

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY DAIRY ACCOUNTS 2021

The States are asked to decide:-

1. Whether they are of the opinion to agree with the States' Trading Supervisory Board's approval of the Guernsey Dairy Accounts for the year ending 31 December 2021.

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

States of Guernsey
States' Trading Supervisory Board
Guernsey Dairy

Annual Report and Financial Statements

For the year ended 31 December 2021

States' Trading Supervisory Board

Guernsey Dairy

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States' Trading Supervisory Board

Guernsey Dairy

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

States' Trading Supervisory Board Members

Deputy P. Roffey	President
Deputy C. Parkinson	
Deputy N. Moakes	
Mr S. Falla CBE	
Mr J. Hollis	resigned 15 October 2021
Dr S. Thornton	appointed 16 October 2021

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

Principal Officers to the States' Trading Supervisory Board

Mr S. Elliott, Managing Director, States Trading Group
Mr S. Gardiner, Finance Business Partner, States Trading Group
Mr A. Ford, Head of Shareholder Executive, States Trading Group

Dairy Management Board Members

Mr S. Falla CBE	Chairman
Deputy P. Roffey	
Mr D. Cowley	Guernsey Farmers' Association representative appointed 1 January 2021
Mr A. Tabel	non-voting adviser
Mrs C. Edwards	non-voting adviser
Mr S. Langlois	non-voting adviser
Mrs S. Macknight	non-voting adviser

States' Trading Supervisory Board

Guernsey Dairy

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

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

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

Principal Officers to Guernsey Dairy Management Board

Mr A. Tabel, Managing Director, Guernsey Dairy

Mrs C. Edwards, Senior Finance Manager, Guernsey Dairy

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

Legal Advisers

Law Officers of the Crown
St James Chambers
St James Street
St Peter Port
GY1 2PA

Independent Auditor

Grant Thornton Limited
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
GY1 3TF

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report

Overview

2021 has been another challenging year for the Dairy as it faced the continued disruption posed by the COVID-19 pandemic as well as ongoing difficulties arising from ageing plant and equipment.

Despite a second COVID-19 lockdown in January there was no disruption to the supply of fresh liquid milk to the island throughout this period.

Milk volumes in 2021 increased slightly year on year, the first increase seen after five years of declining milk sales. This may be related to the increased number of people on the island as a result of the lack of overseas travel due to restrictions in place during the pandemic. However, the marketing programme which the Dairy began in 2021 and the positive PR surrounding the launch of lactose free milk is thought to also have had an impact.

In 2021 work continued on the design stage of the Future Guernsey Dairy Project. An outline business case ("OBC") is currently being drafted with inputs from Dairy technical experts, as well as the Committee *for the* Environment & Infrastructure. This should enable the project to move from the "Pipeline" category of the Government Work Plan to the "Delivery" category, which would allow the project to go ahead to the next stage of the design process.

In the interim, a prioritised capital plan is in place to replace essential ageing equipment with new equipment that could be used either in the existing Dairy or in a new facility, to be financed, where necessary, via a short-term overdraft facility agreed by the Policy & Resources Committee

Business performance

Supplying milk to the island's population is Guernsey Dairy's primary responsibility and purpose. Liquid milk sales account for 76.9% of turnover, and the volumes sold in 2021 increased by 1% compared to 2020 which was an encouraging sign following five years of decline. Butter, cheese, cream and ice-cream are all produced from the cream and milk left over from the processing of liquid milk. Butter represents the most important by-product and is the best commercial use of this cream, however all milk derived products require the corresponding sale of liquid milk to be profitable.

Guernsey Dairy continues to manage its cost base and in 2021 continued to work on a programme of efficiencies to identify and realise cost reduction opportunities.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report – continued

Our community

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

Guernsey Dairy works closely with the Guernsey Farmers' Association ("GFA") to maintain and improve the quality of raw milk. We have elected to adopt the highest standard of animal welfare with the RSPCA Farm Assured Scheme. I am pleased to report that all farms had achieved accreditation by the end of 2021 and in 2022 the Dairy will start using the RSPCA assured logo on its packaging.

The continued purchase of raw Guernsey milk contributes to the local economy and each litre purchased helps to preserve the Guernsey countryside, its biodiversity, traditional farming heritage and safeguards the iconic Guernsey cattle breed.

Our team

Guernsey Dairy has a committed team of production and support staff. Despite the challenges of the impact of COVID-19 as well as the ongoing challenges of maintaining old plant and equipment, the team ensured the continuity of supply of fresh liquid milk.

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

Our business strategy and future

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

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

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report

The STSB presents its report and the audited financial statements for Guernsey Dairy for the year ended 31 December 2021. These comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 24.

Principal activities

Guernsey Dairy operates to:

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

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

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

Financial performance

	Actual 2021 £'000	Budget 2021 £'000	Actual 2020 £'000
Revenue	8,552	8,586	8,561
Expense	(8,469)	(8,864)	(8,462)
Operational surplus/(deficit)	83	(278)	99
Deficit for the financial year	(223)	(675)	(194)
Capital expenditure	56	335	560

Guernsey Dairy made a deficit in 2021 of £223k, compared to 2020's deficit of £194k. However, in 2020 the Dairy benefited from a £69k one off credit as 2019 costs relating to the ongoing dairy improvement project were charged to the centrally funded capital project in 2020, resulting in a credit in 2020. Excluding this the 2020 deficit was £263k - by comparison 2021's deficit was a £40k improvement year-on-year.

Guernsey Dairy's fixed asset base of £3,016k has been reviewed for impairment. No impairment loss was reflected following a review of the fixed assets register (2020: nil).

Reserves have decreased by £223k from £3,623k to £3,400k, due to the in-year deficit.

Operational performance

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

Overall revenues were £9k (0.1%) lower than 2020.

- Liquid milk revenues increased by 0.7% compared to the previous year. The gate price for liquid milk was held level in 2021.
- Butter sales were below 2020 with a 3.3% decrease in sales revenues commensurate with a reduction in raw milk intake. Butter exports to the UK decreased by 5.8% compared to 2020, while exports to The Netherlands were £79k (92.9%) below 2020. The impact of the spread of COVID-19 in the EU and, to a lesser degree Brexit, affected the exports to the Netherlands. However, there has been an upturn in local sales with demand being maintained throughout the trading period.
- Butter prices were benchmarked against other like-for-like products and gate prices were adjusted during the year to reflect market conditions demand, and availability.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

- Cheese sales, which saw an increase in demand in 2020 due to a switch from supermarket to online grocery buying, reduced by 28.8% year-on-year, to levels just under 2019's sales. However, this was largely due to the after-effects of suspending production due to staff availability as mitigation measures were introduced to prevent the spread of COVID-19.
- Ice cream sales had seen a large reduction in 2020 as the Dairy was unable to make enough to satisfy demand during the first lockdown. In 2021 sales improved by 11.1% year-on-year, but remained 8.6% below 2019 levels.

Cost of sales was £52k (0.8%) lower than 2020.

- The total cost of raw milk purchases reduced by 3.2% in 2021.
- There was no change to the price paid to farmers, other than farmers receiving an additional 1.24p per litre (2.0%) on achieving RSPCA accreditation.
- The volume of milk intake at Guernsey Dairy decreased by 4.6% (360,332 litres) on the same period in 2020. Guernsey Dairy and farmers are working together to ensure the ideal production level of liquid milk for the islands' needs is met. To achieve this, production levels need to align closely with demand with as little over or under production as possible and intake maintained equally over a rolling 12-month period.
- Production wages saw a £83k (9.2%) year-on-year increase partially due to an increase in pay rates, grade increases and vacancies in 2020.

Administration expenses:

- Total administration expenses were £59k higher than in 2020, however after adjusting for the one-off credit in 2020, administration costs were £10k lower than 2020.
- Repairs and maintenance continue to be a lower than the average spend prior to 2020 with Government restrictions on travel relating to COVID-19 affecting planned maintenance.

Capital:

- Capital spend in the year was £56k compared to a £335k budgeted spend.
- To produce a range of milks and milk products, the Dairy operates an extensive amount of highly specialised complex plant and equipment. A high proportion of this is approaching or has exceeded the end of its anticipated useful service life.
- The difficulties in getting contractors due to travel restrictions have impacted the Dairy's ability to deliver its capital plans in 2021, however the Dairy team worked hard to maintain the ageing plant and equipment using internal and local resources where practicable.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

Our customers

Guernsey Dairy's immediate customers are Trade Account holders who purchase milk and other dairy products from Guernsey Dairy and deliver them to shops, the food-service sector or to doorsteps. Guernsey Dairy acts as a wholesaler, it does not set the retail price of milk, which allows retail outlets to set their own selling price and offer discounts as they see fit.

Statement of responsibilities for the preparation of financial statements

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

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

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

Statement of financial controls

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

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

- Annually reported and approved budgets monitored against monthly management accounts with additional operational detail reported in monthly management reports, which monitor actual income and expenditure against that anticipated. All such detail is regularly reviewed at meetings of the STSB and DMB, to ensure that all board members are informed of Guernsey Dairy financial affairs,
- Customer invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch to ensure accuracy,

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

- Regular review of debtors to ensure that any delinquent debtors are identified at an early stage and dealt with appropriately,
- The control of materials and stores purchases are managed using Guernsey Dairy's stores database software with minimum stock levels set to ensure production continuity. Specific authorisation limits for purchases and segregated areas of responsibility for processing of payments are controlled by SAP, which maintains detailed audit trails,
- Staff resource expenditure is monitored and controlled at source via time sheets, which are authorised and reconciled with the wage bill,
- Capital expenditure authorisation is subject to approval and review against budget by the Capital Investment Group, which is constituted from the principal officers of the Guernsey Dairy,
- Regular review of milk and milk product prices, and
- Consideration of all audit reports by the STSB.

The STSB strives to ensure that all staff with financial responsibility in Guernsey Dairy have the appropriate integrity, skills and motivation to professionally discharge their duties.

Guernsey Dairy's internal controls and accounting policies have been and are subject to continuous review and improvement. In addition, the financial statements are subject to an independent external audit by an auditor appointed by the States of Guernsey.

Going concern

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

Auditors

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

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance

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

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

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

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

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

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

The DMB does not hold a fiduciary responsibility.

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

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

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

States' Trading Supervisory Board

Guernsey Dairy

Corporate Governance - continued

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

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

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

States' Trading Supervisory Board

Guernsey Dairy

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

Opinion

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

In our opinion, the financial statements:

- give a true and fair view of the state of the Guernsey Dairy's affairs as at 31 December 2021 and of its deficit for the year then ended; and
- are in accordance with FRS 102.

Basis for opinion

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

States' Trading Supervisory Board

Guernsey Dairy

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

Other information

The STSB is responsible for the other information. The other information comprises the information included in the chairman's report and the managing director's report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the STSB for the financial statements

As explained more fully in the statement of responsibilities for the preparation of financial statements set out on page 10, the STSB are responsible for the preparation of the financial statements which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, and for such internal control as the STSB determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

States' Trading Supervisory Board

Guernsey Dairy

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

States' Trading Supervisory Board

Guernsey Dairy

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

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

Use of our report

This report is made solely to the members of the STSB, as a body. Our audit work has been undertaken so that we might state to the members of the STSB those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Guernsey Dairy and the members of the STSB as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited

Chartered Accountants
St Peter Port, Guernsey

16 May 2022

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue	2 & 4		
Liquid milk		6,577	6,528
Dairy products		1,959	2,017
Sundry or other income		16	16
		<u>8,552</u>	<u>8,561</u>
Expenses	2 & 5		
Production costs		(6,366)	(6,418)
Administration expenses		(2,103)	(2,044)
		<u>(8,469)</u>	<u>(8,462)</u>
Operating surplus before depreciation and gain on disposal of fixed assets		83	99
Depreciation	9	(294)	(263)
Gain on disposal of fixed assets		12	-
Operating deficit for the year		<u>(199)</u>	<u>(164)</u>
Investment return/(loss) and net interest receivable	7	2	(4)
Interest payable	7	(26)	(26)
Deficit for the financial year		<u><u>(223)</u></u>	<u><u>(194)</u></u>

All material activities derive from continuing operations.

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

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

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as at 31 December 2021

	Notes	2021 £'000	2020 £'000
Non-current assets			
Tangible fixed assets	9	3,016	3,303
Assets under construction	10	58	10
		3,074	3,313
Current assets			
Inventories	11	495	610
Debtors and prepayments	12	944	893
Cash at bank and in hand		-	106
Balances with States Treasury		605	530
		2,044	2,139
Creditors: amounts falling due within one year	13	(1,035)	(1,128)
Net current assets		1,009	1,011
Creditors: amounts falling due after more than one year	14	(683)	(701)
Total net assets		3,400	3,623
Reserves	16	3,400	3,623

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

Deputy P. Roffey
President

16 May 2022

Signed on behalf of the States Trading Group

Mr S. Elliott
Managing Director

16 May 2022

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

States' Trading Supervisory Board

Guernsey Dairy

Statement of Changes in Equity

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Balance at 1 January		3,623	3,817
Deficit for the financial year		<u>(223)</u>	<u>(194)</u>
Balance at 31 December	16	<u>3,400</u>	<u>3,623</u>

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

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Net cash flows from operating activities	17	54	528
Cash flows from investing activities			
Proceeds from disposal of fixed assets		12	-
Purchase of fixed assets	10	(56)	(560)
Net cash flows used in investing activities		(44)	(560)
Cash flows from financing activities			
Capital repaid		(17)	(17)
Interest paid	7	(26)	(26)
Investment return/(loss) and interest received	7	2	(4)
Net cash flows from financing activities		(41)	(47)
Net decrease in cash and cash equivalents		(31)	(79)
Cash and cash equivalents at the beginning of the year		636	715
Cash and cash equivalents at the end of the year		605	636
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		-	106
Balances with States Treasury		605	530
Cash and cash equivalents		605	636

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements

1. General information

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

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

2. Principal accounting policies

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

Accounting convention

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

Functional and presentational currency

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

Going concern

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

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

Tangible fixed assets

i) Property, plant and equipment

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

Depreciation

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

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

Impairment of assets (excluding inventories)

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

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Costs include an appropriate

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

proportion of processing expenses and are calculated using the FIFO (first-in, first-out) method. Provisions are made for obsolete and slow-moving items where appropriate.

Basic financial instruments

i) Trade debtors

Trade debtors are recognised initially at original invoiced amount. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. Trade debtors are stated less a specific provision against debtor balances that are identified as irrecoverable.

ii) Cash and cash equivalents

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

iii) Trade creditors

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

iv) Loans from the States of Guernsey

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

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

2. Principal accounting policies – continued

v) Derecognition of basic financial instruments

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

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

Revenue and expenses

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

Pension costs

Pension costs are treated as described in note 20.

Investment return and interest receivable/payable

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

Leases

i) As lessee

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

ii) As lessor

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

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

i) Depreciation rates

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

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

4. Revenue

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

	2021	2020
	£'000	£'000
Bailiwick of Guernsey	8,121	8,025
UK	425	451
The Netherlands	6	85
	8,552	8,561

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

	2021	2020
	£'000	£'000
Milk	6,563	6,515
Organic milk	14	13
Butter	1,395	1,442
Cheese	94	132
Cream	300	290
Ice-cream	170	153
Sundry or other income	16	16
	8,552	8,561

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

5. Expenses

	2021 £'000	2020 £'000
Cost of sales		
Production wages	982	899
Milk	4,439	4,665
Milk - working loss	216	143
Dairy product ingredients	54	43
Packaging materials	602	588
Freight	73	80
	<u>6,366</u>	<u>6,418</u>
Administration expenses		
Advertising and promotion	25	31
Cleaning materials	64	62
Fuel, light, power, water, rates	310	273
General administration costs	58	32
Laboratory materials and equipment	191	211
Motor vehicles	42	24
Professional fees	350	378
Provision for bad debts	-	8
Repairs, maintenance and insurance	347	310
Salaries	671	677
Other expenses	45	38
	<u>2,103</u>	<u>2,044</u>
Total expenses	<u><u>8,469</u></u>	<u><u>8,462</u></u>

During 2016 Guernsey Dairy incurred an exceptional expense in relation to ex-gratia payments made to the milk distributors. The States of Guernsey resolved, at their meeting on 8 March 2016, that Guernsey Dairy would make ex-gratia payments not exceeding £750k in total. £40k remains unpaid at 31 December 2021 (2020: £40k).

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

6. Staff numbers and costs

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

	2021	2020
Production staff	30	29
Administration staff	7	7
	37	36

Their aggregate remuneration comprised:

	Note	2021 £'000	2020 £'000
Wages and salaries		1,386	1,342
Social security costs		93	86
Pension costs	20	174	148
		1,653	1,576

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

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

7. Interest

	2021	2020
	£'000	£'000
Interest receivable		
Investment return/(loss)	<u>2</u>	<u>(4)</u>
	<u>2</u>	<u>(4)</u>
 Interest payable		
Interest payable on loans	<u>(26)</u>	<u>(26)</u>
	<u>(26)</u>	<u>(26)</u>

8. Deficit for the financial year

Deficit for the financial year is stated after charging:

	Note	2021	2020
		£'000	£'000
Auditor's remuneration		12	14
Depreciation of tangible fixed assets	9	294	263
Gain on disposal of fixed assets		<u>(12)</u>	<u>-</u>
		<u>294</u>	<u>277</u>

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

9. Tangible fixed assets

	1 January 2021 £'000	Additions £'000	Reclassifi cations £'000	Write offs/ Disposals £'000	31 December 2021 £'000
Cost					
Land	1,000	-	-	-	1,000
Buildings	1,601	-	4	-	1,605
Plant & equipment	4,261	4	(6)	(241)	4,018
Motor vehicles	284	-	-	-	284
Information technology	31	4	2	-	37
	<u>7,177</u>	<u>8</u>	<u>-</u>	<u>(241)</u>	<u>6,944</u>
	1 January 2021 £'000	Charge for the year £'000	Reclassifi cations £'000	Disposals £'000	31 December 2021 £'000
Depreciation					
Buildings	997	41	(1)	-	1,037
Plant & equipment	2,588	249	(1)	(240)	2,596
Motor vehicles	258	3	-	-	261
Information technology	31	1	2	-	34
	<u>3,874</u>	<u>294</u>	<u>-</u>	<u>(240)</u>	<u>3,928</u>
Net Book Value	<u>3,303</u>				<u>3,016</u>

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

10. Assets Under Construction

	1 January £'000	Expense in the year £'000	Transfer to Tangible Fixed Assets £'000	31 December £'000
2021 Total	10	56	(8)	58
2020 Total	116	560	(666)	10

Assets under construction completed in 2021 and transferred to fixed assets includes an intruder alarm (£4k) and a Lactose testing machine (£4k).

Assets under construction as at 31 December 2021 relates to Tanker metering systems (£35k), Cream Platform Floor (£10k), Chilled Water Pumps (£7k) and Stock management system (£6k).

11. Inventories

	2021 £'000	2020 £'000
Milk and dairy products	160	204
Packaging materials	242	306
Other inventories	93	100
	495	610

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

12. Debtors and prepayments

	2021	2020
	£'000	£'000
Trade debtors	778	758
Accrued income	154	117
Other debtors and prepayments	12	18
	944	893

13. Creditors: amounts falling due within one year

	Note	2021	2020
		£'000	£'000
Trade creditors		503	545
Accruals & Deferred Income		514	566
Loan from States of Guernsey	15	18	17
		1,035	1,128

Included as part of Accruals is £40k of unpaid Ex-gratia payments (2021: £40k). See Note 5.

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

	Note	2021	2020
		£'000	£'000
Loan from States of Guernsey	15	683	701
		683	701

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

15. Loan from States of Guernsey

	2021	2020
	£'000	£'000
Balance at 1 January	718	734
Capital repaid	<u>(17)</u>	<u>(16)</u>
Balance at 31 December	<u>701</u>	<u>718</u>

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

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

	2021	2020
	£'000	£'000
Within one year	18	17
Between one to two years	18	18
Between two to five years	59	57
More than five years	<u>606</u>	<u>626</u>
	<u>701</u>	<u>718</u>

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

16. Reserves

	2021	2020
	£'000	£'000
Balance at 1 January	3,623	3,817
Deficit for the financial year	<u>(223)</u>	<u>(194)</u>
Balance at 31 December	<u>3,400</u>	<u>3,623</u>

All reserves are distributable.

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

	2021	2020
	£'000	£'000
Operating deficit for the year	(199)	(164)
Depreciation charges	294	263
Gain on disposal of fixed assets	(12)	-
Decrease in inventories	115	168
(Increase)/decrease in debtors	(51)	134
(Decrease)/increase in creditors due within one year	<u>(93)</u>	<u>127</u>
Net cash flows from operating activities	<u>54</u>	<u>528</u>

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

18. Financial commitments and contingent liabilities

Guernsey Dairy has no commitments to make in respect of operating leases as at 31 December 2021 (2020: £Nil).

Guernsey Dairy has no contingent liabilities as at 31 December 2021 (2020: £Nil).

19. Financial instruments

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

	Note	2021 £'000	2020 £'000
Financial assets at amortised cost			
Cash and cash equivalents		605	636
Debtors	12	778	758
Financial liabilities at amortised cost			
Creditors: amounts falling due within one year	13	(521)	(562)
Creditors: amounts falling due within more than one year	14	(683)	(701)

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

20. Employee benefits

The employees of Guernsey Dairy are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (£94,081 as at 31 December 2021) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary. The scheme is funded by contributions from both employer and employee. The employer rates for the defined benefits are determined on the basis of independent actuarial advice and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

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

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

The total cost of employer contributions included within the Statement of Comprehensive Income amounted to £174k (2020: £148k).

Further details relating to the funding of the Superannuation Scheme are included within the States of Guernsey Accounts 2021.

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

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

21. Statement of control

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

22. Related party transactions

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

The total compensation of key management personnel in 2021 (including salaries and other benefits) was £293k (2020: £287k).

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

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

23. Subsequent events

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

24. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 18 relating to 2021 which would affect these financial statements (2020: None).

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