

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

STATES' TRADING SUPERVISORY BOARD

GUERNSEY DAIRY ACCOUNTS 2022

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 2022.

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

States of Guernsey

States' Trading Supervisory Board

Guernsey Dairy

Annual Report and Audited Financial Statements

For the year ended 31 December 2022

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
Dr S. Thornton

The constitution of the States' Trading Supervisory Board ("STSB") provides that the membership of the STSB shall be a President and two members who shall be sitting members of the States and up to two voting members who shall not be sitting members of the States. 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 A. Ford, Head of Shareholder Executive, States Trading Group
Mr S. Gardiner, Finance Business Partner, States Trading Group resigned 5 December 2022
Mr M. Salmon, Finance Business Partner, States Trading Group appointed 5 December 2022

Dairy Management Board Members

Mr S. Falla CBE Chairman
Deputy P. Roffey
Mr D. Cowley Guernsey Farmers' Association ("GFA") representative
Mr S. Langlois non-voting adviser
Mrs S. Macknight non-voting adviser
Mrs A-M. Best non-voting adviser
Mr A. Tabel non-voting adviser

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.

States' Trading Supervisory Board Guernsey Dairy

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

Principal Officers to Guernsey Dairy Management Board

Mr A. Tabel, Managing Director, Guernsey Dairy	
Mrs A-M. Best, Senior Finance Manager, Guernsey Dairy	appointed 1 June 2022
Mrs C. Edwards, Senior Finance Manager, Guernsey Dairy	resigned 5 May 2022

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
St James Place
St James Street
St Peter Port
GY1 2NZ

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report

Overview

2022 has been another challenging year for the Dairy as it faced ongoing difficulties arising from ageing plant, unreliable equipment and deteriorating infrastructure.

The volume of raw Milk supplied to the Dairy in 2022 was similar to that supplied in 2021 at 7.6m litres. This was despite the challenges faced by farmers due to the geopolitical climate and the effect this had on rising input costs. An extended period of very dry weather during the summer exacerbated the problem as farmers turned to winter feed.

Business performance

Supplying milk to the island's population is Guernsey Dairy's primary responsibility and purpose. Liquid milk sales account for 75.7% of turnover. Milk volumes sold in 2022 decreased by 2% compared to 2021. 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 significant milk-derived product and is the best commercial use of cream; however, without the corresponding sale of liquid milk, milk derived products do not make a positive gross margin as only the cream constituent of the milk is utilised.

Guernsey Dairy continues to manage its cost base and in 2022 continued to work on a programme of efficiencies to identify and realise cost reduction opportunities.

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 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 early 2022 the Dairy started to use the RSPCA assured logo on its packaging alongside the Great Taste logo in recognition of its success in the dairy category.

The continued purchasing of fresh 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.

States' Trading Supervisory Board

Guernsey Dairy

Chairman's Report – continued

Our team

Guernsey Dairy has a committed team of production and support staff.

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 2022 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, remodel the operations at Guernsey Dairy to become more commercially successful allowing the Dairy to continue to pay farmers a sustainable price per litre of milk without raising the cost of milk to the consumer,
- promoting the health benefits of milk, alongside reminders of the importance of dairy farming to our local community as custodians of the countryside and guardians of our world-famous breed of cattle and
- continued focus on promoting local dairy produce complemented by the Wild About Guernsey Farming campaign, attendance at local events, and working more closely with the hospitality sector.

Future dairy project

In 2022 the Future Dairy Project progressed through the design and analysis stage and developed a draft Outline Business Plan. Due to the indicative cost estimate for the project at that stage, the States made the decision not to bring the project forward in the capital delivery timetable. The States directed that before any decision to accelerate the project could be made that a number of further pieces of work needed to be carried out including reviewing the scope, specification and funding options for the project. This work had not been completed by the end of 2022.

It will take several years to bring a new facility on line and so Guernsey Dairy has commissioned a condition assessment of the existing facility and operations to determine the minimum level of works required to maintain the Dairy for the next 7 years. This work will be completed in 2023.

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 2022. These comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 23.

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 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.

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 or promotions as they see fit.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

Financial performance

	Actual	Budget	Actual
	2022	2022	2021
	£'000	£'000	£'000
Revenue	8,915	9,071	8,552
Expenses	9,059	8,896	8,469
Operational (deficit)/surplus	(144)	175	83
Deficit for the financial year	(463)	(181)	(223)
Capital expenditure	178	743	56

Guernsey Dairy made a deficit in 2022 of £463k, compared to 2021's deficit of £223k.

Guernsey Dairy's fixed asset base of £2,891k has been reviewed for impairment. An impairment loss of £1k was reflected following a review of the fixed assets register (2021: £nil).

Reserves have decreased by £463k from £3,400k to £2,937k, 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.

The Board agreed to increase pricing on milk products between 5%-8% w.e.f. November 2021 and a further 5% in January 2022, on butter, cream, and cheese and to increase the ice cream prices by c 14%.

The Board approved further increases on milk products w.e.f. November 2022. Butter (14%), cream (10%), cheese (between 8% and 12%) and ice cream (6%).

Wholesale milk prices increased by 4.8% w.e.f. January 2022.

Overall revenues were £363k (4.2%) higher than 2021.

- Liquid milk revenues increased by 2.7% compared to the previous year. The wholesale price for liquid milk was held level in 2022.
- Butter revenues were above 2021 with a 7.3% increase in sales revenues. Butter exports to the UK decreased by 9.9% compared to 2021, while exports to the Netherlands were £4k (66.7%) above 2021. There has been an upsurge in local sales due to product availability and rising costs of imported milk-products; however, whilst there were several instances of rationing, supply was maintained throughout the trading period.

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

- Cheese revenues increased 25.5% year-on-year.
- Cream revenues increased 12.3% year on year.
- Ice cream revenues in 2022 improved by 15.9% year-on-year.

Cost of sales was £348k (5.5%) higher than 2022.

- The total cost of raw milk purchases increased by 8.8% in 2022. During 2021 all farms achieved RSPCA accreditation which meant that the producer price increased by 1.24p per litre (2%). In January 2022, the producer price was increased by 3.7p per litre (5.9%).
- The volume of milk intake at Guernsey Dairy increased by 0.47% (35,558 litres) compared to the same trading period in 2021.
- 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 supplies maintained equally over a rolling 12-month period.
- Production wages saw a £32k (3.3%) year-on-year increase partially due to an increase in pay rates and incremental pay point increases in 2022.

Administration expenses:

- Total administration expenses (including fuel, light, heat & power, utilities, rates, salaries & wages) were £242k (11.5%) higher than 2021.
- Repairs and maintenance continue to be lower than the average spend, partly due to lack of resources.

Capital:

- Capital spend in the year was £178k compared to a £743k budgeted spend. Several projects started in 2022 will be completed in the first half of 2023 as suppliers receive key components etc. Other projects were postponed until 2023 due to insufficient resources and contractor delays/cancellations.
- To produce a range of milks and milk products, the Dairy operates an extensive portfolio of highly specialised complex plant, equipment and supporting IT infrastructure.
- The difficulties in sourcing specialist and non-specialist contractors have impacted the Dairy's ability to deliver its capital plans in 2022, 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

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 situation for Guernsey Dairy and of the surplus or deficit of Guernsey Dairy for that period. In preparing the 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 the 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 the assets of Guernsey Dairy 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's financial affairs,
- Customer invoices are subjected to a range of pre-determined computerised integrity checks prior to dispatch to ensure accuracy,
- 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,

States' Trading Supervisory Board

Guernsey Dairy

Managing Director's Report – continued

- 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 Dairy Capital Investment Board, which is constituted from the Principal Officers of Guernsey Dairy and the Senior Procurement Manager of States' Trading Assets,
- 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 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 5th April 2007 and amended in Billet d'État XX 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 Guernsey Dairy Managing Director and the Financial Manager.

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

The quorum is the Chairman, the Political Member of 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 regarding 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 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 Supervisory Board ("STSB") – Guernsey Dairy for the year ended 31 December 2022, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 Guernsey Dairy's affairs as at 31 December 2022 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 annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the 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 is responsible for the preparation of the financial statements which give a true and fair view in accordance with FRS 102, 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 is 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 judgement 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. 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, for our audit work, for this report, or for the opinions we have formed.



Grant Thornton Limited
Chartered Accountants
St Peter Port, Guernsey

22 May 2023

States' Trading Supervisory Board

Guernsey Dairy

Statement of Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	2 & 4		
Liquid milk		6,752	6,577
Dairy products		2,149	1,959
Sundry or other income		14	16
		8,915	8,552
Expenses	2 & 5		
Production costs		(6,714)	(6,366)
Administration expenses		(2,345)	(2,103)
		(9,059)	(8,469)
Operating (deficit)/surplus before depreciation, impairment and gain on disposal of fixed assets		(144)	83
Depreciation	8	(282)	(294)
Impairment of assets	8	(1)	-
Gain on disposal of fixed assets		1	12
Operating deficit for the year		(426)	(199)
Investment (loss)/return and net interest receivable		(12)	2
Interest payable on loans		(25)	(26)
Deficit for the financial year		(463)	(223)

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 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Financial Position

as of 31 December 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Tangible fixed assets	8	2,891	3,016
Assets under construction	9	78	58
		<u>2,969</u>	<u>3,074</u>
Current assets			
Inventories	10	647	495
Debtors and prepayments	11	1,156	944
Cash at bank and in hand		53	-
Balances with States Treasury		-	605
		<u>1,856</u>	<u>2,044</u>
Creditors: amounts falling due within one year			
Balances with States Treasury		(83)	-
Creditors	12	(1,140)	(1,035)
		<u>(1,223)</u>	<u>(1,035)</u>
Net current assets			
		<u>633</u>	<u>1,009</u>
Creditors: amounts falling due after more than one year			
	13	<u>(665)</u>	<u>(683)</u>
Total net assets			
		<u>2,937</u>	<u>3,400</u>
Reserves			
	15	<u>2,937</u>	<u>3,400</u>

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

Deputy P. Roffey 22 May 2023

President



Signed on behalf of the States Trading Group

Mr S. Elliott 22 May 2023

Managing Director



Notes 1 to 23 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 2022

	Notes	2022 £'000	2021 £'000
Balance at 1 January		3,400	3,623
Deficit for the financial year		<u>(463)</u>	<u>(223)</u>
Balance at 31 December	15	<u>2,937</u>	<u>3,400</u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Statement of Cash Flows

for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Net cash flows (used in)/from operating activities	16	(403)	54
Cash flows from investing activities			
Purchase of fixed assets	9	(178)	(56)
Proceeds from disposal of fixed assets		1	12
Net cash flows used in investing activities		(177)	(44)
Cash flows from financing activities			
Capital repaid	14	(18)	(17)
Interest paid		(25)	(26)
Investment (loss)/return and interest received		(12)	2
Net cash flows from financing activities		(55)	(41)
Net decrease in cash and cash equivalents		(635)	(31)
Cash and cash equivalents at the beginning of the year		605	636
Cash and cash equivalents at the end of the year		(30)	605
Reconciliation to cash at bank and in hand:			
Cash at bank and in hand		53	-
Balances with States Treasury		(83)	605
Cash and cash equivalents		(30)	605

Notes 1 to 23 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 Principal Officers have reviewed the cash flows and projected income and expenses over the next 12 months, 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 23 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, net of depreciation and any provision for impairment. Property, plant and equipment are depreciated over their expected useful life except assets in the course of construction.

ii) Assets under construction

Assets under construction are capitalised and are transferred to tangible fixed assets and depreciated once brought into use. All costs associated with capital projects, including professional fees are capitalised.

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 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.

Notes 1 to 23 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

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 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, it 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 23 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.

Notes 1 to 23 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 DMB is 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.

There were no critical judgements that require disclosure made by the DMB in the process of applying Guernsey Dairy's accounting policies. The following estimations made by the DMB 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 23 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:

	2022	2021
	£'000	£'000
Bailiwick of Guernsey	8,522	8,121
UK	383	425
The Netherlands	10	6
	<u>8,915</u>	<u>8,552</u>

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

	2022	2021
	£'000	£'000
Milk	6,734	6,563
Organic milk	18	14
Butter	1,497	1,395
Cheese	118	94
Cream	337	300
Ice-cream	197	170
Sundry or other income	14	16
	<u>8,915</u>	<u>8,552</u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

5. Expenses

	2022	2021
	£'000	£'000
Cost of sales		
Production wages	1,014	982
Milk	4,829	4,439
Milk – working loss	144	216
Dairy product ingredients	66	54
Packaging materials	577	602
Freight	84	73
	<u>6,714</u>	<u>6,366</u>
Administration expenses		
Advertising and promotion	41	25
Cleaning materials	82	64
Fuel, light, power, water, rates	385	310
General administration costs	47	58
Laboratory materials and equipment	240	191
Motor vehicles	46	42
Professional fees	458	350
Repairs, maintenance and insurance	294	347
Salaries	709	671
Other expenses	43	45
	<u>2,345</u>	<u>2,103</u>
Total expenses	<u>9,059</u>	<u>8,469</u>

Notes 1 to 23 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 equivalent employees (including senior management) was:

	2022	2021
Production staff	28	30
Administration staff	7	7
	35	37

Their aggregate remuneration comprised:

	Note	2022	2021
		£'000	£'000
Wages and salaries		1,468	1,386
Social security costs		97	93
Pension costs	19	158	174
		1,723	1,653

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

7. Deficit for the financial year

Deficit for the financial year is stated after charging/(crediting):

	Note	2022	2021
		£'000	£'000
Auditor's remuneration		18	12
Depreciation of tangible fixed assets	8	282	294
Impairment of fixed assets		1	-
Gain on disposal of fixed assets		(1)	(12)
		300	294

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

8. Tangible fixed assets

	1 January 2022 £'000	Additions £'000	Disposals £'000	31 December 2022 £'000
Cost				
Land	1,000	-	-	1,000
Buildings	1,605	66	-	1,671
Plant & equipment	4,018	85	(78)	4,025
Motor vehicles	284	-	(16)	268
Information technology	37	7	-	44
	<u>6,944</u>	<u>158</u>	<u>(94)</u>	<u>7,008</u>
	1 January 2022 £'000	Charge for the year £'000	Disposals £'000	31 December 2022 £'000
Depreciation				
Buildings	1,037	41	-	1,078
Plant & equipment	2,596	237	(78)	2,755
Motor vehicles	261	4	(16)	249
Information technology	34	1	-	35
	<u>3,928</u>	<u>283</u>	<u>(94)</u>	<u>4,117</u>
Net Book Value	<u><u>3,016</u></u>			<u><u>2,891</u></u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

9. Assets Under Construction

	1 January £'000	Expense in the year £'000	Transfer to Tangible Fixed Assets £'000	31 December £'000
2022 Total	58	178	(158)	78
2021 Total	10	56	(8)	58

Assets under construction completed in 2022 and transferred to fixed assets includes Racking (£13K), Crate Wash Roof (£46K), Butter & CIP Floor Repair/Covering (£8K), CCTV Server (£7K), Cream Platform Floor (£10K), Cream Room Floor and Walls (£6K), Chilled Water Pumps (£13K), Cream Packer (£25K), Water Softener (£7K), Incubators (£4K), Chilled Water Booster Pump (£6K), Mains Water Lift Pump (£4K) and CS1 Refrigeration Unit (£9K).

Assets under construction as at 31 December 2022 relates to Tanker metering systems (£38k), Fire system upgrade (£34k) and Stock management system (£6k).

10. Inventories

	2022 £'000	2021 £'000
Milk and dairy products	175	160
Packaging materials	360	242
Other inventories	112	93
	647	495

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

11. Debtors and prepayments

	2022	2021
	£'000	£'000
Trade debtors	996	778
Accrued income	142	154
Other debtors and prepayments	18	12
	<u>1,156</u>	<u>944</u>

12. Creditors: amounts falling due within one year

	Note	2022	2021
		£'000	£'000
Trade creditors		628	503
Accruals & deferred income		494	514
Loan from States of Guernsey	14	18	18
		<u>1,140</u>	<u>1,035</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. Accruals includes £40k that remains unpaid at 31 December 2022 (2021: £40k).

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

	Note	2022	2021
		£'000	£'000
Loan from States of Guernsey	14	665	683
		<u>665</u>	<u>683</u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

14. Loan from States of Guernsey

	2022	2021
	£'000	£'000
Balance at 1 January	701	718
Capital repaid	<u>(18)</u>	<u>(17)</u>
Balance at 31 December	<u>683</u>	<u>701</u>

On 1 January 2019 Guernsey Dairy borrowed £750k from the States of Guernsey, which is repayable on a quarterly basis over a period of 28 years at an annual interest rate of 3.625%.

	2022	2021
	£'000	£'000
Within one year	18	18
Between one to two years	19	18
Between two to five years	61	59
More than five years	<u>585</u>	<u>606</u>
	<u>683</u>	<u>701</u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board Guernsey Dairy

Notes to the Financial Statements – continued

15. Reserves

	2022	2021
	£'000	£'000
Balance at 1 January	3,400	3,623
Deficit for the financial year	<u>(463)</u>	<u>(223)</u>
Balance at 31 December	<u>2,937</u>	<u>3,400</u>

All reserves are distributable.

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

	2022	2021
	£'000	£'000
Operating deficit for the year	(426)	(199)
Depreciation charges	282	294
Impairment of assets	1	-
Gain on disposal of fixed assets	(1)	(12)
(Increase)/decrease in inventories	(152)	115
Increase in debtors	(212)	(51)
Increase/(decrease) in creditors due within one year	<u>105</u>	<u>(93)</u>
Net cash flows (used in)/from operating activities	<u>(403)</u>	<u>54</u>

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

17. Financial commitments and contingent liabilities

Guernsey Dairy has no financial commitments as at 31 December 2022 (2021: £nil) which are not provided for in the financial statements.

Guernsey Dairy has no contingent liabilities as at 31 December 2022 (2021: £nil).

18. Financial instruments

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

	Note	2022 £'000	2021 £'000
Financial assets at amortised cost			
Cash and cash equivalents		53	605
Trade debtors	11	996	778
Financial liabilities at amortised cost			
Cash and cash equivalents		(83)	-
Creditors: amounts falling due within one year	12	(646)	(521)
Creditors: amounts falling due within more than one year	13	(665)	(683)

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

19. 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 2022) 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 £158k (2021: £174k). The rate of employer contributions was reduced with effect from 1 August 2022 from 14.1% to 10.3%.

Further details relating to the funding of the Superannuation Scheme are included within the States of Guernsey Accounts 2022.

Notes 1 to 23 form an integral part of these financial statements.

States' Trading Supervisory Board

Guernsey Dairy

Notes to the Financial Statements – continued

20. 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.

21. Related party transactions

The STSB is of the opinion that there have been no material 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 2022 (including salaries and other benefits) was £299k (2021: £293k).

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 declared that he was a major shareholder in the Garenne Group during 2022. As such, transactions which had taken place between Guernsey Dairy and Garenne Group companies in the ordinary course of business were subject to declaration 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.

22. Subsequent events

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

23. Off balance-sheet arrangements

There are no commitments or contingent liabilities other than detailed in note 17 relating to 2022 which would affect these financial statements (2021: None).

Notes 1 to 23 form an integral part of these financial statements.