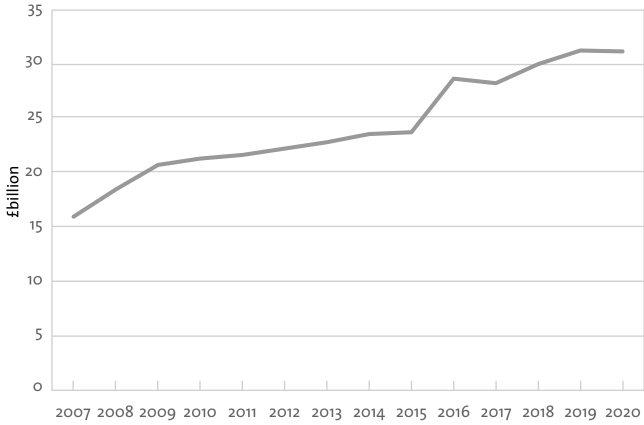


Figure 11. **International insurers – net assets**

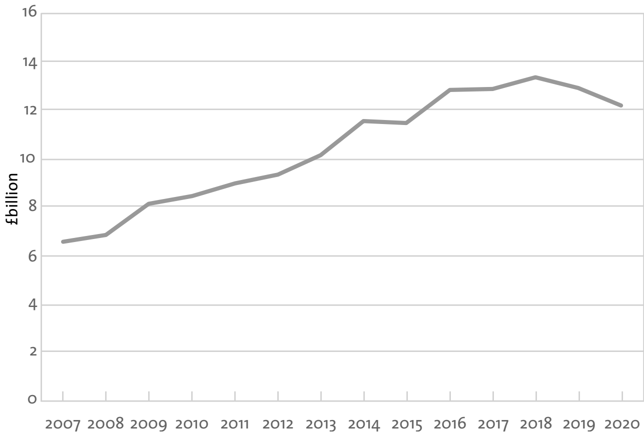
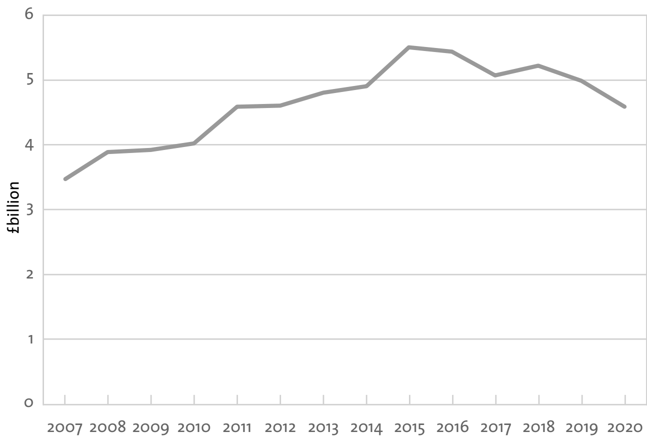


Figure 12. **International insurers – gross premium**



Banking

Figure 13. **Guernsey bank assets**

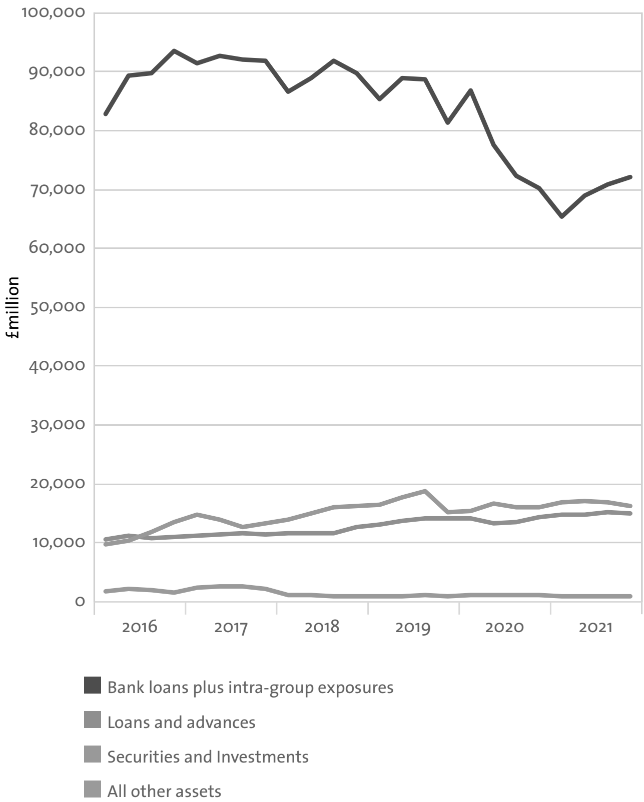
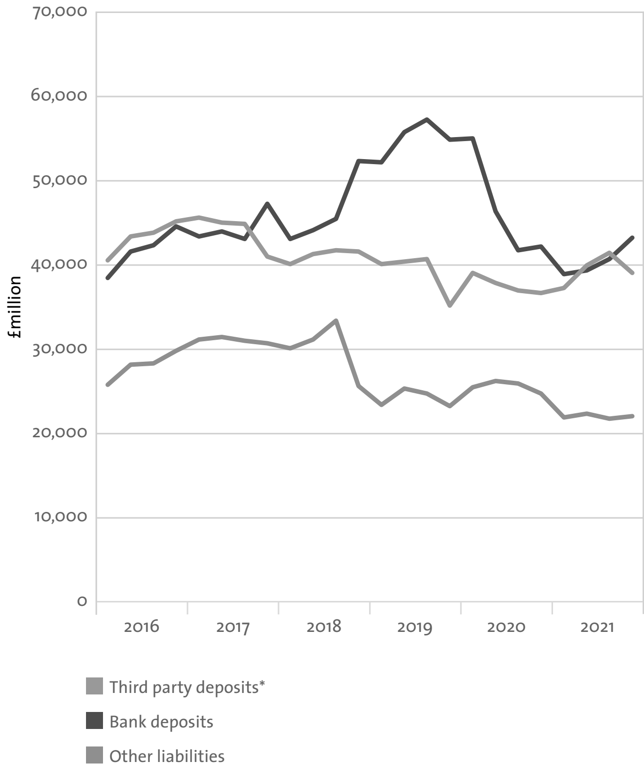


Figure 14. **Guernsey bank liabilities**



*Includes non-bank financial institutions

Authorisations and Innovation

Figure 15. **Total applications by volume and type – 2019 to 2021 comparison**

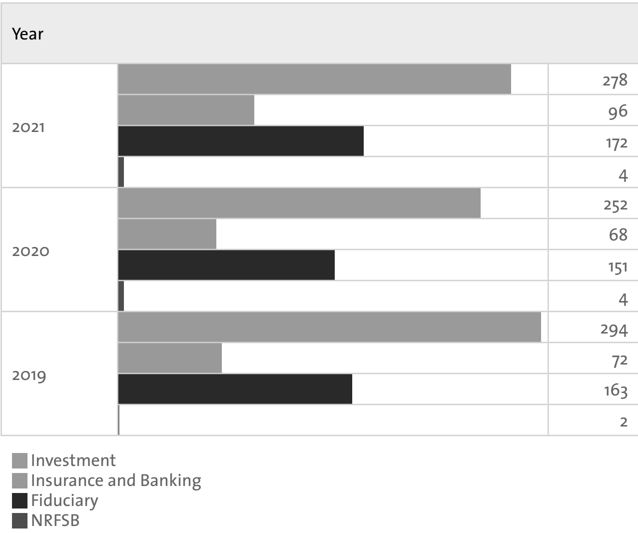
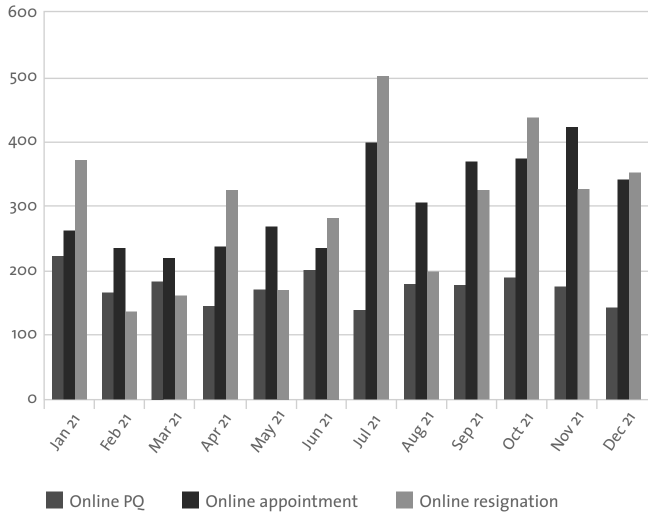


Figure 16. **Online Personal Questionnaire portal submissions 1 January to 31 December 2021**



Finance and Operations

Table 1. **Expenditure by functional area**

	2021	2020
	£'000	£'000
Authorisations	1,006	898
Enforcement	1,880	2,323
Risk	770	701
Supervisory and Policy Divisions	5,410	5,072
Internal Operational Support Functions	1,376	1,145
Overheads (incl. Premises, IT Expenses, Depreciation, and Three-Year Business Plan)	3,441	4,258
Total	**13,883**	**14,396**

Table 2. **Legal and professional fees**

	2021	2020
	£'000	£'000
Legal fees – enforcement	169	273
Legal fees – judicial and SDM process	188	841
Legal fees – advisory	42	11
Professional fees	182	134
Internal audit	10	38
Total	**591**	**1,298**

Table 3. **Number of staff by total remuneration**

Remuneration	2021	2020
£0 - £39,999	43	43
£40,000 - £79,999	51	53
£80,000 - £119,999	20	15
£120,000 - £159,999	3	5
£160,000 - £179,999	3	3
£180,000 and above	1	1
Total number of staff	**121**	**120**
Comprising:		
Permanent staff	118	114
Fixed-term staff	3	6
	121	**120**
Full time equivalent staff	**114.9**	**112.4**
FTE vacancies at year-end	8	5

Table 4. **Commissioners' fees**

	2021	2020
	£'000	£'000
Cees Schrauwers	45,000	45,000
Julian Winser	15,819	-
Robert Moore	9,000	27,000
Lord Flight	-	2,917
Richard Hobbs	-	35,000
Simon Howitt	27,000	27,000
Wendy Dorey	27,000	27,000
John Aspden	35,000	35,000
Philip Middleton	35,000	35,000
Baroness Couttie	35,000	35,000
Total	**228,819**	**268,917**

Functions, Structure and Corporate Governance and other Control Systems of the Commission

Functions of the Commission

The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law) established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the effective supervision of finance business in the Bailiwick". The statutory functions include those prescribed under or arising pursuant to the following regulatory laws, until 31 October 2021:-

- the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended;
- the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended;
- the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 as amended;
- the Insurance Business (Bailiwick of Guernsey) Law, 2002 as amended;
- the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 as amended; and
- the Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008;

and from 1 November 2021:-

- the Protection of Investors (Bailiwick of Guernsey) Law, 2020;
- the Banking Supervision (Bailiwick of Guernsey) Law, 2020;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2020;
- the Financial Services Business (Enforcement Powers) (Bailiwick of Guernsey) Law, 2020

The Insurance Business (Bailiwick of Guernsey) Law 2002 and the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 were also amended as at 1 November 2021 and continue to be in force. The Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008 and the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999 also continue to be in force.

Relationship with the States

The Policy and Resources Committee of the States of Guernsey is responsible for the policy framework for financial regulation and the government's relationship with the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports, referred to later in this appendix, annually to the Policy and Resources Committee.

The Commission maintains regular dialogue with the States. During 2021, the Commission continued to engage with the Policy and Resources Committee, on matters of importance to the States and the Commission.

Outside of formal meetings and presentations, the Commissioners and Director General maintain regular contact with senior States Members.

The Commissioners

The activities of the Commission's executive are overseen by the Commissioners. The Commission Law provides that the Commissioners shall consist of a minimum of five members who are elected by the States from persons nominated by the Policy and Resources Committee and appearing to it to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. The Chairman is appointed for a period of three years from amongst the Commissioners and is elected by the States following nomination by the Policy and Resources Committee. The Vice-Chairman is appointed for a period of one year by the Commissioners. A Commissioner is appointed for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. Commissioners must retire on reaching the age of 75 years.

The Commissioners during 2021 were Drs. Cees Schrauwers, Bob Moore, Simon Howitt, Wendy Dorey, John Aspden, Philip Middleton, Baroness Couttie and Julian Winser. A brief résumé for each Commissioner is provided on pages 58 and 59 of this report. Three Commissioners reside in Guernsey, with the remainder living in the UK.

Functions, Structure and Corporate Governance and other Control Systems of the Commission *(continued)*

There were 11 meetings of the Commissioners in 2021. The attendance was as follows: Drs. Cees Schrauwers 11, Simon Howitt 10, Wendy Dorey 11, John Aspden 11, Philip Middleton 11, Baroness Couttie 6 and Julian Winser 6. Prior to each meeting, Commissioners are provided, save in exceptional circumstances, with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities. In addition, each year Commissioners undertake a board effectiveness review. Periodically, the review is undertaken by an external party with experience in this area.

The Commission Law also makes provision for the appointment of such officers and servants as are necessary for carrying out the Commission's functions and for the most senior officer to have the title of Director General.

Delegation of functions to executive staff

The Commissioners have delegated certain of their statutory functions to the executive staff of the Commission. These statutory functions are exercised by the executives both jointly and individually. All statutory functions of the Commission may be delegated to the executives except:-

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy and Resources Committee;
- any statutory functions which empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy and Resources Committee on its activities during the preceding year. The President of the Committee shall, as soon as possible, submit that report for consideration by the States.

The Commission Law also provides that the Commission shall:-

(a) keep proper accounts and proper records in relation to those accounts; and
(b) prepare, in respect of each year, a statement of accounts giving a true and fair view of the state of affairs of the Commission;

and that the accounts of the Commission shall be:-

(a) audited by auditors appointed by the States; and
(c) laid before the States.

The Commission includes a copy of its audited financial statements in the annual report to the Policy and Resources Committee, referred to above.

Report on internal control and corporate governance

Under the Commission Law, the Commission must also review in each year, by the appointment of appropriately qualified and independent professional persons or otherwise:-

(a) the adequacy and application of the Commission's systems of internal control;
(b) the selection and application of the Commission's accounting policies and accounting procedures;
(c) the effective, efficient and economical management of the Commission's assets and resources; and
(d) the Commission's compliance with such generally accepted principles of good corporate governance as it is reasonable to regard as being applicable to the Commission.

The Commissioners are required to satisfy themselves in connection with the conclusions of each review and provide the Policy and Resources Committee with confirmation in the annual report on the matters covered by it.

The Commissioners are responsible for overseeing the Commission's corporate governance regime and for monitoring the effectiveness of management's systems of internal control. These systems are subject to regular review by management and address the risks to which the Commission is exposed. The Commission has an ongoing process for identifying, evaluating and managing operational risks (including regulatory and financial risks).

One Commissioner - Drs. Cees Schrauwers - has served as Commissioner for longer than nine years. Drs. Schrauwers retired on 30 December 2021.

The Commission has robust policies and procedures in place to ensure that any conflicts of interest involving Commissioners or staff are managed effectively.

In accordance with the Commission Law, the Commissioners have reviewed the Commission's approach to risk management policies and processes. The report required by the law on internal control and corporate governance has been provided by the Commission to the Policy and Resources Committee.

Functions, Structure and Corporate Governance and other Control Systems of the Commission *(continued)*

Audit and Risk Committee

The Commission's Audit and Risk Committee comprised John Aspden (Chairman), Baroness Couttie and Wendy Dorey. The Committee covered oversight of the management of risk, reviewed corporate governance and the systems of internal control and reported routinely to meetings of the Commissioners as a whole. Meetings are attended by the Director General, the Director of Risk and Operations and the Deputy Director (IT & Finance) of Risk and Operations.

The Committee met three times in 2021. The attendance of the individual members at these meetings was as follows John Aspden three, Wendy Dorey three, and Baroness Couttie two. The Audit and Risk Committee has oversight for non-regulatory risk; regulatory risk is reviewed by the Board as a whole.

Remuneration Committee

The Remuneration Committee, which comprised Simon Howitt (Chairman), Philip Middleton and Julian Winser, is mandated to advise and assist the Commission in fulfilling appropriate governance in respect of remuneration policies, practices and structure.

The Committee has specific responsibility for proposing to the Board (1) the remuneration and reward of the senior executive and (2) the general policy for staff remuneration and benefits to ensure that all of our people are fairly rewarded for their individual contributions to the Commission. (The Policy and Resources Committee determines the level of Commissioners' fees).

Meetings are attended by the Director General and the Commission Secretary. The Committee met on two occasions in 2021. The attendance of the individual members at these meetings was as follows Simon Howitt two and Philip Middleton two. The Commission's former Chairman attended one of the meetings.

Nominations Committee

The Nominations Committee comprises Simon Howitt (Chairman), Philip Middleton and Julian Winser. The Committee is responsible for advising the Commissioners on succession planning for Commissioners and the Director General and on appointments to the other Committees.

Meetings are attended by the Director General and the Commission Secretary. The Committee met once in 2021. The meeting was attended by Simon Howitt, Philip Middleton and the Commission's former Chairman.

Investment Committee

The Investment Committee, which comprised Philip Middleton (Chairman), Simon Howitt and Baroness Couttie is mandated to advise the Commission in respect of its investment approach. Meetings are attended by the Director General, the Director of Risk and Operations and the Deputy Director (IT & Finance) of Risk and Operations. The Committee met twice during 2021. The attendance by individual members at these meetings was as follows Philip Middleton two, Simon Howitt two and Baroness Couttie one.

Review systems

The Commission has retained specialist internal and external expertise to monitor the Commission's non-regulatory internal audit standards to ensure that the Commission is up-to-date with current expectations.

During 2021, the Commission appointed an external party to undertake internal audits in the following areas:-

- budgetary controls and revenue;
- cyber security; and
- MONEYVAL preparation.

Other planned audits were delayed due to the pandemic. Internal assurance reviews were undertaken on our use of PRISM and the application of our risk-based supervisory approach.

The outcomes of the audits have been taken forward to the satisfaction of the Audit and Risk Committee and Commissioners.

The corporate governance standards of the Commission are regularly reviewed by Commissioners and it is satisfied that the Commission meets expectations in connection with internal audit and corporate governance.

During 2017, an assessment was undertaken of the Bailiwick's regulatory regime against current international standards. This was undertaken by Mr Ian Tower, a former IMF assessor who was contracted by the Commission. The principal conclusion was that several of the areas for improvement were progressed through the Revision of Laws project which concluded in 2021.

During 2018, an assessment was conducted by the International Association of Insurance Supervisors (IAIS) of the Bailiwick's insurance regulatory regime against current international standards. The results, published in June 2019, demonstrated a high degree of compliance. The Commission plans an Omnibus Insurance consultation in 2022 to take forward a number of the IAIS recommendations.

Sustainability Report

Greening the Commission

In 2020, the Commission amended its staff pension options to offer an additional green investment strategy. This has been well received, with 13.5% of pension-eligible staff selecting a green investment strategy option for their pension as at 31 December 2021. Staff make individual choices as to the investment strategy which best suits their needs.

In 2021, the Investment Committee reviewed the environmental credentials of the Commission's investment portfolio and decided to shift the equity portion into a more sustainable strategy.

As part of our approach to greening our operations, the Commission purchased two electric bicycles for use by staff travelling around the island on Commission business as a more eco-friendly form of transport.

In order to evolve towards being a net zero regulator, in 2019 the Commission agreed to invest in a piece of previously forested land in Angus, Scotland. Fencing and ground preparation work has been underway during 2021 to prepare the land for planting with more than 50,000 saplings in Spring 2022, with support from Scottish Forestry. As these trees grow, they start to act as an effective carbon sink. Other things being equal, they should help us evolve to become a carbon neutral organisation (in terms of direct emissions) by the middle of this decade.

Greenhouse Gas Emissions

The Commission's greenhouse gas emissions have fallen against a 2019 baseline for the following reasons:

- All non-essential travel stopped in March 2020 and there have been travel restrictions to some degree in place ever since. For the most part, our international cooperation efforts have been conducted remotely, which markedly reduced the level of business travel in 2020 and 2021.
- Electricity consumption has reduced due to lower office occupancy during the periods of lockdown.

	2019	2020	2021
Greenhouse Gas (CO^2e kg)			
Scope 1 – Gas	-	-	-
Scope 2 – Electricity[1]	112,352	16,659	14,209
Scope 3 – Business travel	74,181	20,981	2,255
Total	186,533	37,640	16,464

[1] Electricity emissions are calculated based on our consumption and on Guernsey Electricity figures on the carbon content of each kWh. This reduced markedly after the new cable between Guernsey and Jersey was connected in late 2019.

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+44 (0)1481 712706

P.2022/55

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Guernsey Electricity Limited – Annual Report and Accounts' dated 9th June, 2022, they are of the opinion:-

1. To note the Annual Report and Accounts of Guernsey Electricity Limited for the period ended 30th September 2021.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY ELECTRICITY LIMITED – ANNUAL REPORT AND ACCOUNTS

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

9th June, 2022

Dear Sir

1 Executive Summary

1.1 The Annual Report and Accounts of Guernsey Electricity Limited (GEL) are hereby presented to the States.

2 Guernsey Electricity – Annual Report and Accounts

2.1 Under the terms of Section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the States' Trading Supervisory Board (STSB) is required to submit GEL's Annual Report and Accounts to the States for their consideration.

2.2 GEL's Annual Report and Accounts for the period ended 30th September, 2021, are therefore appended to the policy letter.

2.3 As reported in the previous Annual Report and Accounts[1], the 2019/20 accounting 'year' represented a transitionary eighteen-month period which followed a decision by the GEL Board to change the fiscal year end date for the company from 31 March to 30 September.

2.4 The 2020/21 financial results therefore represent the first 'ordinary' twelve-month fiscal period following this change.

2.5 As a consequence of the above, the results for the 2020/21 financial period are

[1] Billet d'Etat XIX of 2021 – States' Trading Supervisory Board – Guernsey Electricity Limited – Annual Report and Accounts.

not directly comparable with those of the previous twelve months.

3 Compliance with Rule 4

3.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

3.2 In accordance with Rule 4(1):

a) The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 (as amended) requires the Proposition to be put to the States;
b) The Annual Report and Accounts have been submitted by Guernsey Electricity Limited;
c) The Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications;
d) There will be no additional financial implications to the States of Guernsey of carrying the proposal into effect.

3.3 In accordance with Rule 4(2):

a) The Proposition relates to the duties of the STSB to carry out the States' role as shareholder of any incorporated companies which are owned by the States and which the States have resolved to include in the mandate of the Board;
b) The Proposition above has the unanimous support of the Board.

Yours faithfully

P J Roffey
President

C N K Parkinson
Vice-President

N G Moakes
Member

S J Falla, C.B.E.
Non-States Member

S J Thornton
Non-States Member

Guernsey Electricity Limited

Annual report and financial statements
30 September 2021

Guernsey Electricity
Powering Life, Today & Tomorrow

Contents

Directors, officers and professional advisers

Directors:

I Hardman	(Non-Executive Chairperson)
A Bates	(Chief Executive Officer)
J Turner	(Chief Financial Officer and Deputy Chief Executive Officer) resigned on 18 September 2021
K Brouard	(Chief Financial Officer) appointed on 18 September 2021
S-A David	(Chief Operating Officer)
G Browning	(Non-Executive)
P Shaefer	(Non-Executive)
R Denton	(Non-Executive)
T Songini	(Non-Executive)
I Chapman	(Non-Executive)
J Peacegood	(Non-Executive) appointed on 21 May 2021

Secretary: S Walden

Bankers:

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

The Royal Bank of Scotland International Ltd
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey
GY1 4BQ

HSBC Bank Plc
Arnold House
St Julian's Avenue
St Peter Port
Guernsey
GY1 3NF

Legal advisers:

Carey Olsen (Guernsey) LLP
PO Box 98
Carey House
Les Banques
St Peter Port
Guernsey
GY1 4BZ

Independent auditor:

Ernst & Young LLP
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4AF

Registered office:

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

Company number: 38692

Board members

Ian Hardman

Non-Executive Chairperson

Ian became a Non-Executive Director of Guernsey Electricity Limited in 2011. He has a background in banking and, having joined Lloyds Bank in 1973, worked his way up to the position of Senior Islands Manager, responsible for the four retail branches in Guernsey and Alderney. He worked on the offshore merger of Lloyds Bank and TSB Bank Channel Islands in 1996 and was involved with the legal aspects of the takeover of HBOS by LTSB. Ian is an Associate of the Chartered Institute of Bankers and the Institute of Chartered Secretaries and Administrators.

Alan Bates

Chief Executive Officer

Alan became Managing Director (2010) then Chief Executive Officer (2015) having joined from Manx Gas, where he was Managing Director. He commenced his career with P&O Cruises as an Engineering Officer followed by 19 years in the oil and gas industry working for Mobil Oil/BP Oil and IEG. He has a degree in Electro-Mechanical Power Engineering and an MBA in Executive Leadership. Alan is a Chartered Electrical Engineer (MIET), a Chartered Mechanical Engineer (FIMechE), has qualifications in risk and safety management (IIRSM) and is also a member of the Institute of Asset Management. Alan is also a Director of CIEG, JLEN Environmental Assets Group, Alderney Electricity and a Board Adviser to Guernsey Water.

Sally-Ann David

Chief Operating Officer

Sally-Ann was appointed to the Board in 2011. She is a Chartered Electrical Engineer with over 30 years' experience in the power and submarine cable market. Sally-Ann is a fellow of the Institute of Electrical Engineers, has an MBA, and is a Chartered Director. Sally is also a Director of CIEG, International Public Partnerships (delivering responsible investments in public and social infrastructure) and Guernsey Chest and Heart.

Karl Brouard

Chief Financial Officer

Karl was appointed to the Board in 2021 and has over 35 years' experience with Guernsey Electricity in multi-disciplinary roles covering financial, regulatory and engineering functions. Karl is a dual qualified Chartered Accountant (FCA) and Chartered Electrical Engineer (MIET). Karl is also a Director of CIEG.

Gillian Browning

Non-Executive Director

Gillian was appointed as Non-Executive Director of Guernsey Electricity Limited in 2018, after participating on the NED Development Programme with the company since 2016. Gillian is also Director of the Investment, Fiduciary and Pension Division at the Guernsey Financial Services Commission (GFSC), a role that includes leading policy development, supervisory oversight, risk management and good corporate governance. Gillian joined the GFSC from the UK Financial Conduct Authority (FCA), and prior to that the Cabinet Office where she was a Minister's Private Secretary and Policy Officer. Gillian graduated from Exeter University where she read History and Politics.

Peter Shaefer

Non-Executive Director

Peter has an honours degree in Geology and is a Chartered Accountant. He has substantial business and commercial experience, having held a number of senior positions in both energy and consumer products industries, including being a member of the Executive Committee of the US listed company Coty Inc. He currently holds a number of both Executive and Non-Executive Director positions, joining Guernsey Electricity Limited as a Non-Executive Director in 2018.

Rick Denton

Non-Executive Director

Rick has 30 years' experience of leading UK and international subsidiaries of four major banking groups. Subsequently he became CEO of a specialist family office business, managing property developments and acquiring companies. Rick now leads his own consultancy and has a range of international Non-Executive Director positions. Locally he chairs the Guernsey Banking Deposit Compensation Scheme. He is a National Council Member for the Institute of Directors, representing the international branches. Rick holds an MBA with distinction from Warwick University; is an Associate of the Chartered Institute of Bankers; a Chartered Member of the Institute of Securities and Investments and a Member of the Society of Trust and Estate Practitioners. He has also recently achieved the Henley Certificate in Executive Coaching and the Institute of Directors' Diploma in Company Direction.

Tania Songini

Non-Executive Director

Tania worked for German engineering multinational company Siemens for over 18 years, including five years within its NW Europe Energy business, which focussed on the construction and installation of large-scale renewable energy and infrastructure projects. She currently sits on the boards of Thrive Renewables and the Private Development Infrastructure Group, London Energy and Oxford Policy Management, and has a comprehensive understanding of sustainable energy technologies and strong governance track record. Tania is the Chair of ViaNinos UK, a charity she established in the UK in 2009 that supports children in Ecuador.

Board members (continued)

Ian Chapman *– appointed on 15th September 2020*

Non-Executive Director

Ian is the CEO of the UK Atomic Energy Authority, the UK's largest energy research organisation with over 2000 scientists and engineers. He has held a number of international roles in fusion research, currently chairing the IAEA Fusion Research Committee, as well as sitting on a number of ministerial committees in the UK and advising other governments on clean energy issues. He has won a number of notable international awards, including the Royal Society Kavli Medal in 2019, the American Physical Society Stix Medal in 2017 and the Institute of Physics Paterson Medal in 2013. Ian was made a Fellow of the Institute of Physics in 2013 and became a visiting Professor at Durham University in 2015.

Joanne Peacegood

Non-Executive Director

Jo joined the Board as a Non-Executive Director in 2021. Prior to embarking on a career as a Non-Executive Director, Jo was an Audit Engagement Leader at PwC where she spent over 20 years working in the Channel Islands, UK and Canada. Jo also held a number of other leadership roles at PwC including Risk & Quality, Controls Assurance and Innovation & Technology. As a Non-Executive Director, Jo sits on the Board of a number of entities including Listed Renewables, Listed Equities, Private Equity, Debt, Hedge, Real Estate and Asset Managers. Jo is a qualified Chartered Accountant, holds the Institute of Directors' Diploma in Company Direction and also holds an Honours degree in Accounting. Jo is the Chair of the Guernsey Investment & Fund Association Executive Committee and also sits on the Guernsey International Business Association Council.

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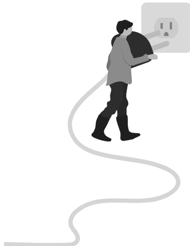
Chairperson's statement

As I write my last annual report as the Chair of Guernsey Electricity, it provides me with an opportunity to reflect on how the business has developed and evolved over my tenure.

Guernsey Electricity is a core part of our island's infrastructure and provides a service which is fundamental to our modern-day life. This is a big responsibility which the Board and everyone at Guernsey Electricity understands and takes very seriously. Some of our key attributes include supplying 30,000 customers, maintaining a network of underground cables, importing most of our electricity through our jointly owned subsea cable network, ensuring the island's security of electricity supply by maintaining our on-island power station, owning the largest solar arrays on the island and employing over 200 loyal and dedicated employees.

Leading an organisation so critical to our community requires a Board that understands the nature of an asset-intensive business, where investment decisions span many decades as well as a focus on policy direction and technology development, all of which need to be balanced with our customers' ability to afford the decarbonisation of our island. Guernsey Electricity remains committed to ensuring it is in alignment with the States of Guernsey's energy policy objectives and seeking solutions that are right for our island and our customers.

Our business year 2020/21

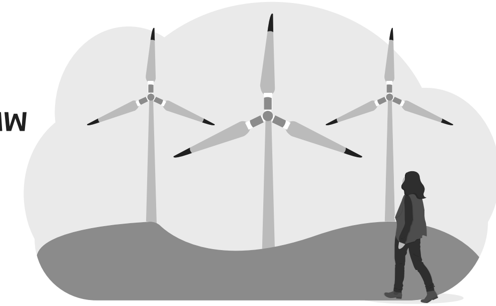


We supplied electricity to 30,000 customers

Who consumed 363GWh of electricity

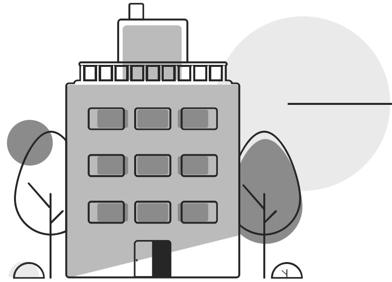
Creating a new record maximum demand of over 94MW

With 93% of electricity imported from low carbon sources



The electricity was distributed through 1.4 million metres of underground cable network

And over 400 substations located around the island



Providing more than 36,000 meter readings

Allowing us to send out approximately 120,000 electricity statements

All operated and managed by...

loyal and dedicated employees.

Chairperson's statement (continued)

Our performance

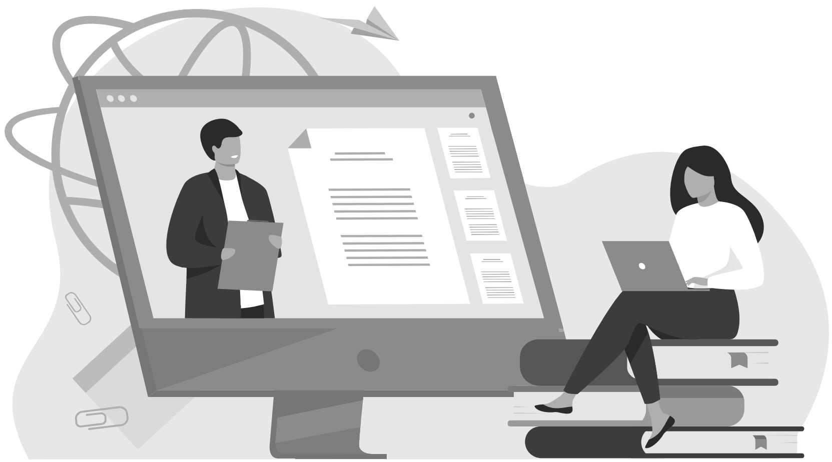
Despite many challenges, we have had a record year in delivering for Guernsey:

- Demand – a new record maximum demand for the island of 94MW, an almost 10% increase, and no loss of generation;
- Environmental – maintained our low carbon intensity electricity supply to our customers;
- Reliability – the lowest customer minutes lost for five years, and a 99.99% availability, and 96% of any fault repaired within 3 hours;
- Installation – a new bulk electricity supply point serving around 25% of our customer base;
- Customer value – electricity price hedging which prevented the unprecedented volatility flowing through to our customers' bills;
- Customer service – continued to provide our core services that maintain the infrastructure and provide support to customers during the second lockdown; and
- Sustainable financing – unlocking the potential to align Guernsey Electricity's financial strategy to the objectives of the energy policy through tariff reform.

The future

What has become very clear with the energy transition gathering pace is Guernsey Electricity needs to evolve and keep up with the pace of change. The Board continues to balance the needs of the electricity system today with the aspirations for the energy infrastructure of the future. We are committed to providing the best service to the island. Electrification growth will continue to drive demand, requiring further investment, changes to our practices and collaboration with our partners both on and off-island. To deliver this future successfully, our focus will continue to be:

- Securing the objectives of Guernsey's Energy Policy to achieve its 2030 and 2050 targets;
- Transitioning to a more stable financial model and reforming our tariffs to provide the investment required to deliver the transition for Guernsey's energy future;
- Driving sustainability and independence into our energy supply – we are committed to a secure future which includes local renewable generation and energy storage;
- Replacing our back-up hydrocarbon generation with a more sustainable option;
- Continued investment in SMART technology to allow us to use energy wisely; and
- Continuing to invest in our dedicated team.



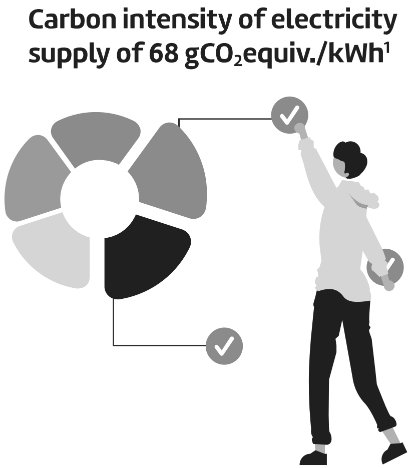
These are bold and challenging goals and the Board and team at Guernsey Electricity are committed to achieve these by working with our industry, our government and our customers to ensure Guernsey succeeds in its environmental and climate aspirations.

Ian Hardman
Chairperson

Chief Executive Officer's report

Successes and key performance

Carbon intensity of electricity supply of 68 gCO_2equiv./kWh[1]



- **A hedging policy that has mitigated significant electricity price rises;**
- **An improvement in financial performance returning the business to profit; and**
- **Replacement of the electricity transmission bulk supply point serving St Peter Port and the surrounding area, nearly a quarter of all customers.**

Whilst the financial year 2020/21 was not without its challenges, the year saw some considerable positive operational achievements in terms of customer reliability and environmental performance.

Following the replacement of the subsea cable between Guernsey and Jersey in 2019, we have seen significant operational improvement in terms of importing electricity. This followed almost eight years of unreliable operation in which we saw two cable failures and a preventative repair, which mitigated a third failure.

A 40% improvement in electricity supply reliability

with customer minutes lost at 21 minutes.

During this time, due to the ongoing deteriorating condition of the cable, we suffered extended periods of on-island generation when the capacity of the cable was purposedly limited in order to prolong its life and at times when the cable was not in service at all. This had not only an adverse impact on the financial performance of the business, but also on its environmental performance with our carbon intensity rising to 410 gCO_2equiv./kWh in the financial year 2018/19.

With the new cable now fully operational and reliable, we've seen another full year of high levels of importation, closely matching that of 2019/20 and making electricity a very low carbon energy product for our customers. We achieved an average carbon intensity level of 68 gCO_2equiv./kWh for this financial year, again very closely matching the previous year's level of 67 gCO_2equiv./kWh. These levels are around 91% (68 gCO_2equiv./kWh (2021) vs 790 gCO_2equiv./kWh (1990/91)) lower than they were in 1990 – the baseline year upon which our carbon reduction targets are assessed.

[1] Grams of CO_2 equivalent per Kilowatt hour

Whilst the carbon intensity is a measure of the carbon content per unit of electricity, we must recognise that the increasing use of electricity means that the absolute volume of carbon emitted through electricity production will not have decreased quite to the same extent. Despite the increase in usage, which is now around 68% (363 GWh (2021) vs 216 GWh (1990/91)) higher than it was in 1990, the total volume of carbon emitted by electricity production has still fallen by around 85% (25,000 tonnes (2021) vs 171,000 tonnes (1990/91)). Moreover, much of the increase in electricity usage is offsetting the consumption of more carbon intensive fuels like heating oil, transport fuels and gas, so the overall effect for the island is very favourable indeed.

This significant advancement in environmental performance of our energy system, viewed alongside the challenging years when the cable link was unreliable, clearly highlights the importance of reliability in the European electricity supply chain, and our vulnerability to higher cost, higher carbon forms of electricity production without it. Connectivity with Europe has brought great success, but we must bank that success and now enhance the resilience and capacity of this connectivity through additional interconnection to provide a more robust system.

The 'customer minutes lost' performance target has also further improved: reducing to 21 minutes from 34.5 minutes[2] in the previous financial period, with availability now at 99.99%. This 40% improvement shows how important the security provided by the importation of electricity is and with further investment in the on-island network, we should see this improve further.

The security and reliability of electricity supply capacity to the island will remain just as important as we progress with the energy transition and achieve the island's aspiration to install more local renewables. The cable will continue to provide access to low carbon electricity during periods when the local renewables are not generating, and local energy storage has all been used. Without this importation being secure the intermittency of local renewables will have to be backed up by hydrocarbon generation.

To enable the progressive scaling up and to demonstrate that local renewables can provide affordable electricity we continue with our community scale renewable roll out with the installation of a new system at the KGV playing fields.

A further point of success this year is the electricity price hedging arrangements for imported electricity supplies. Whilst the UK and Europe are currently seeing significant consumer impact on tariffs created by an extremely volatile energy commodity market, consumers of electricity in Guernsey are unlikely to see the level of tariff movements seen in the other jurisdictions, such as the UK which has seen >50% increases. Whilst Guernsey will not be immune to this market volatility over the longer term, prudent hedging has mitigated large tariff movements being seen in the near term and provides us with the flexibility to pass much smaller increases over a longer period of time through to customers.

Continuing period of significant challenges

Whilst we are pleased with the positive impact made by replacing the subsea cable, this year's greatest performance has been that of the team at Guernsey Electricity. As part of the island's critical national infrastructure, the core role the business plays in maintaining our modern-day way of life should not be underestimated and the employees have risen to all the challenges presented. The pandemic's second lockdown is an example of how the business deals with such challenges and again maintained not only the core provision of electricity supply, but also the necessary services that maintain the infrastructure and provide support to customers.

The financial performance of the business continues to place considerable operational and investment constraints on the business. The operating profit for the year, after adjustments, was £1.5m (2020: loss of £7.9m) which, while a commendable improvement on the previous period remains far below that necessary to replace aging assets. This Board remains concerned about the ability to deliver the necessary level of infrastructure investment required to maintain today's electricity network, as well as, and more importantly, the ability to be able to invest in a network which will be able to facilitate the decarbonisation of the island and support the opportunity to embed more renewable generation and energy storage in the future.

[2] 34.50 minutes loss for the 18-month period 1 April 2019 to 30 September 2020 excludes an island wide outage loss of supply on 2 September 2019 associated with on-island generation during the replacement of the subsea cable. With this single event the figure would have been 53.7 minutes which would mean improvement this year of 60%.

Chief Executive Officer's report (continued)

During recent years we have also had to replace our obsolete and no longer supported core business ERP system. This project commenced in 2018, however most of the work has been carried out in 2020 and 2021 and has been severely impacted by the travel restrictions put in place by COVID mitigations. This resulted in Guernsey Electricity having to "go-live" with the new system with no on-island consultant support. Whilst this is less than ideal and we have had some challenges with the new system, the team at Guernsey Electricity have shown real commitment and determination to embed and improve the replacement system. The Board acknowledges that the issues with the new system have caused an unacceptable level of service to some customers and it continues to apologise for any inconvenience caused.

The energy transition and the need to provide clear market cost signals

The approval of the Island's Energy Policy in 2020 was a positive step and set the foundations for the energy journey our community needs to go on to achieve our climate change aspirations. The Energy Policy set out why we need to change and what needs to happen. However, the detail of how we are going to achieve and pay for these ambitious aspirations still needs further development to be "fit for Guernsey".

Guernsey Electricity clearly has an important role to play in developing the strategy to deliver the electricity element of the transition and we will work closely with the Committee for Environment & Infrastructure to achieve a sustainable pathway to the policy goals. The island's Electricity Strategy is key to developing the approach to securing where our electricity comes from, how we can use it wisely as a community and also what commercial environment will create the most efficient transition for the island.

Whilst the role of Guernsey Electricity is clear in terms of assisting with the strategy to deliver the energy transition, understanding what the cost drivers of the infrastructure investment are and how the investment is going to be funded has been less so. The States of Guernsey approval to put in place interim arrangements for tariff regulation is a first step in providing these clear cost signals to the energy market and electricity customers.

Guernsey Electricity, as a States' owned entity which currently has no direction to distribute profits, aims to provide transparency around the cost of the investment pathway needed for the required level of new infrastructure to deliver the energy transition. For the decarbonisation pathway using electricity, this is principally the cost to provide the network and security of supply.

This transparency will allow us to provide clarity around the cost to provide electricity as a product. In this way, it will be possible to take informed and evidence-based decisions on how different parts of the electricity market may need to be subsidised or incentivised to achieve the energy policy aims more broadly, such as renewable generation and our modes of transport.

Without this transparency we could easily end up down investment cul-de-sacs or incentivising the incorrect behaviours through legacy tariffs.

As part of formulating the Electricity Strategy for the island, it will be necessary to determine what market structure is needed to create and stimulate the necessary investment into local renewables, particularly in terms of much larger scale local renewable generation and energy storage. Based on this market structure the States of Guernsey will be able to ensure a proportionate licencing or regulatory framework is put in place which delivers value to customers and the island.

What has become clear as we understand the challenges the energy transition will create is that a collaborative, not combative, energy market is more likely to succeed in transforming the way we use energy to deliver policy expectations. The energy market therefore needs to be cognisant that doing the right thing for our community and the environment may not always be aligned to the traditional competitive market. In achieving a sustainable energy transition the island will be contributing to meet global climate change targets.

Our own environmental and sustainability initiatives

Guernsey Electricity has signed up to Net Zero and therefore has an ambition to set science-based targets to reduce our operational impact before considering any offsetting. More widely we are considering the environmental impacts we create as a business.

This includes everything from waste to water consumption, our workplace integrity, how we become a better place to work and how we do the right things for our community. These elements and our desire to be responsible within the marketplace will form the cornerstones of any future initiatives and commitments.

Decarbonising the electricity supply for the island therefore remains a core focus for the Board of Guernsey Electricity. As well as securing guarantees of origin for imported electricity and external verification of the carbon intensity of imported supplies, the business has commenced its own low carbon journey to net zero. The first stage of this is determining where we create carbon in our business activities. We have set up a low carbon working group to measure our carbon emissions and explore the opportunities to reduce these.

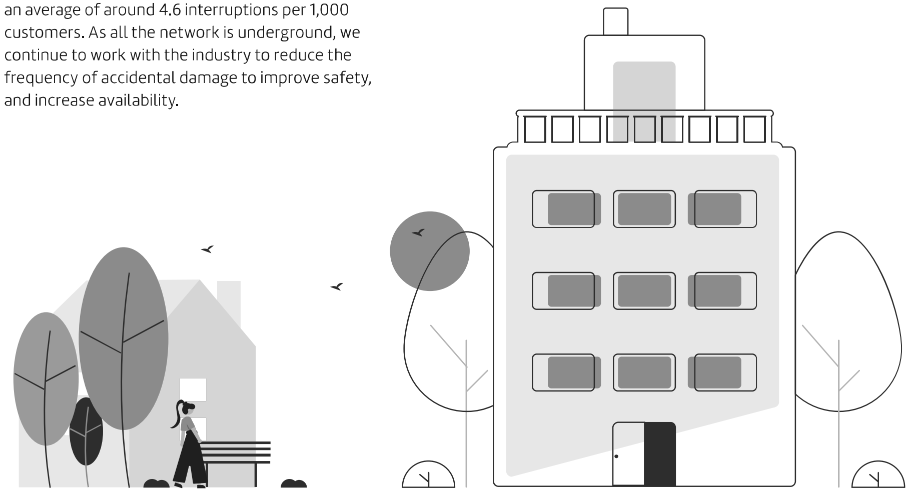
Operational performance

With the import cable to the island now reliable the focus of the operational activities returned to aligning our capital investment and maintenance activities to our asset management plans.
The reliability of the system remained high with just over 21 minutes on average lost by each customer and an overall availability of 99.99%. The number of network faults remained low at 149 for the year of which only three were high voltage, resulting in an average of around 4.6 interruptions per 1,000 customers. As all the network is underground, we continue to work with the industry to reduce the frequency of accidental damage to improve safety, and increase availability.

Despite the ongoing restrictions caused by the various mitigations to control the pandemic we still managed to achieve our plans for the year. 10% of the primary circuits and around 10% of our secondary substations were maintained, in line with their scheduled asset management plans.
This included installing 16 new secondary substations on the network to replace those that were at the end of their economic life, as well as the new bulk electricity supply point at Beau Sejour. The new substation, supplying up to a quarter of the island demand was completed to improve resilience in St Peter Port's network. The substation supplies residential, office, retail and community buildings representing around a quarter of Guernsey Electricity's customers.

In terms of electricity meters, an additional 1,786 meters were fitted throughout the year, although the profile was not even; lack of access during 'lockdown' periods necessitated high levels of connection in the more accessible periods.

After several years of the power station being used to support an unreliable subsea cable and then the baseload generation required while the cable was replaced, we undertook all planned and general maintenance and inspection regimes, including the harbour to station fuel lines and continued our upgrade of the fuel storage facilities.



Chief Executive Officer's report (continued)

Electricity usage and generation summary

	On-island generation MWh		Imported MWh					
Calendar Year	Vale Power Station	Community PV	Hydro	Nuclear	Wind	Solar	% Imported	Total Distributed MWh
2019	199,139	123	112,980	64,151	-	-	47%	342,647
2020	22,783	369	200,942	-	81,430	64,328	94%	331,899
2021	26,860	390	354,910	-	329	-	93%	363,515

Greenhouse gas emissions and intensity of electricity

The annual greenhouse gas ("GHG") emissions are displayed in the table below. Emissions are apportioned between scopes 1,2 and 3 in tons of CO_2 equivalent and carbon intensity of distributed electricity in grams of CO_2 equivalent per Kilowatt hour.

	Scope 1 Emissions tCO_2equiv.	Scope 2 Emissions tCO_2equiv.	Scope 3 Emissions tCO_2equiv.	Total Emissions tCO_2equiv.	Intensity of Distributed Electricity gCO_2equiv./kWh	Lifecycle Intensity of Distributed Electricity gCO_2equiv./kWh
2019	139,600	109	863	140,572	410	488
2020	20,063	285	1,884	22,232	67	86
2021	22,653	185	2,042	24,880	68	82

Notes

1. Emissions are calculated for the calendar year running from January to December.
2. Imported MWh takes into account transmission and distribution losses between the source and the island.
3. Intensity of Distributed Electricity is the intensity of GEL's scope 1, 2 and 3 emissions per kWh of electricity sold to our customers.
4. Total distributed electricity is the electricity that has been delivered to our customers, taking into account transmission and distribution losses.
5. Lifecycle carbon intensity: this is the carbon intensity of delivered electricity, taking into account the lifecycle emissions of each electricity source, which includes emissions associated with: materials used for plant constructions; embodied carbon for each type of generation technology (including GEL owned and for imported electricity); on-site operations; the supply chain of fuels; and transmission and distribution losses.
6. The full lifecycle intensity of our electricity has been calculated from 2019 onwards.
7. Scope 1 emissions: combustion of fuel to generate power, Combustion of fuel in vehicles, and fugitive emissions.
8. Scope 2 emissions: electricity transmission & distribution losses.
9. Scope 3 emissions: electricity importation.
10. Data sourced from WSP GHG Review of Guernsey Electricity Environmental Reporting: Annual greenhouse gas emissions 2021.

Financial performance

These financial statements revert to a 12-month period which must be borne in mind when comparing the results to the previous period which was for 18-months to 30 September 2020.

The previous financial period was significantly impacted by the need to replace the electricity cable to Jersey. This financial period has also seen a significant investment being made into the company but one that had been planned for a number of years. The ERP replacement project has seen the company consolidate a variety of ageing, legacy and unsupported IT systems that control asset management, financial reporting, customer billing, contracting, procurement and human resources among others. This significant investment, which will eventually provide the ability to analyse more data far more effectively, will ensure that the company can provide the best possible service to customers and stakeholders. We will also be well placed to drive forward with energy transition policies informing development and ensuring cost effective delivery.

Together with the Beau Sejour bulk supply point, replacement of substations and other capital investments, the company has continued to strengthen the network, investing a total of £5.0m into the network. As high as this figure is, it represents only 1.9% of the cost of the company's assets and therefore remains below a target figure for asset replacement. When factoring in the strengthening of the network that will be required to meet the forecast demand increase of the approved energy transition policy, it becomes apparent that future funding mechanisms will need to be carefully considered in the near future.

The Board therefore welcomed the decision of the States in September 2021 to allow the States Trading Supervisory Board ("STSB") to approve tariff changes and new structures proposed by the company. The Board has considered the various options to ensure that, in the short-term, a baseline level of infrastructure investment is maintained and continues to work proactively with the STSB on developing a tariff increase plan which delivers both infrastructure and consumer expectations.

The reported operating profit after pension settlement gains has improved significantly to £1.5m (30 September 2020: operating loss £7.9m). On-island generation has reduced significantly, offset by continuing impacts of COVID on profitability, as it will have done for many businesses on the island.

In contrast to the previous period, the £:€ exchange rate gradually strengthened during the year, decreasing the cost of importation year on year. Our hedging programme continues to manage exchange rate risk arising from importation.

In terms of financial performance, the returns from the business are considered on a three-year rolling average basis. This allows the Board to assess the underlying financial dynamics created by weather, the wholesale markets and the required changes that may be required to tariff levels.

The first of the two approved uncontrollable cost recoveries of 6.8% and 4.8% respectively, is due to expire on 1 July 2022. While the historic events that led to the approval have passed, it cannot be denied that we are continuing to operate in unpredictable times. The continued impact of the pandemic and the recent hostilities in Eastern Europe are maintaining the cost pressures on the business. As previously reported, the company is also under-investing in capital asset replacement due to the legacy of tariff restraint. A programme of capital asset replacement and network strengthening has been developed to enable the company to deliver on its set objectives, the cost of which is considerable.

The current discussions with STSB around tariff mechanisms will not only therefore address the individual tariffs that will apply to customers but also consider the most appropriate mix of debt and equity to allow the company to deliver the objectives set by the States of Guernsey and balancing these with the needs of the customer.

Chief Executive Officer's report (continued)

The impact of the company's under-investment can be seen in the reduction of its non-current asset base from £150.8m to £148.9m. While it is possible to entertain such a decrease and the underlying asset base remains healthy, this must not be allowed to continue. The net cash outflow for the year is largely due to repayments of credit facilities of £4.7m and the limited replacement of non-current assets of £6.4m. At the year-end, we had net debt of £39m compared to £38.7m at the last period. This comprised £41.9m loans and closing cash balances of £2.9m; these amounts include balances held with the States of Guernsey of £34,000 (30 September 2020: £23,000).

Shareholder's funds have increased by £4.6m, from £91.3m to £95.9m. This was primarily the result of the actuarial gain in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £4.6m and finance costs of £1.2m, together with the improvement in the operating profit.

The company is part of the States of Guernsey Pension Scheme and we are continually assessing the funding risks that come with membership. To this end we closed our Career Average Revalued Earnings ("CARE") to new members in 2017. As a continuance of this risk mitigation strategy the company transferred the pension liabilities of all retired and deferred members as at 30 June 2018 to the States of Guernsey Combined Pool. The Board understands the liability created by the older schemes and keeps the affordability of these under review.

Outlook

The opportunity for Guernsey Electricity to work with the States' Trading Supervisory Board to provide a platform for tariff reform which will provide a more evolutionary approach to tariffs more appropriately representing the underlying costs, is a real positive for the company and the future of the island's energy policy. To support these tariff reforms, it is important that we improve the levels of service and efficiency of the business, and this remains a priority. It is intended that, as part of any tariff change application, a commitment will be made to a formal efficiency and benchmarking review of the business.

The strategy development for the business is dependent on the Committee for Environment & Infrastructure's Electricity Strategy, which is due to be debated by the States of Guernsey in late 2022. This remains key for Guernsey Electricity to identify and manage the changes required to its investment plans, but also its workforce who are absolutely key to delivering the transition.

The Board remain mindful of the potential disruption and impact all of these energy transition changes can have on the different customer groups and are committed to ensuring it works with its customers to ensure electricity is used wisely and remains affordable for all.

First major investment into the island's transmission network with a new electricity bulk supply point installed at Beau Sejour

A new substation, supplying 25% of the island was completed to improve resilience in St Peter Port's network. This includes residential properties, offices, shops and Beau Sejour itself, representing around a quarter of Guernsey Electricity's customers.

The project began in March 2021 and successfully navigated the challenges of the pandemic including border restrictions and delivery delays to deliver a key milestone in the continual investment in our existing infrastructure.

Replacing existing ageing equipment, the completion of the new substation will future proof the local electricity network, provide extra resilience along with enhanced capacity to meet a more electric future and the switch from fossil fuels.

As well as the sensitive designing of the exterior building, the project team worked with Environment Guernsey to support existing wildlife and encourage an improvement of biodiversity to the surrounding area with bat and bird habitats and the planting of new native trees.

Power to the People fund

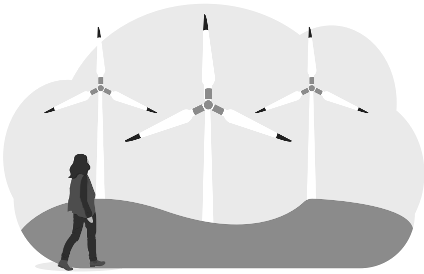
Guernsey Electricity has historically focused its corporate social responsibility efforts on 'youth and community' which provided support to many worthwhile initiatives and charities such as Be Safe Be Seen, The Guernsey Community Awards and Safety Calling. We also received a high number of requests from charities, clubs, events and schools for donation of raffle prizes.

Seeking new ways to help the island community and fulfil our environmental aspirations, we refreshed our efforts and launched the Power to the People Fund in October 2020. Power to the People has proven popular and to date, we have supported 8 local environmental initiatives with a total of £12,000.

Opening applications up to Bailiwick charities and groups wishing to receive support for tangible positive environmental change for all the community to enjoy has meant that we have brought more targeted, measurable positive change to our island and wider environment.

Specifically, causes that resonate with the four pillars of our Environmental Sustainability Strategy will be favoured as these in turn support the United Nation's Sustainable Development Goals:

Climate action



Affordable and clean energy

Healthy ecosystems

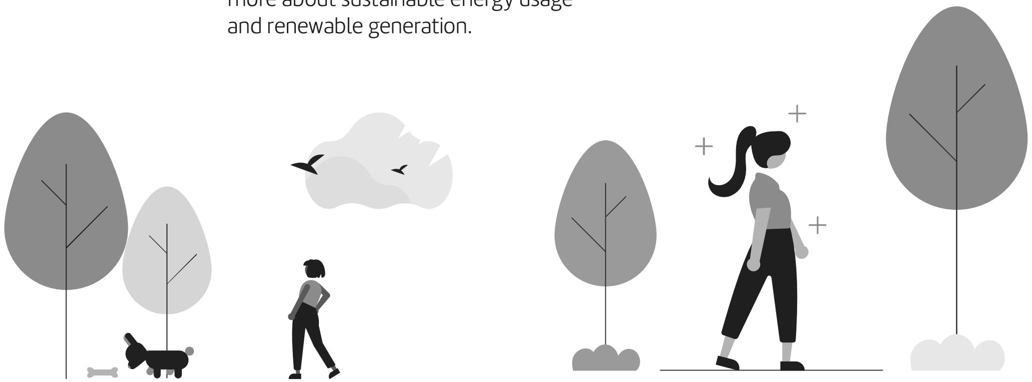
Education, awareness and skills

Power to the People has proven popular and to date, we have supported 8 local environmental initiatives with a total of £12,000.

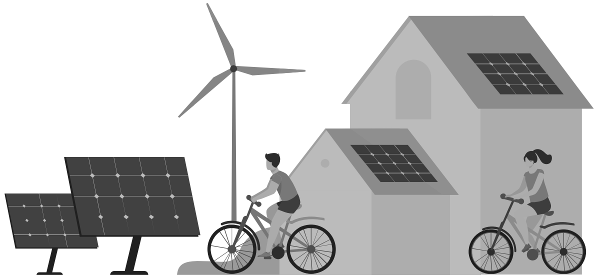
The company has donated PAT testing equipment and funded safety training to the Repair Café to enable more electrical equipment to be repaired safely by their volunteers. Funding has also included providing TV link ups to the island of Lihou's solar panels for residential visits and schools to view and understand more about sustainable energy usage and renewable generation.

Others include:

- Bat boxes and detectors;
- Education officers' equipment;
- Litter picking kit for all community to use;
- Conservation herd maintenance;
- 1 eco-mooring pilot study; and
- 1 scythe for National Trust of Guernsey land.



What else have we done?

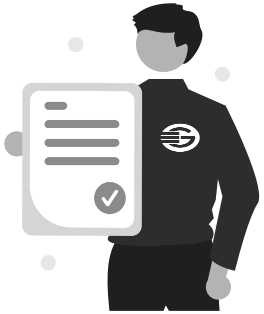


Community scale renewable electricity

We generated 0.4 GWh of electricity from our community scale solar arrays for everyone to use.

Supporting education and safety for Bailiwick children

We awarded £2000 to winners of our Bailiwick schools eco-challenge to be spent on environmental improvements.

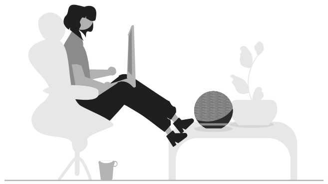


Trained 6 apprentices to become qualified electricians

We have invested in 16 professional qualifications and development programmes, 1 bursary programme and 6 apprentices.

Free hedgeveg wildflowers

We've sown 1 acre of the island with free biodiversity boosting wildflower seeds so far.

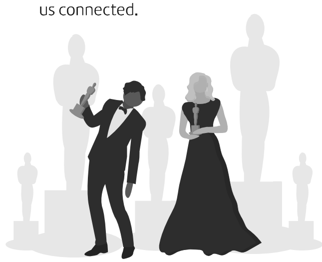


New ways of working

We introduced flexible working.

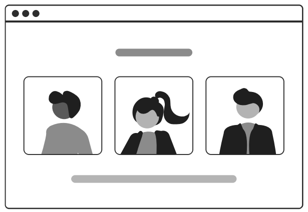
Supporting Islanders and employees in a pandemic

- We hand delivered electricity top-up cards to customers isolating;
- Hosted Virtual yoga sessions for employees throughout lockdowns; and
- Daily virtual coffee breaks to keep us connected.



Recognition and thanks

Our annual awards have recognised 40 employees including long service. We've gifted boxes of chocolates and flowers to say a little 'Thank You', too.



EMS

Refreshed our internal Environmental management system platform.

Health and wellbeing

We've sponsored 5 Mental Health First Aiders across the business and added a new free virtual doctor service for employees.

Electric Living

We launched www.electric living.gg – an informative, impartial service to help the industry and customers towards decarbonisation of heating.

Supporting women in engineering day

Supported 225 students attending Guernsey's Women in Engineering event.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2021. These comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, the cash flow statement and notes to the financial statements set out on pages 40 to 71.

Incorporation

Guernsey Electricity Limited (the "company") 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.

Dividend

No dividend was paid during the year (30 September 2020: £nil paid), representing £nil per share (30 September 2020: £nil per share paid). The company will not be proposing a dividend at the 2022 Annual General Meeting (2021: £nil proposed).

Customers

The number of customers as at 30 September 2021 is 29,982[3] (30 September 2020: 30,859).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 93% (30 September 2020: 74%) of the island's electricity needs in the year ended 30 September 2021 and 7% (30 September 2020: 26%) was generated on the island, as shown by the units analysis below:

	30 Sept 2021	30 Sept 2020
Units imported MWh	**359,711**	394,069
Units generated MWh	**25,272**	137,809
Total units imported/generated MWh	**384,983**	531,878

Average price

The average price per kWh sold in the year ended 30 September 2021 was 15.69 pence (30 September 2020: 15.10 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power outages can be caused by failures of generators, the distribution network or the cable link. In the year ended 30 September 2021, customers lost zero minutes due to generation/importation activity (30 September 2020: 21.51 minutes) and 21.43 minutes were lost per customer in respect of distribution (30 September 2020: 32.19 minutes).

[3] Historically corporate customers with multiple accounts have been counted as multiple customers. As part of the migration to the new ERP system corporate customers with multiple accounts have been reclassified as single corporate customers with multiple active agreements thus an apparent reduction in number of customers. This new approach will better enable the company to service these customers and track growth linked to the Energy Strategy.

Directors and their interests

The directors of the company, who served during the period and to date, are as detailed on page 3.
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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Going Concern

These financial statements have been prepared on a going concern basis as detailed in note 3 to the financial statements.

Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors.

I Hardman
Director

A Bates
Director

30 May 2022

Corporate governance

As a Board we take corporate governance very seriously. We make significant investments in our governance and compliance systems and the training of our people to ensure these systems are running effectively.

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice aligned to the principles of the UK Corporate Governance Code.

The Board

The Board's role is to provide entrepreneurial leadership of the company within a prudent 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, to deliver the company's values and standards and takes decisions objectively in the interests of the company, its shareholders, and other stakeholders.

Division of responsibilities

Chair

Ian Hardman, the Chair, is responsible for the running of the Board and spends on average 1.5 days per week in his role. The Board consider that he has no other external directorships which make conflicting demands on his time as Chair. Gillian Browning is the Deputy Chair appointed by the Board.

Chief Executive

Alan Bates is the Chief Executive Officer ("CEO") and is responsible for running the company's business and is head of the Business Leadership Team ("BLT").

Executive Directors

The Chief Financial Officer ("CFO") and Chief Operating Officer ("COO") are the other two Executive Directors on the Board and ensure the company's financial and operational objectives are delivered and the governance and compliance systems are working effectively.

Non-Executive Directors

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.

The Shareholder

Guernsey Electricity Limited is 100% owned by the States of Guernsey, through the States Trading and Supervisory Board. There is a Memorandum of Understanding between the shareholder and the company setting out matters which can be dealt with by the company and those which should be referred back to it together with inclusion of the shareholder expectations in respect of corporate governance.

How the Board operates

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. There are currently seven Non-Executive Directors and three Executive Directors on the Board.

All of 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.

Joanne Peacegood joined the Board on 21 May 2021 as a Non-Executive Director. Karl Brouard replaced Julian Turner as Chief Financial Officer on 18 September 2021.

Information and professional development

For each scheduled Board meeting the Chair and the Company Secretary ensure that 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 internal induction programme that introduces the director to the company and key stakeholders.

The Company Secretary, who is appointed by the Board is responsible for facilitating 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 all of the Board's Sub-Committees.

Board meetings and attendance

Attendance during the financial year for Board meetings is given in the table below:

Director	Meetings attended	Total meetings held
I Hardman	6	6
A Bates	6	6
J Turner (resigned 18 September 2021)	5	5
K Brouard (appointed 18 September 2021)	1	1
S-A David	6	6
R Denton	4	6
G Browning	4	6
P Shaefer	5	6
I Chapman	5	6
T Songini	6	6
J Peacegood (appointed 21 May 2021)	1	2

Corporate governance (continued)

Board strategy

The Board meets once a year for the Board Strategy Day, attended by the BLT and other senior employees to agree strategic priorities for the next three years and to provide direction on key issues to the BLT. The Board also meets annually for the Board Risk Review Session. The company's top strategic risks and annual risk actions, as proposed by the BLT are reviewed and approved by the Board, thereby setting the company's risk management strategy for the year.

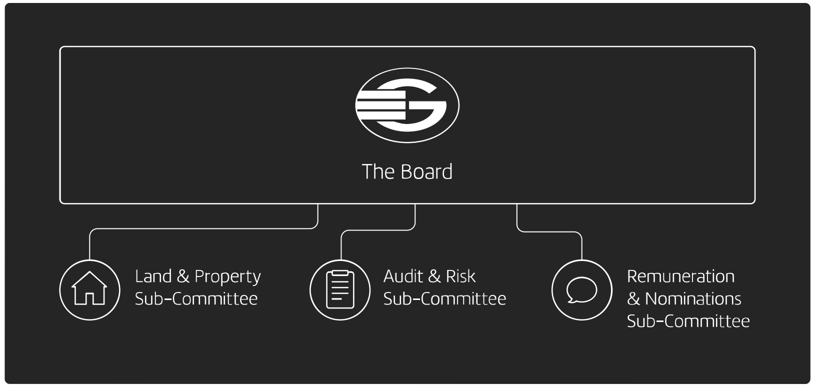
Key areas of focus for the Board

The principal areas of strategic focus and development agreed by the Board and monitored throughout the financial year were:

- Energy Policy and Energy Transition;
- Capital investment programme and funding;
- Utility Business System; and
- Regulatory framework and Tariff Strategy.

How we are governed

In addition to regular scheduled Board meetings, the Board has delegated some of its governance responsibilities to various Sub-Committees. Each of the committees has Terms of Reference agreed by the Board.



Remuneration & Nominations Sub-Committee

The Remuneration & Nominations Sub-Committee, which is chaired by Gillian Browning, consists solely of a minimum of two Non-Executive Directors. The purpose of the Remuneration & Nominations Sub-Committee is to assist the Board in the effective discharge of its responsibilities for the remuneration and other employment conditions of Executive Directors and senior management and to act as a Nominations Sub-Committee as the need arises.

No director is permitted to be involved in deciding the amount of his or her own remuneration. The Remuneration & Nominations Sub-Committee considers that the policy and 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 the shareholder.

There were five Remuneration & Nominations Sub-Committee meetings held in the financial year.

The membership of this Sub-Committee during the financial period was as follows.

Chair:	G Browning
Members:	I Hardman
	I Chapman (from 2 March 2021)

Audit & Risk Sub-Committee

The purpose of the Audit & Risk Sub-Committee is to assist the Board of Directors of Guernsey Electricity Limited in the effective discharge of the Board's responsibilities for risk management, financial reporting, and internal control in order to ensure high standards of probity and good corporate governance. In doing so, the Audit & Risk Sub-Committee is required to act independently of the executive and seek to safeguard the interest of the company shareholder.

Whilst the Sub-Committee has no executive powers, it has wide ranging terms of reference and reports to the Board on a regular basis.

The Audit & Risk Sub-Committee members comprise Non-Executive Directors. Rick Denton is the Chair of the Audit & Risk Sub-Committee and the Board is satisfied that the Sub-Committee has, through its membership, access to recent and relevant experience to enable the duties of the Sub-Committee to be fully discharged.

There were four Audit & Risk Sub-Committee meetings in the financial year, all attended by the company's CEO, CFO and Head of Risk & Compliance, Rob Winter. In attendance at one meeting were representatives from RSM UK, the company's main external provider of business assurance and internal audit services.

The membership of this Sub-Committee during the financial year was as follows:

Chair:	R Denton
Members:	P Shaefer
	T Songini (from 12 April 2021)
	J Peacegood (from 19 July 2021)

Corporate governance (continued)

Land & Property Sub-Committee

The Chief Financial Officer is the Chair of the Land & Property Sub-Committee. The main terms of reference for this Committee are to review and approve all routine property transactions undertaken by the company up to a limit set by the Board and to undertake such other tasks relating to land and property as directed by the Board. This Sub-Committee comprises the Chair of the Board together with all the Executive Directors. There were five Land & Property Sub-Committee meetings held in the financial year.

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 (subsequently the Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder representative.

Following the re-organisation of the States of Guernsey and the introduction of "The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016" and the General Election of Deputies held in April 2016, the powers, duties, and responsibilities of the Treasury & Resources Department in relation to the company were transferred to the States Trading Supervisory Board. The shareholder functions, including holding equally the issued share capital of the company in trust on behalf of the States of Guernsey, of the Minister and Deputy Minister of the Treasury & Resources Department have also been transferred to the President and Vice President of the States Trading Supervisory Board by virtue of section 1.(1) The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016.

Provision is also in place for the States to give guidance to the States Trading Supervisory Board on the policies it wishes to be pursued in fulfilling its role. Each year, the company submits its forward plan to the States Trading Supervisory Board. 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.

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 period. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland and applicable company 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Opinion

We have audited the financial statements of Guernsey Electricity Limited (the "Company") for the year ended 30 September 2021 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 29 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 30 June 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the Company, or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (United Kingdom Accounting Standards), The Companies (Guernsey) Law, 2008 and the relevant direct tax compliance regulation in the Bailiwick of Guernsey.
- We understood how the company is complying with those frameworks by making enquiries of the directors and those responsible for compliance matters and corroborated this by reviewing minutes of meetings of the Board of Directors and the Audit and Risk Committee. We gained an understanding of the Board's approach to governance, demonstrated by its review of reports from management, compliance and internal audit and review of internal control processes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by identifying electricity sales as a fraud risk. We considered the controls established by the Company to address risks identified by management or that otherwise seek to prevent, deter or detect fraud. We also considered performance targets and their potential to influence management to manipulate earnings or influence the perceptions of stakeholders and did not note any.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved the review of minutes of meetings of the Board of Directors and the Audit and Risk Committee, review of compliance and internal audit reports; making inquiries of those charged with governance; and performance of journal entry testing based on our risk assessment and understanding of the business, with a focus on non-standard journals and those relating to areas with an identified associated fraud risk, as described above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

DocuSigned by:
Ernst & Young LLP
4753914588A54C3...

Ernst & Young LLP
Guernsey, Channel Islands

30 May 2022

Notes:

1. The maintenance and integrity of the Guernsey Electricity Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Statement of comprehensive income

for the year ended 30 September 2021

	Note	30 Sept 2021 £'000	*As restated** Period ended 30 Sept 2020 £'000
Revenue	*4*	**62,270**	81,437
Cost of sales		**(51,716)**	(70,487)
Gross profit		**10,554**	10,950
Net operating expenses		**(11,105)**	(19,925)
Operating loss before pension settlement		**(551)**	(8,975)
Pension settlement gains	*24*	**2,060**	1,070
Operating profit/(loss) after pension settlement	*5*	**1,509**	(7,905)
Net gains on derivatives at fair value	*23*	**60**	1,373
Finance income	*6*	**12**	169
Finance cost	*6*	**(1,170)**	(1,291)
Profit/(Loss) on ordinary activities before taxation		**411**	(7,654)
Taxation	*7, 14*	**724**	1,757
Profit/(Loss) for the financial year/period after taxation		**1,135**	(5,897)
Other comprehensive income:			
Effective portion of changes in fair value of cashflow hedges	*23*	**(1,124)**	(414)
Remeasurement of net defined benefit liability	*24*	**5,606**	(12,012)
Tax (charge)/credit on remeasurement of net defined benefit liability	*14*	**(991)**	1,475
Total comprehensive income/(expenditure) for the financial year/period		**4,626**	(16,848)

All activities derive from continuing operations.

* See note 25
The notes on pages 40 to 71 form an integral part of these financial statements.

Statement of financial position

at 30 September 2021

	Note	30 Sept 2021 £'000	*As restated** 30 Sept 2020 £'000
Non-current assets			
Property, plant and equipment	*9*	**145,579**	147,267
Intangible assets	*10*	**3,343**	3,480
Investments	*11*	**5**	5
		148,927	150,752
Current assets			
Inventories	*12*	**6,230**	6,198
Trade and other receivables	*13*	**17,954**	14,500
Balances with States' Treasury	*15*	**34**	23
Cash		**2,832**	4,855
		27,050	25,576
Current liabilities			
Trade and other payables: amounts falling due within one year	*16*	**(19,422)**	(17,490)
Net current assets		**7,628**	8,086
Total assets less current liabilities		**156,555**	158,838
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	*17*	**(44,828)**	(46,106)
Pension deficit	*24*	**(15,810)**	(21,441)
Net assets including pension deficit		**95,917**	91,291
Equity			
Share capital	*20*	**105,209**	105,209
Reserves		**(9,292)**	(13,918)
Total equity		**95,917**	91,291

The financial statements on pages 36 to 71 were approved by the Board of Directors on 30 May 2022.
Signed on behalf of the Board of Directors

I Hardman Director **A Bates** Director

* See notes 25 and 26
The notes on pages 40 to 71 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 30 September 2021

	Share capital £'000	*As restated** Reserves £'000	Total equity £'000
1 April 2019	105,209	2,930	108,139
Loss for the financial year	–	(5,897)	(5,897)
Other comprehensive income for the period			
Remeasurement of net defined benefit liability	–	(12,012)	(12,012)
Tax credit on remeasurement of net defined benefit liability	–	1,475	1,475
Effective losses on hedging instruments in a cash flow hedge	–	(414)	(414)
Total comprehensive income for the period	–	(16,848)	(16,848)
30 September 2020	105,209	(13,918)	91,291
Profit for the financial year	–	1,135	1,135
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	5,606	5,606
Tax charge on remeasurement of net defined benefit liability	–	(991)	(991)
Effective losses on hedging instruments in a cash flow hedge	–	(1,124)	(1,124)
Total comprehensive income for the year	–	**4,626**	**4,626**
30 September 2021	**105,209**	**(9,292)**	**95,917**

* See note 25
The notes on pages 40 to 71 form an integral part of these financial statements.

Cash flow statement

for the period ended 30 September 2021

	Note	**30 Sept 2021 £'000**	30 Sept 2020 £'000
Net cash inflow from operating activities	*21*	**6,671**	8,646
Cash flow from investing activities			
Finance income		**12**	169
Payments to acquire property, plant and equipment including intangible assets		**(6,428)**	(33,196)
Proceeds of disposal of property, plant and equipment		**340**	19
Customers' contributions towards capital expenditure		**275**	259
Net cash outflow from investing activities		**(5,801)**	(32,749)
Cash flow from financing activities			
Finance cost		**(1,170)**	(1,050)
Amounts drawn under credit facilities		**3,000**	28,000
Amounts repaid under credit facilities		**(4,667)**	(6,417)
Net cash (outflow)/inflow from financing activities		**(2,837)**	20,533
Decrease in cash and cash equivalents during the year/period		**(1,967)**	(3,570)
Cash and cash equivalents at the beginning of the year/period		**4,878**	8,420
Exchange (losses)/gains on cash and cash equivalents		**(45)**	28
Cash and cash equivalents at the end of the year/period		**2,866**	4,878
Cash and cash equivalents consists of:			
Balances with States' Treasury	15	**34**	23
Cash		**2,832**	4,855
		2,866	4,878

Movements in balances with States' Treasury (note 15) and the other income are deemed cash equivalents in accordance with section 7 of FRS 102 (Statement of Cash Flows).

The notes on pages 40 to 71 form an integral part of these financial statements.

Notes to the financial statements

1. General information

Guernsey Electricity Limited was incorporated on 24 August 2001 and is registered in Guernsey. The company is governed by the provisions of the Companies (Guernsey) Law, 2008. The address of its registered office is PO Box 4, Electricity House, North Side, Vale, Guernsey, GY1 3AD.

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.

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

The company is classified as a Public Benefit Entity given that its primary objective is to seek value and an appropriate return that provides best value to the island's economy whilst striking a balance with its enabling role in supporting the social, economic and environmental objectives for the long-term benefit of the island and its community.

2. Statement of compliance

The financial statements give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and are in compliance with the Companies (Guernsey) Law, 2008.

3. Principal accounting policies

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

Basis of preparation

As reported in the last period's financial statements, the Board of Guernsey Electricity Limited approved a change in fiscal date from 31 March to 30 September. This change in fiscal date aids business forecasting and reduces year end unbilled revenue estimation as the higher winter consumption periods move towards the beginning of the financial period. This accounting period is therefore the first 12-month period following the transitionary 18-month period from 1 April 2019 to 30 September 2020. Consequently, this financial year's results are not directly comparable with the results of the previous 18-month period. The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention as modified by the fair value for derivative financial instruments.

Going Concern

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks.

The company holds credit loan facilities with total facility limits of £63m of which £19m remains available to draw down as at 30 September 2021 as set out in the table on the next page.

Credit Facility	Facility Limit	Term	Expiry	Drawn down as at 30 Sept 2021	Available to draw
RBSI Revolving Credit Facility	£22m (with option to increase to £35m)	5 years	2 October 2023	£16m	£19m
RBSI Term Loan	£15m	10 years	31 May 2029	£12.92m	–
States of Guernsey Bond	£13m	25 years	30 June 2045	£13m	–
Total	£63m			£41.92m	£19m

The company undertakes active monitoring of its loan covenants, maintaining sufficient headroom to ensure compliance and management have mitigating measures to deploy in order to avoid any potential breach.

The Guernsey Competition and Regulatory Authority ("GCRA") approved historic cost recoveries of 6.8% and 4.8%, effective from 1 July 2019 and 1 September 2020 respectively, each applicable for three years from commencement to cover increased foreign exchange and commodity costs. These rises enable the company to recover the uncontrollable costs related to the years 1 April 2017 to 31 March 2019 and 1 April 2019 to 31 March 2020 respectively, created by increases in external costs to import electricity and generate on-island.

Responsibility for tariff regulation has been transferred from the GCRA to the States Trading Supervisory Board ("STSB"). Consequently it is expected that a revised tariff structure will be implemented, including increases necessary to deliver on the approved energy policy in July 2022. The directors have also considered cash flow forecasts including, but not limited to, June 2023.

Considering all the above, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence to June 2023. Thus, they continue to adopt the going concern basis of accounting in preparing these financial statements.

Revenue

a) 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. Customer payments received in advance for electricity sales are included within trade and other payables in advance.

b) Sales of goods, commercial and hire purchase

The company operates a retail sales section offering white and brown goods to customers across the Bailiwick of Guernsey. Sales of goods are recognised at the point that the customer takes custody of the goods, either on sale or on delivery. This is the point at which the company recognises the transfer of risks and rewards.

The company operates a commercial contracting section providing electrical and plumbing services to domestic, commercial and industrial clients. Revenue is recognised as the service is provided.

3. Principal accounting policies – *(continued)*

c) Rental income

Rental income is accrued on a time basis by reference to the agreements entered.

d) Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the statement of comprehensive income over the estimated life of the assets to which they relate.

e) Other income

This represents minor income streams including, but not limited to, consultancy services. These sales are valued as the service is provided or receipt is due.

Employee benefits

The company provides a range of benefits to employees, including a defined benefit pension plan and holiday pay. The defined benefits pension plan was closed to new members from 1 October 2017. A new defined contributions pension plan was set up to receive members from 1 April 2018.

a) Short-term benefits

Short-term employee benefits such as salaries and compensated absence are recognised as an expense in the period employees render services to the company. Holiday leave accruals are recognised at each statement of financial position date to the extent that employee holiday allowance has been accrued but not taken, the expense being recognised as staff costs in the statement of comprehensive income.

b) Pension costs

The employees' pension scheme is a defined benefits scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date. When a member of the scheme ceases to be active, associated assets and liabilities will be transferred from the company account to the States of Guernsey Combined Pool at the end of the company's financial year.

The company applies employee benefits, Section 28 of FRS 102. In so doing, current service cost and any past service cost is charged to the statement of comprehensive income, together with finance costs/income for the scheme which are charged/credited to the statement of comprehensive income. The difference between the expected and actual actuarial gains and losses are charged to other comprehensive income. Annually, the company engages independent actuaries to calculate the defined benefit obligation. 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. 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 Section 28 of FRS 102.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, comprises: (i) the increase in pension benefit liability arising from employee service during the year/period; and (ii) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the statement of comprehensive income as 'Other finance cost'.

This defined benefits scheme was closed to new members from 1 October 2017. A new defined contributions scheme was established and there were 53 members as at 30 September 2021 (30 September 2020: 44 members).

Leases

Operating lease rentals are charged to the statement of comprehensive income in equal annual amounts over the lease term.

Finance income/cost

Finance income and finance costs are accounted for on an accruals basis using the effective interest rate.

Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior periods/years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. The pension scheme deficit shown in the accounts is gross of the deferred tax asset.

3. Principal accounting policies – *(continued)*

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. 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. Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included within the operating profit.

Depreciation is calculated so as to write off the cost of property, plant and equipment over the period of their estimated useful lives using the straight-line method. The estimated life of each class of non-current asset is set out below. The estimated life of associated assets within each category are aligned to the remaining useful lives of the major asset to which they are associated with and therefore individual assets may have lives up to, but not exceeding, the time periods noted below. Depreciation commences in the period of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of non-current assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. Major overhauls of generating assets are treated as separate components and depreciated on the basis of elapsed running hours for the relevant asset.

The estimated lives are as shown below:

		Estimated life in hours	Estimated life in years
Buildings			40
Buildings equipment			10
Cable link			25 – 30
Plant and machinery:	– Generation		20 – 35
	– Overhauls	24,000	
	– Distributors		20 – 35
	– Street lights		20
Distribution network comprising:	– Distributors		75
	– Meters		5 – 15
	– Cyclocontrol receivers		5
Motor vehicles			7
Furniture and equipment			3 – 10
Minor plant			5 – 10

Joint Arrangements

The Channel Islands Electricity Grid Limited is a jointly controlled operation between Jersey Electricity plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. In accordance with Section 15 of FRS 102, "Investments in joint ventures", 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 jointly controlled operation.

The Channel Islands Electricity Grid Limited is considered to meet the definition of a jointly controlled operation. As a result, for its interest in the Channel Islands Electricity Grid Limited, Guernsey Electricity Limited recognises the following in its financial statements in accordance with FRS 102, paragraph 15.5:

(a) the assets that it controls and the liabilities that it incurs; and

(b) the expenses that it incurs, and its share of any income earned by the joint venture.

The jointly controlled operation assets are included within property, plant and equipment.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is identifiable when it is separable, i.e. is capable of being separated or divided from the company, or when it arises from contractual or other legal rights. An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the company; and

(b) the cost of the asset can be measured reliably.

On 4 May 2021, the company went live with a new Enterprise Resource Planning ("ERP") System which was developed over a two-year period. This intangible asset has been initially measured at cost. The cost comprises its purchase price, and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of developing and preparing the system for its intended use, including testing. Subsequent expenditure on intangible assets is capitalised only if it is probable that it will increase the future economic benefits associated with the specific asset. Other expenditure is recognised in profit or loss as incurred.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses, if any.

Intangible assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. The estimated useful lives, residual values, and amortisation methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. The estimated life is as shown below:

Intangible asset type	Estimated life in years
Software	10

An intangible asset is tested for impairment if:

(a) there is a trigger for impairment; and

(b) annually for projects under development.

Intangible assets are derecognised from the statement of financial position on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition of an intangible asset is recognised within the statement of comprehensive income at the moment of derecognition.

3. Principal accounting policies – *(continued)*

Inventories

Inventories are valued at the lower of cost and estimated selling price less cost to complete and sell. Inventories are valued at weighted average cost. 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 inventories relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate. The cost of work in progress includes costs directly related to the units of production and a systematic allocation of fixed and variable production overheads. Inventories are recognised as a cost of sale in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

Foreign exchange

(a) Functional and presentation currency

The company's functional and presentation currency is Pounds Sterling, being the primary economic environment in which the company operates. All amounts in the financial statements have been rounded to the nearest £1,000.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each year-end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Financial instruments

(a) Financial assets

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including receivables and cash and bank balances, are initially recognised at transaction price plus transaction costs, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(b) Financial liabilities

Basic financial liabilities, including trade and other payables and short-term loans, are initially recognised at transaction price less transaction costs, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled, or expires.

(c) Derivatives

Derivatives, including interest rate swaps, heavy fuel oil commodity swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in the statement of comprehensive income, except when applying hedge accounting.

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects. The company does not hold or issue financial instruments for speculative purposes.

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

The company applies hedge accounting for its foreign exchange hedging of the Euro exposure for the import of electricity. These relationships are designated as cash flow hedges of highly probably forecast transactions. The fair value of these hedges is shown in note 23. Changes in the fair value of derivative financial instruments which are designated as highly effective hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in profit or loss in the statement of comprehensive income. When hedges mature, amounts deferred in other comprehensive income are recognised in profit or loss in the statement of comprehensive income in the same period as the hedged item. The risks being hedged are as outlined above. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Until that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss that has been recognised in other comprehensive income is transferred to profit or loss in the statement of comprehensive income.

3. Principal accounting policies – *(continued)*
Financial instruments – *(continued)*

(d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, balances with States' Treasury and bank overdrafts. Bank overdrafts, when applicable, are shown within trade payables in current liabilities.

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The company has proposed a tariff change to the States Trading Supervisory Board ("STSB") that allows the company to raise its tariffs to recover additional electricity revenue of up to 9% in the first year, net of current cost pass-through adjustments, effective from 1 July 2022 and rising each year for the two years thereafter, subject to further annual review and approval by the STSB. The company is proposing that these tariffs continue to be based on prior usage and in the judgement of the directors, the past usage basis for this tariff change will remain unchanged.

(i) Revenue

Sales of electricity include an estimate for the value of unbilled units at the end of each financial period which represents the estimated units consumed by customers since the last billing date. The estimate is calculated as the units produced, less works power and an estimate of losses on the distribution network to determine the units delivered to customers. Billed units are deducted from this amount to derive the unbilled units. These unbilled units are valued at current tariff rates. See note 4 for the value of unbilled units included in sales of electricity.

(ii) Property, plant and equipment (note 9)

(a) Recognition

The costs of property, plant and equipment are only recognised as an asset when there is sufficient certainty that the asset will be completed. For significant projects, an assessment is made at least annually, or at the time of key project milestones, and the associated costs are recognised in the statement of comprehensive income until such time that management considers it probable that the project will proceed to completion.

(b) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation, and the physical condition of the assets. See note 9 for the carrying amount of the property, plant, and equipment.

(c) Impairment/disposals

At each statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or cash generating unit ("CGU") may be impaired. If there is such an indication, an estimation of the recoverable amount of the asset or CGU is determined which requires estimation of the future cash flows from the asset or CGU and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

(iii) Retirement benefit obligations – for details and assumptions see note 24.

(iv) Deferred tax/unrelieved trading losses – for details and assumptions see note 7.

4. Revenue

	30 Sept 2021 £'000	30 Sept 2020 £'000
Sales of electricity	**57,221**	74,606
Sale of goods, commercial and hire purchase	**4,498**	5,940
Rental income	**222**	371
Deferred income	**275**	283
Other income	**54**	237
	62,270	81,437

All sales of electricity arise from customers in the island of Guernsey. Sales of goods, commercial and hire purchase are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, at the end of each financial period, an estimate of the unbilled units is determined.

The value of unbilled units included in sales of electricity above is £6,692,000 (30 September 2020: £4,774,000).

5. Operating profit/(loss)

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

		30 Sept 2021 £'000	30 Sept 2020 £'000
Depreciation (note 9)		**7,710**	11,069
Amortisation (note 10)		**145**	-
Pension settlement gain (note 24)		**(2,060)**	(1,070)
Rentals under operating leases		**110**	179
Auditor's remuneration	- statutory audit	**125**	125
	- non-audit services	**-**	-
Bad debts		**116**	437
Director fees, salaries and other benefits		**1,085**	1,438
Regulatory costs	- external	**257**	102
	- internal	**137**	127
(Profit)/loss on disposal of assets		**(312)**	24

The amount of inventories recognised as an expense during the year/period is as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Inventory write-offs	**50**	63
Inventory discrepancies	**81**	31
Inventory provision	**102**	282

6. Finance and income cost

	30 Sept 2021 £'000	30 Sept 2020 £'000
Finance income:		
Deposits with banks and States' Treasury	**8**	93
Hire purchase	**4**	76
	12	169
Finance cost:		
Pension finance costs (note 24)	**312**	278
Medium-term credit facilities	**380**	669
Long-term credit facility	**471**	335
Other interest payable	**7**	9
	1,170	1,291

7. Taxation

The company's profits, or losses, from the activities subject to licence from the Guernsey Competition and Regulatory Authority 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 period 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.

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 17.7321% (30 September 2020: 12.2636%) 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 30 September 2021.

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the higher company rate of Guernsey income tax of 20% as follows:

7. Taxation – *(continued)*

	30 Sept 2021 £'000	30 Sept 2020 £'000
Profit/(loss) on ordinary activities before taxation	**411**	(7,654)
Tax charge/(credit) at 20%	**82**	(1,531)
Deferred tax credit		
Timing differences on capital allowances and depreciation	**1,109**	3,089
Short-term timing differences (pension)	**(1,165)**	138
Short-term timing differences (other)	**(145)**	16
Movement on unrelieved trading losses	**(523)**	(5,000)
Deferred tax credit in the statement of comprehensive income	**(724)**	(1,757)

The tax credit relates to changes in deferred tax and there is no tax payable for the current year.

8. Dividend

No dividend was paid during the year (30 September 2020: £nil paid), representing £nil per share (30 September 2020: £nil per share paid). The company will not be proposing a dividend at the 2022 Annual General Meeting (2021: £nil proposed).

9. Property, plant and equipment

Cost	*As restated* 1 Oct 2020 £'000	Additions £'000	Written off/ disposals £'000	**30 Sept 2021 £'000**
Land and buildings	35,681	61	555	**35,187**
Cable link	84,552	(810)	–	**83,742**
Plant and machinery:				
– Generation	64,908	1,398	–	**66,306**
– Distribution	16,656	3,115	–	**19,771**
Distribution network	45,918	1,859	–	**47,777**
Motor vehicles, furniture and equipment, minor plant	7,822	421	143	**8,100**
	255,537	6,044	698	**260,883**

Depreciation	1 Oct 2020 £'000	Charge for the year £'000	Written off/ disposals £'000	**30 Sept 2021 £'000**
Land and buildings	16,537	824	533	**16,828**
Cable link	30,918	2,566	–	**33,484**
Plant and machinery:				
– Generation	33,403	2,220	–	**35,623**
– Distribution	5,735	501	–	**6,236**
Distribution network	16,287	938	–	**17,225**
Motor vehicles, furniture and equipment, minor plant	5,390	661	143	**5,908**
	108,270	7,710	676	**115,304**
Net book value	147,267			**145,579**

Included above are assets in the course of construction of £5,384,000 (30 September 2020: £5,761,000), which are not depreciated.

10. Intangible assets

Cost	*As restated* 1 Oct 2020 £'000	Additions £'000	Written off/ disposals £'000	**30 Sept 2021 £'000**
Software under development	3,480	(3,480)	–	**–**
Software	–	3,488	–	**3,488**
	3,480	8	–	**3,488**

Amortisation	1 Oct 2020 £'000	Charge for the year £'000	Written off/ disposals £'000	**30 Sept 2021 £'000**
Software	–	145	–	**145**
	–	145	–	**145**
Net book value	**3,480**			**3,343**

In May 2021 a new ERP software system went live that replaced a variety of legacy software including but not limited to asset management, metering and billing, risk reporting and management, accounting, retail sales and human resource management.

11. Investments

	30 Sept 2021 £'000	31 Sept 2020 £'000
Channel Islands Electricity Grid Limited	**5**	5

The Channel Islands Electricity Grid Limited is incorporated in Jersey and is a joint arrangement between Guernsey Electricity Limited and Jersey Electricity plc who each own an equal 50% shareholding. The company was formed to manage the cable link project and the ongoing operation of the cable links between Guernsey, Jersey and France. Guernsey Electricity Limited holds 5,000 ordinary shares of £1 each.

12. Inventories

	30 Sept 2021		30 Sept 2020	
	£'000	**£'000**	£'000	£'000
Fuel inventories		**2,472**		2,764
Purchased goods for resale	**467**		224	
Provision	**–**	**467**	(11)	213
Other inventories	**5,615**		5,476	
Provision	**(2,632)**	**2,983**	(2,519)	2,957
Work in progress		**308**		264
		6,230		6,198

The replacement cost of inventories was higher/(lower) than the statement of financial position carrying amounts as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Fuel inventories	**688**	(509)

There is no significant difference between the replacement cost of purchased goods for resale, other inventories and work in progress and their carrying amounts.

13. Trade and other receivables

	30 Sept 2021 £'000	*As restated* 30 Sept 2020 £'000
Estimated value of unbilled units (note 4)	**6,692**	4,774
Customer accounts outstanding	**5,782**	4,214
Other receivables	**804**	470
Prepayments	**1,165**	743
Deferred tax asset (note 14)	**3,366**	3,633
Derivative financial instruments (note 23)	**145**	666
	17,954	14,500

Under FRS 102, the pension scheme deficit is presented in the statement of financial position gross of deferred tax. The deferred tax relating to the pension scheme deficit is recognised as part of the net deferred tax asset included within trade receivables. In the opinion of the directors considering forecast company performance, the deferred tax asset is recoverable.

14. Deferred tax asset

Deferred tax assets comprise of:

	30 Sept 2021 £'000	*As restated* 30 Sept 2020 £'000
Deferred taxation:		
Balance at 1 October 2020/1 April 2019	**3,633**	401
Statement of comprehensive income credit	**724**	1,757
Statement of other comprehensive income (charge)/credit	**(991)**	1,475
Balance at 30 September	**3,366**	3,633
Which comprises:		
Capital allowances in excess of depreciation	**13,115**	12,006
Short-term timing differences (other)	**(371)**	(226)
Unrelieved loss for tax purposes	**(13,307)**	(12,784)
Deferred tax asset	**(563)**	(1,004)
Deferred tax asset on pension deficit (note 24)	**(2,803)**	(2,629)
Net deferred tax assets (note 13)	**(3,366)**	(3,633)

15. 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.

16. Trade and other payables: amounts falling due within one year

	30 Sept 2021 £'000	**30 Sept 2020 £'000**
Trade payables	**3,575**	4,082
Customer payments received in advance	**11,882**	8,750
Employee taxes and Social Security	**1**	187
Deferred income	**230**	189
Accruals and other payables	**1,630**	2,569
Amount drawn under medium-term credit facilities (note 23)	**1,667**	1,667
Derivative financial instruments (note 23)	**437**	46
	19,422	17,490

The company has a £1m overdraft facility with Barclays Bank Plc (30 September 2020: £1m), and interest is payable quarterly at 1.75% over Bank of England base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. As at 30 September 2021, £nil was drawn on the Barclays Bank Plc overdraft facility (30 September 2020: £nil).

17. Trade and other payables: amounts falling due after more than one year

	30 Sept 2021 £'000	30 Sept 2020 £'000
Deferred income	**4,303**	4,190
Trade payables	**175**	-
Derivative financial instruments (note 23)	**100**	-
Amount drawn under medium-term credit facility (note 23)	**27,250**	28,916
Amount drawn under long-term credit facility (note 23)	**13,000**	13,000
	44,828	46,106

18. Trade and other payables: ageing analysis

	Demand and less than one year £'000	From 1 to 5 years £'000	Later than five years £'000	**Total £'000**
Trade payables	3,575	175	–	**3,750**
Customer payments received in advance	11,882	-	–	**11,882**
Employee taxes and social security	1	-	–	**1**
Deferred income	230	506	3,797	**4,533**
Accruals and other payables	1,630	-	-	**1,630**
Amount drawn under medium-term credit facilities (note 23)	1,667	22,667	4,583	**28,917**
Derivative financial instruments (note 23)	437	100	-	**537**
Amount drawn under long-term credit facility (note 23)	-	-	13,000	**13,000**
	19,422	23,448	21,380	**64,250**

19. Reconciliation of net debt

	1 Oct 2020 £'000	Cash flow £'000	Other non-cash charges £'000	**30 Sept 2021 £'000**
Net debt	(38,704)	(347)	-	**(39,051)**

20. Share capital

	30 Sept 2021 £'000	30 Sept 2020 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
105,208,844 ordinary shares of £1 each	**105,209**	105,209

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.

On 13 December 2016, the company completed a share buyback of £4m of company shares from the States of Guernsey leaving the company with 105,208,844 issued shares equating to share capital of £105,208,844.

The ordinary shares do not confer any rights or preferences other than the right to vote, the right to participate in dividends or distributions that the company may make and such other rights, generally from time to time, including but not limited to, the rights, if any, to the repayment of capital as may be laid down in the company's Articles of Incorporation.

Dividends and distributions in particular, are subject to the provisions of Guernsey Company law and specifically, the Companies (Guernsey) Law, 2008 as amended or replaced.

The ordinary shares are subject to certain restrictions, including specifically, a restriction on the transfer of shares. In all cases, such restrictions are as laid down in the company's Articles of Incorporation and the provisions of any ordinance made by the States of Guernsey in exercise of its powers under the States Trading Companies (Bailiwick of Guernsey) Law 2001, as amended or replaced from time to time.

21. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	30 Sept 2021 £'000	30 Sept 2020 £'000
Profit/(loss) for the year/period	**1,135**	(5,897)
Tax on loss on ordinary activities	**(724)**	(1,757)
Net finance costs	**1,158**	1,122
Net gains on derivatives at fair value	**(60)**	(1,373)
Operating profit/(loss)	**1,509**	(7,905)
Depreciation charge	**7,710**	11,069
Amortisation	**145**	–
(Profit)/loss on disposal of non-current assets	**(312)**	24
Exchange losses/(gains) on cash and cash equivalents	**189**	(28)
Pension service cost	**2,392**	2,668
Pension cost of benefit changes	**–**	24
Pension settlement gain	**(2,060)**	(1,070)
Employer's pension cash contributions	**(687)**	(1,098)
Pension administration costs	**17**	24
Deferred income	**(275)**	(283)
(Increase)/decrease in inventories	**(32)**	765
(Increase)/decrease in receivables	**(4,242)**	2,029
Increase in payables	**2,317**	2,427
	6,671	8,646

22. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £778,000 (30 September 2020: £10,335,000). This relates to outstanding commitments on a capital project.

Commodity risk

For the import of power from the European Grid, the company has a contract with Electricité de France ("EDF"). The existing electricity import contract with EDF is effective for a 10-year period which commenced from 1 January 2013 – this period was extended for a further 5 years on 25 June 2017. The related transmission agreement with Réseau de transport d'électricité ("RTE") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited and Jersey Electricity plc, for a block of power over the term of the contract. The remainder of the requirement will be decided by a market pricing mechanism with no volume commitment. The price at which the take or pay block is agreed for the period of the contract, and for calendar year 2022 this results in a total commitment for Guernsey Electricity Limited of €8.9m, equating to £7.7m at the Euro/Sterling rate at 30 September 2021 of 1.16121, (2021: €8.9m, equating to £8.1m at the Euro/Sterling rate at 30 September 2020 of 1.1014).

Operating lease commitments

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

	30 Sept 2021 £'000	30 Sept 2020 £'000
Operating leases which expire:		
Within one year	**41**	110
Between one to five years	**-**	101

23. Financial instruments and associated risk management

The categories of financial assets and financial liabilities, at the reporting date, in total, are as below:

	Note	**30 Sept 2021 £'000**	30 Sept 2020 £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments:	13		
- Interest rate caps		**105**	45
- Forward foreign currency contracts		**40**	621
Financial assets that are debt instruments measured at amortised cost			
Estimated value of unbilled units	13	**6,692**	4,774
Customer accounts outstanding	13	**5,782**	4,214
Cash and cash equivalents		**2,866**	4,878
Financial liabilities measured at amortised cost			
Trade payables	16,17	**3,750**	4,082
Accruals and other payables	16	**1,630**	2,569
Amount drawn under medium-term credit facilities	16,17	**28,917**	30,583
Amount drawn under long-term credit facility	17	**13,000**	13,000
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments – Forward foreign currency contracts	16,17	**537**	46

Financial Assets at fair value through profit and loss

(a) Classification of financial assets at fair value through profit or loss

Derivative financial instruments – Interest Rate Caps

Interest rate risk

The company is exposed to interest rate risk primarily through its loan financing arrangements. The company has a five-year interest rate cap to hedge part of the interest rate risk associated with the £22m revolving credit facility held with RBS International. An interest rate cap of 1.75% has been applied to a notional amount of £16m and is referenced against the three-month sterling LIBOR rate. The LIBOR rate was replaced by SONIA rates from January 2022. The valuation of this instrument as at 30 September 2021 was £5,000 (30 September 2020: £3,000). The company also holds a ten-year interest rate cap in relation to a ten-year loan facility with RBS International. An interest rate cap of 2.0% has been applied to a notional amount of £14.29m and is also referenced against the three-month sterling LIBOR rate. The valuation of this instrument as at 30 September 2021 was £100,000 (30 September 2020: £42,000).

23. Financial instruments and associated risk management – *(continued)*

Loan Commitments

(a) Revolving credit facility

The company holds a five year, £22m revolving credit loan facility with RBS International. This loan facility is for general working capital and capital expenditure purposes. The loan incorporates an option to increase the credit facility to £35m for the purpose of the future financing of key infrastructure expenditure. Interest costs for this commercial loan were at commercial rates of less than 2%. A commitment fee is payable on any undrawn amount in line with the terms of the arrangement. As at 30 September 2021, the company had utilised £16m of the loan (30 September 2020: £16m). The drawn amount has been classified as a financial liability measured at amortised cost. This facility expires on 2 October 2023.

(b) Term loan facility

The company has a ten-year, £15m term loan facility with RBS International, effective from 1 June 2019. The purpose of this loan facility was for the part funding of the replacement Guernsey to Jersey interconnector. Interest costs for this commercial loan were at commercial rates of less than 2%. As at 30 September 2021, the balance drawn on the loan was £12.92m (30 September 2020: £14.58m). The loan balance is reducing over the term of the loan.

(c) States of Guernsey Bond

The company has a twenty five-year, £13m loan agreement with the States of Guernsey. The purpose of this loan was for the part funding of the replacement Guernsey to Jersey interconnector. The interest rate for the loan is fixed at 3.625% for the loan term. As at 30 September 2021, the balance payable on the loan was £13m (30 September 2020: £13m).

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments – Forward Contracts

(a) Import Financial Hedge

Currency risk

The company is exposed to currency risk through its import contracts with EDF and RTE which are denominated in Euros. The company manages the currency risk through derivative contracts. The company has entered into forward contracts for the purchase of the Euro. The company's commitment to forward contracts at the previous period ending 30 September 2020 was as follows:

Maturity	**Notional amount €'000**	**Average hedged rate €/£**
Less than one year	17,979	1.1126
Greater than one year and less than two years	10,479	1.1331

23. Financial instruments and associated risk management – *(continued)*

(a) Import Financial Hedge – continued

As at 30 September 2021, the company is holding the following Euro forward and participating forward contracts to hedge the exposure on its electricity import over the next 24 months. These dates represent when the cash flows are expected to occur and when they are expected to affect profit or loss:

Maturity	**Notional amount €'000**	**Average hedged rate €/£**
Less than one year	18,877	1.1294
Greater than one year and less than two years	10,433	1.1362

The impact of hedging instruments designated in cash flow hedging relationships as of 30 September 2021 on the statement of financial position of the company is as follows:

Line item in the statement of financial position	**Notional amount €'000**	**Carrying amount £'000**
Trade and other receivables (note 13)	11,479	145
Trade and other payables: amounts falling due within one year (note 16)	17,831	(437)

As at 30 September 2021, the outstanding contracts for import all mature within 33 months of the year end. These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties. The gain included within the statement of comprehensive income was £60,000 (30 September 2020: £1,373,000).

A £1,124,000 expense (30 September 2020: £414,000 expense) was recognised in other comprehensive income during the year/period reflecting the effective change in value of hedging instruments designated for hedge accounting.

Determination of fair value on contracts

These contracts are measured at fair value utilising the third-party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

24. Pension scheme

Nature of the Guernsey Electricity Limited actuarial account

Some 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 at rates which are determined on the basis of independent actuarial advice. As the PSPS is a multi-entity arrangement, the States of Guernsey contracted the PSPS'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 actuarial account operated by the company provides retirement benefits based on final pensionable pay for service to 29 February 2016 and based on career average revalued earnings from 1 March 2016. Some protected members will continue to accrue benefits from 1 March 2016 linked to final pensionable pay. Employees recruited after 1 May 2015 accrue benefits based on career average revalued earnings. The actuarial account forms part of the PSPS. The PSPS is currently open to both future accrual and new members. However, the actuarial account was closed to new members during the financial year to 31 March 2018.

The most recent formal valuation of the company's actuarial account carried out as at 31 December 2016 reported that the actuarial account was in surplus. The company chose to maintain the contribution rate of 11.5% of pensionable pay using some of the surplus to cover the shortfall in the required contribution rate at the valuation date of 11.8% of pensionable pay and some as a prudent margin to cover any adverse future experience within the actuarial account. This contribution rate was approved by the States of Guernsey.

The calculations for the FRS 102 disclosures have been carried out by running full actuarial calculations as at 30 September 2021.

Funding policy

The company's actuarial account is funded by means of regular contributions to cover current benefit accrual, with the rates of contribution set after each triennial actuarial valuation. The funding method currently employed is the Projected Unit Method, which sets contribution rates based on the benefits expected to be accrued in the year following the valuation date. This contribution rate is then adjusted to take account of any surplus or shortfall in the actuarial account. The States of Guernsey determine the level of contributions payable to the actuarial account following advice from the scheme's actuary.

Actuarial account amendment

There was a settlement gain of £2,060,000 on 30 September 2021 in relation to a transfer of liabilities in relation to active leavers over the year from 1 October 2020 to 30 September 2021. A transfer value was paid from the actuarial account to the Combined Pool in respect of these liabilities.

Employee benefit obligations for Guernsey Electricity Limited in respect of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund.

The amounts recognised in the statement of financial position are as follows:

	30 Sept 2021 £'000	*As restated* 30 Sept 2020 £'000
Fair value of actuarial assets	**38,189**	33,830
Present value of funded obligations	**(53,999)**	(55,271)
Net underfunding in actuarial account	**(15,810)**	(21,441)
Related deferred tax asset (note 14)	**2,803**	2,629
Net defined pension liability	**(13,007)**	(18,812)

The amounts recognised in the statement of comprehensive income are as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Service cost	**2,392**	2,668
Cost of benefit changes	**–**	24
Settlement gains	**(2,060)**	(1,070)
Net interest on net defined benefit liability	**312**	278
Expense recognised in the statement of comprehensive income	**644**	1,900

The net interest on net defined benefit liability is comprised as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Interest on obligation	**829**	1,489
Interest on assets	**(517)**	(1,211)
Net interest on net defined benefit liability (note 6)	**312**	278

24. Pension scheme – *(continued)*

The amounts recognised as remeasurements in other comprehensive income are as follows:

	30 Sept 2021 £'000	*As restated* 30 Sept 2020 £'000
Return on assets (not included in interest)	**4,802**	744
Actuarial gains/(losses) on obligation	**804**	(12,756)
Total remeasurements recognised in other comprehensive income	**5,606**	(12,012)

The following other costs will also need to be charged in the relevant sections of the accounts:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Administration expenses paid from actuarial account	**17**	24
Other items	**17**	24

In addition, the company should charge any other administration expenses relating to the actuarial account which are paid directly from company funds.

The company contributed £687,000 to the actuarial account over the year from 1 October 2020 to 30 September 2021. Members of the actuarial account contributed £429,000 to the actuarial account over the same period.

The company expects to contribute £668,000 to the actuarial account over the next year from 1 October 2021 to 30 September 2022. Contributions by members of the actuarial account are expected to total £425,000 over the same period.

Changes in the present value of the actuarial account's defined benefit obligation are as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Opening defined benefit obligation	**55,271**	41,348
Service cost	**2,392**	2,668
Contributions by members	**429**	681
Cost of benefit changes	**–**	24
Liabilities extinguished on settlements	**(4,118)**	(3,696)
Interest on obligation	**829**	1,489
Experience gains	**(1,889)**	(1,695)
Losses from changes in assumptions	**1,085**	14,452
Closing defined benefit obligation	**53,999**	55,271

The weighted average duration of the liabilities of the actuarial account was 27 years as at 30 September 2021.

Changes in the fair value of actuarial account assets are as follows:

	30 Sept 2021 £'000	30 Sept 2020 £'000
Opening fair value of actuarial account assets	**33,830**	32,747
Interest on assets	**517**	1,211
Return on assets (not included in interest)	**4,802**	744
Assets distributed on settlements	**(2,059)**	(2,627)
Contributions by employer	**687**	1,098
Contributions by members	**429**	681
Administration expenses	**(17)**	(24)
Closing fair value of actuarial account assets	**38,189**	33,830

24. Pension scheme – *(continued)*

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

	30 Sept 2021 %	30 Sept 2020 %
Equities & alternatives	**70**	67
Bonds & fixed interest securities	**20**	23
Property	**10**	10

The actuarial account holds no financial instruments issued by the company nor does it hold any property or other assets used by the company.

Principal actuarial assumptions used for the FRS 102 disclosures:

	30 Sept 2021 % p.a.	30 Sept 2020 % p.a.
Discount rate at end of year/period	**1.90**	1.50
Discount rate at start of year/period	**1.50**	2.40
Inflation	**3.20**	2.70
Rate of increase in pensionable salaries	**3.95**	3.45
Rate of increase in deferred pensions	**3.20**	2.70
Rate of increase in CARE benefits	**3.20**	2.70
Rate of increase in pensions in payment	**3.20**	2.70

Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements.

The assumptions are that a member aged 65 will live on average until age 86 (30 September 2020: 86 years) if they are male and until age 88 (30 September 2020: 88 years) if female.

For a member currently aged 45, the assumptions are that if they attain age 65 they will live on average until age 88 (30 September 2020: 88 years) if they are male and until age 90 (30 September 2020: 90 years) if female.

Amounts for the current and previous period are as follows:

	2021 £'000	*As restated* 2020 £'000	2019 £'000	2018 £'000	2017 £'000
Defined benefit obligation	**53,999**	55,271	41,348	100,694	102,975
Actuarial Account assets	**38,189**	33,830	32,747	65,620	62,301
Deficit (gross)	**(15,810)**	(21,441)	(8,601)	(35,074)	(40,674)
Actuarial gains/(losses) on Actuarial Account assets	**4,802**	744	606	2,437	6,937
Experience gains/(losses) on Actuarial Account liabilities	**1,889**	1,695	(270)	3,945	3,487
(Losses)/gains from changes in assumptions	**(1,085)**	(14,452)	10,137	2,103	(23,316)
Total Actuarial (losses)/gains on Actuarial Account liabilities	**804**	(12,756)	9,866	6,048	(19,829)

25. Restatement of fair value of actuarial account assets

During the year the company were made aware that the valuation of assets as at 30 September 2020 were incorrect, as they had not been reduced to allow for the transfer of assets to the Combined Pool as at 30 September 2020.

The effect of this error resulted in the value of the pension deficit being understated by £2,626,000. This has impacted the pension deficit and deferred taxation in the financial statements and has been disclosed by restating each of the affected financial statement line items for the prior period as follows:

Impact on financial position	30 Sept 2020 £'000	Increase / (decrease) £'000	30 Sept 2020 £'000 restated
Assets			
Deferred taxation	2,308	321	2,629
Liabilities			
Pension deficit	(18,815)	(2,626)	(21,441)

25. Restatement of fair value of actuarial account assets – *(continued)*

Impact on statement of comprehensive income	2020 £'000
Total comprehensive income for the financial period per published financial statements	(14,543)
Remeasurement of net defined liability	(2,626)
Impact of error on deferred tax	321
Total comprehensive income for the financial period as restated	(16,848)

Impacted line items in statement of comprehensive income	As published 2020 £'000	Impact of restatement £'000	Restated 2020 £'000
Remeasurement of net defined benefit liability	(9,386)	(2,626)	(12,012)
Tax credit on remeasurement of net defined benefit liability	(1,154)	(321)	(1,475)

Impact on statement of financial position	2020 £'000
Net assets as at 30 September 2020 per published financial statements	93,596
Remeasurement of net defined liability	(2,626)
Impact of error on deferred tax	321
Net assets as at 30 September 2020 as restated	91,291

Impacted line items in statement of financial position	As published 2020 £'000	Impact of restatement £'000	Restated 2020 £'000
Trade and other receivables	14,179	321	14,500
Pension deficit	(18,815)	(2,626)	(21,441)

26. Reclassification of intangible assets in prior period

In the financial statements for 2019/2020 the new ERP software system was in development and was incorrectly presented as a non-current asset within property, plant and equipment when it should have been classified as an intangible asset under development as required by FRS102. The 2019/2020 property, plant and equipment figure was overstated by £3,480,000 and intangible assets were understated by the same amount due to the classification error.

	As published 2020 £'000	Impact of restatement £'000	Restated 2020 £'000
Property, plant and equipment	150,747	(3,480)	147,267
Intangible assets	–	3,480	3,480

The reclassification only impacts the statement of financial performance line items disclosed above and does not have any impact on the total non-current assets.

27. Statement of control

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

28. Related party transactions

There are no disclosable related party transactions in this financial year. See note 5 for disclosure of directors' remuneration. Within the company, only the directors meet the definition of Key Management Personnel.

29. Subsequent events

Ukraine Crisis – The ongoing hostilities in Eastern Europe that began in February 2022 could impact the company primarily through any significant increase in commodity prices relating to the heavy fuel oil required for the purposes of on-island generation. The directors continue to monitor the situation closely.

Electricity Tariffs – On 21 February 2022, the Amendment Ordinance to transfer responsibility for the determination of electricity tariffs and prices from the Guernsey Competition and Regulatory Authority ("GCRA") to the States Trading Supervisory Board ("STSB") came into effect. A formal, 3-year tariff application was submitted to the STSB on 19 May 2022 for approval. The format of the tariff change is based upon a revenue cap which allows GEL to raise its tariffs to recover additional electricity sales revenue of up to 9% in the first year, net of cost pass-through adjustments. Subsequent increases in the following 2-years will be subject to further annual review and approval by the STSB. The tariff increases will be effective from 1 July each year, commencing 1 July 2022.

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Guernsey Electricity
Powering Life, Today & Tomorrow

P.2022/60

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

COMMITTEE *FOR* HOME AFFAIRS

JUSTICE FRAMEWORK
DOMESTIC ABUSE & SEXUAL VIOLENCE

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Justice Framework - Domestic Abuse & Sexual Violence' dated 30th May 2022, they are of the opinion:-

1. To support broadening the scope of the Domestic Abuse Strategy to also include Sexual Violence.

2. To support expediting the delivery of pilot scheme for a Sexual Assault Referral Centre.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* HOME AFFAIRS

JUSTICE FRAMEWORK
DOMESTIC ABUSE & SEXUAL VIOLENCE

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

30th May, 2022

Dear Sir

1. Executive Summary

1.1 In 2009[1], the States of Guernsey adopted a Domestic Abuse Strategy ("the Strategy") for Guernsey and Alderney; a second iteration of the Strategy was endorsed for the period 2016-2020[2].

1.2 The Committee *for* Home Affairs (''the Committee'') identified a refreshed Strategy as one of its priorities for this political term. In March 2021, to support the development of the Government Work Plan (''GWP''), the Committee submitted its proposals to continue and enhance domestic abuse services. The Committee's submission, reflected in the Funding & Investment Plan, identified additional forecast revenue spend for the Strategy, which included funding for a three-year pilot scheme for a Sexual Assault Referral Centre (''SARC'').

1.3 In July 2021, the GWP 2021-2025, the strategic plan for government was agreed. Through the GWP the States resolved to 'enhance domestic abuse services in line with the updated domestic abuse strategy' and focus on 'effective delivery of services geared towards tackling domestic abuse' and, in principle, committed to the additional funding required to deliver improved services.

[1] Billet d'Etat XXI, 2009
[2] Billet d'Etat XXIII, 2015

1.4 The Assembly's commitment to enhancing domestic abuse and sexual assault services is an acknowledgement that these are an essential element of our Island infrastructure.

1.5 This policy letter seeks the support of the Assembly to broaden the scope of the Strategy to encompass sexual violence. This is in response to discharging the 2015 Resolution[3] to *'investigate the merits of establishing a Violence Against Women and Girls (VAWG) Strategy*'.

1.6 In reviewing the merits of establishing a VAWG Strategy, the Committee identified the need to establish a SARC, which formed a key element of its GWP submission. Through this policy letter the Committee seeks the support of the Assembly to expedite this work, which will require a cross-committee commitment and engagement with the third sector to successfully deliver.

1.7 The enhanced Domestic Abuse and Sexual Violence Strategy will link in with the Sexual Offences (Bailiwick of Guernsey) Law, 2020. The majority of this legislation will come into force on 1st March 2022 with two sections of the law being added at a later stage, following further consultation around specific definitions. The Committee decided to introduce it in two stages in order to avoid any further delay to the majority of the legislation. The areas of work that will return to the States for approval following this consultation are 'offences involving an abuse of a position of trust' and 'offences by caseworkers against persons with a mental disorder'.

1.8 Although the Law repeals the legislation setting out the previous sexual offences, section 18 of the Interpretation and Standard Provisions (Bailiwick of Guernsey) Law, 2016 permits the investigation, prosecution and punishment of any offences committed prior to the commencement of the Law.

1.9 There are also plans to make significant improvements to legislation around domestic abuse within this States term, in order to bring it in line with the UK. The Committee is currently working on a policy letter asking the States to consider introducing the following:

- Domestic Abuse Protection Notices and Orders, covering non-violent aspects of domestic abuse as well as assault and threatening behaviour;
- The introduction of Stalking Protection Orders;
- The criminalisation of breaches of domestic violence injunctions;
- Legislation to criminalise coercive control (including economic and emotional / psychological abuse) including the introduction of a statutory definition of domestic abuse which includes children as victims;

[3] Billet d'État XXIII of 2015, Article IX

- A separate offence of stalking within the Protection from Harassment (Bailiwick of Guernsey) Law, 2005[4];
- A register of serial domestic violence perpetrators and stalkers linked to a domestic abuse disclosure scheme;
- An offence of non-fatal strangulation or asphyxiation;
- The introduction of statutory Domestic Homicide Reviews.
- Removing consent as a legal defence where a person has suffered serious harm for the purpose of sexual gratification (this will restate in statute law the general proposition that a person may not consent to the infliction of serious harm and, by extension, is unable to consent to their own death)[5].

1.10 Other legislative changes that have been introduced within the Domestic Abuse Act (2021)[6] in the UK were raised during the consultation on the Strategy by the Committee *for* Health and Social Care (HSC) as measures they would like to see introduced locally. These were:

- Making threats to disclose private sexual photographs an offence[7].

- Making victims of domestic abuse automatically eligible for special measures in Court (e.g., giving evidence from behind a screen or via a live link, so that they do not have to face the accused)[8].

1.11 The Committee agrees that these changes should be included in the legislation policy letter when it is taken to the States'.

1.12 HSC also asked the Committee to consider preventing domestic abuse victims from being charged for medical evidence in relation to domestic abuse court

[4] Protection of Harassment (Bailiwick of Guernsey) Law, 2005

[5] This section of the Domestic Abuse Act has been introduced due to victims being killed or brought to court because the alleged offender has claimed that this was a result of rough sex going wrong. While this defence should not have been open to any defendant since 1993 when a test case, R v Brown, in the House of Lords resulted in the conviction of a group of men for assault and wounding even though their sadomasochistic victims willingly participated in the violence, nonetheless, nearly 70 victims in the ten years preceding the introduction of the Domestic Abuse Act were required to come to court to deny that they had consented to physical attacks.

[6] Domestic Abuse Act (2021)

[7] in the UK, this extended the offence of disclosing private sexual photographs and films with intent to cause distress (known as the "revenge porn" offence) to cover threats to disclose such material

[8] Until the UK Domestic Abuse Act was introduced, for a witness in criminal proceedings to be eligible for "special measures" as an intimidated witness, the court had to be satisfied that the quality of the witness's evidence would be likely to be diminished due to their fear or distress about testifying. However, complainants in respect of modern slavery offences and sexual offences were automatically eligible for special measures on these grounds, as were witnesses in proceedings relating to certain listed offences involving guns or knives. The Act provides consistency of treatment to domestic abuse victims who will also be automatically eligible for special measures on the grounds of fear or distress, whenever it is alleged the behaviour of the accused falls within that definition.

cases. In the UK, GPs are one of many professions that victims can ask to provide a letter in order to access legal aid in relation to domestic abuse cases. Although the British Medical Association had issued guidance recommending that a charge should not be levied for these letters, this was non-binding, and many victims were still being charged. The UK Domestic Abuse Act 2021 put this provision on a statutory footing. However, in Guernsey, the Legal Aid Service consider that the Advocate who is dealing with the case will have verified the individual's situation to confirm that they have experienced domestic abuse before making an application for legal aid in relation to family court proceedings, so no letter would be required from a GP to verify this.

1.13 Another important area of work will be the improvement of data collection as this is vital in understanding the size and nature of these social issues. It has been difficult to gather local data in relation to some areas of the strategy, and this will be addressed through the overarching work of the Justice Framework in relation to data systems. Within areas of this policy letter where it was impossible to gather data, for instance the cost of domestic abuse to local services, figures have been extrapolated using UK data, or an assumption has been made that prevalence of these crimes locally is likely to be similar to the UK.

2. Background

2.1 Tackling domestic violence and abuse is closely linked to the GWP theme of the Bailiwick being a safe and secure place to live.

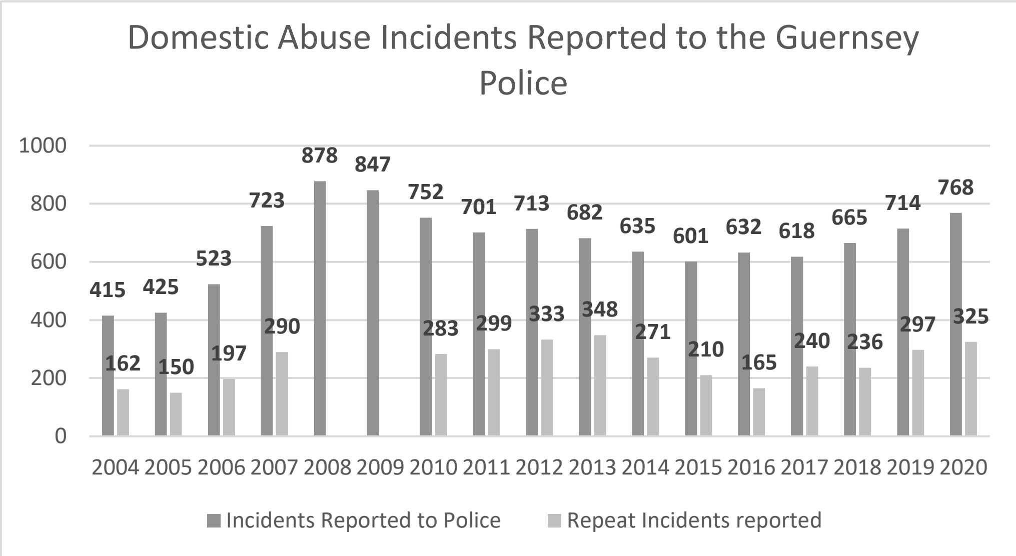
2.2 Domestic abuse affects people of all socioeconomic backgrounds. According to the Crime Survey for England and Wales, around one in three women and one in seven men will be affected by domestic abuse in their lifetimes.

2.3 The consequences of domestic abuse include unemployment, homelessness, mental and physical ill health and poverty. It impacts on the local economy and productivity in the workplace and it often isolates victims who may face barriers in terms of their ability to participate in education or employment.

2.4 Domestic abuse represented around 17% of all reported local crime in 2020. According to local support services, referrals have generally been rising by around 5-10% annually as the services have become more established and well publicised. This was heightened during the Corona Virus lockdown where numbers of referrals increased dramatically, putting considerable pressure on domestic abuse services.

2.5 Repeat incidents have risen since 2016 from 26% of all incidents (194 of 618 incidents) to 42% in 2020 (324 of 780 incidents). In the short term, this is desirable as it shows that victims are engaging with services and feel confident to report further incidents, but ideally, in the longer term, repeat incidents should decrease, indicating that early intervention provision is working.

Figure 1: Domestic Abuse Incidents reported to the Police



2.6 The refreshed Strategy sets out additional actions to strengthen our response to tackling domestic abuse and sexual violence through to 2025.

2.7 Domestic abuse is a complex crime, which often remains unreported. It is therefore essential that estimates of need are considered as an under-representation of the true scale and nature of domestic abuse. A co-ordinated multi agency approach to tackle the issue within the community is fundamental to working towards the States' vision of a safe and healthy Bailiwick.

<u>Gender and Domestic Abuse</u>

2.8 Annual 2020 police statistics show that in relation to domestic abuse incidents reported to the police, around 75-80% of victims are female with 20-25% being male. Last year there were 662 incidents involving female victims (77%) and 195 involving male victims (23%)[9]. Of the high-risk cases that were discussed at the local Multi Agency Risk Assessment Conference (MARAC), 95% were female and 5% were male. This mirrors the national data and the figures do not differ significantly from year to year, with between 5-10% of MARAC cases annually being male, locally and nationally.

2.9 National research within the Crime Survey for England and Wales indicates that one in four women and one in six men will be a victim of domestic abuse. This

[9] The combined male and female numbers amount to more than the 768 incidents reported to the police as in some cases there was more than one victim, and in a few cases, it was unclear which party was the victim.

suggests a level of parity between the sexes; however, what these figures conceal is the fact that the 47% of males experienced a single incident, with an average of seven incidents per victim, compared with 28% of female victims experiencing a single incident, with an average of 20 incidents per victim[10]. Female victims of male perpetrators are more likely to be repeatedly abused, seriously harmed, or murdered.

2.10 Locally, annual Police data also shows that female victims are far more likely to be repeat victims. Of those victims who experienced three or more incidents of domestic abuse that were reported to the Police in 2019, less than 6% were male.

2.11 Large-scale survey research often reports gender symmetry in the initiation and participation of men and women in intimate partner violence (IPV). This violence is less severe, and mostly arises from situationally provoked conflicts and arguments between the partners rather than ongoing coercive control. These studies find much higher rates of violence by both men and women than show up in crime victimisation studies, but lower levels of severity or victim fear.

2.12 This comparably low-level abuse, often referred to as 'situational couple violence', usually does not escalate, causes few injuries, and is committed much more symmetrically by men and women. This research is often cited as evidence that men and women are equally likely to be domestic abusers.

2.13 While it may sometimes be useful to understand violence in the context of arguments, it is important not to conflate 'situational' arguments between couples where there is an equal distribution of power within the relationship, with domestic abuse, where there is a significant power imbalance. The fact that the same term – domestic abuse – is often used to cover both arguments and coercive and controlling abuse has led to enormous amounts of time and energy being spent in unproductive arguments over whether men and women are equally violent and abusive.

2.14 Men and women clearly do not abuse their partners at the same rate. Perpetrators who are arrested for domestic abuse crimes, the violation of protection orders and who are found guilty of domestic homicide are overwhelmingly male, and their victims overwhelmingly female. Women also experience higher rates of repeated victimisation and are far more likely to be seriously hurt or killed than men who experience domestic abuse.

[10] Home Office Research Study 276 Domestic violence, sexual assault and stalking: Findings from the British Crime Survey.

3 Focus of the 2021-2025 Strategy

3.1 Despite the previous Strategy formally coming to an end at the end of 2020, there has been no interruption to the delivery of services. The increased demand on services was reflected in the Committee's request for additional funding for 2021 which was approved, in principle, through the Funding & Investment Plan.

3.2 The GWP has committed to a process of partnership working, co-designing of policy and operational solutions, and in particular the commissioning of services so that collectively the private, public and third sectors can work to secure the best outcomes for islanders.

3.3 The intention is to work with external bodies to appropriately allocate resources to address prioritised unmet needs in an efficient and effective way, building positive relationships and allowing the funds that would otherwise have been consumed in complex contractual arrangements or less efficient approaches to be repurposed for quality improvement.

3.4 The nature of the Strategy means that its operational elements have been tendered out to the third sector in previous years. This will continue, though the States commissioning processes will be changing. A draft action plan has been included in the Strategy Document which is attached as Appendix 1.

4 Violence Against Women and Girls Strategy

4.1 An amendment to the 2016 - 2020 Strategy which was considered by the States in January 2016 resolved: "*To note developments in respect of policies collectively known as Violence Against Women and Girls, as referred to in paragraphs 6.19 to 6.23 of that policy letter (see Appendix 2), and to agree that the Committee for Home Affairs shall investigate the merits of establishing a Violence Against Women and Girls (VAWG) Strategy and report its findings to the States by no later than the end of 2018.*"

4.2 Mapping work on this took place between 2017-2019 to establish the work carried out nationally and internationally in this area by looking at existing strategies, statistics and action plans in order to identify the gaps in local provision. The United Kingdom's VAWG Action Plans[11] have been particularly useful in identifying initiatives which could be applied in the Bailiwick, where relevant and proportionate. Stakeholder meetings have further helped to inform the initial thinking behind any potential strategy.

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[11] 2011 - Call to End Violence Against Women and Girls: Action Plan (UK Government)
2014 – A Call to End Violence against Women and Girls: Action Plan 2014
2016 - Ending Violence Against Women and Girls Strategy 2016 – 2020

4.3 It is acknowledged that the picture locally is not identical to the UK. We have a different demographic with a less ethnically diverse population and therefore crimes such as "honour"-based violence and female genital mutilation are rarely reported. This does not mean that such issues do not or cannot arise and measures should be in place to prevent incidences occurring and to deal with them effectively when they do happen, whilst acknowledging that our response should be proportionate.

4.4 Within the UK, strategic work in relation to domestic abuse now sits under the framework of the National Violence Against Women and Girls (VAWG) Strategy and the Crown Prosecution Service VAWG Strategy. The latter was set up to improve prosecutions against crimes such as domestic abuse, rape and sexual offences, stalking, child abuse, honour-based violence, trafficking and sexual exploitation. National VAWG Strategies also tackle broader cultural issues such as sexual inequality and sexual harassment in the workplace and public sphere.

4.5 This approach has been led by the United Nations, which since 1993 has made repeated calls for the UK and other States to take 'integrated measures to prevent and eliminate violence against women'. It has arisen due to crimes such as domestic abuse, rape and child sexual exploitation being acknowledged as disproportionately gendered. Since 2009, UK governments have recommended that every region of the UK should develop a coordinated approach to responding to and preventing violence against women.

4.6 A number of International, UN and European agreements[12] recognise that violence against women and girls is linked to women's and girls' subordinate status in society, and to an abuse of male power and privilege; they also recognise that violence is a function of gender inequality connected to the broader social, economic and cultural discrimination experienced by women.

4.7 Whilst violence against women and girls occurs across all sectors of society, not all women and girls are equally at risk. Some factors can increase vulnerability to abuse and keep women and girls trapped. These include age, 'looked after' status (current and former), financial dependence, experience of child abuse and neglect, poverty, disability, homelessness and ethnicity.

4.8 The variety of issues covered by VAWG Strategies reflect a continuum of behaviours that range from annoying or distressing, to damaging, life

[12] UN Convention on the Elimination of all forms of Discrimination Against Women (CEDAW); the Council of Europe Convention on preventing and combating violence against women and domestic violence, better known as the Istanbul Convention; the Convention Against Torture and other Cruel, Inhuman and Degrading Treatment or Punishment; the Convention on the Rights of the Child; UN Security Council Resolution 1325; and Convention Against Trans-national Organised Crime, including the Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children; UN Security Council Resolutions 1820 and 1888.

threatening or fatal. Many women and girls learn to minimise forms of violence and abuse, both as a way of coping, but also because much of it is normalised in society. The most common form of abuse women and girls experience is sexual harassment which may begin at an early age. Many also experience multiple forms of violence and abuse ranging from child sexual abuse, rape and sexual exploitation to domestic abuse, from which two women a week still lose their lives in the UK each year.

4.9 Internationally, it is recognised that integrated, gender-informed strategy leads to better and appropriately targeted policy making. It has also led to better prosecution outcomes through improved links between offending behaviour; integrated expertise on violence against women and the transfer of good practice; targeted and improved responses to victims who benefit from support to address a range of issues; and more effective preventative work to develop longer term solutions. In addition, it ensures that statistics capture the split of male and female victims within each category of offence.

4.10 A gendered analysis recognises:

- that men are statistically and overwhelmingly the main perpetrators of violence (especially severe violence involving injuries) against other men and against women, but that by no means all men are violent;
- that the historical tolerance of gender-based violence (domestic and sexual, and in multiple arenas, including education and the workplace) is still prevalent in many contexts and media representations, despite significant social and legal changes;
- that some women also use violence and abuse;
- that the meaning, use and impact of violence by men and by women is rarely the same and cannot be understood in isolation, needing to be viewed in the context of broader social factors;
- that in understanding the differences between men's and women's violence, it is vital to explore the context within which violence is carried out;
- that policy makers and the public need to be able to identify and name the problem in order to affect change at all levels of social life, for the benefit of all.

4.11 The merits of establishing a VAWG strategy can be clearly seen in other jurisdictions which have taken this approach.

4.12 It should be noted that in recognising violence against women and girls, this does not mean that abuse directed towards men or perpetrated by women is ignored or neglected. Male victims receive the same access to protection and legal redress and the gender of the perpetrator does not make any difference to the criminal justice approach to bringing offenders to justice.

4.13 While the Islands of the Bailiwick may not have the breadth of social problems covered under VAWG strategies in larger jurisdictions, there are specific areas where there is definitely a need for services locally, particularly for victims of sexual assault. This gap in provision was also highlighted within the Justice Review report[13]:

> *"There is potential for the stigmatising effect of involvement in the justice system, including exposure to the media, to have a dampening effect on the reporting of domestic abuse and sexual violence. As we noted [earlier in the report], there is significant attrition once offences are reported which it is important to address. There is some evidence to suggest that these offences are more prevalent in the Bailiwick than shown by police-recorded crime figures. Prosecution does not provide a solution for everyone. In addition to implementing existing plans to broaden the definition of domestic abuse, strengthen legislation to protect victims of domestic abuse and sexual violence through a wider range of civil and criminal measures, and introduce a sexual abuse referral centre, there is the potential to broaden the range of informal avenues of support available to victims who have not reported offences against them, including counselling."*

4.14 As can be seen in Figure 2 below, sexual assault reported to the police has increased by 220% between 2011 and 2020. This is likely to indicate both that more assaults are taking place, and that increasing number of victims are reporting historic abuse. Some of the increases are also due to changes in recording methods by Bailiwick Law Enforcement, which took place in 2018. This mirrors the UK picture where the volume of sexual offences recorded by UK police has almost tripled in recent years due to more victims being willing to report but also due to improvements in police recording of crimes.

[13] Billet d'État XV of 2020, Article XVI

Figure 2: Sexual Offences reported to the Police

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Indecent assault on a female	12	22	17	14	18	25	17	45	58	60	67
Rape on a female	7	8	3	10	9	10	18	40	51	32	33
Indecent exposure	1	1	1	3		1	4	2	3	2	1
Unlawful Intercourse girl under 16 yrs						3		6	5	3	4
Indecent assault on male						1	7	9	7	13	8
Gross indecency	14	5	4	2	6	1	3		2	1	
Buggery	1				1	2	5	4	5	1	6
Gross Indecency with child						1	3	4	3		2
Incite to commit a sexual act							2		3		1
Rape on a Male											4
Total	**35**	**36**	**24**	**29**	**36**	**44**	**59**	**110**	**137**	**112**	**126**

4.15 Over recent years, the profile of sexual offences has been raised enormously due to the Children's Commissioner's Inquiry into Child Sexual Exploitation in the family environment[14], the Independent Inquiry into Child Sexual Abuse (''IICSA'')[15], the independent inquiry into child sexual exploitation in Rotherham[16], and the various cases involving well known individuals.

4.16 In the UK in 2011, each adult rape is estimated to cost over £96,000[17] in its emotional and physical impact on the victim, lost economic output due to convalescence, early treatment costs to the health service and costs incurred in the criminal justice system. There is no reason that these figures would be any less in the Bailiwick.

[14] Inquiry into Child Sexual Abuse in the Family Environment report – Protecting Children from Harm: a critical assessment of child sexual abuse in the family network in England and priorities for action

[15] Independent Inquiry into Child Sexual Abuse

[16] Independent Inquiry into Child Sexual Exploitation in Rotherham

[17] Home Office (2005) *The economic and social costs of crime against individuals and households 2003/04.* Figures from this report were up-rated to 2009 prices in the government response to the Stern Review (2011) See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/97907/government-stern-review.pdf

4.17 As in the UK, very few sexual offence incidents reported to the Guernsey Police result in successful prosecution. In 2021, of the 126 sexual offences reported to the Police, 17 were referred to the Law Officers of the Crown and 11 of these were taken forward for Prosecution (8.7%). Five of these cases were dismissed with no evidence offered; two were withdrawn, two resulted in imprisonment and two are ongoing. Of the 37 rape incidents reported in 2021, included in the 126 sexual offences, three were referred to the Prosecutors. None of the three cases were charged with rape, though one was charged and summonsed with a different offence.

4.18 There are a variety of reasons for investigative difficulties with sexual crimes: some of the incidents reported may be third party reports, some reports will be made with a victim stating that they do want an investigation to be commenced, and some may be historical – leading to increased difficulties in obtaining evidence. Of all sexual crimes, rape can be the most difficult to investigate due to a lack of corroborating evidence or, in cases concerning two adults, where there are complex decisions to be made around consent and one person's word against another.

4.19 The Committee has recently studied the UK Government's 'End to End Rape Review Findings report[18] which analyses how the criminal justice system handles rape cases. Some of the actions within the rape review report and action plan will be introduced locally in order to improve the way the criminal justice system responds to rape at every stage in the process, build confidence in the system and encourage more victims to come forward. The report aims to ensure that cases are better prepared from the start, the number of prosecutions of rapes is increased, and that trials are fair and timely.

4.20 Cases reported to the Police are likely to represent only a small percentage of the number of sexual assaults occurring locally, as worldwide, sexual assault is heavily under-reported. This is borne out locally by the high number of domestic abuse victims who disclose sexual assault to the specialist domestic abuse services but who, for a variety of reasons, do not report these incidents to the police.

4.21 The Guernsey Victim Support and Witness Service received 38 disclosures about sexual assault to their helpline in 2019 and 33 in 2020 with the majority of the referrals being through the Police. The Service has supported many of these individuals with counselling. Few of these incidents were in respect of domestic-related sexual abuse.

[18] The end-to-end rape review report on findings and actions (publishing.service.gov.uk)

4.22 At present, there is very little knowledge around the prevalence[19] of sexual assault in the Bailiwick or the demographic breakdown of those experiencing it. This information is gathered through the Crime Survey for England and Wales within the UK, of which we have no equivalent. It is unlikely that percentages locally will be vastly dissimilar to those in the UK where 20% of women and 4% of men have experienced some sort of sexual assault since the age of 16.[20] and only around 15% of individuals who experience sexual violence report it to the police.[21]

Gaps in relation to Sexual Assault Services

4.23 A recommendation within the Justice Review Report is that:

> *"action on domestic abuse and sexual violence must be given more prominence as an integral part of the future justice framework, within justice agencies and across government. The CfHA should consider broadening the scope of its proposed violence against women strategy to include all domestic abuse and sexual violence, rather than solely focusing on women and girls. In line with the direction of travel of broader justice policy, the emphasis should be on prevention and evaluating the impact of existing initiatives. This should incorporate a review of the funding, functioning and impact of the existing domestic abuse strategy."*[22]

4.24 The value and importance of creating a Violence Against Women and Girls Strategy as well as a Domestic Abuse Strategy is acknowledged, however, it is suggested that it may not be proportionate to the needs of our jurisdiction.

4.25 In refreshing the Strategy, the Committee concluded that it should be broadened out to a Domestic Abuse and Sexual Violence Strategy to cover all forms of sexual violence and abuse.

4.26 The Committee identified that in broadening the scope of the Strategy, priority should be given to addressing the need for sexual violence services and care pathways which would be delivered through the auspices of a SARC. As a consequence, the Committee included a request for additional funding for a three-year pilot scheme for a SARC in its GWP submission, originally proposing the

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[19] **Prevalence** of sexual assault refers to the total number of cases or incidents within a population and is captured through crime surveys**. Incidence** of sexual assault is defined as the number of reported incidents in a population during a specified time period. This is usually captured through police data which includes third-party reporting.

[20] Crime Survey for England and Wales, on Rape crisis website

[21] Rape Crisis

[22] Billet d'État XV of 2020, Article XVI

scheme commence in 2023, through this policy letter the Committee will be seeking the Assembly's support to expedite this work.

5. Sexual Violence

5.1 There is no formally adopted definition of sexual abuse in place within the UK however, the World Health Organisation (WHO) use the following to define sexual violence:

> *"Any sexual act, attempt to obtain a sexual act, unwanted sexual comments or advances, or acts to traffic, or otherwise directed against a person's sexuality using coercion, by any person regardless of their relationship to the victim, in any setting including but not limited to home and work*."

5.2 More broadly, sexual violence' is a term that can be used to describe any sexual activity or act that happened without consent.

5.3 Sitting within the context of violent crimes, there are many commonalities between the crimes of domestic abuse and sexual abuse in terms of the nature of the extent to which it goes under reported; the trauma caused to its victims and survivors and their wider families and some of the motivations of the perpetrators. Many survivors are victims of both domestic abuse and sexual abuse.

5.4 This supports the need for an integrated strategy which tackles both domestic abuse and sexual abuse. It is important that the Strategy also reflects on the differences between the crimes and tailoring its priorities and supporting interventions to address these.

5.5 Any services that are set up to tackle sexual assault in the Bailiwick will of course support all victims – male and female - to ensure that timely and high-quality support is available to help victims cope with, and as far as possible, recover from the devastating impact of these crimes.

6 Developing Sexual Assault Services in the Bailiwick

6.1 While investigating the need for a Violence Against Women and Girls Strategy, the lack of support services for people experiencing sexual violence was identified as the primary gap in services within the Islands.

6.2 There are services that a victim of sexual assault may need to support recovery and facilitate a criminal justice outcome such as a SARC, Sexual Assault Crisis Line, Independent Sexual Violence Advisors (ISVAs) and Crisis Workers who staff SARCs. It is vital that the running of these services is independent from the police or statutory health and social care services in order to encourage more victims to come forward and seek help. There also need to be strong care pathways into public services such as Adult Mental Health, Child and Adolescent Mental Health Services and the Community Drug and Alcohol Team to ensure that there is good ongoing aftercare for service users where needed.

6.3 As noted in the Justice Review Report:

> *"The absence of a sexual abuse referral centre (SARC) and crisis helpline for victims of sexual violence was identified as a critical gap by several different stakeholders. Preliminary discussions have taken place between the Offices of the CfHA and CfHSC in respect of the merits of creating a SARC.*
>
> *More broadly, the approach towards examining child victims of sexual abuse was seen as particularly problematic, as the small number of cases results in a challenge in maintaining the necessary expertise on the Island."*[23]

6.4 Locally, although there is a sexual assault suite that has recently been developed, this is a Police-led facility. Although there is a formal pathway for the referral of children and young people (CYP) to receive forensic medical service in conjunction with the Police and Social Care, this is reliant on local pre-pubertal children travelling to Jersey for the forensic and medical examinations while being interviewed in the current sexual abuse suite at Le Marais Centre. Currently Guernsey paediatricians are unable to provide sexual assault examinations to children as there are an insufficient number of cases locally to allow them to maintain their professional standards in this area.

6.5 A SARC can provide both the service user and the police with the best possible opportunity to recover evidence for use within an investigation. The presence of a SARC can also raise public awareness of sexual violence and abuse and how such abuse can be dealt with, which in turn helps boost public confidence in both the health and criminal justice systems.

6.6 It is vital that a SARC developed in Guernsey has a partnership approach to ensure the successful delivery of safe, effective and clear pathways of care, whether or not clients choose to go through the criminal justice process.

6.7 Third Sector organisations are pivotal to supporting client well-being, recovery and independence. It is recommended that a SARC forms part of the commissioned services delivered through the Strategy.

6.8 A SARC can provide access to a number of services which a survivor may wish to access across a wide choice of environments from one-to-one work groups. Clients can be supported with advocacy for agencies such as housing, physical and mental health and the criminal justice system.

[23] Billet d'État XV of 2020, Article XVI

6.9 The SARC would also provide facilities to store samples whether or not a victim wishes to pursue police intervention at the time of initial medical examination, allowing the victim as much time as they need to decide whether they wish to pursue a criminal justice outcome.

6.10 Finally, SARC services can help the police and safeguarding partnerships to build a picture of sexual offences at a local level allowing forensic samples collected from victims to be stored enabling links to be identified. This is particularly helpful when a perpetrator has assaulted more than one victim as evidence can be collected and cross referenced, providing a stronger evidence base for prosecution.

6.11 Both domestic abuse and sexual violence can have a devastating effect on the lives of those affected, therefore a co-ordinated multi-agency approach to tackle the issue within the community is vital in working towards the States' vision of a safe and healthy Bailiwick.

6.12 The Committee will need to decide in conjunction with the Islands Safeguarding Partnership and HSC whether the Strategy is to cover Child Sexual Abuse or just Adult Sexual Abuse. This will involve a scoping exercise to identify additional services and support needed for children and young people and the related costs.

7 Responsibilities of States Committees within the Strategy

7.1 As the Strategy crosses all the social policy Committees within the States, they all have a key part to play in its success. An outline of the higher level overarching departmental responsibilities linked to the Domestic Abuse Strategy are set out below:

Responsible Committee	**Actions**
Committee *for* Education, Sport & Culture	• Tackle bullying, including sexual bullying. • Ensure that Domestic Abuse Education Workstreams are provided in all educational establishments in the Islands to promote healthy relationships and challenge attitudes that tolerate domestic abuse and gender inequality. • Ensure key staff within schools and education establishments attend relevant targeted or multiagency training to help identify and support families and children living with domestic abuse and /or sexual violence. • Display information relating to Domestic Abuse in schools and educational establishments.

	• Joint Oversight of Operation Encompass with Police • MARAC (Multi-Agency Risk Assessment Conferences) partner agency
Committee *for* Employment & Social Security	• Ensure that domestic abuse victims can access all benefits that they are entitled to. • Provide a rent deposit scheme that is accessible to all victims of abuse who meet the threshold for supplementary benefit payments and the criteria of the scheme. • Ensure relevant staff attend relevant targeted or multi-agency training order to help identify and support families and children living with abuse. • Display information relating to domestic abuse within the Department, e.g., posters, leaflets about domestic abuse services etc. • MARAC partner agency
Committee *for* Home Affairs	• Ensuring that the Criminal Justice Response to domestic abuse is effective. • Display information relating to domestic abuse within the various services of the Department, e.g., posters, leaflets about domestic abuse services etc. • Ensure key staff within the Department attend relevant targeted or multi agency training to help identify and support families and children living with domestic abuse and /or sexual violence. • Political oversight of the DA & SV Strategy • Monitoring and evaluation of outsourced services • Review of Criminal Justice Data Collection Processes • Involvement in the Domestic Abuse Law Review Group • MARAC and Multi-Agency Public Protection Arrangements (MAPPA)
Committee *for* Health & Social Care	• Recognise domestic abuse and violence against women as a cultural determinant of health. • Ensure health and social care professionals are adequately trained regarding all forms of domestic abuse and sexual violence, provide

	guidance and ensure delivery against guidance. • Provide an effective immediate and long-term health and welfare service for victims of abuse, including mental health care. • Display information relating to domestic abuse within the Department, e.g., posters, leaflets about domestic abuse services etc. • Ensure health and social care staff attend relevant targeted or multi-agency training to help identify and support families and children living with domestic abuse and /or sexual violence • Health Visitors part of Operation Encompass • Children's Services Core MARAC partner • Mental Health Services Core MARAC partner • School Nurses / Health Visitors, MARAC Partners • Involvement in the Domestic Abuse Law Review Group
Courts	• The effective and timely prosecution of domestic abuse and sexual violence • Participating in targeted or multi-agency training for staff • Involvement in the Domestic Abuse Law Review Group • Data collection in relation to prosecution of domestic abuse and sexual violence
Policy & Resources Committee	• Ensure that other cross-departmental Strategies link in with the Domestic Abuse Strategy • Ensure that there is adequate access to legal services including legal aid for victims of domestic abuse. • Ensure appropriate funding is in place in order to deliver the Domestic Abuse and Sexual Violence Strategy.

8. Compliance with Rule 4

8.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

8.2 In accordance with Rule 4(1):

a) The propositions contribute to the States' objectives and policy plans contained within Priority 3 of the Government Work Plan 'Keep the Island safe and secure'.

b) In preparing the propositions, consultation has been undertaken on the Strategy with the Committee *for* Education, Sport and Culture, the Committee *for* Employment & Social Security, the Committee *for* Health & Social Care, Safer LBG, Citizen Advice Bureau, Youth Commission, Action for Children, Health Improvement Commission, Island Safeguarding Partnership and the Victim Support and Witness Service LBG.

c) The propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

d) The financial implications to the States of carrying the proposal into effect will be included into the Government Work Plan.

8.3 In accordance with Rule 4(2):

a) The propositions relate to the Committee's purpose and policy responsibilities to advise the States and to develop and implement policies on matters relating to its purpose including the association between justice and social policy, for example domestic abuse.

b) The propositions have the unanimous support of the Committee.

Yours faithfully

R G Prow
President

S P J Vermeulen
Vice-President

S E Aldwell
L McKenna
A W Taylor

P A Harwood OBE
Non-States Member

APPENDIX 1

Domestic Abuse and Sexual Violence Strategy

For Guernsey and Alderney 2022-2025

Committee *for* Home Affairs

Foreword by the Committee *for* Home Affairs

This latest edition of the Domestic Abuse Strategy for Guernsey and Alderney has been expanded to include sexual violence. For the first time both agendas have been brought together in order to ensure the active contribution of partner agencies and provide a framework that will strengthen the development of new and existing services.

Our vision for domestic abuse is that all agencies work together to seek to reduce the prevalence of this social problem by providing a "coordinated community response" in Guernsey and Alderney. This concept is based on the principle that no single agency or professional has a complete picture of the life of a domestic abuse victim, but many will have insights that are crucial to their safety.

Our vision for sexual violence is that it will not be tolerated and that perpetrators will be brought to justice for their actions. Victims and survivors of sexual violence will be supported and treated with dignity and respect.

The work of this Strategy has been prioritised through the Government Work Plan. As an action prioritised in the Bailiwick's recovery from the COVID-19 pandemic, the States' Assembly has endorsed the enhancement of domestic abuse and sexual violence services (including a three-year pilot for a Sexual Assault Referral Centre).

This document sets out the priority areas for focus with the intention that the Strategy's implementation will be commissioned through external providers.

Domestic abuse is costly, in both financial and human terms. The number of domestic abuse incidents recorded by the police in Guernsey in 2020 was 768, an increase of 8% on the previous year. The costs of domestic abuse to the public purse are high, principally because opportunities for early intervention and prevention are missed routinely, leading to more expensive interventions later.

In addition to the significant monetary impact of dealing with domestic abuse and sexual violence, there are distressing human and social costs. The negative impacts rippling outwards are long-term and far-reaching; not just for the individuals and their children, but for the wider community. Domestic Abuse comprises one quarter of all violent crime reported in the Bailiwick and features in a substantial number of disputed child contact cases which tie up family courts.

It is paramount that agencies and the public work together effectively and systematically to increase safety and hold perpetrators to account.

Defining Domestic Abuse and its Impact

What is Domestic Abuse

Domestic abuse is defined as "any incident or pattern of incidents of controlling, coercive or threatening behaviour, violence or abuse between those who are or have been intimate partners or family members regardless of sex, gender orientation or sexuality."

This can encompass, but is not limited to, the following types of abuse:

- psychological
- physical
- sexual
- financial / economic
- emotional

Controlling behaviour is: a range of acts designed to make a person subordinate and/or dependent by isolating them from sources of support, exploiting their resources and capacities for personal gain, depriving them of the means needed for independence, resistance and escape and regulating their everyday behaviour.

Coercive behaviour is: an act or a pattern of acts of assault, threats, humiliation and intimidation or other abuse that is used to harm, punish, or frighten their victim.

The definition of domestic abuse may be changed as part of an update of the law around domestic abuse during this States' term to reflect changes to the UK government's definition in the new Domestic Abuse Act where domestic abuse will for the first time be defined in law within the UK. This will mean that there are statutory requirements to support victims and that children living in households where abuse is taking place will be defined as victims in their own right, recognising the harm caused.

7.9%

of women in England & Wales experienced some form of domestic abuse in the previous year

4.2%

of men experienced some form of domestic abuse in the previous year.

(Crime Survey for England and Wales)

Types of domestic abuse include:

Emotional / Psychological abuse

- Blaming the victim for all problems in the relationship
- Constantly comparing the victim with others to undermine their self-esteem and self-worth
- Sporadic sulking
- Withdrawing all interest and engagement (for example, weeks of silent treatment)
- Emotional blackmail and suicidal threats
- Isolation from family and friends such as ongoing rudeness to family and friends to alienate them, or limiting contact with family and friends
- Restricting use of the car or telephone
- Swearing and continual humiliation, in private or in public
- Attacks on intelligence, sexuality, body image and capacity as a parent and spouse
- Screaming, shouting, name-calling, put-downs
- Abusing pets or threatening to harm them

Financial / Economic abuse

- Forbidding access to bank accounts
- Only provide a small allowance
- Not allowing the victim to work or have a job or sabotaging their work
- Forcing the victim to make false declarations or take out loans on their behalf
- Using all the wages earned by the victim
- Controlling the victim's pension
- Denying that the victim is entitled to joint property

Physical abuse

- Direct assault on the body (choking, strangulation, shaking, eye injuries, biting, slapping, pushing, spitting, burning, punching, kicking, pulling hair)
- Use of weapons including objects
- Hurting the children
- Locking the victim in or out of the house or rooms
- Forcing the victim to take drugs
- Not allowing medication, food or medical care
- Not allowing sleep

Sexual abuse

- Any form of pressured or unwanted sex or sexual degradation.
- Forced sex without protection against pregnancy or sexually transmitted disease
- Making the victim perform sexual acts unwillingly (including taking or distributing explicit photos without their consent)
- Criticising or using sexually degrading insults
- Doing things to stop birth control, such as throwing them away, hiding them, prevention from buying them

Stalking / Harassment

- Following and watching, or getting other people to follow and watch
- Telephone and online harassment
- Tracking with Global Positioning Systems (GPS)
- Being intimidating
- Entering person's home without permission
- Sharing or threatening to share intimate, nude or sexual photos or videos to friends, family, strangers in person, on the internet, on social media sites, or through a text message or app

What is Sexual Violence?

There is no one set definition of sexual violence; however, it is widely accepted as being any unwanted sexual act or activity. Sexual violence can be perpetrated by a stranger or by someone known. The World Health Organisation's Definition of sexual violence is as follows:

"Any sexual act, attempt to obtain a sexual act, unwanted sexual comments or advances, or acts to traffic, or otherwise directed against a person's sexuality using coercion, by any person regardless of their relationship to the victim, in any setting including but not limited to home and work".

Coercion can encompass:

- varying degrees of force;
- psychological intimidation;
- blackmail; or
- threats (of physical harm or use of other threats, e.g. not obtaining a job, threats to harm others etc.).

In addition, sexual violence may also take place when someone is not able to give consent – for instance, while intoxicated, drugged, asleep or mentally incapacitated.

What is Child Sexual Abuse?

Child Sexual Abuse involves forcing or enticing a child or young person to take part in sexual activities, not necessarily involving a high level of violence, whether or not the child is aware of what is happening. The activities may involve physical contact, including assault by penetration (for example, rape or oral sex) or non-penetrative acts such as masturbation, kissing, rubbing and touching outside of clothing. They may also include non-contact activities, such as involving children in looking at, or in the production of, sexual images, watching sexual activities, encouraging children to behave in sexually inappropriate ways, or grooming a child in preparation for abuse. Sexual abuse can take place online, and technology can be used to facilitate offline abuse. Sexual abuse is not solely perpetrated by adult males. Women can also commit acts of sexual abuse, as can other children.

UK Department for Education 2018 (Working Together to Safeguard Children: A guide to inter-agency working to safeguard and promote the welfare of children)

What is Child Sexual Exploitation

Child sexual exploitation is a form of child sexual abuse. It occurs where an individual or group takes advantage of an imbalance of power to coerce, manipulate or deceive a child or young person under the age of 18 into sexual activity (a) in exchange for something the victim needs or wants, and/or (b) for the financial advantage or increased status of the perpetrator or facilitator. The victim may have been sexually exploited even if the sexual activity appears consensual. Child sexual exploitation does not always involve physical contact; it can also occur through the use of technology.

UK Department for Education 2018 (Working Together to Safeguard Children: A guide to inter-agency working to safeguard and promote the welfare of children)

Types of Sexual Violence

There are many different kinds of sexual violence and abuse, including but not restricted to: rape, sexual assault, child sexual abuse, sexual harassment, forced marriage, so-called honour based violence, female genital mutilation (FGM), trafficking, sexual exploitation, upskirting and revenge porn. Sexual violence can be perpetrated by a stranger or by someone known.

What do we know about domestic abuse and sexual violence in Guernsey and Alderney?

Official statistics show the number of incidents of domestic abuse recorded by the authorities every year. But the problem is much bigger than shown in official statistics, as many victims and children do not tell anyone about the abuse, and they are not recorded as crimes.

768

domestic abuse incidents were reported to police in the Bailiwick in 2020.

77% ▲

The Covid 19 pandemic meant that domestic abuse reports rose by 77% during lockdown in 2020.

The Guernsey Police annual report states that there were 62 and 61 calls respectively in April and May 2020, compared to 35 in April 2019 and 25 in May 2019.

April 2019 35

May 2019 25

April 2020 62

May 2020 61

105

Children were supported by The Children and Young People's Independent Domestic Violence Advisory (KIDVA) Service in 2020

In recent years, domestic abuse has been one of the **two top reasons** for children being put on the child protection register.

93

Stays in refuge accommodation happened in 2020, an increase of **111%** on the previous year.

183

Individuals were supported by the refuge outreach service in 2020, an increase of **15%** on the previous year.

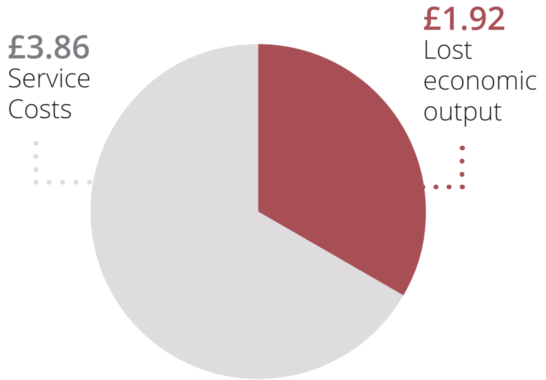
112

Sexual offences were reported to the Police in 2020.

According to the Crime Survey for England and Wales, only around **15%** of individuals who experience sexual violence report it to the police. This indicates that locally, there are likely to be around **750 people** annually experiencing sexual assault.

£5.78M

Locally, the cost of domestic abuse was estimated in 2019 to be to be in the region of £5.78 million per annum



57

Domestic abuse cases reached court in 2020 with **30** of these being found guilty, and as at December 2021, two cases were still ongoing.

Strategy purpose and scope

Purpose

The purpose of the Strategy is to focus government, public services and voluntary agencies on the coordinated and effective delivery of services geared towards tackling and reducing domestic abuse and sexual violence.

Vision

A safe and healthier Guernsey and Alderney where domestic abuse and sexual violence is not tolerated. Victims and survivors will be treated with dignity and respect and supported to feel safe within their community while offenders are brought to justice.

Supporting Legislation

- Children (Guernsey and Alderney) Law, 2008
- The Protection from Harassment (Bailiwick of Guernsey) Law, 2005

Scope

This Strategy responds to:

- Adults, children and young people who are experiencing domestic abuse and sexual violence,
- Children who are exposed to or witness domestic abuse or sexual violence at home,
- Perpetrators of domestic abuse or sexual violence.

In the context of:

- Domestic abuse within intimate or family relationships, from the age of 16
- Abuse which continues after a relationship has ended
- So called 'honour' based violence and forced marriage
- Sexual abuse either within relationships or by acquaintances or strangers.

Feedback from Service Users

'From the position of the victim, it can be a confusing journey for them. Cases in tribunal, in court, can have a Social Worker and an IDVA, KIDVA, Family Proceedings Adviser, all have different roles. It's overwhelming and confusing for the victim, they say "that's not what so and so told me".'

Domestic abuse survivor

'The current children's social worker is excellent, so it seems dependent on who you get. Constant rotation of social workers...it's really hard to trust after domestic abuse but that makes you even more unlikely to share information. Perpetrators can exploit that lack of consistency with no one person overseeing your life.'

Domestic abuse survivor

'The KIDVAs are flexible, offer support, communicate with the school where they can. Very grateful that the service is there.'

Domestic abuse survivor

My outreach worker was absolutely amazing. She understood and also helped me realise how bad the behaviour was and the severity – helped to put it into perspective. I felt incredibly supported, I genuinely think she was partly the reason why I was able to get a restraining order and have the confidence to go to the police and push forward with a conviction for his crimes. She was really amazing. She is so passionate about her work'.

Domestic abuse survivor

Feedback from Professionals

'I think also in Guernsey people can perhaps feel defensive if they consider their service or approach to be being 'under threat' by there being perhaps perceived competition or someone suggesting they 'do it better'. Ultimately, we hopefully all want the same end goal for the families we work with, and I would hope that we can work together to make that happen, like pieces of a puzzle.'

Professional Working with Families

'Safer work so hard, help out in any way. We phone for someone to attend a high-risk victim and they will bend over in any way to do that. Such a good relationship with them. They are a mainstay at Multi-Agency Risk Assessment Conferences (MARAC), their contribution is second to none'.

Guernsey Police

'it does appear that the links and pathways between services are not always effective. Discussions with staff and external partners highlights a lack of understanding on each side regarding the role and remit of each agency. To build relationships and knowledge a co-location model may be an effective method to ensure victims get the best possible outcomes'.

SafeLives Review

Yes, the clients that have completed their relevant sections of the Sarnia Programme can reflect more on their behaviour and changes that they have made /need to make to avoid repeating the behaviour'

Agency referring client into the Sarnia Programme

The client's presentation has become much different and they have become less aggressive and confrontational. They have also become more respectful and have thought more about their partners / ex partner's feelings'

Agency referring client into the Sarnia Programme

Willingness to work together is there but because of boundaries, we work in silos. The only person involved with all of it is the victim.

How we will achieve our vision

Accountability and governance

The Committee for Home Affairs is responsible and accountable for the delivery of the Strategy.

Working with the Domestic Abuse and Sexual Violence Strategy Advisory Group the Committee will oversee the development of the Action Plan that will pull together all the key priorities.

The Advisory Group will review the Strategy on an annual basis and will report to the Committee, considering the following:

- Progress made against the Strategy's objectives.
- The overall impact and effectiveness of the Strategy.
- New legislation
- If policy and procedures need reviewing
- Local need and any other emerging priorities.
- Whether actions and activities are achieving the required outcomes.

The Advisory Group is well-placed to:

- Work collaboratively with overarching boards such as the Islands Safeguarding Children and Adults Partnership.
- Identify cross-cutting elements within community safety themed partnerships, such as the Combined Substance Use Strategy and the Children & Young People's Plan;
- Develop aspects of the Strategy relating to children as a core element of the Island's safeguarding responsibilities and ensure it is aligned with other work to promote the safety and wellbeing of children and young people in the Bailiwick;
- Work closely with the Adult Multi-Agency Support Hub (MASH) to protect vulnerable adults affected by domestic abuse;
- Inform and support the priorities of the Guernsey & Alderney Health Improvement Commission.

Committee *for* Home Affairs

Domestic Abuse and Sexual Violence Strategy Advisory Group, currently comprises representatives from the Police, Probation Service, Children and Family Services, Islands Child and Adult Safeguarding Board, Office of the Children's Convenor,Committee for Education, Sport & Culture, Committee for Employment & Social Security, the Health Improvement Commission for Guernsey and Alderney LGB, Safet LBG, Victim Support & Witness Service.

MARAC Steering Group

SARC Steering Group

Ad-hoc time-limited sub-groups such as Law Review Group

What we have done so far

The Strategy was established in 2009, following an in-depth consultation process with professionals and agencies from the voluntary and statutory sectors, as well as speaking to people who have experienced different forms of domestic abuse.

New services such as an Independent Domestic Violence Advisory (IDVA) service and the Sarnia Programme - a behaviour change programme for perpetrators of domestic abuse - were created. Existing services were reviewed and additional funding was provided to extend and improve them.

Service mapping was carried out in 2018/19 when the Strategy was asked to consider the need for a Violence Against Women and Girls Strategy in order to understand what was in place in the Bailiwick compared to other jurisdictions and to undertake a gap analysis to help identify what more needed to be done.

What we are going to do

What we set out to do to achieve our vision is outlined in the following action plan which has received multi-agency input and will guide the development of future work.

The Strategy will become a Domestic Abuse and Sexual Violence Strategy from 2022. This is in acknowledgment of the lack of sexual assault provisions in the Bailiwick. A Sexual Assault Referral Centre (SARC) will be piloted from 2023, with work starting immediately to progress this.

A needs assessment will also be carried out to ensure that any other gaps relating to sexual abuse and violence are captured.

The Strategy is set out over four key areas that have outcome measurements attached. These are **Prepare**, **Prevent, Protect and Pursue.**

"A SARC is absolutely needed. Sexual abuse is drastically under-reported. Still stigmatised, skirt too short, she was drunk. You read that in local papers, insinuating they kind of deserved it. Media view affects reports. Victims say what is the point of reporting to police?"

Professional Working with Families

'Having a local SARC will mean that victims of any type of sexual crime have a place to go where they will receive all of the support they need, without feeling under pressure to report their experience to law enforcement if they have chosen not to do so. At present, whilst support services are available within the Bailiwick, there is no comfortable and multi-functional facility through which the full range of resources can be offered to a victim of sexual crime'.

Victim Support

Prepare

1. Professionals in the Bailiwick fully understand what domestic abuse and sexual violence is and know how to respond.
2. Data collection and performance monitoring and evaluation is improved.
3. Expertise and understanding is shared across agencies.

Prevent

4. Prevent domestic abuse and sexual violence by challenging the attitudes & behaviours that foster it.
5. Victims are identified early and provided with the appropriate support.
6. Early identification of children and young people at risk of harm and provision of appropriate support.

Protect

7. Children at risk and who have been exposed to domestic abuse and sexual violence are effectively supported.
8. Ensure that there is timely and effective processing of offenders through the criminal justice system.
9. Ensure that there are support services in place for victims of domestic abuse and sexual violence.

Pursue

10. Perpetrators are dealt with efficiently and effectively
11. Known perpetrators are less likely to re-offend

Outcomes Framework and Key Performance Indicators

Measuring outcomes is the only way we can be sure that changes are taking place for those experiencing abuse.

Many of the outcomes set in the last iteration of the Strategy (2016-2020) have proved difficult to capture due to data collection issues. This will be remedied by threading data collection processes through an action plan included in this Strategy with lead agencies responsible for each area embedding data collection processes within agencies' everyday practice.

The Justice Framework will also be working to ensure better and more joined up data collection processes are in place across the criminal justice agencies.

The outcomes set out overleaf in the Action Plan should inform future work and help to identify what improvements are required in the response to domestic abuse and sexual violence by local services. Incorporating the desired outcomes into a multi-agency Action Plan will ensure accountability and encourage improved performance.

It is important that we monitor the Strategy on an ongoing basis in order to assess how we are performing against our outcomes. We will therefore be working with the agencies who deliver our services to put in place some Key Performance Indicators (KPIs). We will monitor the results on a 6 monthly basis and review and publish results on an annual basis.

Some of the KPIs will be linked to those in the UK, in order, where possible, to draw comparisons. However, in such a small jurisdiction, in this complex area of social policy we have to acknowledge that there is no single KPI that is definitive in tackling domestic abuse and there is no perfect formula for calculating the information we need.

For this reason, the figures produced against our KPIs should never be read or interpreted in isolation from the essential commentary that will always accompany our annual update report.

The data gathered can give us a broad indication of how successful our efforts are and help us to make evidence-based decisions on what to do in order to achieve our outcomes and, ultimately, our vision.

Action plan

Prepare

Outcome	Action or Intervention	Who
Professionals in the Bailiwick fully understand domestic abuse and sexual violence and know how to respond.	To support professionals by providing targeted training through the most appropriate provider based on an understanding of current training needs and best practice	Led by the States of Guernsey with the delivery of training commissioned to external expertise
	To support businesses develop and implement domestic abuse and sexual harassment policies and procedures.	
Expertise and understanding is shared across agencies	To foster multidisciplinary work through a common multi-agency approach on how to: • Respond to domestic abuse and sexual violence • Collect, and where appropriate, share data Supported by the operation and evaluation of the Multi-Agency Risk Assessment Conference (MARAC) process.	Using the collective expertise of public and third sector partners
	To improve data collection around the characteristics of offences, suspects and victims and victims' experiences of the criminal justice system.	
	To understand who sexual assault victims are and the support they require by carrying out a sexual violence needs assessment	

Prevent

Outcome	Action or Intervention	Who
Domestic abuse and sexual violence are prevented by challenging the attitudes and behaviours that foster them.	To provide education to young people and children to raise their expectations for relationships and reject unhealthy relationships	Commissioned through the third sector
	To develop and implement public awareness campaigns and other methods to effectively challenge domestic abuse and attitudes that foster sexual and domestic abuse and violence and engage with groups not accessing services	
Victims have increased access to the criminal justice system	To address barriers to earlier intervention through training and clear pathways, ensuring every victim of domestic abuse or sexual violence is offered support, regardless of their risk level (standard, medium or high).	Using the collective expertise of public and third sector partners
	To develop and embed a service user led quality assurance approach to measuring satisfaction with the support they receive	
Children and young people at risk of harm are identified as early as possible and provided appropriate support	To develop cross-agency processes to ensure that children and young people perceived to be 'at risk' or 'in need' are identified, supported and protected, incorporating best practice and operational learning.	

Protect

Outcome	Action or Intervention	Who
Domestic abuse and sexual violence is prevented by challenging the attitudes and behaviours that foster it.	To investigate and implement steps which create the legal framework necessary to support a robust approach to domestic abuse, ensure that individuals are supported through the criminal justice process and that perpetrators are effectively managed through the criminal justice system resulting in an increase in prosecutions	Led by the States of Guernsey with the collective expertise of public and third sector partners

There is timely processing of offenders through the criminal justice system	To track and review criminal domestic abuse cases through the court system, taking steps to reduce the length of time the process takes	Led by the States of Guernsey
Victims of domestic abuse and sexual violence have access to effective support services	To deliver and monitor appropriate – that is evidence- based, proportionate and safe – services which protect individuals from harm, support recovery and assist individuals to move forward with their lives including: • trauma-based interventions for the survivors of domestic abuse and sexual violence (including those who see, hear and experience domestic abuse in their household) • practical advice and assistance including refuge services • treating the safety of individuals as the first and over-riding priority.	Commissioned through the third sector

Pursue

Outcome	Action or Intervention	Who
Perpetrators are dealt with efficiently and effectively	To deliver behaviour-change interventions to perpetrators of domestic abuse. Interventions will acknowledge different levels of risk and will address the wider determinants of offending.	Run by the States with victim support services commissioned through the third sector
	To investigate and implement steps which create the legal framework necessary to ensure perpetrators are dealt with robustly, that victims and witnesses are treated fairly and that agencies have in place the appropriate procedures to effectively identify and manage perpetrators.	Led by the States of Guernsey with the collective expertise of public and third sector partners
Known perpetrators are less likely to re-offend	To investigate and implement arrangements which can identify, monitor and effectively coordinate information in respect of perpetrators based on risk	Using the collective expertise of public and third sector partners

Domestic Abuse Strategy Matrix of Resources

	Victim/Survivor	Child	Perpetrator / Offender
High Risk Management and Enforcement	• Multi-Agency Risk Assessment Service (MARAC) • Independent Domestic Violence Advisory Service (IDVA) • Specialist Domestic Violence Courts (SDVC) • Refuge provision	• Child Protection processes aligned with MARAC • Children & Young People's Independent Domestic Violence Advisory Service (KIDVA) • Independent Domestic Violence Advisory Service (IDVA) • The Office of the Children's Convenor and the Child, Youth and Community Tribunal	• Criminal justice processes • Multi-agency Public Protection Arrangements (MAPPA) / work with prolific or very high risk offenders

Effective Support	• Outreach support • Civil Law remedies • Victim Support • Counselling – Safer Services, • The development of a Sexual Assault Referral Centre pilot	• Age appropriate support: • Child & Adolescent Mental Health Service (CAMHS) • Support for parents to support children (AVA Project) • Resources for children with complex needs • Family Proceedings Advisory Service (FPAS) • Operation Encompass - an information sharing initiative between the Police and Education to ensure immediate support for children living with domestic abuse. • Child Sexual Assault Therapy, Reparative Care Team	• Probation Service • Sarnia Perpetrator Programme programmes • Skill acquisition • Individual therapies (e.g. drug & alcohol services, mental health)
Early Intervention	• Staff training • Champions • Awareness raising • Helpline • Website • Materials	• Staff training • Champions • Locality-based work • Child's Plan and Team Around the Family • Youth Offending Service	• Staff training • Champions • Criminal Justice processes • Caring Dads
Prevention	• Early years family support services • Parenting/family relationship programmes and services • Domestic Abuse and Relationships Education in Schools and Colleges • Community awareness • Campaigns	• Early years family support services • Parenting/family relationship programmes and services • Domestic Abuse and Relationships Education in Schools and Colleges • Community awareness • Campaigns • Online Safety Group	• Early years family support services • Parenting/family relationship programmes and services • Healthy relationships PHSE • Community awareness • Campaigns

Paragraphs 6.19 to 6.23 of the Domestic Abuse Strategy States Report[1], January 2016 referring to Violence Against Women and Girls Strategies

Since 2010, there has been a policy shift in relation to domestic abuse in the UK with a move to a more gendered analysis of domestic abuse. This has been driven by respected international bodies such as the UN General Assembly, the World Health Organisation and UNICEF. Within this policy shift, domestic abuse is viewed as part of a continuum of gender based violence, which is collectively referred to as 'Violence against Women and Girls' (sometimes abbreviated to 'VAWG'). It covers a range of crimes including rape and sexual violence; stalking and harassment; commercial sexual exploitation including prostitution, pornography and trafficking; harmful practices such as Female Genital Mutilation, Forced Marriage and Crimes committed in the name of 'honour[2]' (HBV); and sexual harassment in the workplace and public domain.

As a result a Violence Against Women and Girls Strategy and Action Plan[3] has replaced national domestic abuse strategies in England, Wales and Northern Ireland, with the Home Secretary and Crown Prosecution Service[4]recognising that the gendered patterns and dynamics involved in domestic abuse need to be acknowledged and understood in order to provide an appropriate and effective service to victims and perpetrators of domestic abuse. The 187 out of 194 countries worldwide that are signed up to the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) are obligated to put in place a human rights based approach to address violence against women. Further information in relation to the national shift to a VAWG Strategy is attached as Appendix Four.

As with the Strategies for England, Wales and Northern Ireland, in 2008, the initial Domestic Abuse Strategy for Guernsey and Alderney was created as a gender neutral document. The Home Department is of the view that for the next five years at least, the Strategy should remain as a Domestic Abuse Strategy rather than becoming a VAWG Strategy, while at the same time, recognising that women and men's experience of violence is intrinsically different and, as such, responses may need to be different.

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[1] Billet d'Etat XXIII, 2015

[2] "Honour based violence" or "violence committed in the name of 'honour' (HBV) are umbrella terms to encompass various offences covered by existing legislation. Honour based violence (HBV) can be described as a collection of practices, which are used to control behaviour within families or other social groups to protect perceived cultural and religious beliefs and/or honour. Such violence can occur when perpetrators perceive that a relative has shamed the family and/or community by breaking their honour code. HBV is a violation of human rights and may be a form of domestic and/or sexual violence. There is no honour or justification for abusing the human rights of others.

[3] Home Office (2010) *Call to End Violence to Women and Girls.* London: Home Office.

[4] Equality and Diversity Impact Assessment on the CPS Violence Against Women Strategy and Action Plan http://www.cps.gov.uk/publications/equality/vaw/vaw_eia.html

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

The States of Deliberation have the power to annul the Statutory Instruments detailed below.

No. 37 of 2022

THE PLANT HEALTH (PRESERVED PHYTOSANITARY CONDITIONS REGULATION (AMENDMENT) (GUERNSEY) (NO.2) REGULATIONS, 2022

In exercise of the powers conferred on it by Article 108 of Reserved Regulation 2016/2031 of the European Parliament and of the Council on protective measures against plants and pests, and all other powers enabling it in that behalf "The Plant Health (Preserved Phytosanitary Conditions Regulation) (Amendment) (Guernsey) (No.2) Regulations, 2022" made by the Committee for the Environment and Infrastructure on 16th May 2022, are laid before the States.

EXPLANATORY NOTE

These Regulations make further amendments to the Preserved Phytosanitary Conditions Regulation which has effect in Guernsey as preserved EU law.

The amendments are made to align with amendments made in Great Britain, as, from the end of 2020, Guernsey has been part of a Great Britain and Crown Dependency market in plants and plant products.

These Regulations amend the requirements under Annex 7 to the Preserved Phytosanitary Conditions Regulation that prevent the introduction of the plant pest *Thaumetopoea pityocampa* (Denis & Schiffermüller) ("pine processionary moth") into Guernsey, or the introduction of the hosts of this pest: Cedrus Trew and *Pinus* L, originating from any third country. They mirror urgent recent amendments in the UK to respond to recent incidents of the pest found on imported plants.

In particular, the description of plants to which the requirements apply is amended so it does not just apply to plants for planting but to plants generally; the option of having an official statement that plants have been produced in nurseries which have been found free of pine processionary moth on the basis of official inspections and official surveys is removed. These changes are to reduce the risk of pests arising from cut trees.

These Regulations shall come into force on 16th May, 2022.

No 49. of 2022

THE PAROCHIAL ELECTIONS (ST PETER PORT) (NO.3) REGULATIONS, 2022

In pursuance of the powers conferred on it by Articles 54(4) and 77C of the Reform (Guernsey) Law, 1948 and all other powers enabling it in that behalf, "The Parochial Elections (St Peter Port) (No.3) Regulations, 2022" made by the States' Assembly & Constitution Committee on 23rd June, 2022, are laid before the States.

EXPLANATORY NOTE

These Regulations provide for elections to the office of Douzenier to take place in the Parish of St Peter Port on the 13th July, 2022.

These Regulations came into force on the day they were made, 23rd June, 2022.

The full text of the legislation can be found at: http://www.guernseylegalresources.gg

P.2022/63

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

STATES TRADING SUPERVISORY BOARD

FUTURE WASTE CHARGES

The States are asked to decide:-

Whether, after consideration of the Policy Letter of the States' Trading Supervisory Board titled 'Future Waste Charges', they are of the opinion:-

1. To note the States' Trading Supervisory Board's intention to increase household waste charges annually from 2022 to 2025, as set out below:-

    a. an annual increase of RPIx plus 5% to the "pay as you throw" bag charge for general waste;

    b. an increase of RPIx plus £5 per year to the Waste Disposal Authority's annual waste charge; and

    c. from 2023, to introduce a "pay as you throw" bag charge for kerbside collection of recyclable materials, except for food waste and glass.

2. To note that the current self-funding model for Guernsey Waste is not currently sustainable and, given anticipated trends and expected developments in the UK and elsewhere, it is unlikely to be sustainable in the short, medium, or long term.

3. To direct the Policy & Resources Committee:-

    a. to write off Guernsey Waste's accumulated losses, before depreciation, of £2.97 million for 2019, 2020 and 2021 combined; and

    b. from 2022 onwards, to provide Guernsey Waste with an annual cash limit from General Revenue to cover the forecast trading deficit for each year.

4. To note the States' Trading Supervisory Board, in consultation with the Policy & Resources Committee, the Committee *for the* Environment & Infrastructure and the Douzaines, will review the current arrangements for household waste and recycling collections, to identify the optimum future arrangements; and if necessary will report back to the States setting out proposals for any required changes to the statutory Waste Management Plan and to relevant legislation

including the Parochial Collection of Waste (Guernsey) Law, 2015 and the Parochial Collection of Waste (Guernsey) Ordinance, 2018.

5. To direct the Policy & Resources Committee to take all practical steps to enable joint billing of Tax on Real Property and the Waste Disposal Authority's annual waste charges from 2023.

6. If Proposition 3 a) or b) is approved, to make any necessary amendments to the Waste Management Services (Charging) Ordinance, 2018 and other legislation relevant to waste charging to reflect the fact that full costs of the Waste Disposal Authority's waste management services would not be recouped from charges.

7. If Proposition 3 b) is approved, to direct the Committee *for the* Environment & Infrastructure to prepare, following relevant recommendations to it by the States' Trading Supervisory Board, any necessary amendments to the current statutory Waste Management Plan (WMP) to revise the arrangements for the recovery of the costs of the management of waste identified in the WMP and to submit a revised draft WMP for consideration by the States.

8. To direct the preparation of any necessary legislation to give effect to their above decisions.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES TRADING SUPERVISORY BOARD

FUTURE WASTE CHARGES

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

27th June, 2022

Dear Sir

1 Executive Summary

1.1 In 2012 the States agreed a Strategy for dealing with the island's waste. It reflects a modern approach to waste management, which recognises the value of finite resources used in the manufacture, distribution and sale of everyday products, and the need therefore to extract maximum benefit from these materials.

1.2 This is in keeping with the strong community support for sustainable waste management, as evidenced by how keenly islanders have embraced recycling - even when it was far more convenient to dispose of items, and no financial incentive existed to do otherwise. It was also a key theme throughout the extensive public consultation in the development of the strategy.

1.3 The successful implementation of the Strategy has transformed the way that the island manages waste. Facilities have been developed and services redesigned to enable and encourage better use of resources. It has changed how materials are collected, how they are subsequently processed, and in the case of households, how these services are paid for.

1.4 As a result, the amount of material not reused, recycled or composted has fallen dramatically, and resources that would previously have been buried in landfill are now put to beneficial use, through recovery of energy and other by-products.

1.5 **A decade ago most of the waste the island produced was simply disposed of. Today, only a small fraction is, when it is unsuitable for other treatment.**

1.6 When the Strategy was agreed, it was accepted that any more modern, sustainable approach to dealing with our waste would cost more. Waste bills would therefore rise, but a 'user pays' approach would give households greater control over how much they spend.

1.7 However the step change increase that was widely predicted has not fully materialised. In 2019 and 2020, households spent on average around £240 a year for all their waste and recycling services - including the parish bill for collections. That is significantly less than the £305 a year it was estimated households would spend on average once all the new services and facilities were introduced.

1.8 The reason households have been paying less than predicted is because far fewer bags of general waste are being produced than had been anticipated. That is due, in part, to more material being recycled than was forecast – most notably food waste. There was also a significant reduction in overall household waste, post-implementation. As a result, the cost of processing and treating household waste and recycling has also been significantly less than expected.

1.9 Guernsey Waste is continuing to promote waste minimisation, working with retailers, schools, and the wider community to help eliminate unnecessary waste. For example food waste, which has a direct financial saving to households, through lower grocery bills, as well as an overall saving on waste management. As with other measures that benefit the environment, such as reducing household energy use, there can be direct financial benefits to producing less waste which will ultimately translate into savings for islanders.

	Annual Income vs Expenditure (£,000s)					
	Modelled (20 year average)			*Actual - 2019 to 2021 (annual average)*		
	Income	Expense	Margin	Income	Expense	Margin
General waste	4,329	3,608	721	1,953	1,959	(6)
Recycling*	-	1,104	(1,104)	-	1,568	(1,568)
Bulk Refuse	-	-	-	33	120	(87)
Green waste	-	-	-	0	168	(168)
Other waste	-	87	(87)	51	405	(354)
Other costs	-	868	(868)	-	1,249	(1,249)
WDA annual charge	2,290	-	2,290	2,349	5	2,344
Total	**6,619**	**5,667**	**952**	**4,386**	**5,474**	**(1,088)**
*Includes food waste						

Table 1: Household waste and recycling services - comparison of modelled income & expenditure over 20 years vs. actual income & expenditure for 2019 to 2021.

1.10 Household waste charges were expected to raise enough income to fund the processing and treatment costs for all household waste and recycling, and other household services and facilities provided by Guernsey Waste. However from 2019 to 2021, income from the pay as you throw charge was around £3 million a year less than originally estimated. That has resulted in a significant shortfall.

1.11 Income from businesses has also been less than anticipated, in part due to higher than expected segregation of materials, and charges generally being below that required to recover the full cost of commercial waste operations.

1.12 Cost savings, efficiencies, and new revenue opportunities are being actively pursued by Guernsey Waste. This will help reduce the current deficit. There is also scope to increase household charges, without islanders having to pay more overall than was originally envisaged.

1.13 However a strategy that aims to reduce waste, and at the same time recover costs through charges levied on waste being produced, has a logical limitation. If it succeeds in continually driving down waste volumes, it removes the source of funding it relies on.

1.14 It was always acknowledged there was a risk this approach may prove financially unsustainable in the long term. Such has been the initial success, the island may have reached that point earlier than was envisaged. Increasing bag charges now will provide greater incentive to reduce waste, and is therefore no guarantee of a corresponding upturn in revenue, as volumes diminish further.

1.15 A further complication is the fact that several Guernsey Waste activities involve a public service element. They include monitoring old landfill sites, which in 2021 amounted to £508,000, and managing hazardous waste, which currently incurs an annual deficit of nearly £75,000. These are significant costs that are not due to current waste producers or cannot be fully recovered through direct charging.

1.16 There is a strong argument that current service users should not be liable to pay these costs through their waste charges. It has the effect of inflating the required level of charges, distorting the link between how much households pay and how much they produce, and does not align with the principle of 'pay as you throw'.

1.17 There are other large, uncontrollable costs that are outside Guernsey Waste's control or influence. This includes specialist insurance, for which the annualised premium is currently £571,000. Ground rent of £300,000 a year is also being paid for the facilities at Longue Hougue.

1.18 Expenditure on just those public service and uncontrollable costs identified above is currently around £1.5 million – nearly 15% of Guernsey Waste's total operating costs (excluding inert waste). This adds to the challenge of operating commercially and puts considerable burden on the current system of charges.

1.19 As the focus on tackling climate change intensifies, there are concerted efforts internationally to embrace a circular economy approach[1]. This is likely to drive changes in product and packaging design and may move responsibility for sustainable resource management higher up supply chains.

1.20 Schemes planned in the UK are likely to affect the nature and volumes of waste and recycling collected from households here, and the costs incurred in dealing with these materials. This could help reduce both the financial and environmental impacts of waste, but may also further undermine the ability to recover costs through the current charging mechanisms. Exactly how these schemes will operate is still being determined.

1.21 In light of these developments, there is considerable risk in continuing to pursue a policy where the ability to recover costs is heavily dependent on charging for a diminishing volume of waste. The consequences of a sharp reduction is already being seen, and volumes are likely to fall further as larger jurisdictions with greater influence on manufacturers look to drive down waste.

1.22 The STSB is committed to building on the successes achieved to date, in terms of delivering on the objectives of the Strategy, and is taking steps to address the trading deficit. However given the extent to which Guernsey Waste has little control over its income and significant elements of its costs, the STSB is doubtful the current funding model can be sustainable in the short, medium or long term.

1.23 The pay as you throw element has been successful in encouraging and supporting behaviour change, but there is a limit to how much current charges can rise without imposing too high a burden on some households.

1.24 If current household charges were used to fully recover the current shortfall, and the accumulated deficits from previous years, the price of a bag for general waste could rise to nearly £7, assuming no further increases in the annual charge.

1.25 This could in part be offset by introducing a charge for recycling, which was agreed in principle by previous Assemblies and reflects the polluter pays approach. However, that too would only go part way to alleviating the current shortfall, and is also not without its risks, as there are still many unknowns.

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[1] "The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the lifecycle of products is extended. In practice, it implies reducing waste to a minimum. When a product reaches the end of its life, its materials are kept within the economy wherever possible. These can be productively used again and again, thereby creating further value." (Source: EU Parliament - Circular economy: definition, importance and benefits.)

1.26 Even the combination of cost savings, efficiencies, new revenue opportunities, and some moderate increases in household charges is unlikely to fully address the current trading deficit.

1.27 The STSB believes the most appropriate way to address any remaining shortfall is through General Revenue funding. The precedent was set in 2018, when the States agreed to central funding from the Capital Reserve to cover the initial capital costs of the new infrastructure. This is also similar to the model adopted for Beau Sejour, which like Guernsey Waste primarily provides a public service.

1.28 The STSB therefore proposes Guernsey Waste's current accumulated operating deficit is written off, and from 2022 onwards Guernsey Waste receives an annual cash limit in line with the budgeted shortfall for that year.

1.29 Based on current financial forecasts this would require a cash limit in 2022 of £0.5 million. Excluding any inert waste contribution from 2023, the funding requirement would be £1.8 million next year, reducing to £1.4m from 2025 onward.

1.30 That assumes annual increases of £5 per year in the annual WDA charge, 5% in the black bag 2025, and a smaller charge for recycling bags. It excludes any annual RPIx adjustment in these charges, as that is currently difficult to forecast.

1.31 The Assembly might prefer charges to be retained at or closer to current levels, in the knowledge that would increase the requirement for other funding.

1.32 It is proposed this funding arrangement would be kept under annual review, taking into account any developments that affect Guernsey Waste's future income or expenditure.

1.33 This potential new funding arrangement would be a significant departure from the user-pays principle that underpins the operation of the trading entities.

1.34 The STSB has consulted the Policy & Resources Committee, and the Committee has suggested that if Guernsey Waste is to be tax-payer funded or underwritten, consideration should be given to moving it to a General Revenue committee, citing Beau Sejour as an example.

1.35 The Committee identified that *"such a change would enable charges to be clearly structured around the policy objectives – that is, they could be designed to promote/deliver the behaviours which are being encouraged/discouraged, rather than the commercially driven approach currently required of the STSB to seek to cover the costs of operation."*

1.36 If States Members agree to the recommendation for future funding of waste services, they may also wish to consider a change to the STSB's mandate in regard to its role as the Waste Disposal Authority and the operation of Guernsey Waste.

That relates to the organisation of functions and responsibilities, which is not within the STSB's mandate and is therefore outside the scope of this policy letter.

1.37 The Committee's initial feedback is included in Appendix 1.

1.38 Three years have passed since the Strategy was fully implemented. The STSB believes it is also timely to review other aspects of delivery besides the services provided by Guernsey Waste, to consider if they can be improved and efficiencies realised, which could result in lower costs to service users.

1.39 These include, in consultation with the Douzaines, arrangements for collection of household waste and recycling, given the benefit of experience gained in the past three years.

1.40 The STSB and the Committee *for the* Environment & Infrastructure (C*f*E&I) also propose to review whether policies in place for commercial waste are helping businesses meet the objectives of the Strategy.

2 Policy, strategic and legislative context

Roles & responsibilities

The Committee *for the* Environment & Infrastructure

2.1 The Committee is responsible for development and implementation of policies for management of 'solid waste'.

2.2 Under the Environmental Pollution (Guernsey) Law, 2004 ["the EP Law"], the Committee is required to prepare a **Waste Management Plan**, for approval by the States[2]. This is a statutory document, which identifies the type and quantities of waste that need to be managed, the methods to be employed, the estimated financial costs, and arrangements for recovering those costs. It also identifies the sites which are operated, managed or funded by the Waste Disposal Authority that are to be used for processing and managing waste and recycling on-island.

The Director of Environmental Health & Pollution Regulation

2.3 Under the EP Law, the Director of Environmental Health & Pollution Regulation is an independent statutory appointee with responsibility for waste regulation.

2.4 The duties of the Director include the licensing of operations that pose a risk of environmental pollution, which includes the collection, removal, transportation, handling, sorting, processing, treatment, disposal and storage of waste. The Director will also decide the conditions that apply to any licence, including the type(s) of waste and processing that can take place on a site, and any limits on processing capacity, in accordance with the requirements of the EP Law.

[2] The current Waste Management Plan was agreed by the States in July 2018

The Waste Disposal Authority (WDA)

2.5 The States' Trading Supervisory Board (STSB) is the island's designated Waste Disposal Authority (WDA), which has a statutory responsibility to ensure the provision of waste management services and facilities for households and businesses. These must enable the delivery of the Waste Management Plan.

2.6 The main functions of the WDA are set out in the EP Law:-

- to make arrangements for and ensure the operation of Guernsey's public waste management system;
- to monitor the creation of waste in Guernsey;
- to keep under review the systems for collection, transport, sorting and recycling of waste;
- to identify the best practical environmental options for the disposal of waste;
- to comply with the current Waste Management Plan;
- to make recommendations to C*f*E&I in connection with the preparation of draft Waste Management Plans for consideration by the States;
- to make arrangements for the provision of facilities for the reception and recovery or disposal of waste at one or more public waste management sites, in accordance with the Waste Management Plan.

2.7 In addition, the WDA provides the specification for household waste and recycling collections, including the combination of materials and frequency of collections, and where the materials must be delivered to.

Guernsey Waste

2.8 Guernsey Waste effectively discharges the above main WDA functions, at an operational level. Its role is in effect to:

- Implement the waste management strategy and assist *CfE*&I in its development;
- Contract waste disposal services and work with suppliers to ensure that they are delivered effectively;
- Promote sustainable waste practices within the community, and act as the public's 'single point of contact' for waste issues;
- Monitor and report on the creation of waste on the island;
- Ensure that the island's publicly owned waste management assets are appropriately maintained and utilised to their full potential.

2.9 Although there are private sector waste processing facilities run by commercial operators, given the WDA's statutory duties, Guernsey Waste effectively acts as the provider of last resort. In other words, it has to ensure continuity of the island's waste management provisions, in every eventuality.

2.10 All Guernsey Waste's activities must currently be funded through a combination of household waste charges or commercial waste gate fees.

2.11 Most of its waste and recycling operations involve a combination of material from household and commercial sources, treated together. While they have different income streams, they cannot be easily considered entirely separate.

2.12 Inert waste operations on the other hand involve specific materials, managed differently to other waste, at a dedicated site. They also have a distinct customer base, and different investment and infrastructure requirements. As such, they can be considered as effectively a discrete enterprise, and the expenditure and income treated separately from a financial perspective.

Parish Douzaines

2.13 Each Douzaine is legally responsible[3] for making arrangements for the collection (and transfer) of waste and recycling from households in their parish, in accordance with the specification provided by the WDA; and for levying an annual charge on each household to recover the cost of the collection service.

2.14 The parishes are therefore also responsible for enforcing the requirements on households, under the law[3], relating to the setting out of waste and recycling. They have delegated this function to the WDA, and Guernsey Waste carries it out in the name of, and on behalf of, the parishes and parish officers.

2.15 Douzaines also have the power to admit businesses that operate from premises within their parish into their parochial collections. This is provided they are satisfied the business is likely to produce waste and recycling of a similar nature and composition as a typical household, and a similar or lower volume. They levy the same charge on businesses admitted to the service as they do on households.

Waste Strategy

2.16 The island's Waste Strategy was agreed by the States in 2012. It embraces the internationally accepted principle of the Waste Hierarchy, which sets out how materials that we consume on a daily basis are best dealt with to derive maximum benefit from the resources used in their manufacture. It focuses on minimising the amount of waste generated; reusing and recycling as much as is practical; and recovering energy from the residual material that is left. This reflects the 'circular economy' approach being adopted in other countries.

[3] The Parochial Collection of Waste (Guernsey) Law, 2015.

2.17 In 2017, the States set a target of recycling 70% of household waste by 2030, and an interim target of 60% by 2022. No similar target was adopted for commercial waste, until an appropriate methodology was identified. That is unresolved.

2.18 The Strategy contributes to a more sustainable island, by promoting responsible use of resources for future generations. It also contributes to the Government Work Plan recovery outcome, agreed by the current Assembly in 2021, of *"More sustainable production, consumption and management of resources"*[4].

Climate Change Policy

2.19 Waste is the third highest source of greenhouse gas (GHG) emissions locally - after electricity generation and transport - accounting for 15% of 'on-island' emissions in 2020[5]. This is mostly in the form of methane that is released as landfilled waste decomposes. Due to the high global warming potential of this gas[6], relatively small changes result in considerably larger changes in terms of carbon dioxide (CO_2) equivalent - the standard measure for emissions.

2.20 The reduction of waste going to landfill is already contributing to the decrease in 'locally-generated' GHG emissions. Having peaked in 2006, emissions from waste have steadily declined, showing an overall reduction of 33% by 2020[5].

2.21 This trend will continue, following the 85% reduction in waste going to landfill since exports commenced at the end of 2018. That will result in gradually decreasing emissions as historically landfilled waste decays, and the benefits of diverting waste away from landfill become more apparent.

2.22 In August 2020 the States approved the island's Climate Change Policy and Action Plan[7]. A target of "net zero" emissions by 2050 was agreed, with an interim target of a 57% reduction on 1990 levels by 2030.

2.23 The above targets include emissions that arise due to waste that is produced in Guernsey, but treated elsewhere. This will therefore also encompass emissions arising from the transport and treatment of our waste and recycling off-island, net of any benefit that is achieved through the reduction in other emissions through the recovery of energy from waste.

2.24 The Policy sets out the approach to reducing emissions, which in priority order is avoid, reduce, replace, offset. This aligns with the Waste Strategy, the objective of which, first and foremost, is to prevent and reduce waste. This will give rise to

[4] Government Work Plan 2021-2025, Appendix 2.
[5] Guernsey Annual Greenhouse Gas Bulletin 2020.
[6] Weight for weight, methane has 21 times higher global warming potential than CO_2 i.e. one kilotonne of methane is equivalent to 21 kilotonnes of CO_2.
[7] Billet d'État XVI of 2020: Mitigate Climate Change – States of Guernsey Climate Change Policy and Action Plan.

reduced emissions, both on-island and off-island, that are within the scope of the net zero target. There will be additional reductions through decreased demand for resources to produce new materials, which is currently out of scope of local reporting requirements but will nevertheless result in a net benefit.

2.25 Modelling by Aether, who compile the annual GHG Bulletin, has forecast that under the current strategy on-island emissions arising from landfill will fall by more than 90% by 2050. Once emissions arising from off-island transport and treatment are accounted for, there will still be a net reduction of more than 75%.

Paris Agreement

2.26 The Paris Agreement is the international treaty adopted in 2015 under the United Nations Framework Convention on Climate Change (UNFCCC), which aims to reduce GHG emissions. It provides the instrument through which reduction targets beyond 2020 would be set, with the aim of limiting global warming to 1.5^{o}C to 2^{o}C above pre-industrial levels.

2.27 The current Assembly has approved the extension of the UK's ratification of the Agreement to Guernsey as a priority in the Government Work Plan. In November 2021 it was announced this has been agreed in principle[8], subject to a formal request from Guernsey once the reporting requirements are fully understood.

2.28 Under the Agreement, each country is responsible for determining its own plan, with regular reporting. There are no specific requirements for the emission reduction targets other than they should go further than previous targets and reflect each party's highest possible ambition.

3 Background

3.1 For decades, the island's preferred option for disposing of waste was to bury it in old quarries. That had provided a relatively cheap method, in financial terms, but over time it became an increasingly unsustainable choice, as the volume and nature of materials being landfilled changed, and the impact on the planet of waste and resource use became better understood.

3.2 Finding an alternative approach was a subject of protracted debate, including two attempts to procure an on-island 'energy from waste' plant. Following extensive public consultation, in 2012 the States agreed an export-based solution.

3.3 This was not an altogether new approach. For many years Guernsey has exported recyclable materials that islanders voluntarily separate from their general waste, for which there is no means to reprocess them locally. The Strategy has extended that already established practice to material not being recycled, because maximum benefit can be derived most practically and cost-effectively off-island.

[8] Guernsey agrees terms for extending the Paris Agreement (gov.gg).

3.4 The Strategy, however, does not focus solely - or primarily - on 'end treatment'. It prioritises waste prevention and reduction, followed by reuse, recycling, and then recovery of energy and disposal.

3.5 Existing waste services have therefore been redesigned and new facilities developed to help islanders manage their waste more sustainably. They include switching to fortnightly collections of general waste and the introduction of kerbside collections for all the main household recyclables, and for food waste. It is no longer more convenient to dispose of items than to recycle them, and these new collection arrangements have proved popular[9].

The role of Guernsey Waste

3.6 In performing the service delivery function of the WDA, Guernsey Waste is responsible for the operation of all States-owned waste sites. These comprise:-

- The Waste Transfer Station at Longue Hougue, where food waste, general waste, and glass are processed in preparation for export.
- The Household Waste & Recycling Centre (HWRC) at Longue Hougue, which accepts materials for reuse, recycling or disposal. This includes anything from large domestic appliances and small electricals, to scrap metal and furniture.
- The Mont Cuet landfill site, which provides:
  - Disposal of some hazardous wastes
  - Disposal of materials unsuitable for processing into RDF (e.g. fibreglass)
  - Management and disposal of road-sweepings and gully sludges
  - Green waste composting to produce a soil conditioner.
- The Chouet green waste site, where households can take their garden waste.
- The Longue Hougue land reclamation site, which receives inert construction and demolition waste.

3.7 Guernsey Waste charges householders for the services *'provided, managed, arranged, operated or funded by or on behalf of the WDA'*[10]. That includes initiatives that aim to support islanders in reducing waste and encouraging reuse and recycling. It also includes facilities that are largely free for households at the point of use, such as the HWRC, green waste site, and bring banks. Commercial users are charged by means of gate fees at public waste management sites.

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[9] Island Global Research (September 2021). In a survey of 1,848 islanders, 77% said they were satisfied with the collections - including 46% who were very satisfied. 10% were either dissatisfied or very dissatisfied.
[10] The Waste Management Services (Charging) Ordinance, 2018 - section 2.

Commissioning model

3.8 Guernsey Waste's current operating model is essentially one of a commissioning body, which contracts out the core provision of all its various responsibilities.

3.9 While it is responsible for the provision and management of all the above sites, the operational delivery is contracted to States Works.

3.10 Sorting and processing of household recycling from kerbside collection and bring banks is contracted separately, to a local company, which is also responsible for the subsequent export and onward reprocessing. Other companies are similarly contracted to manage and process items collected through the HWRC (e.g. mattresses, scrap metal, rigid plastic, TVs), as well as 'end of life' vehicles.

3.11 Although Guernsey Waste carries out enforcement functions on behalf of the parishes, this is largely in an administrative, co-ordinating capacity. It acts as first point of contact for reports, monitors non-compliance, and issues warnings and fixed penalties as required. Operational elements, including checking compliance with set out requirements and following up non-compliance incidents, is largely done by other parties, contracted by the parishes or Guernsey Waste.

3.12 One area Guernsey Waste is actively engaged in is the promotion of waste minimisation. It is working with retailers, schools, and the wider community to help eliminate unnecessary waste.

3.13 This includes, for instance, highlighting the issue of food waste, and in particular the cost to consumers. Less food waste leads to lower shopping bills and reduces the cost of processing this material, helping minimise future waste bills. Similarly, home composting is being promoted, which can also reduce the amount of food waste requiring collection and processing.

3.14 Like other measures which benefit the environment, such as reducing household energy use, producing less waste can have financial benefits that ultimately will translate into savings for the consumer.

Household waste charges

3.15 To support the objectives of the Strategy and encourage behaviour higher up the Hierarchy, a key element has been the adoption of a user pays approach.

3.16 Under the previous system, Guernsey Waste's predecessor – the Public Services Department – funded the provision of waste and recycling services primarily through income from gate fees at States-run waste sites. That included charging parishes for disposal of general waste they collected from households. Commercial waste was subject to similar per tonne gate fees at the sites.

3.17 Income from landfill charges at Mont Cuet was sufficient to fund all household waste services provided by the States. That included sorting, export and processing of materials from bring banks and kerbside recycling. It also included the subsidised bulk refuse service; the Chouet green waste site and subsequent processing of household garden waste; the original reuse and recycling facility at Longue Hougue; and initiatives to promote good waste practice.

3.18 Households in turn paid for these services through an annual bill from their parish. This was how the Douzaines recovered the costs that they incurred for collection and disposal of general waste.

3.19 The parish bills were calculated based on Tax on Real Property (TRP) values. How much each household paid depended on the size of the property where they lived, not how much waste they produced or how they chose to deal with it. That was unpopular with most islanders[11].

Current charges

3.20 The current system was introduced in 2019, and established a link between how much waste households produce and the amount they pay towards the processing and treatment of their waste and recycling.

3.21 There are three elements:-

1. Douzaines charge households in their parish an annual fee to recover the cost of their collection contract. This is levied at a flat rate per household but varies between parishes. It only covers the element Douzaines are directly responsible for, which is kerbside collection of waste and recycling from households (and small businesses who are admitted into parish collections).

2. Guernsey Waste also levies an annual WDA charge on all households. This is charged at a flat rate, which in 2021 was £90 (2019 & 2020: £85)

3. There is also a WDA ‘pay as you throw’ sticker charge, the income from which is received by Guernsey Waste. This can be levied on any receptacles for waste or recycling, but currently only applies to general waste.

3.22 The parish charges are calculated annually by each parish in accordance with the relevant legislation[12].

3.23 The annual charge and pay as you throw charges made by the WDA are set out in an Ordinance[13] and can be amended by Regulations.

[11] Island Analysis (2011). In a survey of 1,018 islanders, 58% agreed that households should be charged according to how much waste they produce. Only 30% disagreed.
[12] The Parochial Collection of Waste (Guernsey) Law, 2015 and the Parochial Collection of Waste (Guernsey) Ordinance, 2018 (Part I).
[13] The WDA household charges are set out in the Schedule to the Waste Management Services (Charging) Ordinance, 2018.

3.24 There is a different charging arrangement for commercial waste. Guernsey Waste charges a per tonne 'gate fee' at its various sites, which varies depending on what subsequent processing and treatment is required, and where that sits within the Waste Hierarchy. For example, separate food waste, for recycling and energy recovery, has a lower gate fee than general mixed waste that is destined for energy recovery and disposal. Commercial gate fees are set out in Regulations which are amended annually.

Central funding

3.25 It was originally intended that development costs for the infrastructure elements of the Strategy - namely the transfer station and HWRC - would be funded by a loan from the proceeds of the States of Guernsey Bond Issue. This was to be repaid through waste charges over the life of the Strategy, in line with the user pays principle. That approach was agreed by the States in 2014, and again in 2017.

3.26 In April 2018, the States agreed to fund the initial development costs of up to £32 million for these facilities from the Capital Reserve[14]. This was with the express intention of reducing the amount to be recovered through future household waste charges. In doing so, they accepted the principle that some of the cost of providing waste and recycling services could reasonably be funded centrally, to reduce the direct cost to households.

Financial modelling

3.27 Extensive financial modelling was carried out before the new services, facilities and charges were introduced. The objective was to enable Guernsey Waste's income and expenditure break even, at an operating level, over the 20-year life of the Strategy.

3.28 Given the Strategy aims to reduce waste, the modelling assumed the volumes that required processing and treatment would diminish over time, while the amount reused and recycled would initially increase. There would be a step change following the initial transition, followed by a more gradual trend.

3.29 The overall cost of processing waste and recycling would therefore vary year to year, but would reduce as waste volumes declined. So too would income from household waste charges, as it is linked to the amount of waste being produced.

3.30 The introduction of a pay as you throw charge was expected to result in fewer (and fuller) bags of general waste. What could not be accurately forecast was the precise number that would now be set out. It was especially difficult as the new charging arrangements were coupled with an entirely new collection system, the impact of which had yet to be seen. An assumption therefore had to be made.

[14] Billet d'État XI of 2018: Waste Strategy - Household Charging Mechanisms.

Cost recovery - risks

3.31 The balance between the WDA fixed charge and the bag charge was a key point of debate when the States set the initial charges.

- The fixed charge provides some income certainty, and reflects the fact that some costs of providing various services are fixed, irrespective of how much households use them. It also mitigates against bag charges having to be so high as to make the service unaffordable to some. However it has no link to an individual household's 'waste behaviour', so does not encourage them to reduce waste or recycle more. Arguably, it provides a disincentive. Recovering a significant proportion of costs through fixed charges can also disproportionately affects those on lower incomes.

- The bag charge provides a link to waste behaviour, giving households greater control over how much they pay. However, it provides very little income certainty – as has been demonstrated. Also, the higher the charge, the more likelihood some may seek to avoid it, resulting in loss of income and, potentially, some antisocial behaviour, which although not widespread can be costly to address.

3.32 The previous Assembly sought to strike the right balance between the charging elements. The initial annual fixed charge was set at £85 per household, and the bag charge at £2.50 for general waste, with zero charge for recycling. There was an expectation this would raise sufficient income to cover the cost of household waste and recycling services provided by Guernsey Waste. However it was acknowledged that some adjustment might be required once the new services and charging arrangements were in place.

3.33 The policy letter[14] also highlighted the risk to Guernsey Waste of over-reliance on volume-based bag charges, the income from which would be variable:-

"7.2 These risks are magnified at this point, given the uncertainty around some of the initial assumptions and, more broadly, the outcomes in terms of the desired behaviour change. The implementation of the new collection services and charging arrangements represent a fundamental shift in how households will both manage and pay for their waste, the immediate effects of which are as yet unknown.

7.3 …. A higher than anticipated reduction in the number of refuse bags produced (which does not necessarily translate to an equivalent overall tonnage reduction) may result in a shortfall in income from pay as you throw charges….."

3.34 That issue has materialised. The assumption made for the number of bags that would be generated significantly underestimated the extent to which islanders would embrace the new arrangements. As a result, the amount raised through bag charges is much less than anticipated, leaving a shortfall between Guernsey Waste's income from households and the cost of managing their waste.

3.35 The impact of the new services and higher charges on waste behaviour in the commercial sector could also not be fully anticipated at the outset. Currently, income from commercial waste received at the transfer station is significantly less than was modelled, further contributing to Guernsey Waste's operating deficit.

3.36 All estimates for income, expenditure, and tonnages before the new services and charges were introduced relied on a number of assumptions. They included the anticipated volumes for different waste and recycling streams, and the subsequent processing costs, for which some contracts were still to be finalised. The initial pricing decisions were therefore based on many key, unknown factors.

3.37 Comparisons now with actual income, expenditure, and waste volumes since the changes are largely immaterial. What we know from experience is different, understandably, to what was assumed based on unknown human behaviour. However comparisons are still useful in highlighting factors contributing to the trading deficit, and some major challenges with the current funding model.

3.38 The original assumptions were also based on the volumes of the different waste streams that existed before the new collection and charges were implemented, adjusted to account for anticipated behaviour change. They therefore also provide a good indicator of the impact of the changes.

4 Impact of new collections and charging

4.1 Designing new services and facilities to support the Strategy objectives has been a key factor in changing behaviours, with the pay as you throw charge helping drive that change.

4.2 This combination of measures has had a positive impact on the amount of household waste produced. Total household waste (including 'dry recycling' materials collected through kerbside, bring banks and the HWRC, but excluding household green waste) fell by around 10% following the changes to collections and charges[15]. Consequently, the cost of managing this waste was less than anticipated (as set out in paragraphs 4.15 to 4.17).

4.3 Take up of food waste collections has also far exceeded expectations. The modelling assumed around 60% of households would use the service, based on

[15] 2020 subsequently saw a 9% increase, compared to 2019. However some of that increase is likely to reflect the impact of the first COVID-19 lockdown, and how this affected the nature of waste and recycling arising in the home.

participation in the initial kerbside scheme for dry recycling materials. There was limited available data on food waste collections in other locations, but 60% was considered an ambitious but realistic medium-term goal. Soon after the service was launched locally, participation was recorded at more than 90%. That too has had a positive impact on the overall costs of managing household waste.

4.4 Recycling of other common household materials is also high, with more than 90% of households regularly using the kerbside collection service (see Table 2). A further 2% report using the bring banks for most of their household recycling[16].

4.5 This success is likely due to a combination of factors, including strong community engagement in managing waste sustainably. Other factors are efficient roll out of the new services and charges, effective communication of the changes, and the incentive of a charge for general waste.

4.6 In 2019, the year the Strategy was fully implemented, the island achieved its 2030 goal of recycling 70% of household waste.

Recycling materials	**Proportion of households setting out[17]**		
	Before changes to collections/charges[18]	After changes to collections[19]	After introduction of new charges[20]
Blue bags	68%	84%	94%
Clear bags	67%	82%	92%
Food waste	-	87%	93%
Glass	-	55%	69%[21]
Overall	**74%**	**95%**	**99%**

Table 2: Kerbside recycling collections – household participation rates

[16] Island Global Research (September 2021). In a survey of 1,848 households, 2% used bring banks when recycling paper, plastics, tins/cans, and cartons, 3% for cardboard and 8% for glass.
[17] The kerbside participation survey studies more than 1,000 households in St Peter Port and Castel, over a four week period. Households are deemed to participate in a particular 'stream' (blue/clear/glass/food) if they set out those specific materials at least once during the four weeks. The 'overall' kerbside recycling rate is the percentage of households that set out at least one recycling stream during the four weeks.
[18] Survey conducted in June 2018.
[19] Survey conducted in December 2018.
[20] Most recent survey conducted in June 2020.
[21] Observed behaviour is likely to understate actual participation in glass collection, as households that set out less frequently than every four weeks may not be recorded.

Cost to households

4.7 When the Strategy was agreed, it was understood that a more modern, sustainable approach to dealing with our waste would cost more. Consequently, household waste bills would rise.

4.8 **While that has been the case, the step change increase in the amount households have to pay that was widely predicted has not fully materialised. Households have instead been paying significantly less than was forecast.**

4.9 When the original charges were set, it was estimated that households would pay, on average, around £305 a year (equivalent to around £5.85 per week) once all the new services and facilities were fully operational. That included the annual parish charge to cover collections, which it was estimated would be around £85 (Note: the average in 2021 was £84).

4.10 The remaining £220 (equivalent to £4.25 per week), were the charges to be levied by Guernsey Waste to cover the waste and recycling services it provides.

4.11 That £220 estimate was an average over the full 20-year life of the Strategy. The modelling assumed that in the early years the volume of general waste would be at its peak, and the amount raised through bag charges would be at its highest. It was therefore expected that households would pay more than £220 at the outset, but it would gradually diminish as waste reduced and more was reused, recycled or composted.

4.12 Guernsey Waste would therefore achieve a surplus in the early years, which would offset a deficit in later years, as the income from bag charges fell.

4.13 However between 2019 and 2021, households paid on average around £160 a year in WDA charges (i.e. excluding collection), or less than £3.10 a week.

	Average weekly cost per household	
	Modelled (*20 year average*)	*Actual* (*2019 to 2021 average*)
Annual charge	£1.62	£1.67
Bag charges	£2.60	£1.39
WDA Total	**£4.22**	**£3.06**
Parish charge – collection	*£1.63*	*£1.58*
Total	***£5.85***	***£4.64***

Table 3: Household waste and recycling charges - modelled vs actual in 2019-21

4.14 Therefore even at the point when Guernsey Waste was expected to make a surplus, the income from WDA charges was significantly below the average of £4.25 per week that it was anticipated would be required to break-even over the life of the strategy.

Lower expenditure

4.15 While the income that was expected has not materialised, the cost of dealing with household waste and recycling has also been less than was forecast. This is the result of improved terms being secured for some contracts, and more material being diverted away from general waste than was anticipated.

4.16 Between 2019 and 2021, processing costs for household waste and recycling were on average around £1 million less than originally anticipated (Table 4).

	Expenditure for 2019 to 2021 (£,000s)			
	Modelled[22]	Actual		Difference
General waste[23, 24]	3,766	1,959	↓	**1,807**
Paper and cardboard[25]	598	553	↓	**45**
Plastics, Tins & Cans, Cartons[25]	152	287	↑	**135**
Food	255	538	↑	**283**
Glass[25]	105	190	↑	**85**
Bulk Refuse	-	120	↑	**120**
Green Waste	-	168	↑	**168**
Other Waste	349	405	↑	**56**
Sub-Total	5,225	4,220	↓	**1,005**

Table 4: Household waste and recycling costs for key waste streams – modelled compared to actual from 2019 to 2021.

4.17 The cost of managing each waste stream reflects the processing requirements and export and treatment costs. It ranges from nearly £300 a tonne for Refuse

[22] The modelled costs in Table 4 and Table 5 are based on the anticipated annual expenditure and tonnages for 2019-21. This provides the best illustration of the variation between expected costs and actual costs for these three years. It differs from the modelled expenditure in Table 1, which shows the 20 year average.
[23] Includes an apportionment of the Waste Transfer Station insurance and ground rent
[24] Includes 'black bag' waste and material delivered to the HWRC for disposal.
[25] Material collected through kerbside, bring banks, and the HWRC.

Derived Fuel (RDF), to less than £100 a tonne for glass - as shown in Table 5. Actual costs are different to what was modelled, primarily due to variations in the assumed and actual tonnages for each waste stream, and in some cases improved contract terms compared to what was expected.

	Cost per tonne for 2019/20 (£)	
	Modelled[22]	Actual
General waste[24]	339	289
Paper & Cardboard[25]	169	162
Plastics, Tins & Cans, Cartons[25]	170	186
Food	217	160
Glass[25]	56	84

Table 5: Household waste and recycling - processing and treatment costs in 2019 and 2020 for main household materials, modelled vs actual

Non-financial benefits

4.18 As well as reducing overall expenditure, the higher than expected volume of material being diverted from general waste has non-financial benefits.

4.19 For example, source-separated food waste goes through a process known as anaerobic digestion[26], which produces renewable energy and compost. That is considered a more sustainable treatment method than including it in general waste. Material being exported as RDF also has lower food content as a result, and is therefore dryer and has higher calorific value, improving energy recovery.

4.20 Similarly, increased recycling of other dry materials is helping maximise resources and contributing to more sustainable waste management.

4.21 While that is central to the Strategy, the policy is not to pursue recycling at any cost. A good example is 'expanded' polystyrene, which is no longer recycled locally due to the high cost (c. £3,000 a tonne). When the island was reliant on landfill, that was justified because the priority was to preserve valuable void space and diverting this very lightweight but bulky material away from Mont Cuet helped achieve that. That is no longer a requirement, and polystyrene is therefore now included in residual waste for processing and export as RDF.

[26] Anaerobic digestion is a natural process in which micro-organisms break down organic matter in the absence of oxygen, to produce biogas (around 60% methane) and a nitrogen rich fertiliser. The biogas can be burned directly to produce heat and electricity, or as a natural gas alternative or vehicle fuel.

Fixed vs variable costs

4.22 As the below forecast expenditure to date has demonstrated, lower volumes of waste can reduce overall costs. However not all costs incurred by Guernsey Waste are directly tonnage-based.

4.23 Costs can generally be broken down into three types:-

- 'Absolute fixed' costs are incurred even if the volume of waste is significantly reduced. Examples may include minimum staffing for the transfer station and HWRC, ground rent for these facilities, and annual insurance premiums.
- 'Stepped' costs are essentially tonnage-based but within a range and can be subject to increases or decreases if the volume processed exceeds an upper or lower end. They therefore have both a fixed and variable element. Examples may include the contracts for off-island energy recovery.
- 'Absolute variable' costs are directly based on tonnage. Export costs is one example.

4.24 In reality, the proportion of costs that are absolute fixed or absolute variable is relatively low. The majority of expenditure is based on 'stepped' cost terms, so it does not necessarily follow that lower tonnages will translate into proportionately lower costs. Nevertheless, further reductions in waste should continue to see the overall cost of waste management reduce.

5 Current financial position

5.1 Guernsey Waste reported annual deficits, before depreciation[27], of £1.4 million in 2019, £1.0 million in 2020, and £0.6 million in 2021.

5.2 Inert waste activities made a positive contribution of £0.8 million in 2019, £1.2 million in 2020, and £1.4 million in 2021. This reduced the overall trading deficit but cannot be relied on in future as a new solution for managing this material is required once the current Longue Hougue Land Reclamation site is full.

5.3 Excluding inert waste, Guernsey Waste has recorded an annual deficit (before depreciation) of between £2.0 million and £2.2 million in each of the last three years. This was roughly evenly split between household and commercial waste and was due to a number of factors.

[27] With the exception of very minor capital expenditure, the depreciation charge in Guernsey Waste relates to the transfer station, which was funded from the Capital Reserve and is not funded through fees and charges levied on current waste producers. Therefore the requirement for the Strategy to break even over its lifetime is calculated before depreciation, which is in effect its operating deficit/surplus after adjusting for other charges such as interest expense.

5.4 A similar deficit, excluding inert waste and depreciation, is forecast for 2022.

5.5 For households, the amount raised through bag charges has been significantly less than anticipated, due to the inaccurate assumption of the number of bags that would be generated. That was in large part because the uptake of food waste collections has been higher than expected, as well as increases in other recycling waste streams. As outlined in Section 4, actual expenditure was less than anticipated, but not to the extent to cover the income shortfall.

5.6 The revenue being received from businesses has also been less than was anticipated in the original modelling. The reasons for this include better segregation of food waste and glass, for which lower gate fees apply, and gate fees generally being below the level required to recover full costs given the volumes currently being received.

5.7 Guernsey Waste's current funding arrangements are further complicated because it is responsible for activities that involve a public service element.

5.8 For instance, several former landfill sites have to be monitored for decades to come, as they are a potential source of pollution. This is a regulatory requirement that Guernsey Waste has inherited, as holder of the waste licence for these sites, and costs around £508,000 a year. In the past it could be funded from the surplus generated from waste charges. However, it is a legacy arising from the disposal of waste by past producers, dating back generations.

5.9 Another example is hazardous waste. Some materials, such as asbestos, continue to be landfilled at Mont Cuet, while certain other chemicals are exported for safe disposal. Given the risk to health and/or pollution that would arise from improper disposal, these services do not operate on a full cost recovery basis. For chemicals, disposal is free to households, and businesses are not charged the full cost of collection and export. The gate fee for hazardous waste landfill, although higher than gate fees for other non-hazardous materials, is also capped.

5.10 These activities have a significant cost, which either cannot be fully recovered from the service user or is not directly linked to current waste producers. Under the present funding model, the cost has to be recovered through the existing waste charging mechanisms – either from households or businesses.

5.11 There is a strong argument that current service users should not be liable to pay these costs through their waste charges. It has the effect of inflating the required level of charges, distorting the link between how much households pay and how much they produce, and does not align with the principle of 'pay as you throw'.

5.12 Guernsey Waste also incurs large, uncontrollable costs. An example is insurance for the transfer station and HWRC, which is specialist cover, for which premiums reflect the general market for similar facilities elsewhere at any particular time.

It was therefore difficult to forecast accurately in the original financial modelling, and premiums are significantly above the pre-commissioning estimates.

5.13 For 2019, Guernsey Waste paid £201,000 to secure cover for the transfer station building and business interruption. Premiums increased significantly for 2020, to £359,000, and rose again in 2021, to £543,000 for a reduced level of cover. The annualised charge is currently £571,000.

5.14 These premiums will continue to depend on factors that are outside Guernsey Waste's control or influence, which adds to the challenge of maintaining the business on a viable commercial basis.

5.15 In addition, Property Services currently charges £300,000 a year ground rent for the land occupied by the transfer station and the HWRC. That is on the basis that Guernsey Waste is a commercial trading business and generates income to fund the provision of its services. At present the rental cost is contributing to the significant trading deficit.

5.16 All these costs being incurred for public service elements and uncontrollable items currently have to be met through waste charges, in addition to the processing, export and treatment costs for the island's waste and recycling. This puts considerable burden on the current household charging mechanisms.

6 Review of pricing, potential savings, and new revenue opportunities

6.1 Guernsey Waste has already begun to address the trading deficit and is not solely focused on raising household waste charges. It is looking to reduce expenditure and identify potential new service offerings to raise additional revenues. Both will minimise the requirement to increase prices.

6.2 Key supplier contracts are under continual review, to identify potential efficiencies and cost savings. In 2020/21, the processing contracts for RDF and food waste were renewed at improved terms.

6.3 In terms of new revenue streams, the viability of a garden waste collection is currently being assessed. Many UK local authorities provide this service, typically for a charge of around £50 to £80 a year. Research carried out for Guernsey Waste[28] suggests up to half of local households might use this service, on an opt-in subscription basis. Further work is now being carried out to determine if this could be operated cost-effectively on the island, and whether it could provide other, potentially non-financial benefits.

6.4 Kerbside collection is now the preferred recycling option for the vast majority of islanders, as shown in Figure 1. Only around 2% of households[28] still rely on bring

[28] Source: Island Global Research survey of 1,848 households, September 2021.

banks for all their recycling, and closure of the remaining sites at Rohais, Salerie Corner, and Longfrie will save up to £100,000 a year. For materials most frequently taken to these facilities - bulky cardboard, glass and textiles - alternative provisions are available at the HWRC and could be provided elsewhere if necessary. Guernsey Waste is currently reviewing the existing facilities with a view to implementing changes during 2022.

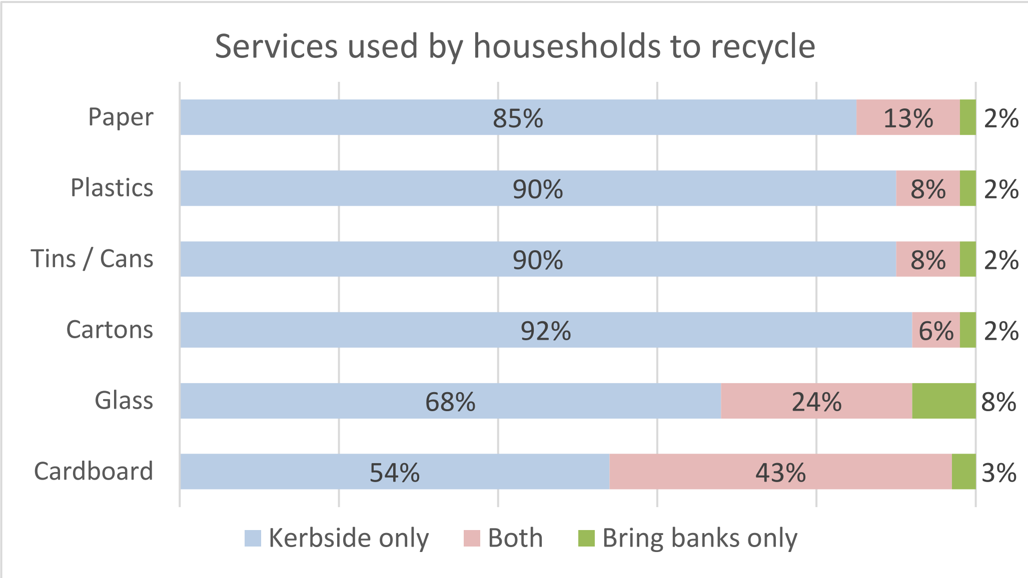

Figure 1 – Household recycling preferences[28].

6.5 Notwithstanding the scope for reducing costs and generating new revenues, it was always envisaged that some adjustment to the initial household waste charges might be required, based on experience once all the changes had been made. The STSB believes that given the current income shortfall, and the extent to which this is due to current average household expenditure being significantly lower than was anticipated, these charges should rise.

6.6 In 2020, the STSB resolved that moderate above inflation increases in household waste charges should be spread over five years, with the annual charge rising by RPIx plus £5 each year and the pay as you throw charge by RPIx plus 5%.

6.7 The first increases were implemented in January 2021, when the annual charge increased from £85 to £90, and the pay as you throw charge for general waste rose from £2.50 to £2.70[29]. This was equivalent to a rise, on average, of around £10 per household for the year.

6.8 The STSB has agreed a further increase for 2022, which will see the annual WDA charge rise to £97.97, and the bag charge[29] rise to £2.92 from 1 July. The average cost to households rise by around £13 for the year.

[29] Charge for a standard bag, up to 90 litre capacity.

6.9 In terms of commercial waste, the amount of waste received is likely to be highly price sensitive if there is potential within the private sector to process more of this material, which is not within the WDA's control. That would potentially see the deficit worsen. The STSB therefore agreed that gate fees should rise in line with RPIx, while Guernsey Waste explores opportunities to increase the amount being received at the transfer station.

6.10 In 2021, the gate fee charged at Mont Cuet for road sweepings and 'gully sludges' also increased from £50 to £260 per tonne to be more reflective of handling and disposal costs. This material from road-sweeping and drain clearance is a mixture of liquids, organic matter, litter and grit, and is currently disposed of in landfill. The increase addressed an anomaly in the previous charges and generated an additional £432,000 in 2021. That increase is primarily being met by the C*f*E&I, which is responsible for road cleaning. Guernsey Water and drainage companies will also have higher disposal charges. The method of dealing with this waste stream needs to be reviewed to ensure it is sustainable, which will influence future costs and revenues.

Proposed increases in household waste charges

6.11 Under the policy outlined in paragraph 6.6, net of any RPIx increase in future years, by 2025 the annual charge will be around £113, and the bag charge will be around £3.40. Under that scenario, based on current set out rates the average household would spend around £3.85 per week in WDA charges that year.

6.12 The STSB considers that is not unreasonable, given the cost of dealing with household waste and recycling. The average cost in 2025 would still be less than the original forecast of £4.25 per week (excluding collections).

6.13 Waste charges are set annually by Regulation. The Assembly therefore has the opportunity to reject the proposed increases when those Regulations are laid before the States by STSB. The additional revenue that these increases are forecast to raise would then have to be found through alternative means, other than waste charges.

6.14 The application of bag charges always carried a risk that some households may try to avoid the cost. However non-compliance has been very low, and it is felt that a charge in the order of £3.40 is unlikely to lead to a significant increase in avoidance. Especially given how few bags households set out (currently around ½ bag per week, on average). Smaller households, who tend to generate lower amounts, are likely to be impacted least.

6.15 The higher charge will however provide a greater incentive for all households to reduce waste and recycle, which is in line with the objectives of the Strategy. This will help households to minimise their charges and reduce the overall cost of processing and treating these materials.

7 External factors – potential impacts of UK developments

7.1 In the UK, HM Government and the Devolved Administrations have separate responsibilities for waste policy in England, Scotland, Wales and Northern Ireland. All have plans[30] to transition to a circular economy, which minimises waste and maximises the efficient use of resources.

7.2 In England, for example, the Government has committed to working towards eliminating avoidable plastic waste by 2042 and achieving zero avoidable waste by 2050. Specific measures to support these aims are contained in legislation[31] that was enacted in late 2021 and is now partly in force.

7.3 They include plans for a nationwide scheme to make producers pay for dealing with the packaging materials they produce (known as Extended Producer Responsibility, or EPR). Obligated producers will not only be manufacturers, but brand owners, importers, distributors, online marketplaces, sellers, distributors and others in certain circumstances.

7.4 Similarly, there are proposals to require retailers to apply 'take-back' deposits on drinks containers (Deposit Return Schemes, or DRS). Such a scheme is shortly to be implemented in Scotland, with the other UK administrations currently consulting on similar measures.

7.5 Through these measures, the UK is exerting pressure on manufacturers and their supply chains. That rightly moves some responsibility onto producers, to support individuals in managing their waste sustainably. The latest information is that both the EPR and DRS schemes are likely to be implemented UK-wide from 2024.

7.6 Considerable progress is also being made to improve the recyclability of items such as carrier bags, bread bags, polythene, and crisp packets. Until now these have been difficult to recycle, and therefore currently are supposed to go into general waste. However that could change in future as capacity to reprocess these materials is expected to improve significantly.

7.7 These are significant developments, intended to drive societal change, and will alter how packaging and other products are designed and managed throughout their lifecycle, from manufacture to end of use treatment.

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[30] HM Government - A Green Future: Our 25 Year Plan to Improve the Environment; Resources and Waste Strategy for England; Welsh Assembly: Beyond Recycling; Scottish Government: Developing Scotland's Circular Economy; Northern Ireland Executive - Delivering Resource Efficiency.
[31] UK Environment Act 2021.

Local implications

7.8 Under the UK EPR proposals, charges levied on obligated packaging producers[32] will be used to cover the cost of managing these materials, whether through recycling or other means. It is intended to achieve full cost recovery, with income from charges distributed to collection authorities and processors.

7.9 Full details of how this and DRS will work in the UK are still to be announced, so it is currently unclear how local retailers might be affected. When more details are available, it will be possible to assess the potential benefits, implications, options and costs of adopting similar schemes in the island. It is likely this would require legislation, which as a policy matter sits within the mandate of the CfE&I. Guernsey Waste is liaising with the Committee regarding potential implications, pending further details.

7.10 While there are currently no plans to adopt similar proposals in Guernsey, even if we do nothing these schemes could still have a significant impact. Most of our main retailers are either part of or closely linked to major UK chains. We therefore share the same supply chains and the same producers for most everyday products, groceries, and other goods.

7.11 The initiatives being developed in the UK should reduce waste and improve recyclability. This could affect the volumes and type of materials Guernsey Waste has to deal with, and the costs that it incurs. It will also potentially further erode the ability to recover costs through charges for general waste.

7.12 In other words, developments in the UK may mean Guernsey Waste has a still diminishing number of bags of waste and/or recycling through which to generate income under the current charging arrangements. The reliance on black bag charges to recover a significant proportion of costs may become even more unsustainable, which the addition of recycling charges alone may not resolve.

7.13 It is difficult to predict with any certainty what the financial implications will be. This is further complicated by the fact that, for practical reasons, pay as you throw charges are volume-based (i.e. per bag), but subsequent export and treatment costs are weight-based.

7.14 By way of illustration, plastic film is lightweight but may currently account for a significant volume of black bag contents. Increased recyclability may reduce the (weight-based) cost of treating general waste but will result in fewer bags. The balance is currently uncertain, but a 5% reduction in weight and 30% reduction in volume, based on current charges, would leave Guernsey Waste with an additional annual deficit of around £600,000.

[32] Under the proposals being consulted on, obligated producers will include brand owners, importers, distributors, online marketplaces and service providers.

7.15 However EPR and DRS have the potential to transfer certain costs currently being incurred by processors (those disposing of the goods) onto producers, and therefore onto products themselves. This more closely reflects a 'polluter pays' approach, in the sense that every individual will be more responsible for the costs of the products they choose to purchase and consume.

8 Addressing the ongoing deficit

8.1 Compared to 2021, the planned increases in household charges outlined in Paragraph 6.6 could generate additional income of around £1.0 million a year by 2025, excluding RPIx.

8.2 Based on current expenditure, these increases alone will not be sufficient to address Guernsey Waste's current operating deficit of around £2 million a year (excluding inert waste and before depreciation). Nor will they address the ongoing accumulated deficits, which by 2025 are estimated will total around £10 million. They are also highly dependent on the number of bags of general waste being set out, which is still subject to considerable uncertainty.

8.3 It is unlikely sufficient cost reductions or new revenues can be realised to close the ongoing deficit that is forecast from 2025. Therefore, under the current cost recovery model, further increases in household waste charges will be required.

8.4 There are several variables that could determine how far charges would have to rise for Guernsey Waste to achieve a break-even position over the lifetime of the Strategy. They include how much contribution commercial waste makes to the overall operating costs. That might improve in future, but that cannot be guaranteed as there is significant private sector involvement. If the amount of commercial waste being received at the transfer station does not increase significantly, households will be left to cover a higher proportion of Guernsey Waste's operating costs than originally anticipated.

8.5 Another very significant factor is the potential further reduction - or increase - in the number of bags of general waste. That is difficult to forecast for the immediate future, particularly given the growing focus on waste reduction internationally, the impact of which is currently unknown.

8.6 It is possible however to calculate what the household charges need to be, based on current costs and set out rates, if they are to be used to recover the deficit.

8.7 To fully recover the accumulated deficit and achieve breakeven by 2039 (i.e. within the 20 years of the strategy), every household will have to pay an additional £95 a year from 2023 onwards. The average cost would then be around £320 a year in WDA charges, which is broadly in line with the original estimate of £305 – having been significantly below that for the first four years.

8.8 Under this scenario, households will also be contributing to addressing the shortfall in anticipated income from commercial waste, both in the accumulated deficit and in future years. As such, they may not continue to see the benefit of the reduction in overall costs that have been achieved.

8.9 Figure 2 shows the respective charges required to address the anticipated ongoing deficit, ranging from all the additional income being recovered through the current bag charge to the whole shortfall being placed on the fixed charge.

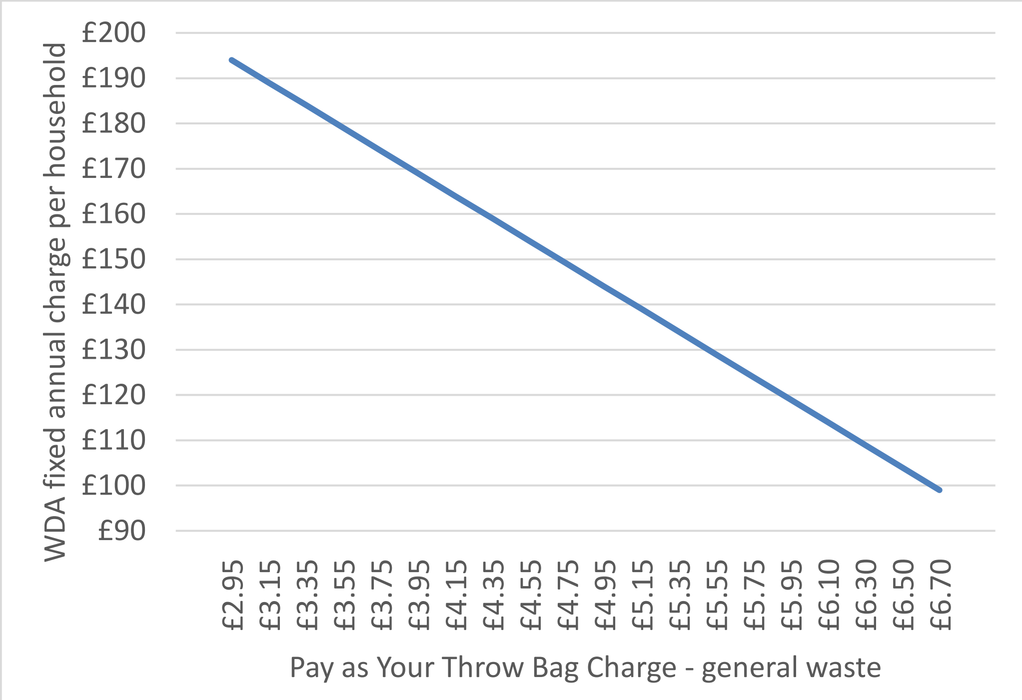

Figure 2 - WDA fixed charge vs bag charges to recover current full deficit

8.10 The line on the graph illustrates the balance of charges required based on current forecast costs and existing charges only:-

- If the annual WDA waste charge remained at the proposed 2022 level of £97.97 for the remaining years, the pay as you throw charge for general waste would have to rise to around £6.70 per bag from 2022 onwards.
- If the pay as you throw charge for general waste was fixed at the proposed 2022 charge of £2.92 for general waste, and the full increase was applied to annual charge, that would need to rise to around £195 in 2023.
- Alternatively, splitting the additional income between the two elements, the annual charge would rise to around £145 in 2023, and the pay as you throw charge for general waste to around £4.75 per bag.
- If these increases are not implemented in 2023, the accumulated deficit will continue to grow. Therefore, to achieve a break-even position by 2037 would require an even higher rise in the bag charge, the annual charge, or both.

8.11 These estimates include a number of assumptions:-

- The number of bags of general waste set out continues at current levels;
- Commercial tonnages received at the waste transfer station continue at current levels;
- There is no ‘pay as you throw’ charge for recycling, which is permitted within the charging legislation

8.12 There is of course a significant risk in assuming the number of bags of general waste being set out will not continue to decline, particularly after price increases. The consequences of further reductions could be more acute than the impact to date, as it is starting from a relatively low base.

8.13 The fact that plastic film, which accounts for a large proportion of the current volume of waste, is likely to become more recyclable could also be a significant driver towards further reductions in the number of bags being set out.

8.14 Clearly if the whole deficit is to be recovered through an increase in the bag charge, it would be a very significant shift – two and half times the present level. It is difficult to conceive this not having a marked impact on behaviour – whether that be a further reduction in waste volumes (or increase in antisocial avoidance). Experience to date with what is, by comparison, a fairly modest bag charge would support that. As such, it is questionable whether it would result in anything close to the required income to make up the current shortfall.

8.15 Therefore, while the STSB considers the increases proposed in Paragraph 6.6 are reasonable, to recover an additional £95 per household through the existing charging mechanisms, given the current volume of waste (and recycling), would pose significant challenges.

<u>Other charges/revenues</u>

8.16 The need for such increases could be offset to a degree by the introduction of a pay as you throw charge for recycling or other new revenue opportunities, as well as by efficiencies resulting in cost reductions.

8.17 In Figure 3, the lower line on the graph shows the range of potential fixed charge and bag charge combinations based on Guernsey Waste reducing costs or increasing other revenues by £400,000. These figures are all illustrative, as there are numerous variables which will affect the actual income and costs.

8.18 A net increase in revenue/reduction in costs of £400,000 a year could reduce the pay as you throw charge for general waste by around 70p per bag, or the annual charge by £15.

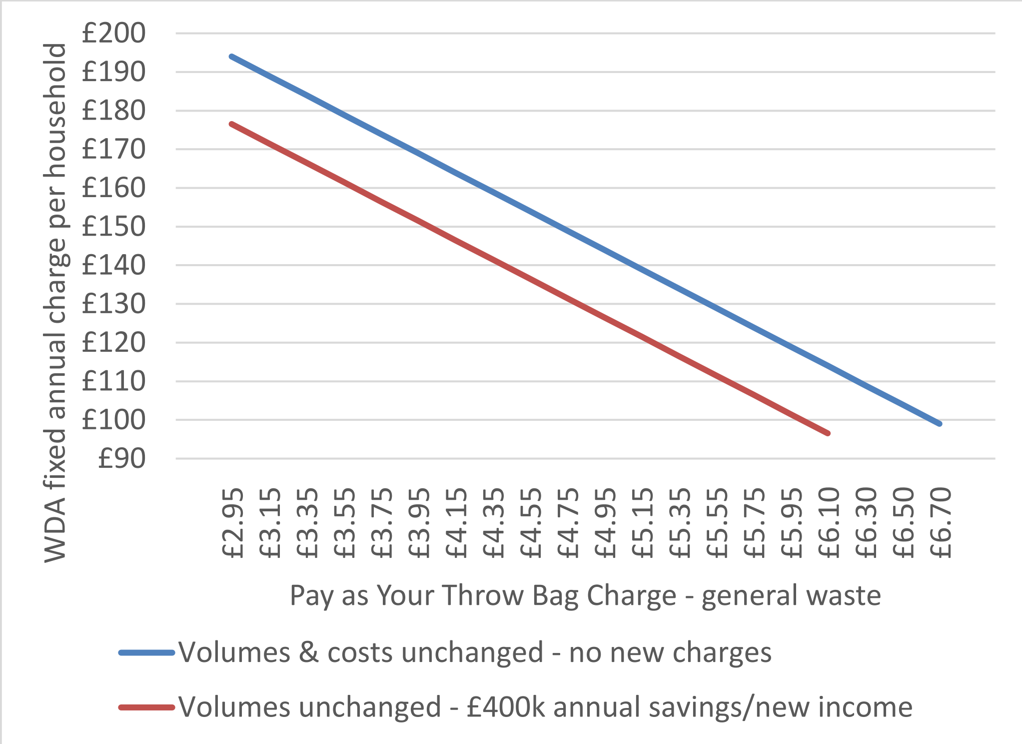

Figure 3 - WDA fixed charge vs bag charges to recover current full deficit

Recycling charges

8.19 The fact that recycling facilities and services have always been free to households, at the point of use, can give rise to a misconception they provide a revenue for the States, or are at least cost-neutral. That is incorrect.

8.20 Guernsey Waste around currently spends around £2.2m a year on providing recycling facilities and services for households. That includes sorting, processing and export of materials collected through kerbside 'dry' recycling, bring banks, and the HWRC. Currently, that cost is expected to be covered by income raised through the annual charge and the pay as you throw charge for general waste.

8.21 Under the current legislation[33], a charge can also be applied to any of the household recycling waste streams. That is entirely in keeping with both the 'polluter pays' principle and the Waste Hierarchy, which places prevention ahead of recycling in order of priority.

<u>Chargeable recycling streams</u>

8.22 Applying a recycling charge would be most straightforward for materials currently collected in blue and clear kerbside bags. This would be either by way of a charge for the bags themselves, or the application of a sticker as used for general waste.

[33] Waste Management Services (Charging) Ordinance, 2018.

8.23 There are some practical issues that would need to be overcome. For instance, a new charge may encourage households to overfill bags, to the point that they become too heavy for collection contractors to safely lift. That could be a problem with clear bags containing primarily paper.

8.24 Food waste and glass are far less straightforward, as both require a returnable container.

- A regular payment could be applied through some form of adhesive label, but unlike the current stickers they would have to be easily removable before the container is returned. That presents issues with stickers being stolen or becoming accidentally or deliberately detached.

- Requiring contractors to remove a payment label from food caddies (weekly) and glass bags (fortnightly) would also be onerous, given the very high participation levels. It is therefore likely to be unworkable and would be certain to slow collection times significantly and therefore increase costs.

- For both glass and food waste, the containers provided are industry standard for separate collections of these materials. Alternate, 'non-returnable' containers, such as the blue and clear bags used for kerbside dry recycling, are not viable. Food waste requires a sturdy, vermin-proof, container, and plastic bags for glass would contaminate the material.

- It is preferable if households set out food waste weekly. A charge every time a caddy is emptied may discourage many from setting out until full, which poses hygiene risks and amenity issues if waste is stored for long periods.

- Charging on a less frequent basis, for instance an annual, quarterly or monthly charge effectively becomes a fixed charge. It would therefore be more cost-effective to retain that within Guernsey Waste's existing annual charge, rather than create a separate one.

8.25 For these reasons, it is considered impractical at this stage to introduce a pay as you throw charge for food waste or for glass.

8.26 In principle, subject to further consultation on the potential issues and operation, the STSB supports the introduction of a charge for current recycling bags from 2023. This would provide an additional revenue stream for Guernsey Waste, to reduce the current reliance on the bag charge for general waste.

<u>Key challenges</u>

8.27 Any new charge for recycling may be unpopular, particularly given the perception that 'free' recycling represents an income stream to the States, rather than a cost. Islanders have also generally felt they should not be penalised financially for 'doing the right thing' in waste terms. That is a communication challenge.

8.28 To date, compliance with requirements for setting out and paying for general waste is very high. That suggests a charge for recycling is unlikely to result in widespread avoidance. Nevertheless, it should be acknowledged that any increase in direct charges adds to the risk of some households looking to evade the cost – as opposed to reducing their waste/recycling, as intended. That risk has to be balanced against the anticipated benefits and potential returns.

8.29 The only way to avoid this risk of increased antisocial behaviour, such as burning of waste and recycling materials, abuse of public litter bins, or fly-tipping, would be to not introduce a new charge.

8.30 In addition, the current trading deficit is, in large part, the result of inaccurate estimates being made of the revenues that would be raised through the charge for general waste. That includes not being able to predict the impact on household behaviour, in terms of the number of bags that would be produced.

8.31 The estimates for the number of recycling bags currently being set out have taken some account of the fact that most are only partially full when set out for collection. The introduction of a charge will be an incentive for households to only set out when full, to minimise the cost to them, and an adjustment has been made to reflect this.

8.32 Even so, there are a number of reasons why any assumptions of future set out may still be inaccurate:-

- The studies were based a selection of households, in areas chosen to represent a cross-section of the island. The results showed considerable variation in set out (and content) of recycling bags in different areas, which in part reflects both household composition and recycling behaviour. If the study areas were not fully representative of the island as a whole, the calculations could significantly over-estimate average set out rates.

- The assessment of how full bags were relied on a visual inspection. Although done consistently, this method has considerable margin of error. Also, no effort was made to compress the contents, which would be encouraged by a new bag charge. This could again lead to a significant over-estimate of the equivalent number of full bags.

- As demonstrated by the introduction of pay as you throw for general waste, it is impossible to accurately predict the impact a new charge will have on actual behaviour.

- No matter how accurate the assumptions and calculations at the outset, the content of recycling bags could be significantly altered by future developments in packaging and product manufacturing.

8.33 If Guernsey Waste is to rely on a new recycling charge to make a significant contribution to its costs, a more in-depth analysis of future set out rates should be carried out. This should enable a more accurate forecast of the revenue likely to be raised, and lessen the risk of it being overestimated from the outset. However, as noted above, current and future developments in the UK (and further afield) would still have the potential to significantly alter the volume and composition of waste and recycling, making the long term income uncertain.

Application of a recycling charge

8.34 Surveys[34] in 2020 and 2021 indicate households currently set out, on average, the equivalent of 1.2 full blue bags and 1.0 full clear bags per fortnight. Island-wide, this would equate to approximately 1.6 million full bags per year.

8.35 To reflect the waste hierarchy, which prioritises recycling above recovery and disposal, any charge for recycling would have to be significantly less than for general waste (currently £2.70 per bag). That will also ensure there remains an incentive to encourage sustainable waste management.

8.36 Based on current estimated set out, a charge of between 50p and £1 a bag could raise between £800,000 and £1.6m a year. For practical reasons, it may be preferable to target a smaller charge of around 25p a bag. That could raise in the region of £400,000 a year, which may be more certain as a smaller charge could mitigate some of the risks highlighted. It also maintains a very significant differential between the cost to the household for general waste and that for recycling, so there remains a clear financial incentive for them to recycle as much as possible, and a further incentive to reduce their waste overall.

8.37 This could be applied through a charge for the bags themselves, rather than for a separate sticker (with bags continuing to be free). This would avoid collection contractors having to check for additional payment labels. It would also be a more straightforward for households, as it would avoid having to purchase different stickers for different waste streams.

8.38 For the avoidance of doubt, if a new charge were to be implemented in this way, the colour of the bags would be changed from the current clear and blue designs. This would avoid the prospect of households amassing large supplies of free bags in anticipation of avoiding future charges.

8.39 The STSB recommends that whatever mechanism is chosen, the initial target for a new recycling charge should be £400,000 (around 25p per week per household). However, the introduction of such a charge may not, in itself, make the current charging model sustainable, particularly given some of the risks highlighted above.

[34] The waste composition analysis studied recycling bags from around 210 households, and the kerbside participation survey sample 1,016 households.

Future funding

8.40 As outlined above, any measures aimed at raising additional revenue through waste charges are far from guaranteed to succeed. Experience to date has demonstrated that the ability to reduce waste – or find alternative means of disposal – is encouraged by direct charging. Increasing those charges can only serve to increase those pressures.

8.41 Even if the current deficit can be addressed in full in the short term, there are potential challenges ahead that could further undermine this recovery. The island is subject to external factors beyond its control, as outlined in Section 7.

8.42 Therefore notwithstanding the efforts that are being made to address the trading deficit, given the degree to which Guernsey Waste has little control over its income and significant elements of its costs, the STSB is doubtful that the current funding model is sustainable in the short, medium or long term.

8.43 The STSB believes it is appropriate to retain a pay as you throw element of charging, which has proved extremely successful in encouraging and supporting behaviour change. However it also believes that the proposed increases outlined in Paragraph 6.6 represent a realistic limit to how much household waste charges can rise in the immediate future, balanced against the risk of unintended consequences. Coupled with the introduction of a reasonable charge for recycling materials, this will go some way to reducing the deficit.

8.44 In reality, most of Guernsey Waste's operations are effectively providing a public service, which make an important social and environmental contribution to the island. In that respect, it is similar in many ways to Beau Sejour.

8.45 Although the leisure centre charges for use of its facilities, its primary purpose is to provide a public facility where islanders can enjoy sports and fitness activities. This promotes and enables more active, healthier lifestyles, which is beneficial to islanders' physical and mental wellbeing, and has wider benefits to the community as a whole. This in turn can realise financial and economic benefits, through reduced spending on health services, and reduced sickness absence.

8.46 Without Beau Sejour, many islanders would not have easy access to these kinds of facilities. However if charges were set at such a level to fully recover all its costs, many current users of the centre might be deterred from doing so, to the detriment of those individuals and the wider community. Charges therefore recover some costs, and the deficit of around £600k a year is made up from the proceeds from the Channel Island Lottery.

8.47 Without that central funding, it is doubtful Beau Sejour could operate commercially, and the community would not benefit from its provision. Guernsey Waste is similarly challenged in operating commercially, and at the same time maintaining a charging system that is fair and affordable to all. And just as investment in the community's physical and mental wellbeing has wider benefits - including financial – so too does the efficient management of the island's waste.

8.48 The STSB therefore believes the most appropriate way to address any remaining shortfall is through General Revenue funding. This is in keeping with the precedent set in 2018, when the States agreed to provide funding from the Capital Reserve to cover the initial infrastructure development costs.

8.49 The STSB therefore proposes that the Policy & Resources Committee writes off Guernsey Waste's accumulated deficit, before depreciation, of £2.97 million (2019 to 2021).

8.50 It is also proposed that from 2022 onwards, the Policy & Resources Committee provides Guernsey Waste with an annual cash limit, in line with the budgeted shortfall for that year, excluding inert waste and depreciation.

8.51 Based on current financial forecasts, including proposed changes to the current waste charges, this would require an annual cash limit of around £0.5 million for 2022. This would rise to £1.8 million in 2023 (following removal of any contribution from inert waste operations from 2023), then £1.6 million in 2024, and £1.4 million per annum from 2025 onwards.

8.52 This funding arrangement would be kept under annual review, taking account of any potential developments in waste and recycling, including from external factors (as outlined in Section 7) and commercial waste policy (as outlined in Section 9), and the likely impact of these on Guernsey Waste's future income or expenditure.

Legislation changes

8.53 The Waste Management Services (Charging) Ordinance, 2018 sets out the basis on which charges levied by the WDA for household waste services are calculated. The Ordinance currently provides for charges to be calculated on the basis of the projected total cost to the Waste Disposal Authority (in effect Guernsey Waste) and the States of providing waste management services in the particular year, subject to certain provisions allowing for costs to be spread between years. Therefore, if an annual cash limit is provided for part of the cost any necessary amendments to the Ordinance will need to be considered.

8.54 Adjustments may also be needed to the annual Regulations relating to gate fees at Guernsey Waste sites for commercial waste. However, the powers under which those gate fees are made in section 32(3) and (4) of the EP Law[35] do not require a full recovery but do require Guernsey Waste to have regard to the statutory Waste Management Plan (WMP) in exercising the charging power.

[35] Environmental Pollution (Guernsey) Law, 2004

8.55 The WMP, made under the EP Law, is required to identify arrangements for recovery of the costs of providing waste management services. Currently, it refers to cost recovery through charges, which will require revision if the recommendation for an annual cash limit is approved.

9 Commercial waste policy

9.1 The Strategy applies to both households and businesses. While different approaches may be adopted, the same priorities and objectives apply – to reduce waste and maximise the benefit derived from valuable resources.

9.2 Nevertheless, the levers and mechanisms that have been developed to drive these priorities are very different.

9.3 For households, the States has overseen a major overhaul of waste services - from collections to treatment methods and charging mechanisms. That included changing legislation to give effect to the policy and operational drivers. As a result, while it has no involvement in collections, Guernsey Waste is able to specify how materials should be set out and the facilities they are to be delivered to. In effect, it has control over how household waste is managed.

9.4 No such controls exist with the commercial sector. Historically, while the States has provided waste segregation and disposal facilities for commercial waste, a significant proportion of material arising from businesses has been dealt with through the private sector. There is currently one dominant operator.

9.5 Guernsey Waste's facilities are enabling commercial waste to be managed more sustainably. Businesses are now able to separate food waste, because a route is provided for separate treatment. Take up has exceeded expectation.

9.6 However successive Assemblies have sought not to interfere with the operation of the private sector, in respect of providing services and facilities to manage commercial waste. The STSB fully supports that approach.

9.7 Nevertheless, the States has previously acknowledged the need to ensure the viability of the island's key waste management infrastructure – in particular the Waste Transfer Station. The Director of Environmental Health & Pollution Regulation has to take account of this in considering certain licence applications.

9.8 While there was no intention to interfere with the private sector, when the Strategy was agreed there was an expectation commercial operators would continue to sort and process materials, but any residual would be delivered to the Waste Transfer Station, to be processed into RDF and exported.

9.9 However subject to meeting the necessary licence and legislative requirements, commercial operators can now process and export waste in the same way as Guernsey Waste. In effect, private facilities are free to compete with the Waste Transfer Station.

9.10 The private sector also has the freedom to target waste that it can manage most profitably, while always relying on Guernsey Waste, as provider of last resort, to deal with any materials that are unprofitable. While that is not unreasonable, it is important the commercial sector makes an appropriate contribution to the full cost of managing its waste, and households are not left to meet the burden.

9.11 There is also a need to consider what targets are appropriate for commercial waste, and whether any additional measures are required in order that the private sector can meet the objectives of the Strategy.

9.12 For instance, in 2021 71% of household waste was recycled, but only 53% of commercial waste.

9.13 While the target of 70% recycling by 2030 originally applied to all wastes, in 2017 this was agreed only as a household target. The reason being that the nature and composition of some waste arising within the commercial sector is different to that from households. Guernsey Waste has in-depth understanding of household waste, as it receives all this material. That is not the case with commercial waste, much of which is dealt with in the private sector. Therefore while 70% was considered realistic (and at the time ambitious) for households, further work was required to identify an appropriate target for commercial waste.

9.14 As a policy issue, this will be a matter for the C*f*E&I to progress, and in that regard Guernsey Waste has had some initial engagement with the Committee.

10 Other matters

Billing of Parish and WDA fixed charges

10.1 Douzaines are responsible for arranging household waste and recycling collections, according to the specification provided by the WDA. The collection contract is between each parish and its chosen contractor, and the Douzaines are therefore liable for the cost of the service. They recoup this from service users – parishioners – through the 'waste rate', which is included in the annual parish rates bill.

10.2 The WDA, similarly, recoups a proportion of its costs for the processing and treatment of waste and recycling through its annual charge, which in 2021 was £90 per household.

10.3 The respective responsibilities and charging powers of the Douzaines and the WDA are contained within different pieces of legislation[36]. For that reason, each household currently receives two separate bills for their waste and recycling services (in addition to bag charges).

10.4 It is illogical from the household's perspective to receive separate charges from two different entities for what, to them, is one service. It is in effect like visiting a restaurant and receiving a bill from the waiter and another from the chef. Waste and recycling is no different – households set out materials not just for collection, but for all the processing and treatment.

10.5 However, given the separation of roles, responsibilities, and charging powers, there are inevitably two distinct elements in the costs being levied.

10.6 Both the STSB, in introducing the new charging arrangements, and previously the Public Services Department, which devised the mechanism, sought to address this by encouraging the Douzaines to consider combining charges into a single bill. This would be simpler to understand, more transparent, and more customer-friendly. However, while it was at the discretion of each parish, it would need to apply island-wide, otherwise it would be administratively complicated and confusing for households.

10.7 There was considerable engagement with the parishes between the time the charging mechanisms were agreed, in 2014, and implemented in 2019. However, the majority of Douzaines were not in favour of a combined bill. In part, this was due to concerns they had in terms of dealing with any additional enquiries and potential debt management issues, with limited resources.

10.8 Given the significant other challenges in the roll-out of an entirely new waste management system, the STSB opted to proceed with an arrangement that is less than ideal, and to seek to revisit it post-implementation.

10.9 Guernsey Waste therefore currently contracts the States Central Customer Services to provide the billing, income management and debt recovery function. This includes generating and sending out the annual bills, providing arrangements for payment, and following-up any non-payments - including where necessary pursuing claims through Petty Debts.

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[36] The Douzaine responsibilities and charging powers are provided under the Parochial Collection of Waste (Guernsey) Law, 2015 and the Parochial Collection of Waste (Guernsey) Ordinance, 2018. The WDA duties and charging powers are provided by the Environmental Pollution (Guernsey) Law, 2004, with the household charges set out in the schedule to the Waste Management Services (Charging Ordinance), 2018 which is amended by Regulations.

10.10 Other options that could avoid a separate bill for the WDA annual waste charge were investigated. They included combining it with an existing States invoice, most notably for Tax of Real Property (TRP). That was the logical choice, as the bills for both WDA annual charge and TRP are sent to property owners. That is not the case with, for instance, with utility bills, which are sent to occupiers.

10.11 Previous States Reports do not give details of why that option was not pursued. It is believed there may have been some resistance due to the ongoing political - and public – concerns regarding the chosen waste solution. However, it was probably also not properly understood at the time the likely cost and resource requirements in having to progress a standalone bill.

10.12 STSB believes that if an annual WDA charge is to be retained in future, it should be combined with TRP bills. This will avoid duplication and should reduce administration costs.

Review of parochial collection system

10.13 All 10 Douzaines and their collection contractors have played a key role in the successful implementation of the Strategy. This involvement began long before the roll-out of the new services, with representatives of the parishes fully engaged in developing the waste strategy from the outset and subsequently helping to inform new policies, legislation, roles and responsibilities, and design of the new collection arrangements. This required considerable commitment on the part of parish volunteers over an extended period, at numerous workshops, presentations, and implementation working parties, and deserves great credit.

10.14 It is impossible to overstate the significance of the changes to the collection arrangements for household waste and recycling in delivering the achievements to date. It is also reasonable to reflect that without the involvement of the Public Services Department, and latterly the STSB, it is unlikely the system would have evolved in the way that it has. It is a matter of record that Douzaines were, on occasions, sceptical about the changes to collection arrangements and the proposed approach to waste management more generally.

10.15 That scepticism, at least in part, reflected broader community concerns over the future direction of the island's waste management, given the long and fractious history of this issue. There was no evidence of consensus among all 10 parishes on the best way forward, therefore a consistent, island-wide approach required to deliver significant change was unlikely to have occurred naturally. However, it also has to be acknowledged this was a considerable upheaval to the status quo.

10.16 The successful roll-out of the new services, the very high levels of participation in the new arrangements, and the subsequent achievement of key Strategy targets, are evidence of the strong and, ultimately, effective collaboration between all the parties. This has delivered a consistent, high quality collection service that aligns with the broader strategy goals.

10.17 While the parishes retain responsibility for arranging collections, the WDA provides the specification for these services. That includes the combinations of materials to be collected, and the frequency of these collections to align with the Strategy objectives. This ensures waste and recycling are delivered to the various processing facilities in the correct manner and quality.

10.18 Whatever the misgivings and concerns prior to the changes to collections, the current services have proved popular with households[37].

10.19 Prior to setting the specification, Guernsey Waste undertook detailed modelling of different scenarios, to identify the most practical and cost-effective method of delivering the strategy objectives. These included different combinations of materials and frequencies, collection vehicle type, and island-wide versus parish-based rounds.

10.20 This identified an optimal, most efficient arrangement involving 'split body' collection vehicles, with separate compartments to enable different waste and recycling streams to be collected in a single pass. It also suggested that organising routes on an island-wide basis could enable overall savings of £150,000-£200,000, by rationalising routes and subsequent fleet and crew optimisation.

10.21 It must be stressed these were modelled costs, not a tendered contract price, but the potential opportunity for cost savings warranted further investigation.

10.22 The initial collection specification did not seek to impose island-wide arrangement for collection rounds. Douzaines were instead encouraged to seek efficiencies through potential joint working.

10.23 In the event, with the exception of one operator who retired, all parishes retained the contractor who provided their collections prior to the changes, and rounds continue to operate largely on a parish basis. A number of Douzaines are understood to have signed long-term contracts prior to the roll-out of the new arrangements in 2018, believed to be for terms of up to seven years.

10.24 With the benefit of more than three years' experience, it is timely to review the current operations to explore scope for further improvements and efficiencies.

10.25 **This is not, in any way, a negative reflection on the way that parishes have continued to organise their affairs or the service their contractors provide. In fact, it should be acknowledged that throughout the Covid-19 disruption, all household waste collections continued without interruption.**

[37] Island Global Research (September 2021). In a survey of 1,848 islanders, 77% said they were satisfied with the collections - including 46% who were very satisfied. 10% were either dissatisfied or very dissatisfied.

10.26 Nevertheless, these services involve significant contracts, which in 2022 amounts to £2.4 million. This cost is passed on to islanders, and it is therefore incumbent on all parties to demonstrate value for money and ensure services are being delivered in the most cost-effective manner.

10.27 There is also considerable variation in the collection charge in different parishes, as shown in Table 6. In 2022, the average is £88, but there is a 54% difference between the lowest, St Sampson, and the highest, Torteval. Three quarters of all households will pay £83 or less, while 17% will pay more than £110.

10.28 Some of that variation can be attributed to the different nature of the parishes, with collections in the smaller rural ones logically being more time-consuming than in built up areas. However, it is questionable whether it is reasonable for a household in Torteval to be paying 70% more than a household in a rural part of Castel, for what is essentially the same service.

10.29 This is a challenge for the parishes, as each Douzaine will naturally want to secure best value for its parishioners. However what currently represents a good deal for the majority who pay less than £83 a year is not so good for the one in six households paying more than £110.

Parish	No. of households[38]	2022 Refuse Rate
Castel	3,561	£ 81.13
Forest	635	£113.13
St Andrew's	933	£99.65
St Martin’s	2,778	£ 110.32
St Peter Port	9,004	£ 82.95
St Pierre du Bois	888	£ 115.26
St Sampson	3,970	£ 77.00
St Saviour’s	1,179	£ 107.88
Torteval	407	£ 118.81
Vale	4,016	£ 82.51

Table 6 - 2022 Parish waste & recycling collection charges

10.30 Guernsey Waste enjoys a constructive relationship with all three parish collection contractors. That has been fostered since the establishment of parish/contractor working groups in preparation for the introduction of kerbside recycling in 2014, and they continue to meet quarterly. However Guernsey Waste is not party to the contractual and financial arrangements between the parishes and their contractors.

[38] Domestic property units by parish, December 2021. Source: Guernsey Annual Residential Property Stock Bulletin 2021.

10.31 For the avoidance of doubt, consideration of an island-wide model does not, of itself, imply responsibility for collection arrangements being taken from the parishes. It also does not necessarily require a reduction in the number of current operators, who provide an excellent service. What it would seek to do is identify how collections can be delivered most effectively.

Commercial collections

10.32 The Parochial Collection of Waste Law allows for parishes to admit small businesses into the parish system provided the amount and type of waste and recycling they produce is similar to that of a household. They are then subject to the same charging arrangements as households.

10.33 That admission arrangement is at the discretion of each parish, which is a provision included in the legislation at the request of Douzaines. Some believed the administration may prove too burdensome, given their limited resources. However most have now allowed small businesses in their parish to be admitted.

10.34 The main exception currently is St Peter Port, which ironically is where eligible commercial operations are most likely to be. Some businesses may be setting out materials now for collection by the parish but avoiding the annual charges that would apply if they had the opportunity to be admitted. Nevertheless, admission is at the Douzaine's discretion under the current legislation.

10.35 Whether that discretion is working as intended should be part of any review of the current parish collections arrangements. It should also consider the scope and potential benefits, including financial, of expanding the current household collections to include not just small businesses but also medium-sized businesses. This would be similar to arrangements in the UK and mainland Europe, where collection authorities tend to provide services for municipal waste – a combination of both domestic and commercial sources.

10.36 For households, this has the potential to spread the fixed costs of the collection service more widely. For businesses, it could be an opportunity to be part of a collection round that already passes their premises, rather than having to make separate arrangements.

10.37 There will still be opportunities for waste contractors to offer a dedicated commercial collection service, if this is a more cost-effective or efficient option for businesses. For instance, where more frequent pick-ups are required.

Enforcement powers

10.38 The Parochial Collection of Waste Law allows Douzaines to specify requirements for households in setting out their waste and recycling – primarily the time and day of collection. It also gives them the duty to enforce these requirements, and those set by the WDA, which stipulate what materials can be set out in each container, and the payment arrangements.

10.39 All parishes have opted to use the power in the Law allowing them to delegate their enforcement functions to the WDA – effectively Guernsey Waste – to carry out on their behalf.

10.40 Persistent instances of non-compliance can result in a civil fixed penalty of up to £60. This is unlike fixed penalty notices for certain other offences, because households must first be served with warning notices.

10.41 This is in line with the original intent when enforcement arrangements were first debated by the States, when the waste charging policy was approved in December 2014. That policy letter[39] stipulated:-

> *"3.23 The [fixed] penalty will not be applied before the third (or subsequent) breach of the requirements. The first breach will result in a sticker or an advisory notice, and the second breach in a warning notice."*

> *"3.28 Given the firm intention to change behaviour by way of education, it is unlikely that large numbers of civil fixed penalties will be issued."*

10.42 The review of the current parish collection arrangements should also consider whether the enforcement arrangements are appropriate, in light of experience gained over the last three years.

10.43 The review would also have to consider whether any recommendations made would necessitate any amendment to the statutory Waste Management Plan which reflects the current policies for the management of waste.

11 Compliance with Rule 4

11.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.

11.2 In accordance with Rule 4(1):

(a) By addressing the current Waste Strategy funding requirements, the propositions will:

- help realise the benefits of the Waste Strategy, through further reduction of waste and more sustainable use of resources;
- contribute to the Climate Change Policy target of net zero emissions by 2050;
- contribute to the Government Work Plan recovery outcome *"More sustainable production, consumption and management of resources"*;

[39] Billet d'État XXVI, 2014. Waste Strategy – Household Waste Charging Mechanisms.

- contribute to the Government Work Plan priority action of *"Secure extension of the Paris Agreement on climate change and ongoing compliance"*.

(b) The Committee *for the* Environment & Infrastructure and the Policy & Resources Committee have been consulted in the preparation of the propositions.

(c) The Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.

(d) The financial implications of the Propositions are included in Paragraphs 8.49 to 8.51.

11.3 In accordance with Rule 4(2):

(a) The Propositions relate to the mandate of the STSB in respect of its statutory role as Waste Disposal Authority, and the functions of that role as set out in the Environmental Pollution (Guernsey) Law, 2004:-

- Section 30. (1)(a) to make arrangements for and ensure the operation of Guernsey's public waste management system; and

- Section 30. (1)(c) to keep under review the systems for collection; transportation, sorting and recycling of waste;

(b) The Propositions have the unanimous support of the STSB.

Yours faithfully

P J Roffey
President

C N K Parkinson
Vice-President

N G Moakes

S J Falla, C.B.E.
Non-States Member

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The President
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23 June 2022

Dear Deputy Roffey

FUTURE WASTE CHARGES

Thank you for your letter dated 7 June 2022 notifying the Committee of your intention to publish the Future Waste Charges policy letter for debate at the September States meeting.

As you will recall, I wrote to you on 11th March following consideration of an earlier draft and the Policy & Resources Committee and States Trading Supervisory Board met to discuss the issues covered in the policy letter on 26th April. The Policy & Resources Committee is grateful for the opportunity to feedback on the proposals in the policy letter.

The Committee recognises that the original proposal – namely that all waste matters in future be dealt with by a trading entity called Guernsey Waste which would raise income through charging customers sufficient to cover all costs of operation – is not a model which has worked in practice. However, Members are concerned at the proposal that Guernsey Waste's accumulated trading deficit (£2.97million) is written off and annual deficit funding, estimated to be £1.8million in 2023, falling gradually thereafter, provided to Guernsey Waste from General Revenue since this has a material impact on the financial position of the States at a time when a structural deficit is already being run. Members noted that this has not been identified as a priority within the Government Work Plan 2021 - 2025 and no funding provision has been made within the Funding & Investment Plan. This would mean that funding would need to be diverted from other areas that have been prioritised.

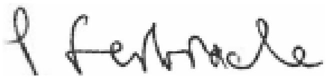
The Committee also considers that this suggested funding arrangement would be a significant departure from the "user-pays" principle that underpins the operation of trading entities to one of being "tax-payer" funded or underwritten. Members' initial view is that if delivery of the States of Guernsey's waste policy is not compatible with operating as a trading entity seeking to, as a minimum, recover its costs and taxpayer funding is required, then consideration should be given to dismantling the trading structure (with separate management layer, separate accounts, separate audit, etc all leading to additional costs). Instead, the functions carried out by Guernsey Waste could be incorporated within a

General Revenue committee budget which will then commission services with the contractors – States Works, etc.

The draft policy letter recognises (paragraph 3.8) that "*Guernsey Waste's current operating model is essentially one of a commissioning body, which contracts out the core provision of all its various responsibilities*." Such a change would enable charges to be clearly structured around the policy objectives – that is, they could be designed to promote / deter the behaviours which are being encouraged / discouraged rather than the commercially driven approach currently required of the States' Trading Supervisory Board to seek to cover the costs of operation. This funding arrangement would be similar to that in place for Beau Sejour which is within the Committee for Education, Sport & Culture's budget.

Members reluctantly recognise that it will be necessary for General Revenue to pick up the accumulated deficits built up by Guernsey Waste since inception and provide ongoing funding. However, the Committee believes that the future of Guernsey Waste should be examined as part of the work to propose the future model for the machinery of Government, to determine where best this function sits.

Yours sincerely



Deputy Peter Ferbrache
President

Appendix 2

Extended Producer Responsibility

The UK Government and the Devolved Administrations have signalled strong intent to introduce Extended Producer Responsibility for packaging, proposing a phased implementation commencing in 2024. This essentially places a burden on obligated producers[40] to pay the full costs of dealing with the waste they produce. This will incentivise them to reduce their use of packaging, adopt reusable packaging where reduction is not feasible; or use easily recyclable packaging, and fund the recycling and management of single use packaging where it remains necessary.

In effect, the cost of managing waste and recycling is passed from the consumer, collectors and processors (i.e. local authorities) to obligated producers. This includes:

- Collecting, sorting and recycling packaging waste from households and businesses;
- Collecting and disposing of packaging in the residual waste stream from households;
- Litter and refuse management costs, including bin and ground litter.

Obligations, possibly in the form of packaging reuse targets from 2025, could also be introduced to provide an additional incentive to reduce packaging use and encourage take up of reuse or refill models.

It is estimated that in the first full year of implementation, the cost to UK producers related to packaging waste collected from households will be in the region of £1.0bn (based on a straightforward pro-rata adjustment, this would equate to £1.0 million in Guernsey). The fees that producers pay for the materials they place 'on market' will vary to incentivise the use of recyclable packaging.

Fees will also deliver funding to support additional collection and upgrading of infrastructure to allow recycling of currently unrecyclable materials, (e.g. fund the roll out of collections for plastic films, which is discussed further below), or to incentivise greater uptake of reuse and refill business models and systems.

[40] Under the EPR proposals, a single producer will be responsible for the cost of managing a piece of packaging. This will focus the obligations onto those who are best placed to reduce and/or increase the recyclability of the packaging they use. This could be the brand owner (i.e. a manufacturer of their own brand products or a supermarket in respect of products made for it), importer, distributor, online marketplace, or another person.

All packaging will be clearly and consistently labelled to inform consumers whether it can or cannot be recycled. This will not just be based on whether it is technically recyclable, as can be the case at present, but also on whether the infrastructure is in place to enable this.

Local impact

The UK-wide EPR scheme is not yet fully scoped, so the implications locally of adopting or not adopting a similar approach cannot be fully estimated. To date, the island has not adopted existing EPR legislation that applies in the UK (and EU). This includes, for instance, the WEEE Directive, which imposes an ‘end of life’ responsibility on manufacturers of electrical and electronic equipment. Similarly, there is no requirement for retailers who sell batteries to provide battery recycling points - ultimately funded by manufacturers.

The proposed UK EPR scheme for packaging is intended to drive changes in product design, with the emphasis on reduction and improved recyclability, and potentially targets to support these aims.

Even if the island does not introduce similar measures, EPR could have an impact locally. Reduction of packaging could reduce costs incurred by Guernsey Waste for both recycling and energy recovery. Improved recyclability could also shift more currently non-recyclable material away from residual waste towards recycling waste streams. While this is beneficial, from a resource management perspective, it potentially further erodes the ability to recover costs through charges for general waste.

If adopted here, an EPR scheme as currently proposed in the UK would allow Guernsey Waste to recover from manufacturers at least some of the processing costs currently incurred – as would the parishes, for their collection costs.

Deposit Return Scheme (DRS)

The current consultation envisages the introduction of a deposit return scheme in England, Wales and Northern Ireland in late 2024 at the earliest (Scotland has plans to introduce a scheme sooner). The aims would be to reduce littering, increase collection of high quality materials for recycling, and promote recycling through clear labelling and consumer messaging.

Producers[41] would be required to sign up and pay a registration fee to fund the scheme and apply a redeemable deposit on in-scope drinks containers they place on the market. Retailers will be required to ensure the deposit is added to the purchase price and accept all refundable containers returned to their store. It is likely that retailers will provide reverse vending machines or manual return points.

There is also discussion around how local authorities may be reimbursed any costs associated with managing deposit items that are not returned.

The current proposals would apply to bottles made from 'PET' plastic, and steel and aluminium cans. It could include all drinks containers, up to 3L in size. The target would be to achieve a 90% return rate within three years of introduction.

The March 2021 consultation mentioned a 20p per item deposit. The actual level may not be fixed, but a minimum could be set (and possibly maximum), and different deposits for different items.

Local impact

In the most recent waste composition analysis, items that would potentially be included in a DRS scheme accounted for a very small proportion of black bag waste (less than 2%).

However, PET plastic bottles and packaging, and aluminium and steel cans accounted for 50% of the contents of blue bags, by weight. In total this would equate to around 650 tonnes per year, although some of these items will have been other food containers. No further breakdown is available, but a high proportion of this blue bag material would potentially be in scope of any 'all-in' scheme.

A local DRS scheme would therefore have the potential to significantly reduce the material currently being set out in blue bags. This would potentially remove the cost to Guernsey Waste of sorting and recycling several hundred tonnes of material a year. That would however, alter the composition of blue bags, removing materials that are high value recyclables, and may therefore result a loss of revenue to the on-island processing contractor, and increase the costs for processing the remaining materials.

The precise impact on overall costs is therefore difficult to quantify at this stage. The second likely impact would be a significant reduction in the number of blue bags

[41] In this context, people who place branded drinks on the market, so would only include shops in relation to their own-branded drinks.

currently set out, due to the reduction in volume. This would affect the amount that might be raised through any future charge for recycling bags.

Even if the island opted not to implement a DRS, containers that are routinely included in blue recycling bags could have significant residual value to anyone able to return them to the UK. This may present some practical implications, if anyone was enterprising enough to try and profit from the materials households are leaving out for collection.

Flexible plastic packaging

'Flexible' plastic packaging applies to items such as carrier bags, bread bags, polythene, crisp packets etc – otherwise referred to as plastic 'film'.

Estimates from WRAP[42] suggest these account for a quarter of all UK consumer plastic packaging, but only 4% is currently recycled. Historically, these items have been difficult to recycle, due to a lack of capacity among processors, and unpopularity with sorting facilities (where they can interfere with machinery). Also, there may be limited markets.

This leads to a 'Catch-22' situation. Processors are discouraged from investing in new capacity while these items are not collected, and authorities discouraged from expanding collections while processing capacity is limited. Developments in the UK could significantly alter the current situation.

Major retailers, manufacturers and processors are signed up to a Plastics Pact initiative. Its aim is to ensure 100% of plastic packaging is recyclable (or composable) by 2025, and 70% is effectively recycled (or composted).

In October 2020, WRAP published a roadmap "Creating a circular economy for flexible plastic packaging." It includes, as a short-term measure, promoting existing in store collection points in supermarkets (currently limited to Waitrose locally), but envisages in the longer term collection at kerbside for all UK local authorities. It also advocates investment in sorting and reprocessing capacity and capabilities and ensuring recycled flexible plastic packaging has strong and stable end markets.

The UK Government has signalled strong support, with measures for improving flexible packaging recycling included in the EPR proposals, to be funded by obligated producers.

[42] Waste & Resource Action Programme

Local impact

These steps have the potential to significantly increase the recyclability of flexible packaging.

Given the prevailing market, instructions and guidance provided to Guernsey households are that these materials should go into general rubbish (with a caveat that carrier bags are accepted at Waitrose). All such items are currently classed as contamination in kerbside recycling, although at present very little is done to enforce this.

Subject to consideration of costs, it is assumed Guernsey would encourage islanders to recycle these materials, in keeping with the Waste Hierarchy, which underpins the island's waste strategy. Whether included in the kerbside scheme or through community collections points, it could substantially alter the composition of general waste.

The most recent Waste Composition Analysis in May 2019 – after the changes to collections and charges – found that on average film items made up around 10% of black bags, by weight. Given the lightweight nature of plastic, by volume it is likely to account for a much higher proportion.

As the cost of RDF processing is weight-based, any reduction in film content could translate into a saving for that waste stream, albeit that may be offset in part by the cost of recycling this material. However, income received through black bag charges, which is volume-based, would also reduce. That balance is difficult to predict, but assuming a 5% reduction in weight and a 30% reduction in volume, based on current charges it would leave Guernsey Waste with an additional annual deficit of £600,000.

The current reliance on black bag charges to generate a high proportion of revenue would, therefore, be potentially unsustainable, which will have more impact locally.

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

STATES' TRADING SUPERVISORY BOARD

FUTURE WASTE CHARGES

The President
Policy & Resources Committee
Sir Charles Frossard House
La Charroterie
St Peter Port

27 June, 2022

Dear Sir,

Preferred date for consideration by the States of Deliberation

In accordance with Rule 4(3) of the Rules of Procedure of the States of Deliberation and their Committees, the States' Trading Supervisory Board requests that the Policy Letter titled 'Future Waste Charges' be considered at the States' meeting to be held on 7th September, 2022.

Guernsey Waste's ongoing trading deficit is a matter of concern, requiring urgent resolution. This will enable the States to provide a clear direction to the STSB in setting waste changes for 2023, which requires a Regulation to be laid before the States in Q4, and to inform the budget for 2023.

Yours faithfully,

P J Roffey
President

C N K Parkinson
Vice President

N G Moakes
Member

S J Falla, C.B.E.
S J Thornton
Non-States Members