



OFFICIAL REPORT

OF THE

STATES OF GUERNSEY

SCRUTINY MANAGEMENT

COMMITTEE

States' Trading Supervisory Board
Public Hearing

HANSARD

**Castel Douzaine Room, Guernsey,
Thursday, 22nd September 2022**

No. 7/2022

*Further information relating to the Scrutiny Management Committee
can be found on the official States of Guernsey website at www.gov.gg/scrutiny*

Members Present:

Panel Chair: Deputy Simon Fairclough – Vice-President
Deputy John Dyke – Member, Scrutiny Management Committee
Deputy Carl Meerveld – States’ Member
Mr Shane Langlois – non-States’ member

Mr Mark Huntington – Principal Scrutiny Officer

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Scrutiny Management Committee

States' Trading Supervisory Board

Public Hearing

*The Committee met at 10 a.m.
in Castel Douzaine Room*

[DEPUTY FAIRCLOUGH *in the Chair*]

Procedural – Remit of the Committee

The Chair (Deputy Fairclough): Good morning, everybody.

I would like to welcome you all here today, elected representatives, senior public servants and members of the public. Our session today is with the States' Trading Supervisory Board and, in this hearing, we will focus principally on the progress being made across key areas of its mandate.

5 Our panel today comprises myself, Deputy Simon Fairclough, Vice-President of the Scrutiny Management Committee; SMC Member Deputy John Dyke; Deputy Carl Meerveld and former Deputy Shane Langlois. Following this event, the committee will decide whether any further review activity will be commissioned.

10 Turning to the arrangements for today, I can confirm that a *Hansard* transcript from this proceeding will be published in due course and that the event is being live-streamed. Now, we will aim to take a short break, probably at around 11 o'clock.

Please can I ask anybody with mobile devices to put them to silent as it is essential during our session that the committee is able to hear from our witnesses without any interruption from the Public Gallery.

EVIDENCE OF

**Deputy Peter Roffey, President, States' Trading Supervisory Board;
Mr Stuart Falla, CBE, and Dr Simon Thornton,**

non-States' members, States' Trading Supervisory Board;

**Mr Simon Elliott, Managing Director, and Mr Alastair Ford, Head of Shareholder Executive,
States' Trading Group**

15 **The Chair:** I now turn to our witnesses. For the record, please would you introduce yourselves, starting with Mr Ford.

Mr Ford: Alastair Ford, Head of Shareholder Executive at States' Trading Group.

20 **Dr Thornton:** Simon Thornton, non-States' member of STSB.

Mr Falla: Stuart Falla, also non-States' member of STSB.

25 **Deputy Roffey:** Peter Roffey, President of STSB and when we have finished, if I can just explain how STSB operates, which may explain why we have got the guests that we have or the witnesses that we have today?

Mr Elliott: Simon Elliott, Managing Director of the States' Trading Group.

30 **Deputy Roffey:** Yes, obviously we have an STSB board, which is responsible for our overall mandate. However, we look after a large number of businesses, three of which we do not direct, we are simply the shareholder, try to be an active shareholder. That is Guernsey Post, Guernsey Electricity and Aurigny.

35 But the other boards, which are not incorporated, we do act as the board of directors and the STSB itself does not try to do that because it would be stretched too thin. So we have set up individual boards for each of the committees and all of those boards are changed by either Stuart Falla or by Simon Thornton. Hence the decision that they would be the best people to have before you today because they know those businesses best if you have got detailed questions.

The Chair: Thanks for that explanation.

40 We will try and bear that in mind when we are directing the questions. But if you think that somebody is better placed to answer a question than somebody else then please do indicate that. Now, firstly, we have some questions in your role as shareholder in Guernsey Electricity and I would like to turn to Mr Shane Langlois.

45 **Mr Langlois:** Thanks.

Just a few questions on Guernsey Electricity. Security of supply is an issue, which will undoubtedly be addressed in the Committee *for the Environment & Infrastructure's* forthcoming Electricity Strategy policy letter. In the meantime, in 2020, the States agreed in principle the need for a second inter-connector to France. The Energy Strategy policy letter timetabled Q4 2021 for the STSB to lay before the States the full business case.

50 Could you fill us in on the current situation? For instance, how does any revised timetable match that for the Committee *for the Environment & Infrastructure's* delayed Electricity Strategy policy letter; and has the business case been influenced by what you and Guernsey Electricity know about that Strategy?

55 **Deputy Roffey:** Well we have not, until very recently, known much about that Strategy. Speaking personally, the first real insight I have had into it is in public presentations in the last week or so, although of course, I think both our officers and probably GEL have been inputting into it quite significantly. It would be foolish for us to come back and bring a business case for a second inter-connector until the States have debated, we are told in the next few months, the Electricity Strategy.

60 That is the policy lead. We will be doing whatever fits that policy direction from the States. Alastair, I should have explained as well, one of the reasons Alastair is here, he has many facets to him, but he is our main connection with the three incorporated entities. Guernsey Electricity is one of them. So I do not know if you can expand on that.

65 **Mr Ford:** We understand from E&I that the Electricity Strategy is going to include six different options for satisfying future electricity demand, the technology options, some of which will include a second inter-connector, some of which will not. I think the Board and Guernsey Electricity has felt it would be folly to spend a considerable amount of money on continuing to develop that business case for a second inter-connector until we have got some further guidance from the States as to what the direction is going to be. That will come through the Electricity Strategy, we hope, when that comes to the States. I think E&I are targeting the December States' Meeting for that.

70 That is not to say there has not been work going on in the background in terms of a low-level work on developing up options. But developing that full business case, I think we said at the time,

75 was going to cost them several million pounds because, as you can imagine, there is a fair amount of survey work and technical and engineering and design work that sits behind developing it and there was a reluctance to commit that expenditure until we had clearer guidance through the Electricity Strategy on what the States' preferred blend of generation options would be for the future.

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Mr Langlois: Does that mean, inherently, there is going to be a delay? Because the States, two years ago, took an initial decision to look at the business case and now you are saying, 'Yes, but we have got to wait for the Electricity Strategy and then will start on it because it is expensive,' inevitably, say the States did decide to go for an inter-connector, the business case is starting from scratch. So there is going to be like a two-year delay?

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I can understand the reluctance to spend a lot of money if the States is going to decide not to go ahead with it but it does mean, the States having made a decision, in-principle decision, there is going to be a delay, isn't there?

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Deputy Roffey: Well some work has been done. It has been a fairly extraordinary couple of years since that decision has been taken and in some ways it is really only the beginning of this year that we got rid of the whole COVID situation. But, yes, there will be some delay but it is a question of whether you want your ducks in a row or not. We could have charged ahead and, as Alastair said, spent quite a lot of money to try and avoid delay and if only two of the six scenarios painted in the draft Electricity Strategy – who knows what the final one would be – show an inter-connector. So there are four options that do not.

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Simon, you wanted to come in.

100

Mr Elliott: I think it is where is the cart and where is the horse and to invest many millions in a business case when you have not got the key stake in the ground, which is what is the Strategy against you are building that business case, I think it would have been foolhardy to have done it the other way around and invested many millions of pounds of customers' money in a business case that may well not be needed.

105

The key policy piece, much of what we do in the STSB, is taking the policy lead from others. The Electricity Strategy is absolutely key for those investment decisions because that will drive the framework for that business case that we make.

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Deputy Roffey: The further point, as you have said, the States have made a decision in principle. I think if we were convinced that the States were fairly overwhelmingly leaning in that direction then maybe it would have been a risk worth taking. I think anybody that has sat in this Assembly will have picked up a large amount of cynicism over the possibility of a second inter-connector and therefore it would be a heck of a gamble with that money.

That is not to say that a second inter-connector is not the best option. It may well be. But it is by no means we have approved it in principle, it is almost a done deal. I think the jury is very much out.

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Mr Langlois: Okay.

We could talk about this, I am sure, for a lot longer, because it is an interesting topic, but I had better move on as you have got such a wide mandate to cover.

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Last year, responsibility for determining Guernsey Electricity's tariffs and prices was transferred from the Guernsey Competition Regulatory Authority to the States by way of the STSB. Since then we have seen the first increase in tariffs for 10 years. In these uncertain times, there are understandable concerns about increase in unit prices once the current contract with EDF expires in a few years. Can you give Islanders and businesses any reassurances on the future?

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Deputy Roffey: There are several questions in there.

You are right that the responsibility transferred. In reality, the responsibility was given to somebody for the first time because what we have been told by the regulator and the bosses was that they really were not geared up to consider any applications. So there was a regulatory void; or lacuna, anyway.

130 Obviously, you are right, it is the first underlying increase for nearly 10 years. There have been a couple of cost pass-throughs relating to things like the breaking down of the cable and it was absolutely vital, in our view, to invest in the infrastructure of the Island. It is badly in need of significant capital investment.

135 We are reaching the point where people who want to put in energy hungry facilities are being told, 'Not in this part of the Island, mate, we do not have the infrastructure to serve that.' That could be very desirable things like combined heat and power units or whatever.

140 As for giving absolute assurances for the future, I think it is very hard. The world is a more uncertain place. Who knows whether the current spike in energy prices is temporary or permanent or, heaven forfend, they could go up even further. We are being threatened with nuclear war at the moment! To try in those circumstances to guarantee what will happen in 2025 or 2027 I think would be foolish.

145 What I will say is that the hedging that GEL have done, if energy prices return to anything like normal, and I am not saying they will, it will have been a very prudent and successful strategy. But if you are asking for guarantees for four- or five-years' time, I cannot. Again, Alastair, you are probably closest to GEL.

150 **Mr Ford:** Taking this year by way of example, GEL has got around 87% of its imports hedged and at the moment you are looking at, in broad terms, a price per megawatt hour of around 60 euros. The forward markets buying electricity in Europe at the moment are well over 1,000 euros. So on the one hand that shows you how successful Guernsey's hedging policy has been but, as those hedges unwind over the course of the next two or three years, unless the markets correct themselves there is going to be a significant challenge that year. Absolutely. We cannot shy away from that.

155 **The Chair:** I do not know if anyone wants to come in with another question?

Deputy Meerveld: Yes, please.

160 Just going back to that, because I mean we have just obviously had presentations on the future Electricity Strategy from Environment & Infrastructure and the consultative document published, which has highlighted a lot of details. I want to try and drill down on what kind of quantum of increases we can expect.

165 Because basically we were told when the 9% increase came that we were obviously passing on costs for an anticipated event but also passing on costs for the increased operating costs and under-investment in our grid. We are told that our grid currently needs serious capital investment to bring it up to speed and to enable things like the charging of electric cars at home and that fast chargers in some areas cannot be installed because we do not have the grid to deliver the electricity.

170 Then we also know that in 2024, you have, what, four, generators 1c, 2c, 3c and 4c, are all coming to end of life in 2025 and 1d in 2030. So even to maintain the grid as it is now and the security we have now would require replacing those hundreds of millions if you look at them in aggregate.

Deputy Roffey: Can I come in on that?

Deputy Meerveld: Yes.

175 **Deputy Roffey:** I think how much capital investment on the generator side takes place will depend on two things, one whether the States want to maintain N-2, which is their current level of

security, means that if the two biggest generators go down, we still have enough to meet the power requirements. That is a very prudent approach but a very expensive approach.

It almost goes back to the question of the second inter-connector, in a way. I think one of the reasons for the incredibly prudent approach is because when you are reliant on a single cable, there is a need to have belt and braces when you are actually on-Island generating. Jersey, first instance, do not even meet N. I think they have about 80% of N, because they have multiple cables and they feel able to do that.

I can answer the rest or do you want to finish what you were –?

Deputy Meerveld: Okay, I would like to finish the question.

Deputy Roffey: Yes, certainly.

Deputy Meerveld: Right.

So basically we have got an option of under the proposals the six different options are presented to Members you have got a minimum capital investment of £320 million if you just want to maintain what we are doing now, without putting a cable into France, going up to £520 million for capital investment if you wanted to go for the most expensive option out of the six.

Whether we are replacing five generators and spending £100 million-plus on that or spending in the original report and estimate, £96 million for the cable to France, but I believe that is now nearer to £120 million – the current estimate, so I have been reliably informed, has gone to that level – we are going to be spending hundreds of millions just maintaining the network we have got, whether it be through an additional cable and those costs or replacement generators, we need to invest in the network itself.

Our hedging runs out in 2024 and currently it is very difficult to get any hedging at all or it is extremely expensive because hedging companies are pulling out of the market because the volatility dictates hedging price and our contract with EDF expires in 2027. And if we look at the last couple of years of energy pricing, in 1st August 2020, the wholesale price in France was 36.76 euros per megawatt; 1st August last year, 2021, it is 77.4 euros per megawatt, so it doubled. And as of 1st August this year, it is 492.99 euros per megawatt.

So we have seen over 1,000% increase in two years and a doubling even before the Ukraine War started. Therefore what kind of price increases are we likely to see in 2024 and 2027 when our hedging expires if we are putting the full price of all of these strategies, plus hundreds of millions, onto the consumer in the electricity cost per watt?

Deputy Roffey: There are several different answers to that.

The first is that I do not know and there is no doubt that local consumers have been very protected and cosseted and sheltered from what has been going on in the energy market and we cannot guarantee that in the long-term. The second one is almost an environmental one because there is the cost on the world energy markets, which EDF, despite the fact that they may not be using gas or whatever to generate, will want to match, I guess. Those negotiations are not going to happen here.

The final question is over the price of oil and whether the States in those circumstances would prefer to generate on-Island because, of course, if it gets to the cost to buy-in at the moment, it is a lot more cost-effective to buy-in than to generate on-Island, it puts up our cost if we do it, it is conceivable that we would reach a point where it was considerably cheaper if oil was below the typical price of energy.

But these are going to be directions that the States are going to have to decide and this is what the Electricity Strategy is all about. We are overseeing an operator here. We are certainly making decisions like, 'You need to invest more in the grid. You have not invested enough in the grid.' And giving instructions to do that.

230 But these big macro things they are strategic decisions for the States to take and E&I will be bringing proposals on that and we are going to be the servants who have taken the lead from the States.

Mr Falla: Can I come in with a supplementary?

235 Just that obviously in the UK they have decided to support energy costs and if the rampant inflation that you are perhaps predicting that could come about, then it may be that the States have to decide whether they intercede in that costing structure.

Deputy Meerveld: I fully understand that the States –

240 **Mr Falla:** Deputy Roffey has been, in a way, gentle in the sense that we have had 12 years of a strategy void from the States. So, electricity, almost every meeting I have attended, because we meet with them quarterly, they are saying to us, 'When are you going to decide on the strategy that you want us to follow?'

245 So the States are, in a way, bringing this to themselves, that we are in the precarious situation you are bringing.

Deputy Meerveld: I absolutely agree.

250 **Mr Falla:** And we are not policy determinant. We receive policy, as does Guernsey Electricity. So I would encourage you, as States' Members, that when this Electricity Strategy comes before you, that you make a decision, whatever that decision is. Because we are not very good, I am afraid you are not very good at making decisions on big picture stuff. This is a big picture size.

255 **Deputy Meerveld:** I would not disagree but what I am trying to establish here is the kind of quantum that we should be creating as an expectation, either for the public, or of the Government, if it has to subsidise it, in 2024, 2027 when these points come up. Even without inflation, we have got the capital investment requirement.

260 **Mr Ford:** I can only speak to you in terms of what is happening in the energy market at the moment. I am not going to get drawn into the costs of different investment options, but in terms of what the pricing looks like at the moment, as I mentioned earlier, Guernsey Electricity are roughly paying about 60 euros per megawatt hour. If it was buying in the market today that would be over 1,000 euros.

265 When we met with them in August, at our regular quarterly meeting, we looked ahead to 2025 and what hedges were available to them at that point and looking forward to 2025 with their advisors, we are telling them if you want to hedge at the moment the number would be in the region of, I think it was 350 euros per megawatt hour but even that obviously is substantially higher than where we are today and at the moment Guernsey Electricity are holding firm and are waiting on the advice of their advisers in those hedging areas, sitting tight and waiting to see whether there is going to be any stabilisation in the market.

270 But it is very hard to envisage an option, which is not considerably higher than where we are today.

275 **Deputy Roffey:** And your question about how much would it cost the States to intervene, we can only talk about electricity of course. Energy costs, if they wanted to intervene, would be across the board.

But it is how much is a piece of string and as I say, for energy, one very difficult decision that would have to be taken is if oil is taken to a relatively normal price – I doubt that would happen because the energy market is inter-connected and therefore people would be resorting to oil – but

it could well be that that is by far the cheapest option and that would be an interesting environmental debate for the States.

Deputy Meerveld: I think actually the question has been answered with the fact that hedging up until 2025 would see a seven-fold increase of our electricity. We are looking at, potentially, hundreds of per cent, not tens of per cent.

Deputy Roffey: But the advice is not to hedge, which suggests that the advisers believe that actually when we arrive there, on the balance of probabilities, the price will be less. But that is no guarantee that it will be.

Deputy Meerveld: Understood. Thank you.

Deputy Dyke: Yes, a short follow-up question. Stemming from something Deputy Parkinson, I think it was, said in the Assembly, almost *en passant* a few weeks ago, that EDF themselves, and France, are currently very short of electricity. Half their nuclear plants are currently down, although I think coming back on shortly, that there might be an opportunity of doing some sort of deal, EDF has suggested doing some sort of deal, whereby they buy us out of the contract we have currently got, which would mean that for the next couple of years we would have to use our diesel equipment.

Is that something that has been explored and is it something that should be put to the States? Do we have the scope for a large windfall profit that we should look at?

Deputy Roffey: It is being explored. It is at a very sensitive stage at the moment and I do not think it would be sensible to go into any more details. The STSB is approaching it very much with an open mind. You are right, though, Mr Putin has put the whole of Europe in a situation where they are going to struggle to have enough energy this winter and against that backdrop we have amongst our generating plants, some of it relatively modern, are sitting doing nothing and that opens up an interesting discussion.

But I would really be reluctant to go into detail. I do not know, Alastair, what you can say, if anything?

Mr Ford: I think only to repeat that there is definitely an option and a possibility there that Guernsey Electricity are exploring. I think it is important to remember, though, that the diesels run during the winter anyway. We rely on diesel generation at some point during the winter and there is some spare spinning capacity, one of those engines on there is still, like some residual that is not used and that is the first opportunity to look at perhaps offsetting. But then the question is then whether we use more of the diesel generation that we have.

Deputy Dyke: We might see a proposal at some point?

Deputy Roffey: I am not sure a proposal would come to the States. I think we would need to move, we would move quickly because we are talking about the winter months and, although it is gorgeous at the moment, winter is not far away. I think we would be mandated, I am sure we would talk to other interested bodies but I think the whole business of putting a policy letter together and taking it forward would probably take too long.

Mr Elliott: Also, if I may, I am not sure why the States would need to consider a shareholder matter, which is why you have a delegated committee to carry out that mandate.

I think the challenge for the shareholder would be whether there is a conflict with policy, with any decision it makes and, if there is, then our duty as shareholder is then to go and discuss with the Policy Committee, their ability to flex policy. The purpose of delegation is to try to stop matters of operations being on the States' floor.

If there is a big policy decision to be made, it could be a big environmental policy, what have you, then we would have to look at how do we make that happen. But you cannot carry out commercial negotiations on the floor of the States. We have to be able to, as shareholder, move within the frameworks that are given to us and that is through our mandate and the role and function of the shareholder.

Deputy Roffey: But I can assure you we are approaching this without dogma, with an open mind and we will do what we think is in the best interest of Guernsey.

Deputy Dyke: Thank you.

Mr Langlois: Recently a private company received a very substantial States' grant for the rollout of fibre broadband, which obviously keeps the user charges down. Has something similar ever been considered for capital projects in our incorporated bodies? The inter-connectors must be a classic case. Has it ever been discussed with P&R or considered by the Board to apply for a grant rather than –?

Deputy Roffey: Going back to the business case, has not yet been done. I think we would expect the user to fund regular, ordinary capital investment, which is why, regrettably, we have had to put up the cost of electricity so it can invest in the grid.

There will come, once in a generation, maybe a strategic decision where there will be a question mark of whether the States should put money in and the inter-connector might well be one of those because I think the burden on the consumer, particularly if it comes at a time when prices are high anyway, and if it is being done for security reasons, I would not rule out at all asking that.

Of course, it is not just actually the incorporated businesses, when we realised that we needed a new whole baggage system, which I know you had quite strong feelings about, and felt that the user charges could not reasonably afford it, although we actually only used less than half of the money and handed most of it back, going back to your –

Mr Langlois: I have got another question later on, if we ever get to it, about the difference between the funding of the incorporated bodies, which seem to me to be quite disciplined, and the unincorporated bodies, where it tends to be a bit all over the place.

Deputy Roffey: I think most of the unincorporated bodies are also disciplined but I will wait for your question.

Coming back to the inter-connector, I think that is the kind of once in a generation strategic thing where we would certainly open the question about whether or not it should be all user-funded or whether the taxpayer should contribute.

Mr Langlois: As well as having a role as regulator, the STSB represents the shareholder of our incorporated bodies. In the absence of even a *quasi*-AGM, questions that might be put to the GEL board by shareholders are directed at the STSB, most recently about executive remuneration. Given the dual roles, is it the STSB's intention to review governance of Guernsey Electricity and identify any further efficiencies?

Deputy Roffey: I think people misunderstand. We are not there in any way to represent GEL. We are the shareholder that holds them to account. We are the ones that are telling them at the moment and the other incorporated businesses that we believe we need more openness around executive directors' remuneration.

We certainly have AGMs and the purpose is not to act as adjunct to their board, we are there as the shareholder to question the board and to get best value. So I think somehow people get us mixed up, maybe with the old Electricity Board, or the old Post Office Board, which was sort of

running the business as well as being the people holding them to account. We are not, we are there to hold them to account. Simon, did you want to add?

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Mr Elliott: I get slightly amused sometimes. The States have delegated the functions, the role and their shareholding in these companies to the STSB. So an AGM of the company and the shareholders happens annually in all companies, in all of the incorporated companies, and the shareholder representatives are there in those meetings.

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The shareholder is not each individual States' Member or the 63,000 people on the Island. So those are there and I think interestingly, when it was previously under the Treasury & Resources Department, which was pre-2016, the National Audit Office carried out an audit into the ability for a Committee to be able to dedicate the time to that shareholder role, did it rarely give the diligence? Now that report about it was not able to do, actually, because of the breadth of the work it had to do, but the STSB is able to provide much clearer focus on that company.

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So there is an annual AGM, a formal AGM, there must be for a company. We meet with each company three other times a year, the shareholder reps to hold them accountable, and I can assure you it is not always the most comfortable of meetings.

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Mr Falla: I can assure you it is quite robust.

Mr Langlois: I absolutely believe all that. It is just that I was concerned about the perception out there, it is a bit cosy, is that the right word? I think that is unfair. I am sure you do challenge the board rigorously –

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Mr Falla: The regulator role is *pro tem*. So when the States decided that we needed a regulator in place, because basically Guernsey Electricity could not raise their prices in the way that was appropriate and needed – almost in relation to Deputy Meerveld's questions – the expectation is this energy policy will determine a new regulator environment and therefore it is a *pro tem* arrangement that has come to STSB.

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So yes, we are having to be very careful that discharging the regulatory role is different to discharging the shareholder role and we make sure those are quite separated within our meetings and we have got professional advice that we have engaged with in our regulatory role. But I can assure you that the shareholder perspective of all of those companies, and we have not included Jamesco, which is also a fourth company that we do the same with, is quite robust.

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Mr Langlois: That leads into probably my last question, which was about regulation. How do you see regulation of Guernsey Electricity going in the future? As you said, it is *pro tem*.

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Deputy Roffey: I do not think it will be of Guernsey Electricity it will be of the electricity market and there will be multiple players. So that will be the difference, I think. We may have a number of generators, or a number of importers, and it will be regulating a market.

425

Now I am slightly cynical. I have read in the draft and I know we are talking about a draft that has not been made public yet, the draft Electricity Strategy, warm words about keeping it simple and proportionate and cost-effective. I have a nightmare scenario that in that situation it might get to the point where the cost of regulation is really burdensome and it is only one person that picks that up at the end because you make charges against the various companies that are being regulated but it gets passed onto the customer.

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My biggest fear is not whether we go for an offshore wind farm or an inter-connector or whatever, it is that we end up with a UK style and therefore UK cost system of regulation in Guernsey. But that would be, I think, for Economic Development to work on rather than us. So that is outside our remit.

435 **Mr Langlois:** Because you do not want the pendulum to swing, which it has done, hasn't it, between claimed excessive regulation, which is really expensive and incredibly time-consuming, to too light a touch regulation? You have got to get the balance right and you are saying that is what you are working towards with Economic Development.

440 **Deputy Roffey:** No, it will be Economic Development.

445 **Deputy Roffey:** Because we are the shareholder of one of the parties to be regulated, we have to be careful. I have to say it has been both expensive and non-existent over recent years. Guernsey Electricity have to pay a fairly significant fee to the regulator and yet really have not had the ability to adjust their tariffs. To be honest, if they had started adjusting them five or six years ago, in real terms, it would have been a far gentler process but that was not able to happen. That is history now. We have got to go forward.

450 **The Chair:** Is that fee continuing to be paid despite the current arrangements?

455 **Deputy Roffey:** We are in the middle of a negotiation about what the appropriate fee is at the moment and there has been an exchange of letters and we will see what comes out of that. But we are quite clear that we should not be paying for more than the regulator is doing. Now they still do have the sort of whole Competition Law part, which has not been removed, so they do have a role to play, but it is in the middle of a negotiation at the moment. Or an exchange of views, I think, may be better than a negotiation.

460 **The Chair:** One final question I think on electricity.

465 **Deputy Meerveld:** In the UK and Ofgem regulations, an electricity generation company is not allowed to own the distribution network, they have to be separated. Obviously in Guernsey, with our scale, we have had that in the past. But if we are bringing more people to the market, is it under consideration, separating GEL into two entities, one that owns the network and then buys from suppliers and another, not the GEL company effectively, that would be the generator and would be one of the suppliers to that network?

470 **Deputy Roffey:** That is possible, but I think it will bake in a lot of additional costs. There will be a lot of 'we need one of these in this company, we need one of those in that company, we only need one across both'. I think that is something that will be addressed in the Energy Strategy. But from the purest point of view and on the scale, that is the thing, the scale of the UK it looks absolutely sensible, some of these ideas, when you import them locally, when you try and adopt what is trying to be done, there needs to be a different way of doing it if you are going to avoid those costs.

475 **Mr Falla:** But in the draft Strategy there is a recommendation that a level of un-bundling, as they are calling it, will take place. Exactly which bits get unbundled from which is still to be explored within the Strategy. But the concept of un-bundling is there.

480 **Deputy Roffey:** But two totally different companies, Guernsey Electricity Distribution and Guernsey Electricity Generation, I think would be quite a costly –

Mr Falla: It is a function on I believe.

485 **Deputy Meerveld:** It is just that something needs to be done in the competition regulation because there are concerns locally that the reason it is un-bundled in the UK is to make sure that the distribution company does not show a bias to a generation company.

Mr Falla: I think that is really a question for E&I, to be perfectly honest.

490 **Deputy Roffey:** Or even ED –

Mr Ford: I think you will definitely get an opportunity to consider that as part of the package that comes to all of us with the Electricity Strategy.

495 **Deputy Roffey:** I totally agree there must be no advantage to the generation part of Guernsey Electricity than there will be over other generators.

Deputy Meerveld: Good.

500 **The Chair:** Thank you for that. It is a subject we could talk all day about, of course, but we do need to keep moving on, with an eye on the clock.

We would like to move onto the Development Agency and indeed harbours, which is obviously part of your mandate as well. The first question I would like to ask is about the local planning briefs for the harbour action areas, because a lot has been hinging on those. Is the lack of those briefs hampering progress?

Deputy Roffey: Yes.

I think, Stuart, you obviously live and breathe this as Chair of the Ports Board.

510 **Mr Falla:** Thank you.

Within the land that is allocated to the Ports Board, there are commercial opportunities that are going wanting because of the inability to effectively submit planning applications for a variety of things and the planners cannot look at those because of the lack of the local planning brief. There was one particular example to do with the Boathouse some time ago, that restaurant on the quay. The work we would have liked to have done there to increase income was not possible because of the lack of a local planning brief.

Also it is understood within the marine, particularly the visiting marinas, that the facilities that we are able to offer to visiting yachts-people is substandard and once again we are unable to provide those facilities because we cannot put plans in for those.

520 Lack of local planning briefs are a hindrance. It is not stopping the functioning of the ports but it is a hindrance to our ability to exploit the commercial opportunities.

Deputy Roffey: And the DPA are quite clear that they cannot really finalise or start work on those planning briefs until the macro decision is taken about future commercial ports provision. So it is really a question of getting ducks in a row, here, which is why we came early in this term with our proposals in that respect.

The Chair: Absolutely.

530 I think when the States last debated this there was talk about the local planning briefs being completed within 18 months at that time. Is that still your understanding about when they are going to be completed?

Mr Falla: We are involved in those discussions and I understand that there will be some ideas coming into the States again about Future Harbours and the decision that might be made then will start the clock ticking of the 18 months. So until that decision is made the 18 months does not start.

Deputy Roffey: There was an amendment from the DPA in that debate that said these plans would not be produced until 18 months after the States had taken the strategic decision.

540 **The Chair:** Yes and I would like to come onto the next decision the States are going to be face with on this in a moment. I am just focusing at the moment on the Development Agency. Now I know that you are not the Development Agency but obviously there is some overlap in terms of harbours, as Mr Falla has already suggested.

545 How supportive of the Development Agency is STSB and what concerns does the Board hold regarding the progress of that entity?

Deputy Roffey: We certainly do not oppose the idea of a more arm's length body looking at the opportunities on the east coast. However, I have to say that our own consideration of possibly moving towards a more commercialised approach as far as the ports are considered has pretty much been put in cold storage for the time being. Although there will be work going on with P&R to look at the whole concept of commercialisation but in relation to the ports, until we know what we will continue to be responsible for and what the Development Agency will be responsible for, it is quite hard to work up that piece of work.

555 I suspect it is going to be a year or two before the Development Agency has really got their feet under the table. They have not even recruited the Members beyond the Chair at the moment and as you say the local planning briefs will be quite key. I am sure they would be looking to feed into those as will we. But it does look like there is going to be a hiatus for a couple of years before we really drive on with the work we would like to.

560 **The Chair:** Do you believe, as was suggested by one Member of the States' Assembly in a question earlier this month, that there could be a conflict of interest between your role, Mr Falla, on STSB and that on the Development Agency.

565 **Deputy Roffey:** Stuart, I am sure you would like to answer that. Can I give my own perspective first?

First of all, you are really asking the wrong people because Stuart was already the Chair of the Ports when the oversight committee decided to appoint him as Chair. At the moment I do not perceive that there is any conflict. I cannot put my hand on heart and say that down the road that will not develop and, if that happens, I think Stuart will have to make a decision. That is my perception but there certainly does not seem to be one at the moment. But Stuart, your turn.

575 **Mr Falla:** I think there is a little bit too much attention to one person because ultimately the Development Agency will be a team of five or six directors, to call them that, so therefore I do not think one voice will be either dominant or overly persuasive within a group of six because the intention is to appoint people who have got the skills requisite for that job and they will not be people that will do what they are told.

580 Certainly the intention that I would like to have is that we have people that are robust enough to have their own mind on those matters. Secondly, much as we are here as a group representing STSB, the real work is done by Simon, Alastair and the rest of their team. The intention is the Agency will appoint a chief executive and a finance director and people that will be actually doing stuff.

585 Because ultimately the Chair and the Board are there to oversee the work of their staff. So to have one person that is supposedly directing what goes on, I do not see that to be the case; the same was as Peter does not direct everything that happens within STSB because it is a collegiate approach and I would expect the same. So the sort of attention given to one person's point, I find quite strange.

The Chair: I think that is right but I think it was only right that we gave you an opportunity to air your views on that given that, in the States, there was a lot of talk about yourself and it did not seem right to some extent that there was a lot of talk about you and your role.

Mr Falla: I find it strange that those same people have not bothered to lift the phone to talk to me, which is the way the States seems to work, somehow.

The Chair: Mr Elliott.

Mr Elliott: If I may, as the ultimate executive with responsibility for the Ports, when I hear the word conflict, I immediately assume there is some sort of physical conflict and I struggle with that. The States has directed that the Development Agency will be set up, it will develop a mandate and it happens to run Guernsey Ports, an unincorporated trading asset – it is not currently commercialised – within a framework. And we know what that looks like.

But that does not mean that there are two different businesses being set up, each competing for the same, because what we are trying to do will be the best for Guernsey, not the best for Guernsey Ports, or best for ... What Government surely wants is what is the best for the east coast. So when it comes to Guernsey Ports and the portfolio that I look after within that remit and the little red line around the assets and car parks and roundabouts and boathouses, if there is a transfer, the States decide to transfer some of that property and land that they own to someone else's books, that is fine; I will carry on operating what I need to operate.

I think the challenge that will come is where is the best place for pieces to be? But there is not an in-built inherent conflict because surely the objectives will be the same? Corporate structures may define as we go down the line. I think it is also worth remembering, if I may, that the STSB rotates. So of the five voting members on the committee, three who are politicians, two who are not – Simon and Stuart are those – they are elected by the States to those seats and they rotate out. So Simon I think joined us last year, Simon, replacing John Hollis, who was the first, and Stuart will be leaving by Resolution one year before the next election, so that is 2024.

So we are effectively for the next 18 months ... it is the period where you end up with a crossover, potentially of individuals.

Mr Falla: The other thing, which I think you will already understand, Deputy Fairclough, is that the States will be making all the decisions. Ideas will be coming from the Agency and put before, first of all, the oversight group, the oversight group take it to P&R and P&R take it to the States. So the way that individuals within the Agency will have direct input is through putting ideas for the States to consider.

The Chair: Thank you.

I would like to move things on by picking up on that point, really, Mr Falla. In February 2022, prior to the States' debate regarding the establishment of the Development Agency, Deputy Roffey, with regard to harbours, reiterated STSB's disappointment regarding the failed Future Harbours requirements proposals, saying that you were pleased that P&R has indicated it plans to return to the Assembly with proposals in the near future, which:

... hopefully will provide greater clarity.

Do you believe that clarity has been achieved to date and, if not, and I think that you do not, from what you have already said, what are you expecting is going to be brought back by P&R?

Deputy Roffey: Well P&R, we understand, is going to bring back a policy letter this year, so in the next three months. I have not yet seen it. I hope it will lead, really hope it will lead, to a fairly definitive decision on future commercial ports provision in Guernsey because, as we were speaking

earlier, until that happens the local planning briefs will not be done for the harbour action areas and a lot of the stuff is in *statis* until that can happen.

It will be, and I have forgotten what it was, relating to another issue, that Stuart said that, maybe cynically, this Assembly may have difficulty with big decisions. It will be a big decision but I hope that it will be taken, whatever it may be.

I have obviously, and we have as a Board, clear views of our preferred route but a decision needs to be taken, whether or not it is our preferred route or something else because at the moment the whole situation is constipated and that is just in nobody's interests, really.

The Chair: Sorry, just before you come in, Shane, so do you expect that the first you will get to see of that policy letter as a Board will be at the sort of final draft stage?

Deputy Roffey: I am hoping to see it very soon.

Mr Falla: Perhaps I could come in on that Deputy Roffey? Because of the other role in relation to the Development Agency, I have seen early sight and I do know that it will be going to STSB formally well before it gets into the States. So it is a very clear expectation to have that and I believe that could be as early as in the next 10 days or so.

Mr Langlois: In some ways Stuart has answered my question. It was that STSB came to the States with seven combinations, which the States could not decide which of them to go for and then it was all passed on to P&R. But all the expertise, surely, is within the offices of STSB, the Ports Board. So P&R have taken over this, in effect, project, and you are saying the STSB does not know what they are going to come up with, but are your officers allocated to helping out?

Mr Falla: I think it is reasonable, if I could come in, that there have been many conversations, and Colin Le Ray, who is sitting behind us here, and I know that he and his team have been consulted and much of the work that was done by a consultancy called Jacobs, which largely was engaged by the Ports Board to do much of the work, I know that much of that information will be contained within what is going forward.

Deputy Roffey: And the way the Civil Service should work is that civil servants are not owned by a Committee. Of course they work to that Committee on a regular basis. So in just the same way some of our officers from the Airport are helping ED with their deliberations about whether or not to have a runway extension and I do not know exactly what has been said because they are servicing ED in that circumstance, I am sure there are expert officers relating to the Port, Colin, the harbourmaster, other officers down there, will be feeding in. I hope they are feeding in. If we see a policy letter from P&R which our officers say, 'Good lord, where did this come from?', then I think there would be some concern. But I do not expect that to happen. But at a political level, I have not yet seen what the preferred option is. Presumably there is going to be a preferred option from P&R.

Mr Langlois: There might even be an eighth combination somebody has come up with.

Deputy Roffey: One of the problems –

Mr Falla: I do not think we need to speculate on this...I think one of the expressions being used was that States' Members like to get their crayons out and design things on the table. I do not think we want to get into that speculation.

Mr Langlois: Just make a decision, basically.

Mr Falla: That is all we want. Yes.

690 **Mr Elliott:** I just want to pick up on one point, Mr Langlois, that you picked up around the role
of the Civil Service, in supporting. We are very lucky, or I am very lucky to have a plethora of experts
in their fields because the businesses they run, whether they are airports or ports or water or even
States' Works and indeed in the incorporated companies like Electricity or Aurigny, if you want
expertise in their area on this Island that is where they reside. So we do have a duty when we are
with the Civil Service to support any Committee with a mandate in developing its proposals. That is
695 key to our code of impartiality and objectivity.

We try to do that by making sure that when the Board make decisions on their own mandate
there has not been an undue influence anywhere on the advice they are giving. So when the Airport
staff, experts in aviation matters are able to give advice, they are able to do so unfettered by any
other oversight. That obviously requires quite a strength of character from our own civil servants
700 who have to carry out those dual roles. But we have to do it very carefully.

Deputy Roffey: And with restraint from the politicians. They are not trying to influence what
advice we give to other sets of politicians, that we do exercise that restraint.

705 **The Chair:** I am aware that we are focusing a lot on process here and I am keen to move onto
some things that are clearly in the public interest. Just picking up on the harbour issue, is the much
publicised and needed, we are told, essential maintenance programme of the harbours going ahead
in any case?

710 **Mr Falla:** Perhaps I could answer that question by going a little bit more broadly than you are
posing it. We have concentrated a little bit on the Agency. We have also concentrated on the Future
Harbours. You may remember there was the States' debate where the policy letter that we took as
STSB back in June last year, was amended and there were Propositions that came out of that. One
was to set up the Development Agency. One was for P&R to come back with Future Harbours
715 proposals. The other element of that was to come forwards with a pool marina, if you remember,
which was done through an amendment,

So all of those pieces of work are in train. So it is not surprising that P&R are bringing back
Future Harbours because the States so revolved. So therefore we are working, and in fact yesterday
we had what was I think our 13th or 14th full morning session on the new pool marina, much of
720 which will address some of the issues about the ongoing maintenance work that is needed within
the States.

So by almost filling the pool of the harbour there, we will be doing some of our maintenance
work that is required because it is needed in order to do that work. That policy letter is not yet
written. However, we will be engaging with stakeholders, starting from 11th October, so there are
725 some public meetings being planned for a variety of stakeholders, over the course of the week.

Prior to that, we have got our first meeting tomorrow, bringing the plans to STSB, because it is
a sub-group working on this. We go to P&R next week, on Tuesday, and the various Committees
that are involved – Economic Development, Environment & Infrastructure and Education, because
of Castle Cornet, over this next week.

730 So it is very live, it is a piece of work that is in train and over the course of October and November,
we will be engaging with the general public because the work that is required is of such a
significance that planning approval will be required and we have managed to negotiate a carve out
with the DPA that that work can be considered, even though the harbour action areas are not
fulfilled, not ready yet, providing we do a public consultation exercise.

735 So this two months, from about the middle of October until the middle of December will be that
two months of public consultation, so we are then able to go to the States in March of next year
with the Proposition, on the assumption that all the parties support it – because obviously it is not
fully baked yet – on the assumption it gets supported, it should be before the Assembly in March

of next year, which will be a proposal to fulfil the Resolution of the States to bring forward plans for a future marina there.

Deputy Roffey: But while that would pick up some of it, there are major decisions. You know, this issue with the QEII Marina gates. There are issues with the outer wall. We are, I think it is fair to say, cranking up the capital programme, because we feel there has been under-investment in the harbour over the years. How it is financed is a really interesting issue because pre-COVID, the report and the accounts run together, the Airport and the harbour just about washed their face but did not really generate enough surplus to have the capital investment that was required.

At the moment we are running at about 80% of pre-COVID passenger numbers. Freight is pretty much the same at the harbour but passenger numbers across the two ports are probably about 80%. So what was a fragile situation has now become a significant loss-making situation and if there is not a return to pre-COVID level travelling – there may be, they may exceed it, who knows? – but there will be an issue about whether the ports can continue to carry out the capital investment that they need purely out of their own income stream.

Because of course we could put up airport and harbour fees by 20% but I think we would have ED and P&R saying what are you doing to the broader economy by doing that. There is a strategic discussion to be had.

The Chair: Deputies Dyke or Meerveld, did you have any other questions about the pool marina project that we are on at the moment?

Deputy Dyke: I have one question, quick question, with the pool marina project: would that include improving the facilities for the incoming boat owners?

Mr Falla: The current scheme, because of the problem with the local planning briefs, includes effectively, facilities within the pool, so they will be floating facilities. This is familiar in some marinas. It is not in all marinas. But what we are hoping is that by the time the process has gone through, with the Development Agency and the harbour action areas, that we will be able to build on land by the time we have completed the scheme.

The current scheme is showing it with floating facilities. We are hoping that by the time we get to that point of needing to order those, we will be in a position where we can make proper planning applications for the appropriate place for them.

Deputy Dyke: Yes, thank you.

The Chair: Any further questions on the ports?

Mr Langlois: Could I just ask, you have brought up the subject of the ports holding account, which is obviously of interest to me. Has it ever been considered because it is 60 years old, I think this year, it was established when I left primary school, Guernsey is a very different place today, is it still valid to lump the Airport with the harbours? Cross-subsidies have been involved in the past, I remember when I was on T&R; is there a lack of transparency and I am just wondering whether it would be clearer and may be easier to incorporate one or both of them if accounts were split?

Deputy Roffey: There is a transparency, there. I think the accounts do show the separate accounts, even though they are amalgamated.

To be honest, if we are talking about what commercial land around the harbour, for instance, is going to stay within the ports operation, I think all of these questions are open but at the moment I think both the harbour and the Airport, with reduced demand, it is not a question of one is hugely profitable and the other one is benefiting. They are both struggling by the fact that we have not gone back to the pre-COVID level. Do you want to comment?

Mr Falla: It might just be worth noting that there is nothing in the ports holding account. After COVID the cupboards were stripped bare. It is a legacy of accounting. We may come onto that later when we talk about investments needed in the unincorporated assets. It is all around transparency, the numbers are in the same pieces.

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Mr Langlois: I have never understood why it was –

Deputy Roffey: Six million in there when COVID struck and it was the first £6 million that had to be spent underwriting the losses.

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Mr Langlois: Yes, I am sure the cupboard is bare. But anyway, for another day, maybe.

The Chair: Well that seems like an opportune time for us to take a break. So we will aim to be back, if we can, for as close to five-past, as we can. But thank you for that.

*The Committee adjourned at 10.59 a.m.
and resumed at 11.05 a.m.*

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The Chair: Welcome back to this second half of the Scrutiny Management Committee public hearing with the States' Trading Supervisory Board.

Deputy Meerveld, I am going to turn to you to pick up for the first question of this part of the session.

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Deputy Meerveld: The question of the STSB during the last Machinery of Government revisions was intended to bring improvements. Has this occurred in your view or do you think that the STSB functions could be done under P&R or ED? Could it be absorbed into a Committee mandate rather than a separate entity? What is the justification for the STSB?

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Deputy Roffey: These things are subjective but I think we touched on it perhaps in the first part that the attention that we can give ... Let us split it into two areas, the incorporated and the unincorporated. I think that we can definitely give far more attention and be a far more active shareholder than T&R, and it would not be P&R but it was T&R back then ... could do with their enormous, I mean our mandate is big but it is big and it is all focused on the trading operations, that is our focus, that is our *raison d'être*.

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And what I would like to invite maybe Simon, Stuart and now the other Simon, who has been more recently involved in, is we have been able to bring in, you are seeing here all the people you know are on STSB but on the various boards we have on the committees, we have brought in, very often for absolutely no cost whatsoever, some incredible expertise from the Island to really help deliver that supervision.

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So I think it has been an absolutely major step forward. Although I have no intention of being on the STSB in the new Assembly, I think it would be a retrograde step, not saying it cannot be tweaked or changed or maybe bring in some more outside people and fewer politicians or whatever, although the States did not like that when that was suggested, I think a body of this nature, looking at the States-owned businesses is a good idea. But the different perception will come, I guess, from people working on the Civil Service side, so I will bring in Simon.

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Mr Elliott: As I say, please tell me to shut up if I over-talk, but a bit of a reflection on the STSB, because it was set up in 2016, it brought together a raft of what were administered things. I cannot really describe them as businesses. It brought together the Dairy from what was Commerce & Employment, the Lottery from Culture & Leisure, the shareholder role from Treasury & Resources Department as it was and then Guernsey Water and States' Works, which sat under what was PSD and then, after it all formed, the Guernsey Waste was formed as a new entity.

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When they were brought together, the idea was to try to bring a level of oversight of a greater discipline over what were trading concerns, generally not general revenue funded, I will come back to that, to start to instil a greater level of focus and discipline by a dedicated committee for that purpose.

A couple of observations for that. That was why originally it was set up to have at least two States' Members and at least two non-States' members. It was not prescriptive. That changed in the 2016 term. I think a requête was brought to change the structure. But the one thing I found as the civil servant who was given the task of leading this, was that very quickly there had been an expectation that returns would be delivered, there would be some sort of financial gain by these assets, but what I found was effectively I was given, in the unincorporated businesses, a bunch of well-run, but administered, States' departments. They fought for capital with everybody else.

So your Dairy, for instance, did not get the investment it needed and probably, if I am honest, did not get the focus that was needed. It was a trading business. It generated a surplus, that was great, but it was not treated in the same manner and the same mindset. The ports were administered. Back in 2016, you still required P&R approval to spend £250,000. Now when it comes to airports and harbours you do not get a lot of toys for £250,000.

So there was a need for that level of discipline that was needed but there was an expectation. What I did find was the early days, and I am sure Stuart, who was one of the first non-States' members has been the continuity member on the Board so far, we realised that there was a role that we had to fulfil between the public, the public interest, and the commercial mindset. We still need to put in a sense of discipline.

So we tried to emulate the idea of clear directorship and oversight of those unincorporated businesses. We set up using the Rules of Procedure, committees, subcommittees, populated and led by members of the STSB, in this case now Simon and Stuart. But critically we also went out to Guernsey to ask for business people, if they would come and help us and join us and we now have on those boards, the Guernsey Ports Board, and we called it a board because it should emulate a board, we have volunteers who give up their time. We do on waste, on works. These are people from industry, from business, who give up their time and they do so, I actually think, because they can look at it as a trading business. They can try to optimise it as a commercial concern, within a Government structure.

So that has been a real strength of oversight and governance. It has allowed us to tap into a market of people who are helping us out. The challenges we face, we have returned in excess of £50 million to general revenue over the past six years but unfortunately we were not in a good position before we started that journey so we needed investment in ports, investments in the Dairy. But I would say that after only ... and it has only been six years including a two-year pandemic, keeping those businesses going, I think that discipline that we have been able to provide across unincorporated and incorporated, that level of oversight is a massive portfolio. It is 10 companies, £200 million of turnover across the piece, but we are able to provide that oversight because of the structure we have.

I happen to have been the lead officer in the Treasury & Resources Department for the shareholder role and my sense is we can give far more focus, far more discipline because of the mindset of looking after trading businesses for the STSB than you can when it is just part of another mandate. It is a different mindset that we have to provide. That is my view after six years of it.

Mr Langlois: Was it a conscious decision not to go the whole hog and incorporate more of the trading bodies or is it something in progress or is it something you decided you were not going to go there and it was working fine with your *quasi*-boards?

Deputy Roffey: It is still under consideration, I have to say, it is not off the table. But if you are asking historically when the STSB was set up, I was not there but Simon can probably.

Mr Elliott: Shall I come in Minister? Shall I cover that to begin with?

Deputy Roffey: Yes.

Mr Elliott: So I think initially, to put it bluntly, if we had 25 things to do on day one, 1st May 2016, worrying about incorporating was probably the last thing we needed to do. We first of all needed to understand the business, understand their needs, understand what they were, before you have a conversation around incorporating.

I think now that question is being asked, is there greater opportunity for incorporation and there are big questions: what does that bring in terms of value and oversight? And we are, the committee, both the States' Trading Supervisory Board and the Policy & Resources Committee have been in dialogue around taking forward a piece of work to consider what may be possible and officers will be meeting in the near future to start to deliver on our terms of reference for that.

But again you have got to look at the outcome you are trying to achieve for its own sake and to be honest with you, to incorporate something, you have to have a business that a board of directors can carry out the full fiduciary duties over. So it needs to be appropriately capitalised, etc., and as you know, some of our businesses probably are not.

The Chair: Dr Thornton, Mr Falla, is there anything you would like to add to what Mr Elliott said?

Mr Falla: I am happy to do. Simon, do you want to go in first of all?

Dr Thornton: No, you go. You have been here longer than I have!

Mr Falla: In speaking to people, the Chief Executive of the Post Office, Mr Smillie, and the Chief Executive of the Electricity Board, they would say that it took 12 years to convert what was a States-run entity with a States' board, into a fully functioning, appropriate business because methods, processes were embedded within their senior team because it was not to clear out people, and it has taken that long to get a good, functioning company, and I think both of those companies, in fact Aurigny, particularly now, with some changes we have made in there, are all businesses that I would be very proud to be involved with. They are superb businesses.

Over the course of its six years, we have been doing our best to convert States-run entities into fully functioning businesses and I think we have achieved a level of success, within the constraints that being part of the Stats has offered and there is no doubt in some cases terms and conditions of employees and staff can sometimes reduce the opportunity for change that you might like to bring into and when we might find ourself wishing to appoint senior members within those teams, the pay levels that are expected within the States' departments, the grading levels mitigate against maybe getting out from the marketplace.

Remember these are businesses and most of the people that run the businesses have come from the Civil Service, shall we say. So when we are looking to find new people to lead them, we are thwarted to an extent by the arrangements we have inherited. So we will come to a point in time where the improvements that we can bring in by adding in, shall we say, a commercial direction, encouragement, I see much of my role as almost being a business mentor as much as anything else, we will get to the point where we cannot take any further improvement and that commercialisation, if the States so wish, would be the next step. I do not think moving it to P&R would accelerate or decelerate that. Those are something that would have to be done.

I think the good will that we have achieved, that Simon has mentioned, of bringing in a range of expertise, I think because the STSB is that little bit different, we have been able to actually ask people, 'Will you give your time for free?' I think P&R would find that more difficult. I am not certain but I just feel that it would be more difficult.

So we had a meeting yesterday morning, it was quite an intense meeting, over a range of complex investment decisions and we had a guy in the room who has attended a range of meetings, for free, who then spent the afternoon analysing the spreadsheets and coming up with a better spreadsheet, more fit for purpose and submitted it to the team by late afternoon.

But that was totally through his own endeavour and expertise and if we had gone to a PwC or whatever, it would have taken several weeks to engage with them and quite a few pounds to pay for that.

Now that is not happening every day but because of the environment that we have managed to build within the teams, in fact he was asked would he do that, and he said, 'I will do my best to get it done by this evening.'

That is the type of thing that we can do. I could tell you about the other companies, it just happened that was yesterday, where we are able to pull in resource that the States do not realise what free effort they get – and Simon and I get paid eight-and-a-half grand each – a non-exec director at the Post Office gets paid more than we get paid and I can assure you we do quite a bit more time and effort.

How do you bring that good will in? I think it has been a response to how it was set up and giving Simon and I votes at the table. Therefore we are considered to be the equivalent of the elected Members, the Deputies, but the thing we cannot do is go to the States and take policy letters. The combination of having both, in my mind, works excellently.

Deputy Roffey: And the reason that Simon has been quiet is that he actually chairs Guernsey Waste, Guernsey Water, the States' Works. All the ones you have not really asked about yet. And the broader perception of how the STSB works?

Dr Thornton: I think we all view these businesses as what I call social enterprises. So they are here to serve the needs of the Island in a way that the States has directed. I think there are good arguments for incorporating the ones that have not been incorporated, to the extent that they are termed businesses. I would question, we would all question where Guernsey Waste sits in all of this.

But the process of incorporation will allow the boards and the STSB to do things it cannot currently do. But it does not mean that the purpose of the enterprise will change. It is still here to serve the needs of the Island.

Mr Roffey: Just to give a classic example, at States' Works, Guernsey Water, whatever, businesses would normally negotiate their own pay levels with their staff. That is simply imposed by the centre. I am not sure if it is still going on but until very recently, if one of those entities wanted to appoint a new type of manager above a certain level, even though it may save money elsewhere, if Deputy Mahoney said no, it could not happen, because anybody above SO1 had to have his rubber stamp on it.

That is not how a normal commercial organisation would work. So if they are still, we are trying to make them as commercial as we possibly can, but as Stuart says, it is within constraints, and we cannot operate the unincorporated businesses as a normal business and then there is the issue of are some of them businesses at all? They are trading entities. Guernsey Waste is a classic. Of course we want to trade and we want to make it as little loss-making as possible, efficient as possible, but it is not there really to generate a profit for shareholders. In fact, if anything, it is trying to drive things the other way so that is an interesting concept.

The Chair: Thank you for that oversight and insight.

I would like to move things on and turn to Deputy Dyke who has some questions about Guernsey Airport.

Deputy Dyke: Okay, thank you.

Right, the Airport. There is quite a lot of concern amongst the general public, I think, about the management of the Airport and I will go into a few granular points. It is an important piece of kit from the purposes of both tourist business and our people and at the moment I would say the Airport – and people have said to me – it is looking rather shabby. We have got a lot of rusty metalwork along the walkways, panels missing, the old COVID partitioning is all up. We do not seem

995 to have a café. It is giving a scruffy, shabby impression. Is something going to be done about those issues?

Mr Falla: First of all, I agree with many of the things you have said. I think the construction of that was awful. I think the design of it was awful and I really cannot understand why the previous Board of Administration employed an architect who had never designed an airport before to build our Airport.

Deputy Dyke: Although some of it is basic, ongoing maintenance.

1005 **Mr Falla:** Right. So a lot of the things cannot be maintained because of the way they were built in the first place. I think the design was poor. We have got problems with the roof because the contractor has never come back to repair it and maintain, do it well in the first place. I could go through a litany of the stuff that we found by investigating it of the poor construction that was achieved in the first place.

1010 We are living with an Airport that was poorly designed and poorly constructed. Unfortunately we do not make a surplus and the only way that we can make a surplus is to over-charge for using it. That is something that we have touched on before, there is a balance between what you charge and what is good for the economy.

1015 So we, in a way, operate the Airport with one hand slightly tied behind our back. That does not mean to say we cannot improve things. The reason why we still have the partitioning up there is because the decision has not yet been made that COVID will not return. If that is made, within the States, and we are directed so to do, we will take it down.

Deputy Roffey: That is not our decision. We have been asked to keep it there.

1020 **Mr Falla:** We are working under that constraint. So that means that some of the things that we would want to do there are inhibited by that lack of decision of future direction. We are about nine months to 12 months into a master plan that we have commissioned through a consultancy firm called Aecom, who are well known in the airport industry, and we are close to making decisions on various things, one of which will include the reconfiguration of parts of the Airport, to which you refer.

1030 Because I have already said the design was poor, we have got a relatively small amount of space airside and a plethora of space landside. It should be the other way around. So therefore when you get the Airport full, in departures it is crammed. You can walk around outside, on the landward side, and find two men and a dog – the dog would not be in the Airport, sorry – a few people having a coffee upstairs. (**Deputy Roffey:** Could be a guide dog.)

1035 We need to redesign the Airport. Unfortunately that would mean investment of money and we are not making surpluses. So at some stage we have to make a very good business case for an injection of capital there. So I fully understand the points you have raised and they need to be addressed.

Deputy Dyke: In the interim, though, is there enough budget to do things like sand down the paintwork where it is all rusty and put the panels back and that sort of minor thing? Because presumably any major restructuring of the Airport is going to take quite a lot of time?

1040 **Mr Falla:** Yes, one of the troubles is, as I say, the design. Those bottom rails of steel, first of all were done, they were not in stainless steel. They are almost sitting in the water of the apron and therefore they are rusting. Shane is nodding because he knows exactly what I mean. It was badly designed. It did not cope with the fact that it was put into a permanently wet environment so therefore you are getting water coming in underneath. It then evaporates, hits the tiles and it rusts all the time. It is a fundamental mistake of design but the cost of demolishing it all and replacing it,

because what you are suggesting of de-rusting it, more Rust-Oleum on it, repainting, and within two years it will be exactly as the same as it is. It is a design-led problem.

1050 **Mr Roffey:** Simon.

Mr Elliott: We have got to remember that the Airport is very scarce of funding. To put it into perspective, £11 million-ish forecast revenues this year, against an operating loss of around £3.5 million. So where is it going to spend its money? It has got to spend it on aviation safety and meeting the regulations because the last thing we can afford to have is an Airport not working.

1055 So that is making sure the lights are working, making sure the security is working, making sure all of that really material stuff that allows planes to come in and go is complied with and that takes a huge amount in investment and maintenance. Just count the number of lightbulbs on a runway. I once counted all of Gatwick's runway lights as a junior engineer. There is a lot of lights on a runway.

1060 So the investment decisions by the Ports Board – and they are all over it like a rash – have got to be focused primarily on ensuring the safety of the assets and the deliverability of those assets and, yes, we are now in that place where a bit of rust does not necessarily get prioritised and it does look scruffy and it is difficult. I think you just need to look at the Dairy to see the situation we are in from a legacy of poor investment, a legacy of not dealing with the maintenance when it was needed
1065 back in the day, or not specifying the right material. But the decisions that the management team of Guernsey Ports and that board are having to make, regularly, to make sure we have the safe aviation against those financials, that is the tension we face in terms of a trading entity.

Mr Roffey: But I do understand your point about it being a gateway to Guernsey and I have to say that every time we meet with P&R, including a few weeks ago when we went in to talk about our budget for next year, I make the point that we could not afford the capital investment that we really wanted pre-COVID. Now we have got a hefty operating loss, effectively, and a decision is going to have to be taken because if we want to get rid of all the rust and we want that done through user charges, it means, I do not know, 20%-30% increase in landing fees and whatever,
1075 which will have an impact on the broader economy of Guernsey.

I keep raising this that we do need a grown-up conversation about how we go about it because we cannot carry on under-investing. I quite agree with you, Deputy Dyke. We do have to be seen as a modern, successful, vibrant territory and these things are important.

1080 Simon is right that at the moment, until that dilemma has been resolved, then the things that are absolutely operationally required will take priority for the scarce money we do have but we do need to have that conversation.

The Chair: You say, Deputy Roffey, a decision is going to have to be taken. Who is going to take the decision and when?

1085 **Deputy Roffey:** To be honest, I think that P&R and ourselves, when we have the discussion around – I am not saying this can only be done through incorporate-isation – but I think for instance if we are not going to go down that route, or if that is going to be some years away then I think we need to have this conversation with them very soon and I think it is us and P&R that really have to lead that conversation.
1090

The Chair: Okay. I mean talking about decisions that need to be made, Alderney Airport and runway, I am sure that a number of people were hoping that they would have seen proposals come forward for Alderney Airport by now. It is something that there has been a lot of talk about for a very long time.
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Deputy Roffey: The policy letter is ready to go. It has been delayed slightly because it has been decided it will be – and I am delighted it will be – a joint policy letter between ourselves and P&R.

1100 Originally, we were going to bring it ourselves. So that has put it back a month or two. I think P&R have got in mind November, now, the debate, which means it will come out fairly soon. Yes, it will be a decision for the States to take this year.

1105 **The Chair:** What do you make of the fact that, according to one media report today, Guernsey's Treasury lead has said proposals to extend Alderney's runway could cost £26 million, which includes £12 million already allocated in 2019 to rehabilitate and widen the surface?

1110 **Deputy Roffey:** It not only includes the £12 million that has already been allocated, it also includes money that would have needed to have been spent anyway during the lifetime of the project on the terminal building up there, which is basically a shed that is returning organically to the earth, and the fire station as well.

1115 A runway has a life of about 20 years so you need to look over the next 20 years of which option will be the most cost-effective. It may be counter-intuitive but we have come to the view, and so have P&R, that the extension, despite the higher capital cost, will actually cost the taxpayer of Guernsey considerably less over that 20 years than just – and we do have to do something because under the 1948 Agreement we have to maintain an aerodrome in Alderney and the current runway is really reaching the end of its life – so the add-on cost, really, we believed with the revenue savings, will come out at a considerable saving to the Island.

1120 But that will be a judgement for the States' Members. They will look at the evidence. To be honest, all we do is operate the thing. The finances are really P&R's responsibility. It is them that have got responsibility for the 1948 Agreement and making sure that it is properly implemented. If the States decide: 'No, we just want to keep the current runway and refurbish it, rebuild it,' then that is what the STSB will do, happily. But we believe, and our recommendation is, there are cost savings by extension.

1125 **The Chair:** Okay.

So can we expect that policy letter, that joint policy letter, to be signed up to by all of the Members of P&R and STSB?

1130 **Deputy Roffey:** I do not sit inside the P&R meetings on a regular basis. My impression is I am not aware of any significant dissent inside P&R and I am certainly not aware of any dissent inside STSB. So my prediction is yes, but whether there is going to be some rogue Member of P&R I am not aware about, who says 'no', you would have to, I think, ask them.

1135 **The Chair:** Okay, thank you.

Deputy Dyke, did you want to come in with some questions on Aurigny?

Deputy Dyke: No. I had a few more questions on the Airport whilst I was at it.

1140 **The Chair:** Okay.

Deputy Dyke: Going back to security then, the new screening machine. As I understand it that cost about £16 million in capital to set up.

1145 **Deputy Roffey:** It depends which screening machine are you talking about?

Deputy Dyke: The new, large baggage handling –

Deputy Roffey: That cost about five-point-something. Sorry, you are the expert.

1150 **Mr Elliott:** Yes, about five.

Deputy Dyke: Okay, that is the one that we see.

Deputy Roffey: You do not see it. That is the point. That is for the hold baggage. If you are talking about the –

Deputy Dyke: The carry-on baggage.

Deputy Roffey: No, it is not. That is the hold baggage. The carry-on baggage, the costs are a fraction of that, a few hundred thousand, I think we are talking about.

Deputy Dyke: The big machine, as you walk in and you put your carry-on bags?

Deputy Roffey: It is about £600,000, isn't it? Yes, for two... £600,000 those two units.

Deputy Dyke: There is one new unit, isn't there?

Deputy Roffey: They are both new. One is an entirely different style where you do not have to take your liquids or your electronics out. Was that about £400,000? *(Interjection from the Public Gallery.)* Okay, so about £300,000, something like that, yes.

Deputy Dyke: So are these machines, are we finding they are working? I know there have been some outages.

Mr Falla: Perhaps we could give you a broader answer. The technology as you are going through the area where you are searched on the left-hand side, which is the larger of the model, is a very recent style of baggage check and it has got a return with the tray and it is able to, it can allow you to leave your laptop and your liquids and all your stuff in one tray.

Unfortunately it is not approved by the CAA for the whole of any system, whether it be Gatwick or wherever, to be totally that style because it is new technology. So we have to have a blend of new technology with old technology, which is why we have got two different units. We could have decided to have two of the old type, which means you do have to separate everything. We decided, because for most of the travel through that area, you only really need one unit in operation. So we decided to have that unit as being, shall we say, the more customer-friendly unit.

The second one is what you might call old school. Once the CAA has approved for all airports to be totally done with the new technology we have an arrangement with the supplier that we will return the old school and replace it with a new one, which will cost us some money because it is a newer unit and different technology.

Mr Roffey: But I think it has been useful to lay this myth because we asked the States for several million for the hold baggage system and, separately to that but roughly at the same time, a little bit later, we have updated the hand baggage system, and I think people have thought the machine they see cost millions of pounds, it does not. Okay?

Deputy Dyke: The hold baggage system, then is the much more expensive item?

Mr Falla: It is out of sight. It also included a lot of construction work because it is a very heavy piece of kit. It is not dissimilar to an MRI scanner that you might be familiar with, that you would see in a hospital. It has a revolving drum. It is a three-dimensional scanner. We originally had in our mind that we would do two stages of work, which would have included changing all of the belts and systems that go beyond it, where basically you take that luggage to the aircraft and we would have also built additional accommodation there.

Because we decided to embark on a master plan for the Airport, we did not go ahead with the second stage so we have spent £5.1 million and returned the rest that was voted back to the States.

1205 **Deputy Dyke:** Okay. Thank you.

The Chair: Are you saying in terms of the cabin baggage screening, then, that only one of those machines can work at any one time?

1210 **Mr Falla:** No. We predominantly use, as you are going through, the left hand one, because that is all you need for most circumstances.

Mr Roffey: But if there is a particularly busy period. If there is a charter going out to Malaga or maybe in the morning rush when all of the red-eyes are going out –

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The Chair: I only asked the question because when I went there a week or so ago, there was only one of them working but there were significant queues.

1220 **Mr Falla:** We did have a software problem on the right-hand side one. It was new deliver. There was a glitch in the software has been replaced. It was a brand new unit and, as you know, commissioning new stuff, particularly new technology, there was an issue with the software. So we have had that changed.

1225 **Deputy Dyke:** Moving on from that, then, a current issue and one that I think is coming up. The taxis are still a problem. I know it is for E&I to deal with licensing and that sort of thing, could the Airport play a role? I was at the Airport last night and there was a nice long queue, no taxis. Could the Airport play a role when having staff to spot when there is a queue and no taxis and have some sort of system for contacting the taxi companies, through an app or something, that there is a problem at the Airport and they need to get there? Obviously this is very serious. It is absolutely
1230 infuriating for us when we get back. You see business people and families who are coming on holiday just desperate to know what to do, asking what to do. Can they get a bus? What are they supposed to do?

1235 **Deputy Roffey:** The answer is yes we can, they can. But the problem is there has been such a fundamental failure of the whole public transport system in relation to taxis, you could contact all the taxi companies and there would still be no taxis or drivers available to come up.

I know that E&I have done some really good work exploring with CT Plus a sort of standby. I hope the sale of CT Plus will not undermine that in any way. But what we cannot do is keep the Airport open until three in the morning because nobody can get away, because there are security
1240 issues or any else. Do you want to expand?

1245 **Mr Falla:** I was going to empathise because I was out for supper last night, for my daughter's 40th birthday, and we tried to get a taxi at half-past eight and could not do so either. I have got a whole range of telephone numbers I can phone personally. I do not think that if we had a guy at the Airport who had a list of every taxi driver that he would be able to solve the problem. It is a problem endemic that E&I need to find a way to resolve.

Deputy Dyke: Alright, if you could just take on board that one point, if there is anything you can do.

1250 Last point on the Airport – I am being told to hurry up – as a result of the taxi problem we have got generally, it is becoming apparent to me and I am doing it myself that people are now parking at the Airport for longer because you have just got to have a car there to get back. I was there last Saturday and the main car park was completely full, using the rocky bit at the end to park cars on

and even that was full. Could the Airport think about, can we extend parking? Can the rocky section be tarmacked at least, because that would give us about 30 extra places on tarmac?

Mr Falla: The answer to that, you will not be surprised, is that we are evaluating the possibility of putting either multi-deck parking there, so that we can use our land more efficiently. People are, as you say, leaving their cars for longer, and it is a valuable income stream for the Airport. We do not deny the fact that is one way of having what is termed non-aeronautical income. So anything we can do.

We have applied to effectively buy the small house that, as you are entering the Airport on the right-hand side, which is owned by the housing authority, I am not sure which actual party it is owned by. (**Deputy Roffey:** ESS.) ESS. We are in the process of negotiating to buy it, demolish it and extend the car park. So we are hoping to solve that.

The rough area you are talking about has only just come back into our use again. It was denied us for a while and therefore we are now able to do some work on it. But it was not ours until recently? Colin?

(*Interjection from the floor*) - **Mr Le Ray:** Yes, it was previously leased to a hire car company.

Deputy Dyke: That is very good to hear. Thank you. I did have some more questions on the Airport but I had better stop and go onto the next item. I am not sure we are going to get through all of this.

The Chair: If we could move onto the Dairy. The local dairy industry has recently reported its ongoing struggles with rising costs. What ongoing plans does STSB have to assist this important industry moving forward?

Deputy Roffey: Okay, again this is one of Stuart's, but what I would say is actually it is not one of ours in a sense that E&I are responsible for the agricultural industry. Obviously the Dairy plays a very key and important role on that and from the farmers' point of view, they have two sources of income, I guess, any support that the States gives for the environmental work that they do, which is not under our mandate, and what we pay them for their milk. But we can obviously only pay them for the milk what we can afford from what we pay the consumer. So basically the consumer and the taxpayer are their two income flows and over recent years there has been a very significant move away from taxpayer support for the industry towards it being all the milk consumer.

If the same level of taxpayer support was given now, in real terms, was being given 20 years ago, we are talking about three point something million pounds going from the taxpayer. We are only seeing £1 million at the moment. I think we are between a rock and a hard place because I think consumers feel they are being charged a great deal for their milk. We have got an old facility, which is expensive and inefficient to run, and we can only pay the residual amount to the farmers.

So I think we need to talk with E&I about this. But again, sorry Stuart, it is all the ones that you are chairing.

Mr Falla: We put forward plans for a new Dairy, as you realise, and it did not manage to get into the delivery phase of the Government Work Plan. Had it got to the delivery stage then we would be continuing on with getting a new Dairy. The new Dairy will be less labour-intensive, it will be more efficient and therefore we can process milk and make other by-products more efficiently and cheaply and therefore we would see that whole unit of business to produce a surplus.

Now whether that surplus then goes to the farmer or whether it then becomes paying back the States for providing the capital, it is part of what needs to be discussed.

Deputy Roffey: Or reducing milk prices.

Mr Falla: Or reducing milk prices. The surplus has to be decided at a political level.

The problem, as I am sure you are aware, is that if the price of milk goes up to too high a level then pressures might mount as to why sourcing milk from the UK is not the solution.

1310 **Deputy Roffey:** Plus we are competing with milk alternatives.

Mr Falla: Yes, sure.

What we are very keen on is making sure that event does not come about. Funnily enough, I have only been to one Scrutiny hearing before, and that was on this very subject down at the Peninsula, when we were trying to improve the way that the milk industry worked and it still is not yet fully fit for purpose because the Island has not decided exactly what it wants from its farming community.

1315 That decision, I believe, P&R are working with E&I on a policy of what they want from the industry, what size it should be, what it gives back to the Island. We believe it gives back a great deal in respect of the landscape that it supports and the Guernsey breed of cattle that it supports as well, because it is the home of that breed.

1320 So we are very clear as to the objectives in mind. However, that comes at a cost. Now £20-odd million, £25 million is an expensive piece of kit to put in there where we cannot give a financial return on but that is almost the cost of us maintaining that industry. So the States of Guernsey must decide whether they wish to continue to support that industry and the whole history that goes with it, or whether they can find a better way.

1325 The Law as it is currently written is that we must take every litre of milk that is provided by our farmers and process it. At the moment we cannot sell all of the milk that comes in because, as Deputy Roffey has mentioned, there are alternatives. There are many people now that are using vegetable alternatives and who knows that might accelerate as time goes by.

1330 **Dr Thornton:** As I have said, I have only been here a year, so I have sort of seen the Dairy from the side. I think we are trying to subsidise an industry through the price of what is a staple good and that seems slightly illogical to me.

1335 **Deputy Roffey:** I agree very much with that. I think the States has to decide what Guernsey's agriculture industry, dairy industry in particular, is for, and if it is for producing excellent milk, which it does, I think it is better than anywhere else, but I do not think that is the main reason. The main reason is that if it was not there ... We saw it in Alderney when for a few years there was no dairy farming activity, what happened to their habitat, what happened to the appearance to the Island but also, you would think letting everything go wild would be great for nature but actually a lot of nature has adapted to grazing. There are people, who may not drink much milk or any milk, but they are still benefiting greatly from the activities of farmers and therefore I think there needs to be a discussion over the balance of where the financial support comes from.

1340 Our farmers, there is no way they can compete head on with farmers elsewhere. The size of their fields are tiny. Feudalism has insisted that there is; quite rightly, we do not want to get rid of the earth banks every 80 yards or whatever. We have got a breed which produces brilliant milk but compared with a Holstein Friesian produces at a lot more cost. Labour is more expensive. Everything is more expensive.

1345 The Dairy is in the same position. Dairies in the UK not only are massive, they usually deal with one produce. You will have one dairy that does yoghurts, one dairy that does butter. We are a cottage industry here but we are a cottage industry enabling the agriculture industry, which enables the countryside.

1350 So I think, although I normally defend the STSB saying everything needs to be as business-like as possible, I think it goes beyond business in this particular case.

The Chair: Are you saying that the development of the Dairy is awaiting the outcome of that work by E&I and P&R on the future of the dairy industry?

1360 **Deputy Roffey:** No.

Mr Falla: It is awaiting Deputies to want to put it into the delivery part of the Work Plan. You could have voted to put it into the Work Plan as a delivery project. You did not. So that is where the stumbling block is because had you voted it to go into the Work Plan, we would now be working on the new Dairy.

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Deputy Roffey: But to be fair, that Proposition did not really appear. When P&R in their first iteration of the Government Work Plan did not put it in, we cried foul and said, 'Oi, what is going on.' They said, 'Oh, do not worry this will not stop the work carrying on. You can do all the development work and then we can put it in later on.'

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So we get to that stage and we are told, 'Yes, we do not really quite mean that and what do you want to knock out now in order to put it in?' We are saying, 'We do not particularly want to knock anything out. We are actually saying we think the capital programme will not all be delivered, because that is the nature of things. This one can be. We know where we want to put it. We know roughly what the design should be, although we will value engineer that to see if we can reduce the costs.'

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So it is frustrating and if we have not reached an agreement with – I hope we will, there is co-working going on with P&R officers – but if we have not we will have to force that debate at the next Government Work Plan.

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The Chair: That seems again quite a long time to wait. There seems to have been a failure of process here. Let us not forget a significant amount of money has been already spent on the development of a future Dairy.

1385 **Mr Falla:** When you say failure of process, where is the failure?

The Chair: I think Deputy Roffey has perhaps just explained it.

Mr Falla: It is not in the hands of the Dairy as a failure, it is the hands of those that guide.

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Deputy Dyke: One issue that has got Deputies' attention is the eye-watering cost and a lot of us are having difficulty with getting our heads around why it seems to be costing £20 million, £25 million and figures now going over £30 million. That, I think, is what has slowed any interest down in the States, simply the figure is so big. Is there any way of getting those figures to a lower level?

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Deputy Roffey: Well we put the cost down as far as possible and of course it will be all revisited and it will be value-engineered. But food production facilities do tend to be quite expensive. The hygiene requirements are fairly extreme. In fact that is one of the things that is driving us now, because Environmental Health have got questions about how long our current facility can actually ... I mean they do meet all the standards now, I want to stress that, but it is at a great expense and difficulty that that is happening.

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So, yes, we will try and drive down the costs as far as possible but I think there is some unrealistic expectation about that. I hear some figures comparing with office blocks. Well office blocks do not have to meet anything like the same sorts of standards that we do, so expecting the same price per square metre is just fantasy land.

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Simon, you want to add something.

Mr Elliott: I think where you are with Government process on this is that the estimate you had was a work in progress estimate. We have stage gates you have got to go through. We were not at any of those, we were just in the middle of doing the staff work, so when questions were asked they were not at an outline business case situation, that is number one.

More importantly, an amendment was laid by Deputies Roffey and Ferbrache, to take a step back, review the work that we have done on the Dairy to ensure that that cost estimate, cost base, the scope of what we are proposing in terms of the Dairy – size, scale, products – is right and reasonable so that the decision can be revisited next Government Work Plan review, which I think will be June next year, as to whether the project should be moved forward.

Obviously, if there is a continual delay and we continually have to keep running the current plant, that was really the result of the amendment. So that is the way it will get in again. In the meantime we are running a Dairy that really is running on a shoestring and is very old.

Mr Roffey: But if you regret the delay, I have to say, not half as much as we do. Look, P&R had an enormous load of strings to pull together to put that first Government Work Plan together starting from scratch but if I recanted, I have to say it was a major mistake not to have the new Dairy in the capital programme. It should have been and it was not. Perhaps we should have absolutely driven it to an amendment at that stage. We were mindful to. We got assured that actually, no, do not worry the process could continue, and maybe we were soft-soaped to a degree in that extent. I am sure that was not the intention but it rather feels like it now.

In the broader point of view, although a new Dairy is essential for the Dairy, it is also getting off part of what is the Hospital campus when you see what is happening with our Hospital redevelopment and the value of that campus, I think, is also a hidden bonus that ought to be taken into account.

Mr Falla: The old site reverting to the –

Mr Roffey: Yes, reverting to the States to do what they want but I think they would be daft not to have it as health-related in some way.

The Chair: Deputy Dyke, was there anything further that you would want to ask?

Deputy Dyke: I was going to ask one question. Has the Dairy thought of working with the tourism people to market our cheeses and things in London, along with marketing Guernsey. The two might go together nicely. I am aware that certainly in parts of central London there are some ferociously expensive cheese shops, where our cheese, which no doubt would be ferociously expensive, might actually fit it. Can more be done on that marketing side?

Mr Falla: Well, we do have a marketing team in house and one of the people I mentioned earlier as a non-States' member, unpaid, has a marketing background and strong expertise in that area. One of our troubles is we are talking about relatively low volumes and therefore, as you know, when you are trying to market something and it is of low volume, a disproportionate amount of the cost is put on marketing.

The other is that because we are based in Guernsey, we currently sell butter to Waitrose and it costs us £90,000 a year to get that butter approved for its state of origin. If we started taking other products it would be the same thing. The regulation on moving foodstuffs off-Island are significant and therefore you have to be absolutely certain that you can then gain benefit by so doing. The cheese that we sell in Guernsey, none of that, I am sorry to say, but we lose money every time we make cheese because we are doing it in such volumes that we cannot make money making cheese. So to then sell it in the UK would be an additional burden of residue testing, etc., and proof of origin, and also the transport that is included. Sadly we do not have a product that we can market.

Deputy Roffey: The main reason we make cheese, really, is as a buffer because, as Stuart said earlier, we have to take all of the milk that is produced. We do not sell it all, the liquid milk, it is one of the ways, although it loses money, it obviously loses a lot less and is far better in other ways than pouring any milk down the drain.

1465

Mr Falla: The new Dairy most probably will not make cheese.

The Chair: Thank you.

1470

The time is just coming up to 12 o'clock. I am aware that the mandate of STSB is huge and there is a lot more ground that we could cover but we have got through a fair bit today, so I would like to thank all of the witnesses for attending the hearing today and increasing the public awareness of the important work being done by the States' Trading and Supervisory Board.

1475

The committee intends that these public hearings help to improve the level of public understanding on key areas of Government policy, thereby aiding openness and transparency. So thank you all for your participation today and I formally declare this hearing closed.

Thank you very much.

The Committee adjourned at 11.59 a.m.