

States' Trading Supervisory Board

Group Annual Report 2018



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President's Statement



The States' Trading Supervisory Board (STSB) oversees a diverse, and most likely unique portfolio. An airline, two airports, waste management, power and water utilities, postal services, marine leisure facilities, commercial harbours, property, fuel ships and a lottery.

They provide essential products and services, for the benefit of islanders. From the milk and water that we drink, the power for our homes and businesses, to the ports that provide essential air and sea links, for goods and travel.

Some are fully formed commercial companies in their own right, and for years have operated at arm's length from the States. The Board is not involved in the day to day running of these businesses, but is very much involved in the critical decision-making.

That includes challenging business cases for major investment and, supported by the Group's executive team, ensuring such projects undergo rigorous examination and scrutiny.

Our other 'unincorporated' businesses previously sat within various States Departments - and going back further even had their own political Boards.

They have seen a major transition since being brought together in 2016 under the direction of the newly formed STSB, and that continued in 2018.

One of the first priorities of the new STSB was to identify and put in place appropriate governance arrangements for the new Trading Group.

For most of the unincorporated businesses, that corporate oversight function now sits with a dedicated board - largely mirroring what has been in place for the incorporated companies since they were formed.

“Our ‘Vision’ is to have a consistently well-managed, efficient group of companies that deliver a return in the long-term best interest of islanders.”

Establishing this structure was a key theme in 2016 and 2017, and the fruits of has been evident in 2018. It has embedded a corporate discipline within the different businesses, with most now working to long-term business plans, setting out their strategic direction with clear key performance indicators.

This is reflected in a more commercial mind-set throughout the Group, with greater focus on value, service, efficiency and customers.

The STSB continues to work with the States' principal committees, to help inform, shape, and implement policy across a wide range of mandates. This is important, as these policies and other guidance often provide the framework within which the Group will operate. Equally, the experience and expertise within the various businesses is of considerable value to the States as a whole.

The Board's goal is to ensure that when we hand on the baton to the next STSB, they are in a better position than when the Group was formed in 2016. In that respect, 2018 saw a number of notable achievements and, thanks to the invaluable support and hard work of the staff and management, we have made considerable progress towards our goal.

Deputy Peter Ferbrache
President of the States' Trading Supervisory Board

Managing Director's Statement



This is the first annual report for the Trading Group as a whole. It details our progress in delivering the STSB's mandate in 2018, our overall financial and business performance, achievements, good governance and customer service highlights.

The businesses within the Group operate critical elements of the Bailiwick's infrastructure. In doing so, they provide much of the fabric both communities rely on for their social and economic well-being.

The Group's primary purpose is to provide essential services to islanders. The number one priority for our businesses is to ensure these are delivered in the most efficient, innovative and cost-effective manner.

Any contribution they can make by way of financial returns has to be balanced against this contribution as strategic "enablers" for the islands. Acting commercially is a core objective, but does not always mean delivering maximum financial returns.

The Trading Group always looks to achieve the right balance between social, economic and environmental objectives. It is not all about maximising shareholder profit.

Financial performance

Income and expenditure for the trading businesses are detailed in pages 24 to 26.

Net expenditure for General Revenue funded activities was £1.2 million, an increase of £354k compared to 2017 but a reduction of £389k compared to budget.

"Ultimately, the aim is to ensure the Group is valued by the people of the Bailiwick and provides maximum value to our communities, in the long term best interest of Islanders."

The underspend was mainly due to expenditure by Property Services being below budget, as a result of higher income and lower than expected maintenance and repair costs.

This was partially offset by increased expenditure in Alderney Airport, due to a challenging year, which included unforeseen repair work and extra staff costs.

However expenditure in Business Support and the shareholder executive was lower than in 2017.

Financial returns

The Board has worked closely with the Policy & Resources Committee to identify significant returns, as part of the Medium Term Financial Plan (MTFP). At the end of 2018, the Group had returned £10.5 million, including £4.0 million agreed but not transacted until 2019.

This brings the total returned since 2016 to £44 million, including regular dividends and other transactions outside of the MTFP.

That has been achieved through a combination of ordinary and special dividends, and the refinancing of infrastructure projects previously funded through the capital reserve.

External factors

We are inevitably impacted by some events beyond our shores. In 2018, negotiations over the UK's withdrawal from the EU was a dominant theme. We have already seen some negative impacts due to the uncertainty throughout the year and the effect this had on exchange rates.

Representatives of the executive team and from the individual businesses have assisted the States' advisers who are liaising with our key international partners on various aspects of the UK's withdrawal and any future trading relationship.

What the future holds, and what if anything it will mean for our businesses, is as yet unclear, but we remain watchful.

Staff

Guernsey Water's 2018 Annual Report stated "Our culture is based on empowering our people to innovate at all levels in our business." That perfectly captures the ethos that is becoming established across the Group, which the Board is keen to promote.

Many of our businesses operate 24 hours a day, 365 days a year. The fact we take them for granted is only highlighted when there is major disruption, such as the adverse weather we experienced in 2018.

Our ability to cope with such incidents and their aftermath owes a great deal to the commitment of our staff, who deserve enormous credit.

Equally, the achievements highlighted in this annual report have only been possible

through the contribution of the management and staff across all our operations, without whose expertise we would not have seen the progress that we have.

While major changes have been going on behind the scenes, they have ensured all the business as usual activity has continued as normal.

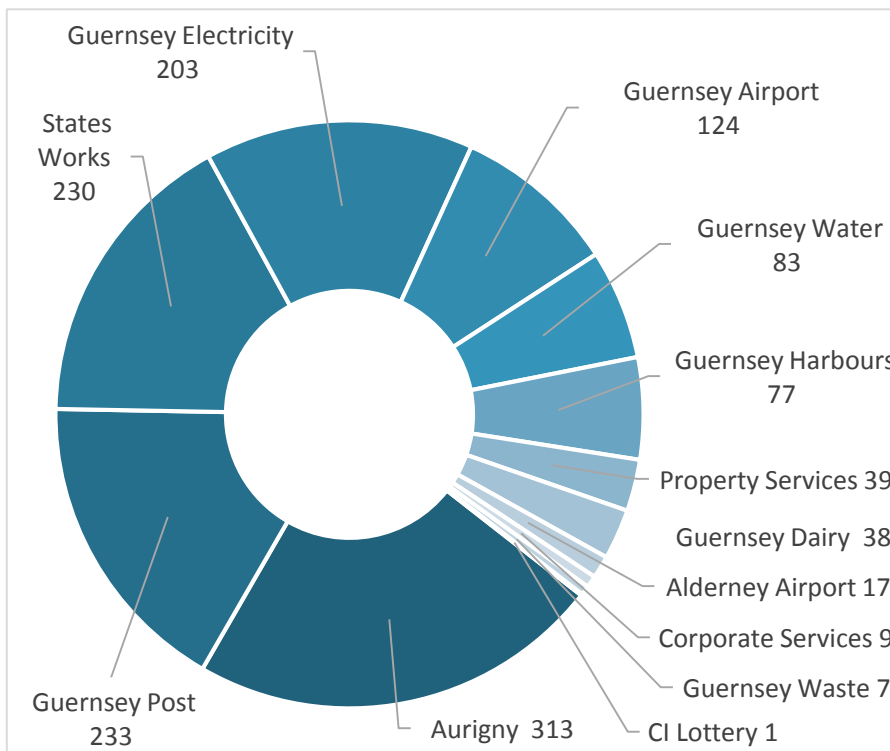
2018's success is very much down to this hard work and dedication and I would like to take this opportunity to thank staff for their continued support, drive and enthusiasm.

Progress in 2018

In 2018, considerable progress was made against the medium term priorities for the Group, and the year also saw a number of significant achievements.

These include:

- The Group structure has been further embedded in the individual businesses, setting out clear strategic direction and identifiable goals.
- A clear operational plan was agreed for the various activities falling under control of Guernsey Ports.
- The waste strategy implementation marked significant milestones, including completion of major new infrastructure and the roll out of new household collections.
- The STSB supported the priorities of the Guernsey Electricity Board, including the implementation of a new electricity cable infrastructure and tariffs.
- Guernsey Post maintained the Investors in People Gold accreditation – recognising the hard work of its staff in adapting and improving the way they work.
- Aurigny marked 50 years' service to Alderney, a remarkable achievement in the regional aviation world.
- Progress on a replacing electricity cables and other initiatives will help the island meet its Kyoto Protocol commitment to reduce carbon emissions by 80% by 2050.



In 2018 more than 1,300 islanders were employed by the Trading Group to provide a diverse range of services to the Bailiwick

Simon Elliott
Managing Director

Governance

The States' Trading Supervisory Board is a committee of the States of Guernsey, responsible for the States-owned trading operations. It harnesses the strengths and advantages of public ownership and control of critical infrastructure, but with a commercial, customer-focused approach to their operation and service delivery. While some contribution may be financial, overall returns are measured against wider social, environmental and economic benefits.

The Board works within the States' framework of policies, guidance and instructions to set long term strategy for sustainable and reliable service delivery. In effect, it acts as the non-executive directors of the Trading Group, with the head office management team forming the executive.

The Board carries out the role as shareholder of the incorporated companies, on behalf of the States of Guernsey.

- Aurigny
- Guernsey Electricity
- Guernsey Post
- Jamesco

Appropriate oversight is achieved through quarterly meetings between representatives of the STSB and executive team, and the chairman, chief executive and finance director of the respective businesses. These are an opportunity to review financial performance, progress against key performance indicators, performance against shareholder objectives and business plans, and the core business risks. The STSB also provides challenge and assurance for business cases for major capital investments.

The Board also ensures the efficient management, operation and maintenance of the unincorporated trading activities, through individual boards for each business.

- CI Lottery
- Guernsey Dairy
- Guernsey Ports
- Guernsey Waste
- Guernsey Water
- States Works

These business boards are sub-committees of the STSB, chaired by a member of the STSB, and include the senior management of each business. Day to day decision-making is delegated to these boards, according to agreed business plans, with strategic objectives and key performance targets set by and regularly reviewed by STSB. This ensures appropriate governance and supervision over each business, so they can operate as efficiently as possible and always in the best long term interest of islanders.

The STSB will provide constructive challenge to the businesses within the Group, across a range of specific criteria, to ensure they act in the long-term interests of islanders and in accordance with agreed objectives. These criteria include the quality of strategic plans; operational efficiency and customer service, versus benchmarks; financial performance against budget; management performance in delivery of strategic plan; and communication and perception within the community.

The Board also acts as Guernsey's Waste Disposal Authority.

Nominations Sub-Committee

The STSB has established a Nominations Sub-Committee to ensure the respective boards of each business have access to individuals with the necessary experience to support them in establishing the right business models, culture and direction of travel. It has identified a pool of candidates who may be suitable to apply as and when vacancies arise. This pool will be refreshed on an ongoing basis through periodic public recruitment initiatives.

This sub-committee is also responsible for determining proposals from the incorporated companies for the appointment of candidates to vacancies on their boards and, in the case of Guernsey Electricity and Guernsey Post, recommending such appointments to the States for approval. It also keeps under regular review the remuneration for Non-Executive Directors serving on these boards.

STSB Membership

The Board comprises three States Members and two non-political members. They are supported by the executive team, who are non-voting.

DEPUTY PETER FEBRACHE, PRESIDENT

Peter Ferbrache qualified as a Barrister in 1972, practised law in England before returning to Guernsey in 1980. He qualified as an Advocate in 1981 and went on to become senior partner at one of the Channel Islands' largest legal practices. He is recognised as one of Guernsey's most experienced lawyers.

He previously served in the States between 1994 and 2000, as a Deputy and Conseiller, when his roles included President of the Board of Industry and member of the Advisory & Finance Committee. In his current term, he was previously Economic Development president.

DEPUTY JEREMY SMITHIES, VICE-PRESIDENT

Jeremy Smithies is a Chartered Engineer and has an MBA degree. He previously worked for Rolls Royce, and was responsible for one of its offices in France. He has experience in financial modelling; contract negotiation; programme development and implementation; and project management.

Returning to Guernsey in 1998, he worked in the local technology sector, including as a company secretary and financial director. He subsequently taught mathematics and business studies for 10 years, and prior to election in 2016 was a management accounts consultant.

DEPUTY JAN KUTTLEWASCHER

Jan Kuttleswascher is a former international airline pilot, who flew for British Airways and its predecessors for more than 30 years. He was elected to the States in 2008, and has gained extensive political experience in a number of roles.

In his first term he served on the board of the Public Services Department, and between 2012 and 2016 he was Deputy Treasury Minister. He was also formerly vice-president of the Committee *for* Economic Development.

MR STUART FALLA, MBE

Stuart Falla is a Chartered Director and Fellow of the Institute of Directors. A former managing director of RG Falla, following its acquisition by Garenne Group in 1984 he became chairman and CEO of the enlarged group, which is one of the Channel Islands' leading construction and facilities management businesses. He was non-

executive chairman from 2014 before retiring in 2016, and has had an extensive range of other directorships.

He served in the States from 2004 to 2008, including as Deputy Chief Minister and Commerce & Employment Minister.

MR JOHN HOLLIS

John Hollis qualified as a Chartered Accountant in 1977. He joined international management consultants Accenture in 1978, becoming a global partner in 1986, and held various lead partner responsibility roles. He has extensive industry experience, including in retail, consumer products, media, oil, insurance and government.

His clients have included Tesco, BP, Procter and Gamble, Mars Confectionery, Lloyds TSB, Marks & Spencer, Coca-Cola, B&Q, and The Independent.

He served as a non-States member on the Board of the former Treasury & Resources Department (2013 to 2016).

Jamesco 750 Limited



*Guernsey
Electricity*

aurigny
GUERNSEY'S
AIRLINE



GuernseyWaste

GuernseyHarbours



States of Guernsey
Property Services

**GUERNSEY
POST**



Alderney Airport



**CHANNEL
ISLANDS
LOTTERY**



Guernsey Airport



GuernseyWater



StatesWorks



Delivering on our Commitments

Policy & Resource Plan

The various businesses within the Group continue to support the States principal committees in delivering the policy priorities set out in the 2018 Budget Report, which aim to deliver the key outcomes detailed in the Future Guernsey Plan.

Air and sea links and infrastructure

Guernsey Airport charges were reviewed in 2018, with a new structure agreed for 2019 to support the development of new routes and increase passenger numbers. Significant progress has also been made towards the target of increasing non-aeronautical income, to offset charges to airlines and passengers.

The evaluation of options to address the essential refurbishment of facilities at Alderney Airport was progressed in 2018.

Harbour Area redevelopment

Guernsey Harbours has played an active role in the Seafront Enhancement Area programme. This programme relates to the development and coordination of policies focussing on the eastern seaboard, to unlock key development potential for the area. Guernsey Ports is a stakeholder, and will also be key facilitator of any future plans.

Medium Term Financial Plan (MTFP)

The MTFP set a target return of £30 million over the period 2017 - 2021 from the STSB, in addition to any dividend paid in accordance with the existing policy. Up to the end of 2018, the Trading Group had returned £10.5 million to General

Revenue, which has been transferred to the Capital Reserve to contribute towards the funding of future infrastructure projects.

As set out in the 2019 Budget Report, the STSB has agreed the principles to be applied in assessing options for delivering the balance of the target. This will help determine the overall level of return that can be achieved and the sources.

Energy Policy

As shareholder representative for Guernsey Electricity and JamesCo (the holding company for the island's fuel ships), the STSB is a key stakeholder in developing an Island Energy Policy. Although the Committee for the Environment & Infrastructure is the strategic lead on this project, the STSB has been fully engaged.

Resilience and security of supply will be key objectives of any future policy. Throughout 2018, Guernsey Electricity has progressed the development of a business case for a direct subsea cable to France. This will require significant capital investment, but will enhance electricity security and increase the capacity to access affordable low carbon electricity.

The Trading Group has also continued to provide officer level support to the Future Hydrocarbons Supply Programme. This seeks to address the significant risks associated with current method of import and ensure security of supply for the future.

Data protection

The Data Protection (Bailiwick of Guernsey) Law, 2017 came into force in May 2018. It replaced previous data protection legislation, providing additional safeguards to personal data processed by organisations and strengthening the rights of

individuals. Staff across the Group are aware of the new requirements when processing personal data in the course of our business activities, and new plans and controls have been implemented to mitigate the risk of any data breaches.

Customer service

Our businesses continue to develop their communication with customers to improve service delivery and accessibility. Procedures are in place to help deliver a consistently high standard across all our services, in line with the States' Customer Charter. It is also our policy to consult and engage with Islanders and stakeholders on changes that affect them.

Examples of best practice include the involvement of the Institute of Customer Service, to independently measure Guernsey Water's performance against robust benchmarks. In 2018, it achieved a customer satisfaction index of 81.4% and a Net Promoter Score of 35.8% - both above the UK average for utilities and all sectors.

In addition, in 2018 Guernsey Airport pioneered the hidden disability 'Sunflower' lanyard scheme, which recognises that some travellers require extra support.

Our key principles:-

- Courteous and fair. Our service will be courteous and we will give fair and equal treatment to all our customers, whilst respecting individual needs and expectations.
- Timely and efficient. We will respond as quick as we can and strive to get it right first time.
- Accessible and provide choice. We will make sure important information is available in a range of formats and easy to understand.
- Accurate and relevant. We will make sure we provide up to date, correct information about our services and customers can easily speak to staff with the knowledge and training to help them.
- Provide the opportunity to give feedback and be heard. We will ask customers for feedback on the service received and use this to help us improve services.

Occupational health and safety

A commitment to good health and safety management in the workplace underpins quality service delivery.

Safe operations depend on our having competent people and an active health and safety culture, with a focus on continual improvement. We ensure all our employees, contractors and other parties we come into contact with are aware of their responsibility to at all times safeguard and protect both themselves and those around them.

Incidents and near misses are reported, investigated and analysed to address any safety issues and improve performance. This commitment is reinforced through a quarterly health and safety forum, attended by the relevant managers and representatives from across the

unincorporated businesses. It provides a vehicle to share best practice and ensure continuous progress in protecting the well-being of staff, suppliers and service users.

In 2018, a total of 73 'near misses' were reported and 92 days were lost across the whole of the unincorporated businesses. The main types of accidents, incidents and near misses reported were being hit by a moving or falling object, or slips, trips and falls.

In June 2018, Guernsey Water's confined spaces directive was recognised with a safety training initiative award from the Guernsey Occupational Safety & Health Association.

Operational highlights

Aurigny

The aviation market remains an exceptionally fragile and challenging environment. This underlines again Aurigny's strategic importance, first and foremost to provide security for the Bailiwick's lifeline links to and from London, as well as connectivity to other key UK regions.

The challenging market was underlined in 2018 when the largest regional airline serving the island, FlyBE, announced it was seeking a takeover partner after prolonged difficult trading. It is against this backdrop that Aurigny's financial performance should be considered.

Turnover in 2018 was £45.5 million, which is up £0.8 million compared to 2017, and a £4.4 million loss represents an improvement of £0.8 million. The Alderney routes accounted for £2.8 million of the loss, and it is hoped the award of a PSO contract for these services, expected in 2019, will address this. Achieving breakeven on the UK services is a key target, and progress was made with the closure of the London City route.

Aurigny also faces operational challenges from a changing local environment. The adoption of an open skies policy and increased competition for the core Gatwick services will make profitability more difficult. A period of adjustment can be expected in 2019, and there is an important wider debate to be had on the future strategic direction for the airline.

Following a comprehensive review of fleet requirements, the States agreed to guarantee an investment of more than \$60 million in new ATR aircraft to replace the current planes. These are expected in 2019 and 2020, and will deliver significant cost savings and operational benefits. The shareholder function within the Group's executive team worked closely with Aurigny in developing the business case.

A new website has been well-received and paved the way for the launch of a more flexible fares policy. Meanwhile the "we get you back" approach remains a key differentiator, and was demonstrated when Gatwick closed for more than 24 hours. Services were re-routed via Southampton to reduce passenger disruption.

Customer service was recognised in 2018 when Aurigny was voted "Short-haul Airline of the Year" by Which?



The Channel Islands Lottery

The CI Lottery exists to generate funds for the community, through local charities and other good causes. With that core objective in mind, 2018 was an excellent year.

Local proceeds from the annual Christmas Lottery are distributed by the Association of Guernsey Charities. Following a review in 2018, a number of changes were made to the prize allocations and ticket price. A total of £218k was subsequently raised - an increase of 15% compared to 2017.

Sales, including instant scratchcard tickets, increased by more than 20%, to £13.0 million. This gave a surplus of £1.4 million compared to £1.3 million in 2017. £616k of these proceeds was transferred to Beau Sejour Leisure Centre, to cover the annual operating deficit, and the remaining balance is retained within the States' Appropriation Account.

The image shows two lottery products. The top one is a 'Christmas Millionaire Maker' ticket with a price of £3. It features a green background with gold and red accents. The main title is 'Christmas Millionaire MAKER' in large, stylized letters. Below the title, it says 'WIN BIG! FIRST PRIZE RISES WITH TICKET SALES (GUARANTEED MINIMUM FIRST PRIZE OF £500,000) WIN BIG!'. The prize structure is as follows: 3rd prize 5x £10,000, 2nd prize £50,000, 4th prize 10x £5,000, 5th prize 15x £2,500, 7th prize 30x £500, and 6th prize 25x £1,000. It also states 'MORE PRIZES THAN EVER!'. The draw date is Thursday 20th December 2018. There are two sets of numbers: 0123456 and 0123456. A red box says 'VOID IF REMOVED'. The bottom product is an 'Instant Cash' scratchcard with a price of £3. It features a green background with gold and red accents. The main title is 'Instant Cash' in large, stylized letters. Below the title, it says 'WIN UP TO £50,000'. There are eight scratch-off areas, each labeled 'PRIZE'. A red box says 'VOID IF REMOVED'. At the bottom, it says 'Find a to win that PRIZE' and '054-000000-000'.

Proceeds of the 2018 Christmas Draw helped 40 organisations from across the Bailiwick

These moneys are set aside to provide financial support for major projects that will enhance Education, Sport and Culture Committee's (ESC) properties or events with particularly special significance to the Island's heritage and unique cultural identity.

A commitment of £600k from the fund will go towards staging the 2021 Island Games in Guernsey.

The Trading Group is committed to ensuring the lottery is well regulated and responsibly managed, and provides a positive experience for participants. When the STSB assumed responsibility in 2016, a two phase review was initiated. The first stage looked at the immediate requirements, in terms of operational and governance arrangements and identifying any current risks. The actions arising from this reviews were all implemented in 2018.

Work has now begun on the second phase, which will consider the long-term future of the lottery taking into consideration its strategic purpose and objectives, in particular increasing the return to good causes.

While most people who gamble do so responsibly most of the time, it is acknowledged that problem gambling can be harmful for some. STSB will therefore be supporting the Committee for Health & Social Care in a review, to understand the prevalence of the problem and help develop services to address identified areas of concern.

Guernsey Dairy

Sales of liquid milk, which account for more than 75% of Guernsey Dairy's turnover, continued to decline in 2018. A similar trend has been seen elsewhere, reflecting changing consumer tastes, and is likely to present an ongoing challenge for the traditional dairy business.

Nevertheless there is strong recognition from islanders of the link between the Guernsey herd and the maintenance of the local countryside. Therefore Guernsey Dairy has an important role above and beyond its product range and financial performance.

Despite declining milk volumes, revenue increased due to price increases and some evolution of the product mix. This included a 21% increase in butter sales, resulting from an earlier decision to divert more of the surplus cream that arises from the milk processing, which was previously used for cheese production.

While underlying costs remained relatively constant, a number of one off charges were incurred, resulting in a deficit of £486k. This compared to a deficit of £355k for 2017.

Milk pricing continues to be affected by the reduction in direct funding to farmers from the States. This has had the effect of adding around 2½ pence per litre to the wholesale price of milk each year.

Farmers were also impacted in 2018 by higher feed costs, due to drought conditions in the summer, for which Guernsey Dairy agreed a one off compensation package totalling £156k.

Another key focus will be the long-term infrastructure plan. This will address the condition of the dairy premises and equipment, much of which is ageing and at the end of its life. That remains a concern, as considerable costs were incurred in 2018 for reactive maintenance to simply maintain production. Work has therefore begun to determine if the current site and facilities remain fit for purpose. In the meantime, a prioritised capital plan is in place to replace essential equipment - ensuring any new kit can be used either in the existing dairy or any new facility.

More than **6 million** litres
of milk supplied



Traditional energy markets around the world are continuing to experience rapid change, as technology advances and customer expectations evolve. The volatility and uncertainty this creates is a considerable challenge for Guernsey Electricity, as a long-term, capital intensive business, where reliability and affordability today are largely determined by decisions made a quarter of a century ago.

The company is in a period of significant evolution, which will be shaped by a number of now familiar themes. Firstly, security of supply will remain the number one priority - with a core focus being on ensuring investments remain affordable for the island.

At the same time, there is a need to reduce environmental impacts from fossil fuels - in transport and heating as well as electricity generation. Investment in on-island renewable energy is likely to make an increasingly important contribution.

That in turn will require evolution of traditional tariff structures, to ensure costs of maintaining the vital supply network are borne fairly by all. In addition, the development of an energy policy will potentially have a significant bearing on how the company continues to meet the island's needs in the longer term.

Given the island's reliance on imports of electricity, failures in the Guernsey-Jersey subsea connection has impacted significantly on operational and financial performance in recent years. In the 12 months to 31 March 2018, as a

Electricity usage was **2.2%**
lower than in 2017/18

result of the most recent failure, the additional cost of on-island generation was £6.5 million. The weakening of sterling further increased the cost of electricity import, and together these contributed to an operating loss of £7.8 million. Nevertheless tariffs remained unchanged for the seventh successive year.

Due to the ongoing risk of further cable failure, the decision was made to bring forward the replacement Guernsey-Jersey cable from 2030. In addition, alongside investigations into local macro-renewable projects, the company is continuing to develop plans for a major investment in a direct link to France. This will further improve resilience and security of supply, increase the capacity to import low carbon and renewable electricity, and reduce the reliance on the power station and fossil fuel generation.



Guernsey Ports

In 2018, the number of travellers passing through St Peter Port Harbour and Guernsey Airport was lower than in 2017. This is a key source of revenue for Guernsey Ports, which made for a challenging year financially. The direct impact was offset by higher charges in 2018, and is also addressed in business plans, looking to encourage more commercial activity and reverse the decline in passengers.

Guernsey Airport

Guernsey Airport's business plan was agreed in 2018, setting challenging targets to grow passenger numbers in 2019 as well as focussing on increasing non-aeronautical income.

As part of this, work began on a major extension to the duty free shop, funded by the concession holder, to provide a considerably wider range of products. Any subsequent increase in the share of duty free spend by travellers to or from the island will benefit both Guernsey Airport and the local economy.

The construction project also provided the opportunity to begin making improvements to the security area, which in future will enable a better traveller experience.

Guernsey Harbours

2018 saw the introduction of a new, integrated port management system, following a £500k investment. This replaced legacy IT systems and manual processes, to improve service for both leisure and commercial port users. Similarly, customer support services were relocated from the Harbour Office to a new, accessible centre on Albert Pier, which opened in December ahead of the 2019 season.

Good progress was made on a Maritime Strategy, led by the Committee *for the Environment & Infrastructure* with support from Guernsey Harbours and St James' Chambers. This will ensure that if the island is audited by the

More than **1.1 Million** passengers travelled through Guernsey Airport and St Peter Port Harbour

International Maritime Organisation, as part of a wider review of compliance across the UK planned for 2020, we can demonstrate compliance with international standards.

In February, the States agreed the introduction of a small commercial vessels code, governing construction standards, crew licencing, and operating limits. Also in 2018, Guernsey Coastguards received a positive peer review by the UK's Maritime & CoastGuard Agency.

87 cruise ships visited the island, with more than 117,000 passengers coming ashore. Guernsey Harbours continued to work closely with VisitGuernsey to improve the offering for this market. For the third time in four years St Peter Port was named Best British Isles Port of Call in the 'Cruise Critics Awards'.

Guernsey also played host to the annual Red Ensign Group Conference.

Alderney Airport

Working with the States of Alderney, proposals were developed for the refurbishment of the runway and taxiways at Alderney Airport. This represents a much-needed investment in a key element of the Bailiwick's infrastructure.

A Policy Letter was submitted, seeking States of Guernsey approval to proceed with a preferred option. This will allow for the procurement of runway design specialists, to take the project to the next stage.

In the interim, the main runway, taxiway and apron were treated with an asphalt preservative, to protect against further deterioration until more substantive works are undertaken. Further improvements were also carried out on the grass runways, to increase the availability of these when required by weather conditions.



Guernsey Post continues to adapt in the context of the global decline in traditional mail volumes. A combination of efficiency measures implemented across the business, together with the launch of innovative new products and services has resulted in an improvement in the company's financial performance.

Overall, turnover for the 12 months to 31 March 2019 was £30.7 million – an increase of 2% compared with the previous year. The improved turnover was primarily achieved through the growth of the company's bulk mail export activities which also helped offset the decline in the volume of mail delivered within the Bailiwick. Operating profit increased to £1.4 million - up by 8% from £1.3 million for the previous year.

The parcel delivery business continued to expand, through a combination of organic growth and the development of new partnerships with UK carriers. The launch of a range of enhanced delivery options has significantly improved first-time delivery performance, which in turn has improved customer satisfaction and reduced the cost of consequential second deliveries.

Aside from the core business activities, the company has made significant progress towards reducing its environmental impact. This includes

39 million items of mail
handled in 2018/19

the transition to an all-electric home delivery vehicle fleet, to lower CO₂ production by more than 150 tonnes. Furthermore, the project will deliver significant financial savings on fuel, together with a 35% reduction in servicing and maintenance costs. In addition, in partnership with Guernsey Electricity, there are plans to install the largest solar array in the Channel Islands at its Envoy House headquarters in 2019.

Another highlight for 2018 was the retention of the Investors in People Gold level accreditation. This is further acknowledgement of the hard work and collective commitment of management, staff and unions in continually adapting and improving the business.

Guernsey Waste has been the driving force behind the implementation of the island's waste strategy. This represents a major transformation programme, and 2018 was a very significant year.

A prime achievement was the successful roll-out of new collection services to all 27,000 households. This included the introduction of new food waste and glass collections. It was the culmination of several months of detailed planning and co-ordination – from the design of the new services and liaison with service providers, to sourcing the equipment required by islanders and the logistics of delivering these to every home.

A comprehensive, multi-channel education campaign was also implemented over many months, to communicate what was the most wide-ranging change to household collections in more than 50 years.

All of this paved the way for the commencement of waste exports at the end of 2018, marking another very significant milestone.



Glass and food collections rolled out to more than **27,000 households**

Alongside the change to collections, preparations for the introduction of the new pay as you throw charges were also progressed throughout the year. Guernsey Waste oversaw all aspects, from the policy approval for the initial charge levels to developing procedures for monitoring compliance and enforcement; and from design and procurement of the required stickers to agreement of supply arrangements with local retailers. It also involved the second phase of the communications programme, to enable an effective transition to the new charging arrangements in 2019.

Staff were also heavily involved in commissioning the new waste management infrastructure at Longue Hogue, and the negotiation and agreement of several key processing contracts.

A future target operating model for Guernsey Waste was also developed. This will ensure that all the new initiatives launched in 2018 and 2019 make a successful transition from new service delivery to business as usual.

Guernsey Water's operational and financial performance in 2018 reflected another successful year, with the business plan continuing to embed a culture of continuous improvement in services.

This was evidenced by the results of an independent customer satisfaction survey, in which it continued to outperform utility and all sector average benchmarks.

Despite significant cost pressures, the business achieved savings totalling £670k against budget, resulting in a surplus of £126k in 2018. The delivery of the business plan will focus on further efficiencies and reducing the impact of growing cost pressures to keep customer bills down.

To that end, it was decided to freeze bills overall for 2019, and at the same time adjust the balance between water and wastewater charges. This will better reflect how much each service costs to provide, which is fairer to all customers. The vast majority will see no overall change in their bills for 2019 as a result of the re-balancing. The customer service team made considerable effort to minimise any impact on those with private water supplies who will be affected.

During the year nearly £5m was invested in improving and maintaining the networks and infrastructure, including a major sewerage upgrade in the north of the island. Nearly 2km of

99.91% compliance with agreed drinking water quality standards, an improvement on 99.85% in 2017

sewer was rehabilitated, and almost 3.5km of water mains were replaced. The Juas Water Treatment Works refurbishment also progressed well, with the plant due to reopen in 2019. This will realise significant long-term savings by enabling the Longue Hougue water treatment works to be taken out of service.

Rainfall was 16% below the 10 year average, and led to restrictions in some areas of the UK. There was no such requirement in Guernsey. Investment in more effective capture from streams over the last decade played an important role in enabling this. In addition, in 2018 operational water use and loss due to leakage from the distribution network was greatly reduced. So while customers consumed more water, the total supplied reduced by 0.4%.



Property Services

The Property Services division is different to the other operations within the Trading Group, as it is the only one (besides Alderney Airport) to receive direct funding from General Revenue. This reflects its primary function, which is to provide professional property and construction services to the States of Guernsey and manage its extensive and diverse public property portfolio.

Approximately **12% of the total land area** of Guernsey is owned by the States

In 2018, the STSB brought proposals to the States to optimise the property function, which were subsequently approved. This provides a framework for reorganising the property management operations, to reduce overall operating costs and improve the flexibility and capacity of States' office accommodation.

This will support the objectives of the Public Service Reform, by enabling more modern ways of working to improve operational efficiency and customer service.

Further progress was also made in 2018 on rationalising the existing property portfolio. A number of properties that were surplus to requirements were sold, realising £1.8 million, which was returned to Treasury.

Staff continue to advise the various States Committees with major project and property maintenance obligations.



States Works business plan for 2018-20 sets out a vision ‘to deliver a return in the best interest of islanders, by achieving sustainable growth as a well-respected and trusted service provider, while maintaining our unique island identity’. It is having to meet this objective against a backdrop of tightening budgets.

Management has worked closely with customers to ensure expectations are met and frontline services unaffected. Staff have also embraced smarter, more efficient processes, and greater use of technology to reduce manual processes. As a result, all major contract service obligations were met in 2018, and financial results exceeded budget.

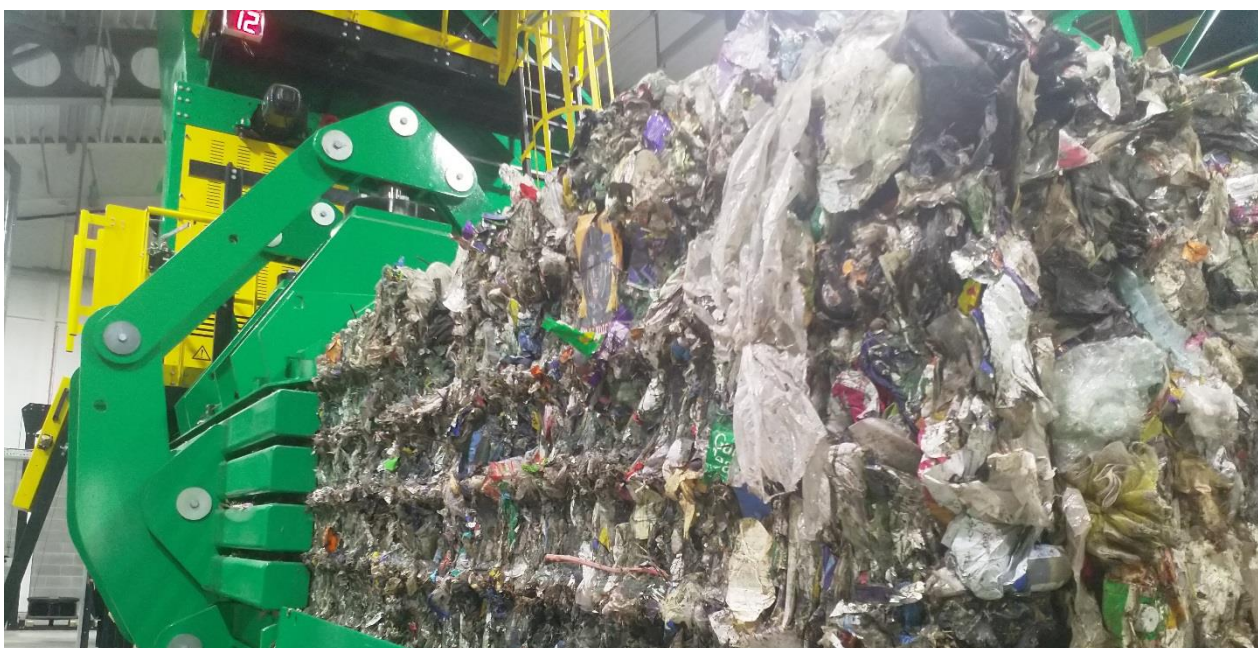
A highlight of 2018 was the commissioning of the new transfer station at Longue Hougue, and the commencement of waste exports. This was the culmination of several years’ work, with States Works playing a lead role in developing these facilities and in the wider implementation of the island’s waste strategy.

The operating contract for these waste and recycling facilities at Longue Hougue will represent significant new revenues for States Works. It also secured other new business during the year, including a new parish collection contract, to start in 2019, and expanded commercial collection services to more customers.

Responded to **145** incidents and emergency call outs

Key emergency response provision is of increasing importance as the island faces more frequent extreme weather events. This capability was put to the test in 2018 as first Storm Eleanor and then the so-called “beast from the east” struck early in the year. The resilience at such times is testament to the efforts of staff, who can be called upon in the most testing conditions, to ensure the island returns to normal as soon as possible.

In 2018, work began on a benchmarking and efficiency review of States Works activities, and the development of future ‘target operating model’ for the business. These programmes are expected to be completed by the end of 2019, and will help inform a longer term business plan.



Environmental Sustainability

Promoting biodiversity

Guernsey Water continues to maintain the Millennium Walk around St Saviours Reservoir, and provided further support for biodiversity improvement through planting wild flowers.



Reducing emissions

During 2018 Guernsey Post began to transition its fleet of electric vehicles, increasing the capacity for delivery while reducing the environmental impact.

Guernsey Electricity and Guernsey Post announced plans to install the Channel Islands' largest array of solar panels at the postal headquarters. This follows completion of a similar solar array at the power station.

As part of its commitment "to make a positive contribution to our island environment today and for the benefit of future generations", Guernsey Electricity now reports on greenhouse gas emissions, to illustrate the impact from generation to doorstep.

Another major source of Guernsey's greenhouse gas emissions has been the historic disposal of waste in landfill. The implementation of the new Waste Strategy is addressing this, with waste now exported for energy recovery. This provides a more modern, sustainable solution.

These and other initiatives will help to meet the Kyoto Protocol aim of reducing emissions by 80% by 2050.

Waste reduction

Guernsey Water and Guernsey Waste partnered with local organisation Plastic Free Guernsey to launch the 'Refill Guernsey' scheme. It has encouraged nearly 50 businesses to sign up as 'refill stations' offering free water refills for everyone, with the aim of reducing single use plastic. Refill points include Guernsey Airport, States Works, Guernsey Water and other States' buildings.

In a similar vein, Guernsey Water and Guernsey Electricity provided all their staff with reusable water bottles.

The launch of new household waste and recycling collections in 2018 is expected to result in a significant reduction in waste and a corresponding increase in reuse and recycling.

Guernsey Electricity held its annual beach clean to support the Marine Conservation Society's Beachwatch programme.

A blue poster for the 'Refill Guernsey' scheme. At the top, it reads 'REFILL GUERNSEY – REFILL HERE'. Below this, a white faucet icon is shown with water dripping into a large white water drop shape. Inside the drop, the words 'Re Fill' are written in a stylized, cursive font. To the right of the drop, the text says 'TAP US UP FOR A FREE TASTE OF GUERNSEY!' and 'HELP KEEP OUR BEAUTIFUL ISLAND AND BEACHES PLASTIC BOTTLE FREE'. Below that, it says 'Available for FREE here and anywhere you see the logo'. At the bottom, there are logos for 'PLASTIC FREE GUERNSEY', 'Love Guernsey Reduce Reuse Recycle', and 'GuernseyWater'. A small URL 'refill.org.uk' and hashtag '#RefillGuernsey' are also present.

In the Community

Supporting local good causes

A total of £218k was raised from local sales of the CI Lottery Christmas Draw, which provided valuable support to 40 organisations across the Bailiwick.

Guernsey Post continued to support the St Peter Port Christmas Lights Charity and the Guernsey Literary Festival in 2018.

Guernsey Electricity also continued to support the local Safety Calling Challenge, which educates students about important safety skills such as fire safety, electrical safety and making a 999 call.

Assisting vulnerable islanders

Guernsey Airport introduced the 'sunflower lanyard scheme' to improve the experience of vulnerable passengers with hidden disabilities.

Passengers have the option of wearing the lanyard whilst travelling through Guernsey Airport which will identify their need for additional support. That can be anything from help reading signs or screens, listening for announcements, or extra time to get through security. Airport and airline staff are now trained to look out for the specially designed lanyards and offer discreet assistance where required.



Sporting community

In 2018, Guernsey Dairy continued its sponsorship of the Guernsey Annual Father's Day 'Milk Run'. This is a popular community half marathon event, organised in association with the Guernsey Athletics Club.

Guernsey Electricity sponsored three local children to take part in the junior race of the Tour des Ports de la Manche Yacht Race.

A total of £600k has been committed from the proceeds of the CI Lottery, towards the staging of the 2021 Island Games in Guernsey - for which an instalment of £100k was paid in 2018.

A further £616k of CI Lottery proceeds were transferred to Beau Sejour Leisure Centre in 2018, to cover the annual operating deficit.

Helping find employment

The Community Environmental Projects Scheme provides temporary work and training opportunities for islanders who have been unemployed or unable to work due to long-term illness. The programme is managed by States Works and helps prepare participants for permanent employment by helping with community-focussed projects.

In 2018, the team contributed around £293k worth of work to the island, and 24 local people were helped to secure long term employment through the scheme.

Capital Projects

Each business has an ongoing programme of capital investment, to ensure proper maintenance, improvement and replacement of core infrastructure underpinning their services. In addition, senior staff from across the Group are involved in delivery of a number of major programmes within the current States' Capital Portfolio.

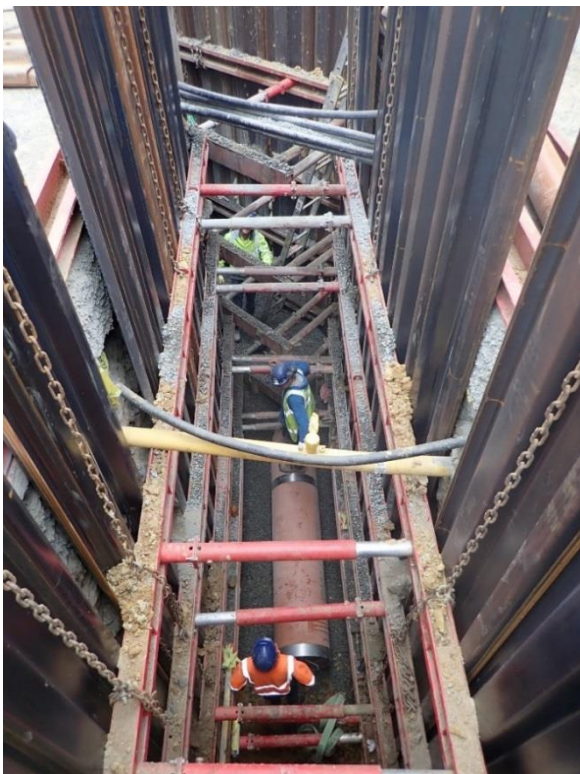
GJ1 Cable Replacement

Due to risk of further cable failure, Guernsey Electricity expedited the business case for the replacement of the Guernsey-Jersey cable. This major investment was originally planned for 2030 and the business worked closely with the Group's executive team to ensure procurement and contractual requirements were completed to allow for works to be carried out in 2019.

Drainage improvements

Guernsey Water has invested in a £5 million programme for network improvement in the north of the island.

The second and third phases were completed in 2018. Improvements were made to the sewer in Vale Road to protect the area from sewer flooding during storm events and a new sewer



was constructed in La Hure Mare. The final phase - to refurbish the St Sampson's Harbour pumping station - will be completed in 2019.

Hydrocarbons Programme

The hydrocarbons supply programme will address the risks associated with the current method of liquid fuel import at St Sampson's Harbour. A detailed study of potential future demand was completed, to help determine what is required.

The long-term Island Energy Policy is another key consideration for the programme. That is being progressed by the Committee for the Environment & Infrastructure, and is expected to be debated by the States in 2019. The proposals for future hydrocarbon import will then be finalised.

Work on developing the initial scope and budget for these works was progressed in 2018 and funding for site investigations approved.

ATR72-600 fleet acquisition

In December 2018, the States Assembly supported and approved the investment of \$60+ million for the acquisition of three new ATR72-600 type aircraft. These aircraft will have 'Enhanced Vision Systems' helping crews to land in more reduced visibility. The investment was approved by the States in December 2018 and delivery and operation is expected in 2020.

Alderney Airport Runway

Plans to refurbish the main runway at Alderney Airport were progressed during 2018. The proposed scheme is expected to cost up to £12.2 million, and involves the full length overlay of the main asphalt runway, taxiway and apron. The works also include widening the runway and installing new drainage, replacing the approach lights, and upgrading the airfield lighting to provide greater operability in low visibility condition and improve energy efficiency.

Once the design and procurement stage is complete, a full business case is expected to be presented to the Policy & Resources Committee for approval in Q4 2019.

Inert Waste Solution

The Longue Hougue land reclamation site is currently forecast to reach capacity between 2022 and 2024. Once full, a new inert waste management site will be required.

The current preferred option is to extend Longue Hougue to the south. Following the States debate in December 2017, the original shortlist of options was revisited to identify a second potential site. This was to be subject to a full Environment Impact Assessment (EIA), so that two schemes could be presented to the States for final approval.

The Policy & Resources Committee subsequently rejected a request for funding for an EIA on infilling two disused former quarries, on value for money grounds. The programme is continuing with Longue Hougue South as the preferred option, and the detailed EIA is being carried out for that scheme.

Le Foulon cremator

The current cremation equipment at Le Foulon has reached the end of its serviceable life. In May 2018, the States approved proposals to invest up to £3.9 million in a new cremator at the existing site, and bring the facility up to modern standards. Significant access improvements will also be made to the chapel.

Mont Crevelt Breakwater

During the development of the St Sampson's Marina in the early 2000s, an opening was created in the breakwater around the Longue Hougue reclamation site, to create a temporary mooring area. This now has to be closed before the infill of Longue Hougue can be completed.

Waste Management

Work on the new waste management facilities at Longue Hougue continued throughout 2018, and reached a key milestone in Q4 when commissioning of the new £24.5 million transfer station began. December saw another significant event, with the first exports of 'refuse derived fuel' and separated food waste from the new facility.

Construction also continued on the new £2.2 million Household Waste & Recycling Centre, adjacent to the transfer station, which was scheduled to open in Q2 2019.



Financial summary

The individual businesses generally fall into one of three categories – “incorporated”, “unincorporated”, and “other”.

- The **incorporated** businesses are States-owned companies with a separate legal identity to the States of Guernsey, who are the sole shareholders. They have independent Boards of Directors with full fiduciary duties.
- The **unincorporated** businesses are also trading activities but are not legally separate to the States of Guernsey. They are overseen by “Operating Boards”, which are STSB sub-committees with advisers, and do not have fiduciary duties.

Other services - the CI Lottery, Property Services and Alderney Airport - are not trading functions.

The incorporated or unincorporated businesses are all essentially run independently. On the whole, they rely on fees and charges for their income, rather than relying on general revenue funding (i.e. from taxes). They adopt the ‘user pays’ approach for most services, except where there is a wider public interest which may receive loans, grants or subsidies. They have a degree of flexibility in setting charges and retaining funds to reinvest in the business.

The businesses within the Trading Group are primarily funded in one of three ways:-

- a) The incorporated and unincorporated trading businesses are entirely or primarily funded by their direct customers (page 25).
- b) The General Revenue business units form part of the States of Guernsey funded by the general tax payer (page 26).
- c) Finally the Lottery which as a fund within the States of Guernsey, funds itself; and the Solid Waste Trading Account is funded primarily through its own fees & charges but within the States of Guernsey (page 27).

The presentation and publication of financial information therefore differs.

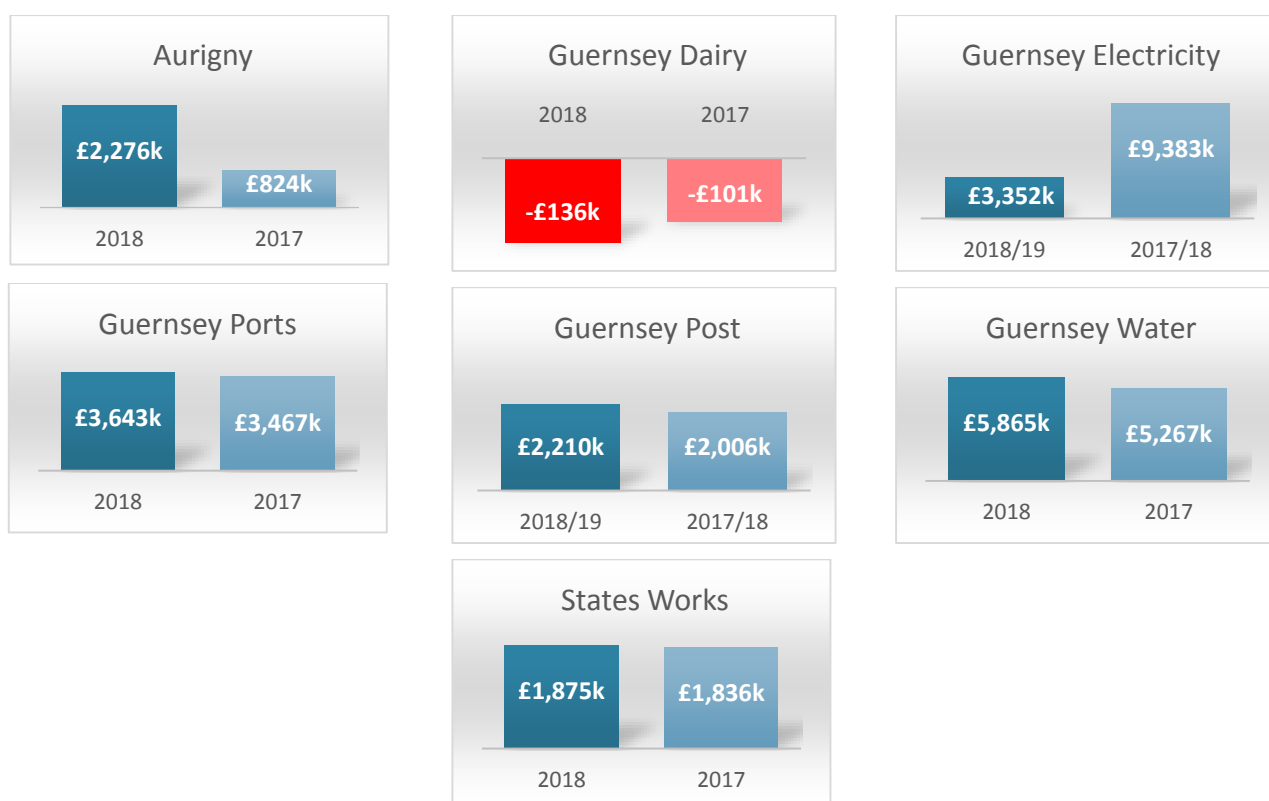
The incorporated and unincorporated businesses each produce their own set of financial statements, and there is no formal business group arrangement where accounts are consolidated.

The operating surplus in the following charts (page 25) is shown before charging depreciation, amortization, impairment, tax, interest income and expense, and pension adjustment. The net surplus/deficit (page 25) is shown after these items.

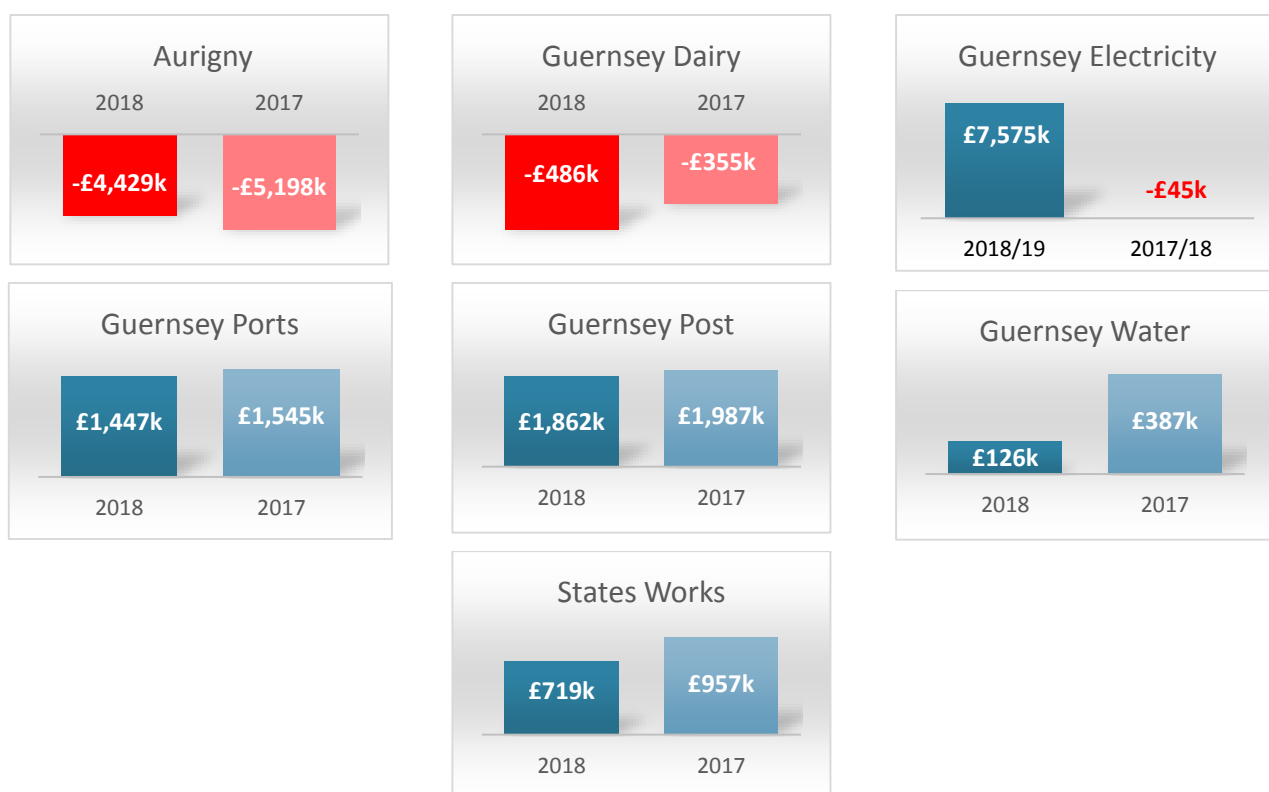
JamesCo trading figures are omitted from the financial performance data (pages 25 to 28) due to commercial confidentiality.

Guernsey Waste is not included as one of Trading businesses as it did not come into being until the 1 January 2019. All waste activity was previously being accounted for as the Solid Waste Trading Account within the States of Guernsey Accounts.

Operating Surplus/Deficit¹

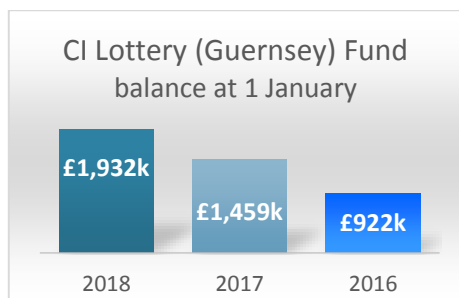
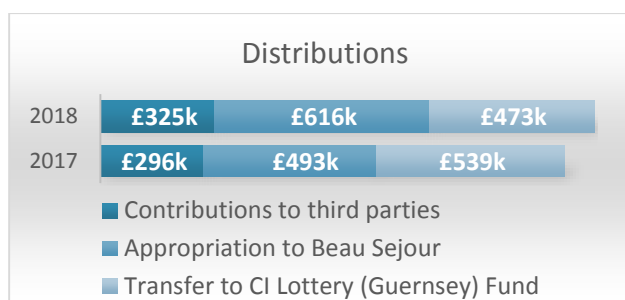
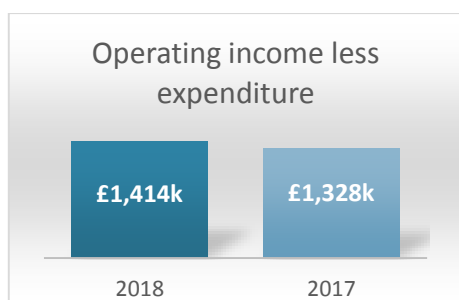


Net Surplus/Deficit

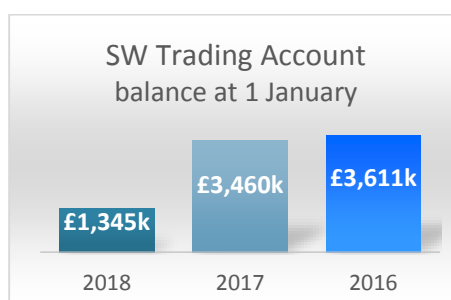
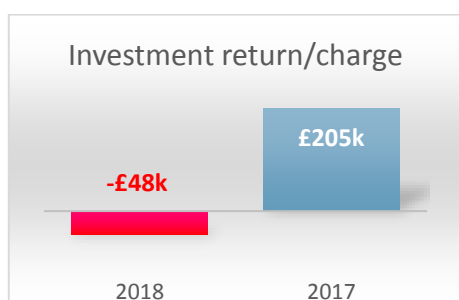
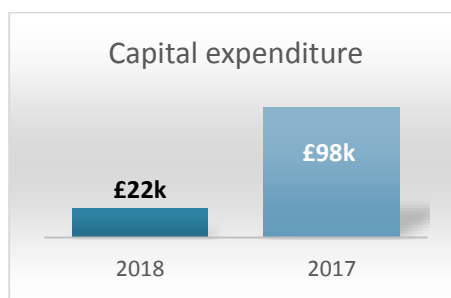
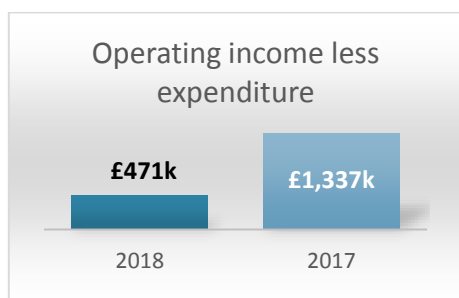


¹ Guernsey Electricity and Guernsey Post have a financial year end of 31 March. Figures quoted for these companies only are for the 12 months to 31 March 2019, unadjusted. All other figures are for the calendar year 2018.

CI Lottery



Solid Waste Trading Account²



² Capital expenditure excludes the construction cost of the Waste Transfer Station and Household Waste & Recycling Centre, which was paid from the Capital Reserve.

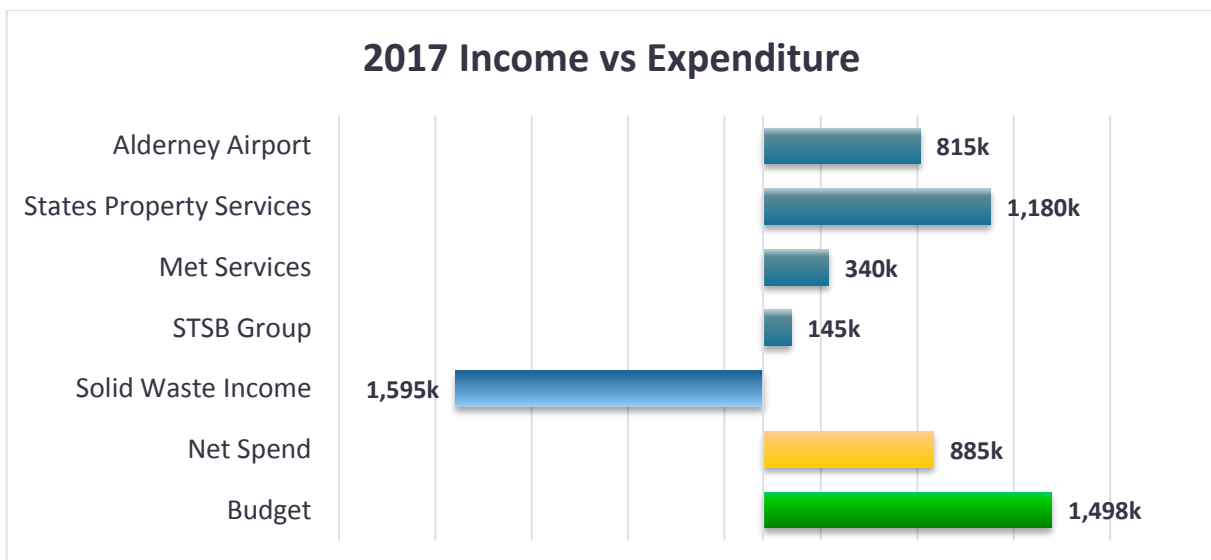
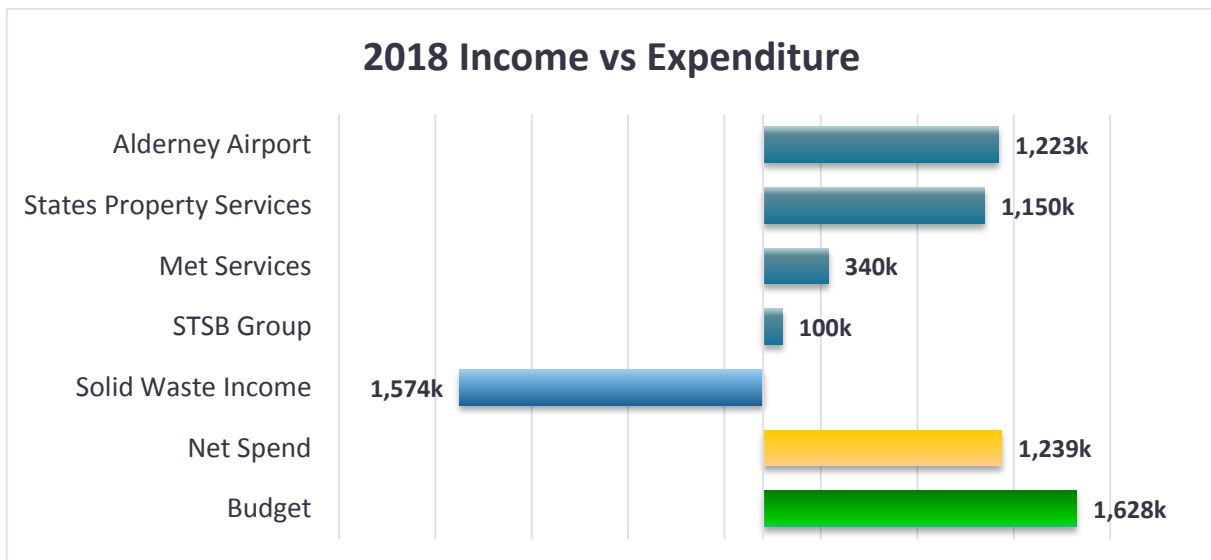
General Revenue funded activities

Net expenditure for the general revenue funded activities was £1.2m, which represents an increase of £354k compared to 2017 but a reduction of £389k compared to budget.

The main driver of the underspend was Property Services, where net expenditure was £678k lower than budget but broadly in line with 2017. This was largely due to a combination of increased income (£344k) and lower than budgeted spend on property maintenance and repairs (£290k).

This was partially offset by increased expenditure in Alderney Airport, which was £396k above budget. 2018 was a challenging year with a combination of a decline in passenger numbers resulting in reduced revenues (£134k); unforeseen runway repairs (£150k); and additional training costs for a new air traffic controller and long-term sickness cover (£82k).

Expenditure in Business Support was £102k lower than budget, primarily due to staff vacancies and other savings.



Capital Assets

The businesses within the Trading Group have considerable assets used to deliver their services.

	Aurigny	Guernsey Dairy	Guernsey Electricity ¹	Guernsey Ports	Guernsey Post ¹	Guernsey Water	States Works	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Fixed Assets	48,709	2,181	133,857	229,142	11,933	152,543	7,190	585,555
Cash	891	1,555	8,420	3,981	12,207	4,088	2,784	33,926
Other Current Assets & Liabilities	(15,952)	469	727	1,333	(592)	1,346	1,522	(11,147)
Loans	(43,224)	0	(22,000)	0	0	(8,736)	0	(73,960)
Other	(1,008)	0	(12,865)	0	0	(10,915)	0	(24,788)
Net Assets/ (Liabilities)	(10,584)	4,205	108,139	234,456	23,548	138,326	11,496	509,586

Capital Expenditure

Investment in this infrastructure is always ongoing and notably Guernsey Dairy and Guernsey Ports are catching up on many years of under investment.

During 2018 a total Capital Investment of £32.5 million was spread over the trading businesses:-

£000's		
Aurigny	£12,076	Deposits on new ATR aircraft
Guernsey Dairy	£299	Upgrading production system
Guernsey Electricity	£11,612	Guernsey-Jersey electricity cable replacement & other infrastructure
States Works	£1,596	Vehicles and plant
Guernsey Ports	£1,149	Property refurbished, screening equipment and IT systems
Guernsey Post	£806	Replacement and increase of vehicle fleet
Guernsey Water	£4,968	St Sampson's Harbour pumping station improvement works, Juas water treatment works, Gele Road pumping station and sewer rehabilitation

Risk Statement, Approach, and Strategic Risks

All the businesses undertake rigorous risk assessment and mitigation, in order to manage our strategic and operational risks, where these are within our influence or control.

Unincorporated businesses

The unincorporated businesses use the States of Guernsey's Enterprise Risk Management framework, to identify, evaluate and manage risks in line with the Risk Management Directive.

The 'operating boards' for each individual businesses receive clear and detailed quarterly reports on strategic and operational risks. Changes in key risks and mitigations are monitored by the Group's senior leadership group, and escalated for challenge and treatment, as appropriate, to the Managing Director and Chief Executive.

Programmes and projects are managed within the same risk management system and are reviewed at Programme /Project Boards.

Incorporated companies

Risk management information is a standing agenda report item at each company's quarterly Shareholder meetings with the Group's executive team and two members of the STSB (one political and one non States Member). Risks are managed according to each company's governance criteria.

Evolution of risk management across the Group

Risk management information and best practice is shared between the incorporated, the unincorporated businesses and the States of Guernsey, through forums such as the Risk Working Group of Risk Champions.

Brexit

Any impacts from the UK's withdrawal from the EU in the short, medium and long term are as yet unknown. It is therefore not possible to indicate the extent of change that may be required, but this is being closely monitored by various officers from across the States of Guernsey and dialogue with the UK is ongoing to help ensure that Guernsey can react quickly to this expected area of future change. Profits for some of the businesses within the Trading Group may be temporarily impacted.

Guernsey Electricity has already felt the impact of adverse exchange rates, as the company purchases most of the electricity from France in Euros. Similarly, Aurigny is impacted by the weakness of the pound in purchasing fuel, and the potential for a period of disruption to aviation in the UK may also affect the airline's service levels for a time.

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